

THE BIGGEST ACCOUNTING CHANGE EVER

CHALLENGES ADOPTING THE NEW LEASE ACCOUNTING STANDARDS

The new leasing standards are one of the biggest accounting changes ever. While the balance sheet impacts are significant, the larger long-term effect is proving to be the additional complexity introduced to the record-to-report process. To comply, accounting teams must implement new business processes, organizational changes, and financial systems.

TECHNICAL ACCOUNTING

1000 Page Guides

The technical accounting is complex. Guides from the Big Four firms number over 1000 pages in length filled with guidance sample calculations for concepts such as



MULTIPLE LEASE ACCOUNTING STANDARDS

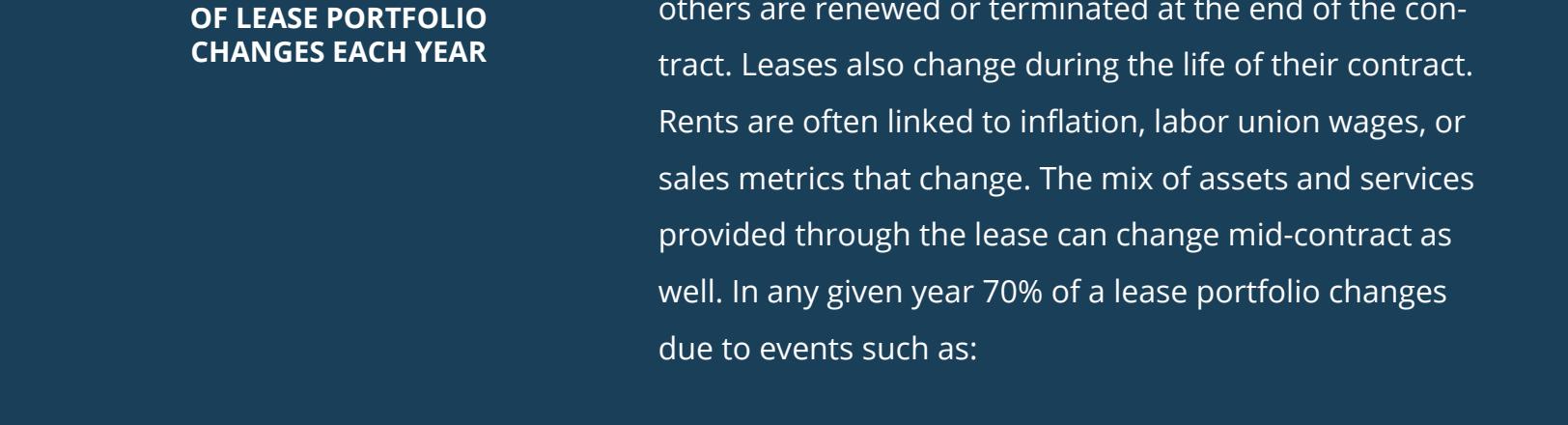
There are several different standards used in various industry segments within the US. The lease accounting standards throughout the rest of the world are fairly harmonized to align with IFRS.



WHAT IS A LEASE?

The "definition of a lease" includes a broader set of contracts than those that just have the word "lease" on top. Contracts a banker or lawyer wouldn't call a lease could be treated that way for accounting purposes. Leases can include assets "embedded" in outsourcing contracts and service arrangements as well. As a result, accounting teams will need to spend 2-4 hours reviewing each new contract that is signed to determine if it meets the definition of a lease.

EMBEDDED LEASES



DATA ABSTRACTION

100

CONTRACT VARIABLES

To perform the calculations organizations will need to carefully review each leasing contract to abstract the 100 different pieces of data needed to perform the calculations. Examples of data to be captured include:

Fixed and Variable Rents

Rent Formulas

Payment Timing

Payment Frequency

Residual Value

Estimated Term

ACCOUNTING CALCULATIONS

10-15

GENERAL LEDGER ACCOUNTS

10.4

YEARS (OR 125 MONTHS)

lease term for average S&P 500 company. For each month there will need to be lots and lots of debits and credits. Lease accounting touches more than 10 different general ledger accounts.

1M+

JOURNAL ENTRIES

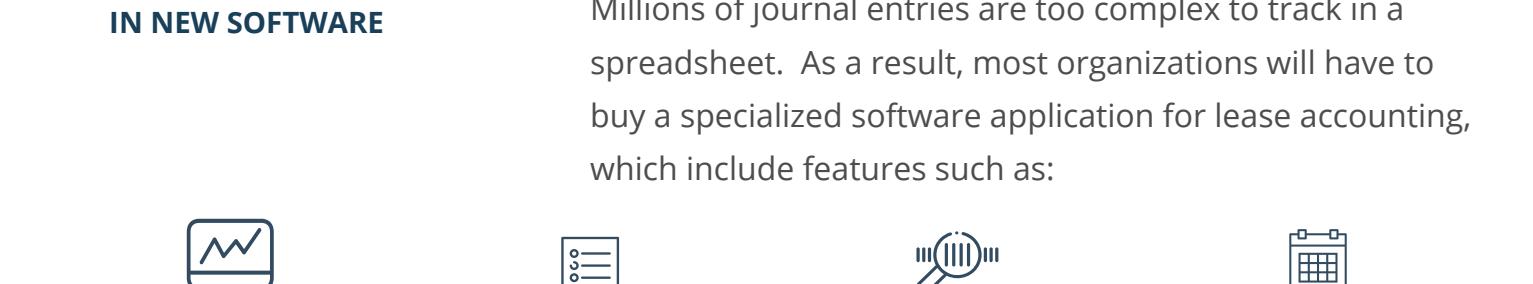
journal entries even in organizations with relatively small lease portfolios. Large companies with more complex portfolios may have several billion journal entries.

ACCOUNTING PERMUTATIONS

100 Billion

COMBINATIONS

When you add up all the possible types of payment structures, contract terms, and accounting options available, there are over 100 billion different combinations:



Tied to inflation, financial indices, sales performance

Due at beginning, middle, or end of month

Issued weekly, monthly, quarterly, annually

Add, change, or remove assets from lease

Decision to renew, terminate, or buyout

Most companies will only have to worry about fewer than 1% of these scenarios as their portfolios will be limited to a smaller range of permutations. But even 1% results in 1 billion different combinations that may need to be tested.

NEW SYSTEMS

\$1 Billion

IN NEW SOFTWARE

Millions of journal entries are too complex to track in a spreadsheet. As a result, most organizations will have to buy a specialized software application for lease accounting, which include features such as:

ACCOUNTING ENGINE

LEASING SUB LEDGER

LEASE ADMINISTRATION

MONT END CLOSE AUTOMATION

Performs the calculations based upon lease contract variables and policy elections

Houses the debits and credits for depreciation, amortization, interest expense, etc

Tracks new leases, contract and rent changes, end of term decisions for leases

Reduces time and effort required to perform reconciliation, cutoff, and close

A new category of financial software applications, analysts estimate that organizations will spend over \$1 billion on new lease accounting systems by 2022.