



# Lease processes and controls

**Lessees**

**US GAAP**

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[kpmg.com/us/frv](http://kpmg.com/us/frv)



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# About this publication

The purpose of this publication is to assist you in understanding and assessing internal control over financial reporting (ICFR) for leases accounted for under FASB ASC Topic 842, *Leases*. The publication includes example risks and controls based on a hypothetical lease accounting process by a lessee.

## About the example risks and controls

The example risks and controls in this publication are necessarily general in nature, and are intended to be thought provoking. They do not completely capture all potential points in the lessee's process where a material misstatement may arise. Therefore, the risks and controls need to be enhanced based on your specific accounting policies and processes.

In addition, this publication does not include the following:

- general IT control considerations, which would be specific to the system; or
- example risks and controls for the process of evaluating potential impairment of an asset group.

This publication is designed to be most useful in combination with KPMG's ICFR Reference Guide, which incorporates elements of the COSO 2013 Framework. Together, these publications aim to assist management in understanding the example accounting processes and internal controls for leases accounted for under Topic 842. The ICFR Reference Guide can be accessed by typing the following into your browser: [kpmg.com/us/frv-ICFR](https://kpmg.com/us/frv-ICFR)

## Independence

For audit clients, use of the example risks and controls guidance is subject to certain considerations to maintain auditor independence. This guidance constitutes advice and recommendations only and cannot be used as the basis, nor documentation to support an audit client's accounting policies, processes, systems and controls. KPMG may not form part of an audit client's internal control structure, and may not design or implement an audit client's processes, systems or controls related to ICFR.

The example controls and processes in this document are general descriptions of controls and processes and are provided for informational purposes only. Audit clients of KPMG and other parties may refer to this document for examples of lease accounting controls and processes but remain solely responsible for the preparation of the audit client's (or other party's) financial statements, including designing, implementing and documenting processes, systems and controls.

## Organization of the content

The content is arranged by subprocess, each of which comprises a flowchart followed by notes on the process activities, risk descriptions, and control descriptions. Throughout, this publication includes cross-references to further reading in KPMG's Handbook, Leases. The Handbook can be accessed by typing the following into your browser: [kpmg.com/us/frv-leases](https://kpmg.com/us/frv-leases)

## Abbreviations

AM – Accounting Manager

AP – Accounts Payable

BU Managers – Business Unit Managers

LA – Lease Administrator

LC – Lease Accountant

LMS – Lease Management System

- Database of relevant terms
- Functionality to input and review leases and relevant data elements
- Performs lease classification test based on inputs
- Subledger for lease account balances
- Calculates and reports lease recognition entry, subsequent accounting entries and disclosures based on database inputs
- Prompts lease reassessments based on relevant lease terms
- Data access permissions, data change tracking controls, and other general IT controls are in place

## Smart PDF also available

This publication is the print version of a smart PDF that can be accessed by typing the following into your browser: [kpmg.com/us/frv-leases-controls](https://kpmg.com/us/frv-leases-controls)

# Subprocess overview

Subprocess 1 – Identification and recognition of new leases	
<p><b>Description</b></p> <ul style="list-style-type: none"> <li>— Contracts that are or may contain a lease are evaluated against the Topic 842 definition of a lease.</li> <li>— Relevant data is completely and accurately abstracted from the lease contract into a database.</li> <li>— Each lease is properly classified as operating or finance, and the ROU asset and lease liability are properly calculated and recorded in the general ledger at lease commencement in accordance with Topic 842.</li> </ul>	<p><b>Read KPMG’s Handbook, Leases</b></p> <ul style="list-style-type: none"> <li>Chp 2 Scope</li> <li>Chp 3 Definition of a lease</li> <li>Chp 4 Separating components of a contract</li> <li>Chp 5 Concepts and definitions for lessees and lessors</li> <li>Chp 6 Lessee accounting               <ul style="list-style-type: none"> <li><i>6.2: Lease classification</i></li> <li><i>6.3: Initial recognition and measurement</i></li> </ul> </li> </ul>
Subprocess 2 – Subsequent accounting for leases	
<p><b>Description</b></p> <ul style="list-style-type: none"> <li>— Recognition of lease payments that reduce the lease liability.</li> <li>— Recognition of interest (accretion) on finance (operating) lease liabilities.</li> <li>— Amortization of ROU assets (accounting entries differ for finance and operating leases).</li> </ul>	<p><b>Read KPMG’s Handbook, Leases</b></p> <ul style="list-style-type: none"> <li>Chp 6 Lessee accounting               <ul style="list-style-type: none"> <li><i>6.4: Subsequent accounting</i></li> </ul> </li> </ul>
Subprocess 3 – Validating the completeness of the lease population	
<p><b>Description</b></p> <ul style="list-style-type: none"> <li>— Perform monthly/quarterly checks, reviews, reconciliations and inquiries to validate that all potential lease contracts (including modifications to existing contracts) are reported through Subprocess 1.</li> <li>— This includes examining non-lease contracts with terms that may meet the definition of a lease (i.e. embedded leases).</li> </ul>	<p><b>Read KPMG’s Handbook, Leases</b></p> <ul style="list-style-type: none"> <li>Chp 2 Scope</li> <li>Chp 3 Definition of a lease</li> </ul>

<b>Subprocess 4 – Quarterly and annual presentation and disclosure</b>	
<b>Description</b>	<b>Read KPMG’s Handbook, Leases</b>
<ul style="list-style-type: none"> <li>— Verify that assets, liabilities, expenses and cash flows are properly classified in the financial statements.</li> <li>— Include required disclosures.</li> </ul>	Chp 6 Lessee accounting <i>6.9: Presentation</i> Chp 12 Disclosures

<b>Subprocess 5 – Lease modifications and terminations</b>	
<b>Description</b>	<b>Read KPMG’s Handbook, Leases</b>
<ul style="list-style-type: none"> <li>— Changes to lease contracts, including terminations, are reported to Accounting for evaluation as modifications.</li> <li>— Follow the process and controls for new leases:               <ul style="list-style-type: none"> <li>– update contractual and estimated data elements in LMS;</li> <li>– reevaluate lease classification; and</li> <li>– recalculate and adjust ROU asset and lease liability and their prospective amortization tables.</li> </ul> </li> </ul>	Chp 6 Lessee accounting <i>6.7: Lease modifications</i> <i>6.8: Lease terminations</i>

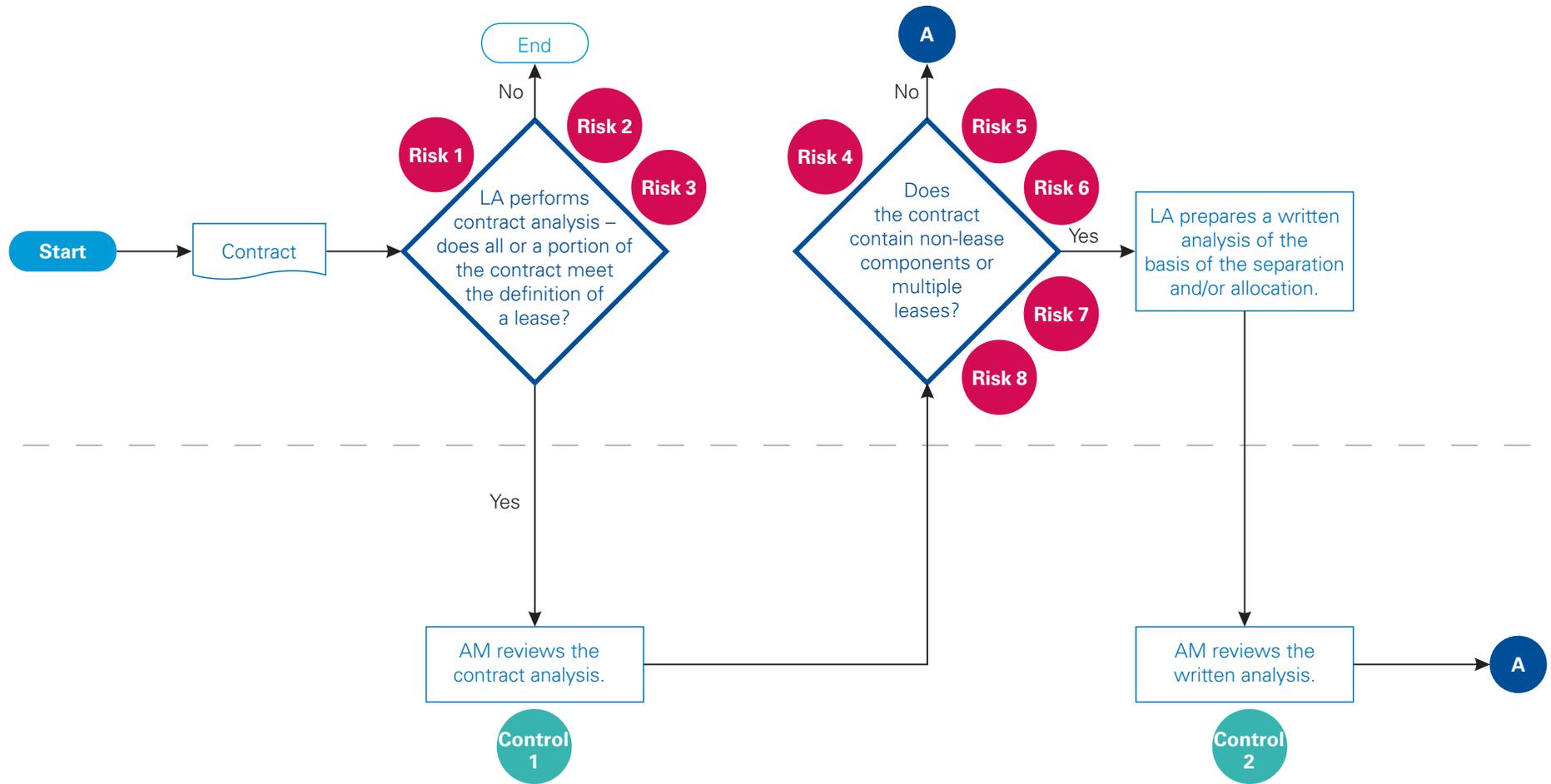
<b>Subprocess 6 – Lease reassessments</b>	
<b>Description</b>	<b>Read KPMG’s Handbook, Leases</b>
<ul style="list-style-type: none"> <li>— Monitor lease triggering events for leases that include renewal/termination options and purchase options.</li> <li>— Monitor for changes in relevant facts and circumstances for leases that include a residual value guarantee or a contingency.</li> <li>— As required based on the type of reassessment:               <ul style="list-style-type: none"> <li>– update contractual and estimated data elements in LMS;</li> <li>– re-evaluate lease classification; and</li> <li>– recalculate and adjust ROU asset and lease liability and their amortization tables.</li> </ul> </li> </ul>	Chp 6 Lessee accounting <i>6.6: Lease reassessments</i>

