U.S. private companies running on leased time

Deadline for new accounting lease standard looms closer for private companies

CHICAGO, ILLINOIS, UNITED STATES, July 28, 2022 /EINPresswire.com/ -- TRACE FORENSIC EXPERTS, LLC, - Private companies have until December 15, 2022, to comply with the new lease accounting standard ASC 842. Failure to do so can lead to material and irregular misstatements on companies' financial statements as well as hefty costs. This warning from forensic accounting and expert economic damages firm TRACE FORENSIC EXPERTS, LLC, comes in the wake of a looming deadline of December 15, 2022, for private companies to adopt the new lease accounting standard.

> Any irregular or improper application of the new accounting standard could adversely impact financial statements."
>
> *Paul Rodrigues*

With the deadline imminent, organizations must evaluate and update their lease management processes to comply with generally accepted accounting policies. The most critical requirement is that all leases must be recognized on the balance sheet.

Paul Rodrigues, Managing Member of TRACE FORENSIC EXPERTS, LLC, based in Wisconsin says:

"ASC 842 has significantly changed accounting for lease. Companies will need to change not only their financial and accounting processes, but also their related business models, systems, and processes."

The new accounting standard, issued in 2016, has already come into effect for both public companies (December 15, 2018) and international companies (January 1, 2019). Initially, the standard was effective for private companies and not-for-profit entities for one year later but was delayed twice by the US Financial Accounting Standards Board (FASB).

For those companies that have implemented the standard, the transition has proven to be a time-consuming and complicated process, given the changes to companies' financial reporting processes and IT systems, asset financing, and business models.

Lease abstraction

The new requirements have increased the complexity of accounting for leases, particularly in the areas of lease administration and data abstraction.

What this means is that all important and necessary lease data will need to be added to the accounting system to ensure compliance. This requires abstracting leases and populating required fields accurately and timeously.

Lease abstraction is the extraction of relevant data points from lease agreements and other source documents.

Deborah Temkin, Managing Member of TRACE FORENSIC EXPERTS, LLC, based in Chicago adds:

“Lease abstraction is a complex and time-consuming exercise. Sifting through voluminous leases, with the required deadline can pose significant challenges. Some leases can be very lengthy with many addendums and complex clauses. Going through hundreds, if not thousands, of leases and extracting the essential information demands proficiency and commitment.”

“Once data is abstracted it will need to go through a quality assurance process. This is critical to ensure that all information is captured accurately. Serious accounting errors or irregularities in an accounting system can lead to significant risk, including penalties.”

TRACE FORENSIC has developed a tried and tested process for lease abstraction, that includes: Identifying the population and subpopulations of leases; document clustering; pattern field recognition; identification of clauses; and accelerated manual review.

We assist our clients with understanding and complying with the accounting requirements of the new lease standard; extracting high volumes of critical information from leases within a short period; the abstraction process; and continual maintenance of lease portfolios.

The timing for lease abstraction has passed the critical point. With the deadline for compliance with ASC 842 just a few months away, private companies need to take steps now to ensure that their lease portfolios are abstracted so that they can complete all required information on their respective accounting systems.

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