

Smarter Lease Accounting for Life Sciences

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 life sciences 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 professionals in the life sciences 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.

Operating leases are common in the life sciences industry. Many life sciences companies enter into lease contracts to gain access to medical equipment, office buildings or other assets. 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.



The accounting changes are just the most obvious impact the new standard will have on life sciences companies. Companies will also need to analyze how the new model will affect current business activities, contract negotiations, budgeting, key metrics, systems and data requirements, and business processes and controls – PwC, An Industry Focus on the Impact of IFRS 16 – Life Sciences

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 life sciences sector. Beyond the requirement to record operating leases on the balance sheet, many life science companies will need to consider how other business arrangements fit into the lease accounting model. The critical questions for life science companies relate to contracts covering multiple goods and services. For these arrangements, significant effort and judgment may be required to distinguish between lease and non-lease components, variable and in-substance fixed lease payments, and to determine a relative value for each.

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 life science businesses, however, some activities create industry-specific complexities for the ongoing application of the new lease rules. For example:

- ▶ In the life sciences industry, contracts often involve extensive collaboration between the parties, cover multiple goods and services and result from simultaneous negotiations. These may involve contracted manufacturing operations and research activities, the acquisition of medical equipment and consumables, and procurement of maintenance and training services. 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.
- ▶ Life science companies often incur significant initial direct costs, such as commissions and legal fees, in connection with signing multi-year contracts. When these contracts include lease and non-lease components, lessees will need to allocate the costs across the separate parts. Since lease-related direct costs are amortized over the lease term while non-lease costs may be expensed immediately, these judgments could have a material financial statement impact.
- ▶ Over the course of a lease, any number of events may arise to alter the likelihood that a lessee will exercise renewal and other options within their control. For example, life science companies routinely enter or exit collaboration agreements involving leased lab space, or adjust their R&D strategy. The new accounting rules require lessees to evaluate whether these events trigger a reassessment of the lease's operating vs. financing classification. These events could also involve a revaluation of the right-of-use asset and related lease liability. Further, there will be cases where these factors require life science companies to record impairment charges for their right-of-use assets. It will be important for life science firms to install processes and controls to monitor these types of triggering events and factor them into multiple accounting workstreams.

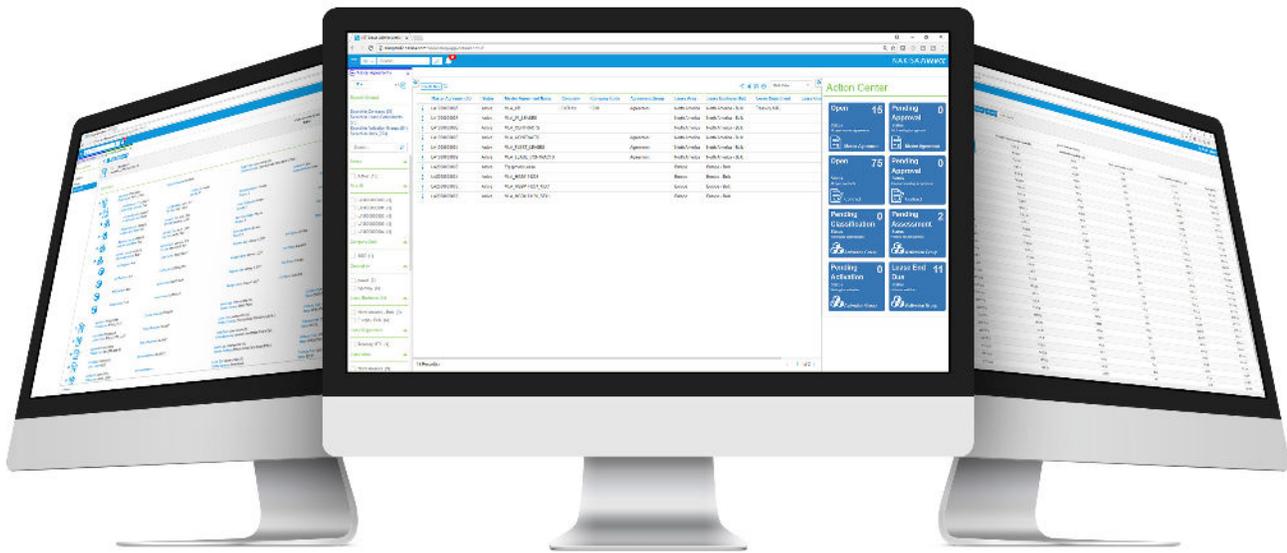
These are just a few examples of the issues life science companies face that require changes to existing processes, the addition of new control activities, and enhanced system-capabilities to support compliance and decision-making exercises.

Paving the Road to Compliance

Life sciences 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 life sciences 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

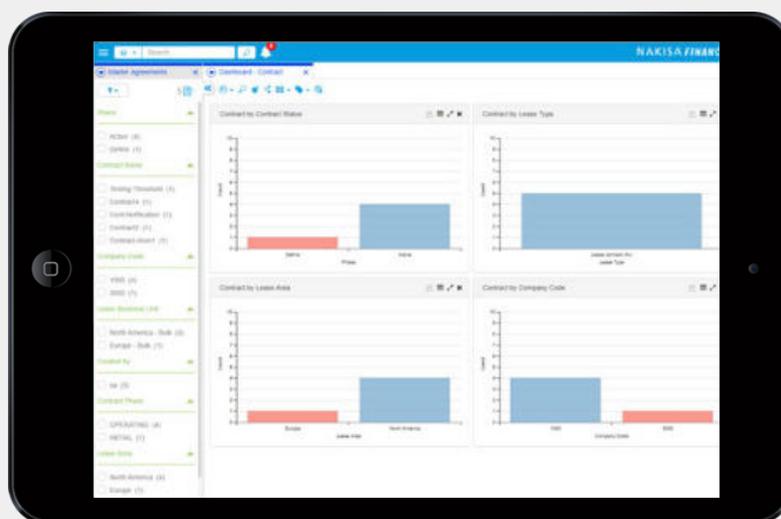
Nakisa Lease Administration is a lease management and accounting solution designed to accelerate compliance with IFRS 16 and ASC 842 by automating, centralizing, and simplifying lease accounting operations. The ability to consolidate data, group together leases, and provide disclosure reports in compliance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

Please visit www.nakisa.com for more information or email info@nakisa.com to arrange a consultation with a member of our team.

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