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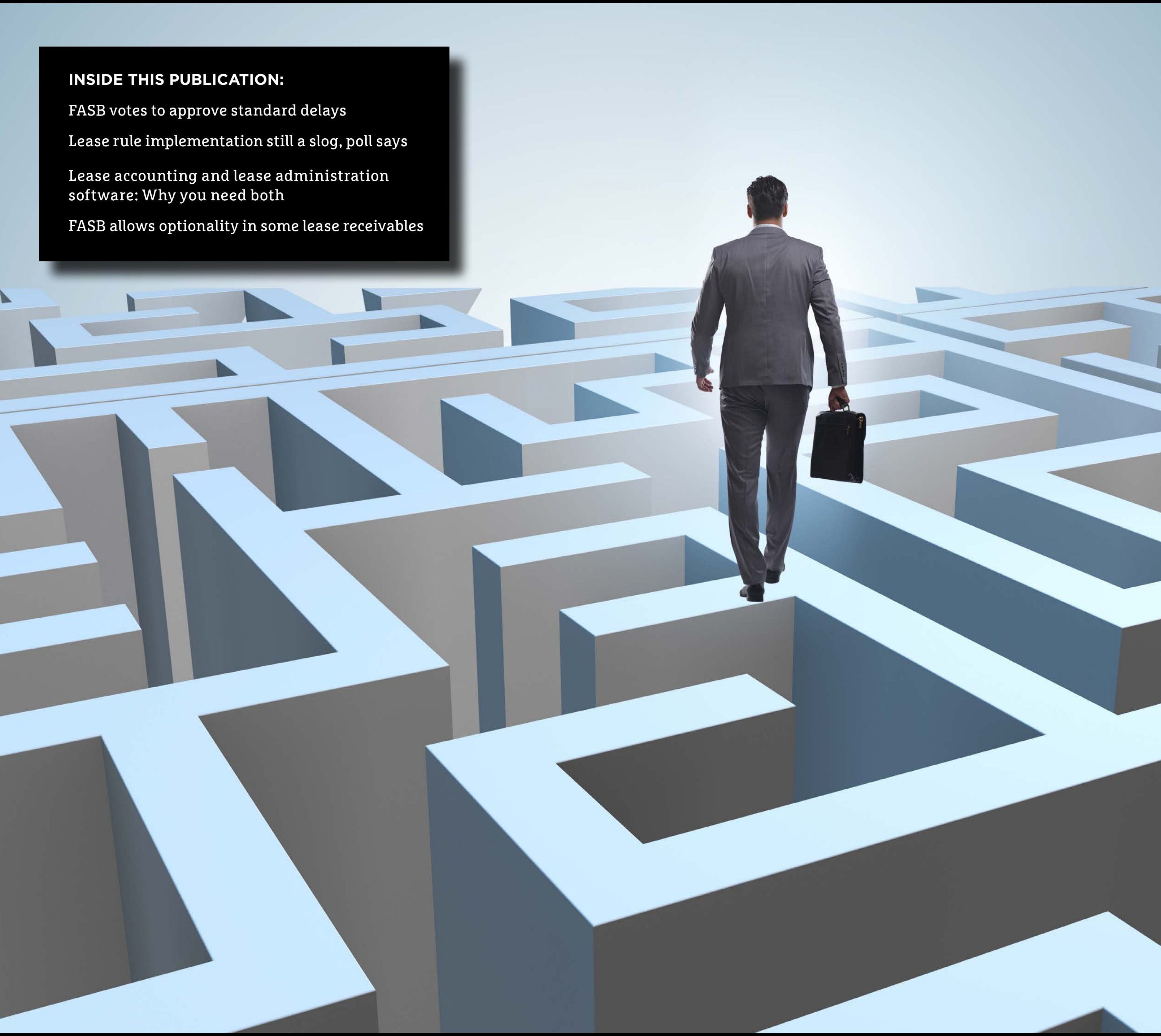

Light at the end of the tunnel for Lease Accounting?

An e-Book publication sponsored by VISUAL LEASE

About us

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VL VISUAL LEASE

Visual Lease is a software company that makes lease management simple—providing a robust SaaS platform that takes the complexity out of managing the financial and legal aspects of a company's lease portfolio, from real estate to equipment and other assets.

Visual Lease was started in 1995 and, from its inception, the company has been solving lease management problems and evolving the platform's technology to meet changing customer needs. The passion, adaptability, and competency of the Visual Lease team has resulted in a platform that's always current and continues to deliver the industry's most comprehensive lease management tool.

