

CASE STUDY

ASC 842 Lease Adoption and Accounting

Valueonshore Advisors helped streamline the lease accounting for a worldwide Augmented and Virtual Reality solutions provider, ensuring compliance with ASC 842 guidance.



ABOUT THE CLIENT



- The Company is a multinational virtual reality and augmented reality software developer headquartered in Irvine, California.
- It counts various Fortune 500 companies, government entities and world-class universities among its client base and has offices in Singapore, China, India, Spain, France and Italy.

The company was facing several Lease accounting issues:

- Identifying the method of adoption under ASC 842, and adjustments to the accounting process on the adoption date of lease classification.
- Selecting the appropriate discount rate.
- Assessment of accounting impact on financial statements.



BUSINESS REQUIREMENT

KEY CHALLENGES



Complex Lease Portfolio



Global Variations



Data Gathering and Analysis



Financial Reporting Implications

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US GAAP Accounting and Reporting of Consolidated Financial Statements

Our Roadmap

Data Collection

Initiated a comprehensive review of all existing lease agreements. This involved gathering data from various departments, subsidiaries, and geographic regions. The company created a central repository for lease information.

Present Value Calculation

For every individual lease, the company performed a calculation to ascertain the present value of forthcoming lease payments, which served to determine the associated lease liabilities. This calculation necessitated a meticulous assessment of applicable discount rate and lease terms.

Financial Reporting achieved

- The balance sheet now accurately reflects lease-related assets and liabilities, enhancing transparency.
- Adherence to the new standard boosted investor confidence and improved the comparability of financial statements.
- We collaborated closely with financial lenders to prevent ASC 842 accounting from breaching debt covenants, by modifying the discount rate.
- Streamlined lease data management for more efficient lease administration and financial reporting.

Lease Classification

We conducted a comprehensive review and evaluation of each lease agreement, to categorize them into either operating or finance leases while adopting ASC 842. Our approach adhered to the structured checklist specifically designed for this purpose using the practical expedients outlined in the first-time implementation guidelines.

Execution & Delivery

- Developed a schedule for each lease in accordance with ASC 842. This entailed creating a structured framework for lease management.
- Reversed the account balances appearing as per the previous applicable guidance and recognized the ROU Asset and Lease Liability as on the adoption date.
- Prepared specific balance sheet entries, along with adjustments to the income statement to reflect the newly defined lease-related expense categories.
- Regional GAAP lease-related entries posted by the subsidiaries were also aligned with the appropriate US GAAP entries.
- During the transition, continuous communication with the client ensured clear transaction understanding and accurate lease-related record-keeping.



- Prepared a questionnaire-based template to help the accounting team with classification of a new lease.
- Developed an automated template for calculation of Right-of-Use (ROU) Assets and Lease Liability for each lease, including the required presentation in Balance sheet, statement of operations and cashflow statement.
- Extended the template to automatically align the required disclosures in the financial statements based on the type of lease.
- Created a framework to align lease accounting conducted in compliance with regional GAAP to US GAAP for the consolidation process.
- Provided precise determination of discount rates and incremental borrowing rates, ensuring a professionally calibrated approach to ASC 842 compliance.
- Outlined the approach for accounting of embedded leases and abnormal events like premature termination of a lease, impairment of ROU asset.

ABOUT US



Headquartered in Gurgaon, Valueonshore Advisors is a specialized professional services firm managed by the Big 4 alumni and industry executives. Our portfolio includes multi billion-dollar companies, mid-cap public, and pre-IPO companies that range from late stage to early stage. We are a trusted, preferred partner for various multinational and Indian clients who engage us for our functional expertise, industry knowledge and for our objective solutions for complex problems.

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