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ACCOUNTING & AUDITING REPORT

DECEMBER 2021 VOLUME 34, ISSUE 11

Topics for future editions may include:

- Compensated Absences
- Remote Auditing
- SSARS Inquiries

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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Russ Madray, CPA discusses the lease guidance and how to determine the discount rate to be used. [*Running time: 33:58*]

Learning Objective: Upon completion of this segment, the user should be able to:

- Determine how the discount rate impacts the liability
- Define the rate implicit in the lease
- Determine the factors affecting the incremental borrowing rate and the methods to use
- Identify the disclosures to be made

PART 2. ACCOUNTING

Jennifer Louis, CPA reviews key points related to accruals for compensated absences, and exit and disposal costs associated with the pandemic. [*Running time: 33:27*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify the impact of the pandemic on compensated absences
- Identify compensated absence and exit and disposal cost liabilities and the appropriate guidance
- Identify the appropriate rates to use in calculating the liabilities associated with compensated absences

PART 3. SMALL BUSINESS

Kurt Oestriecher, CPA, reviews the guidance on leases and what smaller businesses should be doing now to implement this monumental guidance. [*Running time: 34:01*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify the level of work to implement the new lease guidance and what criteria need to be met for a contract to be a lease
- Identify the criteria for a finance lease and an operating lease
- Define what is included in a lease liability

ABOUT THE SPEAKERS

Russ Madray, CPA, CGFM, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

Jennifer Louis, CPA, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

Kurt Oestriecher, CPA is a CPA and partner with the accounting firm of Oestriecher and Company in Alexandria, Louisiana. He is in charge of accounting and auditing services, and is also involved in litigation support and small business consulting engagements. In addition to his client responsibilities, Kurt has served as a discussion leader for numerous accounting and auditing courses. He has served on the AICPA Accounting and Review Services Committee and is currently serving a three-year term on the AICPA Council.

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PART 1. ACCOUNTING

Discount Rates for Lessees

The new accounting guidance on leases is found in ASC 842. Under ASC 842, virtually every lease with a lease term of more than a year must be reported on the balance sheet as an ROU asset and a corresponding lease liability. The lease liability is measured by using an appropriate discount rate to calculate the present value of future lease payments. The ASC Master Glossary defines the discount rate as follows:

For a lessee, the discount rate for the lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate. Because the discount rate significantly impacts the asset and the liability, and implementation of the guidance is imminent for all entities, we thought now would be a good time to examine discount rates.

For a closer look at how the discount rate is determined, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about the discount rate for lessees. We've talked in a couple of different segments over the last few months related to ASC 842 on leases. That guidance significantly increases the number of leases that companies are reporting on their balance sheets. Now under FASB ASC 842 virtually every lease with a lease term of more than a year must be reported on the balance sheet as a right of use asset with a corresponding lease liability. To begin with, maybe you could explain why the correct discount rate is so important in the application of this particular accounting topic, 842.

Mr. Madray

Sure. I'll be glad to, and you're exactly right. The discount rate is a critical element of applying Topic 842 and the lease accounting guidance. Here, again, we're talking about this from the lessee perspective, certainly important on the lessor side too, but it impacts so many things and there are some policy choices here and quite a bit of judgment required. This is not an easy or simple issue. Keep in mind that the lease liability for the lessee is measured by applying an appropriate discount rate to calculate the present value of the future lease payments. Therefore, it's critically important to accurately estimate, come up with, or use the correct discount rate because it can have a significant impact on the lease liability, and then, automatically by the same token on the right of use assets. That's true of operating leases or finance leases because the calculation is the same, regardless of how the lease is classified by the lessee. We've got the definition of discount rate here on the slide if you want to take a look. This comes from the Codification master glossary. It's defined, as you see here, for a lessee as the discount rate for the lease is the rate implicit in the lease, unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate. So short two sentences sounds pretty straightforward, but if you've thought about this at all, you begin to see why this is going to be a challenge. It's important because it directly impacts the lease liability, and therefore, directly impacts the amount of the right of use asset, which will then directly impact the subsequent accounting, for the lease payments. Again, regardless of whether that lease is classified as an operating lease or a finance lease.

Ms. Grove Casey

Well, the definition of discount rate referred specifically to the rate implicit in the lease (RIIL). So maybe we should start there. Can you explain what that means?

Mr. Madray

Yes. Again, the definition says the discount rate for the lessee is the implicit rate if it can be readily determined. So again, the master glossary defines the rate implicit in the lease. As you see on this slide, it's defined as the rate of interest that at a given date causes the aggregate present value of A) the lease payments and B) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of two things, one the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor, and two any deferred, initial direct cost of the lessor. It goes on, however, if the rate determined in accordance with the preceding sentence is less than zero, a rate implicit in the lease of zero shall be used.

So that's a lot of words, but as I explain to folks all the time, the rate implicit in the lease is the rate that the lessor used to determine the amount of the lease payments. A lease is very much like a loan and a lessor is very much like a bank lender financing the transaction. They set the rate to achieve the rate of return that they want from this particular investment. And that definition on the slide of the rate implicit in the lease is a very fancy way of saying just that. Now back to the lessee perspective, in order for the lessee to determine the rate implicit in the lease, the lessee would have to know, but one thing, I guess, the lessor could simply tell them. That would do it, and that does occur, but absent the lessor explicitly saying, this is the rate implicit in the lease, the lessee or the rate we use to determine the lease payment for the lessee to back into it, the lessee would have to know all of the assumptions used by the lessor in pricing out the lease including the underlying assets' fair value, the estimated residual value of the asset at the end of the lease, any initial direct costs that are deferred by the lessor, and even investment tax credits, if they exist that are retained and expected to be realized by the lessor. As a result, most lessees don't have the ability to do that, it is clearly not readily available. So as a result, going back to the definition of the discount rate for lessee purposes, if the rate implicit in the lease is not readily available to the lessee, the lessee then has to use their own incremental borrowing rate.

Now, before we dig into the specifics of what an incremental borrowing rate is, let's kind of dispel some myths that exist about the incremental borrowing rate in the context of lessee accounting under Topic 842. And I've listed some of these here on the slide.

Some would say, oh, that's no big deal. The incremental borrowing rate is simply the interest rate that the lessee would have on an easily accessible line of credit. Now folks may say that because a common practice under the old lease accounting standard topic 840 was to do just that, to use the rate on an easily accessible line of credit. If that was deemed to be the source of funds that were necessary to purchase the leased asset. But that approach is no longer appropriate. We will look at the specific definition in a moment, but the definition of the incremental borrowing rate in Topic 842 refers to a collateralized rate. And so, you know, doing it the way we used to under Topic 840, it will not match up with the requirement and definition in Topic 842.

So I've heard this before, the incremental borrowing rate. Here's another myth by the way, the incremental borrowing rate is simply the weighted average interest rate that the lessee pays on all of its other debt. Well, that's simply not true. The incremental borrowing rate in the context of Topic 842 is not simply the weighted average interest rate that the lessee pays on other debt like bank loans, lines of credit and so forth. Those rates could put, as we will discuss in a moment, four things, the incremental borrowing rate for the leases, but those various other forms of debt typically are not going to have the same terms, same security, same economic characteristics as the underlying lease that we're concerned with, with respect to the incremental borrowing myth, the lessee can simply determine one incremental borrowing rate and apply it across the board to all of its leases that is simply untrue.

Oh, okay. Topic 842 specifically states that the level at which the guidance in Topic 842 applies is to the individual lease. Therefore, an entity-wide incremental borrowing rate would not be appropriate for purposes of 842, because 842 is explicit that all of the guidance, including the determination of the incremental borrowing rate is done at the individual lease level. Now, before anybody jumps all over me. Let me throw in a side note here that although a lessee would not use the same incremental borrowing rate for all of its leases, Topic 842 does explicitly allow lessees to apply the lease accounting guidance at a portfolio level. It's generally applied at the individual lease level, but there is a policy choice that can be made to apply the guidance at the portfolio level. In fact, there was some discussion in the basis for conclusions where the FASB discussed the fact that the cost relief that would come about by applying the lease guidance at the portfolio level could be particularly high for determining that discount rate.

So for example, rather than establishing a specific discount rate for a single leased asset, the lessee could conclude that it could establish a single discount rate to apply to all leases in the portfolio. But again, the caveat is that to apply the portfolio approach with regard to anything in the lease accounting, it's end result must not be materially different than it would be for applying the guidance, including with respect to a discount rate, as it would be for applying it at the individual lease level. So with all that said, we dispelled some myths, I hope. Let's look at how the master glossary actually defines the incremental borrowing rate. We have it on the slide here. It's the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

So backing up and kind of putting this in perspective, the discount rate is used to determine the amount of the lease liability, the right of use asset. The starting point is the rate implicit in the lease. But as we pointed out, that is rarely going to be determinable by the lessee, that then takes the lessee in a direction of using the incremental borrowing rate. And we saw how that is defined where it is the rate of interest that the lessee would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. And based on that definition, you see why those handful of myths that we looked at need to be dispelled as the lessee is trying to determine what their actual incremental borrowing rate is for purposes of applying the guidance in Topic 842.

Ms. Grove Casey

Well, I guess we need to concentrate a little bit more on that incremental borrowing rate and trying to figure out how a lessee would determine what their incremental borrowing rate is because particularly in the last year or so many entities have received free money, but have received those government loans in some instances, and you can't use 0% as an incremental borrowing rate. That's not going to last forever, even if you do have some of those loans. So how do we go about figuring out what our incremental borrowing rate is?

Mr. Madray

Well, there is no one method to do it. Again, hopefully looking at the myths earlier, we know there are some ways you shouldn't even do it but there is no one perfect method of determining the applicable incremental borrowing rate. But the process, regardless of how you go about doing it, we'll need to consider, again, going back to the definition, the maturity amount that would be involved, the terms the collateral, the economic environment, entity specific credit risk factors. In other words, the incremental borrowing rate is specific to the lease. Not necessarily specific because we would not use an entity-wide incremental borrowing rate to understand why that's important and why it could be different for different types of leases. Look at the examples we have on the slide here. Think about a lease of real estate in an economically desirable area where real estate would represent valuable collateral and clearly would affect the incremental borrowing rate.

Whereas a lease of a vehicle would not provide that same value of collateral as the real estate. So in other words, the collateral is not the same in those two, the lease of the real estate versus the lease of the vehicle and a different borrowing rate would apply. A bank, a lender is going to charge you a different rate if you were borrowing to buy this real estate versus borrowing to buy this car, and likewise with a lease. So the collateral affects the incremental borrowing rate. Now, with that said, the FASB Staff has indicated that in considering the collateral impact on the incremental borrowing rate the collateral does not have to be the same as the underlying leased asset, but with that said, the collateral still does impact whatever that collateral may be. Take another example, a lease of real estate for a million dollars versus lease of a vehicle for $50,000. Clearly they don't represent the same level of risk for a lender because the amount of borrowed funds would be different. Therefore, you're going to find a different interest rate on a million dollar loan or a million dollar lease versus a $50,000 loan or $50,000 lease. So the maturity amount, the amount involved, will affect the borrowing rate.

Next example illustrates the impact of the term. Let's say the vehicle lease is for three years, but the real estate lease is for 10 years. So the interest rate offered by a lender on a three-year loan would clearly be different than the rate offered on a ten-year level. And accordingly, you would end up, you would come to the same conclusion or a similar conclusion that a borrowing rate would be different on a 10-year lease versus a three-year lease. Again, think of the economic environment, lease of office space, a major city center versus a lease of a warehouse in a less expensive rural area are going to present different kinds of economic risks to the lender.

So a different borrowing rate would apply to those two different kinds of situations. And you know, one other, let's say a lease commences on January 1st, 2019 and another lease commences on July 1st, 2020. Well, if you recall, those are two very, very different economic environments. January 1st, 2019 economy is on fire; July 1st, 2020 we're in the middle of a global pandemic and shutdowns, lockdowns and everything else all over the world; clearly two very different economic environments and the credit risk of a lease could have changed significantly in those cases. So those are some factors to consider in determining the incremental borrowing rate, but you know, we haven't really gotten to methods yet, but we can talk about those if you like. Again, there is no one particular method, but maybe we want to look at some approaches at least.

Ms. Grove Casey

So does ASC 842 prescribe a particular method to use in determining that incremental borrowing rate?

Mr. Madray

Again, no, there is no particular method that is prescribed for the lessee in estimating their incremental borrowing rate. I said there's a variety of methods, methodologies that that lessee could use, and again, any would be appropriate as long as they do consider those factors that are mentioned in the definition, and that we just gave some examples of a moment ago, like maturity amount, the terms, the collateral, the economic environment and again, even entity specific credit risk factors. There will be cases where some lessees are going to need to hire external valuation professionals if they have a large number of leases with very, very different circumstances that may be better handled by outsourcing to some type of external professional. On the other hand, lessees could work with their lenders to obtain the necessary information.

So, with all that said some possibilities as we've illustrated here, rate on existing debt, like you said, it's not as simple as just picking up the rate on one lot of credit or doing a weighted average of all your debt. But a lessee might have an existing line of credit or a recent loan that could be a starting point. Again, typically it would not be appropriate to simply use the contractual rate on an existing line of credit without considering those factors and perhaps adjusting that rate. So it does meet the definition of the incremental borrowing rate that we just discussed. So for example, if you have a lessee that entered into a term loan in March, and they want to use the rate on that particular loan as a starting point for determining an incremental borrowing rate for a lease that commences in October of the same year, then the lessee would need to consider events, changes in circumstances that may have occurred between March and October, that requires some adjustment to that rate to reflect the current borrowing rate as of October. As another example, if the loan in March is unsecured, then the lessee would need to make an adjustment to reflect the full collateralization of the borrowing, as it is defined with regard to an incremental borrowing rate in a lease calculation. Another approach might be looking at the borrowing rate of similar entities if the lessee could research, public debt markets and determine borrowing rates for entities that have a credit risk profile similar to the lessee that might be an acceptable approach. Again, the lessee would need to adjust any reference borrowing rate that they find so that it meets the definition of the incremental borrowing rate.

So for example, the referenced borrowing rate found through the research might be associated with unsecured debt. Again, the lessee would need to adjust that because the incremental borrowing rate as defined in Topic 842 references a rate associated with full collateralization of the of the loan. Finally,... and this I think could be very common for smaller business lessees is to go to your lender go directly, ask your lender to provide a written quoted rate at which the lessee could borrow, and then, use that as a basis for estimating the incremental borrowing rate. Again, need to ensure that that rate is based on assumptions that align with the definition, need to make sure the quoted rate represents an actual rate at which the lessee could execute a borrowing arrangement.

And again, incorporate the other, make sure that it does incorporate similar maturity, amount, terms, conditions, collateral, all those kinds of things, but that could be a good approach. And again, depending on the volume of leases, the lessee might need to go to more than one lender to come up with a basis for estimating the incremental borrowing rate. But I think that's going to be a fairly common approach for our smaller businesses in terms of approaching this estimation of the incremental borrowing rate that is unless the lessee takes advantage of a policy choices available to non-public entities to do a shortcut. I mean, we can talk about that if you like, that policy choice related to a risk-free rate.

Ms. Grove Casey

Sure. I know, ASC 842 permits those entities, those lessees that are not public business entities, to use that risk free rate. So maybe you want to talk a little bit about what that is and how a lessee would apply that because risk-free is not necessarily zero.

Mr. Madray

Sure. And that again, I said, I think if smaller non-public business entities decide not to use this election, then I think working with their lender to come up might, might be a very common approach, but there is this election that's available. Topic 842 does permit a lessee that is not a public business entity to use a risk-free rate. And in the U S that would be the rate of a zero-coupon U.S. Treasury instrument. You would look for the rate on that U.S. Treasury using a period that is comparable with the lease term. If the lessee makes that election they would need to apply that policy to all of their leases, and also disclose that election in the notes to their financial statements. Now, a side note here, as we speak, it must be applied to all leases, but the FASB is expected to issue an ASU that would amend this slightly and allow non-public business entities to apply this election on a lease-by-lease basis.

So watch for that in case, this is of interest, but there is still reason why a number of private companies would opt not to use this election because of its impact on the present value calculations. Remember the discount rate is used to determine the amount of the lease liability by discounting the future lease payments to a present value using that discount rate. And if you look on the slide here I think most of us know what the outcome is going to be over here on the left side, you see, we got a five-year payment stream, $500,000 each year, five years, each payment at the beginning of the year, total payments of $2.5 million. Now, if we discount these five payments to present value, let's use 10%. The present value is 2,084,933. If we use 4%, it's $2,314,948.

If we use 2%, it's $2,403,864. In other words, the lower the discount rate, the higher the present value, therefore the higher the lease liability, and therefore, the higher the right of use asset will be, which will then be amortized and so on. So there's an impact from using this election while it is easy, because you just look up the rate of a zero coupon U.S. Treasury instrument with a matching term and apply that, that is in all cases is going to be less than any calculated borrowing rate, I think which is all things being equal, going to create a higher lease liability. Now, again, a lot of private companies have chosen or opted not to do that because as Topic 842 was originally written that policy had to be applied to all leases. But we do expect that to change where it can be applied on a lease-by-lease basis, again, only by non-public business entity lessees. So that may open it up a bit when it might be easy to use on some leases, but not have to use it on all leases. So something to keep an eye on as, as it relates to that specific risk-free rate election.

Ms. Grove Casey

So as we have with pretty much all of our guidance, there are disclosure requirements. We couldn't finish a segment without talking about those. Let's talk about the disclosure requirements that are associated with that discount rate. Could you talk about those?

Mr. Madray

Yes, let's kind of start with the kind of qualitative parts. Lessees are required to disclose information about any significant assumptions or judgements that are used to apply Topic 842, clearly determining the discount rate for a lease, the incremental borrowing rate especially would fall under that category of significant assumptions or judgments. Those are qualitative types of disclosures. Also we mentioned that risk-free rate policy choice would need to be disclosed as an accounting policy in the accounting policy note, assuming it's considered to be a significant policy. If there's one or two leases and it doesn't have a real impact that may be not so much, but generally policy choices need to be disclosed. I mean, if it's considered to be a significant accounting policy, and then you get to the quantitative disclosures, there's a handful of things here.

We have to under Topic 842 include certain quantitative disclosures about total costs related to cash flows that arise from lease transactions for each of the periods that are presented in the financial statements. One of those specific required quantitative disclosures is about the weighted average discount rate that has to be separately calculated and disclosed for finance leases and operating leases in determining a weighted average discount rate. Again, although you can't use that for determining the actual amount of lease liabilities, you do have to disclose a weighted average rate for all of your finance leases and operating leases. Essentially to do that, to calculate a weighted average discount rate we have a couple of steps here on this slide. The lessee will need to follow a couple of steps. One on the lease by lease basis, they'll need to multiply the remaining payments by the individual lease's discount rate, and then take the sum of those amounts that are calculated in that first step and divide that by the sum of the remaining payments.

Now, as usual illustration would probably make more sense out of that. So if you look at this illustration we've got here two finance leases at least one, at least two, and there's 1, 2, 3, 4, 5 operating leases. Now, second column, we have the remaining payments as of the end of the current period. We have the discount rate associated with each lease. And you see, we multiply the 60,000, the finance lease. One comes at 5.2% to get 3,120; do the same thing with the finance lease to get 6,750. We add those two together. Then we add our total remaining payments, $172,500. We divide the sum D by sum C and we get a weighted average discount rate on our finance lease of the 5.72%. Do the same thing with the operating leases, same approach. We're going to get a weighted average discount rate of 4.29%.

So quantitatively that's the biggest part. And you don't have to show all that calculation in your notes. You just have to disclose. In this case, there would be some type of disclosure of the fact that the weighted average discount rate on finance leases is 5.72% and a weighted average discount rate on the operating leases is 4.29%. But this is just an example of how that calculation would be made in the background in order to come up with the information needed for the disclosure of that weighted average rate. That's the most important quantitative piece, and again, a couple of qualitative items there that may need to be disclosed as well.

Discount Rates for Lessees

by J. Russell Madray, CPA, CGMA

Financial Accounting Standards Board Accounting Standards Codification 842 (ASC 842), *Leases*, significantly increases the number of leases that companies report on their balance sheets. As a result, the importance of accurately estimating lease discount rates, which can have a significant impact on lease liabilities and right-of-use (ROU) assets, cannot be overstated. Under ASC 842, virtually every lease with a lease term of more than a year must be reported on the balance sheet as a ROU asset and a corresponding lease liability. The lease liability is measured by using an appropriate discount rate to calculate the present value of future lease payments. The ASC Master Glossary defines the discount rate as follows:

> For a lessee, the discount rate for the lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate.

Implicit Rate

Lessees are required to use the rate implicit in the lease (RIIL), if it can be readily determined. The ASC Master Glossary defines the RIIL as follows:

> The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor. However, if the rate determined in accordance with the preceding sentence is less than zero, a rate implicit in the lease of zero shall be used.

In order to determine the RIIL, the lessee would need to know the assumptions used by the lessor in pricing the lease, including the underlying asset's fair value, the estimated residual value of the underlying asset at the end of the lease, and any initial direct costs deferred by the lessor. Consequently, most lessees will use an incremental borrowing rate because, in most cases, this information is not readily available to the lessee.

