

Smarter Lease Accounting for Transportation

An industry focus on lease accounting and
compliance with IFRS 16 and ASC 842



NAKISA[®]
LeaseAdministration



Navigating Shifting Landscapes

Pricing pressures, emerging innovations and regulatory changes are part of the shifting landscape facing transportation companies. A wave of significant financial reporting changes, particularly new lease accounting standards – IFRS 16 and ASC 842 – have brought new challenges to the accounting profession in the transportation industry. Effective January of 2019, the new lease accounting standards require operating leases to move onto company balance sheets. This will require a significant amount of attention to ensure that compliance with the lease accounting standards is timely, accurate, and transparent to financial statement users.

Companies in the transportation industry employ large-scale lease portfolios to access the fuel efficient, reliable assets that are central to their success. IFRS 16 and ASC 842 brings most of these leases onto balance sheets, exposing billions in lease liability across the industry. One of the biggest impacts on this industry is going to be a compliance exercise. Lease accounting technology can help identify if a contract contains a lease, determine if any contracts meet any of the exemptions, such as low value or short-term leases, and perform necessary disclosures. Once this process is complete, it becomes a complex operations exercise to manage the lease lifecycle.



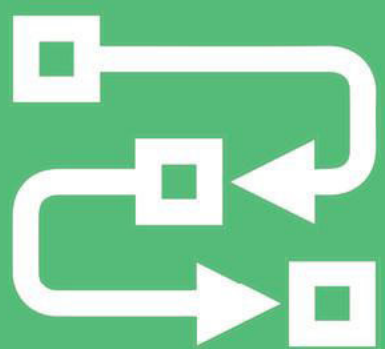
Entities in the transportation and logistics sector regularly enter into arrangements that involve the use of aircraft, rail cars, and ships, such as cargo capacity purchase agreements and terminal agreements, as well as warehousing arrangements. These arrangements must be carefully assessed to determine if a lease is embedded in the arrangement. If an embedded lease does exist, it typically involves substantial payments that may have a material impact when the lease is recorded on the lessee's balance sheet.” – PwC, 2016

The new lease accounting standards fundamentally change the accounting for lease transactions across all industries and is having significant business implications for organizations in the transportation sector. Beyond the requirement to record operating leases on the balance sheet, many transportation companies will need to consider how other business arrangements fit into the lease accounting model. These include how to distinguish between and determine a relative value for lease and non-lease components in bundled service packages, how the lease of specialized assets impacts expense recognition of the arrangement.

For many companies, adopting an on-balance sheet lease accounting model is a significant challenge by itself because of the requirement to capture and record substantially all leases. For transportation businesses, however, some activities create industry-specific complexities for the ongoing application of the new lease rules. For example:



Often in the transportation industry, companies gain access to the assets they use to provide their services through bundled contracts. These contracts include the asset together with staffing, maintenance, and insurance necessary to operate it. Sometimes, these broad agreements contain features that meet the definition of a lease in the new accounting rules. In these cases, lessees will need to establish processes to evaluate these embedded leases and implement systematic and rational methods for determining the standalone value of each of the lease and non-lease components.



Within the rules for classifying a lease as operating or financing, the new lease rules now require a lessee to consider whether the asset is so specialized that there is no alternative use to the lessor after the lease term. For those transportation lessees who require specialized equipment, this additional provision will result in more leases classified as finance leases, which have a more accelerated expense recognition pattern and affect different income statement line items than previous operating lease treatment.



