# ASC 842 Lease Disclosure Trends

MYLOGIQ

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## Introduction

Accounting changes triggered by the new FASB ASC 842 rule on lease liabilities and assets pose a potential risk to company SEC filings. Using our CompnayIQ™ platform, MyLoGIQ has analyzed SEC filings over the past six months to understand how companies are reacting to this new accounting rule.

## Executive Summary

In this report, you will find seven examples of how and where companies considering ASC 842 elected to disclose it. As expected, the most common disclosure location was in the Summary of Significant Accounting Policies section of Footnotes to Financials. For companies that will have a material impact from ASC 842, we have highlighted a best practice company that disclosed the impact in both the MD&A section as well as the Footnotes to Financials section with language that was consistent across both sections. Lastly, we include three examples that illustrate disclosure solely in the Footnotes to Financials section.

## Methodology

Our CompanyIQ™ platform surveyed 1,400 documents filed by more than 500 companies in their 10-Qs and 10-Ks across various industries from October 1, 2017 to March 20, 2018 to identify disclosures examples that illustrate the impact of the ASC 842 rule on SEC filings.

## Findings

Our benchmarking report looked at ASC 842 companies in three groups:

- Group 1 – Companies that need to significantly improve their disclosure practices: 2 examples,
- Group 2 – Companies that appear to have safe practices: 3 examples, and
- Group 3 – Companies that demonstrate best practices: 2 examples.



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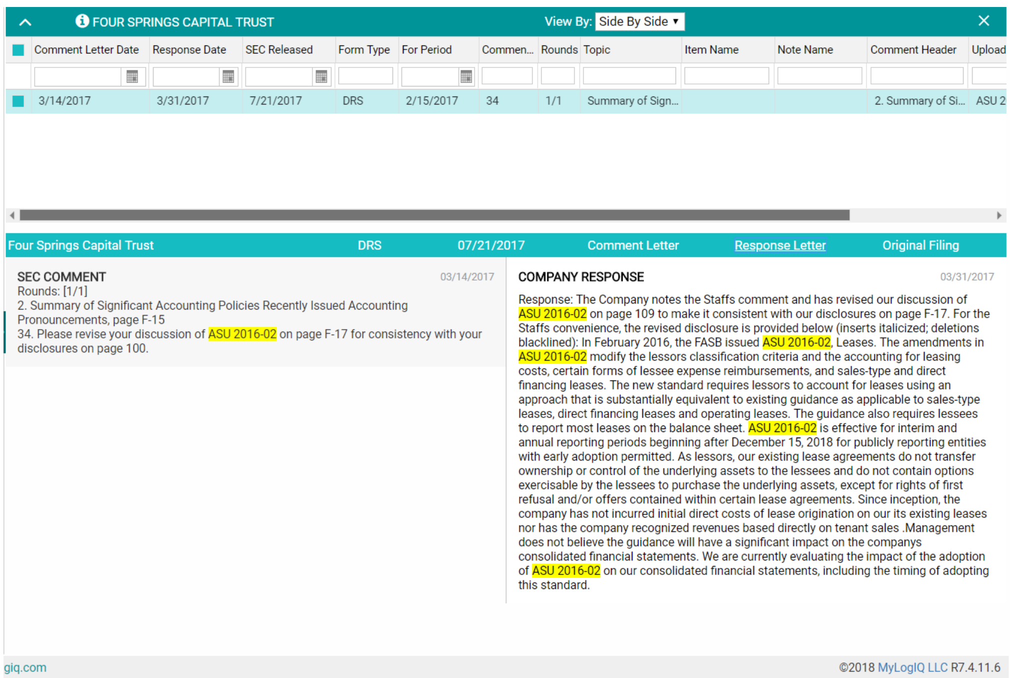
## Group 1: Practices Need to Improve – Inefficient and Inconsistent Disclosure

Two of the seven sample companies surveyed demonstrate a need to improve their disclosure on ASC 842. One triggered a SEC technical comment, and the other is at significant risk.

### Example 1 – Triggered SEC Technical Comment

Four Springs Capital Trust's disclosure triggered a SEC comment due to inconsistent disclosure in two different locations.

The SEC examiner asked the registrant, Four Springs Capital Services, to revise its disclosure due to inconsistency between two different locations of disclosure.