Incremental Borrowing Rate

As mentioned above, ASC 842 requires the lessee to use the RIIL unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate (IBR). The following are some common myths about the IBR.

- *Myth 1—the IBR is the interest rate on an easily accessible line of credit.*

  Although common practice under the old lease standard (ASC 840, *Leases*) was to use the rate on an easily accessible line of credit if this was the deemed source of the funds necessary to purchase the leased asset, this approach will no longer be appropriate. The definition of the IBR under ASC 842 refers to a collateralized rate.

- *Myth 2—the IBR is the weighted-average interest rate that a lessee pays on its other debt.*

  The IBR is not the weighted-average interest rate that a lessee pays on other debt (e.g. bank loans, lines of credit, etc.). These rates may be an input for determining the IBR, but they would not typically have a similar term, security and other economic characteristics as the underlying lease.

- *Myth 3—a lessee can use the same IBR for all of its leases.*

  An entity cannot use the same IBR for all of its leases. This is because the level at which ASC 842 applies to leases (i.e. the unit of account) is the individual lease. Accordingly, an IBR is not determined for an entity as a whole, but for each individual lease.

Observation: Although a lessee would not use the same IBR for all of its leases, ASC 842 explicitly allows lessees to apply the lease accounting guidance at a portfolio level. In fact, as discussed in paragraph BC 121 of the Basis for Conclusions, the FASB observed that the cost relief offered by applying the leases guidance at a portfolio level could be particularly high for determining the discount rate. So, for example, rather than establishing a specific discount rate for a single leased asset, the lessee might conclude that it can establish a single discount rate applied to all leases in a portfolio because using that rate would not result in a materially different answer than using a rate determined for each individual lease.

The ASC Master Glossary defines the IBR as follows:

> The rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

There are a variety of appropriate methods for determining the applicable IBR. But, regardless of the method used, the process will need to consider the maturity, terms, collateral, economic environment, and entity-specific credit risk factors of the lessee. To illustrate why these factors need to be incorporated, consider the following:

- A lease of real estate in a desirable area would represent valuable collateral and would affect the IBR; a lease of a vehicle, on the other hand would not provide the same value of collateral as the real estate. In other words, the collateral is not the same and a different IBR would apply when leasing a car versus leasing real estate.
- A lease of real estate for $1 million and a lease of a vehicle for $50,000 do not represent the same level of risk for a lender since the amount of borrowed funds differs. Accordingly, a different IBR would apply for a $1 million lease versus a $50,000 lease.
- Assume the vehicle lease term is 3 years, but the real estate lease term is 10 years. The interest rate offered by a lender for a 3-year loan would be different from the rate offered for a 10-year loan. Accordingly, a different IBR would apply for a 10-year lease versus a 3-year lease.
- A lease of office space in a major city center and a lease of a warehouse in a less expensive rural area would present different risks to a lender. Again, a different IBR would apply to each of these situations.
- One lease commences on January 1, 2019 and another lease commences on July 1, 2020; clearly, these are two very different economic environments and the credit risk of the lessee could have changed significantly.

ASC 842 does not prescribe a particular method for estimating the IBR, and there are a variety of methodologies in practice that a lessee could use (as long as they consider the maturity, terms, collateral, economic environment, and entity-specific credit risk factors of the lessee). Some lessees may need to hire external valuation professionals or work with their lenders on a regular basis to obtain the necessary information. The following are some possible methods using a starting point that will differ, depending on what information is readily available to a particular lessee.

Rate on Existing Debt

The lessee might have an existing debt facility or recent loan that it can reference when estimating the IBR. However, it would generally not be appropriate for the lessee to simply use the contractual interest rate on an existing debt facility as its IBR, without adjusting the rate so that it meets the definition of the IBR. For example, if the lessee entered into a term loan in March and plans to use the rate on that debt as an input to its IBR for measuring a lease commencing in October of the same year, the lessee should consider whether any events or changes in circumstances have occurred between March and October that require an adjustment to the rate on the loan to reflect a current borrowing rate as of October. As another example, if the debt is unsecured, then the lessee will need to adjust the yield to reflect the full collateralization of the borrowing.

Borrowing Rate of Similar Entities

The lessee might research public debt markets to determine the borrowing rates for entities with credit risk similar to the lessee. Using this approach, the lessee would need to adjust the referenced borrowing rate so that it meets the definition of the IBR. For example, if the referenced borrowing rate is associated with unsecured debt, then the lessee would need to adjust the yield to reflect full collateralization.

Rate Quoted by Lender

The lessee might ask their lender to provide a written quoted rate at which the lessee could borrow, and then use that quoted rate as the basis for estimating the IBR. As with any other method, the lessee will need to ensure that (1) the rate is based on assumptions that align with the IBR definition, and (2) the quoted rate represents an actual rate at which the lessee could execute a borrowing arrangement. However, depending on the particular facts and circumstances, the lessee may need to obtain written quotes from more than one lender to have a sufficient basis for estimating the IBR.

Risk-Free Rate

ASC 842-20-30-3 permits a lessee that is not a public business entity to use a risk-free rate (e.g., the rate of a zero-coupon US Treasury instrument) for lease measurement. The risk-free rate is determined using a period comparable with the lease term. If a lessee makes this election, it must apply this policy to all leases and disclose this election in the notes to the financial statements.

However, many private companies are opting to calculate an IBR as opposed to using the risk-free rate because of the required present value calculations. As illustrated below, applying various discount rates to a stream of payments confirms that the lower discount rates produce higher present values. Accordingly, by using the IBR, which would be higher than the risk-free rate, the resultant lease liability will be lower.

Year	Payment	Rate	Present Value
1	500,000	0%	$2,500,000
2	500,000	2%	$2,403,864
3	500,000	4%	$2,314,948
4	500,000	6%	$2,232,553
5	500,000	8%	$2,156,063
Total	$2,500,000	10%	$2,084,933

Observation: In June, 2021, the FASB issued a proposed Accounting Standards Update (ASU) that would tweak discount rate guidance for lessees that are not PBEs. Currently, when a lessee that is not a PBE makes the accounting policy election to use a risk-free rate as the discount rate, it must be applied to all leases. The amendments in the proposed ASU would allow lessees that are not PBEs to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also would require that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee would use that rate (rather than a risk-free rate or an IBR), regardless of whether it has made the risk-free rate election.

Reassessment of the Discount Rate

Lessees are required to reassess the discount rate when there is a modification (e.g., a change to the terms and conditions of the contract that adds or terminates the right to use one or more underlying assets or extends or shortens the contractual lease term) that is not accounted for as a separate contract.

Also, when there is a change in the lease term or a change in the assessment of whether the lessee is reasonably certain to exercise a purchase option, the lessee would need to update the discount rate for the lease liability unless the discount rate originally used already reflected the lessee's option to extend or terminate the lease or to purchase the leased asset.

If the reassessment of the discount rate results in a change to the rate, lessees should remeasure the lease liability using the revised discount rate at the reassessment date and adjust the right-of-use asset.

Disclosures about the Discount Rate

Lessees are required to disclose information about any significant assumptions or judgments to apply ASC 842. This may include determination of the discount rate for the lease.

In addition, a lessee that elects the accounting policy to use the risk-free rate should disclose this policy, according to ASC 235, *Notes to the Financial Statements*, assuming it is considered to be a significant accounting policy.

Finally, lessees are required to provide certain quantitative disclosures about total cost and related cash flows arising from lease transactions for each period presented in the financial statements. One of these required disclosures is the weighted-average discount rate, separately disclosed for finance leases and operating leases. The weighted-average discount rate is based on the discount rate used to calculate the lease liability balance and the remaining balance of the lease payments for each lease as of the reporting date. Essentially, a lessee will need to follow these two steps to calculate this disclosure:

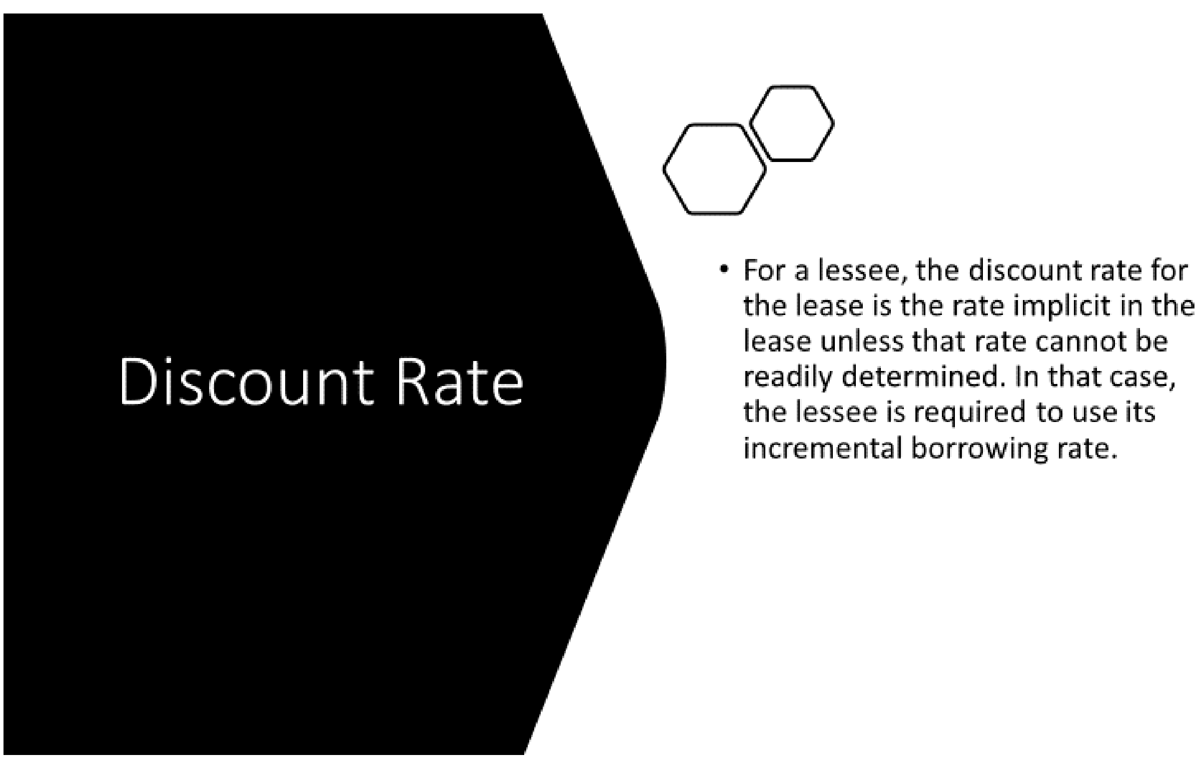
1. On a lease-by-lease basis, multiply the remaining payments by the individual lease's discount rate.

2. Take the sum of the amounts calculated in Step 1 and divide this sum by the sum of the remaining payments.

The following example illustrates this calculation.

Example – Weighted-Average Discount Rate

Lease ID	Remaining payments at 12/31/2022 (A)	Discount rate for the lease (B)	(A × B)	Weighted-average discount rate 12/31/2022
Finance leases				
FL1	$ 60,000	5.20%	3,120	
FL2	112,500	6.00%	6,750	**D ÷ C =**
	C= $172,500		**D = $9,870**	**5.72%**
Operating leases				
OL1	$ 15,000	4.20%	630	
OL2	22,800	4.20%	958	
OL3	36,000	4.70%	1,692	
OL4	27,000	4.20%	1,134	
OL5	13,500	3.60%	486	**F ÷ E =**
	E = $114,300		**F = $4,900**	**4.29%**



Rate Implicit in the Lease

- The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor. However, if the rate determined in accordance with the preceding sentence is less than zero, a rate implicit in the lease of zero shall be used.

Myths about the IBR

Myth 1—the IBR is the interest rate on an easily accessible line of credit.

Myth 2—the IBR is the weighted-average interest rate that a lessee pays on its other debt.

Myth 3—a lessee can use the same IBR for all of its leases.

Incremental Borrowing Rate

- The rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Factors that Impact the IBR

- A lease of real estate in a desirable area would represent valuable collateral and would affect the IBR; a lease of a vehicle, on the other hand would not provide the same value of collateral as the real estate. In other words, the collateral is not the same and a different IBR would apply when leasing a car versus leasing real estate.
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- Assume the vehicle lease term is 3 years, but the real estate lease term is 10 years. The interest rate offered by a lender for a 3-year loan would be different from the rate offered for a 10-year loan. Accordingly, a different IBR would apply for a 10-year lease versus a 3-year lease.
- A lease of office space in a major city center and a lease of a warehouse in a less expensive rural area would present different risks to a lender. Again, a different IBR would apply to each of these situations.
- One lease commences on January 1, 2019 and another lease commences on July 1, 2020; clearly, these are two very different economic environments and the credit risk of the lessee could have changed significantly.

Methods for Determining the IBR

RATE ON EXISTING DEBT

BORROWING RATE OF SIMILAR ENTITIES

RATE QUOTED BY LENDER

Discount Rate Comparison

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Weighted-Average Discount Rate

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	E = $114,300		**F = $4,900**	**4.29%**

GROUP STUDY MATERIALS

A. Discussion Problems

1. The ASC Master Glossary defines the discount rate as "the rate implicit in the lease unless that rate cannot be readily determined." Explain why most lessees do not use the rate implicit in the lease as the discount rate.

2. Discuss why the lessee cannot simply use the weighted-average interest rate that it pays on its other debt as the IBR.

3. Although ASC 842 permits a lessee that is not a public business entity to use a risk-free rate many private companies are opting to calculate an IBR as opposed to using the risk-free rate. Explain why private companies might make that choice.

B. Suggested Answers to Discussion Problems

1. The ASC Master Glossary defines rate implicit in the lease (RIIL) as "the rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor. In order to determine the RIIL, the lessee would need to know the assumptions used by the lessor in pricing the lease, including the underlying asset's fair value, the estimated residual value of the underlying asset at the end of the lease, and any initial direct costs deferred by the lessor. Consequently, most lessees will use an incremental borrowing rate because, in most cases, this information is not readily available to the lessee.

2. The incremental borrowing rate (IBR) is not simply the weighted-average interest rate that a lessee pays on other debt (e.g. bank loans, lines of credit, etc.). These rates may be an input for determining the IBR, but they would not typically have a similar term, security and other economic characteristics as the underlying lease.

3. Applying various discount rates to a stream of payments confirms that lower discount rates produce higher present values. Accordingly, by using the IBR, which would be higher than the risk-free rate, the resultant lease liability will be lower. As a result, many private companies are opting to calculate an IBR as opposed to using the risk-free rate because of the required present value calculations.

PART 2. ACCOUNTING

Compensated Absences and Workforce Changes Due to Covid

Working and living under COVID-19 travel restrictions, many employees deferred vacation and sick days until restrictions were likely to be loosened or fully lifted. The result may be the largest buildup of liabilities for compensated absences in recent history. Accountants and auditors need to take special care in computing, disclosing, and auditing liabilities for compensated absences. In addition, managers and the people who advise them must begin to think about the financial and operational costs of redeeming these liabilities.

For more on accrued compensated absences, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about vacation and sick pay accruals and accounting for those workforce changes resulting from the pandemic. So to begin with, let's talk a little bit about how compensated absences are defined.

Ms. Louis

As we all know, most employees earn the right to take time off with pay for a variety of reasons which could include illness, vacation, but also personal or family time. And when you were looking at the policies of your employer, they may provide for accumulative rights that carry forward to future periods if they're not used in the current period. They also may provide vested rights that create an obligation to pay for these absences even after terminating employment. Ultimately as we look at these accumulated or vested, the days off that these are compensated absences in conformance with the FASB codification,

Ms. Grove Casey

Well, the pandemic made a number of changes to compensated absences for a large quantity of entities and the government kind of encouraged that in some situations, but how has the pandemic impacted compensated absences besides that?

Ms. Louis

Well, certainly you're seeing a huge buildup of liabilities for compensated absences because people aren't able to take their vacations. And so they might be deferring certain time off until any type of travel restrictions are fully lifted or further loosened. So as we think about these compensated absences, the risk of having it be complete the risk of making sure we've got adequate disclosures might be areas that do need greater focus. If we think about a financial statement auditor or somebody that's preparing the financial statements, that these are likely going to be more significant compared to what you might see in recent history.

Ms. Grove Casey

Well, has there been an operational impact as well of this accumulation of compensated absences?

Ms. Louis

Well, it is ultimately that managers have to start thinking about how are we going to redeem these liabilities, right? As we think about the financial and operational costs of satisfying these obligations. And do we want to change certain policies and procedures or revisit things like mandatory vacation periods and other parameters around some of these accumulated rights. Ultimately, as we think of employers, as they're accumulating these significant liabilities, they need to think about how can we satisfy or redeem these compensated absences in a way that's not also going to adversely affect our operations. We need to think about ultimately how productivity is going to be impacted. Also the perception say fairness and transparency as we might be revising certain policies, does it vary for certain employees and could that lead to some increases in turnover as employees might get upset about that? So there are a variety of factors just from an operational point of view, not just necessarily from the financial statement implications that you would have in accounting for those compensated absences.

Ms. Grove Casey

What are the US GAAP requirements related to compensated absences?

Ms. Louis

Well, we're looking at an accrual, right? We are accruing a liability for the cost of these future absences, but it has to be in accordance with the FASB Codification Topic 710, that the employer has an obligation to pay for these future absences based on services that the employee has already rendered. The obligation relates to a right that either accumulates or vests. And it has to be that payment of this compensation is also probable and reasonably estimated. As we think of any type of loss contingencies, they have to be probable and reasonably estimable in order for us to reflect them in the financial statements. But it also adds the fact that it's based on services all already rendered and an obligation. And that is something that has vested or accumulated with those employees.

Ms. Grove Casey

What if the company has a use it or lose it policy?

Ms. Louis

Ultimately if we have a company with a use it or lose it policy for vacation or sick pay, then those rights don't vest and they don't accumulate. And so it would not be something that I'd have to set up a liability for in those circumstances.

Ms. Grove Casey

Is the accounting for vacation and sick days, always the same?

Ms. Louis

Some organizations don't necessarily account for vacation days in the same way that they do their sick days. It might be possible to grant vesting rights for vacation but to not even accumulate rights for sick days. So it does need to be even for something like sick days, that the company has to allow for the employee to bank those days, and ultimately, they can use them as compensated absences, meaning that they have to either vest or accumulate.

Ms. Grove Casey

Well, does the accrual for compensated absences take more into account the substance or the form of the employer's policy?

Ms. Louis

It is the substance. So you do need to look at the employer's past practices, because if they indicate that the employee is going to receive compensated absences above and beyond their posted policies or legal rights, then I need to think about what's the reasonable estimate that's probable of being paid. So it's not just the things that I'm legally obligated to, or the things that are in my policies, but what do you do with your best practices?

Ms. Grove Casey

Well, in summary, how does the bookkeeping for compensated absence accruals work?

Ms. Louis

Typically we do like a period end liability that we adjust our expenses accordingly, as we look at taking more of a balance sheet approach to those compensated absences. We, in essence, will multiply the current pay for each employee by the number of outstanding accumulated or vested absences at the end of the period. And so often a spreadsheet might be applied in a smaller type organization where I can manage things in a spreadsheet type form. In smaller environments, I can do these individual accruals and then sum them up to come up with my overall adjustment. If we look at hourly workers, the current pay per day could be computed as the hourly compensation rate on the date of the accrual multiplied by the total number of hours to be compensated for that one day.

But I also need to think about fringe benefits and other elements as well. For salaried people who are paid by the year, I would figure out my annual salary and equate that to a per day type element. The FASB standards themselves don't really prescribe a rate for accruing compensated absences. And what I mean by that is, I can elect to use either the current rate or the likely compensation rate when the employee will redeem the vacation days. But if I use that likely rate, I would have to discount it to present value. So ultimately a lot of times we just use the current rate because it's more objectively verified and I don't have to worry about coming up with an appropriate discount rate for that, but it is important that we think about other information that could affect this estimate such as using historical data to look at what's the history of rights being forfeited, and do I need to reduce my estimated liability for those forfeited rights? That historical record can indicate the extent to which these rights are likely to lapse either due to termination or other types of factors as well, such as the fact that you might have a cap that gets reached that can only be carried over.

Ms. Grove Casey

Well, let's talk a little bit more about how current pay is frequently calculated. Is it just that rate times a particular number of PTO hours?

Ms. Louis

So as we're looking at the different rates, you do need to kind of do an assessment of you're coming up with a reasonable estimate, right? What's fair presentation? And so tracking things by employee because I have to track it anyhow, as far as looking at their rates, that it would be appropriate to look at their specific circumstances. But when you're making some of your estimates related to say forfeitures or other factors, you might look at things more in a portfolio type perspective around patterns, around certain groups of employees and how they tend to play out as they are looking at their circumstances specifically around behavior patterns with some of those offsets.

Ms. Grove Casey

Well, GAAP requires using the current rate for the accrual, or can a likely rate that you mentioned linked to the probable redemption of the accrued rights be applied?