# Subprocess 1

## Identification and recognition of new leases

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)

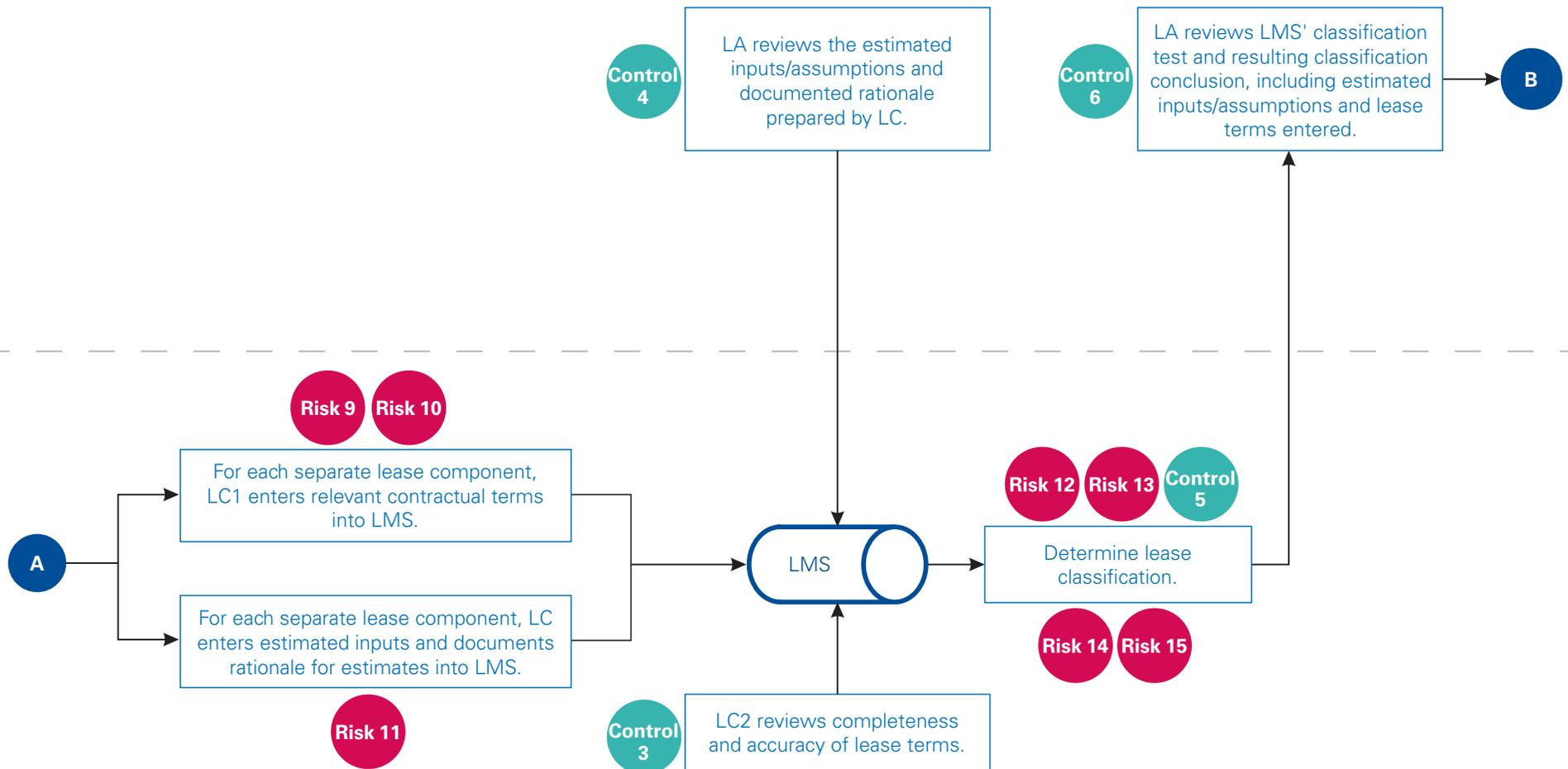


# Subprocess 1

## Identification and recognition of new leases (cont.)

LEASE ADMINISTRATOR (LA)

LEASE ACCOUNTANT (LC)

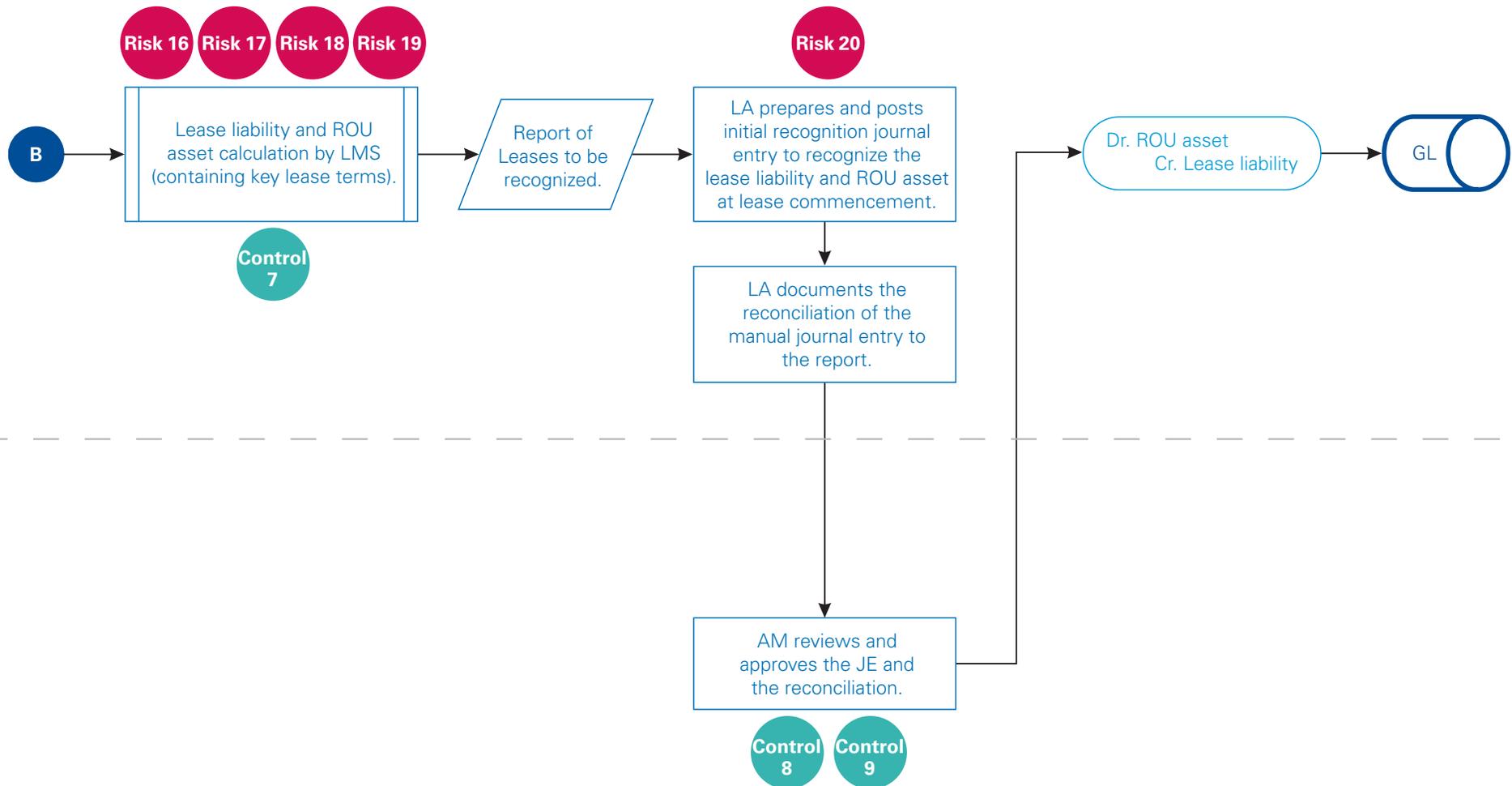


# Subprocess 1

## Identification and recognition of new leases (cont.)

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)



## Subprocess 1 – Identification and recognition of new leases

Process activities	Risk description	Control description
<p>Contracts that are or potentially could include leases are provided to the LA for review.</p> <p>LA performs and documents analysis of the contract terms to determine whether all or a portion of the contract meets the definition of a lease.</p> <p>For a contract that is or includes one or more leases, LA also identifies and documents the lease and non-lease components.</p>	<p><b>Risk 1</b></p> <p>Contract that is or contains a lease may not be properly identified at contract inception.</p> <p><b>Risk 2</b></p> <p>A contract incorrectly identified as a lease is accounted for as a lease.</p> <p><b>Risk 3</b></p> <p>Non-lease contracts (e.g. master service agreements, significant service contracts, dedicated supply agreements, advertising and construction contracts) may not be properly identified as including an embedded lease.</p>	<p><b>Control 1</b></p> <p><b>AM reads the contract and compares the terms in the analysis performed and documented by LA. AM reviews and approves the contract analysis when AM confirms the analysis was performed properly.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Contract analysis and contract terms.</p> <p><b>Level of aggregation:</b> Generally, one contract. If a group of contracts are assessed together (i.e. as a portfolio) as a policy election, AM reviews contract terms to evaluate that they are substantially similar and can be analyzed collectively.</p> <p><b>Questions for evaluating criteria for investigation:</b></p> <p>Were all relevant contract terms summarized in the contract analysis?</p> <p>Is the contract included or excluded from the scope of Topic 842?</p> <p>Was there a complete and appropriate analysis of all elements of the definition of a lease?</p> <ul style="list-style-type: none"> <li>— asset is explicitly or implicitly specified in the contract;</li> <li>— asset is physically distinct or customer has rights to substantially all (typically 90%) of the asset's capacity;</li> <li>— supplier does not have a substantive substitution right;</li> <li>— customer has right to obtain substantially all (typically at least 90%) economic benefits from use of the asset; and</li> <li>— customer has right to direct the use of the asset – i.e. either: <ul style="list-style-type: none"> <li>– determine how and for what purpose the asset is used; or</li> <li>– if how and for what purpose the asset will be used is predetermined (e.g. by design of the asset or the contract terms), customer either: <ul style="list-style-type: none"> <li>— designed the asset in a manner that predetermines its use; or</li> <li>— has the right to operate (or direct others to operate) the asset in a manner it determines.</li> </ul> </li> </ul> </li> </ul> <p>AM will reperform the 'substantially all' tests if the results of LA's analysis are within a predetermined threshold of 90% (e.g. a few percentage points above or below 90%).</p> <p>Are multiple leases present in the contract? If yes, account separately (i.e. as separate units of account) for each lease for which:</p> <ul style="list-style-type: none"> <li>— the lessee can benefit from the right of use either on its own or together with other resources that are readily available to the lessee; and</li> </ul>

