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**Lease Accounting: Risks if You Wait Too Long to Comply**

In our previous article, we discussed the unforeseen challenges your company might face in complying with the new FASB Topic 842 that mandates new standards for lease accounting. In this article, we will elucidate some of the risks your company will face if you wait too long to conform with the new rules.

First and foremost, procrastinating will be *costly*. Catching up will burn up much more operating capital than necessary. But above and beyond that, there are massive logistical issues to consider.

Meeting the new regulations is going to require many, many additional working hours. Your team is already overstretched by revenue reconciliation. If you wait until the last minute, will you be able to hire qualified people? They may not be available when you need them. Do you want to double your company? Adding to your headcount for lease accounting might not be the wisest move, since it is a temporary process and will pass within a year. As you organize for this undertaking, you want to be certain that you are hiring the right number of people. In addition, you will have to train staff on new policies and procedures. With our consulting expertise, we can advise you on these personnel issues.

Identifying embedded leases is a crucial issue in adhering to the new rules, and if you are unable to identify them, it will affect the integrity of your balance sheet. Do you know where to look for them? We can save you a great deal of time by deploying an AI tool such as Leverton, which can locate all your leases, even embedded ones hiding in transactions. There are additional accounting implications because your debt could increase if you have embedded leases, and the gross dollar value of your leases will decrease because of the discount rate. [I added the last sentence because it contains two points discussed in the conference call that seemed to be applicable, but they’re highly technical, and I want to make sure they’re not *non sequiturs*. Please let me know if you think this last sentence belongs here, should be placed elsewhere, or deleted.]

You also run the risk of miscalculating interest rates. Interest rates can be an unforeseen issue. Under the new guidance, you now have to account for secured debt or borrowing. It requires substantial time and effort to compute interest rates for the following reasons: different subsidiaries can have different debt, requiring you to compute the interest rate for each subsidiary. This is not a straightforward exercise, because for a securitized line of credit, the term of the credit might not coincide with the term of the leases. As an added factor, interest rates for leased equipment will vary, making it all the more difficult to calculate. In this instance, a proficient accounting resource like ourselves can save you significant time, effort, and money.

One of the biggest risks you run by delaying action is the timeline you are encountering. You are dealing with a non-negotiable deadline, and FASB considers it your responsibility—your job—to adhere to these requirements you have been notified of far in advance. There might be delays involved in any of the stages required to undertake this time-consuming project, and if you wait too long, you may not be able to meet the final deadline.

If your compliance with Topic 842 is incomplete or flawed, will you be able to renegotiate contracts based on changes tied to [debt covenants](https://www.journalofaccountancy.com/news/2017/aug/lease-accounting-standard-implementation-201717159.html)? Because it is vital you ensure with outside vendors that the terms of your lease contracts are compliant.

Have you considered the international implications of waiting too long? Factor in the time necessary to translate your leases into different languages and address issues within leases with international vendors.

Here is another often-overlooked risk: in terms of creating a financial statement, there is a disparity between U.S. GAAP and IFRS 16. To wit, IFRS 16 does not have a concept of an operating lease. IFRS also requires both private and public companies to become compliant with lease accounting by January 1, 2019. This is where we can provide immediate assistance.

We have saved the most important risk for not meeting the deadline for last. Covenants require an unqualified opinion. Auditors need to approve your financial statements. If the leasing statements are not done appropriately or are non-compliant with GAAP, your auditors cannot deliver an unqualified opinion. A qualified or adverse opinion could hurt you. This presents a significant capital market risk—one you decidedly want to avoid, since your outside investors and debt holders must satisfy their due diligence needs. The lack of an unqualified opinion could spark investor fear as a result of bank problems involving covenants and audited statements. Not to be humorous, but risks involving bank covenant and capital market problems are most assuredly ones you wish to avoid.

There is also reputational risk within the financial markets. If it becomes known that your organization was unable to become compliant with new lease accounting standards when alerted well in advance, it is not a positive reflection of your professional standing.

Here is the good news: all of these issues are not overly complicated, but they are extremely time-consuming; and once you have completed the process, it’s over. As a premier accounting and consulting firm with wide-ranging expertise, CohnReznick is uniquely positioned to step in and help you at this juncture, before the clock runs out. We have the experience to evaluate your situation and to get down to the business of efficiently assigning resources involved in this multi-faceted enterprise that will demand a great deal of time and effort. In the meantime, you can rest easy, knowing you’re in capable hands.

If you have any questions about lease accounting or how CohnReznick can support you, please call us at (xxx) xxx-xxxx or email us at address@cohnreznick.com.

[Are there any useful graphics we can include with the article?]