Ms. Louis

Yes, you can elect either one. So a key is going to be sometimes when FASB's not very specific. They say either one could be a fair representation, because even if I use the likely rate, I'm going to present value it right down to take into account the time value of money, and so the difference is it likely to be significant or material it's just more of adopting a policy and then consistently following it, we don't want to flop back and forth in order to manipulate the outcome, it's more of establishing a practice that seems fair, and you have consistent application in the method or model that you're applying.

Ms. Grove Casey

Well, can the accrual be adjusted for those anticipated forfeited rights?

Ms. Louis

They are. So, as we mentioned, you do need to have an offset. So I need to think about based on not just looking at historical experience, but also current period conditions as we look at things that might not be the norm. And certainly as we think about some of those offsets, right, of reducing my liability for what I believe to be forfeited rights or lapsed rights could be changing because of patterns that you see as a continuation of the effect of the pandemic, that past experiences aren't necessarily going to be something that would be a predictor of future outcomes. So we may need to take a fresh look at some of those assumptions.

Ms. Grove Casey

Well, how are the accruals updated each reporting period?

Ms. Louis

So the accrual is going to be updated ultimately through typically a journal entry. As we look at calculating what my current accrual should be and look at the existing accrual liability that's on the balance sheet and to calculate the difference based on my current conditions to ultimately increase or decrease the liability. As we look at increasing my liability, typically my corresponding debit is going to go to some sort of salaries or wage expense.

Ms. Grove Casey

Well, is there an impact on deferred taxes due to compensated absence accruals?

Ms. Louis

It is something where typically I have a temporary difference generating a deferred tax asset equal to my vacation payable times an effective tax rate. And so we do want to think about that deferred tax effect because compensated absences are deductible when paid rather than accrued. So there may also be classification issues between current and non-current that need to be evaluated consistent with the FASB codification.

Ms. Grove Casey

Well, what are the presentation and disclosure considerations for accrued compensated absences?

Ms. Louis

As we're looking at the accrual for these compensated absences, they're typically current as we think about their presentation on the balance sheet, but you do need to reflect about, is this obligation going to be satisfied with current assets or not? Ultimately if the total liability is material and it's blended in with my other current liabilities, then I would want to consider some sort of separate disclosure in the notes to highlight the nature of that liability and what our policies are particularly as well. Is this a significant accounting policy that I would need to disclose the policy and potentially break out the total in that footnote separate from what's being presented on the face financial statements themselves?

Ms. Grove Casey

Well, what if the amount to be paid cannot be reasonably estimated?

Ms. Louis

Then you need to disclose information about the compensated absences in your notes indicating that we didn't book an accrual because of the fact that the amount could not be reasonably estimated.

Ms. Grove Casey

Was there any other impact on employee benefits due to the pandemic?

Ms. Louis

There was in cases sometimes because of strategic cost cutting initiatives that organizations had to adopt, particularly if they were under economic distress. And so it may have been things like altering some of my policies, but it also could have been terminating employees. And so there were many terminations that may have already occurred because of the pandemic, and then there may be terminations that are yet to come. We do need to consider those termination benefits and the proper accounting and financial reporting related to those items.

Ms. Grove Casey

Well, what's the first thing that you should understand about termination benefits to better help with proper accounting?

Ms. Louis

We want to think about, was this a voluntary termination or an involuntary termination because certainly there can be different forms of these termination benefits as we think about the circumstances. And part of that's going to be, is this something that's considered to be a one-time benefit or is this considered an ongoing type benefit that exists as well? Each of these different arrangements can come with their own accounting considerations. As we look at there's two different parts of the Codification that we've got to focus on ASC 712, that deals with compensation, non-retirement post-employment benefits because we've terminated them or something could be accounted for underneath codification Topic 420 that deals with exit or disposal cost obligations.

Ms. Grove Casey

Well, let's talk a little bit about what are voluntary termination benefits?

Ms. Louis

All right. So as we look at these cases that we ask is it probable that employees will be entitled to benefits and amounts that can be estimated? Is it something that they have chosen to do it? Is it did they quit and have these termination benefits that are being a part of that question? But also as we think more specifically about the involuntary situation that we're dealing with, you may have certain benefits that might be statutorily required or things that are part of some sort of written policies that we have to provide related to these involuntary termination benefits. You also are going to look at precedent as to what is it that you do as your common business practice, perhaps when you've had prior layoffs. Is there a precedent that sets an expectation on the part of employees of what termination benefits they actually are going to receive?

Ms. Grove Casey

How do you account for a voluntary termination benefit?

Ms. Louis

So ultimately as we have things that would be done underneath the compensation, the Topic 712 you're going to think about setting up that relative accrual related to that, but then you separately have different accounting if it turns out that this isn't something that's like an ongoing benefit right? It's not a written policy, it's not our best practices. Ultimately, you may decide that this is really something that's an exit and disposal activity. That really isn't a part of being included as a part of just recurring compensation benefits, but something unique to us exiting a particular geographic region or closing an office or something that's a much larger implication.

Ms. Grove Casey

Well, let's talk about some examples of involuntary terminations and how they would be accounted for as compensation under ASC 712.

Ms. Louis

So as we think about things that might be an ongoing termination benefit it could be that at the date of hire I have a written policy for all my employees that says you get a week of severance each year of service for an involuntary termination. It also could be that there might be a current, a reduction in force policy where you get two additional weeks of severance for each year of service, as we're looking to try and encourage people to leave. I might have in these circumstances, I may be creating a policy as we think about additional benefits that might be really embedded in those specific circumstances that employees are looking at about what's reasonable, and, as far as the likelihood and the reasonableness of the expectation about what the future settlement is going to be applied related to those benefits,

Ms. Grove Casey

Well, what's an exit and disposal activity?

Ms. Louis

So exit and disposal costs are going to be related to the sale or termination of a line of business, closing of a business in a particular location. It also could be relocating certain business activities from one location to another, a reorganization that affects the nature and focus of operations. Ultimately, those in essence, have a different implication around your accounting that you would have of severance, outplacement training, counseling, and other things that would be a one-time specified termination benefit.

Ms. Grove Casey

Well, what's the primary difference in accounting between ASC 712 related to compensation costs and ASC 420 related to exit and disposal costs?

Ms. Louis

So as we look at our things that are related to the restructuring, it being a one-time benefit, right? That, ultimately is not an enhancement of an ongoing benefit activity. And so, as we're thinking about, I have expenses that qualify as an exit and disposal activity, I do have additional disclosures that I also have to provide. As we're looking at providing information around the facts and circumstances that are leading to that particular activity and the expected completion date of this exit/disposal activity. So there are going to be ultimately, as we think about the goals that we have, if it's a total separate accounting section, and it's a separate nature of disclosures that I'm going to have related to my ongoing routine things that I would have.

Ms. Grove Casey

Well, what are factors to consider in determining whether a termination event is a one-time or an ongoing event?

Ms. Louis

A lot of it is going to be the experiences that you're having and the current conditions, but past business practice, and other types of things. Sometimes it has to be a matter of judgment that has to be documented and evaluated in those circumstances.

Ms. Grove Casey

Well, let's talk about some examples of one-time termination events that may be considered to be exit and disposal activities.

Ms. Louis

So when we, we talked about with the exit and disposal activities, it might be some other things besides just what you have with compensation, could be reducing rental space. We think about exit or disposal activities. It's not just the termination benefits. It's the entire restructuring costs and removal and other things that would be related to those types of activities that we previously disclosed.

Ms. Grove Casey

What if the one-time benefit is an enhancement to an existing, ongoing benefit arrangement? What section of accounting applies there?

Ms. Louis

So ultimately if we do have things like we talked about an enhancement, like the fact that you normally get one week severance, but now we're going to give you two weeks for this, the fact that we're having a current year reduction in force. And so, if it's an additional benefit that's added to the written policy, it's considered to be an enhancement to an ongoing termination benefit, and it would be accounted for under Topic 712. And so ultimately I'm going to accrue when it's probable and reasonably estimable that I have this, but if it's not a part of that, so if this additional benefit only applies to the employees that are affected by this reduction in force, not all future involuntary terminations, then the additional benefits would be accounted for underneath Topic 420, which is an exit and disposal activity. So sometimes it's, what's the intent of this change for it to be recurring after this one-time thing happens?

Ms. Grove Casey

Well, what if the additional termination benefit applies only to the employees affected by the reduction in force? They frequently call that a RIF and not involuntary terminations.

Ms. Louis

Sometimes they are talking about past RIFs. So it's not because you have to also think about, have similar benefits been provided in past RIFs or not? Because even if you say, we're not going to make this a formal part of our policies, if in the past you always do this, then there's going to be an expectation that absent written policy, I could still expect that these additional benefits will be provided. And so you have to think an evaluation of both what management's written policies are, how are they intended to do change, but also what do we know from past experiences?

Ms. Grove Casey

So if that additional termination benefit hasn't been provided in the past, is the accounting for that going to be different?

Ms. Louis

It is. Cause then I'm going to look at it as and the key being a do I want to make it where it is under the function of looking at things accounted for as a liability, or is this related to like a separate accrual or is this something that's going to be underneath that specific section 420?

Ms. Grove Casey

Well, an arrangement that's subject to ASC 420 is deemed to exist only when it's communicated to employees, not necessarily each individual employee that's impacted, but as a group and it meets certain other criteria. Can we talk about what those criteria are?

Ms. Louis

So part of it is going to be that management has to have the authority to approve a transaction and commit themselves to a plan. And, often when you have to have approval by governance, it's going to be the date that the board actually approved the plan. It has to be identifying the number of employees that are going to be terminated, expected completion date of the terminations. It has to establish terms and the benefits of the arrangement, including the fact that here's what they will receive upon this termination and sufficient detail to help people to understand the type and amount of benefits that they're expected to receive. And then it also has to be the actions required to complete the plan to indicate it's unlikely that there's going to be significant changes to the plan or that the plan is going to be withdrawn as we are looking at the implications. And so management has to be committed to a plan where significant changes are unlikely, and it identifies who is going to be impacted and to what degree.

Ms. Grove Casey

Well, is there anything else that impacts the timing of recognition of the exit or disposal costs?

Ms. Louis

It is going to also affect whether or not the employees are required to perform additional services in order to receive their termination benefits. As we think about the goal, if future services are provided, then I'm not going to immediately recognize the expense and liability that's tied to those future outcomes.

Ms. Grove Casey

Well, what if employees are required to render services until they're terminated and, sometimes that service period extends beyond what people would call a minimum retention period. Sometimes it extends beyond the end of the financial statement period date as well.

Ms. Louis

Yes. So if we are talking about that circumstance, it is where I have like a minimum retention period, you are going to recognize the expense ratably over a future service period. So, the minimum retention period we have to look at things like legal notification periods that might exist for that to be the case. But we do need to take that into account as far as making sure that we're not recognizing expenses too soon.

Ms. Grove Casey

Well, what if the termination benefit plan includes elements of more than one type of benefit? So maybe you've got healthcare benefits as well as like benefits to help you find a new job or additional training or something like that. Are those recognized ratably too?

Ms. Louis

So we're in essence going to just look at what's probable and what's reasonably estimated as we think about those circumstances and, as we think about all of the different types of benefits that could exist as we think about those occurrences, the company is going to record an expense and a liability when it becomes probable it's going to be paid and amounts are reasonably estimable.

Ms. Grove Casey

Well, are there any special considerations for further arrangements? Because a number of those situations came up during the pandemic as a result of a slowdown in the economy.

Ms. Louis

True. And so on all furloughs, it usually consists of somebody to eat some mandatory time off with zero or reduced pay for a specified period. But it generally is these furloughed employees that often retain some sort of benefits like healthcare and accrued vacation. And so we do want to make sure that if there are any benefits that still continue to vest or accumulate that we account for those as they become probable and reasonably estimable. Benefits that don't vest and accumulate should be recognized as incurred.

Ms. Grove Casey

Well, the last area that I want to ask about is severance. So to begin with what needs to be understood related to severance arrangements.

Ms. Louis

So as we're looking at things as it relates to severance it's going to include in it that as you're looking at the normal business practices, we think about the separate packages. Are they subject to an existing severance plan where that could be like a written employment agreement, or also could just be that historical pattern of providing things where it is in substance an ongoing plan. And so in the end, it is based on what's the company history of what occurs. If we receive two weeks of severance for each year of service, it's likely I've established an ongoing severance plan for accounting purposes. And so these severance benefits are considered to be a non-retirement post-employment benefit. That's accounted for under that Topic 712, where I have a liability that's probable and reasonably estimable. And so it ultimately though is not really deemed probable until the employer makes the decision to terminate the employee. It is critically important for us to determine that termination date, because that's when we're going to properly deal with those termination benefits in accordance with GAAP.

Ms. Grove Casey

Well, does the timing of the actual severance payments matter?

Ms. Louis

It does not affect as far as the recognition of the expense occurs for the total amount of the severance package based on the decision to terminate the employee. And that date is normally going to be evidenced by something like a company announcement or execution of a severance agreement, or the fact that there might be something in the board minutes.

Vacation and Sick Pay Accruals & Accounting for Workforce Changes Resulting from the Pandemic

by Jennifer F. Louis, CPA

Impact of the Pandemic on Compensated Absences

Studies show that during the COVID-19 pandemic, employees on average worked longer hours from home than in the past, essentially converting commuting time into additional work time. However, many of these hardworking employees are not seeing much appeal in a "staycation" at home — where they already do most of their work — or traveling during the pandemic. Instead, many of these employees are choosing to save accumulated and vested vacation and sick days for when travel restrictions are lifted. Because of this, compensated absences may be accruing at high rates.

For internal control purposes, many companies have mandatory vacation periods; these obviously would need to be taken within the required time frames. Employers that are accumulating significant liabilities should begin to plan for employees to redeem their compensated absences in a way that will not adversely affect operations.

The overriding concern, of course, is that state and local regulations be carefully followed. Companies should take care that their policies are consistent with state and local regulations. Plus, companies with operations outside the United States must be mindful to follow the laws of the countries where their employees work. Managers should pay special attention and familiarize themselves with these regulations or hire experts to assure compliance.

Employees benefit from vacation and family time in many ways. The quality of employee life helps to maintain employee morale and productivity, avoid unnecessary turnover, and attract the most talented employees. Employers must also consider the perception of fairness and transparency and avoid revising policies retroactively except in favor of employees. And managers should certainly consider the preferences of employees.

Furthermore, it is obviously important to maintain operations so that employee time off does not stymie production or impair the quality of customer service. Whereas many companies in the past have dealt with doling out vacation time on an ad hoc basis, the COVID-19 buildup in compensated absences may require a more planned and deliberate approach toward balancing accumulated vacation and sick days with continued operations.

Compensated Absences Defined

Most employees earn the right to take days off with pay for a variety of reasons, including for vacation, illness, personal care, and family time. Employers' policies may provide for *accumulated rights* that carry forward to future periods if they are not used in the current period. They may also provide for *vested rights* that create an obligation to pay for compensated absences even after terminating employment.

FASB has labeled these accumulated or vested days off as *compensated absences*. U.S. GAAP requires accruing a liability for the cost of these future absences when all the following conditions exist per FASB ASC Paragraph 710-10-25-1:

- The employer's obligation to pay for future absences arises from employees' services already rendered;
- The obligation relates to rights that vest or accumulate;
- Payment of compensation is probable; and
- The amount to be paid can be reasonably estimated.

This definition makes clear that a company with a use-it-or-lose-it policy for vacation or sick pay would not need to accrue a liability because their employees' sick and vacation days do not vest or accumulate.

Entities do not necessarily account for vacation days in the same way as sick days; it is possible for a company to grant vesting rights for vacation days but not even accumulated rights for sick days. Sick days would be accrued if a company permits employees to bank these days and use them as compensated absences, i.e., they accumulate or vest.

The accrual for compensated absences should take into account the substance of the employer's vacation and sick policies, rather than their form. When an employer's past practices indicate that employees receive compensated absences above and beyond their legal rights and posted policies, the liability for compensated absences should encompass all reasonably estimable compensation likely to be paid, and not just those compensated absences that employees are legally entitled to.

Compensated Absence Accruals

Accountants should take a balance sheet approach toward accruing compensated absences, which entails estimating the period-end liability and then adjusting the expense accordingly. To prepare an accrual, multiply the current pay for each employee by the number of outstanding accumulated and vested absences at the end of the period.

A practical spreadsheet layout for an entity would list each employee in a separate row and populating columns for the number of outstanding sick days, the number of outstanding vacation days, and the current pay per day (or, as an alternative, use a present value discounted compensation rate expected when the days will be redeemed). The total number of sick days multiplied by the current pay per day would equate to the accrual for each employee. These individual accruals would be summed to calculate the overall adjustment.

For hourly workers, the current pay per day would be computed as the hourly compensation rate on the date of accrual multiplied by the total number of hours to be compensated for one day. The hourly compensation rate should include the related cost of fringe benefits and employer taxes earned.

For salaried workers who are paid by the year, divide the annual salary, including the cost of fringe benefits and employer taxes, by the average number of days worked each year.

FASB standards do not prescribe a rate for accruing compensated absences. Accountants can elect between the current rate or the likely compensation rate when the employee will redeem the vacation days, discounted to present value. Many accountants use the current rate since it may be objectively verified.

When accruing a liability for compensated absences, accountants can use historical data and other projections to estimate the likelihood that these rights will be forfeited and discount the estimated liability accordingly. A historical record should indicate the extent to which employees are likely to let compensated absences lapse due to termination, or perhaps overachievement, and help accountants to estimate the compensated absences likely to lapse in the future.

Journal Entry to Record Accrual

The journal entry to accrue compensated absences would adjust the liability for vacation payable to the balance computed. An entity would calculate the difference between an existing accrued compensation absences liability and the new calculated balance needed based on current conditions. The entity would credit vacation pay for the difference, with the corresponding debit going to salaries and wage expense.

In subsequent periods, the company would again estimate the total liability for vacation payable and then adjust the balance of this liability up to the value of the estimate, recording a corresponding debit to salaries and wages expense.

Impact on Deferred Taxes

Since compensated absences are deductible when paid rather than when accrued, their accrual as a liability gives rise to a temporary difference, generating a deferred tax asset equal to the vacation payable times the effective tax rate. Per Accounting Standards Update No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, deferred tax assets and liabilities are classified as noncurrent.

For example, assume that an entity has an effective tax rate of 25%. As part of its journal entry to adjust deferred tax assets and liabilities at the end of the period, the company should adjust its deferred tax asset for compensated absences to 25% of the total vacation pay.

Presentation and Disclosure Considerations

Accountants include the accrual for compensated absences with other current liabilities on the balance sheet. If the total liability is material, then it should be reported separately or disclosed in the notes to the financial statements. For example:

Compensated absences – The Company accrues for the costs of compensated absences to the extent that the employee's right to receive payment relates to service already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated. The Company's policies related to compensated absences vary by jurisdiction, and obligations are recorded net of estimated forfeiture due to turnover when reasonably predictable.

If the amount to be paid cannot be reasonably estimated (the fourth criterion listed in the FASB), then the company should disclose information about compensated absences in the notes to the financial statements, indicating that an accrual could not be recorded because the amount to be paid could not be reasonably estimated. For example:

Compensated absences – The Company has not accrued a liability for compensated absences in accordance with Accounting Standards Codification 710, Compensation — General, as the amount of the liability cannot be reasonably estimated at Dec. 31, 20X2, and 20X1.

Impact of the Pandemic on Termination Benefits

Strategic cost-cutting initiatives are at the forefront as organizations do their best to adapt to the ongoing economic distress. Among these initiatives are employee terminations, which many companies are considering or have already undergone and are now facing the associated accounting and financial reporting challenges.

Employers can offer many types of termination benefits, and the accounting and financial reporting is impacted by the nature of each. By understanding the relevant termination benefits and the related accounting models, companies will be better positioned to maneuver this complex process.

Termination benefits can generally be categorized as voluntary or involuntary, with the latter taking different forms depending on whether the arrangement is considered ongoing or a one-time benefit. Each of these arrangements comes with its own specific accounting considerations and requirements governed by ASC 712, *Compensation — Nonretirement Postemployment Benefits*, or ASC 420, *Exit or Disposal Cost Obligations*.

The question is whether any benefits paid to employees who are involuntarily terminated should be considered to be part of a one-time arrangement that is subject to the guidance in Accounting Standards Codification Topic ("ASC") 420, *Exit or Disposal Cost Obligations*, or an ongoing benefit arrangement that is subject to ASC 712, *Compensation – Nonretirement Postemployment Benefits*. The answer to that question matters because the different accounting models may result in different timing in the recognition of the related costs. In particular, ASC 712 generally requires recognition of a liability when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated, which often would occur before the communication date required for recognition under ASC 420.

Determining whether it is an ongoing arrangement requires consideration of both the form and substance of the arrangement. For instance, the benefits may be statutorily required, or otherwise subject to a written policy regarding involuntary termination benefits. Alternatively, the terms of prior layoffs may have established a precedent that creates an expectation on the part of employees of what termination benefits they will receive.