Today, Visual Lease combines lease administration and lease accounting with consultative insights and technical expertise—bringing depth of functionality and simplicity together in one intuitive platform. It streamlines the process of gathering, interpreting, and reporting on lease data to make lease management more efficient, consistent, and precise.

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Inside this e-Book

FASB votes to approve standard delays

After receiving comment from public companies that the plethora of new accounting standards was making implementation difficult, FASB voted to approve delays. **Kyle Brasseur** reports.

The Financial Accounting Standards Board recently voted to approve a previously proposed delay to its upcoming rule change for credit losses, in addition to standards for hedging and leasing.

The board affirmed its final decisions on the amendments following a public comment period that ended on Sept. 16. Affected are Accounting Standards Codification Topic 326 (credit losses, or CECL), Topic 815 (derivatives and hedging), and Topic 842 (leases).

ASC 326 requires companies to adopt a "current expected credit losses" approach. Public business entities (PBEs) that are Securities and Exchange Commission filers, excluding entities eligible to be smaller reporting companies (SRCs) as currently defined by the SEC, will still be expected to comply for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years. For calendar-year-end companies, the effective date is Jan. 1, 2020.

All other PBEs and private entities will have the date delayed from January 2021 to fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years.

ASC 815 on hedging, already in effect for public business entities as of December 2018 (January 2019 for calendar-year-end companies), will be deferred one additional year for all other entities—those other than PBEs to fiscal years beginning after Dec. 15, 2020 (Jan. 1, 2021, for calendar-year-end), and interim periods within fiscal years beginning after Dec. 15, 2021 (Jan. 1, 2022, for calendar-year-end).

ASC 842 on leases, also already in effect for all PBEs, not-for-profit conduit bond obligors, and employee benefit plans that file or furnish financial statements with the Commission, will be deferred an additional year for all other entities—similar to ASC 815.

According to the board early adoption on the lease and hedging accounting standards will continue to be allowed.

FASB's delay of the credit loss standard notably does not let large Commission filers off the hook despite a universal plea from banks of all sizes to delay the standard so its effects on the economy can be further studied. The controversial standard has even been a target for lawmakers, with Sen. Thom Tillis (R-N.C.) and Rep. Blaine Luetkemeyer (R-Mo.) each referencing CECL in legislation proposed to subject FASB standards to additional scrutiny before being implemented.

FASB Chairman Russ Golden has acknowledged private companies, not-for-profit organizations, and smaller public companies would benefit from having more time to implement major changes in accounting, with availability of resources, the timing and sources of education in new standards, and the development or acquisition of technology among factors providing hardship.

Golden said in a statement; "This represents an important shift in the FASB's philosophy around effective dates, one we believe will support better overall implementation of these standards."

The board will next draft a final Accounting Standards Update on the amendments for vote by written ballot. ■

Lease rule implementation still a slog, poll says

Deloitte surveyed more than 1,200 Webcast participants to find out how far along they were in implementing FASB's lease standard, and many lagged behind. **Tammy Whitehouse** explores.

Halfway through their first year of reporting under a new lease accounting standard, only about one-fourth of public company executives said their implementation activities connected with the new standard were complete.

That was the outcome of a June Webcast poll of 1,230-plus participants at Deloitte, which found just 26.3 percent regarded their implementation of Accounting Standards Codification Topic 842 on lease accounting to be substantially complete. Of participants with public companies, nearly one-third said they felt their organizations were only "somewhat prepared," and 8 percent said they were unprepared.

The lease rules took effect on Jan. 1, so calendar-year public firms have already reported under the standard in their first- and second-quarter filings. In a February poll, Deloitte found about half of public company participants said they planned to spend at least as much time or more time working on lease accounting into 2019 as they had already spent preparing for their first quarterly filings under the new standard.

Most have generally reported difficulties getting systems and software running that would provide the lease data required under the new standard for reporting in financial statements. Most have completed initial compliance activities but still have work to fully integrate the accounting into their processes and controls, says Deloitte Managing Director Sean Torr.

"I suspect we see a low rate of U.S. public company executives calling implementation complete because they've realized that ongoing work is necessary to build sustainable, long-term lease accounting programs," said Torr in a statement.

When asked which issues pose the biggest challenges to achieving compliance, 30 percent said their main problem is identifying all leases and gathering necessary data. Some 17 percent also said their firms are struggling with making the necessary changes to business processes and controls and with communication to key employee or stakeholder groups.

"I suspect we see a low rate of U.S. public company executives calling implementation complete because they've realized that ongoing work is necessary to build sustainable, long-term lease accounting programs."