## Example 2 – Possible Trigger of SEC Comment Risk Due to Disclosure Inefficiency

ARCBEST Corporation is an example of a disclosure that may trigger a SEC comment. While it noted a material impact, ARCBEST disclosed the material impact in both the MD&A section and the Footnotes to Financials section, its disclosure within each section is inconsistent.

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| ARCBEST CORP /DE/ | 10-K | 02/28/2018 | MyLogIQ Link |

**Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations**

The FASB issued ASC Topic 842, Leases, which will be effective for us on January 1, 2019. The updated accounting guidance will require operating leases with a term greater than twelve months to be reflected as liabilities with associated right-of-use assets, and we expect the new standard to have a material impact on our consolidated balance sheet. The standard is required to be adopted on the modified retrospective basis, which will require leases existing at or entered into after the beginning of the earliest comparative period to be valued and recorded as right-to-use liabilities and assets. We are currently evaluating the impact the new standard will have on our consolidated statements of operations, consolidated statements of cash flow, and associated notes to consolidated financial statements.

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**Item 8 Financial Statements and Supplementary Data**
**NOTE: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ASC Topic 842, Leases, which is effective for the Company beginning January 1, 2019, will require leases with a term greater than twelve months to be reflected as liabilities with associated right-of-use assets in the Company's consolidated balance sheet. The new standard is expected to be adopted on the modified retrospective basis, which will require leases existing at or entered into after the beginning of the earliest comparative period to be valued and recorded as right-to-use liabilities and assets, and is expected to have a material impact on the Company's consolidated balance sheet. The Company is evaluating the impact of the new standard on the consolidated statements of operations and consolidated statement of cash flows.

## Group 2: Practices Seem Safe – Footnotes to Financials Disclosure

Three of the seven sample companies demonstrate apparently safe and reasonable disclosure practices on ASC 842 by including the accounting change in the Footnotes to Financials section.

### Example 3 – Apparent Safe Disclosure – Possible Impact Noted in Footnotes to Financials

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| SYPRIS SOLUTIONS INC | 10-K | 03/20/2018 | MyLogIQ Link |

**Item 8 Financial Statements and Supplementary Data**
**NOTE: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In ***February 2016,*** the FASB issued ASU ***No. 2016-02,*** Leases (Topic ***842***). The new standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this update supersedes FASB Accounting Standards Codification ("ASC") ***840,*** Leases. The amendments in this ASU are effective for fiscal years beginning after ***December 15, 2018,*** including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this ASU on its consolidated financial statements and related disclosures. We believe the adoption of the standard will likely have a material impact to our Consolidated Balance Sheets for the recognition of certain operating leases as right-of-use assets and lease liabilities. We are in the early process of analyzing our lease portfolio and evaluating systems to comply with the standard's retrospective adoption requirements.

## Example 4 – Apparent Safe Disclosure – Possible Impact Noted in Footnotes to Financials

ADVANCED BIOENERGY, LLC 10-Q 02/05/2018 MyLogIQ Link

**PART I: Item 1 Financial Statements**
**NOTE: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In February 2016, the ASC was amended and a new accounting standard, ASC Topic 842, "Leases," was issued to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In order to meet that objective, the new standard requires recognition of the assets and liabilities that arise from leases. Accordingly, a lessee will recognize a right-of-use (ROU) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. The lease liability will initially be measured at the present value of the future minimum lease payments over the lease term. The ROU asset will initially be measured as the sum of the initial lease liability, initial costs directly attributable to negotiating and arranging the lease, and payments made by a lessee to the lessor at or before the lease commencement date less any lease incentives received. Lessees can make an accounting policy election by class of underlying asset not to recognize a ROU asset and corresponding lease liability for leases with a term of 12 months or less. Accounting by lessors will remain largely unchanged from current U.S. GAAP. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that companies may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases. The new standard is effective for public companies for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We have not completed the evaluation of the effect this standard will have on our financial statements, but we believe that adopting this standard may have a material impact on our balance sheet.

