



5 Key Elements to look for in a Lease Accounting Solution

A quick guide to help with your compliance initiatives for IFRS 16 and ASC 842

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Some economic estimates indicate that the global impact of the new standards will be as much as **\$3.3 trillion in operating lease obligations** and aggregate changes to company balance sheets.

A quick recap for those not already familiar with the new lease accounting standards: **organizations worldwide are required to bring most leases on-balance sheet as obligations and liabilities by January of 2019.** A simple-sounding change with massive downstream accounting implications ranging from the financial statement impact to disclosures reporting and potential debt covenant violations. Although the new lease standards mitigate the off-balance-sheet financing concerns related to lessees' operating leases, actual compliance has proven to be no small task.

5 Key Elements to look for in a Lease Accounting Solution

This document focuses on the key elements you will need in a lease accounting solution that supports your ASC 842 and IFRS 16 compliance initiatives. The best solutions will go beyond the compliance bare-minimums and provide your organization with the following:

1. A single repository for your global lease portfolio	5
2. Collaboration across the entire enterprise	7
3. Comprehensive analytics and dashboards for smart decision making	9
4. Unparalleled user experience and easy navigation	11
5. Integration with your finance system of record	13



The looming effective dates for these new standards (ASC 842 and IFRS 16) are coming quickly and the scramble for adoption has started.

HOW DO I FIND A SOLUTION TO SUPPORT MY COMPLIANCE INITIATIVES?

WILL IT MEET THE NEEDS OF MY GLOBAL LEASE PORTFOLIO AND ACCOUNTING PROCESSES?

CAN I GET IT UP AND RUNNING IN TIME?

1. A single repository for your global lease portfolio

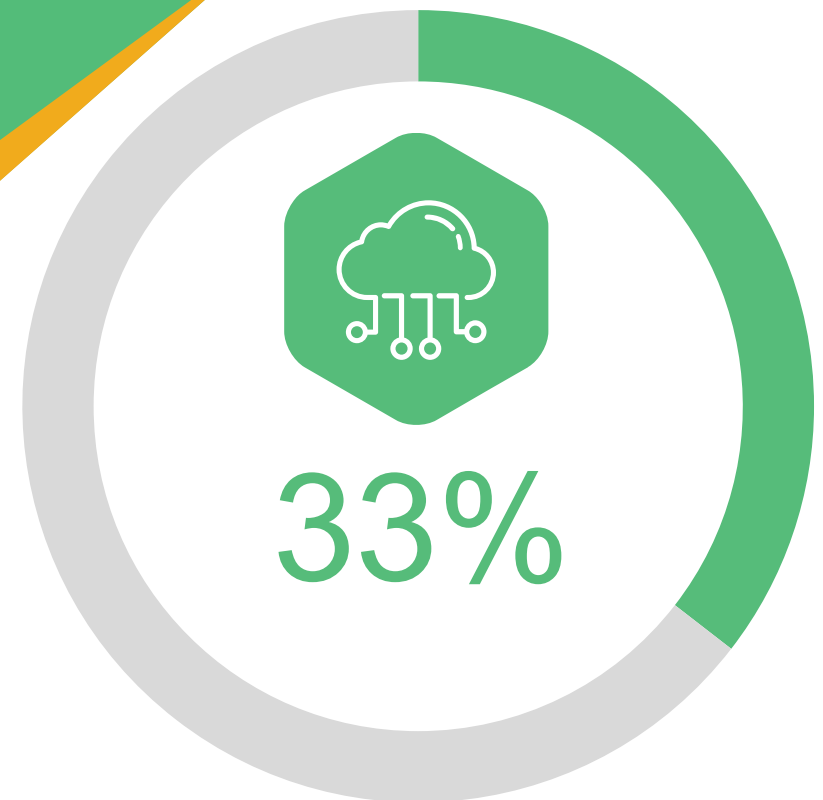
Many organizations currently have decentralized processes and disparate or informal systems for lease procurement, administration and accounting. Implementing the new lease accounting standards will require you to consider whether you can rely on your current data, systems and processes for insights into lease composition, key lease contract dates, global lease exposure and commitments, and responsible departments. The goal should be to build a unified database for all equipment lease operations within a single solution; ideally one that can also integrate with your finance system-of-record to leverage master-data and make postings.

