



The ASC 842 Compliance Checklist

**A structured road map to achieving and maintaining lease accounting
compliance for real estate professionals**

A Systematic Approach to ASC 842

Achieving ASC 842 compliance requires more than understanding the rules—it demands a methodical, step-by-step approach that ensures nothing falls through the cracks.

This checklist guides you through each critical phase, from initial lease identification to ongoing compliance monitoring.

01

Identify all leases

02

Gather complete data

03

Classify each lease

04

Calculate liabilities

05

Maintain compliance

Identify All Your Leases

This foundational step is often the most time-consuming, but it's absolutely critical. You must locate every lease agreement your company has entered into, regardless of how insignificant it may seem.

Real Estate Leases

Office buildings, warehouses, retail spaces, and any property your firm occupies

Equipment Leases

Computers, office equipment, machinery, vehicles, and other operational assets

Embedded Leases

Hidden leases within service contracts—parking spaces, signage rights, storage areas

📌 **Critical Alert:** Many real estate firms overlook embedded leases. If a vendor contract grants you the right to use a specific identified asset, it likely qualifies as a lease under ASC 842.

Action Step: Create a comprehensive master list of all lease agreements. Collaborate with finance, real estate, legal, and procurement teams to ensure complete coverage.

Gather Complete Lease Data

Once you've identified your leases, you need to collect detailed information for each one. Missing even one data point can derail your calculations and compliance efforts.



Dates & Terms

- Commencement date
- Non-cancellable period
- Renewal periods



Payment Details

- Monthly/annual amounts
- Escalation clauses
- Variable components



Options & Terms

- Renewal options
- Termination rights
- Purchase options



Financial Data

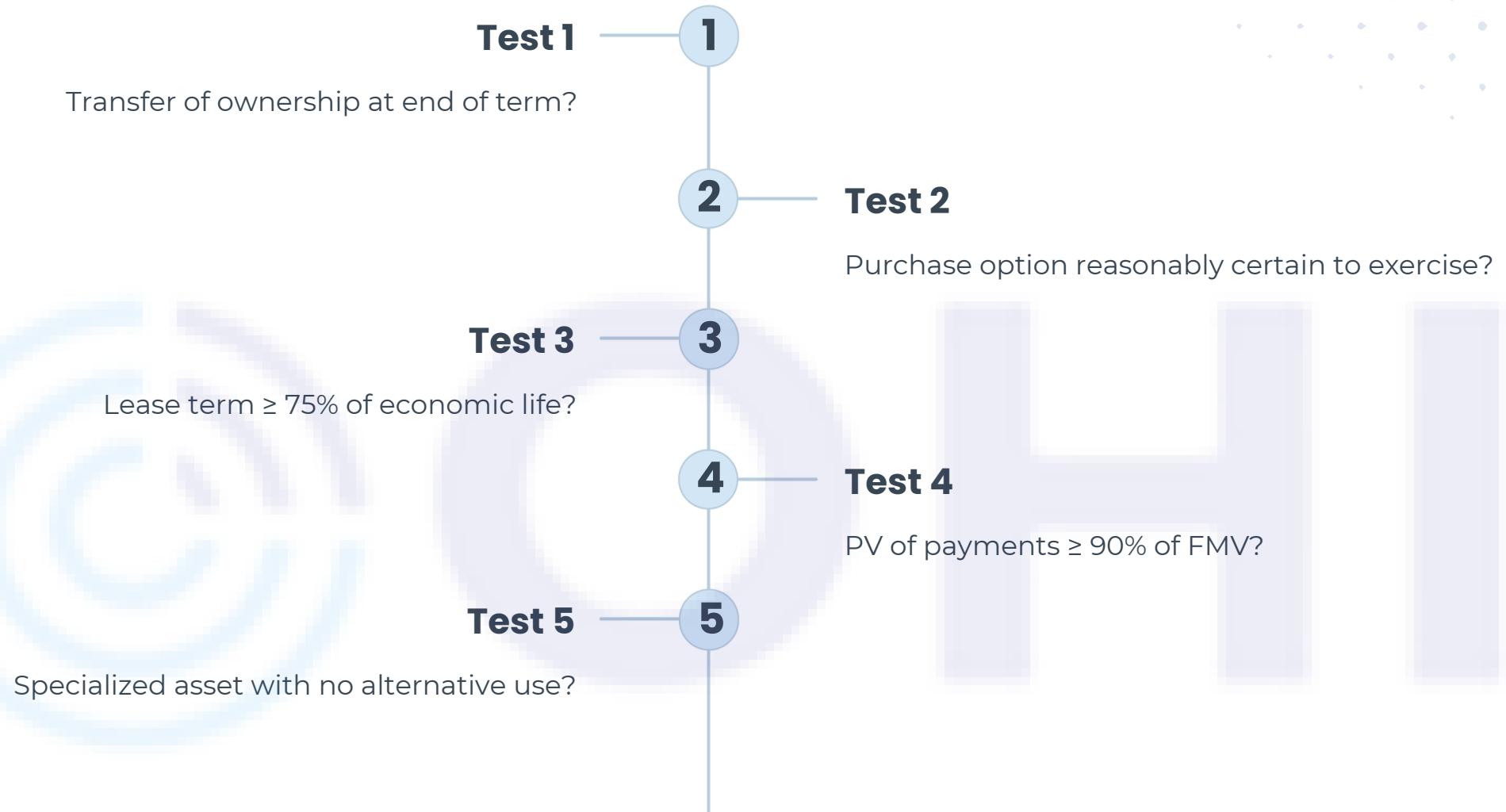
- Lease incentives
- Initial direct costs
- Discount rate (IBR)

