



Lucernex™

The FASB/IASB Compliance Questions You Need to Answer



About This eBook

The long-discussed changes to the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) lease accounting regulations are a reality. Now it's time to move from a broad understanding of the standards to documenting a formal project plan to achieve compliance.

That should start with evaluating the practical impacts and resource requirements needed to meet these new standards and the effect those impacts will have on your business. Chances are you've already had discussions with your accountants and auditors to understand the regulatory and reporting impact. Now you need a plan to assess the impact on your business processes and evaluate the capabilities of your lease management software.

From a practical standpoint, you will need a complete inventory of real estate and equipment leases throughout your organization. Most companies likely have a firm grasp on where their real estate leases are stored, as these are typically managed using centralized processes. Conversely, equipment leases are traditionally managed in a decentralized manner at local offices by local managers. While all leases will be impacted, the new lease accounting standards will likely have the most significant impact on your equipment lease workflows.

To become FASB/IASB ready, you'll need to clearly understand the **process** itself, have the ability to identify the required **inputs** to the process, then consume the financial **outputs** by linking them to your current accounting and reporting systems.

This eBook is intended to provide guidance on transitioning to the new FASB/IASB standards. To do so, we'll ask you to consider five questions, strategic and tactical, to address your current understanding of the FASB/IASB standards:

1. Who is on my compliance team?
2. How do I define my FASB/IASB compliance process?
3. How do I process my data?
4. How will these outputs support my financial reporting requirements?
5. What external expertise do I need?

After answering these questions, you will not only be equipped to successfully meet FASB/IASB regulations but will also have a strong case to improve your overall business processes for managing your lease portfolio.

1 Who is on my Compliance Team?

Implementing the new FASB/IASB lease accounting standards will require efforts beyond the CFO's office and accounting department. The accounting function in your company should be the driver of this project, but you should also take the opportunity to consider the end-to-end process of how you acquire, manage, and account for leased assets.

Creating a cross-functional compliance team will help you ensure the new standards are met. For most companies, this process is too daunting to tackle alone. By building a team, you take the burden of compliance off one person and make the project more manageable.

When building your compliance team, your first consideration should be to identify the project manager who will be accountable for the overall execution of this project and the decision-maker (or decision-makers) for the changes and investments you'll make to become compliant and ideally, optimize your lease management functions.

Next, you'll need to choose other key contributors. Thoroughly consider the current state of your end-to-end lease portfolio management process by determining who in your organization touches leases, or are part of your lease management process. Typically, this will include groups such as the real estate department, operations, procurement, legal, finance, accounting and IT.

Once you've identified key players, hold a kick-off meeting with your compliance team to formulate your project charter and begin discussing the scope and timing of your FASB/IASB compliance project. The success of your compliance project begins with solid planning and your ability to execute.

Avoid These Roadblocks to FASB/IASB Readiness

Your compliance success is dependent on minimizing the risks associated with the magnitude of your lease data and its transition. The causes of failure in FASB/IASB compliance projects are:

- Lack of a detailed and properly resourced project plan
- Inability to locate and standardize data
- Failed data migration and conversion process
- Inability to effectively integrate with existing ERP systems

2 How do I define my FASB/IASB compliance process?

To drive success in FASB/IASB compliance, communicate a clear definition of the process across your organization. Consider how you are currently managing your lease accounting for real estate and equipment leases under the existing lease accounting standards. Mapping this out will help your Compliance Team identify where FASB/IASB compliance changes need to be made and where improvement opportunities exist.

As part of this evaluation, you'll need to identify the required inputs—leases and lease data—for your lease management process. Once you have your leases and required lease data available for analysis and evaluation, you will determine their proper treatment under the lease accounting standards. You should also evaluate to determine if you have other types of contracts that may have leases embedded in them.

This process will require resources, so consider where these resources will come from and evaluate the scope of work to determine if you have the available bandwidth and expertise to accomplish this effort in-house. It's possible you may need to consider an external consulting service to assist you in this effort.

Once you've identified your leases and captured the required lease data, you'll need to perform the required FASB ASC 842 Lease Test on each lease. Keep in mind that you'll need to capture certain accounting assumptions data (e.g. discount rate for present value calculations and accounting adjustments) to accurately complete the ASC 842 Lease Test. Once the lease test has been completed and the appropriate lease type and accounting treatment

is determined, you can generate the lease expense schedules under the new standards. A FASB/IASB compliant lease accounting software system can automate this process to lessen the administrative burden.

Finally, review the quality assurance procedures you'll follow to ensure that your process has yielded the accurate and comprehensive results needed to achieve compliance success.

Three Key Factors in Lease Identifications:

 Consideration or Compensation

 Control of the Identified Asset

 Set Period of Time

Choosing the Right Solution

Are you managing your lease portfolio in a spreadsheet, an internal database, a home-grown system, or a legacy lease management software system? This is a key area to evaluate for improvement. One option is to use a lease management accounting system. Some things you'll want to consider if that seems like your best option:

- **FASB/IASB compliance**
- **Real estate and equipment lease management capabilities**
- **Strong data conversion and migration capabilities for bringing lease data into the system**
- **Highly flexible integration capabilities to transfer data to ERP and other financial reporting systems**

3 How do I process my data?

After you've established a clear definition of your FASB/IASB compliance process, you need to identify and collect the inputs. This includes your real estate and equipment leases, the appropriate lease abstract data, the accounting assumptions data needed to perform and complete the ASC 842 Lease Test, and the resulting lease expense schedules and reports. As noted above, you'll also need to identify other contracts (e.g. service contracts) that may not look like leases on the surface, but could contain lease components and embedded leases.

