

Data Abstraction for a Wholesale Wine & Spirits Distribution Company

Client
Distribution Company

Services
Lease Abstraction

Areas of Expertise
ASC 842

Industry
Private Sector

Our Challenge

The client had to comply with ASC 842, a new standard governing how leases are reflected within company financial statements. The most significant impact of the new standards will be to move all operating leases (real estate, equipment and embedded) longer than 12 months onto the balance sheet.

The client had a small lease portfolio consisting of real estate and equipment. As a private company, they elected early adoption of ASC 842 with the effective date of January 1, 2020. The client had to evaluate their options on how they were going to successfully adopt the new standard.

Our Solution

Vaco's team assisted the client in identifying leases throughout their organization and explained the complexity of portfolio. Vaco's team created a detailed inventory of all leases including an assessment of potential embedded leases and then proceeded to abstract the 100 key data elements required by their software tool from all leases.

A standard element of Vaco's process is to work with the client regarding decisions on reporting complex elements of the leases, including but not limited to step payments, deferred rent, renewal options, incentives, OPEX, end of term dates. Vaco's team created a file to track all decisions made on each lease which can be used by the external auditors.

Vaco's team provided guidance and training to our client's staff on how to abstract future leases, compile key data elements for ease of upload to lease accounting software tool and apply the ASC 842 lease accounting standard to key decisions made on future leases.

Our Results

Vaco's team identified leases that were considered "Evergreen," which are expired leases where our client had continued to make payments after the expiration date. Upon expiration, a lessee has an option to renew, under the same or slightly modified terms, or if no such option is available, attempt to negotiate a new contract. Most contracts have hold-over clauses where if a lessee continues using the asset on a month-to-month basis, they must pay rent in an amount substantially in excess of rental rate at the end of term, often as high as 150-200%.

We assisted our client with identification of such leases, which resulted in significant cost savings for our client from unnecessary payments. Vaco's team completed the abstraction of all originally identified leases, as well as additional leases provided by our client throughout the course of the project. Vaco's team completed project 35% under budget and ahead of schedule for the implementation of their selected software.

Free Yourself. Get in touch today.

vaco.com | 615-324-8226