Providing an easy to use and cost effective solution to the FASB ASC 842 Lease Accounting Standard Changes

iLeasePro ASC 842 Lease Accounting Assumptions

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1.   Introduction

iLeasePro has developed the most accurate and efficient software to comply with the ASC 842. The new ASC 842 compliance requires potential new inputs from you. For example, you may need to set up new general ledger accounts in your accounting system to match the new ones in iLeasePro. You may also need to make ASC 840 accounting adjustments. This document was last updated in 2023.

2. General Ledger Accounts and Transition Setup

The FASB ASC 842 lease accounting standard will require the following general ledger accounts for each Subsidiary or Operating Entity.

iLeasePro Lease Accounting General Ledger Accounts

Common General Ledger Accounts	Early Termination General Ledger Accounts
Cash (Accounts Payable / Clearing Account)	Early Termination Gain / Loss
Short Term Lease Expense	
Non-Lease Expenses	
ASC 842 Transition General Ledger Accounts	
Transition Operating Lease General Ledger Accounts	**Transition Finance Lease General Ledger Accounts**
Operating Accrued Rent Liability (ASC 840)	Capital Lease Asset Gross (ASC 840)
Operating Prepaid Rent Asset (ASC 840)	Capital Lease Asset Accumulated Amortization (ASC 840)
Operating Straight-Line Rent Liability: (ASC 840) from up from below	Capital Lease Liability (ASC 840)
Operating Lease General Ledger Accounts	**Finance Lease General Ledger Accounts**
Operating Accrued IDC Liability	Finance Accrued IDC Liability
Operating Deferred Lease Incentive Liability	Finance Deferred Lease Incentive Liability
Operating Gross ROU Asset	Finance Gross ROU Asset
Operating Initial Direct Cost Asset	Finance Initial Direct Cost Asset
Operating Lease Liability	Finance Lease Liability
Operating Prepaid Lease Asset	Finance Prepaid Lease Asset
Operating Rent Expense: Implied Interest	Finance Interest Expense
Operating Rent Expense: Implied ROU Amortization	Finance ROU Asset Amortization Expense
Operating ROU Asset Accumulated Amortization	Finance ROU Asset Accumulated Amortization
	Finance Owned Gross Asset
	Finance Owned Asset Accumulated Depreciation
Variable Payments General Ledger Accounts	**Sublease General Ledger Accounts**
Variable Payment Expense - Index	Sublease Account Receivable
Variable Payment Expense - Sales	Sublease Accounts Receivable
Variable Payment Expense - Usage	Sublease Deferred Direct Cost Expense
Variable Payment Insurance Expense	Sublease Direct Cost Expense
Variable Payment Other Expense	Sublease Income
Variable Payment Real Estate Tax	Sublease Initial Direct Cost Expense

Transition Setup

The iLeasePro Transition feature allows for Operating Lease and Finance Lease specific ASC 840 Adjustments to be made at the adoption of the ASC 842 standards.

Operating Lease ASC 840 to ASC 842 Adjustments

- Prepaid Rent

- Accrual Rent

- Lease Incentives

- Straight-line Rent Deferral

- Unamortized Initial Direct Cost

> **Note: Exit Cost Obligations are not available in iLeasePro. Any lease with Exit Cost Obligations prior to transition should not be entered into iLeasePro.**

Finance Lease ASC 840 to ASC 842 Adjustments

- Capital Lease Asset: Gross

- Capital Lease Asset: Accumulated Amortization

- Capital Lease Liability

3. iLeasePro Lease Accounting Assumptions and Inputs

Below is a list of assumptions, disclaimers, and technical accounting information to increase transparency into the ASC 842 amortization calculations and identify any standard requirements that may not be addressed within iLeasePro. iLeasePro relies on you to provide the correct input and does not question your input.

3.1. Key Assumptions

3.1.1. Lease Data Entered into iLeasePro

LeasePro assumes that you are entering the lease data according to the contract that was executed for the lease.

As an example;

- **Inception Date**: This is the actual date the lease agreement was executed.
- **Commencement Date**: This is the actual start date of the lease defined in the lease contract.
- **Base Rent and Rent Steps**: These are the rent payments and dates defined at the start of the lease contract

The iLeasePro transition feature automatically converts the Commencement Date for all active leases that transition from ASC 840 to ASC 842 to the Transition Date specified when you elect to "**Apply Transition Net Adjustments**". This ensures the integrity of the lease as it was written but also allows for the accurate transition to the ASC 842.