## Example 5 – Apparent Safe Disclosure – Possible Impact Noted in Financial Footnotes

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| ARCHER DANIELS MIDLAND CO | 10-Q | 08/01/2017 | MyLogIQ Link |

**PART I: Item 1 Financial Statements**
**NOTE: ACCOUNTING CHANGES AND GUIDANCE**

Effective January 1, 2019, the Company will be required to adopt the new guidance of ASC Topic 842, Leases (Topic 842), which will supersede ASC Topic 840, Leases. Topic 842 requires lessees to recognize assets and liabilities for all leases with lease terms of more than 12 months. The Company expects to adopt Topic 842 using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this new guidance will require expanded disclosures in the Company's consolidated financial statements. The Company has established a cross-functional implementation team consisting of representatives from accounting, legal, procurement, and operations. The Company utilized surveys to centrally gather more information about its existing leases and lease processes and to gather lease contracts. To ensure completeness of the population of lease contracts, the results of the survey were cross-referenced against other available lease information (i.e., year-end disclosures and general ledger). The Company is also working with a vendor to implement a lease management system which will assist in delivering the required accounting changes and disclosures. The next phase of the implementation plan is the abstraction of the relevant lease contract data points which is expected to be completed in the first quarter of 2018. The impact of the new standard will be a material increase to right of use assets and lease liabilities on the Company's consolidated balance sheet, primarily, as a result of operating leases currently not recognized on the balance sheet. The Company has not yet completed its assessment of the impact of the new guidance on its consolidated statement of earnings.

# Group 3: Best Practices – MD&A and Footnotes to Financials Disclosure

Two of the seven sample companies surveyed demonstrate market standard disclosure practices on ASC 842. In the first case, the company includes the accounting change in both the MD&A section and the Footnotes to Financials section. In the second example, the company clearly explains why there is no impact from ASC 842.

## Example 6 – Safe Disclosure – Actual Impact Noted in MD&A and Footnotes to Financials

The disclosure is identical and consistent for both the sections and clearly states the actual impact.

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| AT HOME GROUP INC. | 10-Q | 11/30/2017 | MyLogIQ Link |

**PART I: Item 1 Financial Statements**
**NOTE: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
In February 2016, the FASB issued ASU No. 2016-02 "Leases", which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases" ("ASU 2016-02"). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. We are currently evaluating the impact of ASU 2016-02 and we expect that upon adoption we will recognize right-of-use assets and liabilities that will be material to our financial statements.

**PART I: Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**
In February 2016, the FASB issued ASU No. 2016-02 "Leases", which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases" ("ASU 2016-02"). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. We are currently evaluating the impact of ASU 2016-02 and we expect that upon adoption we will recognize right-of-use assets and liabilities that will be material to our financial statements.

## Example 7 – Safe Disclosure – High Transparency - No Impact Noted in Footnotes to Financials

The disclosure goes above and beyond and clearly quantified why there would be no material impact, thereby removing any ambiguity. In contrast, most disclosures simply state that there will be no material impact without explaining why.

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| ARC DOCUMENT SOLUTIONS, INC. | 10-K | 03/05/2018 | MyLogIQ Link |

**Item 15 Exhibits, Financial Statement Schedules**
**NOTE: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

…recognizing a right-of-use (ROU) asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. ASC 842 is effective for the Company January 1, 2019. While the Company is continuing to assess the potential impacts that ASC 842 will have on its consolidated financial statements, the Company believes that the most significant impact relates to its accounting for facility leases related to its service centers and office space, which are currently classified as operating leases. The Company expects the accounting for capital leases related to its machinery and equipment will remain substantially unchanged under the new standard. Due to the substantial number of operating leases that it has, the Company believes this ASU will increase assets and liabilities by the same material amount on its consolidated balance sheet. The Company's current undiscounted minimum commitments under noncancelable operating leases is approximately $64.0 million. The Company does not believe adoption of this ASU will have a significant impact to its consolidated statements of operations, equity, or cash flows.