ASC 420 acknowledges this possibility, stating, in part, that "absent evidence to the contrary, an ongoing benefit arrangement is presumed to exist if an entity has a past practice of providing similar termination benefits." Termination benefits that exceed past packages may still be deemed to be part of an ongoing benefit plan if such changes are considered to be an enhancement to the ongoing arrangement that is expected to be applicable in the future.

Regardless, if there have been layoffs in the company's recent history, judgment will be required to determine if a past practice of providing similar termination benefits exists, based on an evaluation of the relevant facts and circumstances.

Voluntary Termination

Voluntary, or "special," termination benefits are offered by an employer for a short period of time in exchange for an employee's voluntary termination, including early retirement (e.g., an employee buy-out for cash or pension credits). In order for the termination offer to be binding, both the employer and the employee must agree to the details of the termination.

A liability and an expense equal to the amount of benefits expected to be paid to a terminated employee are recorded when both the amount can be reasonably estimated, and the employee irrevocably accepts the termination offer and any revision period associated with the arrangement has lapsed. In certain cases, a termination arrangement can extend beyond the end of a reporting period; if a portion of the employee acceptances runs into the subsequent period, the corresponding benefit accrual will be present in each period.

Involuntary Termination

Contractual termination benefits: These benefits are those required by the terms of a pre-existing plan upon the occurrence of a specified event (e.g., the closing of a factory location due to downsizing). An employer is legally obligated to pay termination benefits to employees once the event occurs; thus, a liability and an expense are recorded once it is probable that the terminated employees will be entitled to benefits (e.g., when it is probable that the specified event will occur, or benefits will be paid) and the amount can be reasonably estimated.

Other post-employment benefits: These benefits (e.g., severance benefits or the continuation of insurance coverage) are provided through an ongoing termination plan, either in written form or based on an employer's consistent history of termination benefits offered, in exchange for an employee's service. If the other postemployment benefits vest or accumulate, the benefits are recognized as services are provided. However, if the benefits do not vest or accumulate, a liability should be accrued when the benefit payment is probable and can be reasonably estimated.

Exit and Disposal Activities

As the pandemic continues to cause economic pain, many businesses are taking a hard look at moving or closing facilities, exiting some activities, laying off employees, or reducing rental space. These actions may create restructuring costs and termination benefits that entities don't normally have.

Exit and Disposal Costs may include:

- Sale or termination of a line of business
- Closure of business activities in a particular location
- Relocation of business activities from one location to another
- Changes in management structure
- A fundamental reorganization that affects the nature and focus of operations

Even though exit and disposal activities may not necessarily have a material effect on the scope of an entity's business or manner in which that business is conducted, they would still be within the scope of ASC 420. (Restructuring has a materiality threshold.)

Severance payments, outplacement job training, and counseling all are examples of one-time specified termination events or for a specified future period which may be included under accounting for exit and disposal activities.

ASC 420 applies to a one-time benefit arrangement that is not an enhancement to an ongoing benefit arrangement. Ongoing benefit arrangements should be accounted for under ASC 712.

An example of an enhancement to an ongoing termination benefit: A company has a written policy for all employees at date of hire that provides for one week of severance for each year of service for an involuntary termination. The entity has a current year reduction in force (RIF) and provides an additional two weeks of severance pay for each year of service.

The additional benefit applies to all employees affected by this RIF *and all future involuntary terminations*. Because this is an additional benefit to the company's written policy, it is considered an enhancement to an ongoing termination benefit and would be accounted for under Topic 712. The benefit would accrue when the likelihood of future settlement is probable as that term is used in GAAP.

However, if the additional termination benefit applies only to the employees affected by the RIF, and not all future involuntary terminations, and similar benefits had not been provided for a past RIF, the additional benefits would be accounted for under ASC 420.

In periods which have expenses that qualify under ASC 420 as exit or disposal activities and any subsequent period until the activity is completed, the financial statement notes should include the following:

- A description of the activity, the facts and circumstances leading to the activity, and the expected completion date;

- For each major type of cost, the total expected amount to be incurred with the activity, the amount incurred in the current period, and cumulative to date amounts; and a reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reasons(s) why;
- The line items in the income statement or the statement of activities in the costs in the prior bullet are aggregated;
- If an entity is within the scope of Topic 280, for each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments with an explanation of the reason(s) why; and
- If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons why.

A one-time benefit arrangement subject to ASC 420 is deemed to exist at the date the plan of termination meets all the following criteria and the overall plan has been communicated to employees (referred to as the "communication date"), which is not necessarily when individual employees have been notified that they are being terminated as part of the plan.

1. Management, having the authority to approve the action, commits to a plan of termination. This is often based on the date of approval by the Board of Directors.
2. The plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date. The specific employees need not be named so long as their classifications or functions and location are identified.
3. The plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.
4. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Similar to the first criterion above, if Board of Directors approval was required, that will typically mean that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In summary, in order to accrue the liability for a one-time termination benefit, management must commit to a plan in which significant changes are unlikely, and which identifies the number of employees to be terminated, job title, office location, and completion date. In addition, termination details and benefits must be communicated to affected employees before any liability can be recorded.

Costs associated with one-time employee termination benefits are measured at the time employees receive communication of the termination. The timing for recognition of those costs is dependent on whether employees are required to render future service in order to receive the termination benefits. If employees are not required to render services until they are terminated in order to receive the termination benefits or if employees will not be retained to render service beyond the minimum retention period, the expense for the termination benefits shall be recognized at the communication date. However, if future services are required, the expense and liability are recognized ratably over the period of future service.

Conversely, if employees are required to render services until they are terminated and that service period extends beyond a "minimum retention period," the expense should be recognized ratably over the future service period, even if the benefit formula used to calculate the termination benefit is based on past service. The minimum retention period shall not exceed the legal notification period, or in the absence of a legal notification requirement, 60 days. For example, in the United States, the Worker Adjustment and Retraining Notification Act generally requires entities with 100 or more employees to notify employees 60 days in advance of covered plant closings and mass layoffs. Collective bargaining or other labor contracts may require different notification periods. In cases where future services are required, judgment may be required in evaluating whether such services are substantive in nature

ASC 712 requires a liability for certain termination benefits under an ongoing benefit arrangement to be recognized when they are both probable and reasonably estimable, which often occurs before the communication date requirement for onetime benefit arrangements. Accordingly, benefits attributable to prior services based on the benefit formula are recognized when it becomes probable that the employees will receive the benefit, the amount is reasonably estimable, and the employee's right to those benefits is not contingent on the employee's future service. Conversely, if employees are required to render services until they are terminated in order to receive the termination benefits, the expense would be recognized as the services are provided and the probable and estimable criteria are met. Once again, similar to one-time termination benefits, in any cases where future services are required, judgment may be required in evaluating whether such services are substantive in nature.

Termination Benefits – Severance

In the normal course of business, employees may be terminated and given a severance package. It is important to know whether the payments are subject to an existing severance plan, which could be either a written employment agreement or a historical pattern of providing severance benefits that results in a substantive on-going plan.

For example, if a company has a history of multiple termination events, in which impacted employees received two weeks of severance for each year of service, then the company likely has established an on-going severance plan for accounting purposes. In those situations, the severance benefits are considered a nonretirement postemployment benefit that is accounted for under ASC 712-10, and a liability is accrued when it becomes probable that a payment will be made and the amount is estimable.

Usually, a payment is not deemed probable until the employer makes the decision to terminate the employee. Therefore, the date of the decision to terminate employment is critically important to the determination of when to properly expense termination benefits for GAAP purposes.

The timing of the payments does not affect when the expense is accrued; instead, recognition of the expense occurs for the total amount of the severance package based on the date of the decision to terminate the employee. The date of the decision to terminate is normally evidenced through board meeting minutes, company announcement (in the event of multiple layoffs) and/or severance agreement executed.

Say an employee is terminated on Jan. 15, 2021, and your year-end is December 31. Per the termination agreement, the employee is to be paid $5,000 monthly over six months (total of $30,000), beginning Jan. 15, 2021.

If the decision to terminate the employee was made prior to Dec. 31, 2020, then the full amount of the termination benefit is accrued as of Dec. 31, 2020. The following entry would be recorded to accrue for the termination benefits: Debit Termination Benefits $30,000; Credit Accrued Termination Benefits 30,000.

Then the following entry would be recorded every time a payment is made to the terminated employee: Debit Accrued Termination Benefits $5,000; Credit Cash $5,000.

If the decision to terminate the employee was not made until after year-end, no accrual would have been necessary at 2020's year-end.

Alternatively, if a company has no written severance plan, and has not historically established a substantive on-going plan through multiple prior termination events, the severance benefits to be provided to the impacted employees would be considered a one-time termination benefit accounted for under ASC 420-10.

In that scenario, the date management commits to the plan and determines the impacted employees and benefits to be paid is still important, as no severance cost may be recognized prior to that date. However, if the employees are required to continue providing service for a period of time after the decision to terminate is made by management, then the related expense must be recognized over that period.

Consider the previous example in which the decision was made on Dec. 31, 2020 to terminate an employee on Jan. 15, 2021. Because the employee would be required to continue working between Jan. 1, 2021 and Jan. 15, 2021, the $30,000 would be recognized in January, rather than as of Dec. 31, 2020. In addition, had the employee been required to work for the six months over which the severance payments are being made, then the company would recognize $5,000 each month that the employee is required to continue working.

Note: In either situation, the termination benefit payments are recognized and deductible when the payments are made for income tax purposes. Payments made in 2020 will be deductible in 2020; payments made in 2021 will be deductible in 2021.

Other Compensation Matters

Sabbatical Leave

A *sabbatical leave* provides an employee with paid time off after working for an entity for a specified time period. If the purpose of the leave is to perform research or public service to benefit the employer, then the compensation is not attributable to services already rendered and requires no advance accrual. However, if the purpose of the leave is to provide compensated time off without restriction, then an accrual over the requisite service period is appropriate.

Future employee termination events

The near-term economic environment is surrounded with uncertainty, and many companies are only beginning to understand the impacts to their business. This uncertainty could lead to additional termination events in the coming months, which some may already be anticipating. As previously mentioned, companies generally may not accrue for future termination benefits under U.S. GAAP unless a preexisting termination plan is in place.

Termination benefit plan including elements of more than one type

Termination benefit plans sometimes have characteristics of more than one benefit type. In these cases, employers should account for the termination benefits using a hybrid of the accounting guidelines applicable to each portion of the benefit. If a company, for example, already had a preexisting termination plan, but also offered its terminated employees an additional, one-time termination benefit, the company would record an expense and liability for the standard termination benefits when it became probable they would be paid and the amount was reasonably estimable. Only once the details of the one-time termination benefit are finalized and affected employees are notified of the additional benefit (e.g., a present obligation is created) can an accrual be recorded for this portion of the plan.

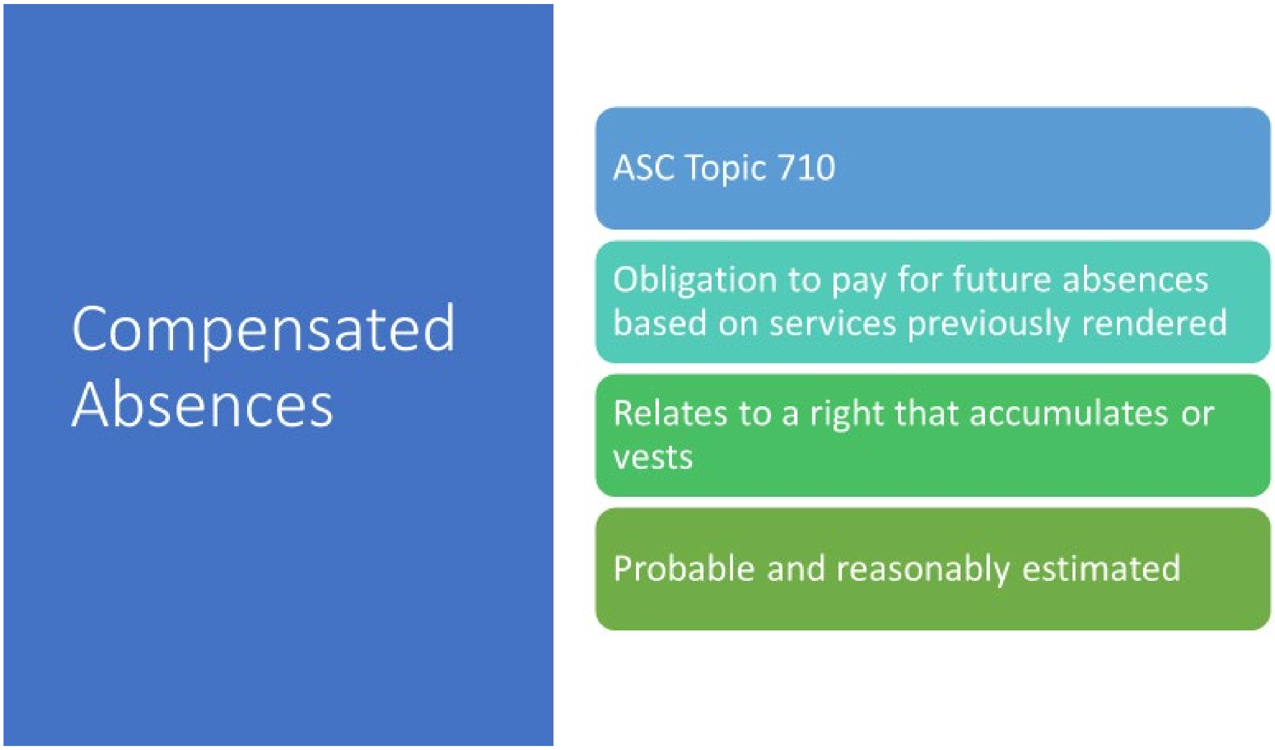
Furlough arrangements

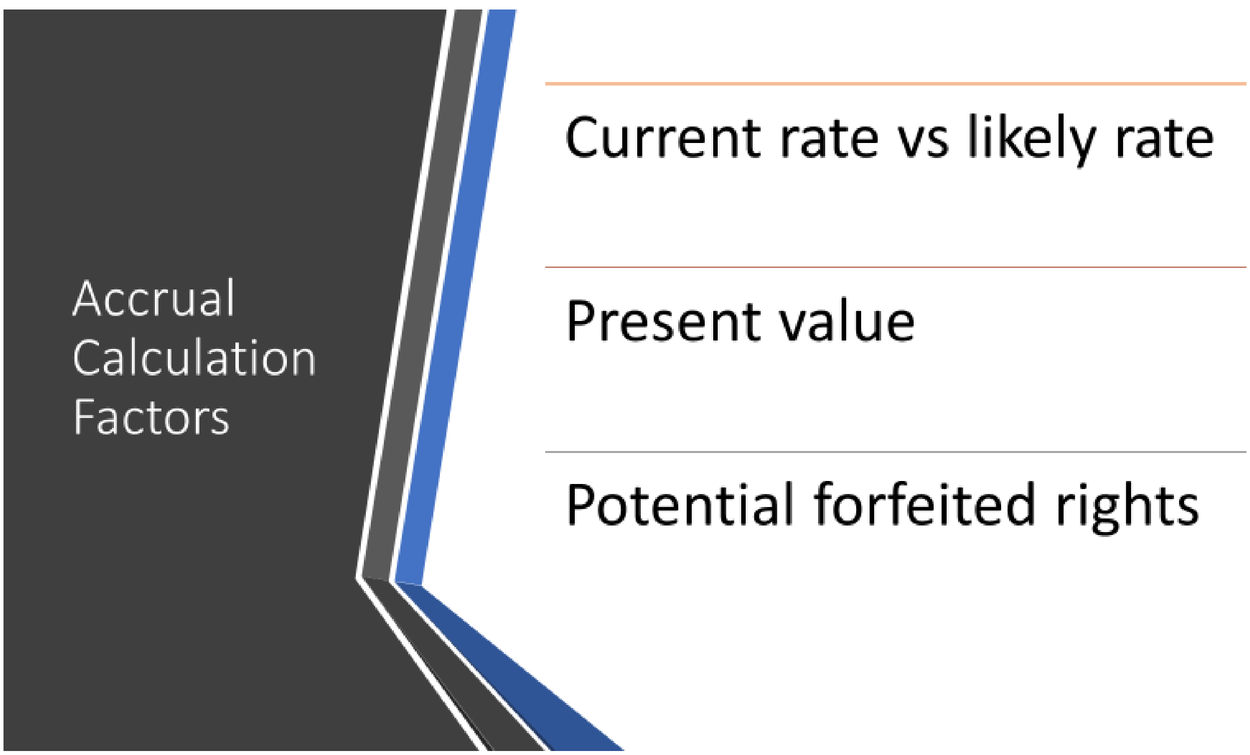
For companies forced to close as a result of stay-at-home orders, furlough arrangements allow for immediate savings while retaining employees. Furloughs usually consist of employees taking mandatory time off with zero or reduced pay for a specified amount of time. Generally, furloughed employees often retain some benefits, such as healthcare or accrued vacation.

Benefits that vest or accumulate (e.g., vacation days) or are related to an established plan, either pre-existing or implied, should be accounted for when the costs become probable and reasonably estimable. Benefits which do not vest or accumulate (e.g., medical benefits) should be recognized as incurred.

Sick pay and paid time off revisions

Companies may decide to adjust sick and paid time off benefits offered to employees. Sick leave generally does not accumulate and should be expensed as incurred. Paid time off benefits should be recorded as a liability when rights vest or accumulate.


Compensated Absences
ASC Topic 710
Obligation to pay for future absences based on services previously rendered
Relates to a right that accumulates or vests
Probable and reasonably estimated

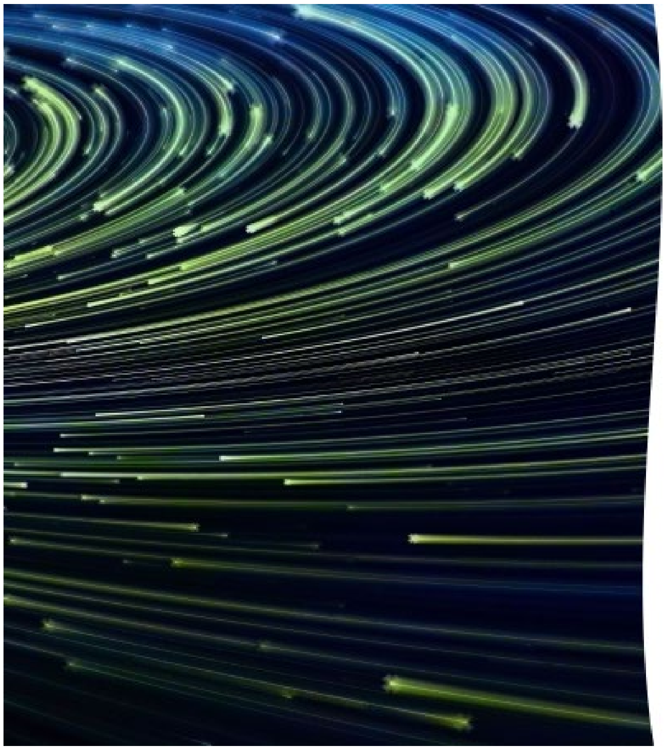

Accrual Calculation Factors
Current rate vs likely rate
Present value
Potential forfeited rights

Termination Benefits

- Topic 712 Compensation
- Topic 420 Exit and Disposal Costs

ASC 712 vs ASC 420

- One time benefit
- Disclosures related to facts and circumstances
- Completion date of activity



Criteria under ASC 420

- Authority to approve and commit to a plan
- Identify the number of employees terminated
- Date of determination
- Terms of benefit arrangements

Severance

- Normal business practices for the entity
- Non-retirement post employment benefits

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss what are included in exit and disposal costs.

2. If an entity has expenses that qualify to be accounted for under ASC 420 as exit or disposal activities, what information would be useful to disclose in the footnotes to the financial statements?

3. Discuss how furlough arrangements should be accounted for.

B. Suggested Answers to Discussion Problems

1. Exit and Disposal Costs may include:

   - Sale or termination of a line of business
   - Closure of business activities in a particular location
   - Relocation of business activities from one location to another
   - Changes in management structure
   - A fundamental reorganization that affects the nature and focus of operations

2. In periods that have expenses that qualify under ASC 420 as exit or disposal activities and any subsequent period until the activity is completed, the financial statement notes should include the following:

   - A description of the activity, the facts and circumstances leading to the activity, and the expected completion date;
   - For each major type of cost, the total expected amount to be incurred with the activity, the amount incurred in the current period, and cumulative to date amounts; and a reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reasons(s) why;
   - The line items in the income statement or the statement of activities in the costs in the prior bullet are aggregated;
   - If an entity is within the scope of Topic 280, for each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments with an explanation of the reason(s) why; and
   - If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons why.

3. With regard to furloughed employees, benefits that vest or accumulate (e.g., vacation days) or are related to an established plan, either pre-existing or implied, should be accounted for when the costs become probable and reasonably estimable. Benefits which do not vest or accumulate (e.g., medical benefits) should be recognized as incurred.