3.1.2. Effective Date Method

iLeasePro assumes that you are using the effective date method for the transition as this is the dominant method being used.

3.1.3. Package of Practical Expedients During the Transition

iLeasePro assumes that you have elected a package of practical expedients to do the following:

- You will not reassess if the existing or expired contracts are or contain a lease.

- You will retain the lease classifications for all contracts.

- You will not reassess if the initial direct costs capitalized under ASC 840 meet the definition of initial direct costs under ASC 842.

3.1.4. Use of Highlight During the Transition

iLeasePro further assumes one of the following:

- You have elected not to use hindsight OR

- If you have elected to use hindsight, you have made all necessary adjustments outside of iLeasePro and have updated the data inputs required by iLeasePro.

3.1.5. No Residual Value Guarantees

iLeasePro assumes that there are no residual guarantees.

3.1.6. No Exit Cost Obligations at the Transition Date

ASC 842 requires straight-line amortization of an ROU asset if the lease had liabilities for exit costs per ASC 420. iLeasePro does not switch to such a straight-line amortization of the Operating ROU asset. Therefore, it does not account for Exit Cost Obligations per ASC 420.

3.1.7. No Asset Impairments

iLeasePro assumes that there are no asset impairments. Therefore, it does not revert to straight-line amortization of the ROU asset after an impairment.

3.2. No Cash Flow Classification

iLeasePro does not classify cash flows per the requirements of ASC 230, nor does it prepare the cash flow statement per ASC 230.

3.3. No Accrual of Interest

iLeasePro does not accrue any interest on the following amounts:

- Prepayments to lessors between the inception date and the commencement date.

- Lease incentives received from lessors between the inception date and the commencement date.

- Initial direct costs paid to third parties between the inception date and the commencement date.

- Any initial direct costs accrued but not paid as of the commencement date.

3.4. Approximate Entries for Early Termination of a Lease

iLeasePro can only account for full termination, not partial termination.

The journal entry for early termination uses the ROU asset and lease liability balances as of the last journal entry made by iLeasePro before termination. For example, suppose iLeasePro prepares a journal entry update the ROU asset and ROU asset and lease liability as of March 31, 2021. The lease is then terminated as of April 11, 2021. The termination journal entry is based on the asset and liability balances as of March 31, 2021 (i.e., iLeasePro does not perform a partial month update for asset amortization and liability accretion.)

3.5. User Must Make the Following Assessments Correctly Outside of iLeasePro

Among other judgments, iLeasePro assumes that you have made the correct determination outside of iLeasePro for the following:

- Whether the contract is a lease or contains a lease.

- Allocation of contract consideration to lease components, non-lease components, and items that are not treated as separate components of a contract. For example, iLeasePro does not address whether items such as common area maintenance costs, property taxes, sales taxes, insurance payments, and other payments are included or excluded from the lease payments. You will need to make these judgments outside of iLeasePro.

- Lease classification: Short-term lease, operating lease, or finance lease.

- Inception date.

- Commencement date.

- Lease term, including probability assessments regarding renewals and terminations.

- End of lease term date.

- End of the useful life of the underlying asset for computing amortization of a finance lease asset whose ownership transfers to the lessee at the end of the lease term.

- Whether the payments meet the definition of lease payments per ASC 842.

- Payment dates.

- Payment amounts.

- The classification and measurement of initial direct costs.

- The classification and measurement of lease incentives received from the lessor.

- The measurement of the relevant discount rate to be used to compute the present value of lease payments.

- Transition date.

- Adoption of practical expedients upon transition.

- iLeasePro does NOT update the ASC 840 accrued rent / prepaid rent / deferred rent accounts if you want to use hindsight while transitioning to ASC 842. You will need to update these accounts outside of iLeasePro before entering the required balance sheet amounts into iLeasePro.

3.6. An Exact Specification of the Timing of Events and Payments is Required

You must specify whether the events and payments occur at the day's beginning or the end. iLeasePro makes the following default assumptions as shown by the radio button next to each event date or payment date.

3.6.1. The Default is the Beginning of the Day

- Inception date.

- Commencement date.

- All payments to lessors or third parties.

- All receipts from lessors.

