**Memo to Emily Jones, CFO of Fi-Fintech**

**Date: 31/12/2024**

**Subject: Summary of ASC 842 Impact**

**Overview of ASC 842 and Required Changes Due to the New Standard**

ASC 842 is a new lease accounting standard introduced by the Financial Accounting Standards Board (FASB) to improve the transparency and comparability of financial reporting. The key change under ASC 842 is that most leases will now need to be recognized on the balance sheet as both assets and liabilities, rather than being treated as operating expenses, as was the case under the previous standard, ASC 840. This change applies to leases with terms longer than 12 months and is designed to provide a clearer picture of a company’s financial position by including lease obligations that were previously off-balance-sheet.

**What are the Considerations and Implications for Companies Required to Comply with ASC 842?**

The implementation of ASC 842 presents several considerations and implications for businesses, including:

* On-Balance Sheet Reporting: Companies must now recognize right-of-use (ROU) assets and lease liabilities for most leases. This change will affect the balance sheet and may impact financial ratios, such as return on assets and debt-to-equity.
* Lease Classification: ASC 842 removes the distinction between operating and finance leases for lessees, requiring both types of leases to be reported on the balance sheet.
* Expanded Disclosure: There are enhanced disclosure requirements, including detailed information on lease terms, payment schedules, and the impact of leases on financial statements.
* Impact on Financial Ratios: The new on-balance sheet recognition will likely impact key financial ratios and may require companies to assess the effect on financial covenants and borrowing capacity.
* System and Process Adjustments: Companies may need to implement new systems or processes to track and manage leases, particularly with the added complexity of recognizing ROU assets and lease liabilities.
* Initial Direct Costs: ASC 842 requires lessees to account for initial direct costs in the measurement of the ROU asset, adding a layer of complexity to lease accounting.
* Variable Lease Payments: The standard provides guidance on handling variable lease payments, particularly those tied to an index or rate, which must now be included in the measurement of the lease liability.

**How Can FAAS Help Fi-Fintech with the Adoption of ASC 842?**

FAAS provides a comprehensive approach to ensuring compliance with ASC 842, offering the following support:

* Technical Compliance and Implementation: FAAS can help Fi-Fintech navigate the complexities of ASC 842, from organizing and analyzing lease agreements to recommending efficient software solutions that simplify compliance processes.
* Process Optimization and Education: We can assist in realigning lease management processes to comply with ASC 842 and provide training programs to ensure that Fi-Fintech’s finance and accounting teams are well-prepared to implement the new standard.
* Assessment, Control, and Ongoing Support: FAAS will evaluate how ASC 842 impacts Fi-Fintech’s financial statements, establish internal controls for sustained compliance, and provide continuous support to ensure long-term adherence to the standard.
* Audit Compliance: Our team will ensure that Fi-Fintech is ready for audits, ensuring that all lease accounting practices align with ASC 842’s requirements.