PART 3. SMALL BUSINESS

Lease Accounting Considerations

The new accounting guidance on leases is found in ASC 842. While early adoption is permitted, the guidance becomes effective for all entities other than public entities for annual periods beginning after December 15, 2021. With application imminent for so many we thought now was a good time to review the guidance.

For a closer look at the guidance for lease accounting which becomes fully effective shortly, let's join Kurt Oestriecher, CPA and a partner with Oestriecher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about lease accounting. Now the standard has been out there for quite some time. Now it's been delayed a couple of times for a variety of reasons. But it actually looks like it's about to become effective for everybody in the near term. And so we want to talk a little bit about what kinds of things we should be looking for if we haven't already implemented it. And not necessarily just from the audit perspective, but maybe if you're in private industry, what kinds of things should you be doing? What kinds of things do we need to be doing and could you give us a little bit of an overview of the standard itself?

Mr. Oestricher

Right. And that's what we're going to do. I mean, I'm sure almost everyone listening to this has been to either a 4- or 8-hour course where they opened it up and looked at the blood and guts of it and the very specific items. There's so many things like that in this standard, because the FASB and the IASB, remember this was a joint effort, trust me, they knew that people were going to try to avoid having to capitalize leases. I'll use that term it's record right of use asset. But we understand that capitalizing the lease means that we're going to have an asset and a liability on the books. And so understanding that that was going to try to be avoided at all costs. There's all sorts of issues within the standards that have been implemented that force us to, no matter how much we want to not call this a lease, it has to be a lease.

And so there's all that detail. So we're going to back it up from that level a little bit and just say, okay, what do I need to do to prepare next time to go from the perspective of someone that's in business and industry. In other words, someone that is responsible for issuing financial statements in accordance with United States GAAP and what they should be doing now in order to be ready for the implementation of this standard. And within the context of that discussion, I'll talk about what myself as an auditor, what my expectations are, because we've already communicated this to our clients. In the Fall, during what I call the December 31st, 2021 audit season, most of our clients are calendar year end, we are going to have now very specific conversations. We've had broad conversations. This is the year for specific conversations. If you wait until your December 31, 2022, to have a specific conversation, well, that's when it's going to be implemented or it's for fiscal years beginning after December 15, 2021, and so, it's going to be too late by what I call the 2022 audit season. So by having these conversations now, and if you're in business and industry, and certainly there are people viewing this that are in business and industry that don't have an outside auditor, they just for whatever reasons they need U.S. GAAP based statements, what should you be doing now? I have seen articles. And I believe it, that everyone was all up in arms about the rev rec standard and the impact it could have and the implementation needed. And certainly there were some entities out there that revenue recognition became very, very complex. There are other entities out there, like my small retail clients that are pharmacies rev rec had no impact on them whatsoever because still it's retail.

If you remember rev rec was all about the timing, but when you recognize revenue, no one company had more revenue or more customers because of the way we wrote a standard, it was all about when do you recognize the revenue? Okay. And then let me back this up a little bit, everyone out there has revenue, unless you're a startup company. So that's why we thought of this as more of a broad impact. Not necessarily every entity out there has a lease, but most of them do. Okay. Most entities have a real estate equipment lease something, so that's why it's going to be a broad impact. And it is going to have an impact on the financial statements, because most of those leases out there are not capital leases sitting on the balance sheet right now, but with the implementation of this standard, they are going to wind up on the balance sheet.

So that's why I've seen these articles that say for many companies and especially for smaller companies, the lease standard is actually going to take more work to implement than the rev rec standard. And I absolutely believe that. So the first thing that you have to do to get ready is identify any contract that can meet the scope of this standard. And you say, well, Kurt is my lease a contract? Well, how do you know it's a lease contract? Just because it says lease on it, or because you're currently coding it to lease or rent expense doesn't mean that it is a lease contract because the first thing the FASB and IASB recognized is that if you call it a lease and you had certain lease or the, the term lease in the contract, then you are subject to the standard. And people were just going to reword these agreements that were going to be lease agreements that you use this through this third party, LLC.

And, trust me we can wordsmith around it. If you don't believe me, look at a special needs trust. Lawyers can figure out a way around anything. In this case, it would be lawyers and accountants working together. So it's any contract that conveys the right to the lessee. We'll call it the lessee here, to the customer the right to use a specifically identified asset, which means you take substantially all the economic benefits and have substantially all the economic risk, and you get to control the use of that asset. It has to be for a specified period of time, and it has to be in exchange for consideration. So if you have contracts that have all three of those elements and they extend beyond 12 months, because there is an exception for... leases less than 12 months you don't have to put it on your balance sheet.

Now you have all the disclosure issues, but quite frankly, in most cases, I think most of those are not going to be material. Anyway, materiality always comes into play here. So step number one is to identify all contracts that have those elements. So how do you start? Where would be my starting point? That's the first question I ask myself, Where's my starting point? I would, first of all, look at... my most recently issued financial statements and look at my footnote disclosure for leases. That to me is the most logical place to start, but understand that there are some things that you consider in a lease under current standards that will not be a lease under the new standard, because it has to be for a specific asset.

I have a client that has a master lease, and that's what it's always been called. And it provides that they lease from a trucking company, power units and trailers, the power units have specific vehicle identification numbers in that contract. It gives my client the right to use those power trailers. They have to insure them. They get to make money off them. So they have substantially all the risks and they're subject to risk of loss on it. So that would be part of the lease contract, but the trailers they're fungible, they use different size trailers, so they can call and say, okay, I'm going to turn in the size 43 trailers that you gave me and get 25s. That's all fungible. The company itself could say, Hey, look, I need you to drop off these trailers because you're over your limit, and I'll substitute them with these.

It's not a specifically identified asset. So even though in the past, we've always referred to those trailers as a lease, it's not a lease agreement. It's not a service contract. We'd actually bifurcate that contract. Some of its leases, some of it service. So please don't default and say everything you're calling a lease now will continue to be a lease.

Start with your financial statements, then exclude those things that need to be excluded. The next thing I would look at is look at your rent expense or lease expense in your general ledger, because maybe you didn't disclose some things. Maybe you have financial statements without disclosure. So look at those general ledger accounts to see what are you currently coding, because anything that we normally think of as lease or rent and there's a written contract probably is going to be within the scope of this standard.

That's a good starting point. Okay. Again, it's not the ending point. It's a good starting point. I would also just review your current contracts and have it in a centralized location of all legal documents and contracts. Now it used to be in a filing cabinet. Now it's going to be on your server somewhere. And you may or may not have access to that server. So you may need to get it from the chief operating officer or the chief executive officer, but anything that has been signed by you, that you're paying a fixed monthly amount. This is where big data can come in from an audit perspective. By the way, let's talk about the auditor. I'm going to ask you if you did this. And if you say, what, then by the way, I have a huge audit risk for an unrecorded liability and unrecorded assets.

That's the first thing I'll have to do procedures on, but it's like, well, I will access your general ledger system and find is there any vendor that you're making an equal series of payments to? Cause that's very common with the lease payments, the same amount each month. So those are the types of procedures that I'm going to perform as an auditor to search for these unrecorded assets and liabilities. These may have to be capitalized, those are the same techniques that you can use just to make sure that you have complied with this standard. Remember it is your responsibility. If you are management, it is not your responsibility to say, well, if the auditor didn't catch it, then it's on him. You're going to be signing a rep letter that says you have done this. And so that's how I'm going to approach it, what have you done?

...But to me, those are very logical and reasonable steps that I would think management should take to identify existing contracts that need to be converted upon implementation day. And then moving forward, I would like to see some procedure that, Hey, any contract that's a fixed payment goes to accounting to analyze for whether or not it's a lease contract. Is there anything else out there that you've heard of or techniques that management's going to use to identify lease contracts under this standard?

Ms. Grove Casey

Hopefully reading their contracts, right? They're not all going to say lease at the top and like the opposite side of what you were saying that not all of your leases that you've had in the past may qualify going forward. You may have had other contracts in the past that were contracts and didn't say lease, but result in a right of use asset. So make sure that you're capturing and identifying all of the leases is certainly one of the huge issues that entities face in terms of complying with this guidance. We do want to talk a little bit about the scope and maybe what is excluded from this guidance.

Mr. Oestricher

Once you've identified all those contracts. Before I talk about the scope, remember in my opinion it has to be a written contract. It's actually not in the standard, but if I'm forced to pay for something beyond 12 months, I'm almost certainly to be enforceable. No one, no one can get it. So I believe there's an implication there. So if you can not find a written document, then you have a series of payments and you have something with this customer or this vendor, but you don't have a lease contract that could be within the scope of this standard because it can not be enforceable beyond 12 months. So, so once you've identified those, now we can talk about the scope out. So if it's a lease of an intangible asset, not subject to the standard exploration of nonregenerative resources, biological assets, but it could also be an employment contract with someone that you use and their ability to be an engineer and all that. So that's why we exclude a biological or even

Ms. Grove Casey

An animal.

Mr. Oestricher

animals. But there's, I think there's more contracts. There are more humans that enter into contracts to use specialized skill and service. We bring to an organization as opposed to an animal, even though I guess that I know in New Orleans you have the horse and buggies and things like that.

Ms. Grove Casey

I was thinking more like a race horses, thoroughbred racing, where they sell the rights for stud.

Mr. Oestricher

Maybe dairy farms and all that. If you have a contract to use somebody that biological assets fortunately are excluded. I do you have to tell you that I was lecturing on this in Minnesota and said, well, the other reason why is cause Kirk Cousin's arm is a liability also, and you can't have two credits. There has to be a debit and there's no asset there. That's how the Vikings think about their quarterback. So inventory and then assets under construction, so those are all things that are excluded from this, so again, there could have been a lot of discussion there and I think that the FASB looked at that as to contracts with, I think the biggest one in there again is the biological, the contract that we have for what I call the human capital and what humans bring to the table. So they are going to be excluded. So now I have, I hope, okay, it's on management of a company and I can identify and lay out on my desk, at least on my computer screen, all these contracts that fit this criteria that extend more than 12 months that are not scoped out. And now I have seven or eight contracts that go, wow, these are within the scope of the standard. What do I do with it now?

Well, now you have to determine that each one of these individual contracts is either a finance lease or an operating lease. And the next step in that is to determine if it's a finance lease. And if it doesn't meet the criteria of a finance lease, then by default, it becomes an operating lease. I'd envision organizations, and I have suggested to my clients, you can certainly, hold up with the generic template. But I think for each organization, depending on the industry, developing something very specific for them would be appropriate, but it could be a sheet no more than one, eight and a half by 11, sheet of paper, that is documentation for everything we're about to talk about.

So you put the name of the contract and maybe number, so a contract 2017 dash three for your third contract, somehow label them. So I'm now analyzing this contract. And if it's going to be a finance lease if substantially all the risks and rewards of that asset transfer to the lessee, it's very principles based, that's what international standards has always had. Knowing that those folks here in the United States are more rules-based the standard also said, we're going to help you out. If one of five criteria are met, then by default, it is a finance lease.

And those five criteria are very similar to what we see for capitalizing leases now under FASB 13, they're similar, but not identical. The first one is actually identical. If the asset, the underlying asset, transfers to the lessee at the end of the lease, it is automatically a finance lease. If there's an option to purchase, and it is likely that the option will be exercised, then it is a finance lease. Now it's not a bargain purchase option. I want to clarify, okay. Currently, as part of a bargain purchase option, which used to be $1, so there's an option to purchase. So most of your vehicle leases don't have a bargain purchase option, but there's an option to purchase and if it's likely that you will exercise that option, then it is going to be a finance lease. If the lease term is for a major portion of the asset life, they don't use the hard and fast 75% rule, which by the way, wasn't hard and fast cause that was an estimate anyway. So they just say major portion. If the present value of the minimum lease payments equals or exceeds the fair value of the asset at the inception of the lease or the current guidance since 90%., and the last one is, if the asset is of such a specialized nature, that it's only really useful to the lessee, then it is going to be a finance lease.

So those are the criteria. If it meets any one of those five criteria, it is automatically a finance lease. If it doesn't meet them, but you still believe substantially all the risks and rewards have been transferred to the lessee, then it is a finance lease. If it's not, it's an operating lease. So what I want to see as an auditor is your evaluation, your criteria, which one of these automatics was met. If not, document why you believe substantially all the risks and rewards have been transferred and, if not, then check the operating lease, but I need management to make that evaluation.

I can't do that for you. I cannot make that management decision. And the more you document your justification, the easier. Now, I also believe and this is not a hard and fast rule, but I believe that a lot of your personal property leases are going to end up being finance leases. A lot of your real estate leases are going to be operating leases. It's not a hundred percent true, but I think that's the way the majority, I'm going to really question building leases that you're trying to call a finance lease. And I'm probably going to question, vehicle leases that you're classifying as an operating lease. So that's the way I will. I'm going to look at it from my perspective. So classifying a lease is the most critical. And before I know you want to go to lease term, I'll throw it back to you in a second, but in current GAAP it is so critical capital versus operating because that's the defining factor as to whether or not this thing shows up in your balance sheet. Please understand folks, it's going to go on your balance sheet either way. It doesn't matter.

The only difference between finance and operating. That's how it's going to be reported on the income statement and how you get those assets, that right of use asset off the books. That's the difference. So it's not as critical of an impact on the financial statement on that decision. From an auditor's perspective, I am much more concerned with have you identified every contract that has a lease because that's going to go on your balance sheet. Once you decide if it's going to go on your balance sheet. So I'm not going to be as picky as finance and operating because quite frankly, it's not going to make a huge material effect on your financial statements other than when you're looking at, EBITDA. Now, we'll get into that in a little bit. So those are my thoughts on the finance versus operating before the lease term, if you have anything to add there.

Ms. Grove Casey

Well, I was going to ask you about that with the operating leases, because, when I first went over this material, I don't know, it was a few years back, right? I was helping with an organization that I belong to and we were talking about this guidance, the lease guidance. And everybody's like, well, we'll just make them all shorter than 12 months. And it's like no, that doesn't really solve your problem. You need to go and look.

Mr. Oestricher

As long as there's no renewal options that solves your problems. We see a lot of related parties doing that. So people say, wait a second. The operating company is owned by the same people that own the leasing company. The four lawyers that own the law firm also own the real estate. Then they put a 10 year lease because they're lawyers, they have to, they can't help themselves. They have to draw up the contract, right? We'll just cancel the lease and do it month to month. And people go, well, isn't that wrong? No, it's not wrong. Because remember the objective is to get legally enforceable liabilities on your balance sheet. And if you don't have a written contract, there's no legally enforceable liability. That's why it goes back to my discussion that I used, if you have a contract with an engineer, that's going to work for your firm for four years and have huge implications if they leave and penalties, well, they're locked in versus an at-will. Most engineers are hired at will. There's no legal obligation to pay them because by the way, it's going to go the other way. I can't leave your company. You can fire me, but you still have to pay me for four years and see LSU head football coach. We like to fire, or Auburn's worse than us. They fire the coach and still have to pay him. Okay, if you have to fire your coach and didn't have to pay them that's the same concept here. So if you decide that you want to quit paying rent and the lesser can't force you to pay, then it doesn't go on. So going to 12 months is fine, but what they tried to do, Debbie was go to 12 months and then do a bunch of renewal options. And that's what you have to evaluate, those renewable options. Okay. And I guess that kind of leads to our next topic.

Ms. Grove Casey

Yep. So let's talk about lease term and what exactly that means.

Mr. Oestricher

Yes. So, the lease term is the non-cancelable portion of the lease. And by the way, if you cannot identify the non-cancelable portion of the term by looking at your contract, you have to go back and question yourself, do I have a lease? Because remember it has to be for a specified period of time. So I've consulted with some people, but there's really no timeframe here. So then you don't have a lease contract because it has to be for a specified period of time. So, in almost all of these, you can find 24 months, 36 months, 48, 50 months, whatever it might be. And if you have no renewal options, you have an extraordinarily easy evaluation here because it's just, what's legally in writing for months, like your typical car lease, that's it, there's no use it as a purchase option, but there's no extension option.

In fact, most of your renewal options are going to be on your real estate leases. So again, on your eight and a half by 11 sheet of paper, I want you to document what is my non-cancelable lease term. And please put the page number. And then to me, if it's an audit, I'm going to go read that lease. Okay. And then again, if a client only has three leases, I'll probably test a hundred percent of the leases that they have 87 I'm probably going to do testing again. You need to do that, you know, the auditor's perspective, it is all based on my risk of unrecorded liabilities, but I may or may not test all of them, but make it easy for someone coming behind to say, don't make me read an 87 page lease document, reference the page number where the non-cancelable lease term is.

Then the next question, are there any options? Yes or no? And if you put no, great, but I'm still going to probably read that at least to see if there are, because again, you would have a motivation, management would have a motivation, to not put on those options, because that's going to be more dollars that you put on your balance sheet. If you say, yes, I'm going to believe you more. If you say yes, because you're not being conservative there, I got lease options, so identify those pages. And then you have to evaluate whether or not you believe those options will be exercised and also I need you to determine, is it a lessee or lessor option? And again, most of these are going to be lessee options, not lessor options, but for the lessee options, if you say, okay, I've got a five-year lease and I have two five-year renewal options, and you're going to have to say whether or not you believe that you are going to exercise those options. And if you do not believe you will exercise them, then those will not be considered part of the lease term. If you do believe you will exercise them, then they will be part of the lease term.

Remember, there's a part on management and on the footnotes Debbie, where it says management use of estimates, right? Impact on the financials. This is a gigantic estimate. I mean, you're estimating whether or not you're going to put potentially on a real estate lease 10 more years. Folks, I'm not going to waterboard you. Okay? I'm not going to use a bright light or beat you with a phone book. But if you have two five-year options on a real estate lease, and you're saying, you're probably not going to exercise those options, but you have in the past, I'm probably not going to believe that. You're going to have to give me some very good justification as to why you're not, and the standard actually looks at contract-based factors, asset-based factors, entity-based factors, and market-based factors. So if you can convince me that, Hey, in five years, this is not going to be a good location, keep in mind, I'm going to believe you more if you look at Hey, we're going to build our own building at that time, I'll believe you more, but you have to have a plan other than, oh, I don't think I will. But if you've been in the same spot since 1991 and your back to be there for 20 years, and now you've got two more options and there's really, it doesn't make sense, your businesses growing your businesses, doing well. You really don't want to build in today's environment. It's going to be a hard sell to me. So that's what I'm going to be looking. So identified, lease options, then document why you will or will not.

Then your total lease term is the non-cancelable portion of the lease, plus the lease periods that are reasonably expected to be exercised by either the lessee or the lessor. And at that point, most of management's estimates are over. Now, we're talking about math from this point forward, I know we'll get into them, but from my perspective, well, the, one thing that you could have is the discount rate. That is a management estimate. So if it's implicit in the lease, you have to use that. So in that for vehicle leases, that typically will be there, but for a real estate lease, they never have an implicit rate. So what is your marginal lease rate or if you're using the private company option for the risk-free rate. So that's less subject to estimate, but at that point from an auditor standpoint, now, all I'm going to do is check your math on the initial recording. Cause I'm past the part where management could manipulate. And again, there's a high risk of manipulation here on this lease standard truly, not even manipulation, just lack of understanding also of it. So that one 8 1/2 by 11.

Ms. Grove Casey

I think you're probably at a 50-50 between error and irregularity there, right? I mean, you get some of it just because it's a new standard, but yes.

Mr. Oestricher

Trust me, as an auditor, I'm not going to just go in and say, you have to capitalize any leases? No, I mean we are assessing them and think every competent CPA firm out there, and I know there's always some exceptions depending on what industry or client, but for the vast majority of entities out there, there's going to be a huge risk of an assessment of unrecorded assets, unrecorded liabilities, and lack of disclosures on this new standard. If you come into a client and they have that kind of a documentation, that kind of diligence, it just made my job a little bit easier; if they didn't, I've got more work to do, and it will be reflected in the audit costs. And, and again, always watch that independence. I can't go in and assess the likelihood of assessing whether or not options are going to be exercised. That is absolutely a management responsibility. And if I did that, then I would have a very difficult time justifying my independence, I think, in that case.

Ms. Grove Casey

Well, let's talk about the initial recording the right of use asset and the lease liability, because that really did get I want to say the bulk of the press at the beginning.

Mr. Oestricher

But, that's it, once you have all that information I just talked about, now it's easy. Your lease liability, you're going to take the present value of all the future lease payments, which are considered both the initial portion of the lease, the non-cancelable portion of the lease, any options you expect to exercise, any residual value guarantees, any lease cancellation fees, like a vehicle it’s a $500 lease termination fee all of those, like any cash outlays beyond the first day, you discount them back to present value. Now this is where some of us may have to brush up a little bit, depending on how long has it been since you've done this, but trust me, Excel has the formulas if you don't know how to do it, your kid in fourth grade does. They’re teaching Excel at that level now, so just discount those back to present value.