3.6.2. The Default is the End of the Day

- End of lease term.

- End of the useful life of the underlying asset for computing amortization of a finance lease asset whose ownership transfers to the lessee at the end of the lease term.

3.6.3. Commencement Date Ending on last day of month.

- If a lease has a commencement date that falls on the last day of the month, you will need to add once day to the commencement date so that it starts in the first of the next month.

4. New Operating Lease Journal Entries

4.1. Inputs Required from You for the Journal Entries

4.1.1. Key Dates

Inception Date	Inception is assumed to be at the BEGINNING of the inception date, unless you pick "EOD."
Commencement Date	Commencement is assumed to be at BEGINNING of the commencement date, unless you pick "EOD."
End of the Lease Term Date	The lease is assumed to end at the END of the lease end date, unless you pick "BOD."

4.1.2. Relevant Discount Rate

This rate should be entered as an annually compounded rate.

4.1.3. Payments with Their Dates

Both dates and amounts are required. All payments are assumed to be "BOD" unless you pick "EOD."

- Payments to lessor.

- Receipts from the lessor.

- Any IDC payments. We cannot foresee a scenario in which you can have IDC payments before commencement. The system allows for an unusual fact pattern that we may not have foreseen. Please double-check to ensure that you have the correct facts if you decide to input IDC payments before lease commencement.

- Any payments that will be treated as other expenses on the payment date.

4.2. At Inception

There is no journal entry on the inception date per se unless there is another transaction such as a cash receipt or payment on that date.

4.3. Between Inception and Commencement

As stated above, iLeasePro accrues no interest on the amounts below between the inception date and the commencement date.

4.3.1. Payments to the Lessor

Journal Entry	dr Operating Prepaid Lease Asset
	cr Cash

4.3.2. Lease Incentives Received from the Lessor

Journal Entry	dr Cash
	cr Operating Deferred Lease Incentives Liability

4.3.3. Initial Direct Cost Payments to Others

As mentioned above, please double check if you indeed have IDC payments before commencement.

Journal Entry	dr Operating IDC Asset
	cr Cash

4.4. At Commencement

4.4.1. Increase Operating Gross ROU Asset to Zero Out Operating Prepaid Lease Asset

Journal Entry	dr Operating Gross ROU Asset
	cr Operating Prepaid Lease Asset

4.4.2. Decrease Operating Gross ROU Asset to Zero Out Operating Deferred Lease Incentives Liability

Journal Entry	dr Operating Deferred Lease Incentives Liability
	cr Operating Gross ROU Asset

4.4.3. Increase Operating IDC Asset to Zero Out Operating Gross ROU Asset

Journal Entry	dr Operating Gross ROU Asset
	cr Operating IDC Asset

4.4.4. Recognize a Lease Liability as of the Commencement Date

iLeasePro computes the net present value of lease payments (receipts) using exact payment dates. It does not assume that the payments (receipts) occur at the end of a month. It uses exact dates and computes date differences in days. That is, iLeasePro computations are like the XNPV computations in Microsoft Excel. In contrast, Excl NPV assumes that payments are equally spaced apart and ignores exact dates.

The lease liability is computed before any payments (receipts) on the commencement date.

Journal Entry	dr Operating Gross ROU Asset
	cr Operating Lease Liability

4.4.5. Payments to the Lessor on the Commencement Date

Since the lease liability on the commencement date includes the payment to be made on the commencement date, the actual payment reduces the lease liability

Journal Entry	dr Operating Lease Liability
	cr Cash

Please note that some accountants make these entries slightly differently. They exclude the payment made on the commencement date from the lease liability. When the lessor is paid on the commencement date, they dr Operating Gross ROU asset | cr Cash.

We believe our entries are more understandable because all receipts and payments to the lessor affect payables to the lessor.

4.4.6. Lease Incentives Received from the Lessor on the Commencement Date

Journal Entry	dr Cash
	cr Operating Lease Liability

4.4.7. IDC Payments to Others on the Commencement Date

Journal Entry	dr Operating Gross ROU Asset
	cr Cash

4.4.8. IDC Payments Accrued but not Paid as of the Commencement Date

Journal Entry	dr Operating Gross ROU Asset
	cr Operating Accrued IDC Liability

4.5. After Commencement

4.5.1. Accrued IDC Amounts are Paid

As stated above, iLeasePro does not accrue any interest on accrued IDC liability between the commencement date and the payment date.