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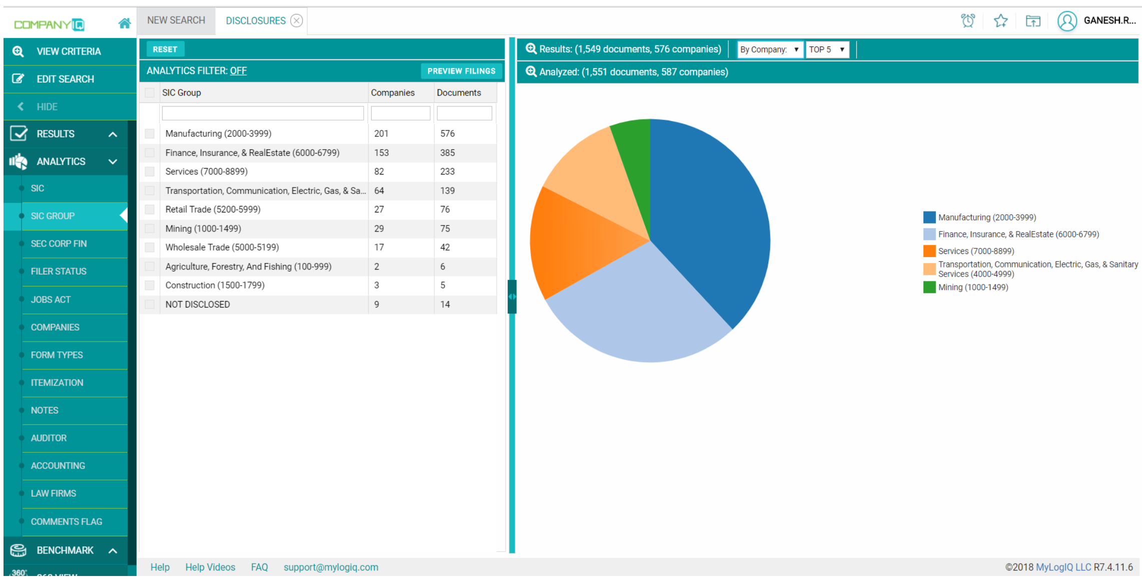
## ASC 842 Data by Industry, Auditor, 10-K and 10-Q, and Footnotes to Financials Details

We took a closer look at the 500 plus companies subject to the ASC 842 disclosure rule.

Our CompanyIQ™ analysis of those companies' filings since October 1, 2017 shows trends by industry, auditor, disclosure location, and footnotes to financials details.

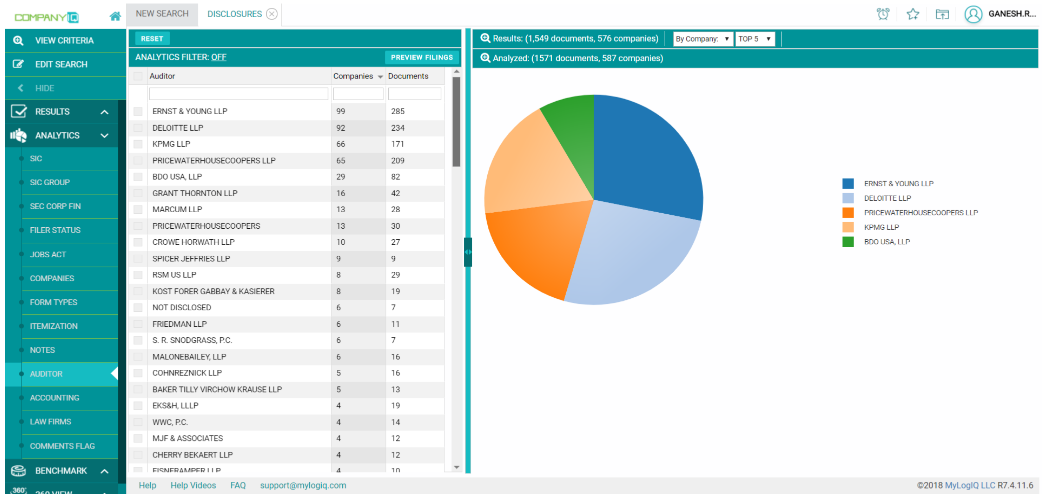
### ASC 842 Disclosures by Industry

Manufacturing and finance were the two industries most affected by ASC 842.



