

# The Future of Lease Accounting

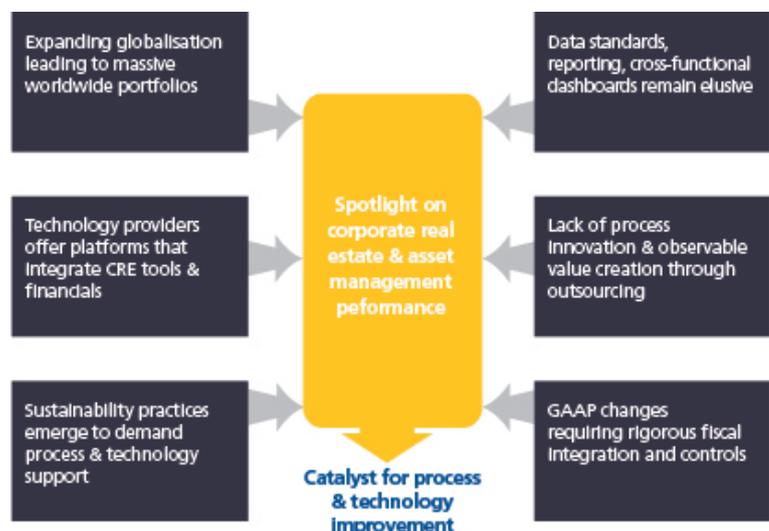


The new FASB-IASB lease accounting models affect virtually every company from a Balance Sheet perspective and more dramatically from an Income Statement perspective for IASB filers managing operating leases. This will change how organizations operate, are positioned, and evaluate real estate strategies. Many business and financial factors, such as quarterly and annual filings, debt covenants, credit ratings, reserve requirements, lease vs. buy decisions, internal cost allocations, and budgets, will be impacted by the change.

While there is already a focus on cost management strategies, offshoring and outsourcing, a convergence of factors are driving more intensive examination of asset management performance and corporate real estate effectiveness:

## Real Estate Importance:

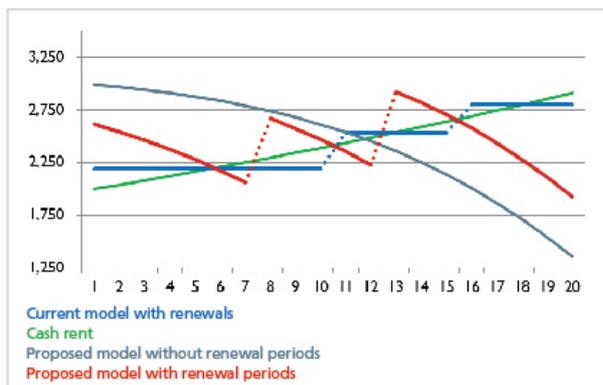
- 2nd Largest Expense on P&L
- 3rd Largest Asset Class
- 30% of Total Corporate Spend



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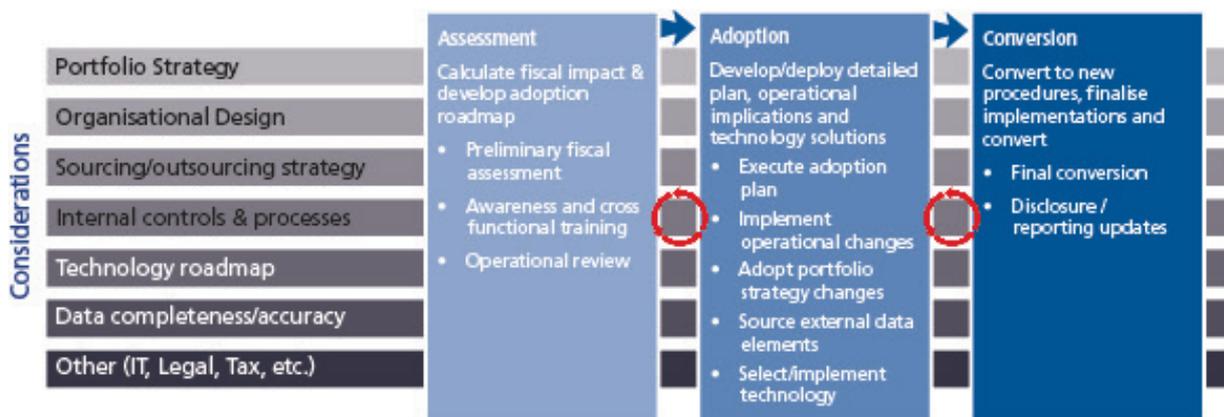
In Q1 2016, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly released final standards that dramatically changed lease accounting rules. This compulsory event further heightened the compliance and review pressures placed on organizations, underscored the importance of asset management on an enterprise's financial performance, and amplified the demand for integrated financial management solutions for real estate.

- The proposed lease accounting model will have a material effect on the financial statements, processes, policies, and systems of all organizations
- The new rules will dramatically change operating lease accounting for IASB filers and will gross up balance sheets with a lease liability and a right to use assets adding over \$2.0 trillion to the balance sheets of companies in the US and over £60 billion in the UK alone
- Depending on the lease contract, the accounting treatment for base rents, rent escalations, renewal options, continent rents, and other expected payments could be affected
- These changes affect ALL tangible assets – airplanes, trucks, railcars, billboards, copiers, real estate, etc.
- Expense recognition patterns will change dramatically for IASB filers (diagram above)
- Financial statements results of operations will be front end loaded for IASB filers
- Existing leases will not be “grandfathered” out, although short term leases (for FASB and IASB) and leases deemed immaterial (for IASB) may be excluded



The new standard will render all existing lease accounting technologies obsolete and require organizations to implement new processes and applications to comply – nearly all existing point solutions will be replaced with integrated financial applications.

## What You Can Do to Prepare



According to Rob Schafer, Research Director at Gartner, the impact of the FASB lease changes “is going to be pervasive across the C-suite [CFO, CRE, CIO]. It is going to be critical that these three areas especially are tightly aligned and attack this issue with a united front.” The value of IWMS in supporting these changes comes in several forms:

- The ability to integrate data between CRE and finance
- The ability to do strategic “what if” scenarios
- The ability to visualise data on dashboards and maps
- Integration between the Real Estate Ledger and your organisation's ERP financial system
- Increasingly accurate forecasting through the capture of supply-side and demand-side data

If you would like to learn more about Trimble's real estate and workplace management solutions, please visit [realestate.trimble.com](http://realestate.trimble.com) or contact:



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