Journal Entry	dr Operating Accrued IDC Liability
	cr Cash

4.5.2. Interest is Accrued on the Lease Liability

We convert the annually compounded borrowing rate to a daily compounded borrowing rate as follows:

$$\text{daily rate} = (1 + \text{annually compounded rate})^{(1/365)}$$

$$\text{Interest accrued for a period} = \text{beginning balance of lease liability} * ((1 + \text{daily rate})^{\text{number of days in the period}} - 1)$$

Journal Entry	dr Operating Rent Expense: Implied Interest
	cr Operating Lease Liability

4.5.3. Lessor is Paid

Journal Entry	dr Cash

	cr Operating Lease Liability

4.5.4. A Lease Incentive is Received from the Lessor

This lease incentive was factored into the lease liability at commencement.

Journal Entry	dr Operating Lease Liability
	cr Cash

4.5.5. The ROU Asset is Amortized

iLeasePro assumes a zero salvage value.

We first compute a straight-line lease expense as follows:

- **Daily Straight-Line Lease Expense =** [Sum of all IDC payments over the life of the lease + Sum of all lease payments (receipts) factored over the life of the lease that are factored into the lease liability or the ROU asset] / lease term in days

- **Straight-Line Lease Expense for a Period =** Number of days in that period * Daily straight-line lease expense

- **Operating Rent Expense: ROU Amortization =** Straight-line lease expense for a period - Operating Rent expense: Implied interest

Journal Entry	dr Operating Rent Expense: ROU Amortization
	cr Operating ROU Asset Accumulated Amortization

5. New Finance Lease Journal Entries

5.1. Inputs Required from You for the Journal Entries

5.1.1. Key Dates

Inception Date	Inception is assumed to be at the BEGINNING of the inception date, unless you pick "EOD."
Commencement Date	Commencement is assumed to be at BEGINNING of the commencement date, unless you pick "EOD."
End of the Lease Term Date	The lease is assumed to end at the END of the lease end date, unless you pick "BOD."
End of the Asset Life Date	This date is relevant ONLY IF you have picked "End of Life Asset Override" because the asset's ownership will revert to you at the end of the lease term. The asset's life is assumed to end at the END of the asset life date unless you pick "BOD." The asset is assumed to be amortized down to $0. iLeasePro does not allow you to enter a salvage value at the end of the asset's life.

5.1.2. Relevant Discount Rate

This rate should be entered as an annually compounded rate.

5.1.3. Payments with Their Dates

Both dates and amounts are required. All payments are assumed to be "BOD" unless you pick "EOD."

- Payments to lessor.

- Receipts from the lessor.

- Any IDC payments. We cannot foresee a scenario in which you can have IDC payments before commencement. The system allows for an unusual fact pattern that we may not have foreseen. Please double-check to ensure that you have the correct facts if you decide to input IDC payments before lease commencement.

- Any payments that will be treated as other expenses on the payment date.

5.2. At Inception

There is no journal entry on the inception date per se unless there is another transaction such as a cash receipt or payment on that date.

5.3. Between Inception and Commencement

As stated above, iLeasePro accrues no interest on the amounts below between the inception date and the commencement date.

5.3.1.   Payments to the Lessor

Journal Entry	dr Finance Prepaid Lease Asset
	cr Cash

5.3.2.   Lease Incentives Received from the Lessor

Journal Entry	dr Cash
	cr Finance Deferred Lease Incentives Liability

5.3.3.   Initial Direct Cost Payments to Others

As mentioned above, please double check if you indeed have IDC payments before commencement.

Journal Entry	dr Finance IDC Asset
	cr Cash

5.4.   At Commencement

5.4.1.   Increase Finance Gross ROU Asset to Zero Out Finance Prepaid Leave Asset

Journal Entry	dr Finance Gross ROU Asset
	cr Finance Prepaid Lease Asset

5.4.2.   Decrease Finance Gross ROU Asset to Zero Out Finance Deferred Lease Incentives Liability

Journal Entry	dr Finance Deferred Lease Incentives Liability
	cr Finance Gross ROU Asset

5.4.3.   Increase Finance Gross ROU Asset to Zero Out Finance IDC Asset

Journal Entry	dr Finance Gross ROU Asset
	cr Finance IDC Asset

5.4.4.   Recognize a Lease Liability as of the Commencement Date

iLeasePro computes the net present value of lease payments (receipts) using exact payment dates. It does not assume that the payments (receipts) occur at the end of a month. It accounts for differences in the number of days in calendar months. That is, iLeasePro computations are like the XNPV computations in Microsoft Excel. In contrast, Excel NPV assumes that payments are equally spaced apart and ignores exact dates. iLeasePro does not perform Excel NPV type of computation.

