

Buildings

The checklist: prepare for sweeping lease accounting standards changes



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No matter what your business is – family-run or million-dollar enterprise – every industry in the world has the potential to be disrupted by the new lease accounting standards. The global FASB deadline requires public and private companies to adopt the massive changes by 2019 and 2020, with IASB compliance by 2019, and many are already struggling with developing a look-back approach.

To prepare for the new lease accounting standard, many organizations are merely focusing on compliance. But more forward-thinking organizations are using the new standard as a catalyst to focus on longer-term financial management – by evaluating lease accounting solutions to transform the way they manage their real estate, equipment, information technology, and infrastructure assets.

The right solution can help you transform the way you manage your assets to achieve increased efficiencies, more effective utilization and greater financial return on assets.

In a previous post, we discussed how TRIRIGA can help organizations contend with the 2019 lease accounting change implications. In this blog, we've created a checklist of areas for you to consider when defining an effective technology strategy to tackle your lease accounting change compliance plans.

1. Lease abstraction, inventory, and analysis

The use of lease accounting systems that are informal, incomplete and inaccurate has left many without a detailed understanding and easy access to critical terms such as rent, renewal/expansion/termination clauses, borrowing rates and fair market rental value (FMRV). The new standard requires companies to perform periodic analyses of dynamic financial and market conditions that create “significant economic incentive” to extend or terminate leases. The ideal solution would, therefore, be able to drill down and uncover details across all leases to deliver an accurate analysis of the impact on your balance sheets and income statements.

2. Lease administration and management

Currently, inadequate or home-grown systems and spreadsheets have tracked only a small subset of the information required under the new accounting standard, and many departments have been responsible for tracking and managing their own lease contracts. An integrated lease accounting solution reduces the inefficiency and expense of multiple lease administration systems and provides a single point of control to increase visibility and control of the impact on the income statement. A single global lease accounting solution can also optimize lease administration and management processes such as index adjustments, payment processing, and percentage rent processing, while providing critical date alerts, payment reconciliation, and approval routing to help users avoid penalties and overpayments.

3. Lease accounting and compliance

In addition to requiring publicly traded companies to add huge amounts in new assets and liabilities to their balance sheets, the new standard will also increase lease accounting complexity, with new periodic reviews of financial and operational assumptions and strict auditing and reporting requirements. To comply with the upcoming new lease accounting standard companies will need an integrated management solution that forecasts the balance sheet impact, simplifies the lease accounting processes and automates audit processes. The ideal solution should streamline lease accounting processes such as index adjustments, assumption reviews and balance sheet reporting, across all leases.

4. Security and audit compliance

To satisfy auditors, ensuring the integrity of their processes and data and carefully documented lease accounting records is critical. An ideal solution supports industry standards for system and information security and goes beyond with settings that control which users can view, edit, create or delete any file or document set. A comprehensive document history and a full audit trail is required, as well as enhanced security features specific to an organization's accounting needs.

5. Transaction management

The proposed new lease standard limits grandfathering or reporting on existing leases so management will need to apply the same analytical rigor to leases negotiated before the implementation date as those negotiated after it, and international operations introduce even more complexities. A closed-loop system will help evaluate lease transactions against purchase/planning scenarios, and automate leases and transactions driven by critical date notifications.

6. Strategic facility planning

The upcoming changes provide a catalyst to consolidate and eliminate under-utilized assets before they impede financial ratios or trigger debt covenants. To achieve these reductions organizations need rigorous scenario modeling and analysis capabilities based on contract terms

and market conditions to forecast impacts on balance sheets, profit, and loss statements, and income statements for new leases and lease renewals. The right solution should simplify the complex facilities planning process and identify gaps in facilities supply and demand. It should be able to analyze scenarios against the status quo, goals and other planning scenarios.

7. Management system architecture

In dealing with the added complexity from the proposed new lease accounting standard, organizations can save time – and money – by using an enterprise-class suite of business applications that can support lease accounting, real estate management and facilities management on a single technology platform and data repository. A solution based on an Integrated Workplace Management System can help provide this consistency while also helping reduce facilities operational costs, increase return on real estate assets and mitigate environmental and financial regulatory risks, all while supporting thousands of concurrent users without disruption or long response times.

IBM can help address your lease accounting needs

Don't let compliance activities cripple your organization's day-to-day operations or the productivity of your lease accounting staff. [The IBM® TRIRIGA®](#) lease accounting solution offers a comprehensive, compliant, and easily configurable system to help streamline and automate your lease accounting processes – from the initial data import to scenario planning, to ongoing audit and compliance reporting.

Watch the new [on-demand webinar](#) to discover in-depth about how an IWMS solution can help you tackle lease accounting changes.

Learn more

- To learn more about how IBM TRIRIGA can help you address the upcoming changes to lease accounting rules, check out this [buyer's guide](#).
- Explore the power of an [IWMS solution](#) for managing your real estate portfolio across the lifecycle.