Process activities	Risk description	Control description
		<p>— the right of use is neither highly dependent on nor highly interrelated with the other right(s) to use underlying assets in the contract.</p> <p>Are non-lease components present in the contract?</p> <p><b>Definition of an outlier:</b> Incomplete analysis of the criteria listed above, incorrect calculation of substantially all tests resulting in different conclusion or incomplete documentation of the basis for conclusions. For example, the analysis of 'substantially all of the economic benefits' should include a summarization of the total economic benefits and an analysis of whether the lessee has the right to obtain substantially all of those. Or, when a substitution right exists but is concluded to be non-substantive, an outlier would be inadequate documentation of the rationale for that conclusion.</p> <p><b>Level of judgment required/resolution of outliers:</b> Most lease agreements clearly meet the definition of a lease, and less judgment is required by the control operator. Some leases (embedded leases, master lease agreements, off-premises leases) include elements that are more judgmental, and more documentation of the process and the operation of the control is required. Resolution of outliers may involve contractual review by other accountants or the legal department.</p> <p><b>Evidence of review:</b> AM's approval of contract analysis. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>
<p>When a contract contains lease and non-lease components or multiple lease components, LA allocates the consideration in the contract by:</p> <ul style="list-style-type: none"> <li>— measuring total consideration in the contract; and</li> <li>— separating and allocating consideration between separate lease and non-lease components.</li> </ul> <p>LA prepares a written analysis of the basis of allocation by cross-referencing to contract</p>	<p><b>Risk 4</b> Contract containing multiple leases and/or non-lease components is not separated into its separate lease and non-lease components.</p> <p><b>Risk 5</b> Inaccurate measurement of contract consideration.</p> <p><b>Risk 6</b> Allocation of consideration to lease and non-lease components may be based on inaccurate inputs.</p>	<p><b>Control 2</b> <b>AM reviews and approves the identification of separate lease and non-lease components and allocation of consideration in the contract performed and documented by LA.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Contract terms, calculation of allocation between lease and non-lease components, relative stand-alone selling price, IPE or third-party data used to evaluate relative stand-alone selling price, and allocation entered into LMS.</p> <p><b>Level of aggregation:</b> One contract. If a group of contracts are assessed together (i.e. as a portfolio), review contract terms to evaluate that contract terms are substantially similar and can be reviewed collectively.</p> <p><b>Questions for evaluating criteria for investigation:</b></p> <p>Is total consideration correct based on the contract terms and the measurement requirements of Topic 842?<sup>1</sup></p> <p>Are the inputs to relative stand-alone price relevant – i.e. sufficiently similar in contractual terms, underlying asset, geography, timeframe, etc.?</p>

1. See paragraph 842-10-15-35 and Leases Handbook, section 4.3.1.

Process activities	Risk description	Control description
<p>terms and tying stand-alone selling price estimates to IPE<sup>2</sup> or third-party data.<sup>3,4</sup></p>	<p><b>Risk 7</b> Sources of stand-alone prices are not relevant and reliable.</p> <p><b>Risk 8</b> Allocation of contract consideration may contain errors.</p>	<p>Are inputs to relative stand-alone price reliable – i.e. complete and accurate?<sup>5</sup></p> <p>Is the calculation of the allocation to components mathematically accurate?</p> <p><b>Definition of an outlier:</b> Incomplete analysis of the criteria listed above, or incomplete documentation of the basis for conclusions. For example, the analysis of relevance of stand-alone selling price should include a comparison of the terms of the lease component and the comparative lease or leases on which relative stand-alone selling price is based. If a range is used, the analysis should support the reasonableness of all points within the range.</p> <p><b>Level of judgment required/resolution of outliers:</b> The judgment required by the control will depend on the relevance and reliability of the inputs to stand-alone selling price and the sensitivity of the lease liability and ROU asset to the allocation of consideration to lease components.</p> <p><b>Evidence of review:</b> AM’s approval of the written analysis to document the basis of allocation. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>
<p>For each separate lease component within each contract that is or contains a lease, LC1 enters relevant contractual terms – i.e. data elements such as lease name, location, commencement date, expiration date, payment schedules (including the allocation of consideration between lease and non-lease components), payment timing, asset class, etc.) into LMS.</p>	<p><b>Risk 9</b> Contractual lease terms entered into LMS are incomplete.</p> <p><b>Risk 10</b> Lease terms entered into LMS are incorrect/inaccurate based on definitions in Topic 842.</p> <p><b>Risk 11</b> Estimated inputs/assumptions are not reasonable.</p>	<p><b>Control 3</b> <b>LC2 performs a review of the complete and accurate identification and input of contractual lease terms from the lease contract into LMS. (LC1 would perform a review of data entered for different leases by LC2.)</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Contractual data in LMS, contract.</p> <p><b>Questions for evaluating criteria for investigation:</b></p> <p>Do the contractual terms match the contract?</p> <p>Are the definitions in Topic 842 correctly interpreted (e.g. lease commencement date)?</p> <p>Does the allocation entered into LMS agree to the results of earlier analysis and supporting calculation?</p>

2. Information produced by the entity (IPE) is information relied on by management to effectively execute a management review control. Management is responsible for verifying reliability of the IPE and designing controls to assess completeness and accuracy of the IPE, which is not included in this document.

3. Lessees are permitted a policy election, made by class of underlying asset, to combine lease and non-lease components, which would reduce the scope of this process and controls (see Leases Handbook, section 4.4.1).

4. Notwithstanding footnote 3, lessees always separate lease components from one another in the same contract (see Leases Handbook, section 4.1.1). In addition, for leases that include a land element, the right to use the land is always considered a separate lease component unless the accounting effect of separately accounting for the land element would be insignificant (see Leases Handbook, section 4.1.2).

5. Consider the need for additional controls over the completeness and accuracy of IPE used in the operation of this control.

Process activities	Risk description	Control description
<p>LC1 inquires of the individual who entered into the lease to make initial estimates about estimated inputs and enters those into LMS, documenting the rationale in LMS – e.g. reasonably certain to exercise renewal option, reasonably certain not to exercise purchase option, amount probable of being owed under a residual value guarantee.</p> <p>LC1 gathers third-party information from Treasury Department to support the lease's discount rate<sup>6</sup> and foreign exchange rate<sup>7</sup> (if applicable) and enters these into LMS.</p>		<p><b>Definition of an outlier:</b> The contractual terms entered into LMS do not match the contract. Incorrect interpretation of lease commencement date. Allocation entered into LMS does not agree to supporting calculation.</p> <p><b>Level of judgment required:</b> Low judgment.</p> <p><b>Evidence of review:</b> Sign off by LC2 or LC1 including documentation of specific items matched. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p> <p><b>Control 4</b></p> <p><b>LA reviews <i>estimated</i> inputs/assumptions and documented rationale prepared by LC1 and reperforms certain steps taken by LC1, if necessary. For leases over a predetermined threshold, AM accesses LMS to perform an additional detailed review of the estimated inputs/assumptions in addition to LA review.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Estimated lease term fields in LMS, documented rationale, LMS data for similar leases, and IPE used to determine economic factors in assessing reasonably certain estimates for renewal and purchase options.</p> <p><b>Questions for evaluating criteria for investigation:</b></p> <p>Is the estimate permissible within/in line with the contract?</p> <p>Is the estimate consistent with documented rationale?</p> <p>Does the documented rationale for 'reasonably certain' estimates address all of the economic factors relevant to the assessment?<sup>8</sup></p> <p>Is the estimate consistent with other estimates for similar leases of similar assets in similar geographies for similar timeframes?</p> <p><b>Definition of an outlier:</b> Incomplete analysis of the criteria listed above, or incomplete documentation of the basis for conclusions. For example, in the assessment of whether the lessee is reasonably certain to extend the lease term, the economic factors are considered together, and the existence of any one factor does not necessarily indicate that a lessee is reasonably certain to exercise the option, so adequate documentation of all factors is required for the transaction to pass through the control.</p> <p>For certain estimated inputs/assumptions, an outlier could be quantitatively defined as outside of a reasonable range as compared with the baseline expectation based on similar estimates for similar leases.</p>

6. See Leases Handbook, section 5.6.

7. See Leases Handbook, section 6.4.3.

8. Contract-based, asset-based, entity-based, market-based; see Leases Handbook, section 5.2.

Process activities	Risk description	Control description
		<p><b>Level of judgment required/resolution of outliers:</b> Relatively less judgment may be needed when estimates are very similar to estimates made for similar leases/assets/geographies/timeframes. More judgment and documentation may be required for new or unique estimates. Resolution of outliers typically occurs through inquiry of the party entering into the lease and further evaluation of economic factors through investigation of internal and external evidence.</p> <p><b>Evidence of review:</b> LA's approval of the rationale documentation prepared by LC1, including documentation of reperformance of the steps performed by LC1. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>
<p>After inquiries of the party entering into the lease and other research and investigation, LC1 makes estimates of subjective information required for the lease classification tests by collecting relevant IPE or third-party data:</p> <ul style="list-style-type: none"> <li>— fair value of the underlying asset at lease commencement;</li> <li>— economic life of the asset, and estimated remaining economic life of the asset at lease commencement;</li> <li>— discount rate used in present value test;</li> <li>— whether the lessee is reasonably certain to exercise a purchase option;</li> <li>— whether the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.</li> </ul>	<p><b>Risk 12</b></p> <p>Lease classification tests are incorrectly performed – i.e. LMS coding errors or incorrect data inputs.</p> <p><b>Risk 13</b></p> <p>Lease classification tests use incorrect contractual or unreasonable estimated inputs/assumptions.</p> <p><b>Risk 14</b></p> <p>Estimated inputs/assumptions to classification tests are based on IPE that is not relevant or reliable.</p> <p><b>Risk 15</b></p> <p>Lease classification in LMS is not consistent with the result of the lease classification test – i.e. risk that LMS classifies the lease in a different manner than it performed the test.</p>	<p><b>Control 5</b></p> <p><b>IT Application control</b> – LMS configuration accurately performs each of the lease classification tests required by paragraphs 842-10-25-2(a)–(d) and 55-2.<sup>9</sup></p> <p><b>Control 6</b></p> <p><b>LA reviews estimated inputs/assumptions used to determine lease classification and the LMS screen documenting each lease classification test and resulting classification conclusion.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> LMS classification screen; other information may be reviewed in the resolution of outliers – lease contract, IPE or third-party data used to estimate fair value of the underlying asset at lease commencement and discount rate used in present value test, etc.</p> <p><b>Questions for evaluating criteria for investigation/definition of an outlier:</b></p> <p>In performing the review, did LA identify any 'close calls' (within a predetermined acceptable range for each test)?</p> <p>For those tests, did LA revalidate the contractual and estimated inputs/assumptions, including IPE or third-party data used in developing the estimates, and the conclusion?</p> <p><b>Level of judgment required/resolution of outliers:</b> Low-to-moderate judgment may be needed in the resolution of outliers through review and re-review of the inputs giving rise to a 'close call'. Resolution of outliers typically occurs through inquiry of the party entering into the lease and further evaluation of economic factors through investigation of internal and external evidence.</p> <p><b>Evidence of review:</b> LA's approval of LMS lease classification screen and any documentation of the reperformance of calculations. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

9. In this example, the process and controls for lease classification are automated, except for manual review of estimated inputs. If the process were manual, manual controls over the completeness and accuracy of inputs, accuracy of the calculation, and lease classification being correctly entered in LMS based on the calculations' results would be necessary.