The lease liability is computed before any payments (receipts) on the commencement date.

Journal Entry	dr Finance Gross ROU Asset
	cr Lease Liability

5.4.5. Payments to the Lessor on the Commencement Date

Since the lease liability on the commencement date includes the payment to be made on the commencement date, the actual payment reduces the lease liability.

Journal Entry	dr Finance Lease Liability
	cr Cash

Please note that some accountants make these entries slightly differently. They exclude the payment made on the commencement date from the lease liability. When the lessor is paid on the commencement date, they dr Finance Gross ROU asset | cr Cash. We believe our entries are easier to understand because all receipts and payments to the lessor affect the lessor's lease liability.

5.4.6. Lease Incentives Received from Lessor on the Commencement Date

Journal Entry	dr Cash
	cr Finance Lease Liability

5.4.7. IDC Payments to Others on the Commencement Date

Journal Entry	dr Finance Gross ROU Asset
	cr Cash

5.4.8. IDC Payments Accrued but Not Paid as of the Commencement Date

Journal Entry	dr Finance Gross ROU Asset
	cr Finance Accrued IDC Liability

5.5. After Commencement

5.5.1. Accrued IDC Amounts are Paid

As stated above, iLeasePro does not accrue any interest on accrued IDC liability between the commencement date and the payment date.

Journal Entry	dr Finance Accrued IDC Liability
	cr Cash

5.5.2. Interest is Accrued on the Lease Liability

We convert the annually compounded borrowing rate to a daily compounded borrowing rate as follows:

daily rate = $(1+ \text{annually compounded rate})^{(1/365)}$

Interest accrued for a period = beginning balance of lease liability $* ((1 + \text{daily rate})^{\text{number of days in the period}} - 1)$

Journal Entry	dr Finance Interest Expense
	cr Finance Lease Liability

5.5.3. Lessor is Paid

Journal Entry	dr Cash
	cr Finance Lease Liability

5.5.4. A Lease Incentive is Received from the Lessor

This lease incentive was factored into the lease liability at commencement.

Journal Entry	dr Finance Lease Liability
	cr Cash

5.5.5. The ROU Asset is Amortized

iLeasePro assumes a zero salvage value.

The periodic expense depends on whether the ROU asset is amortized over the lease term or the underlying asset's economic life.

- **Daily Amortization Expense =** ROU asset at commencement divided by the amortizable life in days.

- **Periodic Amortization Expense =** Daily expense * length of the period in days.

Journal Entry	dr Finance ROU Amortization Expense
	cr Finance: ROU Asset Accumulated Amortization

5.5.6. Finance Lease Manual Entry at the end of the Lease Term

You will need to make a manual entry to convert the Leased Asset into an Owned Asset if the ownership transfers to you at the end of the lease term.

6. Transition on Operating Lease from ASC 840 to ASC 842: Journal Entries

As stated earlier, please note that iLeasePro relies on correct input from you. If you have elected to use hindsight in transitioning from ASC 840 to ASC 842, you are responsible for updating the ASC 840 balances BEFORE inputting data into iLeasePro. iLeasePro does not make any adjustments for the practical expedients that may have been chosen by you.

The Commencement Date for all active leases that transition from ASC 840 to ASC 842 will be set to the Transition Date for all calculations.

6.1. Pre-Existing Account Balances for an Operating Lease Under ASC 840

An operating lease could have the following account balances under ASC 840. You will need to enter the correct balances (after making any adjustments needed if you elect to use hindsight at transition) into the iLeasePro system. **There is also variation across users regarding how they may have set up their accounting systems and account titles.** Therefore, please make sure you understand and check before you enter these amounts.

6.1.1. Prepaid Rent Asset

Accountants use this account for the following possible purposes:

- The lease payments are not made at the beginning of an accounting period or its end. Instead, lease payments are made in between. Any balance that remains to be expensed at the end of a period is a prepaid rent asset.

