

# Learning Series: Lease Accounting Changes for Non-accountants

## What do I need to consider when evaluating software systems?

Arazzo Solutions, LLC

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### *One Size Does Not Fit All*

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As part of the move to the new lease accounting guidelines, you've observed the importance of having all your lease data cleaned up and

stakeholders to evaluate what is currently in place and determine if it's sufficient. IT will be instrumental to these discussions.

### High Level System Evaluation Checklist\*

- Tracks leases, including additional data points and rates
- Provides alerts on critical data points (e.g., lease end date)
- Provides alerts on re-measurements
- Creates accretion and amortization schedules
- Generates journal entries for integration with ERP system
- Provides detailed audit trail
- Produces required reports
- Executive dashboards for graphical representation of impact of new guidelines

\*For a detailed checklist, please contact us ([info@arazzosolutions.com](mailto:info@arazzosolutions.com))

stored in one place to give you easy access to all the relevant data points needed for the new calculations. But is your current system able to handle the additional requirements? Perhaps you've found there aren't enough fields to store the necessary information. Or maybe your system can't produce the required calculations and reports to comply with the new guidelines.

There's no time like the present to work with key

Note any missing or incomplete functionality, and determine if your company needs to explore other systems as an alternative. This may be a tool that can be "bolted on" to your current system, or you may need to completely replace the system you use now.

If you find you need an alternative, we have a few recommendations you'll want to keep in mind. First, search for options that allow for ease of use and deploy-

### Buzz Words to Know

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**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

**Disclosure Report:** A report required by the new guidelines that helps with the transparency of lease transactions on the financial statements; it includes both qualitative and quantitative information to supplement the amounts recorded in the financial statements so that readers can understand more about the nature of an organization's leasing activities

ment, while providing the necessary fields and functionality to store the data and accurately perform the calculations. Ease of integration with your ERP system should also be part of this evaluation. It's best to stay away from home-grown systems due to the overhead costs of keeping those systems updated and relevant.

Second, evaluate your lease portfolio to determine the types of leases you need to track. Are they real estate leases only, or do you also have to track and account for equipment leases? Various systems may be better at one type of lease versus another.

Third, delve into the available security features. In most companies, there's a clear separation of duties between

lease administration and financial lease accounting (usually handled by Finance). The system needs to have the proper security to prevent lease admins from posting the new lease accounting transactions, and Finance from making unauthorized updates to lease data. This is important from both a controls and an audit perspective.

Fourth, ask the software vendors to demonstrate specific use cases provided by your Finance team. These should be the more complex scenarios in your portfolio. Be sure to include cases that require a re-measurement! Also, most software vendors will have had their systems reviewed and evaluated by third party auditors and should be able to provide you with use cases that were utilized as part of

the verification process. They should be willing to share those with you as further proof their system can do what you need it to do.

Fifth, ensure the system maintains a detailed audit trail. This is important for your annual audits and illustrates the proper controls are in place. The audit trail itself should be easily viewable (in reports or grids) without help from IT.

And lastly, be sure to evaluate the various reports required for the new lease accounting guidelines, including the disclosure report.

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## *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?

**Volume 8:** What do I need to consider when evaluating software systems? (CURRENT ISSUE)

**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.

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