

## ASC 842: UNDERSTANDING LEASE COMBINATIONS AND MULTIPLE LEASES

### Combined Leases

Two or more contracts entered into at or near the same time between the same parties may be treated as single transaction if at least one of the contracts contains a lease and at least one of the following criteria are met:

- ▶ The contracts are negotiated as a package with the same commercial objective,
- ▶ The amount of consideration to be paid in one contract depends on the price or performance of the other contract, or
- ▶ The right to use underlying assets conveyed in the contracts are a single lease component

### Contracts with Multiple Components

Identifying separate lease components in a lease is similar to identifying performance obligations in a revenue contract. In effect, the determination hinges upon whether the lessee is contracting for several separate outputs or for a single output that has a number of inputs.

This determination must be made for the contract's different underlying assets. For contracts with multiple rights of use (ROUs), each separate component must be accounted for as an operating lease or finance lease if:

1. The lessee can benefit from the ROU either on its own or together with other readily available resources, and
2. The ROU is neither highly dependent on nor highly interrelated with the other right(s) to use underlying assets in the contract

Note that the lessor is required to follow the guidance related to the predominant component of the combined component. If most of the consideration is related to the lease component, the lessor would follow the guidance in ASC 842. However, if most of the consideration is related to the non-lease component, the lessor would follow ASC 606 or other applicable guidance.



**Each separate component in a combined lease or a lease with multiple components must be identified and accounted for**

## HAVE QUESTIONS?

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# 16 STEPS TO TAKE IN PREPARATION OF ASC 842 ADOPTION

1

Gather all contracts in one place

2

Review all contracts for previously unknown leases (e.g., embedded, in substance leases)

3

Review general ledger for expense account activity

4

Review reoccurring vendor payments for service or supply contracts

5

Review complete and in process projects to ensure that future amortization of any embedded leases is considered

6

Review reoccurring vendor payments for service or supply contracts

7

Inventory identified leases according to significant lease terms (e.g., purchase, renewal or cancellation options, initial direct costs)

8

Document procedures used to identify leases

9

Determine policy elections and practical expedients

10

Assess whether existing systems, internal controls, and processes are adequate

11

Draft new lease accounting policy outlining how policy elections and practical expedients will affect financial statements

12

Determine whether lease accounting software is needed; if it is, review vendor options; finalize software selection

13

Upload lease details, including applicable historical transactions, into lease accounting software

14

Manually test to ensure accuracy of software

15

Prepare new disclosures

16

Review all processes and procedures with accountant/auditor to ensure compliance