- The lessee is required to prepay the lessor.

- The lease payments are declining over time, and the requirement to straight line the lease expense results in an asset.

6.1.2. Accrued Rent Liability

This account represents the flip side of a prepaid rent asset.

6.1.3. Deferred Lease Incentives Liability

Cash advances received from the lessor that have not yet been amortized.

6.1.4. Straight-Line Rent Asset or Liability

If prepaid rent asset or accrued rent liability incorporate the effects of straight-lining of lease expense, there would be no separate straight-lining rent asset or liability. However, if prepaid rent strictly represents rent paid in advance and accrued rent reflects rent payable, then the following will hold:

- A straight-line rent asset will arise if contractual rents are declining over time. (Unlikely)

- A straight-line rent liability will arise if contractual rents are rising over time. (Likely)

6.1.5. IDC Asset

Initial direct costs, such as broker commissions that have not yet been expensed.

6.1.6. Exit Cost Obligations

Leases that lessee has decided to exit but are still active. **If there are exit cost obligations per ASC 420, ASC 842 requires switching to straight-line amortization instead of the implied decelerated amortization. As of now, iLeasePro does not make this switch. Therefore, the system should not be used for leases with ASC 420 exit cost obligations.**

6.2. Summary of Inputs Required at an Operating Lease Transition

6.2.1. Dates

Transition Date	Transition is assumed to be at the BEGINNING of the transition date, unless you pick "EOD." The transition date becomes the effective commencement date going forward.
End of the Lease Term Date	The lease is assumed to end at the END of the lease end date, unless you pick "BOD."

6.2.2. Relevant Discount Rate

This rate should be entered as an annually compounded rate.

6.2.3. Payments with Their Dates

Both dates and amounts are required. All payments are assumed to be "BOD" unless you pick "EOD."

- Payments to the lessor at or after the transition date

- Receipts from the lessor at or after the transition date

- Any IDC payments at or after the transition date.

- Any payments that will be treated as other expenses on the payment date.

6.2.4. Pre-Existing Account Balances on the Transition Date

See discussion above.

- Prepaid rent asset.

- Accrued rent liability.

- Deferred lease incentives liability.

- Straight-line rent asset or liability.

- IDC asset.

- ~~Exit cost obligations.~~

- There is no need to enter accrued but unpaid IDC costs because the system will compute it based on the IDC payments still due.

6.3. At Transition

You will need to enter the discount rate and the remaining lease payments by following the transition requirements of ASC 842.

6.3.1. Recognize Lease Liability per ASC 842

- **Lease Liability at Transition =** XNPV of the remaining lease payments (receipts), including any payments (receipts) made on the transition date.

Journal Entry	dr Operating Gross ROU Asset
	cr Operating Lease Liability

6.3.2. Increase ROU Asset to Zero Out Prepaid Rent Asset

Clear out the prepaid rent asset per ASC 840, including any adjustments for the election to use hindsight at the transition.

Journal Entry	dr Operating Gross ROU Asset
	cr Operating Prepaid Rent Asset

6.3.3. Decrease ROU Asset to Zero Out Accrued Rent Liability

Clear out the accrued rent liability per ASC 840, including any adjustments for the election to use hindsight at the transition.

Journal Entry	dr Operating Accrued Rent Liability
	cr Operating Gross ROU Asset

6.3.4. Decrease ROU Asset to Zero Out Deferred Lease Incentives Liability

Clear out the deferred lease incentives liability per ASC 840, including any adjustments for the election to use hindsight at the transition.

Journal Entry	dr Operating Deferred Lease Incentives Liability
	cr Operating Gross ROU Asset

6.3.5. Decrease ROU Asset to Zero Out Straight-Line Rent Liability

Clear out the deferred lease incentives liability per ASC 840, including any adjustments for the election to use hindsight at the transition.

Journal Entry	dr Operating Straight-Line Rent Liability
	cr Operating Gross ROU Asset

6.3.6. Increase ROU Asset to Zero Out IDC Asset

Clear out the IDC asset per ASC 840, including any adjustments for the election to use hindsight at the transition.

