



Lease processes and controls

Lessees

US GAAP

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How to use this document

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 will need to be enhanced based on the entity's 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.

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

This is a smart PDF designed to bring all relevant information for a particular subprocess in one central location – i.e. relevant flowchart. Simply browse through the flowcharts and click the icons for further information. Following the flowcharts, an [appendix](#) identifies other possible risks and controls.



Rollovers: These are used to show Controls and Risks. Move your mouse onto this item for it to show.



Popups: These are used to show lengthier information, such as the process owner considerations. These are depicted by the following icons.

Printing: Rollovers are not printable, but popups are. In order to print popups, please keep the relevant popup window open.

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

Print version also available

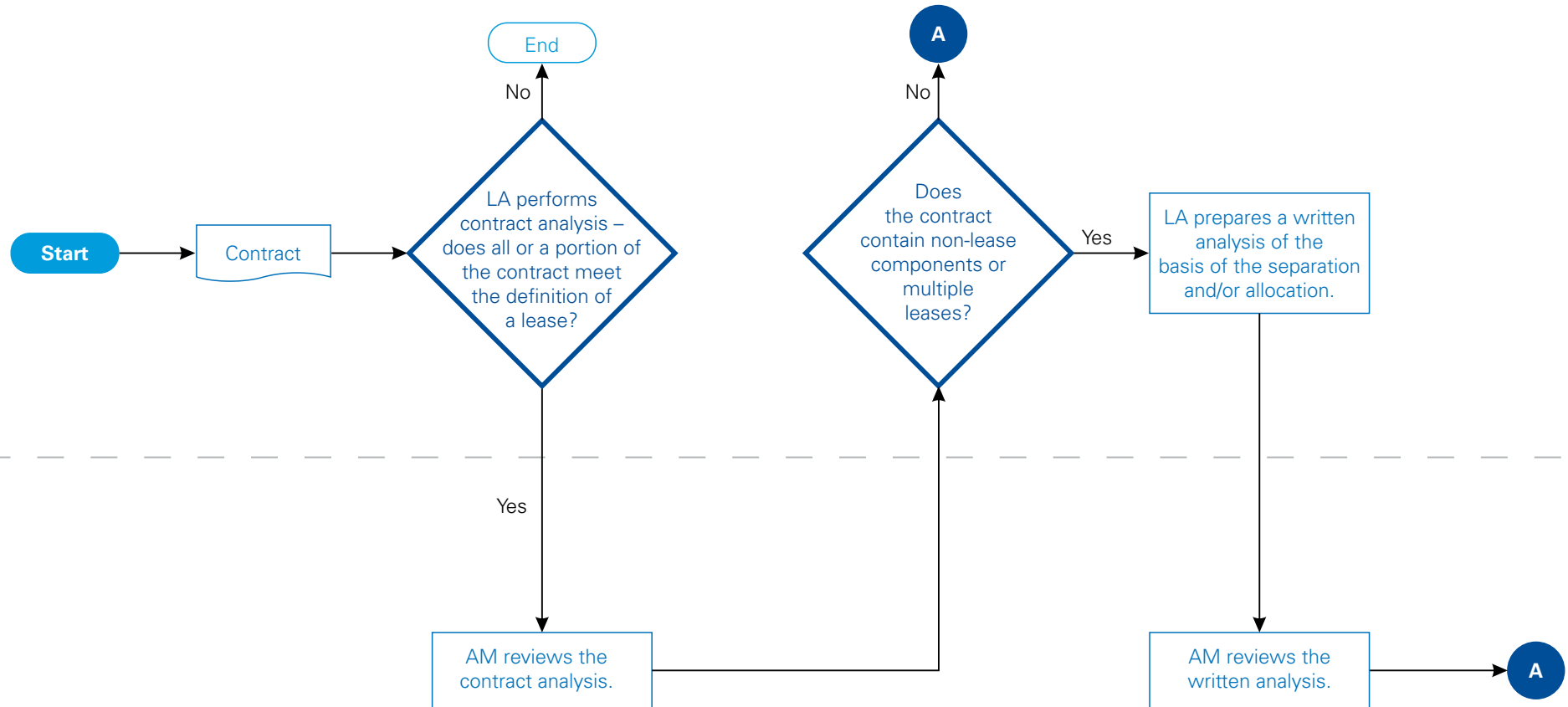
Access a print-ready version [here](#).