Your first step should be locating where your leases and contracts are stored. Which leases are currently managed electronically and which are stored in a filing cabinet? Are some managed centrally with Corporate Accounting, while others are managed at local offices? Remember, you shouldn't limit your search to Procurement or Accounting, and instead consider who negotiates leases, manages leased assets, reports on leases and pays for leases in your organization.

Once you've completed the search process and identified your entire portfolio of leases, your next step will be evaluating the leases and abstracting the data needed for the appropriate lease testing and calculations. Your process will depend on the current state and format of your leases and lease data (e.g. paper, spreadsheets, internal database, lease management software).

If you don't already have your real estate and equipment leases managed centrally, this can turn into one of the most resource-intensive aspects of your compliance project. If you are not using a lease management solution, the volume and complexity of the lease data you need to collect can put your entire compliance project at risk. If this is the case for your company, you have an opportunity to transform your lease management processes by partnering with a trusted lease management software provider.

The right partner can provide external services to assist you in your lease search and abstraction process. These services assist in the data conversion process and upload large volumes of lease data into the lease management solution. The accuracy and thoroughness of collecting, converting, and migrating your lease data into an appropriate lease management system is critical to your compliance success. Many times, a complicated data migration process can stall implementations, or in some cases, stop it completely. It's vital to choose a technology partner with a proven track record of implementations and data extraction, and has expertise in converting from legacy systems.

4 How will these outputs support my financial reporting requirements?

Now that you've defined your lease compliance process, identified your leases, subjected them to the new lease accounting tests and standards, and calculated lease expense schedules based on the new standards, the primary outputs of this process will be the data for compliance reporting, journal entries, and financial reporting.

Keep in mind that the new FASB/IASB lease accounting standards will impact financial reporting for public companies starting in 2019. Since three-year comparative reporting requirements will also require that you report 2017 and 2018 financial results (for comparative purposes only) using the new lease accounting standards, you may need to book the new FASB/IASB results to your general ledger starting as early as January 1, 2017 (depending on how you plan to track your FASB/IASB adjustments for 2017-18). This will occur simultaneously as you continue to report actual 2017 and 2018 financial reports under the current lease accounting standards, unless you elect early adoption of the new standards.

As noted earlier, this is a prime opportunity to evaluate the level of automation and compliance within your existing systems. You're likely booking journal entries manually into your ERP system if you're not currently using a lease management solution. If you are using a lease management solution, evaluate the level of integration that system provides. Does your system easily integrate with your ERP as well as other financial reporting and asset management systems?

Implementing the right software solution for lease accounting as part of your FASB/IASB compliance project will ensure accurate and comprehensive outputs that can save you time and cost, and ensure your external financial reporting is fully compliant.

Reduce Your Risk of Revenue Loss

The benefits of implementing the right software solution during your compliance project includes greater visibility, accuracy, reporting, and decision-making to generate significant efficiencies and cost savings. Using a manual process or legacy lease management system to manage your portfolio can create risks that can cost you money, including:

1. **Overpayments**
2. **Missing key contract dates and options (e.g. end of term)**
3. **Lack of notifications and alerts, causing penalties**
4. **Disparate and inefficient lease negotiations**

5 What external expertise do I need?

The FASB/IASB changes didn't happen overnight and are, in fact, the result of more than a decade of evaluation and discussion. You shouldn't expect to become compliant overnight, either. These mandated regulatory changes create an opportunity to evaluate your existing lease management software and consider whether you're working with a trusted technology partner to ensure your business success.

That partner should enable you to minimize your compliance risks by providing a FASB- and IASB-ready solution and demonstrate expertise in lease management software implementations, data conversions, and financial integrations with your ERP system.

Lucernex is the pioneer of lease management and accounting solutions and the trusted partner of more than 180 global brands. Our purpose-built FASB/IASB-compliant contract administration and accounting solutions offer a comprehensive set of capabilities and services built on a single technology platform and multi-tenant database.

Expertise in Lease Accounting

Our expertise will help you get FASB/IASB ready. With Lucernex as your partner, you get:

- A 100% rate of success in implementations
- Award-winning customer service 5+ years in a row
- Industry expertise with 75+ migrations from legacy lease systems

Trusted Partner, Proven Results

Founded by the industry innovators, Lucernex™ provides cloud-based real estate lifecycle management and equipment and lease accounting solutions to companies in more than 70 countries across five continents. With a 99% client retention rate, the Lucernex solutions help more than 180 brands in tens of thousands of locations globally drive growth, manage capital and access real-time data for strategic decision-making leading to increased shareholder value. Lucernex is the market leader in helping customers mitigate risk through regulatory compliance of the new FASB and IASB guidelines.

For more information, contact Lucernex™ today at 972-403-7100 or [schedule a demo](#) to see the software in action.

You + Lucernex: Helping Our Customers Solve for Success

"Lucernex streamlined our many time consuming manual processes, saving us time and money."

DIRECTOR OF CORPORATE APPLICATIONS, REGAL ENTERTAINMENT GROUP

"We needed more than just a replacement for our legacy lease administration system. We needed an integrated approach to managing our real estate."

VP OF REAL ESTATE, AARON'S

"We selected Lucernex due to their proven ability to convert legacy systems quickly and accurately."

VP REAL ESTATE PORTFOLIO MANAGEMENT, CARA OPERATIONS