Then you're offsetting debit to that is going to be the right of use asset. But in addition to the present value of the lease payments, which is your lease liability, any upfront costs you pay directly to the lessor, any direct cost of obtaining the lease itself, you'll be crediting cash and debiting the right of use asset. So it's often that you're going to have a little bit different amount you always usually pay the first lease payment up front. There's a lease acquisition fee. All those type things are going to be upfront. So usually you have a debit to the right of use asset and a credit to lease liability and credit to cash at the inception of a lease. So that's your initial recording. And then again, from getting from the testing from that point on is fairly straightforward. If it is a finance lease, it works exactly like a capital lease does now.

I mean, exactly the same and it takes two entries to record the transaction each month, assuming it's a monthly lease you credit cash and debit interest expense finance lease. Do not lump this with other interest expense because you're required to present separately on the face of the financial statement or footnote disclosures the amount of interest paid on here. And then there's a debit to the lease liability. Just like when you pay a note to a bank right now, and then there's a separate entry to amortize the right of use asset. It's not depreciation and this will be segregated separately from other amortization. So amortization right of use asset, most people will do a straight line over the expected lease term. So you debit the amortization expense, credit, either accumulated amortization or the right of use asset directly. So again, nothing magical about this. We should know how to do it.

If it is an operating lease, that's where I will probably do a little bit more testing because it's a little bit interesting. People are not quite sure how to understand that there's only one journal entry, not two. You're going to credit cash for the amount of the payment. That's easy. You're going to debit the lease liability using the effective interest method. So you're going to build the same amortization schedule that you do for a finance lease. But the only reason you have the interest column is that you take the payment minus the interest to figure out how much you are reducing the lease liability. That's that debit. Okay, well, you have to have a debit for an expense under an operating lease. You expense it in the exact same manner that you currently expense an operating lease, which means the total lease payments divided by the total lease term straight line, whatever that is, that's your debit to lease expense, but you have a hanging chad, you have an unbalanced entry, cause your debits will exceed your credits to get the right of use asset off the books.

You literally plug it. The standard kept talking about the residual. That's the FASB fancy word for plug. Record it to plug that transaction is to right of use asset, not accumulated amortization because you're not amortizing. You don't amortize the right of use asset. The only expense that shows up on the books is operating lease expense. Remember I told you earlier, the difference between operating and financing, once you get it off the books is that it takes two expense accounts to get a finance lease off the books; one, to get an operating lease. And that's how it works. And so I will be testing that transaction to make sure that you are properly recording the right of use asset. Folks whether it's a finance or operating lease once you have your rules in place and did the sheet, if it's a 12 year lease, you can show me on an Excel spreadsheet, here's going to be my entries for the next 12 years. They're not going to change. Okay. I know of course there's variable lease payments. There's all sorts of weird things that you can go down rabbit holes on, but probably 90-95% of the leases out there we've covered in this short time. But the basics of identifying the lease, of evaluating the lease, that's going to be the same for everything, and that's what we want to focus on. This course has come up with a plan now, today, I mean, you are at the time you're watching this and is ready to come up with a plan, identify people responsible, start doing this work so that you can make the adjustments for your December 31st, 2021 financial statements. And your auditor will be so happy if you do that. And then also get ready to have procedures performed on that work because that's what the auditor is supposed to do.

Ms. Grove Casey

Well, Kurt, did you want to give a brief summary, maybe like a bullet point list of what we need to do to get ready in summary.

Mr. Oestricher

Yes, identify your contracts, perform procedures. To me that determine whether or not it's a finance or operating lease, evaluate all of your options, your renewal options, determine your discount rate and then for implementation, and this will probably be for another course for another day, trust me, you will want to use all the practical expedients that are available, which means basically you're only going to be looking at the remaining amount of the lease term. If they didn't have that practical expedient, you'd have to figure out, oh, where would my right of use asset and lease liability be had I implemented this three years ago? So you will want to use all the practical expedients. The FASB is trying to make this as painless as possible, but it's going to happen. If you want to see some examples, publicly traded companies have already implemented this standard. Office Depot is an example that I have looked at quite often; Walgreens because they lease a lot of their properties. So any of these chain stores that you see in malls, that's a great type of an entity to look for, especially for operating leases.

Lease Accounting

by Kurt Oestriecher, CPA

After a decade of work, the FASB issued the new standard for accounting for leases. The primary objective of the project was to address the off-balance-sheet approach used to account for most leases (as operating leases). The legacy standard SFAS 13 (codified in ASC 840) contained bright line standards that allowed companies to account for most leases as operating leases, and therefore, the obligations remained off balance sheet.

This new standard was prepared as part of a joint project with the IASB, which issued its version of revised lease accounting rules in January, 2016 (IFRS 16). The two standards are similar, but full convergence was not reached.

Scope

The scope includes all leases of property, plant and equipment, and excludes the following:

- Leases of intangible assets
- Leases to explore for or use nonregenerative resources (such as minerals, oil and natural gas)
- Leases of biological assets
- Leases of inventory
- Leases of assets under construction

Note that there is no exemption under GAAP for leases of low-value assets, however, an entity will be able to adopt a reasonable capitalization policy under which the entity will not recognize lease assets and liabilities that are below a certain threshold. This is similar to the treatment for capitalization of purchased assets.

Short term leases

During deliberations of this standard, there was much discussion about short-term leases, and if those leases could be excluded from the requirements to record such leases on the balance sheet. Under the final standard, a lessee can elect to not record on the balance sheet a lease whose term is 12 months or less and does not include a purchase option that the lessee is reasonably certain to exercise. When determining the lease term, the lessee would only include renewal options if they are considered part of the lease term (see discussion below regarding lease terms).

Definition of a Lease

A contract contains a lease if it gives a customer the right to control the use of the identified asset for a period of time in exchange for consideration. Control exists if the customer has **both** of the following:

- The right to obtain substantially all of the economic benefits from the use of an identified asset
- The right to direct the use of that asset

Key points in defining leases

Use of an identified asset

- An asset is typically identified if it is either explicitly identified in the contract or implicitly specified at the time the asset is available for use. If the supplier has a substantive right to substitute the asset throughout the period of use, the asset is not considered "identified."
- Capacity contracts will require significant judgment. A capacity portion of a larger asset must be physically distinct (such as a floor in a large office building). If it is not physically distinct (such as a percentage of a pipeline), it is not an "identified asset."
- The right of a supplier to substitute assets indicates that the supplier, not the customer, has control of the asset.

Right to direct the use

- Relevant rights are those that affect the economic benefits derived from the use of the asset. Some examples:
  - The right to change the type of outputs produced by the asset.
  - The right to change the timing of the outputs.
  - The right to change the location of the outputs.

Lease classification

At inception of a lease, an entity is required to classify a lease as either a finance lease or an operating lease. The same criterion is applied to both lessees and lessors. This program will focus on lessee accounting.

A lease is classified as a finance lease if substantially all of the risks and rewards of ownership are transferred to the lessee. This level is met if any of the following criteria are met:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the assets that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
- The 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.

If a lease does not meet any of these criteria, it will be classified as an operating lease. Note that the term "operating lease" does NOT mean that it will be off-balance sheet (as operating leases are under existing GAAP).

It is expected that most equipment leases will be classified as finance leases, while most real estate leases will be classified as operating leases.

Reconsideration of Lease Classification

A lessee is not required to reassess its classification of a lease unless either:

- The lease is subsequently modified and the modification is not accounted for as a separate contract or
- There is a change to the lease term or a change in the assessment of the exercise of a purchase option.

Lease Term

The lease term is the noncancelable lease period and any optional renewal periods if it is reasonably certain that the lessee will exercise a renewal option or the exercise of those options is controlled by the lessor.

Factors that should be considered in assessing the likelihood of a lessee's exercise of an option include:

- **Contract-based factors**, such as a bargain purchase option or a requirement for the lessee to incur substantial costs to restore the asset before returning it to the lessor.
- **Asset-based factors**, such as the lessee installing significant leasehold improvements that would still have economic value in the renewal periods, or the facility is in a desirable location with no other viable locations.
- **Entity-specific factors**, such as the historical practice of the entity, standard industry practice, and management intent.
- **Market-based factors,** such as market rentals for comparable assets.

The lease term should be reassessed by the lessee when:

- A contract term obliges the lessee to exercise (or not exercise) an option to extend or terminate a lease.
- The lessee elects to exercise an option to renew that it had previously determined was not reasonably certain to be exercised or
- A significant event occurs that is clearly within the control of the lessee that will affect whether the lessee would be reasonably certain to exercise a renewal option.

Note that lessors are not required to reassess the lease term unless the lease is modified and the modified lease is a separate contract.

Calculating the Lease Amounts

The amount to be recorded on the balance sheet is calculated by determining the lease liability. In calculating this total, the following should be included:

- Fixed payments

- Variable payments based on an index or rate (but not those based on sales volume or output, or similar factors). Note that variable payments based on an index will be calculated using the spot index or rate at lease commencement.

- Amounts that are probable to be owed under a residual value guarantee

- Payments relating to purchase or termination options that the lessee is reasonably certain to exercise

Variable payments must be reassessed only when the lease liability is re-measured as a result of:

- Lease modifications that are not treated as a separate contract

- A contingency is resolved such that a variable payment that was excluded from the calculation is now included (such as a sales target being met that converts a variable payment to a fixed payment).

- There is a change in the lease term, the assessment of whether a purchase option will be exercised or the amount that it is probable will be owed under a residual value guarantee.

Discount Rate

The discount rate to be used is based on information that is available as of the lease commencement date. A lessee should use the rate the lessor charges on the lease if that rate is readily determinable. Generally, that rate is not available. Therefore, the lessee should use its incremental borrowing rate. The discount rate will only be updated by the lessee if there is a remeasurement of the lease liability unless the remeasurement is based on changes in one of the following:

➢ The lease term or assessment of whether a purchase option will be exercised, and the discount rate already reflects the option to exchange

➢ Amounts that are probable of payment under a residual value guarantee

➢ Lease payments resulting from the resolution of a contingency upon which variable payments are based.

Non-public company option: Nonpublic business entities are allowed to make an accounting policy election to use the risk free discount rate instead of their incremental borrowing rate. Note that using the risk free rate will result in a larger lease liability (and ROU asset).

Lessee Accounting

A lessee will record a lease obligation liability calculated as the present value of lease payments not yet paid and a corresponding asset representing its right of use (ROU) asset. The asset initial value will also include initial direct costs that are directly attributable to negotiating and arranging the lease that would not have been incurred had the lease not been executed and any lease payments made to the lessor before or at the commencement of the lease.

Finance leases

Lessee will use the effective interest rate method to subsequently account for the lease liability. The ROU asset will be amortized in a manner similar to that for owned assets. Generally, straight-line amortization will be used unless another method would be appropriate. The interest and amortization expenses will be shown separately on the income statement. The result of this accounting is that total expense relating to the lease will be front-loaded (similar to current capital lease accounting).

Operating leases

The lessee will use the effective interest rate method to subsequently account for the lease liability under this approach as well. However, the amortization of the ROU asset will be linked to the amount recognized as the lease liability. Effectively, the result should be straight-line total expense. The lease expense will be shown on one line item in the income statement. The difference between the straight line amount and the interest amortization is the "plug" for the amortization of the ROU asset.

Impairment of Lease Asset

The ROU asset will be tested for impairment in the same manner as any other amortizing, long-lived asset. If an asset under an operating lease is impaired the remaining asset will be subsequently amortized evenly over the remaining lease term unless another systematic method would be more appropriate. The result would be that the lease expense will no longer be straight line, as the interest portion will continue to be amortized on a declining balance, while the amortization of the asset will no longer be a "plug" to make the final expense level. However, both components of the expense will still be presented together on one line in the income statement.

Effective Date

All other entities other than public entities – Effective for annual periods beginning after December 15, 2021 and interim periods thereafter.

Early adoption is permitted for all entities.

Transition Method

A modified retrospective transition method is required for existing leases. Accordingly, the new accounting model will be applied to the earliest year presented in the financial statements.

For leases currently accounted for as operating leases, the lease liability and ROU asset will be recorded as of the beginning of the earliest year presented (or lease commencement date, whichever is later. Write off as an adjustment to equity any unamortized initial direct costs that do not meet the new standard's definition of initial direct costs. For leases classified under the new standard as operating leases, there is not likely to be any other adjustment to equity as the liability and asset are usually equal. A newly classified finance lease is likely to have an adjustment to beginning retained earnings.

For leases currently accounted for as capital leases, de-recognize the existing assets and liabilities, and record them based on the calculations in the new standard.

Steps to prepare for implementation of the lease standard

- Identify all contracts that could meet the definition of a lease contract

- Evaluate the terms of the contract and determine if the contract contains the required elements and should be accounted for under the lease standard

- Identify any renewal options and evaluate the likelihood the options will be exercised

- Determine if the lease contract contains an explicit rate. If it does not, determine the lessee's incremental borrowing rate

- Identify all payments required in the lease, including minimum lease payments, variable lease payments, guarantee residual value, and termination payments.


Overview
New standard that will require capitalization of lease contracts within the scope
Exception for leases under 12 months
Materiality should be considered


Scope
• All leases except
• Intangible assets
• Exploration of non-regenerative resources
• Biological assets
• Inventory
• Assets under construction

Definition

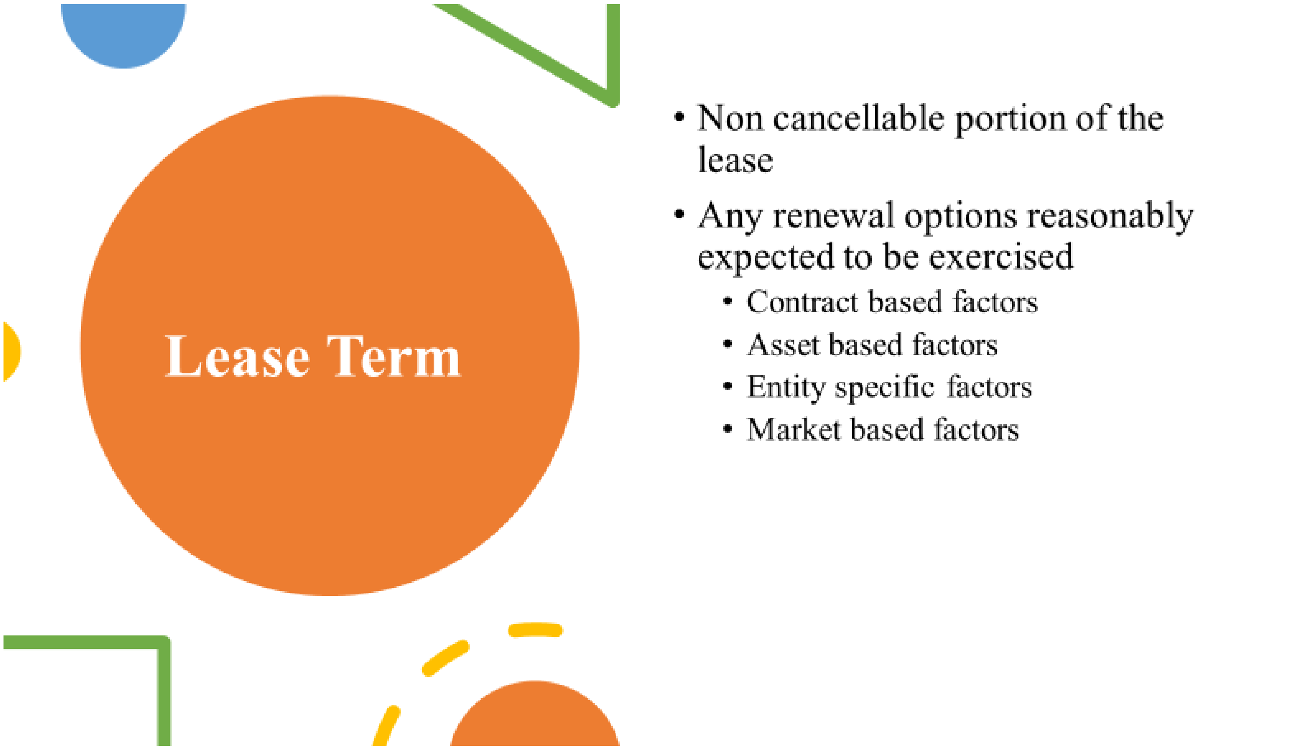
- Contract that provides a customer the right to
  - Control the use of an identified asset
    - Right to obtain substantially all economic benefits
    - Right to direct the use of the asset
  - For a specified period of time
  - In exchange for consideration