Journal Entry	dr Operating Gross ROU Asset
	cr Operating IDC Asset

Note that there could be an accrued IDC liability if the IDC payments have been accrued but not paid. **This account will remain at the transition and will be zeroed out as the IDC payments are made. iLeasePro assumes that this liability is an undiscounted amount, i.e., it is not at present value.**

6.3.7. Recognize any Payments to (Receipts from) the Lessor at the Transition

Journal Entry	dr Operating Lease Liability
	cr Cash

Journal Entry	dr Cash
	cr Operating Lease Liability

6.4. After Transition

6.4.1. Accrued IDC Amounts are Paid

As stated above, iLeasePro does not accrue any interest on accrued IDC liability.

Journal Entry	dr Operating Accrued IDC Liability
	cr Cash

6.4.2. Interest is Accrued on the Lease Liability

We convert the annually compounded borrowing rate to a daily compounded borrowing rate as follows:

daily rate = $(1 + \text{annually compounded rate})^{(1/365)}$

Interest accrued for a period = beginning balance of lease liability * $((1 + \text{daily rate})^{\text{number of days in the period}} - 1)$

Journal Entry	dr Operating Rent Expense: Implied Interest
	cr Operating Lease Liability

6.4.3. Lessor is Paid

Journal Entry	dr Cash
	cr Operating Lease Liability

6.4.4. A Lease Incentive is Received from the Lessor

This lease incentive was factored into the lease liability at commencement.

Journal Entry	dr Operating Lease Liability
	cr Cash

6.4.5. The ROU Asset is Amortized

iLeasePro assumes a zero salvage value.

We first compute a straight-line lease expense as follows:

- **The Remaining Lease Expense =** Remaining lease payments + ROU asset at transition – Lease liability at the transition.

- **Daily Straight-Line Lease Expense =** Remaining lease expense divided by the remaining lease term.

- **Straight-Line Lease Expense for a Period =** Number of days in that period * Daily straight-line lease expense.

- **Operating Rent Expense: ROU Amortization =** Straight-line lease expense for a period - Operating Rent expense: Implied interest.

Journal Entry	dr Operating Rent Expense: ROU Amortization
	cr Operating ROU Asset Accumulated Amortization

7.   Transition a Finance Lease from ASC 840 to ASC 842: Journal Entries

As stated earlier, please note that iLeasePro relies on correct input from you. If you have elected to use hindsight in transitioning from ASC 840 to ASC 842, you are responsible for updating the ASC 840 balances BEFORE inputting data into iLeasePro. iLeasePro does not make any adjustments for the practical expedients that you may have elected.

7.1.   Pre-Existing Account Balances for a Finance Lease Under ASC 840

A finance lease could have the following account balances under ASC 840. You will need to enter the correct balances (after making any adjustments needed if you elect to use hindsight at transition) into the iLeasePro system. There is variation across users regarding how they may have set up their accounting systems and account titles.

7.1.1.   Capital Lease Asset: Gross

This asset is assumed to **include any capitalized initial direct costs under ASC 840.**

7.1.2.   Capital Lease Asset: Accumulated Amortization

Accumulated amortization of the capital lease asset at the transition date.

7.1.3.   Capital Lease Liability

This liability equals the present value of the remaining lease payments, including those made at transition.

7.1.4.   Accrued IDC Liability

This account will be equal to the undiscounted sum of any IDC payments that have been accrued but not paid as of the transition date. iLeasePro will compute this amount based on the remaining IDC payments you enter. You will not need to enter this balance separately.

7.2.   Summary of Inputs Required at an Operating Lease Transition

7.2.1.   Dates

Transition Date	Transition is assumed to be at the BEGINNING of the transition date, unless you pick "EOD." The transition date becomes the effective commencement date going forward.
End of the Lease Term Date	The lease is assumed to end at the END of the lease end date, unless you pick "BOD."
End of the Asset Life Date	This date is relevant ONLY IF you have picked "End of Life Asset Override" because the asset's ownership will revert to you at the end of the lease term. The asset's life is assumed to end at the END of the asset life date, unless you pick "BOD." The asset is assumed to be amortized down to $0. iLeasePro does not allow you to enter a salvage value at the end of the asset's life.

7.2.2. Relevant Discount Rate

This rate should be entered as an annually compounded rate.

7.2.3. Payments with Their Dates

Both dates and amounts are required. All payments are assumed to be "BOD," unless you pick "EOD."

- Payments to the lessor at or after the transition date.

- Receipts from the lessor at or after the transition date.

- Any IDC payments at or after the transition date.

