

Adopting ASC 842: Potential Operational Challenges

A quick guide to strategies for achieving
ASC 842 Compliance



NAKISA[®]
LeaseAdministration

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“We did a survey last year and asked companies: What are your biggest challenges [when it comes to ASC 842 implementation]? Not too surprisingly, the accounting aspect was third or fourth on the list. The two biggest were data and technology.” — Sheri Wyatt, Partner, PwC

At this point, it should be no surprise that time is quickly running out for companies to achieve compliance with the new ASC 842 accounting guideline by its January 2019 deadline. Companies who have already made the transition or are in the midst of the process, have faced challenging operational hurdles on the way to compliance. For those that haven't, understanding these challenges will make for a smoother lease accounting transition as time quickly runs out.

Adopting ASC 842: Potential Operational Challenges

This document examines the three key operational challenges around ASC 842 compliance and strategies for overcoming these hurdles:



Data challenges



Technology hurdles



Adoption and
management
considerations

We'll also look at how you can assess your current and future lease accounting capabilities to ensure a smooth transition to ASC 842 and how a centralized lease accounting solution can help tackle all of these challenges.

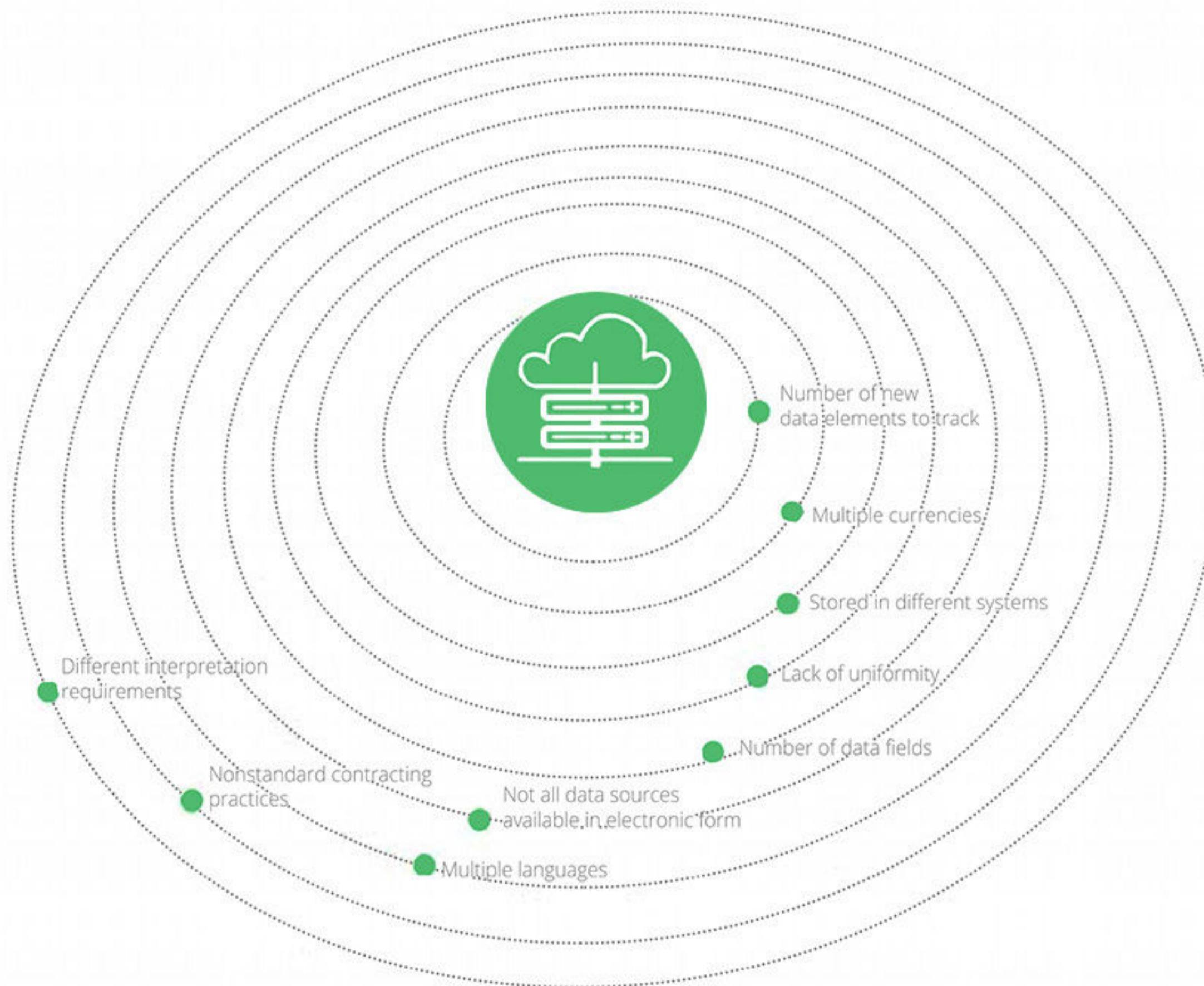
1. Data Challenges

In a survey conducted by KPMG, 35 percent of companies reported having over 1,000 leases. 47 percent reported having leases in anywhere from 10 to over 30 physical locations.

Get ready for the understatement of the year: you have a lot of data. Hundreds—even thousands—of leases in varying formats stretched across multiple physical locations in several business units. Now, that immense amount of decentralized data needs to be collected, abstracted, and unified in one convenient location. And did we mention that the compliance deadline is just around the corner? While centralizing your lease information leads to lower operating costs and more reliable data, the process of consolidating data may seem like a monumental undertaking.

Your Data Universe

The process of data collection has a number of challenges to consider. Here's just a few:



Nakisa's implementation methodology is centered around two sequential project phases. A phased approach allows customers to focus on accounting and compliance in the short-term, while laying the foundation for integration and customization in the long-term.

2. Technology Hurdles