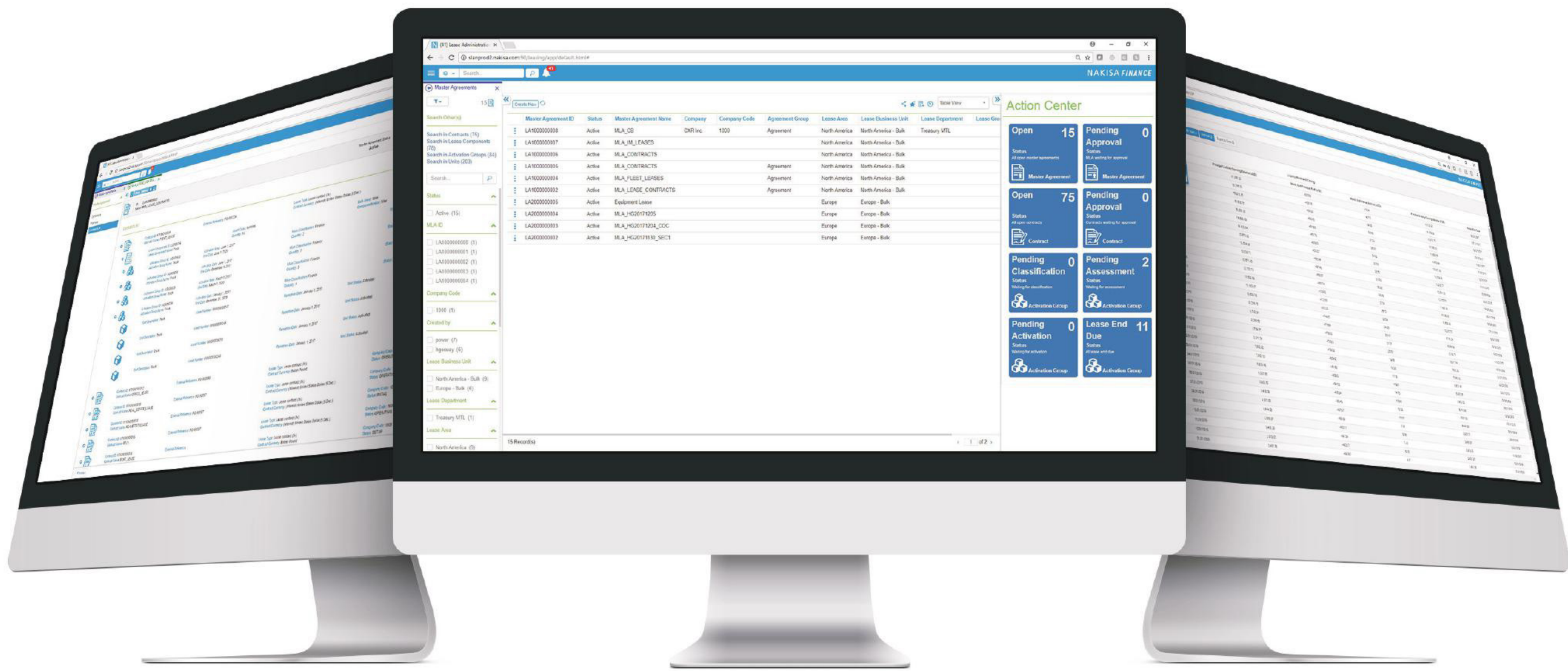
Transportation industry veterans have become familiar with the financial implications of sale-leaseback transactions and build-to-suit contracts over the years. With the new lease rules, not only will transportation companies need to change their back-office processes, decision-makers will need to develop new expectations about how these transactions affect the financial statements. Companies with dual reporting obligations under U.S. GAAP and IFRS will face further complexities, as the accounting for these common arrangements is different between ASC 842 and IFRS 16.

Paving the Road to Compliance

Transportation companies require access to accurate, real-time leasing data. Organizations must be able to identify leases, including value, payments and depreciation, and be able to produce required disclosure reports. This information is crucial in order for organizations to comply with the new standards. However, with the standards now in effect, the challenges facing the transportation industry are immense.

The most efficient way for accounting and finance to manage accounting challenges and achieve compliance is to leverage lease management and accounting technologies that centralize lease data and automate lease accounting. Instead of sifting through spreadsheets with duplicated or lacking information, a single system for lease management helps to streamline and simplify accruals, payments, reconciliation, and financial reporting on leases.





Benefits of Lease Accounting Software:



Insights

Gain insight into contractual data to identify lease exposure and analyze the impact on financial statements. Understand financial implications and make informed decisions.



Visibility

Centralize contract data in a single repository to provide a global view of lease contracts. Gain clear visibility into leasing data including liabilities and commitments.



Compliance

Handle comprehensive lease accounting requirements and support compliance. Software allows organizations to transition to the new standards, process required accounting lookback, and fulfill reporting requirements.



Efficiency

Reduce costs by making lease data accessible and actionable for stakeholders. Automate finance and accounting through push and pull ERP integration.