- Any payments that will be treated as other expenses on the payment date.

7.2.4. Pre-Existing Account Balances on the Transition Date

See discussion above.

- Capital lease asset per ASC 840.

- Capital lease asset accumulated depreciation per ASC 840.

- Capital lease liability per ASC 840.

- There is no need to enter accrued but unpaid IDC costs because the system will compute it based on the IDC payments still due.

7.3. At Transition

7.3.1. Rename the Accounts per ASC 842

Old Name	New Name
Capital Lease Gross Asset	Finance Lease Gross ROU Asset
Capital Lease Asset Accumulated Amortization	Finance Lease ROU Asset Accumulated Amortization
Capital Lease Liability	Finance Lease Liability

- **The system checks to ensure that the Lease liability at transition =** XNPV of the remaining lease payments (receipts), including any payments (receipts) made on the transition date.

7.3.2. Recognize any Payments to (Receipts from) the Lessor at the Transition Date

Journal Entry	dr Finance Lease Liability
	cr Cash
Journal Entry	dr Cash
	cr Finance Lease Liability

7.4. After Transition

7.4.1. Accrued IDC Amounts are Paid

As stated above, iLeasePro does not accrue any interest on accrued IDC liability.

Journal Entry	dr Finance Accrued IDC Liability
	cr Cash

7.4.2. Interest is Accrued on the Lease Liability

We convert the annually compounded borrowing rate to a daily compounded borrowing rate as follows:
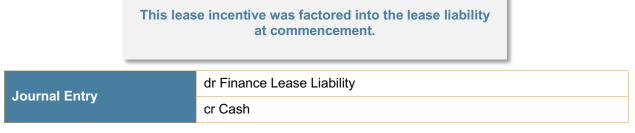
daily rate = $(1+ \text{annually compounded rate})^{(1/365)}$

Interest accrued for a period = beginning balance of lease liability * $((1 + \text{daily rate})^{\text{number of days in the period}} - 1)$

Journal Entry	dr Finance Interest Expense
	cr Finance Lease Liability

7.4.3. Lessor is Paid

Journal Entry	dr Cash
	cr Finance Lease Liability

7.4.4. A Lease Incentive is Received from the Lessor

> **This lease incentive was factored into the lease liability at commencement.**

Journal Entry	dr Finance Lease Liability
	cr Cash

7.4.5. The ROU Asset is Amortized

The periodic expense depends on whether the ROU asset is amortized over the remaining lease term or the underlying asset's remaining economic life.

> **iLeasePro assumes a zero salvage value.**

- **Daily Amortization Expense =** ROU asset net of accumulated amortization at the transition date divided by the remaining amortizable life in days

- **Periodic Amortization Expense =** Daily expense * length of the period in days

Journal Entry	dr Finance ROU Amortization Expense
	cr Finance: ROU Asset Accumulated Amortization

7.4.6.   Finance Lease Manual Entry at the End of the Lease Term

You will need to make a manual entry to convert the Leased Asset into an Owned Asset if the ownership transfers to you at the end of the lease term.

8.   Complete Termination of a Lease: Journal Entries

> **As mentioned above, iLeasePro can only account for full termination, not partial termination.**

The journal entry for early termination uses the ROU asset and lease liability balances as of the last journal entry made by iLeasePro before termination. For example, suppose iLeasePro prepares a journal entry to update the ROU asset and ROU asset and lease liability as of March 31, 2021. The balances are as follows:

- **Gross ROU Asset =** $2,000

- **Accumulated Amortization =** $1,100

- **Lease Liability =** $1,250

The lease is then terminated as of April 11, 2021, by paying $640.

The termination journal entry is based on the asset and liability balances as of March 31, 2021 (i.e., iLeasePro does not perform a partial month update for asset amortization and liability accretion.)

dr	Lease Liability	1,250	
dr	Accumulated Amortization	1,100	
dr	Loss on Termination	290	
cr	Gross ROU Asset		2,000
cr	Cash		640

9.   Lease Modifications

If a lease is modified, you are responsible for complying with the ASC 842 lease modification requirements, which could require you to perform the following steps:

- Create a copy of the current lease using the iLeasePro Lease Copy Feature.

- Verify that the new modifications are in place in the new lease.

- Replace the Commencement Date with the Modification Date.

- Either delete the old lease or set the Lease Status to "Inactive."