

First Steps for Companies to Comply with the New Lease Accounting Standard in 2022

■ Identify and quantify your leases and types of leases

- Perform a detailed review of all your contracts to identify all leases
- Consider monthly payments made and whether they are for the use of an asset that may be part of a lease (i.e. if amounts paid are the same every month for a particular item, this may indicate that a lease is present)

■ Consider your accounting needs to maintain and record leasing transactions

- Consider how leasing transactions are currently initiated, approved and recorded, and whether the processes and controls will need to change
- Identify individuals who will be responsible for understanding and implementing the requirements of the new lease accounting standard
- Assess how you will track and account for leases in the future, how your organization will structure this process, and whether you may need a software solution, or if you should outsource this to a third party
- Create an implementation plan including assignment of responsibilities, timeline and budget

■ Review your current bank agreements for all financial covenants in order to determine if changes may be necessary to your covenant calculations. This ensures there will be no covenant violations due to adoption of the new lease accounting standard

- Common bank covenants such as the leverage and debt service ratios will be greatly impacted
- DGC can assist you with the preparation of pro forma calculations so this can be discussed in a timely manner with your bank

These are suggested steps you can take now to create an implementation plan for the new lease accounting standard. DGC's Technical Accounting Advisory team can walk you through this process, and help you develop a plan that will ensure you and your business are well-positioned. For more information, contact a member of your DGC client service team or Donald Butler, CPA at 781-937-5137 / dbutler@dgccpa.com.