Subprocess 1

Identification and recognition of new leases

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)

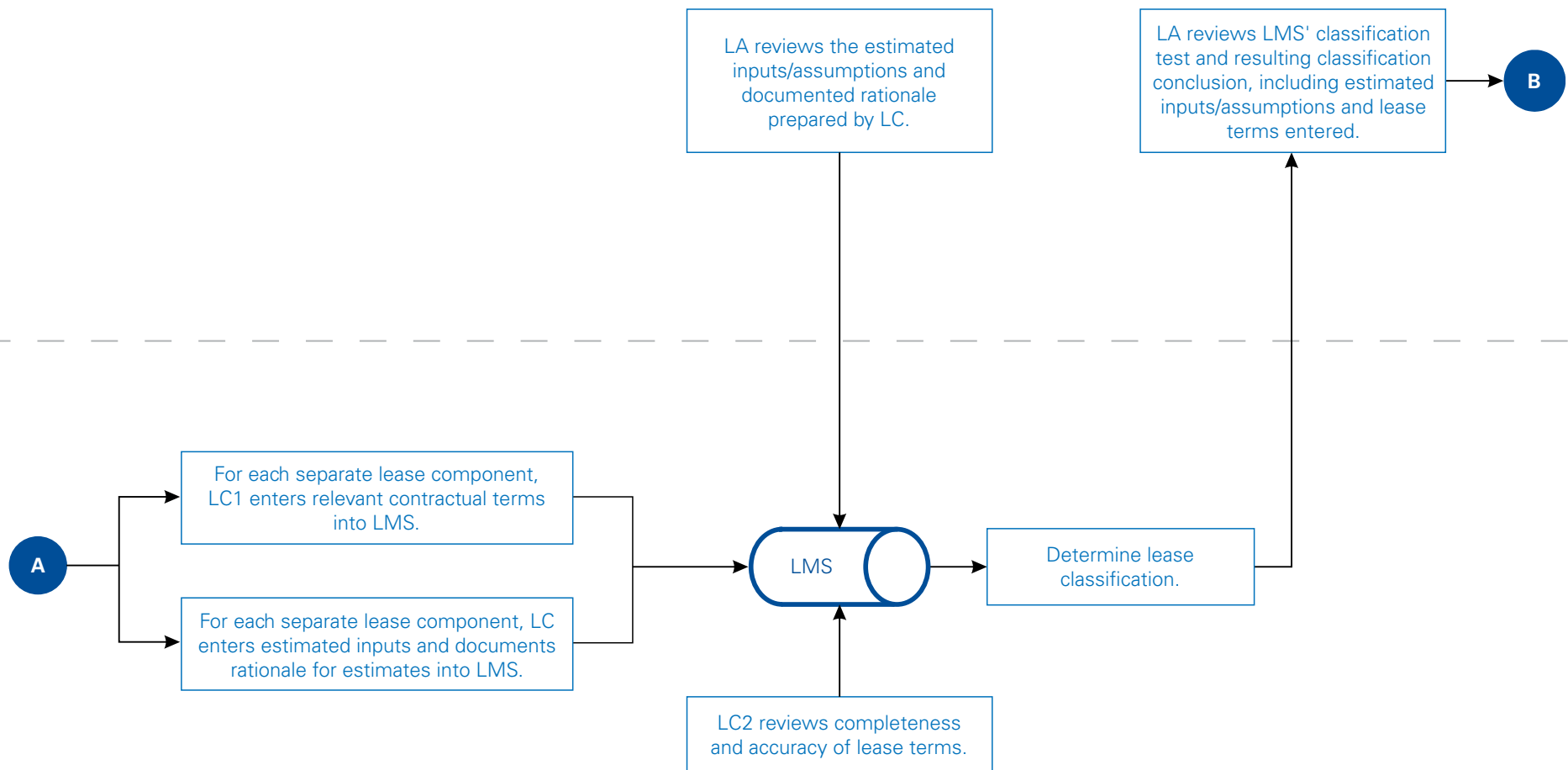


Subprocess 1

Identification and recognition of new leases (cont.)