Sean Torr, Managing Director, Deloitte

Fifteen percent said their firms are struggling under the weight of managing multiple new standards in rapid succession. Major rules on revenue took effect in 2018, and new rules on credit losses are on deck for 2020, with leases sandwiched between.

Private companies had an additional year to prepare when the Financial Accounting Standards Board initially enacted the rule, and now FASB has voted to extend its time line for an additional year. FASB says it recognizes implementations are strained across a number of new standards, so it plans to allow more time for the system to catch up. ■

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Lease Accounting and Lease Administration Software: Why You Need Both

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Intro

Does your organization have the proper systems in place to comply with the new lease accounting standards? If not, you're not alone.

Navigating the burden of legacy systems, systems complexity, and finding the necessary resources within current IT teams are proving challenging for many organizations as they work to ensure compliance with ASC 842 and IFRS 16. [1]

To comply with the new lease accounting standards, organizations are needing to make both operational and system changes, which includes better managing their lease accounting practices.

To help organizations successfully implement the changes and ensure compliance, this white paper explores the importance of having both lease administration and lease accounting software and outlines three factors every company must consider.

New Accounting Standards: A Changing Landscape

It is estimated that listed companies using IFRS Standards or US GAAP have roughly $3.3 trillion of lease commitments, of which more than 85 percent do not appear on their balance sheets. That's because, historically, leases have been categorized as either "finance leases" (reported on the balance sheet) or "operating leases" (disclosed only in the notes to the financial statements). [2]

That is changing.

Looking to bring many leases onto the balance sheet and increase the visibility of a company's assets and liabilities, the Financial Accounting Standards Board and the International Accounting Standards Board issued in 2016 the ASC 842 and IFRS 16, respectively.

Many businesses, largely public entities, transitioned to the new lease accounting standards beginning Jan. 1, 2019. Other entities, like private companies, have an extra year to adopt ASC 842. IFRS 16 is effective as of Jan. 1, 2019.

"The new guidance responds to requests from investors and other financial statement users for a more faithful representation of an organization's leasing activities," stated FASB Chair Russell G. Golden in announcing the new standards. "It ends what the U.S. Securities and Exchange Commission and other stakeholders have identified as one of the largest forms of off-balance sheet accounting, while requiring more disclosures related to leasing transactions." [3]

Echoing the sentiment, IASB chairman Hans Hoogervorst said in a prepared statement, "The new Standard will provide much-needed transparency on companies' lease assets and liabilities, meaning that off balance sheet lease financing is no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy." [4]

ASC 842 and IFRS 16 converge in many ways, however, significant differences remain such as lease classification, transition approach, and an exemption on low value leases.

Many entities have been busy developing plans for ASC 842 and IFRS 16, and are on track to meet the required changes needed to comply. But, as research suggests, not without help.

Navigating the burden of legacy systems, systems complexity, and finding the necessary resources within current IT teams, as well as data collection, are among the top issues proving to be much more difficult than anticipated, according to a recent Ernst and Young survey. To ensure compliance, many companies are turning to interim solutions, temporary workers and external consultants, and much larger budgets.

"Compliance with the new leases standard has become a larger, more complicated endeavor than many companies originally anticipated. From choosing a system and gathering all relevant data from across the organization to deciphering contracts and identifying embedded leases, piecing together the data and IT puzzle, especially for complex global organizations, is core to the challenges many companies face, but also necessary for a successful implementation," stated Anastasia Economos, EY Americas Leases Leader.[5]

01 "Companies Ready for Leases Standard, but Only with Help, Finds EY 2018 Lease Accounting Change Survey." Ernst & Young, 3 Dec. 2018, www.ey.com/us/en/newsroom/news-releases/news-companies-ready-for-leases-standard-but-only-with-help-finds-ey-2018-lease-accounting-change-survey

02 "IASB Shines Light on Leases by Bringing Them onto the Balance Sheet." IASB, 13 Jan. 2016, archive.ifrs.org/Alerts/PressRelease/Pages/IASB-shines-light-on-leases-by-bringing-them-onto-the-balance-sheet.aspx

03 "FASB Issues New Guidance on Lease Accounting." FASB, 25 Feb. 2016, www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176167901466&d=&pagename=FASB/FASBContent_C/NewsPage

04 "IASB Shines Light on Leases by Bringing Them onto the Balance Sheet." IASB, 13 Jan. 2016, archive.ifrs.org/Alerts/PressRelease/Pages/IASB-shines-light-on-leases-by-bringing-them-onto-the-balance-sheet.aspx

05 "Companies Ready for Leases Standard, but Only with Help, Finds EY 2018 Lease Accounting Change Survey." Ernst & Young, 3 Dec. 2018, www.ey.com/us/en/newsroom/news-releases/news-companies-ready-for-leases-standard-but-only-with-help-finds-ey-2018-lease-accounting-change-survey

With the new standards bringing onto the balance sheet operating leases for such assets as real estate, manufacturing equipment and transportation, the impacts are far reaching. To comply, businesses need to make both operational and system changes.