The image shows a magnifying glass focusing on a specific row in a spreadsheet. The spreadsheet has five columns of numerical data. Below the spreadsheet, there is a bar chart with three bars of varying heights. The background is a light blue color.

443.00		4.00		
372.00	3,345,345.00	23,442.00	534,454.00	34,534.00
557.00	345.00	234,768.00	42,343.00	242.00
566.00	42,456.00	234,234.00	5,564.00	23,4
484.00	5,345.00	634,567.00	234,676.00	46,456.00
164.00	16,164.00	10,776.00	234,423.00	4,234,467.00
245.00	3,423.00	34,423.00	42,234.00	34,233.00
322.00	2,342.00	2,342.00	1.00	564,523.00
312.00	3,423.00	23,423.00	34,55	246,723.00
220.00	234,423	234,233.00	45,344.00	24,423.00
428.00	31,4	534,457.00	45,573.00	442,344.00
772.00	14	14,772.00	14,772.00	40,334.00
392.00	4,392.00	16,392.00	16,392.00	1,744.00
168.00	1,168.00	15,168.00	15,168.00	1,096.00
680.00	8,680.00	58,680.00	58,680.00	4,100.00
704.00	8,704.00	13,704.00	13,704.00	662.00
924.00	5,924.00	15,924.00	15,924.00	3,465.00
1,000.00	1,000.00	51,000.00	51,000.00	1,700.00
884.00	884.00	46,884.00	46,884.00	1,448.00
872.00	3,872.00	37,872.00	37,872.00	3,184.00
1,009.00	3,955,000.00	2,580,255.00	1,835,094.00	88,520.00

Spreadsheets are an accountant's best friend. However, companies will need to be aware of the impact of the standards on their business before trying to tackle lease compliance for IFRS 16 & ASC 842 with a spreadsheet solution.

According to a webcast poll by Deloitte, “Bring it on – Discussing the FASB’s new leases standard”, 33% of respondents indicated that collecting necessary data on all organizational leases in a centralized, electronic inventory will pose the **largest implementation challenge** for their company’s lease accounting standards compliance.



2. Collaboration across the entire enterprise



As many are starting to realize, this is a cross-functional effort involving a variety of departments and business functions. *“Compliance will likely require input from multiple stakeholders from different parts of the organization. Having top leaders’ support could really make a difference in successful implementation,”* Sean Torr, Deloitte’s lease accounting services leader, said in a prepared statement. Looking at your collaboration requirements involves a comprehensive assessment which goes beyond your controllers and treasurers:

- 1 Your executives will want to understand the impact on the business**
- 2 Your auditors will need documentation of decisions with a clear audit-trail**
- 3 Your tax managers will need to understand the situational federal and state income tax implications for operating and finance leases (possibly even property tax implications)**

According to a survey by EY, “*Paving a path to success: preparing for the new lease accounting standards*”, nearly 75% of all respondents expect to have significant or moderate difficulty developing policies, processes and internal controls, as well as getting through the first-year audit. Collaboration tools will enable users to easily validate contracts for leased equipment assets and develop a deeper understanding of the associated legal, financial, and business implications. This platform should also support cross-functional communication and offer the ability to track changes from multiple users.