LEASE ADMINISTRATOR (LA)

LEASE ACCOUNTANT (LC)

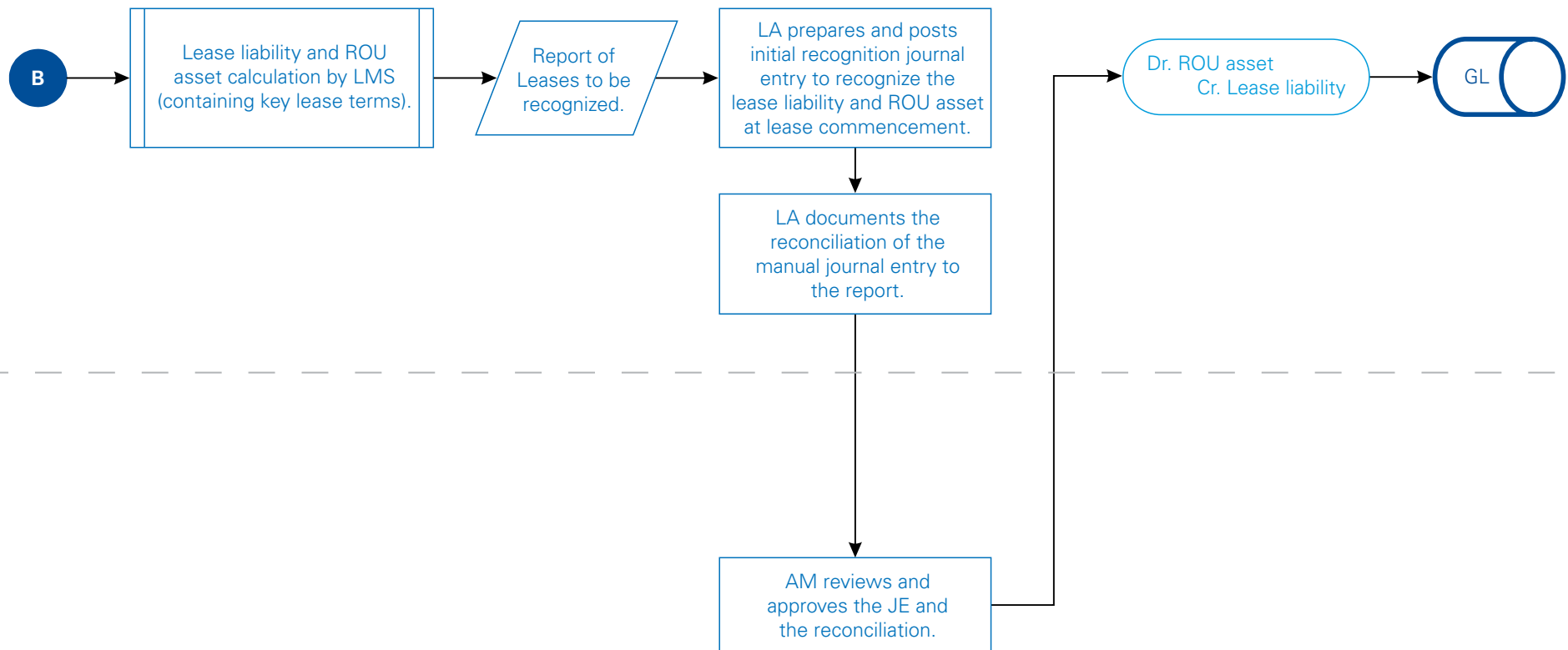


Subprocess 1

Identification and recognition of new leases (cont.)