Lease Accounting and Lease Administration Software: Why You Need Both

To comply with the new lease accounting standards, many organizations are looking for ways to better manage their lease accounting practices.

"Historically, many companies, especially large ones, needed to have a lease administration product or software solution to help them manage a high number of leases. We've seen mostly anyone who has around 20 leases, or more, needs a product to help manage [their portfolio]," said Alexandra Betesh, vice president of Client Services for Visual Lease, a provider of lease accounting and lease administration software.

Added Betesh, "Lease accounting was never really 'a thing' because accountants did not really need to focus on it as much. Now that they do, lease accounting all of the sudden is an incredibly hot topic. That's actually become even more significant than the lease management piece." [6]

For today's organizations, having both lease administration and lease accounting functionality to perform the required calculations of the leased assets for the business's financial statements is essential. Below are three factors to consider when selecting a solution:

#1: Ensure Alignment, Reduce Errors

To meet the needs of both the accounting and the real estate teams, the lease administration and lease accounting applications must work closely together. Bringing both lease administration and accounting technology together into one robust, trusted solution can significantly drive efficiencies and reduce errors.

Consider this: When you get a new lease it must be understood and summarized and you must track both the legalese and financial elements of that lease. Understanding both the legalese and financial elements — which can control start dates, options, dollar amounts, etc. — helps accountants quickly generate accurate calculations and helps lease administrators build project plans, understand how to use the space, etc.

Leveraging a platform that has both lease accounting and lease administration helps ensure that, from day one, both teams are aligned and consistent.

Implementing one system can also enable fast and easy data migration. Lease payments and other data will need to be regularly fed to general ledger systems. If an organization has a lease administration tool that cannot send data feeds, they would be forced to use manual export/import processes. Selecting a solution that has a data migration engine streamlines the process of importing data from spreadsheets and existing databases. This saves time and significantly reduces the risk of errors.

#2: Drive Efficiencies Through Automation

Under the new accounting standards, organizations are required to record assets and liabilities as journal entries on the balance sheet for almost every leased asset. Leases must be classified as an operating lease or a capital lease to determine the correct lease accounting treatment.

Adding to the complexity is the fact that, during the transition period, companies must prepare journal entries for both the existing standards and the new standards.

Drive efficiencies by leveraging a platform that automatically calculates your journal entries under the current and new FASB and IFRS standards, and provides you with all the required calculations for any given asset and time period whether it's straight-line expense entries, right-of-use asset entries, lease liability entries, or interest and amortization entries.

#3: Configurable vs. Customizable

No two organizations and no two leases are alike. Whether it's a multi-national organization focused on the tech sector, a healthcare entity with multiple subsidiaries, or a local retailer looking to grow their store base, implementing a bundled solution that is configurable to meet the specific reporting needs of that organization is essential.

"Having a tool that can be configured to accommodate all these different fields and then have the awesome functionality to be able to search for leases that have those attributes, or report on all of those attributes whenever needed on the fly, that's really, really important to have that flexibility," said Betesh. "There is no cookie-cutter way of managing leases that have such different terms, such different landlords amongst so many different industries across the world." [7]

[07] "Betesh, Alexandra. "Personal Interview." 17 Jan. 2019.

Having the ability to connect with and share lease administration and accounting data between other systems such as GL/AP/ERP systems, space management, file management, and email platforms is also beneficial.

An alternative solution is a tool that is customizable. This means that the tool is built for you to accommodate the specific needs of your organization. A factor to be aware of, however, is that if a solution provider has built you a custom tool it likely limits their ability to easily make product enhancements and updates.

Leveraging a configurable, cloud-based solution that provides both lease administration and lease accounting provides you with a solution that will continually grow and evolve with your organization.

Conclusion

The time is now. If your organization is searching for a long-term solution to meet the lease administration and lease accounting requirements under the new accounting standards don't delay. Turn to experts like lease accounting and management software professionals Visual Lease, who can bring you lease administration and accounting technology together in one robust, trusted solution.

