

Learning Series: Lease Accounting Changes for Non-accountants

What comes first – the chicken or the egg?

Arazzo Solutions, LLC

July 5, 2017

Volume 7

Egg ↔ Chicken

Deb Vallo, Arazzo Solutions, Principal

It's imperative that your organization has defined the full team responsible for tackling and managing the various aspects of the new

cracks. In most organizations, the responsibility of the lease accounting calculations will lie with Finance. However, the Lease

Lease Accounting Extended Team



lease accounting guidelines. The pool of stakeholders is large since it now truly “takes a village” to not only implement the new standards but manage them going forward as lease data points change, new leases are signed, etc. But knowing where to start can be tricky – what should be done first and is there a particular order?

Begin with assigning and documenting specific roles so there are no gray areas where things can fall through the

Administration team is responsible for the data that is required to produce these calculations. Treasury will likely be responsible for providing the discount and capitalization rates used in the calculations. (see Buzz Words)

Asset Management may provide the definitions for useful life, and Transaction Management may be asked to define renewal rates to determine option values.

Buzz Words to Know

•••

Discount Rate: Rate used to calculate the present value (PV) of the lease liability

Capitalization Rate: Rate of return on a real estate investment used to calculate the fair market value (FMV); used in determining if a lease is a Finance lease

ERP System: Enterprise Resource Planning system – typically refers to a company’s corporate general ledger (GL) from which financial statements are generated

Use Case: Test scenarios that detail what to test and the expected outcome

UAT: User Acceptance Testing – users test the system to make sure it can successfully meet the requirements defined in use cases

The IT team will play a key role in providing support for new integrations, reports, or even new software selection if your current system doesn't provide the necessary functionality.

And lastly, your third-party auditors (working in conjunction with your internal auditors) provide the guidance needed to ensure the lease accounting calculations are being done properly and your company will be able to pass audits successfully. It's crucial to get your auditors involved now so they can approve and sign off on each decision that is being made by the Lease Accounting Extended Team. The new guidelines allow for some flexibility and interpretation, so it's important that the people who will be auditing and certifying

your financial statements are bought into the team's decisions from the beginning.

So where do you start as part of the CRE team? We advocate being proactive by approaching the other departments in the Lease Accounting Extended Team and get the party started. CRE can own this level of communication and planning, working especially closely with Finance and IT. The changes required by the new guidelines are highly visible all the way up to the C-level of your organization, so CRE taking a leadership role can be quite significant.

Another important decision is the software system your company uses to track lease data and perform the necessary lease accounting calcula-

tions. Is your current system up to the task? Gather your team, review the requirements and assess your current system functionality. (More on this topic in the next volume of this learning series.)

When you have the proper system in place, the key is to TEST, TEST, TEST. Finance should have use cases for the various lease accounting scenarios (with expected calculation results), and a full UAT cycle (or cycles) should be completed to flush out any issues. Pay special attention to proration calculations of lease and payment dates as these are always tricky!

Subscribe to this Learning Series [here](#). Feel free to share this paper with your friends and co-workers. Below are the papers in this series.

Papers in this Learning Series (Past, Present, & Future)

Volume 1: Why did FASB and IASB change the guidelines?

Volume 2: Why is moving leases to the Balance Sheet such a big deal?

Volume 3: How do the accounting changes impact my CRE team?

Volume 4: What are the key requirements of FASB ASC 842?

Volume 5: What are the key requirements of IASB IFRS 16?

Volume 6: What are the differences between ASC 842 and IFRS 16?

Volume 7: What comes first – the chicken or the egg?
(CURRENT ISSUE)

Volume 8: What do I need to consider when evaluating software systems?

Volume 9: What potential impacts will there be to leasing space?

Arazzo Solutions, LLC is a boutique professional services firm focused on the Commercial and Corporate Real Estate (CRE) industry. Having more than a combined 45 years of CRE experience, our team has a unique combination of expertise in lease administration, lease accounting, project management, and IWMS (Integrated Workplace Management System) support.

We are here to augment your internal CRE teams, assist you with ASC 842 and IFRS 16 compliance, including required data points, data management and governance, evaluation of systems, and best practices, and act as your advocate to manage IWMS vendors. Whether you have seasonal demands or need assistance year-round, we can help you meet your responsibilities and deadlines without the need to hire additional employees.

<http://www.arazzosolutions.com>



Learning Series Library: <http://www.arazzosolutions.com/learning-series>

Learning Series Feedback: <http://www.arazzosolutions.com/contact-us>

Charlene McNeil, Principal

214-773-4836

charlene.mcneil@arazzosolutions.com

Deb Vallo, Principal

214-405-4316

deb.vallo@arazzosolutions.com

Disclaimer: This material has been prepared for general informational and educational purposes only and is not intended, and should not be relied upon, as accounting, tax, or audit advice. Please refer to your financial and audit advisors for specific advice regarding your organization's approach and requirements.