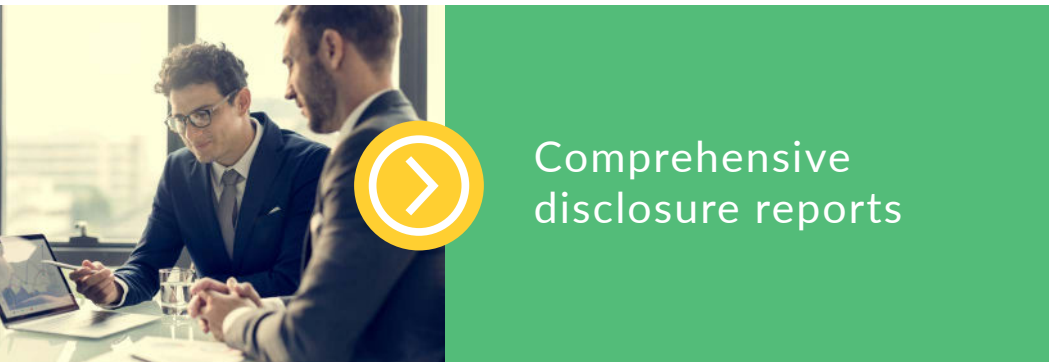
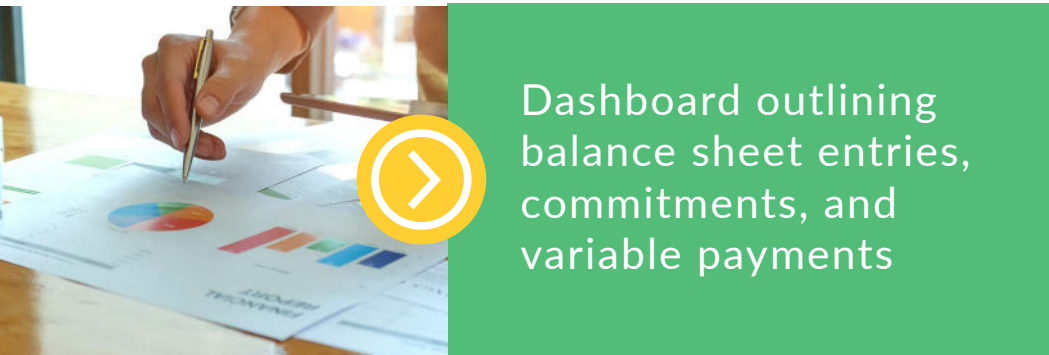
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3. Comprehensive analytics and dashboards for smart decision making

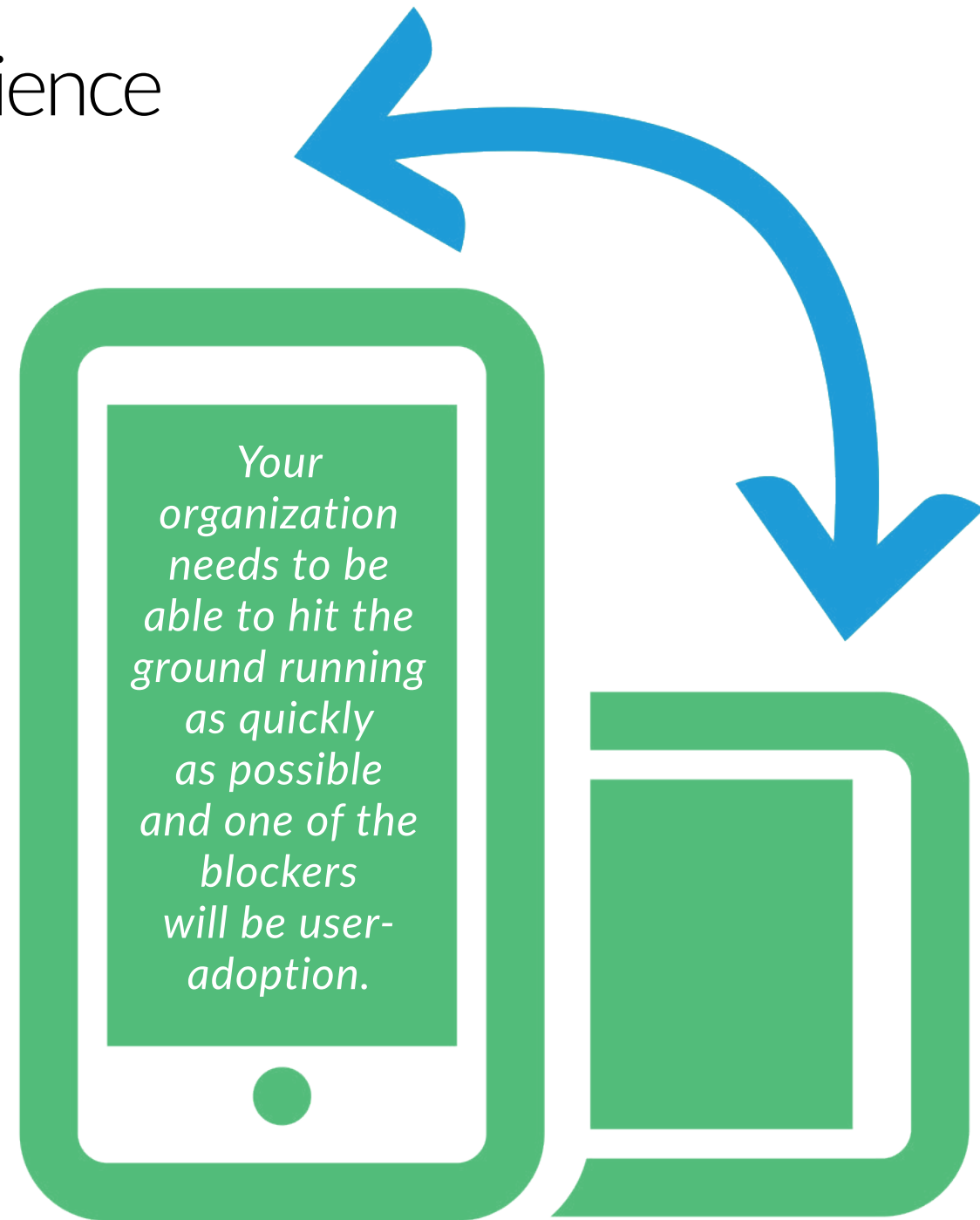
A comprehensive analytics platform will ensure that your key stakeholders have the information that they need in order to make informed business, financial, and legal decisions. You will want to be able to dynamically generate dashboards that filter your lease portfolio by contract status, phase, lease-type, and specific contract-fields.

