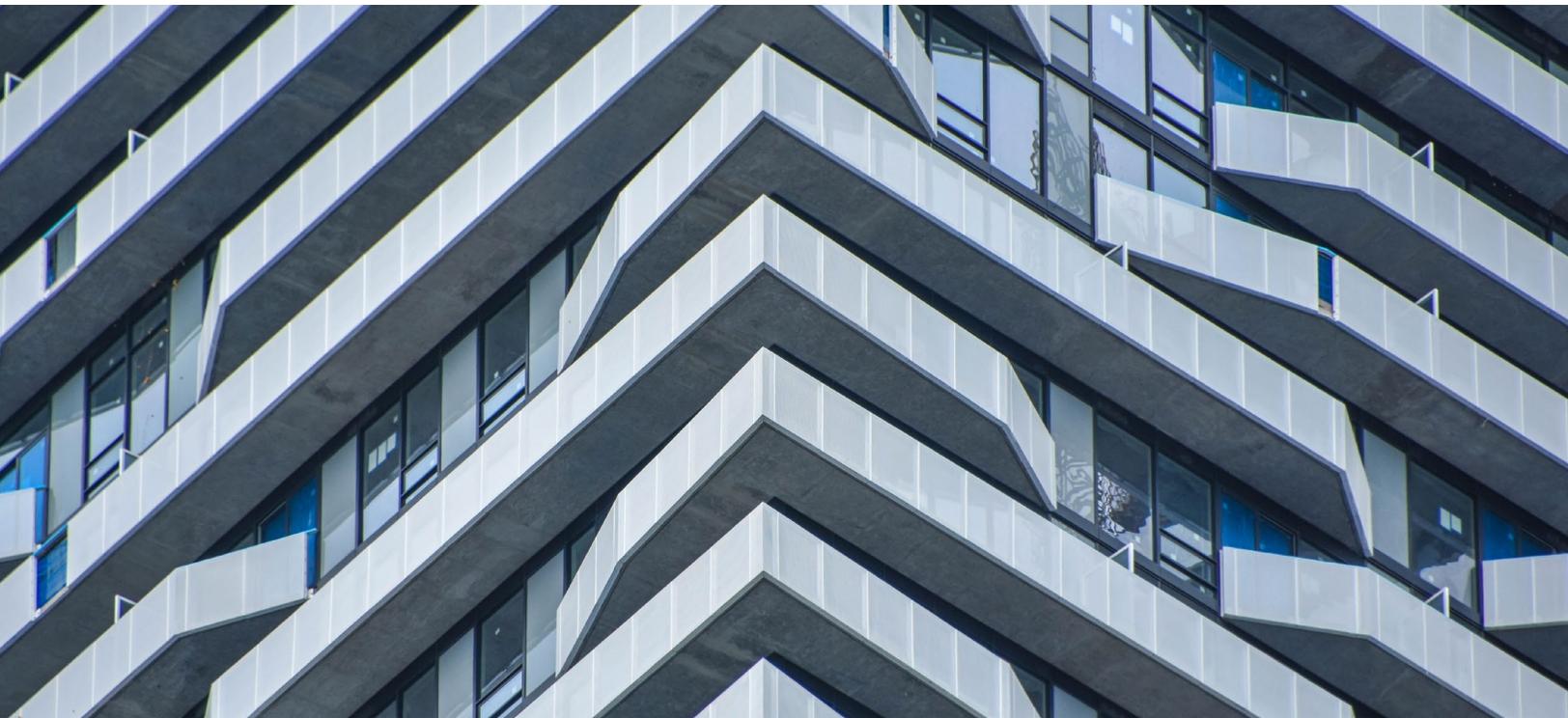


5 STEPS TO COMPLIANCE

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

Under the new FASB - IASB lease accounting standards (ASC 842 - IFRS 16), companies will need to include the majority of their leases on the balance sheet starting in 2019 or 2020. It is now time to get the process started. Begin by following these 5 key steps:



STEP 1: ESTABLISH A CROSS FUNCTIONAL TEAM

The new FASB and IASB lease accounting standards will impact many departments throughout your company including, but not limited to:

- Accounting
- Financial reporting
- Real estate
- Treasury
- Procurement
- Tax
- Internal audit
- IT

Since so many groups are affected, it is critical to establish a cross functional team to make sure everyone is working together on the same page. This team should also select an integrated lease administration and lease accounting software solution which includes access levels by function, so all team members can work together utilizing one set of lease data.

Once established, your cross functional team can then work together to complete the following 4 steps.

STEP 2: CENTRALIZE YOUR LEASE DATA

The first step to getting your company's leases on the balance sheet is to migrate all lease data into an integrated lease administration and lease accounting software solution. Due to the complexity of the new guidance, spreadsheets will no longer be effective for managing lease data and generating accounting schedules – they simply leave too much room for error. Instead, it is important to establish an advanced software solution which provides the ability to manage all lease terms and expenses on an ongoing basis.

It is also essential that the software is able to leverage your lease data to generate 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
- For Equipment leases, manage structure of master lease contracts with multiple assets and multiple pay schedules
- For Real Estate leases, manage multiple spaces/terms/expense streams with one lease record
- 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 security levels, which can restrict access by function

STEP 3: 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 govern how you capitalize your leases.

STEP 4: CREATE A LEASE PLAYBOOK

The more you learn about capitalizing leases, the more you will realize how vague the accounting guidance actually is, with many areas that require judgement calls. Wherever the guidance is unclear, consult with 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. 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, IT, 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 5: 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.”



TRANSITION TIMELINE

Please take note of these important dates for adopting the new standards:

EFFECTIVE DATE:

The FASB standard (ASC-842) is effective in 2019 for public business entities and in 2020 for all other entities. The IASB standard (IFRS-16) is effective in 2019 for all entities.

EARLY ADOPTION:

Both standards may be adopted earlier than the prescribed effective date. However, IFRS-16 may be adopted early only if the new revenue standard (IFRS-15) has already been adopted.

PRIOR REPORTING PERIODS:

Depending upon which Transition Approach is selected:

- The financial statements for one or two prior periods (2017 and 2018) may need to be restated to reflect the new guidance.
- An adjustment to equity for the cumulative effect of the new standard may be required at either the beginning of the earliest comparative reporting period (2017 or 2018) or at the effective date (2019).

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

ABOUT PROLEASE

Founded in 1992, ProLease is a leading SaaS provider of integrated Lease Administration and Lease Accounting software, supporting Real Estate and Equipment leases. Over the past eight years, ProLease has developed comprehensive functionality for its customers to comply with the new FASB-IASB lease accounting standards (ASC 842 – IFRS 16). Today, ProLease has over 700 active customers globally, including many Fortune 500 corporations.

For a closer look at the new FASB lease accounting standards, we have created an eBook with specific details on how to capitalize an operating lease.

[Download it for free here.](#)

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