Highly sophisticated data setups require robust technology systems. For organizations working to meet the impending compliance deadlines, an important consideration is whether your current technology setup provides the necessary storage and reporting capabilities necessary for compliance. Will you be able to modify your current accounting system or will a new system help simplify your compliance strategy?

Tip: Consider lease accounting tools with standalone options to meet immediate compliance requirements, then allow for gradual integration with other systems after compliance is met.

Checking the IT Requirement Boxes

As you assess your options for adapting current vs adopting new lease technology, there are four major functional requirements you should consider:

- 1. Cloud-based offering:** Does the technology offer a cloud-based setup which helps you avoid both hardware and software considerations?
- 2. Standalone mode:** Given the rapidly approaching deadlines, can your system be used “out of the box” and later on integrated with other modules when time permits?
- 3. Rapid deployment:** How quickly can the new system be implemented in order to meet compliance deadlines?
- 4. Cost Saving:** Can the solution be offered on a subscription base, as with a SAAS model, to save on upfront costs?

3. Adoption and Management Considerations

Data and technology may be the two biggest challenges for ASC 842 compliance. However, they're not the only ones you will face. As you develop, finalize, or carry out your implementation plans for new lease accounting systems, understanding how these challenges may affect your timeline, budget, and human capital resources will be key.

In a recent PwC survey, more than 70 percent of public company respondents listed assessing human capital/resource requirements as somewhat or very difficult, making it one of the biggest leasing implementation challenges.

Roadblocks to Implementation

Besides data and technology concerns, here are a few other challenges that companies will have to overcome as they transition to a new lease accounting system. Note: This isn't an exhaustive list.

Ensuring proper data management

Numerous lease agreements in various locations and required information not contained in current lease agreements makes data gathering and management complicated.

Delivering necessary training

New data, new technology, and new guidelines mean your company will need to ensure employees are properly trained. The project team should be created with an objective that a subset of that team becomes the Global Lease Center of Excellence at a later stage. The Global Lease Center of Excellence Team will take the ownership of training new people on the solution.