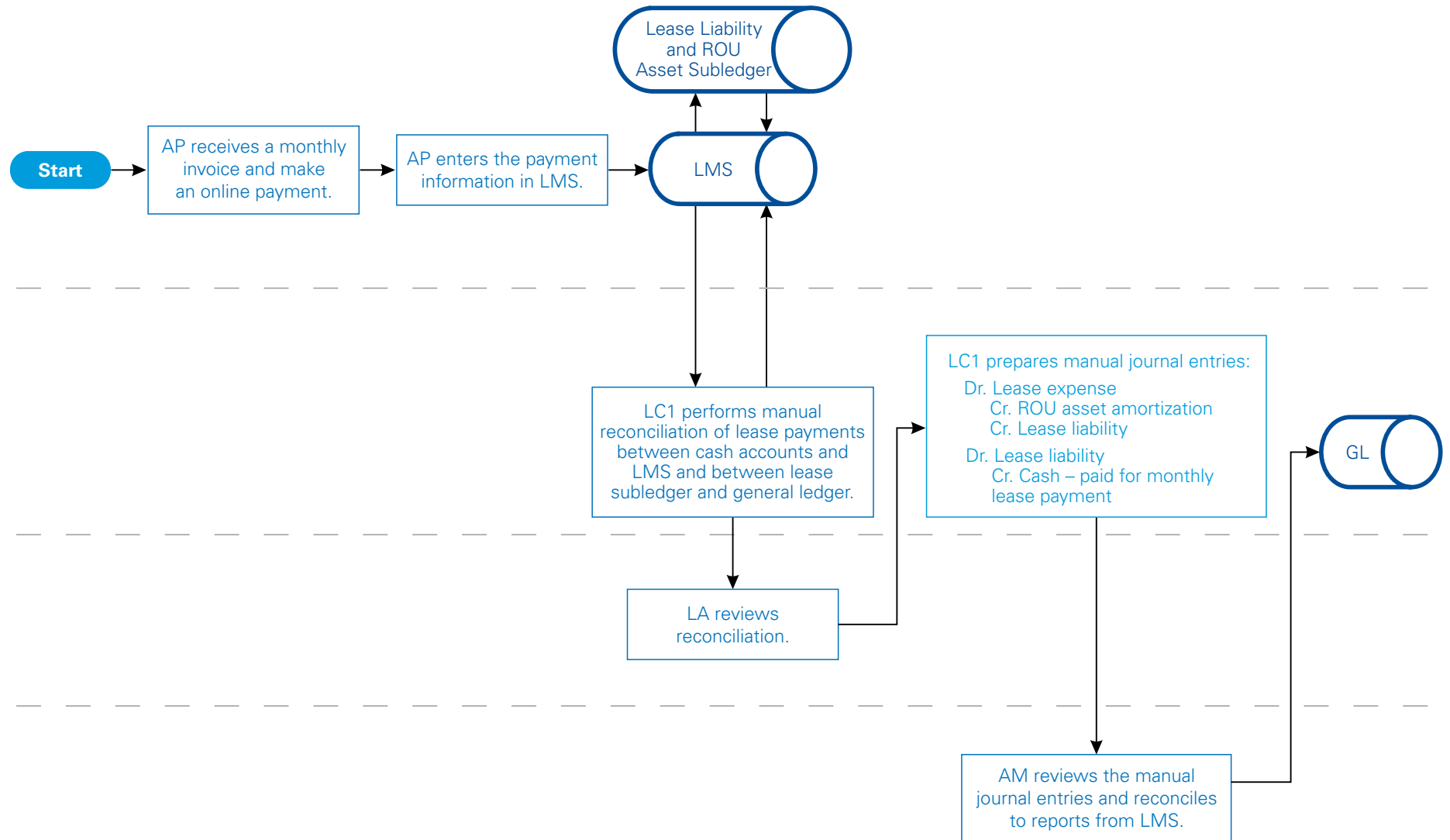
LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)