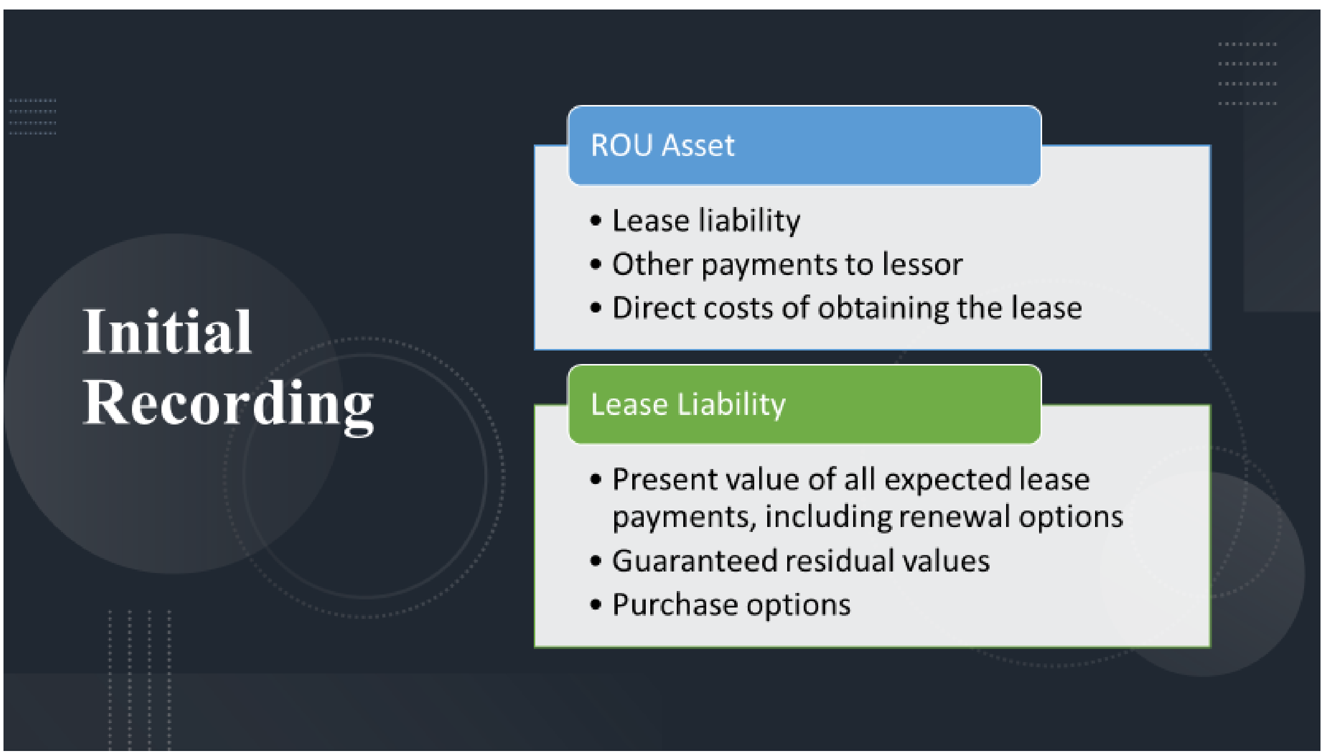
Finance Lease

Substantially all risk and reward transfers to lessee

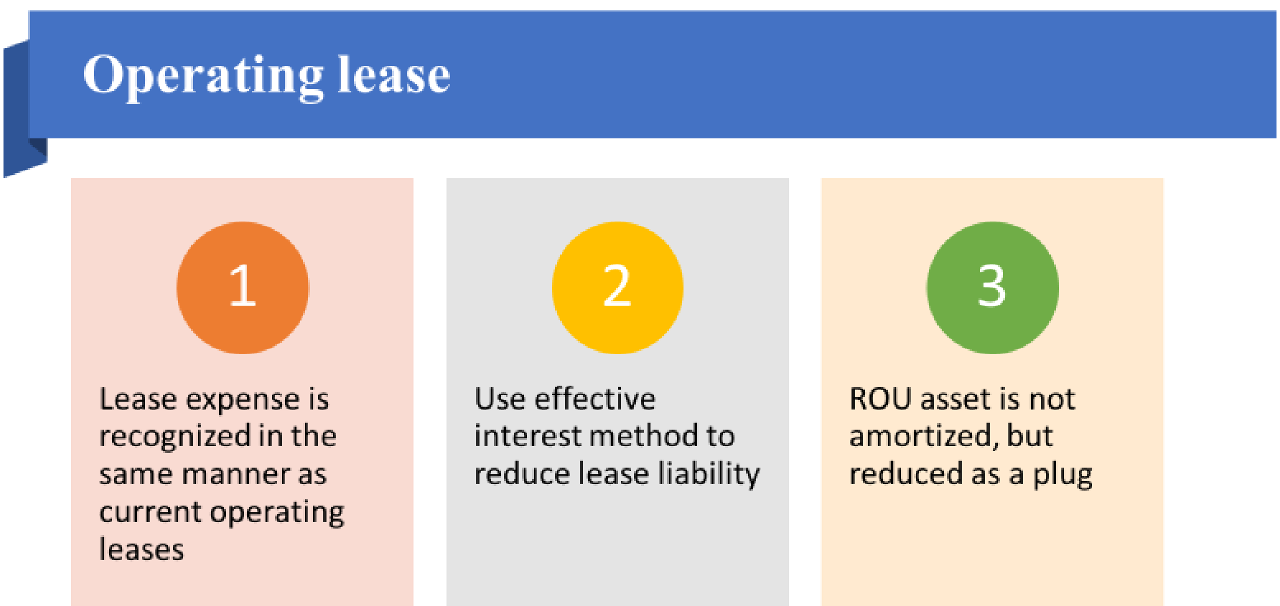
Automatic if

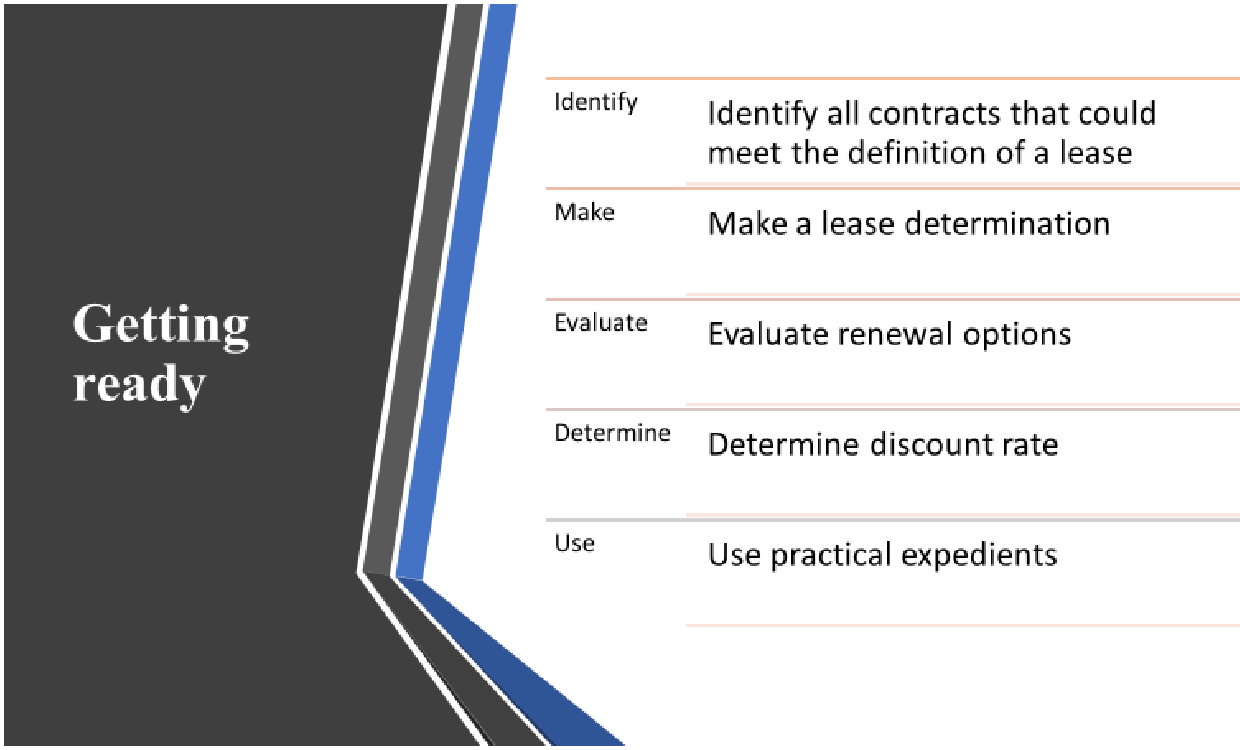
- Asset transfers to lessee
- Option to purchase and reasonable it would be excercised
- Lease term is a major portion of the asset life
- PV of lease payments equals or exceeds FV at inception
- Specialized asset


Lease Term
• Non cancellable portion of the lease
• Any renewal options reasonably expected to be exercised
• Contract based factors
• Asset based factors
• Entity specific factors
• Market based factors


Initial Recording
ROU Asset
• Lease liability
• Other payments to lessor
• Direct costs of obtaining the lease
Lease Liability
• Present value of all expected lease payments, including renewal options
• Guaranteed residual values
• Purchase options


Finance lease
Recognize
Recognize finance lease interest
Amortize
Amortize ROU asset
Show
Show both items discretely on Income Statement


Operating lease
1
Lease expense is recognized in the same manner as current operating leases
2
Use effective interest method to reduce lease liability
3
ROU asset is not amortized, but reduced as a plug



Getting ready
Identify
Identify all contracts that could meet the definition of a lease
Make
Make a lease determination
Evaluate
Evaluate renewal options
Determine
Determine discount rate
Use
Use practical expedients

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the types of leases excluded from the guidance in ASC 842.

2. Discuss the key points in determining a lease.

3. Discuss the criteria to classify a lease as a finance lease.

B. Suggested Answers to Discussion Problems

1. The scope includes all leases of property, plant and equipment, and excludes the following:

    - Leases of intangible assets
    - Leases to explore for or use nonregenerative resources (such as minerals, oil and natural gas)
    - Leases of biological assets
    - Leases of inventory
    - Leases of assets under construction

    Note that there is no exemption under GAAP for leases of low-value assets, however, an entity will be able to adopt a reasonable capitalization policy under which the entity will not recognize lease assets and liabilities that are below a certain threshold. This is similar to the treatment for capitalization of purchased assets.

2. A contract contains a lease if it gives a customer the right to control the use of the identified asset for a period of time in exchange for consideration. Control exists if the customer has **both** of the following:

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    - The right to direct the use of that asset

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- An asset is typically identified if it either explicitly identified in the contract or implicitly specified at the time the asset is available for use. If the supplier has substantive right to substitute the asset throughout the period of use, the asset is not considered "identified".
- Capacity contracts will require significant judgment. A capacity portion of a larger asset must be physically distinct (such as a floor in a large office building). If it is not physically distinct (such as a percentage of a pipeline), it is not an "identified asset".
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- Relevant rights are those that affect the economic benefits derived from the use of the asset. Some examples:
    - – The right to change the type of outputs produced by the asset.
    - – The right to change the timing of the outputs.
    - – The right to change the location of the outputs.

3. At inception of a lease, an entity is required to classify a lease as either a finance lease or an operating lease. The same criterion is applied to both lessees and lessors. This course will focus on lessee accounting.

    A lease is classified as a finance lease if substantially all of the risks and rewards of ownership are transferred to the lessee. This level is met if any of the following criteria are met:

    - The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
    - The lease grants the lessee an option to purchase the assets that the lessee is reasonably certain to exercise.
    - The lease term is for the major part of the remaining economic life of the underlying asset.
    - The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
    - The 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.

    If a lease does not meet any of these criteria, it will be classified as an operating lease. Note that the term "operating lease" does NOT mean that it will be off-balance sheet (as operating leases are under existing GAAP).

    It is expected that most equipment leases will be classified as finance leases, while most real estate leases will be classified as operating leases.

GLOSSARY OF KEY TERMS

Discount Rate—For a lessee, the discount rate for the lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate.

Finance Lease—if substantially all of the risks and rewards of ownership are transferred to the lessee.

Incremental Borrowing Rate (IBR)—The rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Lease—A contract that gives the right to control the use of the identified asset for a period of time in exchange for consideration.

Rate Implicit in the Lease (RIIL)—The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor. However, if the rate determined in accordance with the preceding sentence is less than zero, a rate implicit in the lease of zero shall be used.

Risk-Free Rate—the rate of a zero-coupon US Treasury instrument

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BY SPEAKER

Choose the best response and record your answer in the space provided on the answer sheet.

1. According to Russ Madray, the discount rate for a lease does which of the following?

   A. Directly impacts the lease liability regardless whether the lease is an operating lease or a finance lease.
   B. Only impacts the lease liability, not the ROU asset.
   C. Indirectly impacts the lease liability but directly impacts the ROU asset.
   D. Directly impacts the lease liability of finance leases only.

2. According to Russ Madray, the rate implicit in the lease is which of the following?

   A. The rate the lessee used to determine the amount of the lease payments.
   B. The rate the lessor used to determine the amount of the lease payments.
   C. The lessee's weighted average cost of capital.
   D. The lessor's incremental borrowing rate.

3. According to Russ Madray, which of the following is least likely to affect the incremental borrowing rate?

   A. The term.
   B. The maturity amount.
   C. The attorney drafting the lease.
   D. The collateral.

4. According to Russ Madray, ASC 842 prescribes which of the following methods to use in determining the incremental borrowing rate?

   A. Using the contractual rate in an existing line of credit.
   B. Using the borrowing rate of similar entities.
   C. Using the borrowing rate of entities with a similar credit risk profile.
   D. ASC 842 does not prescribe a particular method for a lessee to estimate its incremental borrowing rate.

5. According to Russ Madray, which of the following disclosures is a qualitative disclosure related to lessee discount rates?

   A. Weighted average discount rate for all finance and operating leases.
   B. Weighted average discount rate for separately calculated and disclosed finance and operating leases.
   C. Significant assumptions.
   D. Total costs related to cash flows arising from lease transactions each period.

Continued on next page

6. According to Jennifer Louis, the pandemic impacted compensated absences through which of the following?

   A. A reduction in liabilities as people took more time off for illness.
   B. A large buildup in liabilities as people were unable to take their vacations.
   C. A reduction in liabilities as people did more traveling.
   D. A reduction in liabilities as more entities offered more COVID-19 sick time.

7. According to Jennifer Louis, compensated absences fall under which of the following FASB guidance?

   A. ASC 410.
   B. ASC 610.
   C. ASC 710.
   D. ASC 800.

8. According to Jennifer Louis, if an entity has a use-it-or-lose-it policy for vacation or sick pay, then which of the following is correct?

   A. The entity still needs to accrue for unpaid leave at year end.
   B. The rights vest and accumulate regardless of company policy.
   C. The rights do not vest or accumulate.
   D. The entity would need to accrue for sick pay only.

9. According to Jennifer Louis, which of the following rates must be used according to the FASB guidance for the accrual for compensated absences?

   A. Current pay plus benefits minus employer cost percentage.
   B. Hourly pay rate minus a benefit percentage.
   C. Daily rate minus a benefits per dollar amount.
   D. FASB does not prescribe a rate for accruing compensated absences.

10. According to Jennifer Louis, exit or disposal cost obligations are accounted for under which of the following ASC Topics?

    A. ASC 420.
    B. ASC 710.
    C. ASC 712.
    D. ASC 908.

11. According to Kurt Oestriecher, compared to the revenue recognition standard, the guidance on leases for smaller companies will require which of the following to implement?

    A. Less work.
    B. More work.
    C. About the same level of work.
    D. No additional work as the processes are already in place.

Continued on next page

12. According to Kurt Oestriecher, a lessee leases power units and trailers from a trucking company. The power units have specific vehicle identification numbers in the contract, while the trailers are fungible based on size. In the following scenario, which of the following would be subject to the lease guidance in ASC 842?

    A. The trailers.
    B. The power units and the trailers together.
    C. The power units.
    D. None of them are subject to the lease guidance.

13. According to Kurt Oestriecher, how many criteria are available that will automatically default a lease to a finance lease under ASC 842, if even one of those criteria are met?

    A. Two.
    B. Three.
    C. Four.
    D. Five.

14. According to Kurt Oestriecher, which of the following is the difference between finance leases and operating leases under ASC 842?

    A. One is on the balance sheet, the other is not.
    B. The majority of building leases will be finance leases.
    C. How the leases are reported on the income statement and how the ROU asset is removed from the books.
    D. Both are in the income statement and neither are on the balance sheet.

15. According to Kurt Oestriecher, the lease liability to initially record the lease is which of the following?

    A. The present value of all the future lease payments.
    B. The present value of all the future lease payments plus any upfront costs paid directly to the lessor.
    C. The present value of all the future lease payments plus a lease acquisition fee.
    D. The present value of all the future lease payments plus any direct costs of obtaining the lease.

CPE Network®
Accounting & Auditing Report
Volume 34, Issue 11 **December 2021**

Subscriber Survey

Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to **CPLgrading@thomsonreuters.com.**

How would you rate the topics covered in the December 2021 **CPE Network® A&A Report?** Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Discount Rates for Lessees	|______|	|______|	|______|	|______|	|______|	|______|
Compensated Absences and Workforce Changes Due to Covid	|______|	|______|	|______|	|______|	|______|	|______|
Lease Accounting Considerations	|______|	|______|	|______|	|______|	|______|	|______|

Which segments of the December 2021 issue of **CPE Network® A&A Report** did you like the most, and why?

____

____

____

____

Which segments of the December 2021 issue of **CPE Network® A&A Report** did you like the least, and why?

____

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____

What would you like to see included or changed in future issues of **CPE Network® A&A Report?**

____

____

____

____

How would you rate the effectiveness of the speakers in the December 2021 **CPE Network® A&A Report?** Rate each speaker on a scale of 1–5 (5 highest):

	Overall	**Knowledge of Topic**	**Presentation Skills**
Russ Madray	|______|	|______|	|______|
Jennifer Louis	|______|	|______|	|______|
Kurt Oestriecher	|______|	|______|	|______|

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD ☐ Streaming ☐ Both ☐

Are you using **CPE Network® A&A Report** for: CPE Credit ☐ Information ☐ Both ☐

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If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ ____________________________

Were program materials accurate? Yes ☐ No ☐ ____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐

____

Were the time allocations for the program appropriate? Yes ☐ No ☐ ______________________________

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ ______________________________

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ ___________________________

Were the audio and visual materials effective? Yes ☐ No ☐ _________________________________

Specific Comments: ____

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Once Again, Thank You…

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®
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Program Title: CPE Network® Accounting & Auditing Report, December 2021 Date: __________

Name	Email	Total Hrs	IRS PTIN ID (if applicable Tax only)	Sign In	Sign Out

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network® newsletter, and earned the number of hours shown.

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			First CPE Hour			**CPE Hour 2**			**CPE Hour 3**			**FOR TR USE ONLY**
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CHECKPOINT LEARNING NETWORK

CPE NETWORK®
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REVISED SEPTEMBER 3, 2021

Welcome to CPE Network!

CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **"Group Live" Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **"Group Internet Based" Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **"Self-Study" Format:** Each participant can take the self-study version of the CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), <u>Checkpoint Learning Network will not be the sponsor and will not issue certificates.</u> In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to Thomson Reuters.

If you have any questions on this documentation or requirements, refer to the "Getting Help" section at the end of this User Guide **BEFORE** you conduct your training.

We are happy that you chose CPE Network for your training solutions.
Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

“Group Live” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet.** This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant's CPE certificate.

Real Time Instructor During Program Presentation

"Group live" programs must have a **qualified, real time instructor while the program is being presented.** Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A "group live" program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study either in print or online.

- If the print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the "group live" documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the "group live" session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group live" session, it is required that the firm hosting the "group live" session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- https://get.adobe.com/reader/

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your "group live" session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: **CPLgrading@tr.com**

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL of the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

*__Effective November 1, 2018:__ Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report.** This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and ask that participants confirm their attendance by using the "raise hands" feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone's hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing "Present" into the Teams chat box. The moderator records the participants who have entered "Present" into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app's report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be "content specific." Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a "group internet based" delivery format.**

Real Time Moderator During Program Presentation

"Group internet based" programs must have a **qualified, real time moderator while the program is being presented.** Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by Checkpoint Learning Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group internet based" session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be "virtual") of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. It should look something like the screenshot below. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- https://get.adobe.com/reader/

Alternatively, for those without a DVD drive, the email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your "group internet based" session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008
Email: **CPLgrading@tr.com**

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Print

Follow these simple steps to use the printed transcript and DVD:

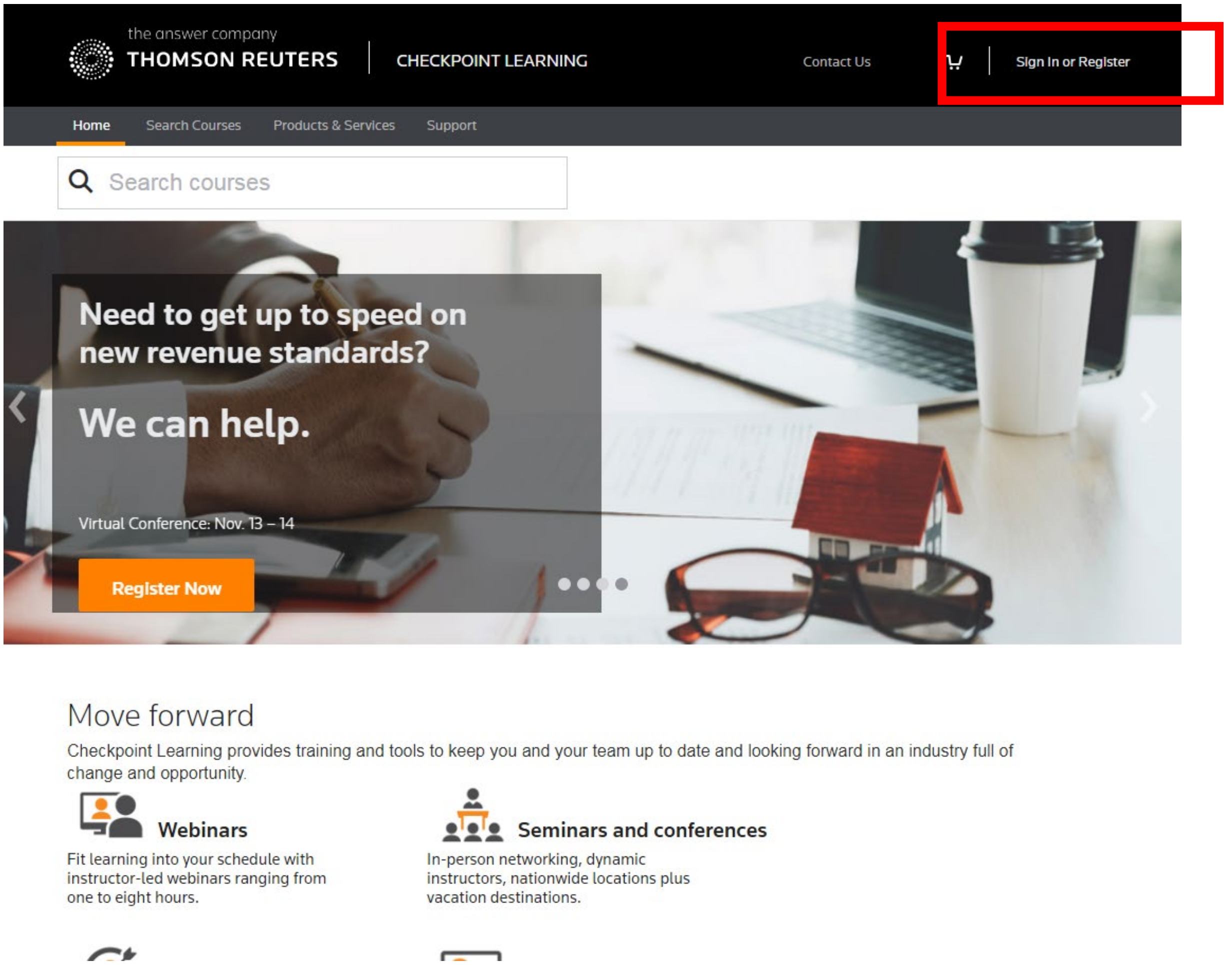
- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- Mail your completed quizzer and survey to:

  Thomson Reuters
  PO Box 115008
  Carrollton, TX 75011-5008

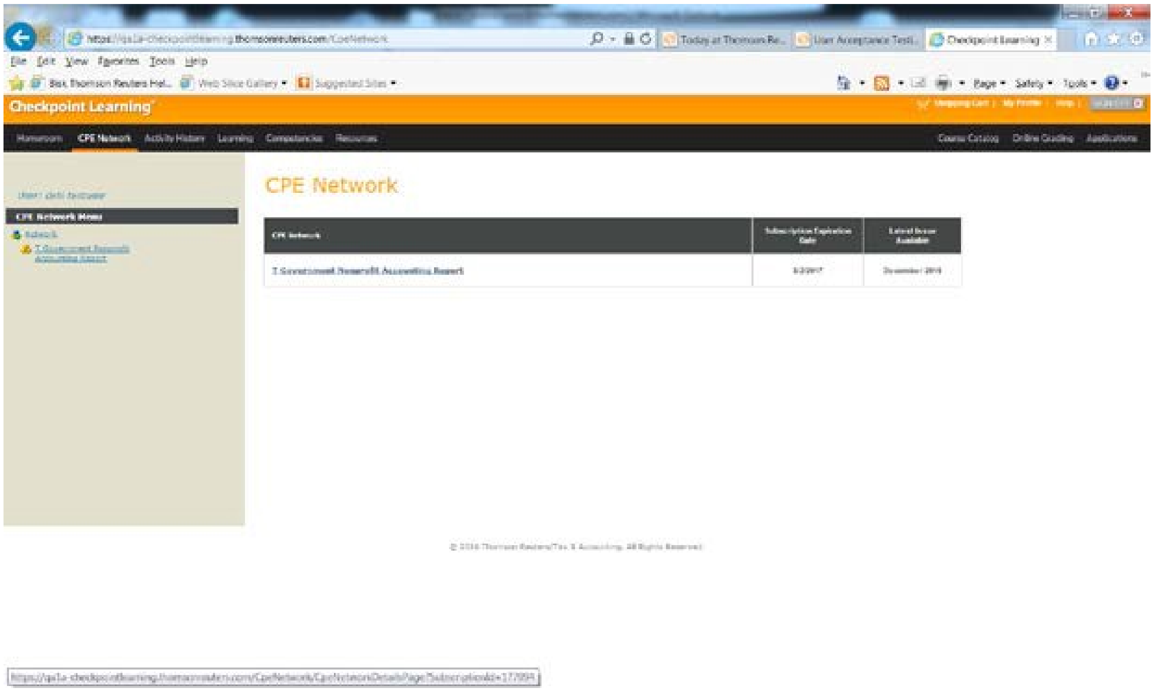
Self-Study—Online

Follow these simple steps to use the online program:

