

FASB UPDATE: ASC842 COMPLIANCE DEADLINE CHANGE FOR PRIVATE COMPANIES

Addendum to SolomonEdwards' FASB Accounting Standards Update: Lease Accounting Changes: ASU 2016-02, Leases (Topic 842)



WHAT'S CHANGING & WHO DOES IT AFFECT?

FASB recently voted to change the effective date for non-public companies' compliance with ASC 842. The new proposed effective date for companies with calendar year-ends would be January 1, 2021.

WHY THE CHANGE?

While the standard became effective for public companies for fiscal years beginning after December 15, 2018, because achieving and sustaining compliance with the new standard was deemed more complex than originally expected, the FASB has responded by providing private companies with additional time to prepare for adoption.

HOW DOES THIS IMPACT NON-PUBLIC COMPANIES? IN TWO WORDS: TIME AND PREPARATION.

Preparing for the initial adoption of the new lease accounting standard is only half of the battle. Many public companies are still challenged by absorbing the potentially significant changes to processes and systems needed to sustain compliance with ASC 842 after initial adoption.

By granting additional time to comply, the FASB is providing private companies with an appropriate amount of time to get up to speed (and educated) on everything they need to consider as they prepare for the compliance activities. This includes both the significant effort needed to determine the impact of initial adoption as well as the longer lasting effects of ongoing changes in business operations, accounting and related processes and systems needed to sustain compliance with ASC 842 thereafter.

MARKET SNAPSHOT

During our June 2019 lease accounting webinar; we surveyed private company attendees about their ASC 842 compliance stage.

17%

said they have completed their compliance efforts.

25%

said they have not yet started.

58%

stated their ASC 842 plan is in progress.

SOLOMONEDWARDS VALUE PROPOSITION

SolomonEdwards offers our clients a unique combination of deep technical expertise and the practical know-how needed to achieve compliance with the lease accounting standard in the most effective and cost-efficient manner possible. The experience we have gained in serving our national clientele of public companies with ASC 842 enables us to bring those lessons learned to our private company clients where we know that resources and budgets may be more limited. We will partner with you to put our knowledge into action in preparing for the initial adoption of the new lease accounting standard and sustained compliance beyond day one.

OUR RECOMMENDATIONS

The road to compliance is detailed and complex. While FASB is taking the steps to push the compliance deadline by one year to January 1, 2021, if your company hasn't started this initiative, it is recommended that you begin ASAP. Our clients have found this to be an exceptionally complex and difficult compliance project, taking significantly more time than originally expected. Below is a high-level overview of the process you'll need to take to ensure compliance with ASC 842.

PLAN

A successful ASC 842 compliance initiative starts with proper planning. Assessing your current lease environment is a critical first step. Inventory your leases and gather the underlying contractual documents. Consider the existence of leases that may be embedded in other contractual arrangements. Evaluate the complexity of your lease environment and review your current lease accounting policies and procedures to set the stage for next steps.

DESIGN POST ADOPTION STEADY STATE

Due to the potentially extensive impact of change on business operations, accounting policies and procedures, and related processes and systems, it is essential that you begin to design your post adoption steady state plan now. After your planning and data gathering efforts are complete, you will have the necessary insight into the size and complexity of your lease population necessary to begin the design of your post adoption environment. The additional time provided by the extension will facilitate your ability to invest time in this critical area.

OPTIMIZE YOUR PLAN

Achieving a smooth and cost-efficient transition to the new standard can be achieved by using the additional time provided by the extension to run your new ASC 842 process in parallel to your current lease process prior to your adoption date. Field testing these changes will allow for you to optimize your steady state plan and thereby avoid much of the post adoption challenges many public companies are still facing in terms of ensuring a holistic plan for achieving and sustaining compliance with ASC 842.

ABOUT SOLOMONEDWARDS

SolomonEdwards is a national professional services firm focused on strategy execution. By providing exceptional people for complex situations, we deliver subject matter expertise, apply proven project delivery models, and design custom solutions for your business. We focus on the areas of Accounting & Finance, Business Transformation, Governance & Regulatory Compliance, and Transaction & Regulatory Advisory Services.

For more information, please contact your local SolomonEdwards office:

Atlanta P 404.497.4141 | Boston P 617.812.5001 | Chicago P 312.466.0101
Houston P 713.960.8880 | New York P 212.545.9500 | Philadelphia P 610.902.0440
San Francisco P 415.391.1038 | Washington, D.C. P 703.738.9600

www.solomonedwards.com