Process activities	Risk description	Control description
<p>LC1 enters this information into LMS and documents the basis for conclusions, including reference to IPE or third-party data used in making each assessment.</p> <p>LMS is configured to perform the lessee lease classification tests required by paragraphs 842-10-25-2(a)–(d) and 55-2 based on contractual terms and subjective information entered into the system. LMS reports the inputs, calculation and results of the tests on a screen within the application.</p>		
<p>For all operating and finance leases, LMS is configured to calculate the lease liability and ROU asset based on the lease classification reviewed in Control 5 and the other inputs reviewed in Control 4. LMS reports the inputs, calculation and results on a screen within the application.</p> <p>LMS creates amortization tables for the lease liability and ROU asset that show a schedule of future lease payments and future expense to be recognized in accordance with Topic 842 for finance and operating leases (see Subprocess 2).</p>	<p><b>Risk 16</b> LMS is not configured to capture all required inputs necessary to calculate lease liability and ROU asset in accordance with Topic 842.</p> <p><b>Risk 17</b> LMS is not configured to calculate the ROU asset and liability accurately.</p> <p><b>Risk 18</b> LMS is not configured to classify lease assets and liabilities appropriately between short-term and long-term.</p> <p><b>Risk 19</b> LMS is not configured to calculate lease amortization tables correctly.</p>	<p><b>Control 7</b> <b>IT Application control</b> – LMS configuration accurately calculates the lease liability and ROU asset based on lease classification, data entered and reviewed in LMS, and the requirements of Topic 842 and generates accurate lease amortization tables.<sup>10</sup></p>

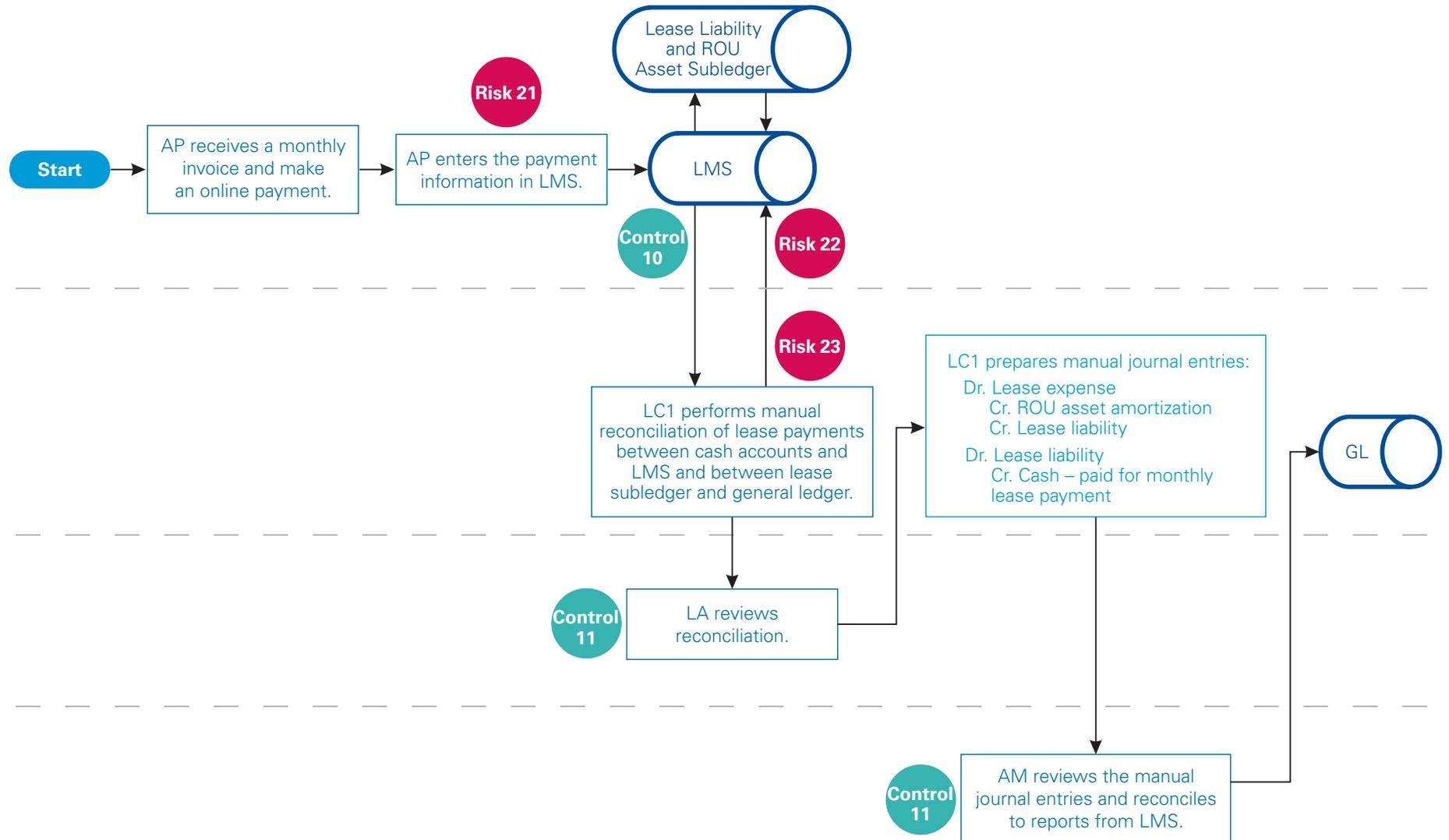
10. In this example, the process and control for lease asset and liability calculations are automated. If the process were manual, manual controls to address the risks listed would be necessary.

Process activities	Risk description	Control description
<p>LA obtains an LMS report of leases to be recognized during the period. LA prepares and posts a manual journal entry to recognize the lease liability and ROU asset at lease commencement and documents the reconciliation of the manual journal entry to the report.<sup>11</sup></p>	<p><b>Risk 20</b> The journal entry to record initial recognition of ROU asset and lease liability is not complete and accurate.</p>	<p><b>Control 8</b> <b>IT Application control</b> – LMS report writer configuration accurately reports the initial recognition of lease liabilities and ROU assets from amounts calculated in LMS as part of control 7.</p> <p><b>Control 9</b> <b>AM reviews and approves the initial recognition journal entries prepared by LA by reconciling the journal entry to the LMS report.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Inputs and reports from LMS including initial recognition journal entries.</p> <p><b>Question for evaluating criteria for investigation/definition of an outlier:</b> Does the initial recognition journal entry agree to the lease liability and ROU asset amounts in the LMS report?</p> <p><b>Level of judgment required/resolution of outliers:</b> No judgment is involved in the comparison of the initial recognition journal entry to the LMS report.</p> <p><b>Evidence of review:</b> AM’s approval of the initial recognition journal entries and documentation of any tie-out procedures.</p>

11. In this example, LMS is not interfaced with the general ledger. If LMS were interfaced, this process and control could be replaced with an IT application control. The entity would need to evaluate if any risks relating to measurement and recognition of lease liabilities and ROU assets require additional manual controls.