Pro Tip: Organize this data in a centralized system or database. Real estate firms managing multiple properties typically use specialized lease accounting software to track and maintain this information efficiently.



Classify Each Lease Correctly

Apply the five classification tests to determine whether each lease qualifies as operating or finance. This distinction fundamentally affects how the lease appears on your financial statements.



Critical Warning: Don't rush this classification step. Misclassification can significantly distort your financial statements and create audit issues. When in doubt, consult with your accountant or leverage lease accounting software with automated classification capabilities.

Calculate Lease Liability and ROU Asset

This is where precision matters most. The mathematical calculations determine the exact amounts that will appear on your balance sheet.

1

Calculate Present Value

Determine total lease payments over the lease term, then discount using the appropriate interest rate



Select Discount Rate

Use either the implicit rate in the lease (if determinable) or your incremental borrowing rate (IBR)



Adjust for Initial Costs

Add initial direct costs and prepaid rent, subtract lease incentives from the lease liability

Formula Reference:

Lease Liability = PV of lease payments discounted at implicit rate or IBR

Right-of-Use Asset = Lease Liability + Initial Direct Costs + Prepaid Rent - Lease Incentives

Example Calculation

- Office lease: \$50,000 annually
- Term: 5 years
- IBR: 5%
- Initial commissions: \$10,000

Result

- Lease Liability: \$216,000
- ROU Asset: \$226,000

Determine Your Incremental Borrowing Rate

Your IBR is the corner stone of accurate lease liability calculations presents the interest rate you would pay to borrow money on a collateralized basis for a term similar to your lease.

Credit Rating

Your company's creditworthiness and borrowing history

Lease Amount

The total value of lease payments over the term

Asset Quality

The nature and value of the leased asset as collateral

Lease Term

The duration of the lease commitment

Economic Conditions

Market interest rates at lease commencement

Action Step: Work with your finance or treasury team to develop and document a consistent IBR calculation methodology. This documentation is essential for audit defense and regulatory compliance.

Record the Required Journal Entries

At Lease Commencement

Record the initial recognition of the lease on your balance sheet:

Debit: ROU Asset
Credit: Lease Liability

Throughout the Lease Term

Record ongoing expense recognition and liability reduction:

Debit: Depreciation Expense
Debit: Interest Expense
Credit: Lease Liability



These entries ensure your financial statements accurately reflect both the asset usage and the liability obligation over time.

Prepare Required Financial Disclosures

ASC842 mandates extensive disclosures in your financial statements. These disclosures provide stakeholders with transparency into your lease portfolio and accounting policies.

1

Lease Arrangements

Comprehensive description of your lease portfolio and terms

2

Discount Rate Methodology

Explanation of how you determined the rates used in calculations

3

Maturity Analysis

Undiscounted cash flows for at least five years forward

4


Lease Cost Allocation

Total lease costs and their classification in the income statement

5

Terms and Restrictions

Details about variable payments, renewal options, and covenants

 **Real Estate Tip:** Many real estate firms implement specialized reporting software to generate these disclosures automatically, significantly reducing manual work and minimizing the risk of errors.

Maintain Ongoing Compliance

ASC842 compliance isn't a one-time project—it's an on going operational requirement that demands continuous attention and diligence.



Quarterly Reviews

Assess all new lease agreements and identify any modifications to existing leases



Modification Tracking

When lease terms change, immediately recalculate both the lease liability and ROU asset



Lease Terminations

Properly remove terminated leases from your balance sheet with appropriate adjustments



Annual Audit Preparation

Maintain organized documentation and calculations ready for auditor review

Consistent compliance processes reduce year-end surprises and ensure your financial statements remain accurate throughout the year. Establish clear ownership and accountability for lease accounting within your organization.



THANK YOU FOR REVIEWING THE ASC 842 COMPLIANCE CHECKLIST

We hope this checklist helps you confidently assess lease compliance, reduce risk, and streamline reporting without unnecessary complexity.

FOR MORE INFORMATION



+1-646-367-8976



www.outsourcinghubindia.com



919 North Market Street, Suite 950, Wilmington, DE 19801, USA
E-46/6, Okhla Phase II, New Delhi -110020, India