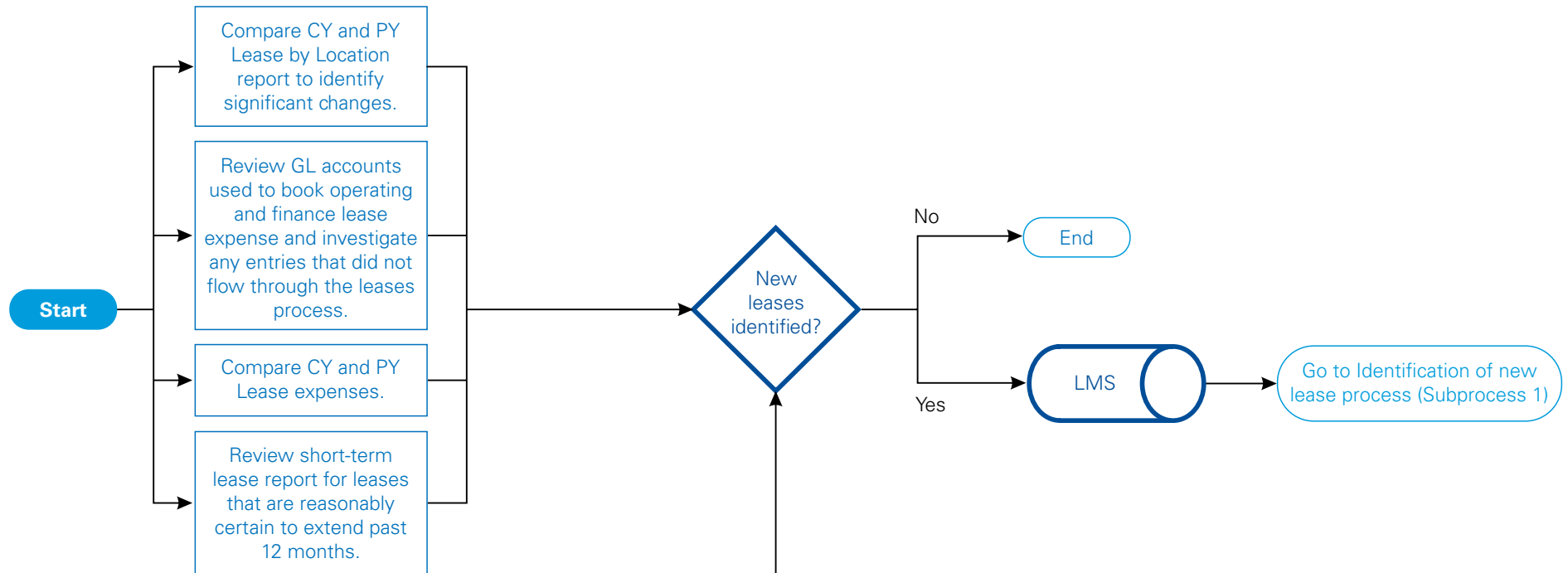
Subprocess 2

Subsequent accounting for leases



Subprocess 3

Validating the completeness of the lease population



Quarterly Confirmations Control:

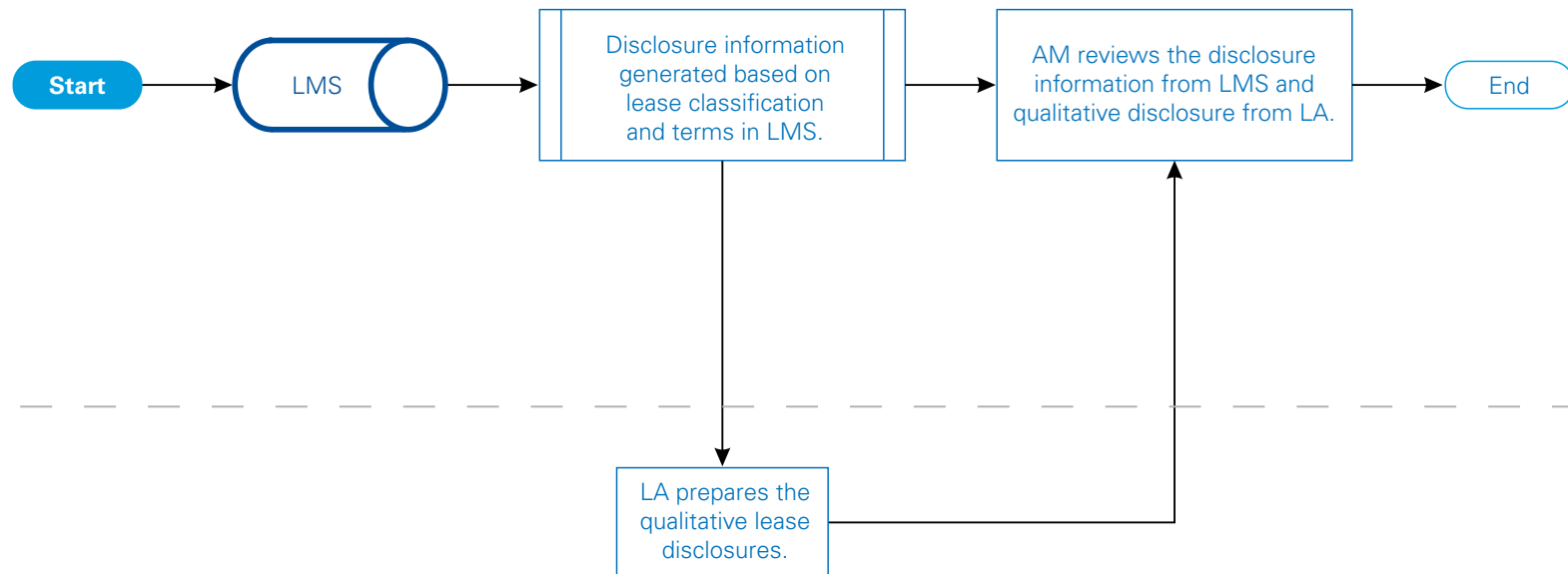
1. Divisional and departmental business leaders and legal department confirm knowledge of lease contracts.
2. Knowledgeable accounting personnel inquire of legal, operations/strategy, procurement, treasury, and other relevant departments to identify possible leases.

