

# Smarter Lease Accounting for Retail

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 retail 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 retail industry. Effective January of 2019, the new lease accounting standards require nearly all 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.

Lease contracts touch almost every aspect of a retail business. Retailers use these arrangements to make cost-effective investments in their stores, point-of-sale systems, distribution centers, and transportation equipment. 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.

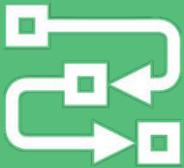


**“Entities in the retail and consumer sectors are generally prolific lessees and, at times, lessors of assets. For retail and consumer companies with a significant portfolio of leases, the ability to gather the required information on existing leases and capture data on new leases at the outset will be critical to an orderly and smooth transition to the new standard. This may result in the need for new systems, controls, and processes, which will take time to identify, design, implement, and test.”** – PwC, A Look at Current Financial and Reporting Issues – Retail and Consumer Industry Supplement for IFRS 16 ‘Leases’

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 retail sector. At 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 retailers, however, there are activities common that create industry-specific complexities for the ongoing application of the new lease rules. For example:



Leases for retail space are often structured with a series of renewal options that provide the retailer with operating flexibility. In a change from previous accounting, the exercise of renewal options triggers a possible reassessment of the lease's operating vs. financing classification, which would also involve a revaluation of the right-of-use asset and related lease liability.



In recent years, the use by retailers of outsourcing arrangements covering non-core functions such as warehousing operations, and data center hosting have increased. Some retailers have set up shop within other businesses to operate "store-within-a-store" concepts. Because of the requirement to record leases as right-of-use assets based on economic benefit, retail operators must evaluate these arrangements to determine whether they contain embedded leases.



Retail insiders have become familiar with the financial implications of sale-leaseback transactions for leasehold improvements and build-to-suit contracts. With the new lease rules, not only will retailers need to change their back-office processes, decision-makers will need to develop new expectations about how these transactions affect the financial statements. Retailers 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.

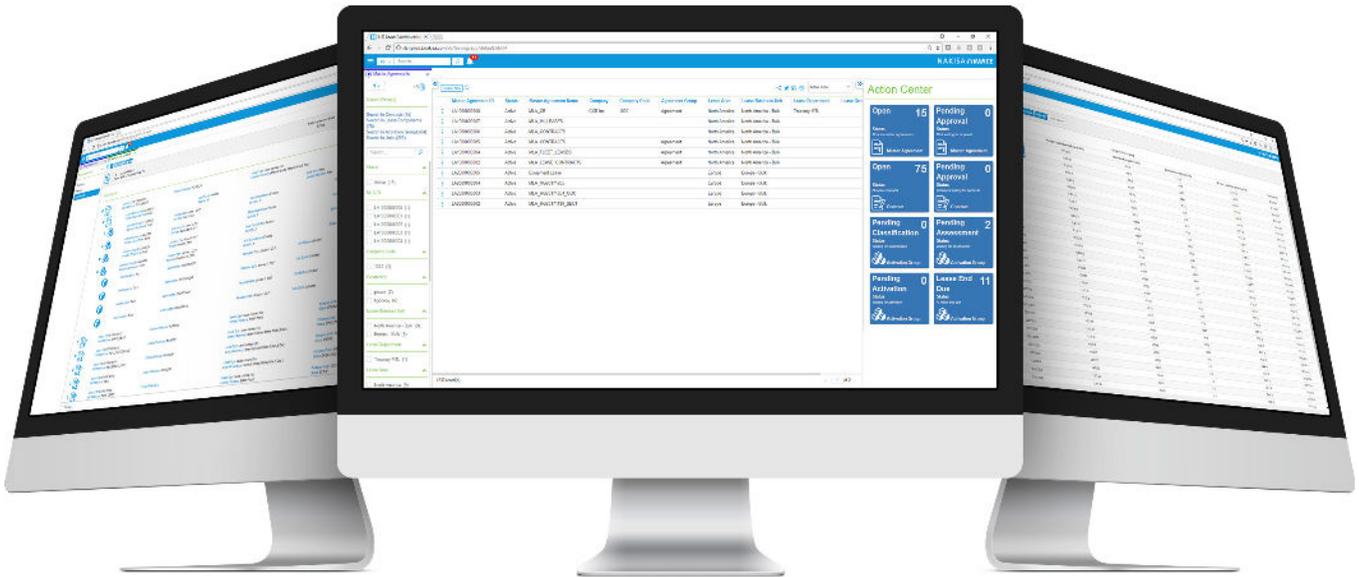
These are just a few examples of the issues retailers will face that will require changes to existing processes, the addition of new control activities, and enhanced system-capabilities to support compliance and decision-making exercises.

# Paving the Road to Compliance

Retail 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 retail 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.





## 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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