# Subprocess 2

## Subsequent accounting for leases



## Subprocess 2 – Subsequent accounting for leases

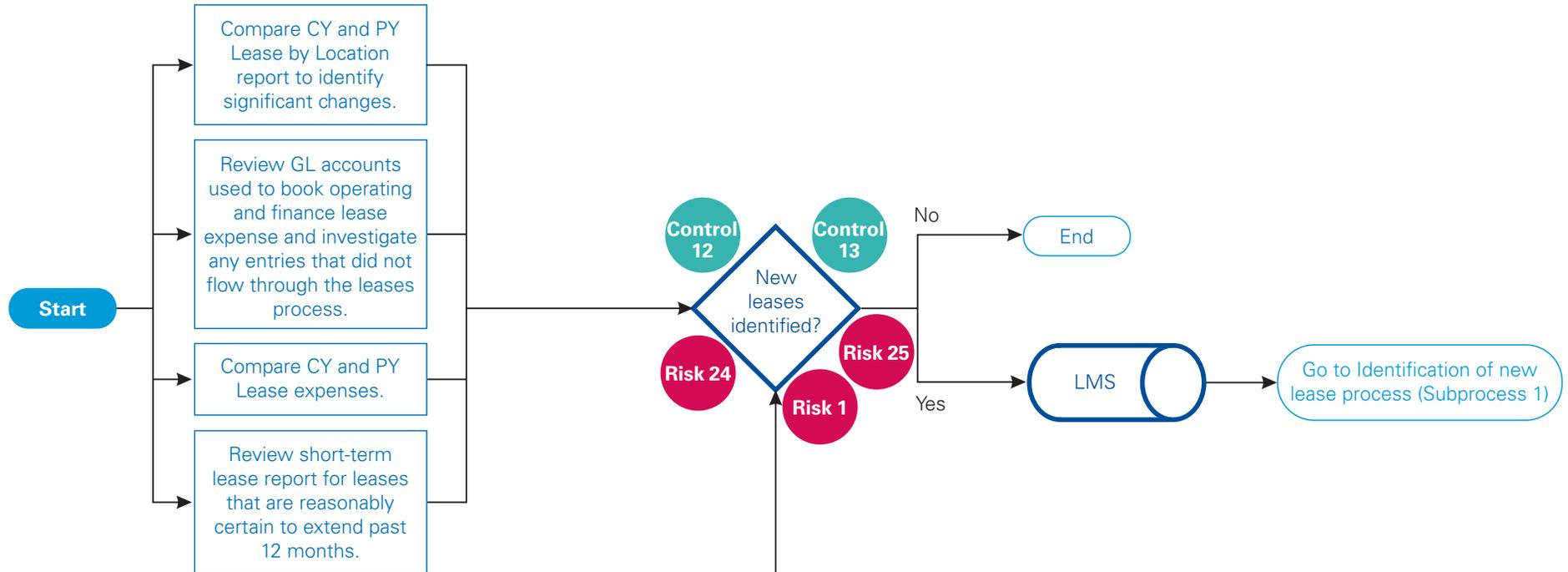
Process activities	Risk description	Control description
<p>LMS acts as the subledger for the lease liabilities and ROU assets.</p> <p>For each lease, the lease liability amortization table shows scheduled lease payments and accretion or interest expense, and the ROU asset amortization table reports scheduled amortization. The tables are calculated based on relevant data elements entered into LMS. LMS reports are configured to accurately report the tables.</p> <p>Monthly, LC1 performs the following manual reconciliations and journal entries.</p> <ul style="list-style-type: none"> <li>— Reconcile lease payments from the cash account with scheduled lease payments in LMS. Any differences between scheduled and actual lease payments are updated in LMS.</li> <li>— Prepare a manual journal entry to record accretion and amortization expense for operating and finance leases.</li> <li>— Reconcile the ending lease liability and ROU asset subledgers with the general ledger.<sup>12</sup></li> </ul>	<p><b>Risk 21</b> Inaccurate lease payments in LMS.</p> <p><b>Risk 22</b> Inaccurate calculation or recognition of monthly single lease cost (operating leases) or interest and amortization expense (finance leases).</p> <p><b>Risk 23</b> Activity of the subledger is not reflected in the general ledger.</p>	<p><b>Control 10</b> <b>IT Application controls:</b></p> <ul style="list-style-type: none"> <li>— LMS is configured to accurately calculate lease interest expense (finance leases) and accretion expense (operating leases) based on the table of lease payments and the discount rate.</li> <li>— LMS is configured to accurately calculate ROU asset amortization on a straight-line basis (finance leases). For operating leases, LMS is configured to calculate ROU asset amortization based on the accretion expense so as to result in a straight-line single lease cost as described by paragraphs 842-20-25-6 and 25-8.</li> </ul> <p><b>Control 11</b></p> <ul style="list-style-type: none"> <li>— <b>LA reviews the reconciliation of lease payments between cash accounts and LMS prepared by LC1 and reperforms the reconciliation of the lease subledger to the general ledger.</b></li> <li>— <b>AM reviews the manual journal entries prepared by LC1 and reconciles the entry to supporting reports generated from LMS.</b></li> </ul> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Reconciliation of lease payment to supporting report information from LMS.</p> <p><b>Questions for evaluating criteria for investigation/definition of an outlier:</b></p> <p>Do the lease payments in cash accounts agree to those in LMS?</p> <p>Did LA investigate until the difference falls in a predetermined acceptable range or investigate reconciling items in excess of a predetermined threshold?</p> <p><b>Level of judgment required/resolution of outliers:</b> Low.</p> <p><b>Evidence of review:</b> LA's sign off and reperformance of the reconciliation of lease payments between cash accounts and LMS and reconciliation of lease subledger to general ledger. AM's sign off on the manual journal entries.</p>

12. For example controls relating to variable lease payments, see [Appendix](#).

# Subprocess 3

## Validating the completeness of the lease population

ACCOUNTING MANAGER (AM)



Quarterly Confirmations Control:

1. Divisional and departmental business leaders and legal department confirm knowledge of lease contracts.
2. Knowledgeable accounting personnel inquire of legal, operations/strategy, procurement, treasury, and other relevant departments to identify possible leases.

OTHERS WITH KNOWLEDGE OF THE LEASE CONTRACTS

## Subprocess 3 – Validating the completeness of the lease population

Process activities	Risk description	Control description
<p>In Subprocess 1, contracts that are likely and possible leases are provided to the LA for review.</p> <p>Subprocess 3 includes additional periodic controls to determine whether all contracts that should be reported through Subprocess 1 are actually reported and evaluated.</p>	<p><b>Risk 24</b> Contract in the scope of the leases standard may not be identified for evaluation as a lease.</p> <p><b>Risk 1</b> Contract that is or contains a lease may not be properly identified at contract inception.</p> <p><b>Risk 25</b> A change in circumstances to leases that qualified for the short-term lease recognition exemption may not be identified.</p>	<p><b>Control 12</b> <b>Quarterly confirmation controls:</b> <b>Require divisional and departmental business leaders and legal department to confirm that contracts that contain or may contain leases were reported to accounting for analysis.<sup>13</sup> Also confirm whether lease contracts were modified or terminated.</b></p> <p><b>Knowledgeable accounting personnel may ask for quarterly confirmations from legal, operations/strategy, procurement, treasury and other relevant departments to identify any embedded leases that were not previously identified as a possible lease.</b></p> <p><b>Based on the results of these procedures, enter contracts that may contain a lease into the contract review steps of Subprocess 1, and consider the need for further investigative controls and procedures.</b></p> <hr/> <p><b>Control 13</b> <b>Quarterly reconciliations and analytical review controls:</b></p> <ul style="list-style-type: none"> <li>— <b>LMS generates a lease-by-location report. AM reviews the report for the current and comparative prior year periods, investigates any locations that included a lease one year but not the other and assesses whether any leases should have been entered or should not have been removed from LMS.</b></li> <li>— <b>AM reviews the contents of the G/L accounts used for operating and finance lease expense. Any entries that did not flow through the leases process are investigated and documented/resolved. The review operates on a disaggregated basis such that the control is sufficiently precise to prevent or detect material misstatements on a consolidated basis.</b></li> <li>— <b>Preparer reviews current and prior period department-by-department lease expense and investigates and documents any increases or decreases over a predetermined threshold. AM reviews the consistent operation of the analysis and completeness and reasonableness of documented resolution of investigated items.</b></li> <li>— <b>LMS generates a short-term lease report. AM reviews the report for leases that have or are reasonably certain to extend past 12 months from the lease commencement date, or reasonably certain to exercise a purchase option. Such instances may require reassessment of other, similar short-term leases.<sup>14</sup> The periodic analysis and resolution of outliers is documented by AM.</b></li> </ul>

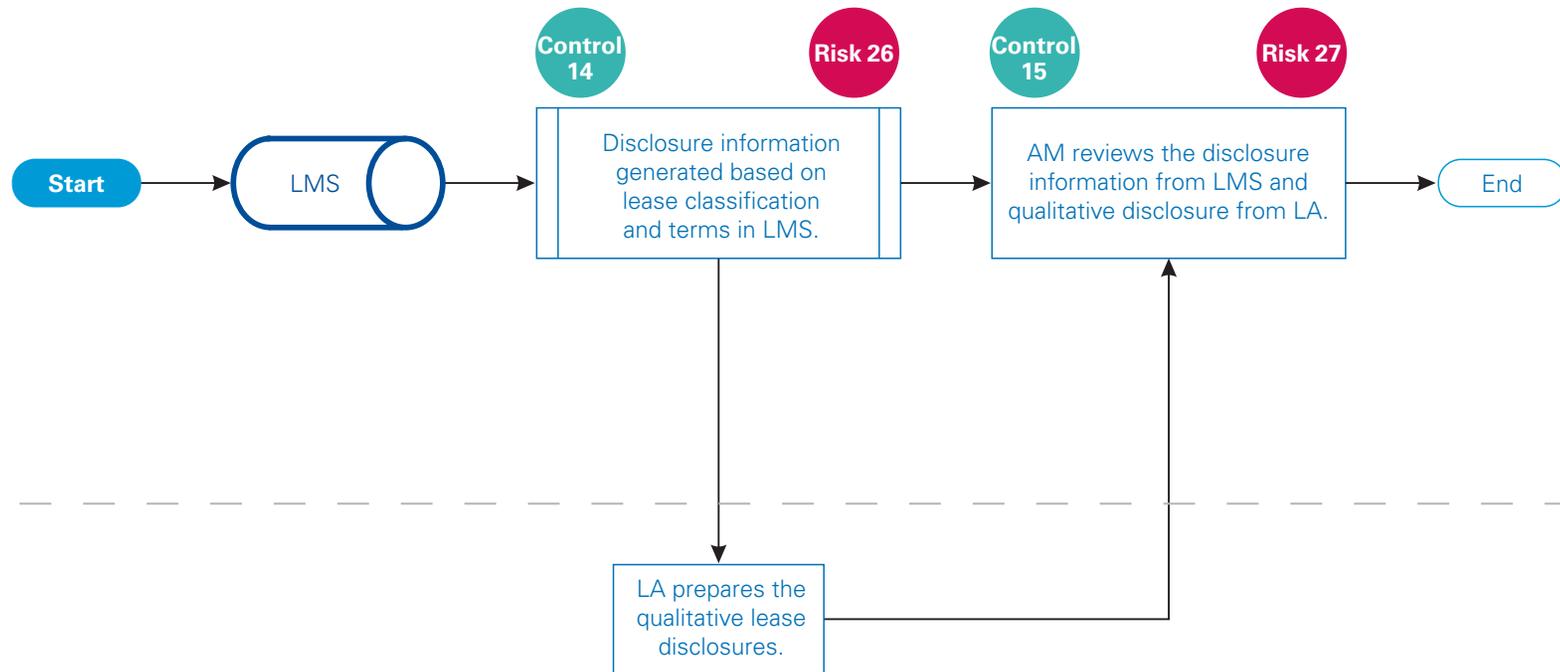
13. This may supplement the entity's contract management process that all contracts are reviewed by appropriate individuals.

