Faculty Consortium 2019:
Case Study Example: Data and the New Leasing Standard
Audit analytics refresher
Four types of analysis

Comparison

Distribution

Composition

Over time

Relationship

Categories

Changing over time

What would you like to show?

Many Variables

Few Variables

Many Periods

Few Periods

Many Categories

Single Category

Single Variable

Many Variables

Scatter Plot

Box and Whiskers

Histogram - Bar Chart

Histogram - Line Chart

Tree Map

Tables with Embedded Charts

Bar Chart - Horizontal

Line Chart - Multiple Lines

Bar Chart - Horizontal

Line Chart

Bar Chart - Horizontal

Line Chart - Multiple Lines

Histogram - Bar Chart

Box and Whiskers

Histogram - Line Chart

Tree Map

Only relative differences matter

Absolute differences matter

Stacked Area Chart

Stacked Bar Chart

Stacked Area 100%
Setting the stage
Case facts

- Retail company
- Adopted ASC 842, *Leases*, on January 1, 2019
- Data is the lease population (lease liabilities and right-of-use assets) as of January 1, 2019
- Voluminous data
  - Company has 4,000 operating leases
  - Total right-of-use assets and lease liabilities are over $2.2 billion
  - Lease types are primarily related to “retail stores” but include other types, e.g., distribution facility, warehouse, regional branch
  - Certain leases have an impairment related to their right-of-use asset
  - 5 different discount rates (incremental borrowing rates) are applied to the population
- Data only contains operating leases
Quick Activity: Evaluate the data

The data we have been provided to evaluate contains the following key identifiers:

- Lease Number
- Asset type
- Lease start date and lease expiration date
- Discount Rate (i.e., Incremental Borrowing Rate)
- Opening right-of-use asset balance
- Impairment amount
- Net right-of-use asset balance
- Total lease liability

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Lease Number</th>
<th>Discount Rate</th>
<th>Period From</th>
<th>Period To</th>
<th>Opening ROU Asset Balance</th>
<th>less: Impaired Bal</th>
<th>Net ROU Asset Balance</th>
<th>Total Liability</th>
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<tbody>
<tr>
<td>Retail Store</td>
<td>001</td>
<td>3.6440</td>
<td>12/30/2018</td>
<td>12/31/2025</td>
<td>422,714.82</td>
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</table>

**Discuss in groups:** Thinking about the role of an auditor, when reviewing the key identifiers of the data presented above, what questions would the auditor want answered to be better informed about the population in order to assist in their risk assessment considerations?

You have 3 - 4 minutes to discuss. Be prepared to share with the group.
Debrief: Risk assessment questions to answer

• How material are the leases individually? In the aggregate? On average?
• How many leases compose the population?
• What is the composition of the lease population by lease type?
• What are the lease terms (i.e., tenors) of the operating leases included within the population?
• What is the relationship between the lease terms (i.e., tenors) and the determined discount rates (i.e., incremental borrowing rates)?
• Is the right-of-use asset related to any leases impaired, and if so, how significant is the impairment?
Quick Activity: What types of analysis are best?
Debrief: Best types of analysis to use

What would you like to show?

Comparison
- Over time
- Categories
- Few Variables
- Many Variables
- Many Periods
- Few Periods
- Relationship
- Distribution
- Composition
- Changing over time
- Static
- Many Variables
- Few Periods
- Many Periods
- Stacked Area 100%
- Stacked Area Chart
- Tree Map
- Absolute differences matter
- Only relative differences matter
- Stacked Bar Chart 100%
- Stacked Bar Chart
- Histogram - Bar Chart
- Box and Whiskers
- Histogram - Line Chart
Practical applications: how to apply audit analytics to a lease population
Key takeaways
What questions do you have?