ACCOUNTING MANAGER (AM)

OTHERS WITH KNOWLEDGE OF THE LEASE CONTRACTS

Subprocess 4

Quarterly and annual presentation and disclosure



ACCOUNTING MANAGER (AM)

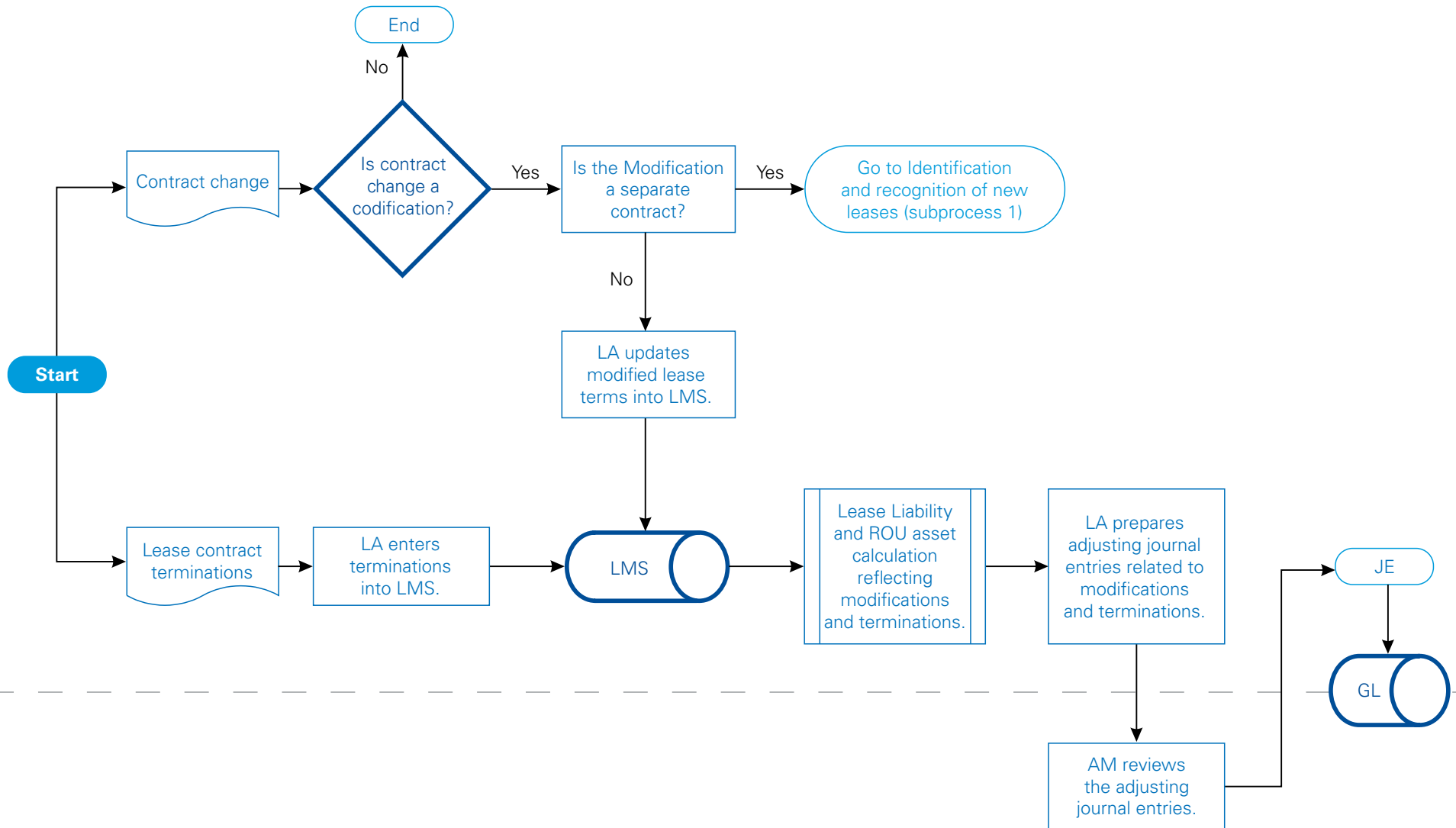
LEASE ADMINISTRATOR (LA)