14. See paragraph 842-20-25-3 and Leases Handbook, section 6.3.1.

Process activities	Risk description	Control description
		<p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Lease-by-location report, G/L accounts used for operating lease expense and finance lease interest and amortization, current versus prior year lease expense, and short-term lease cost report.</p> <p><b>IPE:</b> Lease-by-location report and short-term lease report.</p> <p><b>Question for evaluating criteria for investigation/definition of an outlier:</b> As described in the control description.</p> <p><b>Level of judgment required/resolution of outliers:</b> Low. Low-to-moderate judgment may be involved in assessing the reasonably certain exercise of a purchase option.</p> <p><b>Evidence of review:</b> AM's sign off on the reconciliations and analytical reviews. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

# Subprocess 4

## Quarterly and annual presentation and disclosure



## Subprocess 4 – Quarterly and annual presentation and disclosure

Process activities	Risk description	Control description
<p>Draft quantitative lease disclosures are generated by LMS based on data entered. LMS is configured to prepare supporting calculations and reports that support lease disclosures.<sup>15</sup></p>	<p><b>Risk 26</b> LMS is not configured to calculate quantitative disclosure information accurately.</p>	<p><b>Control 14</b> <b>IT Application control</b> – LMS is configured to accurately calculate and report required lease disclosures based on information in the leases subledger and database of relevant contractual terms and estimates.<sup>16</sup></p>
<p>LA prepares the qualitative lease disclosures on a quarterly and annual basis. Quantitative disclosures reported by LMS that change by more than predetermined thresholds are investigated and explained in supporting documentation. LA fills out disclosure checklist to ensure completeness of qualitative and quantitative lease disclosures.</p> <p>The draft lease disclosure follows the financial reporting process for review of quarterly and annual disclosures included in SEC filings.</p>	<p><b>Risk 27</b> The disclosure objectives are not met.</p>	<p><b>Control 15</b> <b>AM reviews the qualitative and quantitative elements of the lease disclosure by reconciling to the LMS report and reviewing completed disclosure checklist.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Draft disclosure, LMS report, LMS database as required, disclosure checklists.</p> <p><b>Questions for evaluating criteria for investigation/definition of an outlier:</b></p> <ul style="list-style-type: none"> <li>Do quantitative lease disclosures agree to the report?</li> <li>Are all qualitative and quantitative disclosure requirements met?</li> <li>Are quantitative disclosures with material changes adequately explained with qualitative disclosure and evidenced by supporting documentation?</li> <li>Are qualitative disclosures disaggregated at an appropriate level, and is the overall disclosure objective of paragraph 842-20-50-1 met?</li> <li>Are disclosure checklists properly filled out and complete?</li> </ul> <p><b>Level of judgment required/resolution of outliers:</b> No judgment is required in evaluating the completeness of quantitative disclosures. Lower judgment is required in evaluating qualitative disclosures when lease transactional activity is stable. More judgment regarding the adequacy of disclosure is required when significant new lease transactions arise – e.g. new, modified, terminated, reassessed or impaired leases; subleases; sale-leasebacks; business combinations. Outliers are resolved through investigation of underlying lease transactional activity, and consultation with finance and legal personnel regarding the disclosure needs of users of the financial statements. Documentation of the resolution of the outliers and evidence of review are retained.</p> <p><b>Evidence of review:</b> AM’s sign off on the lease disclosure and disclosure checklist. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

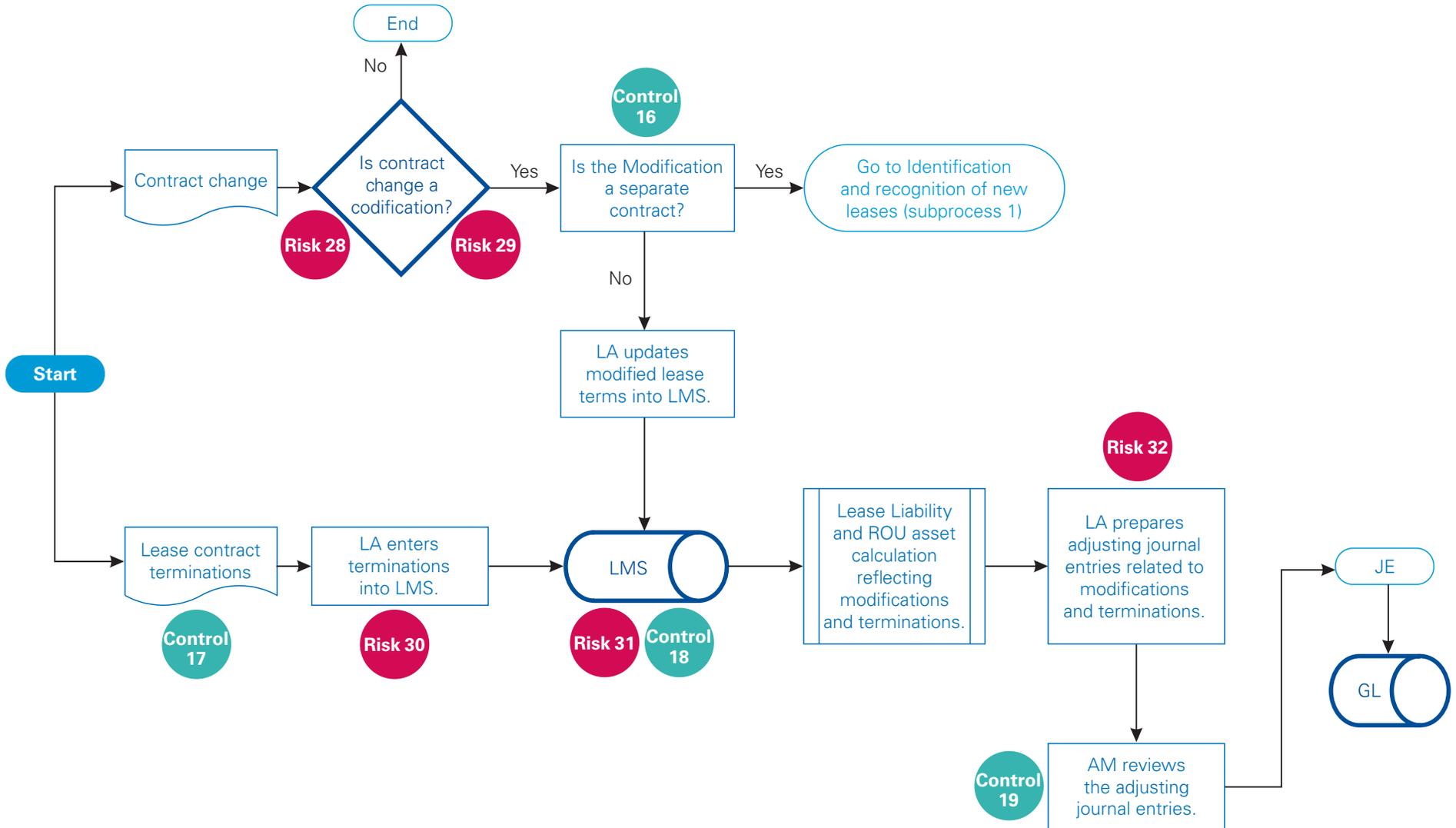
15. In this example, the processes and controls for lease disclosure calculations are automated. If the processes were manual, manual controls to address the risks listed will be necessary.

16. See the illustrative quantitative disclosure at paragraph 842-20-55-53 and Leases Handbook, section 12.2.

# Subprocess 5

## Lease modifications and terminations

LEASE ADMINISTRATOR (LA)



## Subprocess 5 – Lease modifications and terminations

Process activities	Risk description	Control description
<p>Lease contract modifications and terminations are provided to LA for review.</p> <p>LA performs and documents analysis of whether the contract change is a modification, and whether the modification should be accounted for as a separate contract.<sup>17</sup></p> <p>If the modification is a separate contract, it follows Subprocess 1 for identification and recognition of new leases.</p>	<p><b>Risk 28</b> Lease modifications, including terminations, may not be completely or correctly identified.<sup>18</sup></p> <p><b>Risk 29</b> Contract changes are not appropriately accounted for – i.e. termination, modification, determination of whether a separate contract, separation of new components, allocation, lease classification, recognition.</p>	<p><b>Control 16</b> <b>AM reviews the documented analysis of whether the modification shall be accounted as a separate contract.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Written analysis, modified contract.</p> <p><b>Questions for evaluating criteria for investigation/definition of an outlier:</b></p> <p>Does the written analysis completely identify all relevant changes in the contract?</p> <p>Does the modified contract change the scope of the lease or the consideration in the contract?</p> <p>Does the written analysis evaluate all relevant factors and support a conclusion that the modification is or is not a separate contract?</p> <ul style="list-style-type: none"> <li>— The modification does not grant an additional right of use not included in the original lease.</li> <li>— The lease payment does not increase commensurate with the stand-alone price for the additional right of use, adjusted for the contract’s circumstances.</li> </ul> <p>An outlier is incomplete analysis of the criteria listed above, or incomplete documentation of the basis for conclusions.</p> <p><b>Level of judgment required/resolution of outliers:</b> The complexity of this analysis is higher than others in the leases accounting process, but relatively little judgment is required in the evaluation of facts about the contract modification. The judgment may increase as the amount of change in the consideration and rights under the lease agreement increase, and if the modification would trigger a change in lease classification in the following step. Outliers are resolved through consultation with others in the accounting and legal department, and through gathering of third-party evidence about the stand-alone price of an additional right of use.</p> <p><b>Evidence of review:</b> AM’s sign off on the written analysis. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

17. See paragraph 842-10-25-8 and Leases Handbook, section 6.7.

18. In this example, this risk is addressed through the controls listed in Subprocess 3.

Process activities	Risk description	Control description
<p>LA reflects the terminations in LMS and books journal entries associated with termination costs, if any.</p>	<p><b>Risk 30</b> Terminated leases are not appropriately entered into LMS.</p>	<p><b>Control 17</b> <b>AM validates terminated leases are appropriately removed from LMS and approves the journal entry associated with termination costs.</b></p> <hr/> <p><b>Other elements of control may include the following.</b> <b>Information reviewed subject to the control:</b> Termination inputs in LMS, termination sheet/agreement. <b>Questions for evaluating criteria for investigation/definition of an outlier:</b> Is the termination reflected in LMS in the right period and consistent with the termination sheet/agreement? Is the termination reflected in LMS timely? Do the termination costs agree to the termination sheet/agreement or other supporting documentation? <b>Level of judgment required/resolution of outliers:</b> Less judgment is involved. <b>Evidence of review:</b> AM's approval on termination sheet/agreement and the journal entry. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>
<p>If the modification is not a new contract, LA updates all modified lease terms in LMS, and re-estimates all accounting estimates that are part of the lease (i.e. discount rate, reasonably certain assessments, etc.), documenting the basis of conclusions for each estimate.</p> <p><b>Note:</b> The accounting process and controls for lease modifications is generally the same as for new leases in Subprocess 1. However, the lease modification accounting entries differ in how the ROU asset is adjusted.<sup>19</sup></p>	<p><b>Risk 31</b> LMS is not configured to calculate lease modifications in accordance with Topic 842.</p> <p><b>Risk 32</b> Incorrect treatment of lease modifications may lead to incorrect classification, adjusting journal entries or measurement of future lease expense.</p>	<p>The accounting process and controls for lease modifications are generally the same as for new leases in Subprocess 1, and therefore most of the controls listed in Subprocess 1 would also address risks in accounting for a modified lease.</p> <p><b>Control 18</b> <b>IT Application control</b> – LMS is configured to accurately recalculate ROU asset and lease liability based on modified lease terms.</p> <p><b>Control 19</b> <b>AM reviews and approves the adjusting journal entries prepared by LA by reconciling the adjusting journal entry to the LMS report.</b></p> <p><b>Other elements of control may include the following.</b> <b>Information reviewed subject to the control:</b> Inputs and reports from LMS to reconcile to the adjusting journal entry. <b>Question for evaluating criteria for investigation/definition of an outlier:</b> Does the adjusting journal entry agree to the adjustments to lease liability and ROU asset in the LMS report? <b>Level of judgment required/resolution of outliers:</b> Less judgment is involved in the comparison of the adjusting journal entry to those in the LMS report. <b>Evidence of review:</b> AM's approval on the adjusting journal entry and any reconciliation prepared by the AM. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

