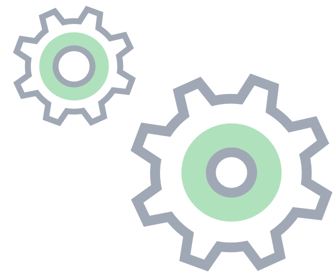
Lease Accounting for the Retail Industry: **Planning for Sustainability**

An industry focus on lease accounting post-IFRS 16 and ASC 842 compliance and staying sustainable in today's marketplace

NAKISA®

Pricing pressures, fluctuations in consumer spending, emerging innovations, and regulatory changes have always been part of the shifting landscape facing the retail industry.



A wave of significant financial reporting changes over the last few years, particularly the recent lease accounting standards—IFRS 16 and ASC 842—added challenges to the retail industry's accounting procedures. Effective January 2019, updates to the IFRS 16 and ASC 842 lease accounting standards required nearly all leases to move onto company balance sheets, exposing billions in lease liability across the industry. Shifting to the latest IFRS 16 and ASC 842 regulations involved more than simply providing a snapshot into a company's finances. The standard updates included requirements to reflect the changes that occur to both leases and leased assets, adding further complexity to maintaining records for accuracy and auditability.

This requirement had industry-specific implications for the retail industry, which relies on performance-based rent and makes pervasive use of leases to secure the geographically dispersed assets they employ in their operations. These assets may include the factories that manufacture the goods, the equipment used in the production and transportation process, and the facilities that store, distribute, or sell the products.

Today, with the latest lease accounting compliance efforts complete, the retail industry is focused on making the right choices for sustainability.

Sustainability in Times of Uncertainty

The retail industry has a great deal of experience adapting to fluctuating markets and shifts in consumer demands. Recently, several changes in consumer behavior—particularly amplified throughout the time of the pandemic—have impacted the retail industry, adding further complexity to the lease management lifecycle.
These trends include:

1. A pivot from purchasing in stores to online.
2. A delay in the supply chain and logistics to meet fluctuating demand.
3. A spike in the demand for essential products such as food, household items, and personal care products.
4. A decrease in purchases for apparel and furnishings.

Such market changes—affected by both the shift in debt/income ratio and a temporarily altered demand as consumers may be cutting back on spending—have the potential to drastically impact the retail industry's lease accounting processes, including debt ratios and EBITDA, performance-based rent recordings and reporting, asset impairment implications, and embedded lease considerations.

The Power of Technology to Gain Control

With so many moving parts, the retail industry requires access to accurate, real time leasing data. Organizations must be able to identify and segregate leases by asset type, value, payments, and depreciation to be able to produce required disclosure reports.

The most efficient way to manage accounting challenges and focus on sustainability 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 financial lease reporting. The right technology empowers businesses to visualize their organization as a whole and make informed decisions in order to adapt, cut costs, and stay competitive.

> **"Tools such as AI, computational analysis of large data sets, and accelerating technologies are transforming retail."**
> –Deloitte, Future-Proofing Your Retail Business

With a lease accounting solution, organizations can solve for:

Efficiency

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

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.
- Easily review lists of lease contracts with future payment split by years.
- Identify the highest payments and analyze whether the lease of these higher-cost premises or equipment may be made redundant.
- Use the FP&A dashboard to effectively forecast and plan in real time.

Insights

- Gain insight into contractual data to identify lease exposure and analyze the impact on financial statements.
- Understand financial implications including impairment/abandoned assets and make informed decisions.
- Easily review lists of lease contracts with future payment split by years.
- Review and analyze leases with early termination and renewal options.

Nakisa Offers a Smarter Solution for Lease Accounting

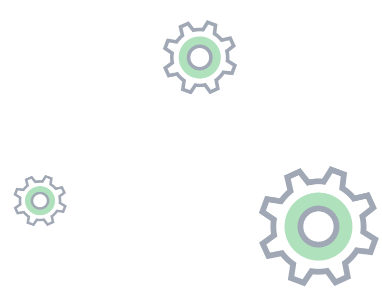
Nakisa Lease Administration is a lease management and accounting solution designed to support your organization by automating, centralizing, and simplifying lease accounting operations. The ability to consolidate data, group together leases, and provide disclosure reports in compliance with leasing standards, makes it the solution of choice for retail 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 with sustainability measures. With Nakisa Lease Administration, lease accounting is simplified and streamlined. Leveraging a single system for accruals, payments, reconciliation, and financial reporting on leases, retail companies can use the solution to maintain an audit trail of all changes and decisions for traceability.

Nakisa Lease Administration: Easy Deployment

The Nakisa 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.



With Nakisa Lease Administration, You Can:	Why Industry Leaders Trust Nakisa:

With Nakisa Lease Administration, You Can:

- Achieve global visibility through end-to-end lease contract management, reporting, and audit trail maintenance.
- Streamline contract management, lease accounting, and compliance reporting efforts.
- Reduce costs by leveraging powerful automation and ERP integration technology.

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

Please visit www.nakisa.com for more information or email info@nakisa.com to arrange a consultation with a product expert.

Email: info@nakisa.com

Tel: +1.514.228.2000

www.nakisa.com

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