Subprocess 5

Lease modifications and terminations

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)

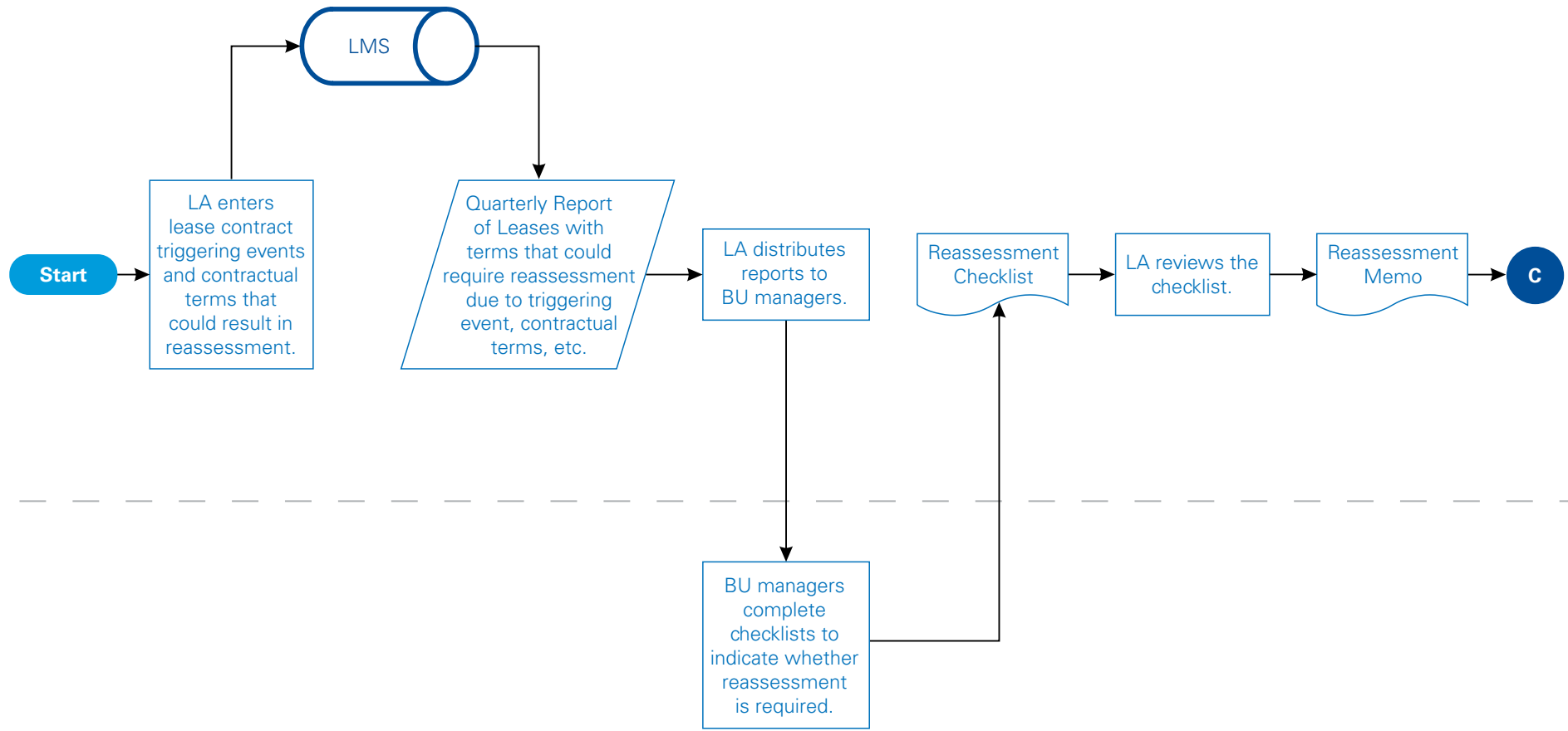


Subprocess 6

Lease reassessments

LEASE ADMINISTRATOR (LA)