Re-examining business operations and processes

The combination of new systems and more acute scrutiny from regulators may require new processes and strategies.

Assessing debt implications

Companies will need to understand the effects of increased leverage and any potential debt covenant violations under the new guidelines.

Tax assessment

Depending on any given situation, organizations may need to bring in tax teams to determine effects of the new guidelines on taxation.

“It’s possible that many companies could be underestimating the effort that will be necessary to collect lease data and aggregate it into a centralized system. And that doesn’t take into account whether companies have adequate systems to accomplish the new accounting or will need to invest in something new.” — James Barker, Senior Consultation Partner for Lease Accounting, Deloitte

Asking the Right Questions

Even if your organization is behind in its ASC 842 implementation, rushing into a decision around implementation could hurt you in the long run. As you assess your strategy for implementation and carefully consider possible solutions, here are some key questions to answer:

What are your key goals for a new lease accounting solution?

Consider how a new solution can reduce costs, increase efficiency, improve reporting, or aid your ability to plan for the future.

How many lease contracts and assets do you have?

Understand what data you have on hand such as current lease contracts, as well as new embedded leases and assets.

Is your current data complete and accurate?

Look for solutions that will help you ensure your data is optimized and accurate.

Who owns the lease accounting transition process?

Identify a dedicated team who can coordinate implementation steps and ensure that your compliance strategy stays on track.

What are your requirements for integration with other systems?

How will a possible lease accounting solution integrate with legacy systems like your ERP? What will this integration look like?

What are your timelines for implementation and integration?

Planning your implementation and the subsequent integration with other systems requires a detailed plan of action, with specific deadlines for every phase.

How will supporting a new lease accounting solution impact budgets or staffing?

Make sure you understand the full impact of your compliance strategy, what resources it will take to support that strategy, and what staffing decisions you'll need to make as a result.

The Case for a Centralized Lease Accounting Solution

After performing detailed assessments, hundreds of companies across the globe have decided that cloud-based lease accounting software is their best option for gathering data, managing information, and meeting compliance dates. Here are just a few reasons why organizations are turning to Nakisa Lease Administration for their centralized lease accounting needs:

Efficient data abstraction

Centralized data repository: Helps manage contracts and group leases together to allow for the posting of accruals and payments in bulk.

Mass data upload: Users are able to upload external files, such as spreadsheets or flat files, to create contract files, leases, assets, and payment terms.

Reporting and analytics made easy

Disclosure reports: Summary page provides the necessary information to prepare the required disclosures under ASC 842.

Management dashboards: Comprehensive overview of lease contracts that enable users to quickly understand the various levels of a lease contract.

Implementation management

Standalone settings: Allows you to meet importance compliance goals immediately before initiating long-term integrations.

Out-of-the-box functionality: The Accounting Team would like to assess the initial impact on their balance sheet i.e. the ROU Assets and Lease Liabilities that will be recognized on the effective date of the standard. Out-of-the-box the system will provide you the information with the help of ROU Asset and Lease Liability schedules. Also, Disclosure Reports can be generated for the contracts that are in set up state to assess the initial impact on the balance sheet. Once the data mapping in terms of master data configuration, GL determination and asset class mapping is completed, contracts can be activated i.e. The ROU Assets and Lease Liabilities can be recognized.

Single repository for lease contract administration and lease accounting, lease tracking, contract versioning, and drill down to all contract elements, lease workflow approval process, handles multiple currencies, captures variable lease payments and processes non-lease components, manages remeasurement/modification events such as casualty, payment adjustments, interim payments, asset replacement, early termination, renewals, increase/decrease in scope and more.

About Us

A global leader in cloud business solutions for Organization Design and Accounting & Compliance, Nakisa delivers innovative, forward-thinking and robust human resource and financial management solutions that advance your business strategies.

Nakisa serves 800+ enterprise customers and over 4 million subscribers in 24 industries. Nakisa is proud to work with some of the world's most renowned brands

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