

4 STEPS TO COMPLIANCE

**THE NEW FASB/
IASB LEASE
ACCOUNTING
GUIDE**

 **ProLease**

Under the new FASB and IASB lease accounting guidelines, companies will need to include the majority of leases on their balance sheet from 2019 onwards. Now is a crucial time to get your lease portfolio in order. Get started by following these 4 steps.



STEP 1: CENTRALIZE YOUR LEASE DATA

The first step to getting your company's leases on the balance sheet is to migrate all lease data into a central database. Under the new guidance, spreadsheets will no longer be acceptable for managing lease data and generating accounting schedules – they simply leave too much room for error. Instead, you must keep one central database to manage all terms, conditions, and expenses for real estate and non-real estate leases on an ongoing basis.

It is also essential that your database use the lease data to generate lease capitalization schedules according to the new FASB and IASB guidance. Your central lease administration and lease accounting database must be able to handle the following key functions:

- Track lease data points for real estate **and** equipment leases
- Manage structure of master lease contracts with multiple assets and payment schedules for equipment leases
- Manage multiple spaces and term periods within a lease, as well as multiple leases connected to one location for real estate leases
- Perform lease classification tests
- Easily generate capitalization schedules for finance and operating leases
- Seamlessly integrate with your accounting system for journal entries
- Generate disclosure reports
- Provide multiple access levels of web-based access for unlimited users

STEP 2: LEARN THE FUNDAMENTALS

The new FASB and IASB guidance is complex, but you can get a head start by learning as much you can about capitalizing leases. Your goal should be to capitalize the least amount of rent possible while also considering your company's larger business objectives. There are ways to negotiate and structure lease contracts that will minimize the impact on your balance sheet. You can begin by familiarizing yourself with the following questions:

- What are the good and bad clauses in lease contracts?
- How do you perform a lease classification test?
- How do you calculate the capitalization term?
- What expenses are subject to capitalization?
- How do you calculate the present value of the lease obligation?
- What discount rate do you use?
- What deductions can you take to reduce the rent to be capitalized?
- What landlord allowances are you getting?
- What initial direct costs are you incurring?
- Are there any impairment credits?

Once you're able to answer these questions, you can begin developing a lease playbook that will help inform how you capitalize your leases.

STEP 3: CREATE A LEASE PLAYBOOK

The more you learn about capitalizing leases, the more you will realize how vague the accounting guidance actually is, raising more questions than it answers.

Wherever the guidance is unclear, consult your auditor to get definitive thresholds and tests to perform so you know how to capitalize each lease. When handling accounting for real estate and equipment leases, make sure you and your auditor agree on all your decisions. And be sure to sit down together and get answers to all your questions before creating capitalization schedules for all your leases.

Our recommendation is to create a playbook for your real estate and equipment leases. The goal of your playbook is to **optimize the lease portfolio to minimize the impact on the balance sheet.**

It is critical that real estate, accounting, finance, treasury, and all other related departments come together to develop this playbook. As your company completes more lease transactions and creates more capitalization schedules, you will have more and more questions. Direct them to your auditor and update your playbook, giving your entire team access to the answers.

STEP 4: CAPITALIZE YOUR LEASES

Now that you have learned the basics and developed a lease playbook, start with a small sampling of 5 to 10 leases. Set up capitalization schedules for the sample group and demonstrate the rationale to your auditors. Once they approve, you are ready to capitalize your entire portfolio of leases.

Please note that it is extremely difficult to set up your own tool for generating capitalization schedules. We recommend that you review off-the-shelf lease administration and lease accounting software from an established provider that has thoroughly researched and developed functionality for the latest FASB and IASB guidelines. Make sure the provider has complete lease capitalization functionality ready now – not something they are “working on.”



SCHEDULE

Take note of these important dates for adopting the new guidance.

PUBLIC COMPANIES:

The first reporting period starts in January 2019. However, the Securities and Exchange Commission mandates that public companies provide the following:

- 3 years of profit and loss statements (2017, 2018, and 2019)
- 2 years of balance sheets (2018 and 2019)

PRIVATE COMPANIES:

The first reporting period starts in January 2020. Private companies are not mandated by the SEC to provide any comparables; however, any company requesting financials will most likely be looking for at least 2 years of comparables (2018 and 2019).

It takes a lot of education, time, and resources to become fully compliant with the new lease accounting guidelines. The sooner you begin the process, the better.

ABOUT PROLEASE

For the past 20 years, ProLease has led the industry with real estate and facilities software used by over 700 customers worldwide. We spent years researching, testing, and programming tools built specifically for the new FASB and IASB guidance. The result is powerful software that's ready to navigate the ins and outs of these complicated guidelines today.

For a closer look at FASB lease accounting, we put together an eBook guide with further details on commercial real estate leases and capitalization schedules.

[Download it for free here.](#)

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