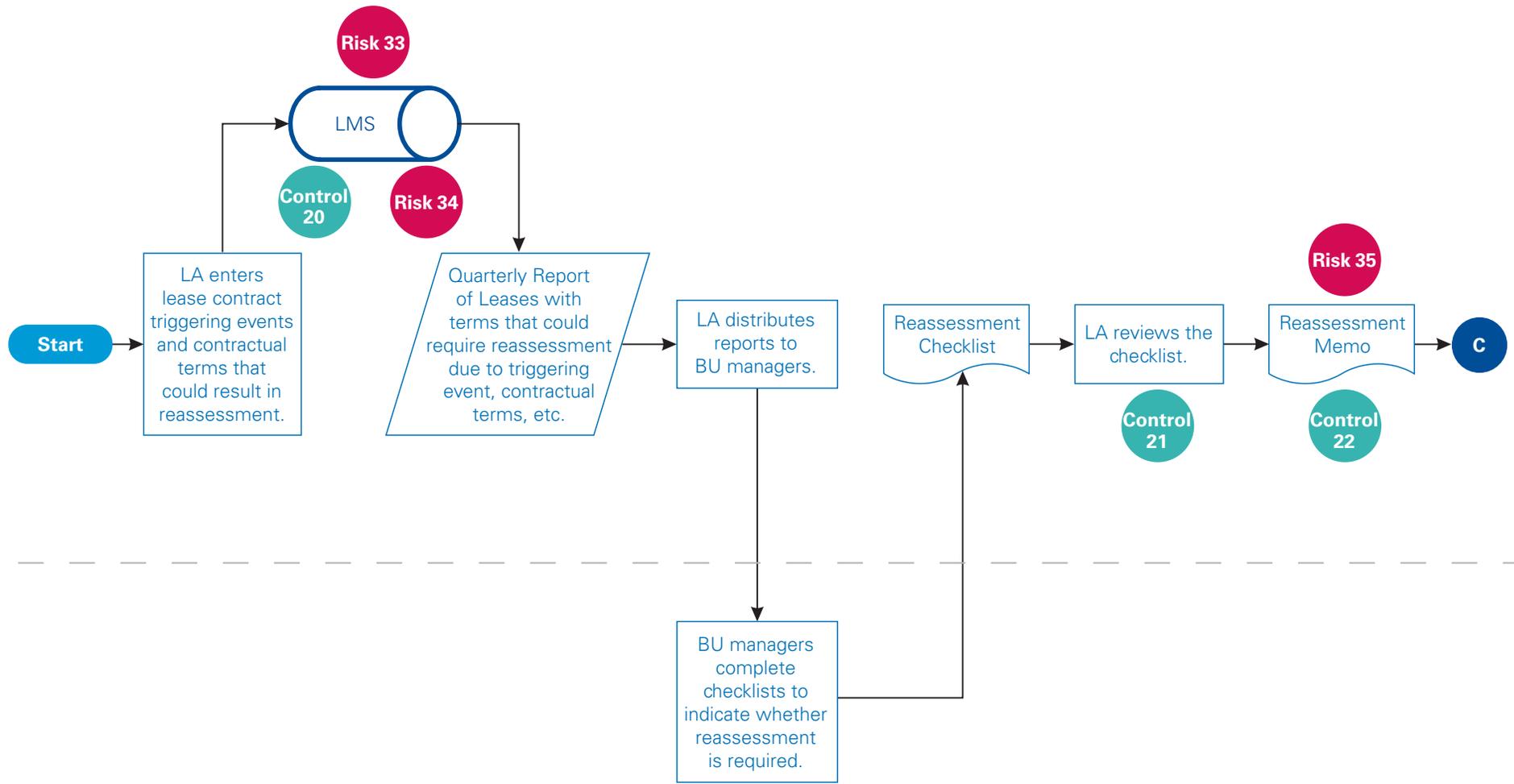
19. If the modification decreases the lessee's ROU asset (e.g. reduces the number of assets leased or reduces the space leased in a building), the carrying amount of the ROU asset is reduced on a proportionate basis to the full (or partial) termination of the existing lease; and any difference between the reduction in the lease liability and the reduction in the ROU asset is recognized as a gain (loss) at the effective date of the modification. Otherwise, the amount of the ROU asset is adjusted by the amount of the remeasurement of the lease liability. See Leases Handbook, section 6.7.

# Subprocess 6

## Lease reassessments

LEASE ADMINISTRATOR (LA)

BUSINESS UNIT (BU) MANAGERS

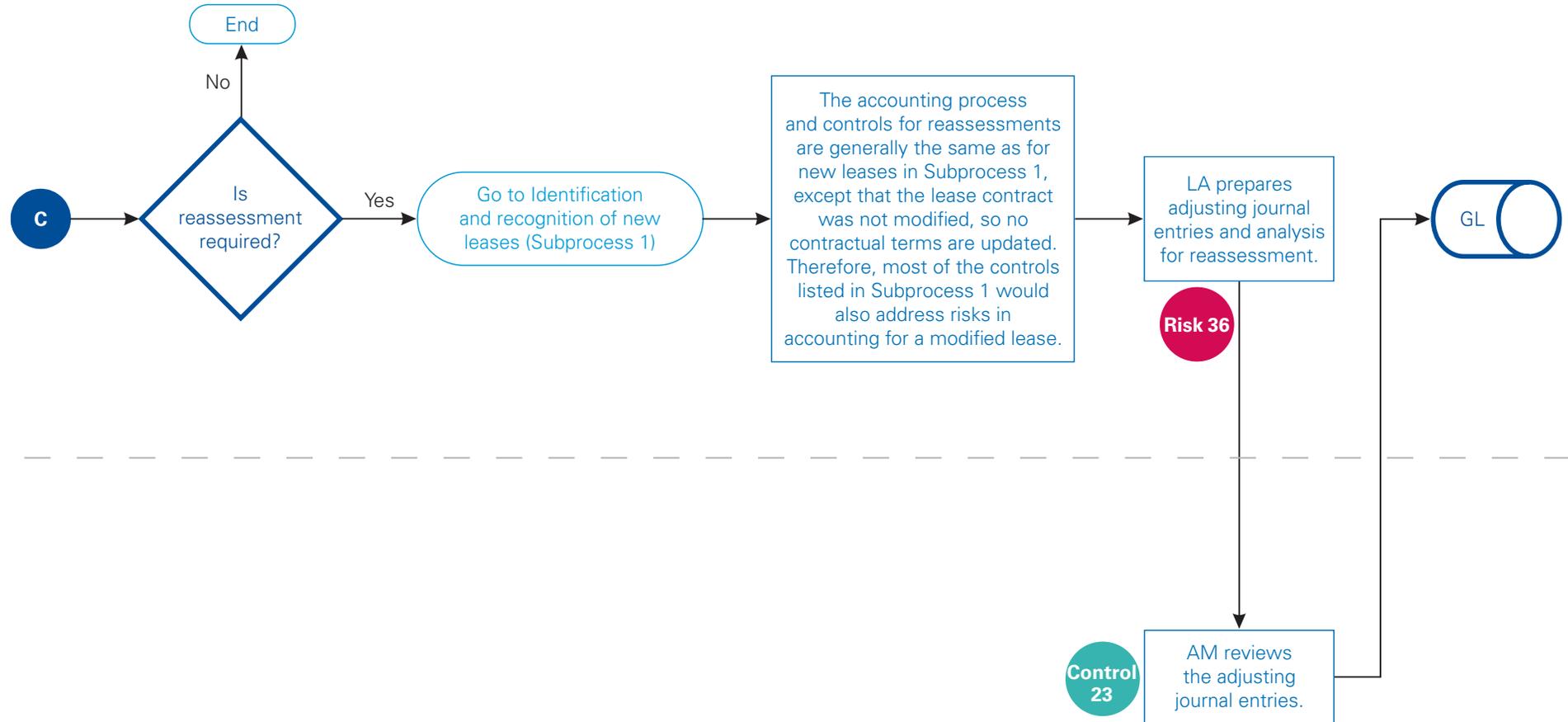


# Subprocess 6

## Lease reassessments (cont.)

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)



## Subprocess 6 – Lease reassessments

Process activities	Risk description	Control description
<p>LMS creates a quarterly report of leases with terms that could require reassessment when triggering events occur.<sup>20</sup> LA distributes the report to business unit managers where each leased asset resides, who complete a checklist and representation as to whether triggering events (or possible events) occurred in the quarter.</p> <p>LMS also identifies when reassessment is required, based on contractual terms entered into LMS. Such instances may include:<sup>21</sup></p> <ul style="list-style-type: none"> <li>— contractual events that oblige the entity to exercise or not exercise an option;</li> <li>— lessee election to exercise an option that it had previously determined it was <b>not</b> reasonably certain to exercise; and</li> <li>— lessee election not to exercise an option that it had previously determined it <b>was</b> reasonably certain to exercise.</li> </ul> <p>Similarly, LMS creates a quarterly report of leases with terms that could require reassessment on a continuous basis (i.e. no triggering event required).<sup>22</sup></p>	<p><b>Risk 33</b> Reassessment events may not be properly identified and evaluated.</p> <p><b>Risk 34</b> Decisions to exercise or not exercise options and accounting ramifications may not be communicated to the accounting department.</p>	<p><b>Control 20</b> <b>IT Application controls</b></p> <ul style="list-style-type: none"> <li>— LMS report writer accurately generates reports of leases with specified lease terms.</li> <li>— LMS prompts users to evaluate the existence of reassessment events for leases that include certain contractual terms.</li> <li>— LMS prompts users when reassessment events occur based on contractual terms.</li> </ul> <p><b>Control 21</b> <b>LA reviews the quarterly checklists and representations about triggering events. The review includes whether each checklist was completed and whether responses that could indicate a trigger, possible trigger, or change in facts and circumstances are identified and analyzed.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> The quarterly checklists and representations.</p> <p><b>Questions for evaluating criteria for investigation/definition of an outlier:</b></p> <p>Are the checklist or representation of the basis for reassessments complete?</p> <p>Does the representation include rationale for ‘reasonably certain’ estimates and address all of the economic factors relevant to the assessment?</p> <p>Does the checklist address rationale for change in amount probable for being owed by lessee under residual value guarantee?</p> <p>Does the checklist address resolution of a contingency and its effect to the lease term?</p> <p><b>Level of judgment required/resolution of outliers:</b> Low judgment is required in the operation of the control. Outliers are resolved with follow-up inquiries to the business unit manager completing the checklist.</p> <p><b>Evidence of review:</b> LA’s sign-off on the quarterly checklists. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>

20. Lease renewal or termination options affecting the lease term, or purchase options, require reassessment when a triggering event occurs. See Leases Handbook, section 6.6.1.

