Blogs



Mind controls, disclosures on leases, Big Four firms advise

Tammy Whitehouse | March 15, 2019

As the window closes on lease accounting implementation and companies face their first quarter of reporting under massive new guidance, Big Four firms are offering some last-minute pointers about controls and disclosures.

Under Accounting Standards Codification Topic 842, public companies are required to bring virtually all lease-related assets and liabilities out of footnotes and onto the face of financial statements with their first-quarter reports in 2019. That means calendar-year companies that will close the books on March 31 will report leases on the balance sheet for the first time in their next 10-Qs.

EY is advising companies to focus on making sure they have controls in place to appropriately account for leases not only upon adoption of the new accounting but also going forward. The Financial Accounting Standards Board permitted a simplification that allows companies to account for their existing leases only on a go-forward basis, without restating historic periods. That means the day-one accounting for existing leases will differ from the accounting for new leases or lease modifications in subsequent periods.

"The prospective accounting model for the new leases standard is different from its transition provisions for existing leases," EY reminds companies. "It may be challenging for entities to manage separate processes and controls over their entire lease portfolio—one for leases that existed at adoption and another for new leases and those that are modified or reassessed after adoption."

EY says it expects companies to evolve their controls and processes throughout the year of adoption. Many companies have implemented lease accounting systems with some measure of manual processes to achieve compliance by the effective date. "If a company implements a new system or modifies an existing one after the effective date, management will need to consider additional processes and controls necessary to address the risks resulting from those IT system changes," EY says.

PwC is reminding companies to take a careful look at their disclosures under the new standard to assure they are compliant. "The disclosures under the new lease standard are more extensive than under the prior guidance," PwC says in an alert to clients.

The Securities and Exchange Commission requires companies to provide both annual and interim disclosures for each interim reporting period in the initial year of adoption of a new accounting standard, PwC says. That means "calendar-year public business entities will need to include all annual and interim lease disclosures starting with their March 31, 2019, quarterly filing," the firm says.

However, companies do not need to provide the interim or annual disclosures required by the changes in the accounting principles standard during the year of transition to ASC 842, PwC says. "The transition guidance in the new leases standard explicitly removes the requirement to provide the annual disclosures required by the standard on changes in accounting principles," PwC says. FASB recently issued guidance in ASU 2019-01 that clarified the interim disclosures related to changes in accounting principles also are not required during transition. "This is consistent with the transition guidance provided in the new revenue standard," PwC says.

PwC says it also has heard questions regarding whether lessees must carry forward disclosures regarding five-year minimum lease expense from their most recent annual filings into interim and annual filings going forward. The firm says the standard requires companies adopting on the effective date to provide disclosures required under the legacy guidance for all previous periods. For calendar-year companies, "this means they will need to include the five-year minimum lease disclosures from their 2018 10K in each of their 2019 quarterly and annual filings," PwC says. That's in addition to the five-year minimum lease disclosures required under the new standard moving into 2019.

Wilmington plc

© 2019 - Published by Wilmington Compliance Week Inc, a division of Wilmington plc.
Wilmington Compliance Week Inc is a company registered in Delaware, USA.
Registered office: Compliance Week 129 Portland St Fl 6 Boston, MA 02114-2014
This material may not be published, broadcast, rewritten or redistributed in any form without prior authorization.
Your use of this Website constitutes acceptance of Wilmington's Privacy Policy and Terms & Conditions.
Compliance Week provides general information only and does not constitute legal or financial guidance or advice.