What are some of the reports you will need to generate?



4. Unparalleled user experience and easy navigation

With the effective date of the new lease accounting standards ASC 842 and IFRS 16 shortly arriving, your organization needs to be able to hit the ground running as quickly as possible and one of the main blockers will be user-adoption. Thankfully this blocker is easily addressed early in the process by paying attention to the user-experience and user-interface of a solution. This will dramatically increase user-adoption and reduce your dependency on 3rd parties for software training and software roll-out.



As much as you may want to accelerate your solution selection, project timelines, and user-adoption, we all know that there are certain limitations we have to work with.

A simple example to illustrate this point is the Triple Constraint (otherwise known as the Iron Triangle).

This example simply illustrates the interdependency of factors at play in a project (such as your lease accounting compliance initiative), and indicates that you cannot adjust or alter one side without an impact on the other.

- **Quality is constrained by budget, deadlines and scope.**
- **You can trade between constraints.**
- **Changes in one constraint necessitate changes in others to compensate or quality will suffer.**

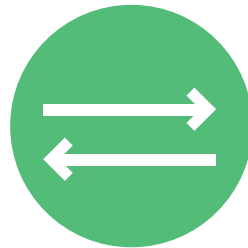


5. Integration with your finance system of record

A solution that seamlessly integrates with your current ERP system will maximize your existing technology investments by leveraging current data and security infrastructure. This facilitates a smoother transition to the new standards. There are 4 key points that you will want to consider:



Does the solution natively integrate with your ERP out-of-the-box (set and forget)?



Is the integration bidirectional? Can it pull the right master-data and push back the accounting transactions?



Will it leverage your ERP's user roles and security infrastructure?



Has it been validated or certified by your ERP vendor as safe-to-use?



The new lease accounting standards were debated publicly for more than 6 years. Many CFOs took an “I’ll believe it when I see it” approach to the standards, which is understandable as the process seemed to be stuck in limbo for years. Yet the 2019 deadline remains set and, for many companies, preparing for the new lease accounting changes has not been a top priority. This window is quickly closing for companies to invest the time and resources, including lease accounting software, required to prepare for the new standards.

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