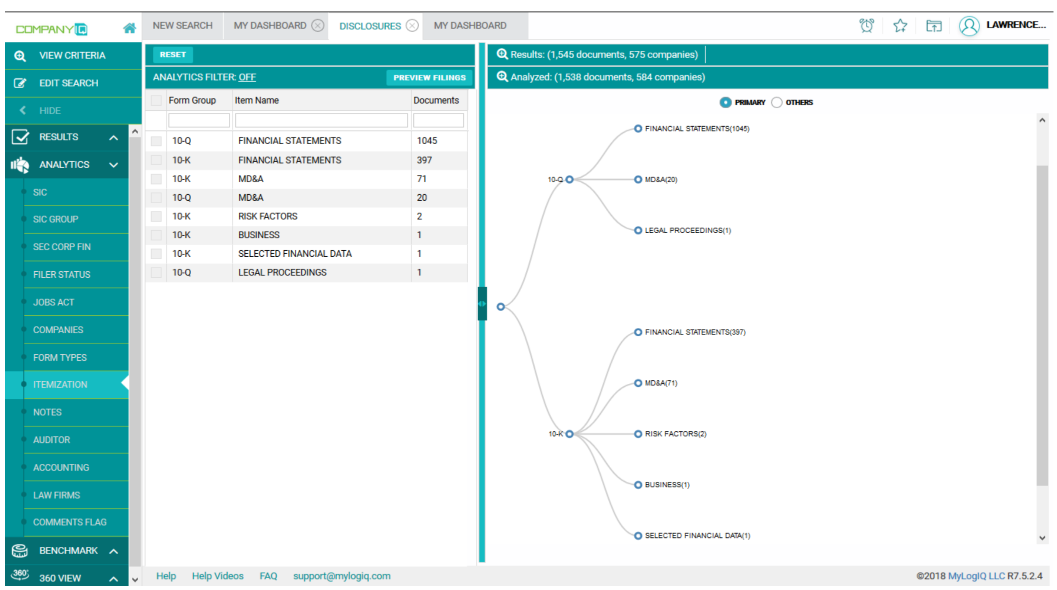
## ASC 842 Disclosures by Auditor

EY and Deloitte were the top two leading auditors for ASC 842 companies.



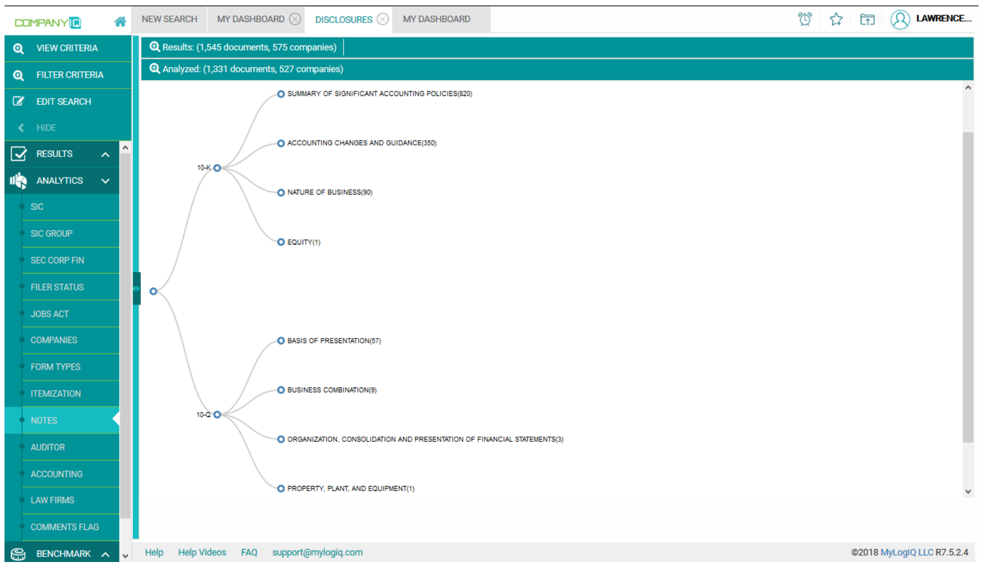

## ASC 842 Disclosures by 10-Q and 10-K

The vast majority of ASC 842 disclosures (1045) took place in the financial statements section of 10-Q filings.



## ASC 842 Disclosures by Footnotes to Financials Details

The majority of filings (820) disclosed ASC 842 impacts in their 10-K summary of significant accounting policies.



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