Nakisa Offers a Smarter Solution for Lease Accounting

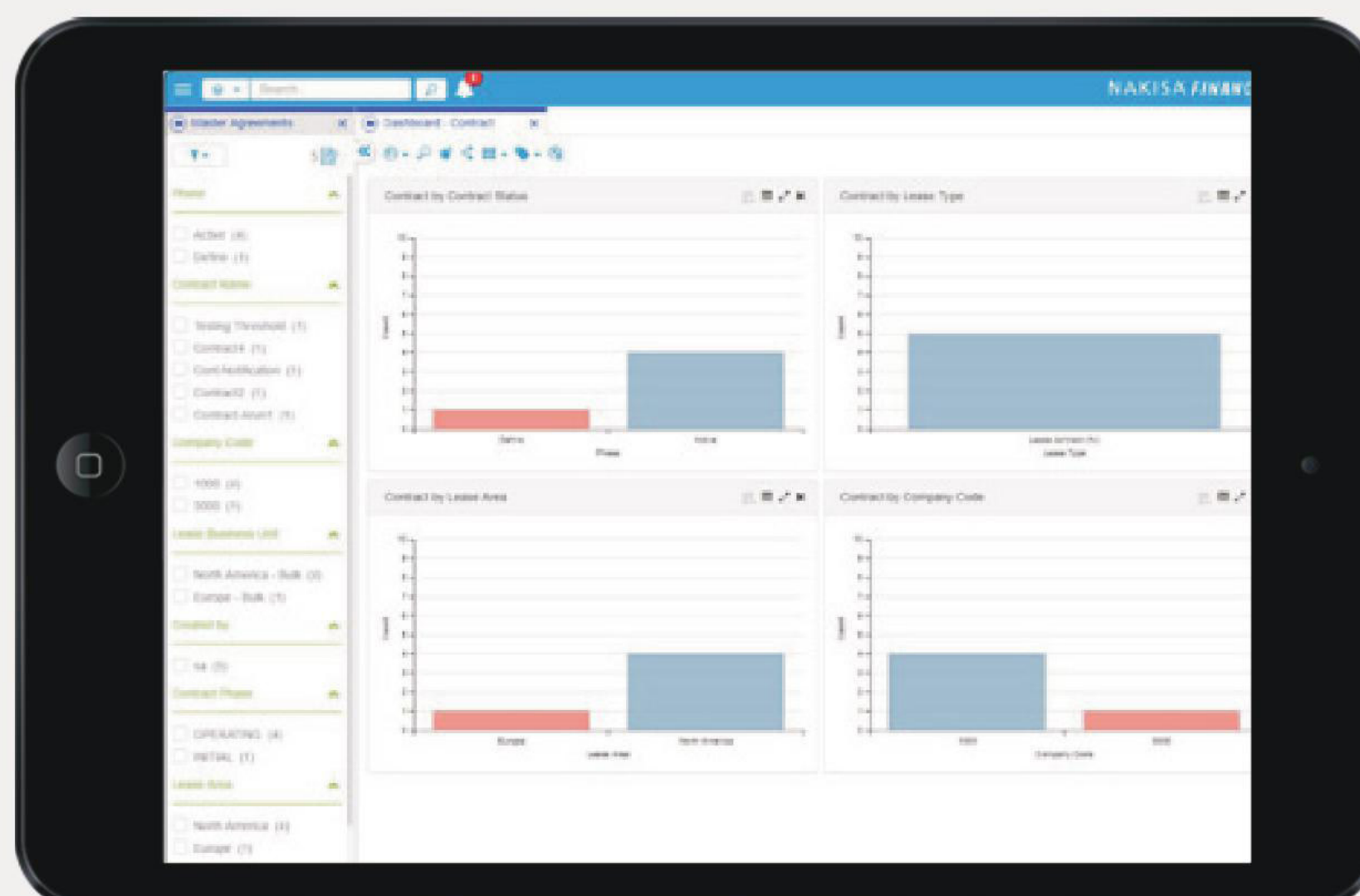
Nakisa Lease Administration is a lease management and accounting solution designed to accelerate compliance with IFRS 16 and ASC 842 by automating, centralizing, and simplifying lease accounting operations. The ability to consolidate data, group together leases, and provide disclosure reports in compliance with leasing standards, makes it the solution of choice for leading transportation companies.

Key Value Drivers of Nakisa Lease Administration

Nakisa Lease Administration enables accounting and finance teams to centralize and optimize their global lease portfolios while assisting in compliance efforts with the new lease accounting regulations, IFRS 16 and ASC 842. With Nakisa Lease Administration, lease accounting is simplified and streamlined. Leveraging a single system for accruals, payments, reconciliation, and financial reporting on leases, transportation companies can use the solution to maintain an audit trail of all changes and decisions for traceability.

With Nakisa Lease Administration, you can:

- ✓ Enable compliance with new lease accounting standards IFRS 16 and ASC 842
- ✓ Achieve global visibility through end-to-end lease contract management, compliance reporting, and audit trail maintenance
- ✓ Streamline contract management, lease accounting, and compliance reporting efforts
- ✓ Reduce costs by leveraging powerful automation and ERP integration technology





Shorten Implementation Timelines with Cloud Technology and Phased Deployment

Nakisa Lease Administration is deployed in the cloud to help streamline implementation and accelerate adoption. The solution can be deployed with full integration to your ERP or in a phased deployment model in standalone mode to shorten deployment timelines. In this scenario, deployment is simplified by abstracting data from specific organizational units using a combined effort from project teams and ready-to-use configuration templates. Before integration is configured in the phased deployment model, lease accounting technology can be used to amortize ROU assets and lease liability schedules internally. However, the benefits of ERP integration become much more significant as lease liabilities and ROU assets go through frequent remeasurements due to changes in the lease terms and conditions and also due to changes in user decisions in terms of extension and termination.

Why Industry Leaders Trust Nakisa

- ✓ Global leader in enterprise business solutions for accounting and compliance
- ✓ Experience with the world's most renowned brands
- ✓ Proven solution for end-to-end lease management and accounting
- ✓ Validated by the Big 4 accounting firms

About Us

A global leader in cloud business solutions for Organization Transformation 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

Contact Us

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