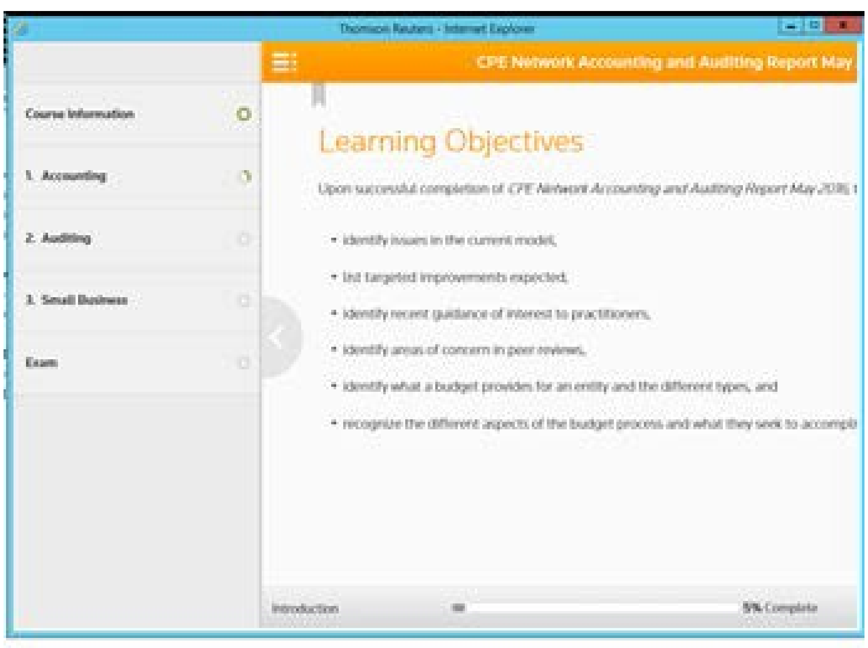
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Sign In or Register”).


the answer company
THOMSON REUTERS
CHECKPOINT LEARNING
Contact Us
Sign In or Register
Home
Search Courses
Products & Services
Support
Search courses
Need to get up to speed on new revenue standards?
We can help.
Virtual Conference: Nov. 13 – 14
Register Now
Move forward
Checkpoint Learning provides training and tools to keep you and your team up to date and looking forward in an industry full of change and opportunity.
Webinars
Fit learning into your schedule with instructor-led webinars ranging from one to eight hours.
Seminars and conferences
In-person networking, dynamic instructors, nationwide locations plus vacation destinations.

- In the **Network** tab, select the Network Report for the month desired.

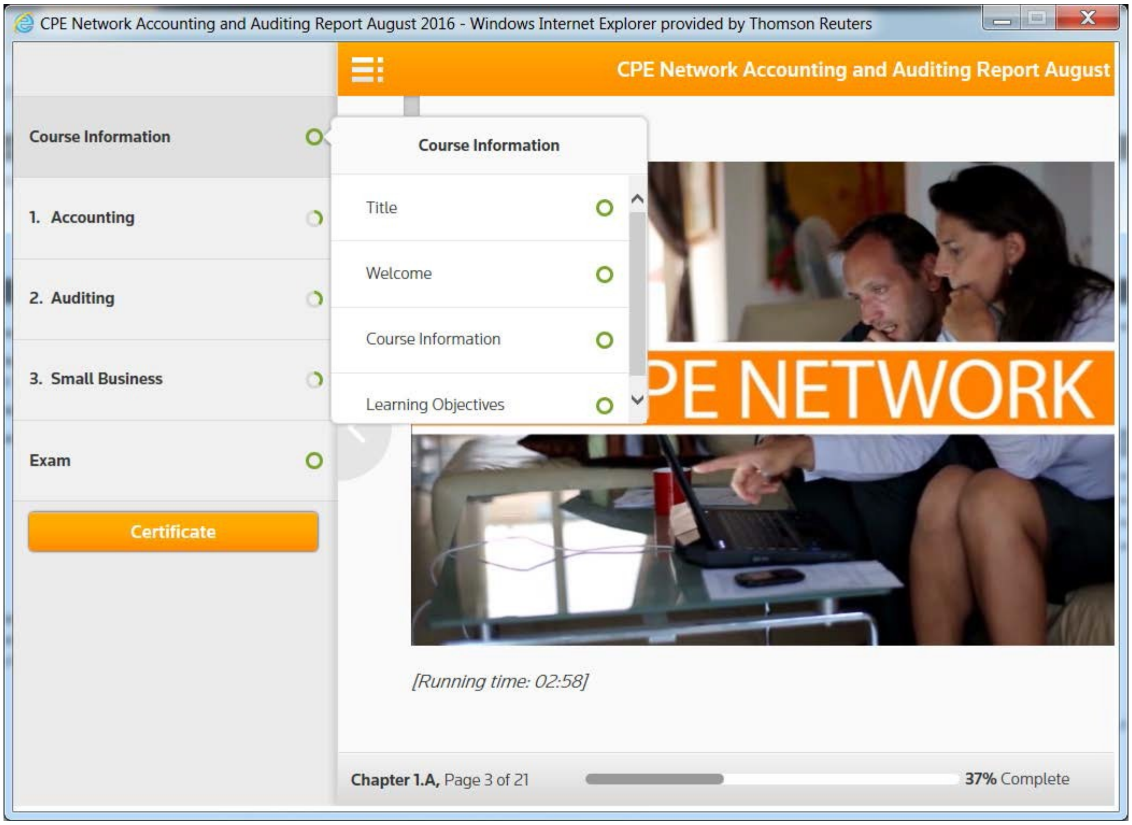


The Chapter Menu is in the gray bar at the left of your screen:

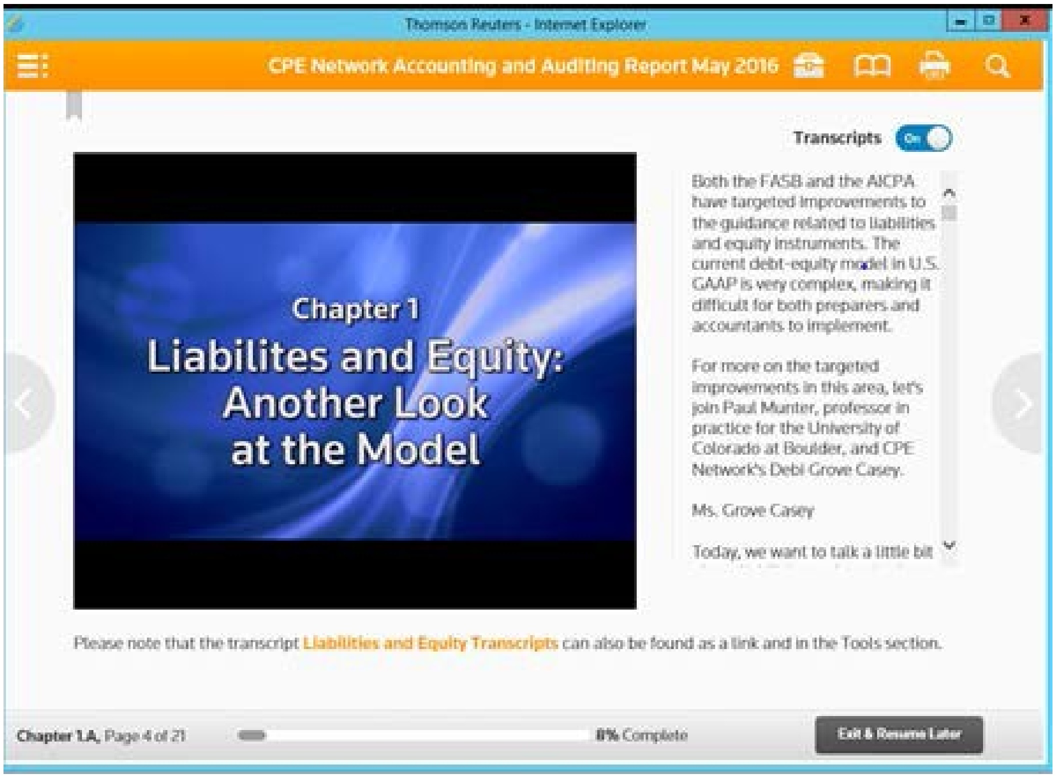


Click down to access the dropdown menu and move between the program Chapters.

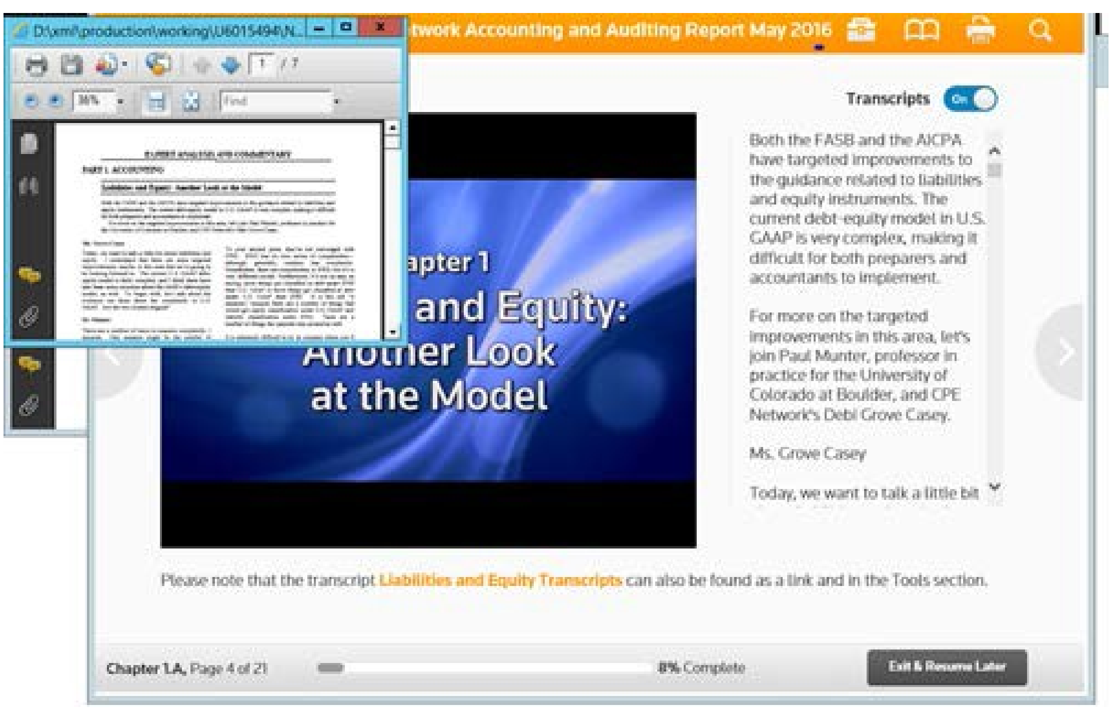
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



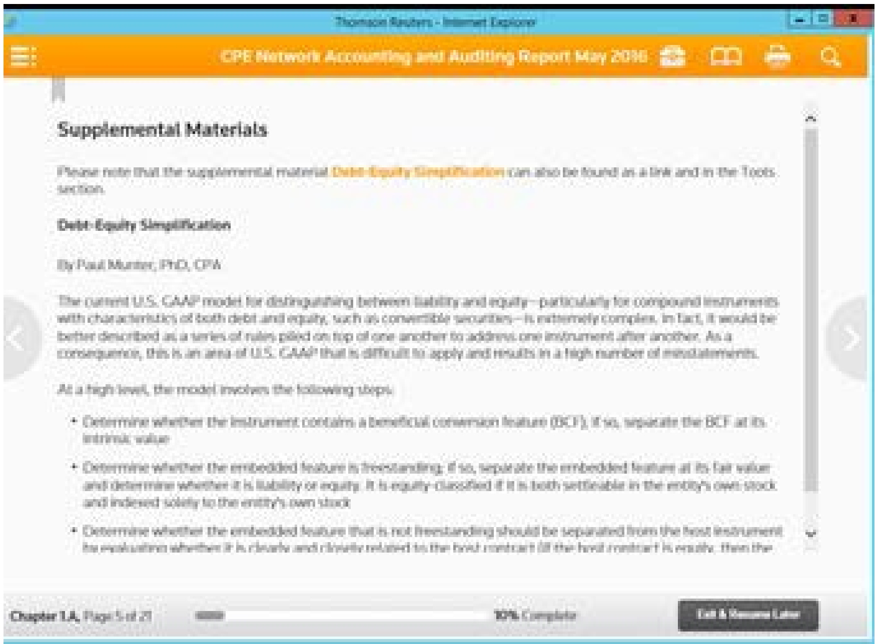
- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.

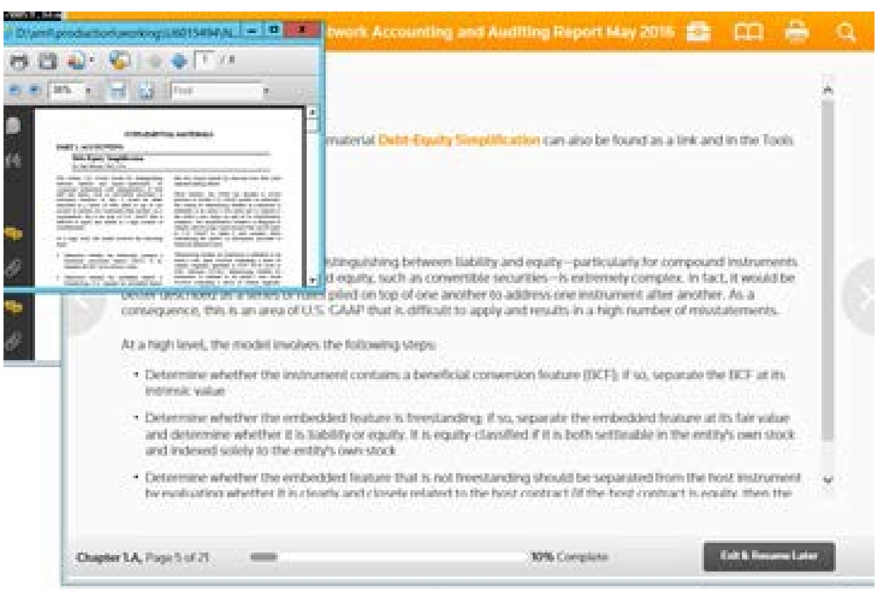


Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



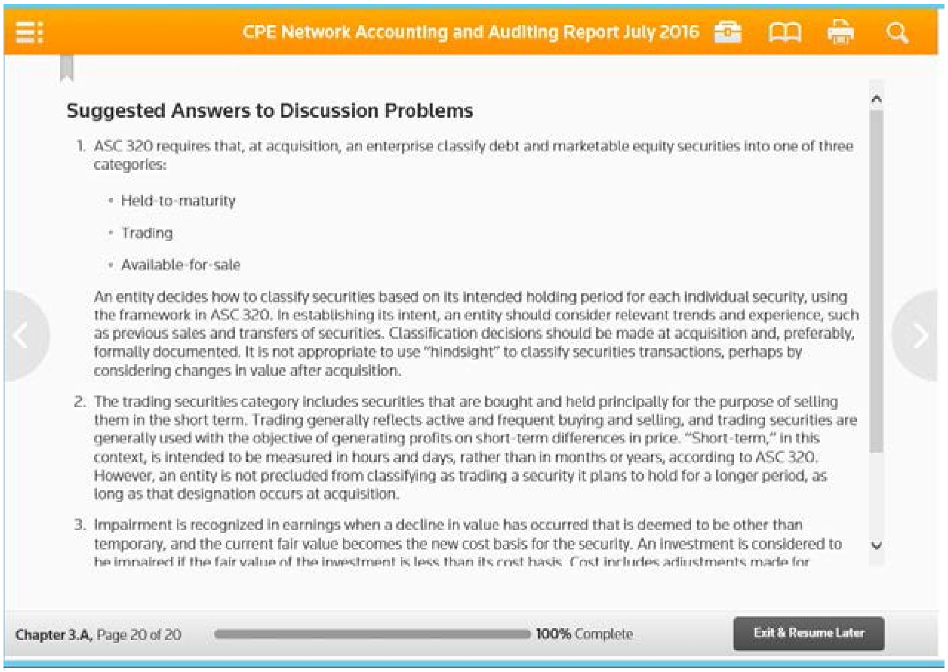
Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.





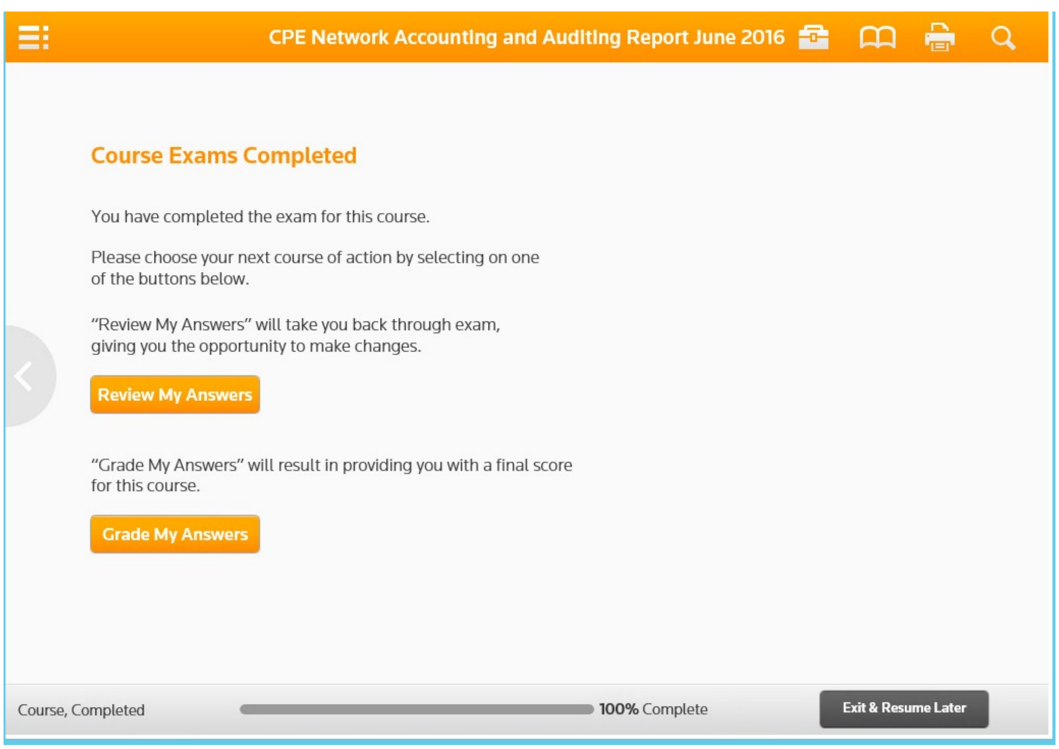
Continuing to click the arrow to the right side of the screen will bring the user to the Discussion p roblems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.



The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and "no shows")
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits**).**

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

"Group live" programs must have a qualified, real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early. Attached is a sample *Certificate of Attendance* you may use for your convenience.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate.
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)

- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	**Form Name**	**Location**	**Notes**
"Group Live" / "Group Internet Based"	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
"Group Live"	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
"Group Internet Based"	Webinar Delivery Tracking Report	Transcript	Use this form to track the 'polling questions' which are required to monitor attendance during your webinar.
"Group Live" / "Group Internet Based"	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	**Phone Number**	**Email Address**	**Typical Issues/Questions**
Technical Support	800.431.9025 (follow option prompts	checkpointlearning.techsupport@ thomsonreuters.com	• Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	800.431.9025 (follow option prompts	checkpointlearning.productsupport@ thomsonreuters.com	• Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	800.431.9025 (follow option prompts	checkpointlearning.cpecustomerservicet@ thomsonreuters.com	• Billing • Existing orders • Cancellations • Webinars • Certificates