BUSINESS UNIT (BU) MANAGERS

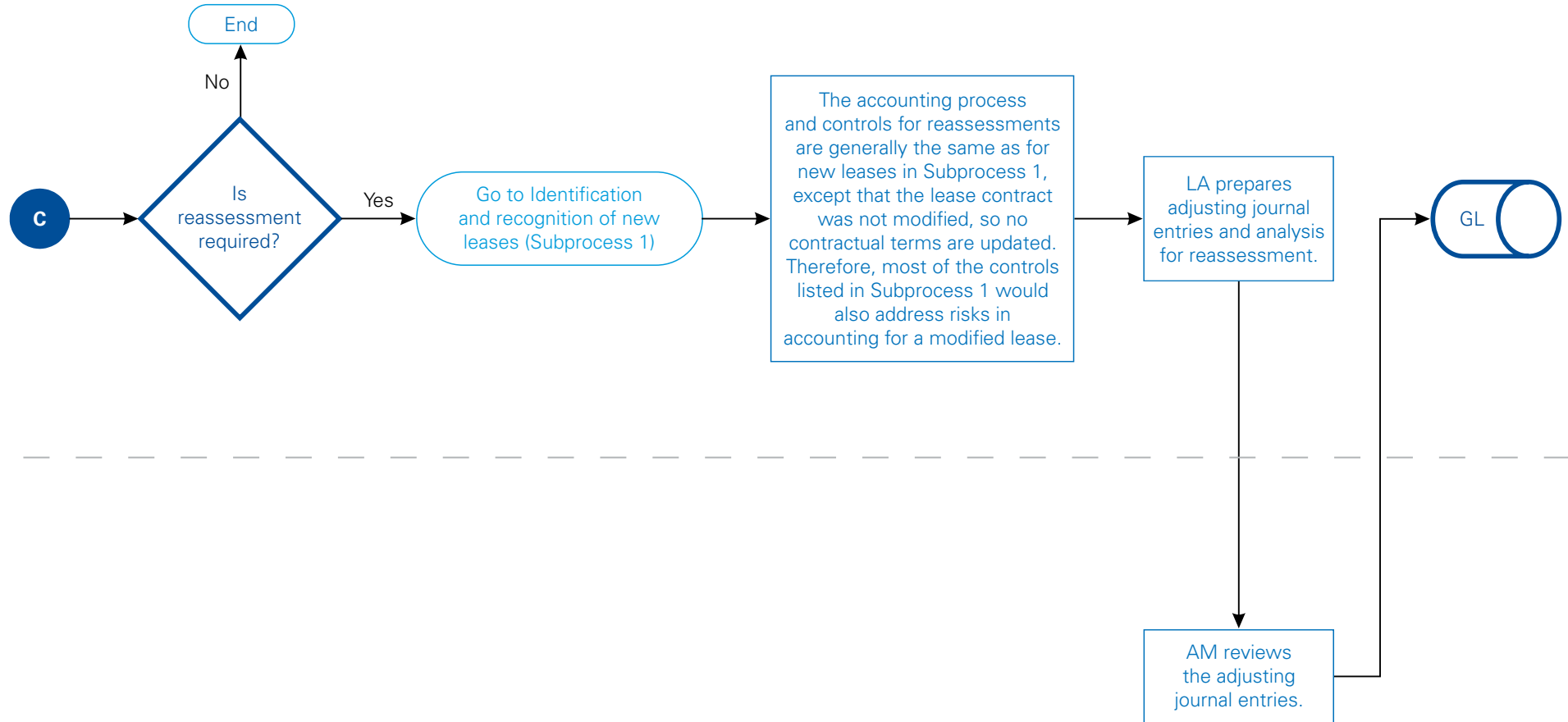


Subprocess 6

Lease reassessments (cont.)

LEASE ADMINISTRATOR (LA)

ACCOUNTING MANAGER (AM)



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
Variable lease payments 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.
Initial direct costs 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.
Short-term lease exemption	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.
Impact of foreign currency	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.
Portfolio approach 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.
Subleases 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.
Sale-leaseback transactions 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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FRV focuses on major new standards (including **revenue recognition**, **leases** and **financial instruments**) – and also covers existing US GAAP, IFRS, SEC matters, broad transactions and more.

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Insights for financial reporting professionals

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

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