

Lease Accounting and Lease Administration Software: *Why You Need Both*

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Lease Accounting and Lease Administration Software: Why You Need Both



Intro

Does your organization have the proper systems in place to comply with the new lease accounting standards? If not, you're not alone.

Navigating the burden of legacy systems, systems complexity, and finding the necessary resources within current IT teams are proving challenging for many organizations as they work to ensure compliance with ASC 842 and IFRS 16.¹

To comply with the new lease accounting standards, organizations are needing to make both operational and system changes, which includes better managing their lease accounting practices.

To help organizations successfully implement the changes and ensure compliance, this white paper explores the importance of having both lease administration and lease accounting software and outlines three factors every company must consider.

New Accounting Standards: A Changing Landscape

It is estimated that listed companies using IFRS Standards or US GAAP have roughly \$3.3 trillion of lease commitments, of which more than 85 percent do not appear on their balance sheets. That's because, historically, leases have been categorized as either "finance leases" (reported on the balance sheet) or "operating leases" (disclosed only in the notes to the financial statements).²

That is changing.

Looking to bring many leases onto the balance sheet and increase the visibility of a company's assets and liabilities, the Financial Accounting Standards Board and the International Accounting Standards Board issued in 2016 the ASC 842 and IFRS 16, respectively.

Many businesses, largely public entities, transitioned to the new lease accounting standards beginning Jan. 1, 2019. Other entities, like private companies, have an extra year to adopt ASC 842. IFRS 16 is effective as of Jan. 1, 2019.

"The new guidance responds to requests from investors and other financial statement users for a more faithful representation of an organization's leasing activities," stated FASB Chair Russell G. Golden in announcing the new standards. "It ends what the U.S. Securities and Exchange Commission and other stakeholders have identified as one of the largest forms of off-balance sheet accounting, while requiring more disclosures related to leasing transactions."³

Echoing the sentiment, IASB chairman Hans Hoogervorst said in a prepared statement, "The new Standard will provide much-needed transparency on companies' lease assets and liabilities, meaning that off balance sheet lease financing is no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy."⁴

ASC 842 and IFRS 16 converge in many ways, however, significant differences remain such as lease classification, transition approach, and an exemption on low value leases.

Many entities have been busy developing plans for ASC 842 and IFRS 16, and are on track to meet the required changes needed to comply. But, as research suggests, not without help.

Navigating the burden of legacy systems, systems complexity, and finding the necessary resources within current IT teams, as well as data collection, are among the top issues proving to be much more difficult than anticipated, according to a recent Ernst and Young survey. To ensure compliance, many companies are turning to interim solutions, temporary workers and external consultants, and much larger budgets.

"Compliance with the new leases standard has become a larger, more complicated endeavor than many companies originally anticipated. From choosing a system and gathering all relevant data from across the organization to deciphering contracts and identifying embedded leases, piecing together the data and IT puzzle, especially for complex global organizations, is core to the challenges many companies face, but also necessary for a successful implementation," stated Anastasia Economos, EY Americas Leases Leader.⁵

⁰¹ "Companies Ready for Leases Standard, but Only with Help, Finds EY 2018 Lease Accounting Change Survey." Ernst & Young, 3 Dec. 2018, www.ey.com/us/en/newsroom/news-releases/news-companies-ready-for-leases-standard-but-only-with-help-finds-ey-2018-lease-accounting-change-survey

⁰² "IASB Shines Light on Leases by Bringing Them onto the Balance Sheet." IASB, 13 Jan. 2016, archive.ifrs.org/Alerts/PressRelease/Pages/IASB-shines-light-on-leases-by-bringing-them-onto-the-balance-sheet.aspx

⁰³ "FASB Issues New Guidance on Lease Accounting." FASB, 25 Feb. 2016, www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176167901466&d=&pagename=FASB/FASBContent_C/NewsPage

⁰⁴ "IASB Shines Light on Leases by Bringing Them onto the Balance Sheet." IASB, 13 Jan. 2016, archive.ifrs.org/Alerts/PressRelease/Pages/IASB-shines-light-on-leases-by-bringing-them-onto-the-balance-sheet.aspx

⁰⁵ "Companies Ready for Leases Standard, but Only with Help, Finds EY 2018 Lease Accounting Change Survey." Ernst & Young, 3 Dec. 2018, www.ey.com/us/en/newsroom/news-releases/news-companies-ready-for-leases-standard-but-only-with-help-finds-ey-2018-lease-accounting-change-survey

With the new standards bringing onto the balance sheet operating leases for such assets as real estate, manufacturing equipment and transportation, the impacts are far reaching. To comply, businesses need to make both operational and system changes.