21. See paragraph 842-10-35-1.

22. The existence of a lease term guaranteeing the residual value of an asset, or lease terms that depend on the resolution of a contingent event, such as a set of future lease payments that depend on the resolution of a contingency, require continuous reassessment for facts and circumstances. See Leases Handbook, section 6.6.1.

Process activities	Risk description	Control description
<p>LA distributes the report to business unit managers where each leased asset resides, who complete the checklist and representation to indicate whether facts or circumstances have occurred that could require reassessment.</p>		
<p>LA reviews each triggering event or possible triggering event to determine whether it meets the definition in Topic 842<sup>23</sup> and documents the analysis in the reassessment memo.</p>	<p><b>Risk 35</b> Reassessments (and resulting remeasurements) could occur for instances that do not meet the definition of a triggering event.</p>	<p><b>Control 22</b> <b>AM reviews LA's documented analysis of whether a triggering event occurred.</b></p> <hr/> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Triggering event memo including IPE used to determine economic factors in assessing reasonably certain.</p> <p><b>Questions for evaluating criteria for investigation:</b> Did the triggering event(s) meet the following Topic 842 definition of a significant event or significant change in circumstances?</p> <ul style="list-style-type: none"> <li>— is within the lessee's control; and</li> <li>— directly affects the assessment of whether the lessee is reasonably certain to exercise an option.</li> </ul> <p>The following are examples of triggering events:</p> <ul style="list-style-type: none"> <li>— constructing significant leasehold improvements;</li> <li>— subleasing the asset for a period beyond the end of the lease term;</li> <li>— significantly modifying or customizing the asset; and</li> <li>— making a business decision directly relevant to option exercise.</li> </ul> <p><b>Definition of an outlier:</b> Incomplete analysis of triggering events or triggering events that do not meet the Topic 842 definition.</p>

23. A triggering event is a significant event or significant change in circumstances that both is within the lessee's control and directly affects the assessment of whether the lessee is reasonably certain to exercise an option. See Leases Handbook, section 6.6.1.

24. Or whenever facts and circumstances change, in the event of a change in the amount probable of being owed under a residual value guarantee or resolution of a contingency. In our example, this analysis is prepared for all instances when a trigger or change was noted through the checklist in Control 21. See Leases Handbook, section 6.6.1.

Process activities	Risk description	Control description										
		<p><b>Level of judgment required/resolution of outliers:</b> Low to moderate judgment is required in the operation of the control. Resolution of outliers may involve contractual review by other accountants or the legal department. Document of the resolution of the outliers would be included in the ultimate lease package to support the analysis and operation of the control.</p> <p><b>Evidence of review:</b> AM's sign-off on the triggering event memo evidencing criteria for investigation. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>										
<p>When reassessment is required, LA inquires of the asset owner and performs research of internal and external data as required to prepare updated estimates. LA updates all accounting estimates as required/permitted by the type of reassessment event (e.g. discount rate, reasonably certain assessments, etc.), documenting the basis of conclusions for each estimate in LMS.</p> <p>LA prepares adjusting journal entries for reassessment.</p>	<p>Risks applicable to initial recognition in Subprocess 1 and Subprocess 2 apply to the extent that a change in accounting for the lease is determined to be necessary.</p> <p><b>Risk 36</b></p> <p>Inappropriate adjusting journal entries for reassessment posted to the GL.</p>	<p>The accounting process, controls, and documentation of any reperformance of steps in the reassessments are generally the same as for new leases in Subprocess 1, except that the lease contract was not modified so no contractual terms are updated. Therefore, most of the controls listed in Subprocess 1 would also address risks in accounting for a reassessed lease.</p> <p><b>Control 23</b></p> <p><b>AM reviews the analysis and supporting documentation prepared by LA. The control operates over each reassessed assumption in the same way as the controls described in Subprocess 1 and Subprocess 2, and AM approves the adjusting journal entries by reconciling to the LMS report.</b></p> <table border="1" data-bbox="873 789 1982 1138"> <thead> <tr> <th data-bbox="873 789 1430 842">Updated estimate/data element</th> <th data-bbox="1430 789 1982 842">Corresponding control for new leases</th> </tr> </thead> <tbody> <tr> <td data-bbox="873 842 1430 954"><b>Lease payments (affected by lease term, including reasonably certain renewals, and reasonably certain purchase options)</b></td> <td data-bbox="1430 842 1982 954">Control 3 and Control 4</td> </tr> <tr> <td data-bbox="873 954 1430 1036"><b>Consideration in the contract; allocation of consideration</b></td> <td data-bbox="1430 954 1982 1036">Control 2</td> </tr> <tr> <td data-bbox="873 1036 1430 1084"><b>Discount rate</b></td> <td data-bbox="1430 1036 1982 1084">Control 6</td> </tr> <tr> <td data-bbox="873 1084 1430 1138"><b>Inputs and analysis of lease classification</b></td> <td data-bbox="1430 1084 1982 1138">Control 6</td> </tr> </tbody> </table> <p><b>Other elements of control may include the following.</b></p> <p><b>Information reviewed subject to the control:</b> Inputs and reports from LMS.</p> <p><b>Question for evaluating criteria for investigation/definition of an outlier:</b></p> <p>Does the adjusting journal entry agree to the adjustments to lease liability and ROU asset in the LMS report?</p> <p><b>Level of judgment required/resolution of outliers:</b> Less judgment is involved in the comparison of the adjusting journal entry to those in LMS report.</p> <p><b>Evidence of review:</b> AM's sign-off on the analysis and approval on the adjusting journal entries. Identification and resolution of outliers are documented, and evidence used to resolve the outliers is maintained.</p>	Updated estimate/data element	Corresponding control for new leases	<b>Lease payments (affected by lease term, including reasonably certain renewals, and reasonably certain purchase options)</b>	Control 3 and Control 4	<b>Consideration in the contract; allocation of consideration</b>	Control 2	<b>Discount rate</b>	Control 6	<b>Inputs and analysis of lease classification</b>	Control 6
Updated estimate/data element	Corresponding control for new leases											
<b>Lease payments (affected by lease term, including reasonably certain renewals, and reasonably certain purchase options)</b>	Control 3 and Control 4											
<b>Consideration in the contract; allocation of consideration</b>	Control 2											
<b>Discount rate</b>	Control 6											
<b>Inputs and analysis of lease classification</b>	Control 6											

# Appendix

The following table summarizes other possible process risks and controls that entities may need to consider and implement if the lease contract contains unique lease terms.

Topic	Possible areas of risks
<b>Variable lease payments</b> Read more: Leases Handbook, section 5.4.1 and 5.4.2.	Variable lease payments (which do not depend on an index or rate) may not be properly identified when lease terms were entered into LMS. In-substance fixed payments may not be properly differentiated from variable lease payments. Variable lease payments may not be properly excluded from lease payments at initial measurement. Variable lease payments may not be properly measured and recognized when incurred. Variable lease cost may not be properly disclosed.
<b>Initial direct costs</b> Read more: Leases Handbook, sections 5.5, 6.3 and 6.4.	Costs that meet the definition of initial direct costs may be improperly excluded from the ROU asset, or those that do not meet the definition may be improperly included.
<b>Short-term lease exemption</b>	Inappropriate application of short-term lease exception, resulting in missing ROU assets and lease liabilities (or additional ROU assets and liabilities if the exemption has been elected for that class of underlying asset and the lease meets the short-term lease definition), and inaccurate recognition of short-term lease cost.
<b>Impact of foreign currency</b>	Inaccurate exchange rate is applied to the components of lease cost (amortization of the ROU asset and accretion/interest on the lease liability) denominated in a foreign currency.
<b>Portfolio approach</b> Read more: Leases Handbook, section 5.8.	The portfolio approach may be applied inappropriately to circumstances where its application results in a material difference from accounting for the individual leases within the portfolio.
<b>Subleases</b> Read more: Leases Handbook, chapter 8.	A sublessor may not properly account for the sublease arrangement. The assessments made in lease classification and 'reasonably certain' renewals or options may not be consistent between head lease and sublease arrangements in the same asset. A lessee may not properly reassess the head lease when triggering events related to the signing, modification or reassessment of the sublease occur. Sublease income may not be completely or accurately disclosed, or properly presented.
<b>Sale-leaseback transactions</b> Read more: Leases Handbook, chapter 9.	Sale-leaseback transactions may not be completely identified. The accounting determination of whether a sale has occurred may be based on incomplete facts or may be incorrectly made. The evaluation of whether a sale-leaseback is off-market and the measurement of an off-market adjustment may not be reasonable. Recognition, measurement and presentation of a successful sale-leaseback may be incorrect. Presentation of a failed sale-leaseback transaction may be incorrect. Control occurring before lease commencement ('build-to-suit' leases) may not be completely identified or properly recognized and disclosed. Build-to-suit leases may not be properly derecognized as to timing or amount – e.g. the build-to-suit asset and liability may be derecognized before control of the underlying asset transfers to the lessor.



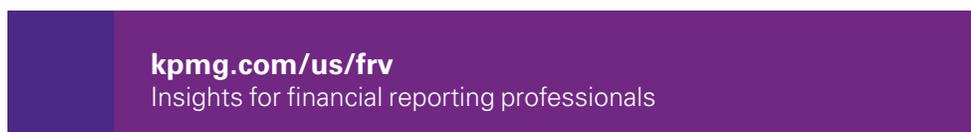
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Here are some of our other resources dealing with lease accounting.	
<b>Handbook</b>	Provides our most detailed analysis of the new standard, with Q&As, examples and comparisons to legacy US GAAP.
<b>Transition disclosures</b>	Illustrates SAB 74 example transition disclosures about the adoption and implementation efforts for the new standard.
<b>Build-to-suit leases</b>	Provides our insight on build-to-suit arrangements under the new standard.
<b>ROU asset impairment</b>	Provides guidance on the interaction between Topic 360 (property, plant and equipment) and Topic 842.

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