FASB allows optionality in some lease receivables

FASB has issued new lease accounting guidance allowing options for how to reflect uncertain operating lease receivables, which is sure to produce reporting differences. **Tammy Whitehouse** has more.

When a lessor begins to have doubts about whether it will receive timely payments from lessees, the accounting gets puzzling.

That's what prompted staff to issue some recent guidance around the new lease rules in Accounting Standards Codification Topic 842, telling companies they have some options about how to report indications that leaseholders may fall behind on lease payments.

That may, in turn, lead to differences in how companies report questionable operating lease receivables. "The FASB has decided to accept some diversity on this," says James Barker, senior consultation partner at Deloitte & Touche.

Historically, if a company began to doubt whether it might collect all of the receivables on its balance sheet connected to leases, it generally turned to guidance on reporting credit impairments and loss contingencies. The rules on credit impairments are shifting, however, as companies prepare to adopt new rules in 2020 requiring a "current expected credit losses" approach under Topic 326.

As an update to the CECL approach to clarify implementation questions, FASB has already told companies they should not look to CECL to determine how to reflect losses on lease arrangements. Instead, FASB told companies to refer back to the leases guidance in ASC 842.

While ASC 842 requires companies to assess collectability on each individual lease as a condition of recognizing revenue, it does not provide for an overarching reserve on a pool of leases. That prompted some companies to apply historic loss contingency approaches to recognizing the potential for losses at the portfolio level, even while also recognizing revenue on leases under the guidance in ASC 842. Other companies are observing only the guidance in ASC

842 that calls for a lease-by-lease analysis of collectability as a condition of recognizing revenue.

The staff says in a handout to the FASB board that it recognizes the board did not mean to make any significant change to how companies deal with impairment of operating leases, but it also recognizes that a strict interpretation of ASC 842 on that point would represent a big change. As such, the FASB staff suggested the board allow companies to pick either approach, as long as they clearly disclose their accounting policy on the matter to investors and stick with it consistently.

FASB agreed with that staff recommendation, conceding it means not all companies are following the same approach. "The board decided that standard setting is currently unnecessary for this issue and instructed the staff to continue to monitor this issue for any significant diversity in practice," FASB said.

When FASB issued its 2018 guidance telling companies that operating lease receivables were not in the scope of CECL, that led to new questions, says Scott Muir, a partner in the national office at KPMG. "Some interpreted that to mean the only reserve for operating lease receivables you could book would be where a lease is deemed not probable of collection," he said. That would suggest the standard makes no provision for circumstances where some portion of a lessor's receivables for leases not yet identified as having credit issues may also not be collectible.

It also means companies with receivables for both financing leases and operating leases will have to apply two different reserve methodologies for different types of leases, Muir says. "Sales-type and direct financing leases are clearly subject to CECL, but operating leases are not under this model."

The clarity is helpful to companies that are still wading through their first year of reporting under the new standard, says Ryan Brady, a partner in the accounting principles group at Grant Thornton. It also puts to rest uncertainty around yet another area of unintended consequences produced by the new standard, he says.

"The board has been clear since initially issuing the standard it did not intend to significantly change the accounting for lessors, but as we implement in certain areas, it becomes clear that it does change practice for lessors," Brady says.

Now that FASB has permitted either of two approaches that are developing, it will lead to differences in how companies report, says Brady. "That diversity exists today," he says.

In practice, that means some companies will show signs of doubt about collectability sooner than others, says Barker. Companies following the reserve approach will take a big-picture approach, perhaps based on historic experience, and record a reserve to reflect how much of its lease portfolio overall it will not collect–a "haircut" on its lease receivables, says Barker.

Others, however, will make a call, lease-by-lease, on whether a given receivable is collectible. "If it's good, its 100 percent good," so the company will report the full expected revenue, said Barker. "We know that's not how it always works out, which is why the general reserve methodologies are used."

That means reporting under the strict interpretation of ASC 842 will delay recognition of any possible losses or shortfall on lease receivables essentially until they occur, which is contrary to the more forward-looking reporting required under CECL.

Hal Hunt, a shareholder at audit firm Mayer Hoffman McCann, says applying a general reserve will require historic data, which may be difficult for some companies. Different types of companies choosing different approaches creates the potential for big differences in reported outcomes, he says. "The potential is there, depending on the lessor's portfolio and what the economy is doing," he says.

The diversity in approach lends yet another reason to the mounting case for delaying the effective date of ASC 842 for non-public entities as public companies continue to work through issues, says Hunt. FASB has voted to push a number of standards back, including leases for private companies and Current Expected Credit Loss for private and smaller reporting public companies. ■