Lease Accounting and Lease Administration Software: Why You Need Both

To comply with the new lease accounting standards, many organizations are looking for ways to better manage their lease accounting practices.

"Historically, many companies, especially large ones, needed to have a lease administration product or software solution to help them manage a high number of leases. We've seen mostly anyone who has around 20 leases, or more, needs a product to help manage [their portfolio]," said Alexandra Betesh, vice president of Client Services for Visual Lease, a provider of lease accounting and lease administration software.

Added Betesh, "Lease accounting was never really 'a thing' because accountants did not really need to focus on it as much. Now that they do, lease accounting all of the sudden is an incredibly hot topic. That's actually become even more significant than the lease management piece."⁶

For today's organizations, having both lease administration and lease accounting functionality to perform the required calculations of the leased assets for the business's financial statements is essential. Below are three factors to consider when selecting a solution:

#1: Ensure Alignment, Reduce Errors

To meet the needs of both the accounting and the real estate teams, the lease administration and lease accounting applications must work closely together. Bringing both lease administration and accounting technology together into one robust, trusted solution can significantly drive efficiencies and reduce errors.

Consider this: When you get a new lease it must be understood and summarized and you must track both the legalese and financial elements of that lease. Understanding both the legalese and financial elements — which can control start dates, options, dollar amounts, etc. — helps accountants quickly generate accurate calculations and helps lease administrators build project plans, understand how to use the space, etc.

Leveraging a platform that has both lease accounting and lease administration helps ensure that, from day one, both teams are aligned and consistent.

Implementing one system can also enable fast and easy data migration. Lease payments and other data will need to be regularly fed to general ledger systems. If an organization has a lease administration tool that cannot send data feeds, they would be forced to use manual export/import processes. Selecting a solution that has a data migration engine streamlines the process of importing data from spreadsheets and existing databases. This saves time and significantly reduces the risk of errors.

#2: Drive Efficiencies Through Automation

Under the new accounting standards, organizations are required to record assets and liabilities as journal entries on the balance sheet for almost every leased asset. Leases must be classified as an operating lease or a capital lease to determine the correct lease accounting treatment.

Adding to the complexity is the fact that, during the transition period, companies must prepare journal entries for both the existing standards and the new standards.

Drive efficiencies by leveraging a platform that automatically calculates your journal entries under the current and new FASB and IFRS standards, and provides you with all the required calculations for any given asset and time period whether it's straight-line expense entries, right-of-use asset entries, lease liability entries, or interest and amortization entries.

#3: Configurable vs. Customizable

No two organizations and no two leases are alike. Whether it's a multi-national organization focused on the tech sector, a healthcare entity with multiple subsidiaries, or a local retailer looking to grow their store base, implementing a bundled solution that is configurable to meet the specific reporting needs of that organization is essential.

"Having a tool that can be configured to accommodate all these different fields and then have the awesome functionality to be able to search for leases that have those attributes, or report on all of those attributes whenever needed on the fly, that's really, really important to have that flexibility," said Betesh. "There is no cookie-cutter way of managing leases that have such different terms, such different landlords amongst so many different industries across the world."⁷

⁶⁷ "Betesh, Alexandra. "Personal Interview." 17 Jan. 2019.

Having the ability to connect with and share lease administration and accounting data between other systems such as GL/AP/ERP systems, space management, file management, and email platforms is also beneficial.

An alternative solution is a tool that is customizable. This means that the tool is built for you to accommodate the specific needs of your organization. A factor to be aware of, however, is that if a solution provider has built you a custom tool it likely limits their ability to easily make product enhancements and updates.

Leveraging a configurable, cloud-based solution that provides both lease administration and lease accounting provides you with a solution that will continually grow and evolve with your organization.

Conclusion

The time is now. If your organization is searching for a long-term solution to meet the lease administration and lease accounting requirements under the new accounting standards don't delay. Turn to experts like lease accounting and management software professionals Visual Lease, who can bring you lease administration and accounting technology together in one robust, trusted solution.



About Visual Lease

Visual Lease is a leading provider of lease accounting and lease management software. Our software will help get your organization compliant with ASC 842 and IFRS 16 requirements. The Visual Lease platform also provides an easy-to-use Day 2 solution with its lease management capabilities and infrastructure. The system enables organizations to quickly and easily manage their lease portfolios, define and track specific lease clauses, proactively manage critical dates (such as renewal options), and visualize your asset portfolio! **Request a demo** of Visual Lease today!

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