

FASB/IASB Action Team

ASC 842/IFRS 16: Is your Organization at Risk?

This infographic illustrates the many potential risks and rewards associated with the revolution in lease accounting, and highlights 10 major mistakes that you should try to avoid to mitigate the risk and minimize the potential exposure for your company.



Rev Rec. Check! Hello New Lease Accounting Standards

After focusing on implementing the recently issued Revenue Recognition standard, adopting and complying with the new Leasing FASB ASC 842 and IASB IFRS 16 standards are now the biggest challenge for many organizations.

Under the new rules, companies will no longer be able keep operating leases off-balance sheet and merely record them as a periodic Rent expense (above the EBITA line). Instead, they'll have to show them on the balance sheet as an obligation and its related right of use asset. Additionally they will be required to record Interest and Amortization expense (below the EBITA line).

Unexpected Challenges

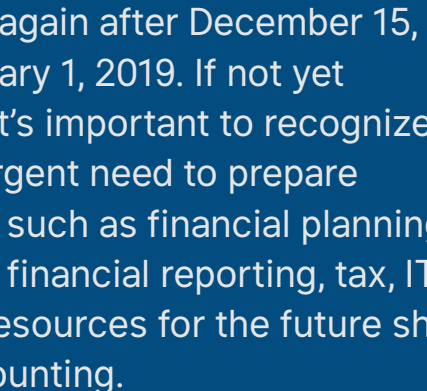
"The IASB expects that companies with on balance sheet leases will use their existing systems for those leases as the starting point when accounting for all leases in accordance with IFRS 16. Companies that have **less sophisticated systems in place** to manage and track leases are **expected to incur more significant costs** than companies that have sophisticated systems."

Source: IASB 2017

Reality:



In a survey by KPMG, 53% of respondents said that their companies have experienced unanticipated challenges related to the lease implementation effort.



Private companies were more surprised with 78% saying they did not anticipate how difficult the process would be.

Source: KPMG 2017 Accounting Change Survey

The new guidance will not affect all organizations in the same way.

To make sure your organization isn't put at risk by the new lease accounting standards, there are **10 key mistakes** you should try to avoid...

1 Closing your eyes to the shape of things to come



Your organization's whole approach to lease accounting and financial reporting — and even the necessary capabilities of your accounting technology — will never be the same again after December 15, 2018 or January 1, 2019. If not yet anticipated, it's important to recognize there is an urgent need to prepare departments such as financial planning and analysis, financial reporting, tax, IT, and human resources for the future shape of lease accounting.

2 Not being aware of the risks of noncompliance



Experts warn that organizations that utilize leasing of real estate, vehicles and equipment heavily could face severe consequences if they're not ready to adopt and report under the new lease accounting standards by January 1st, 2019 at the latest.

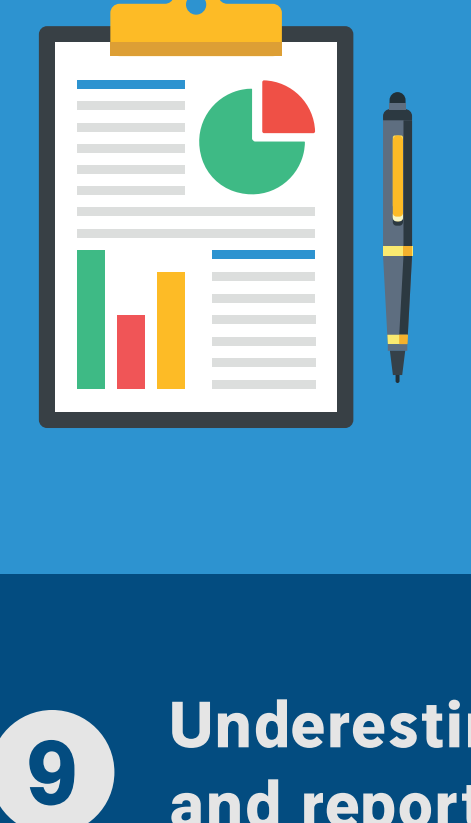
It will be essential to perform a thorough impact assessment as soon as possible to make sure your organization is fully prepared for the significant changes to the makeup of your income statement and balance sheet from either December 15, 2018 (FASB) or January 1st, 2019 (IASB).

3 Not forming a cross-functional compliance team



At this stage of the game, it is imperative you establish a cross functional FASB 842 and IFRS 16 project team to oversee strategic planning and execution for compliance. This team should ideally comprise of key people from your financial accounting and reporting, corporate real estate, financial planning and administration, procurement as well as IT departments at a minimum — along with representatives from other business functions that will be affected by the lease accounting changes.

4 Not creating a compliance action plan



Because the new leasing standards will touch many different parts of your organization, it will be essential to have a comprehensive compliance project plan (as well as Project Manager if possible) that will guide the departments affected through all of the steps they need to take to implement and comply.

5 Not taking a full inventory of ALL your leases and gathering source documents



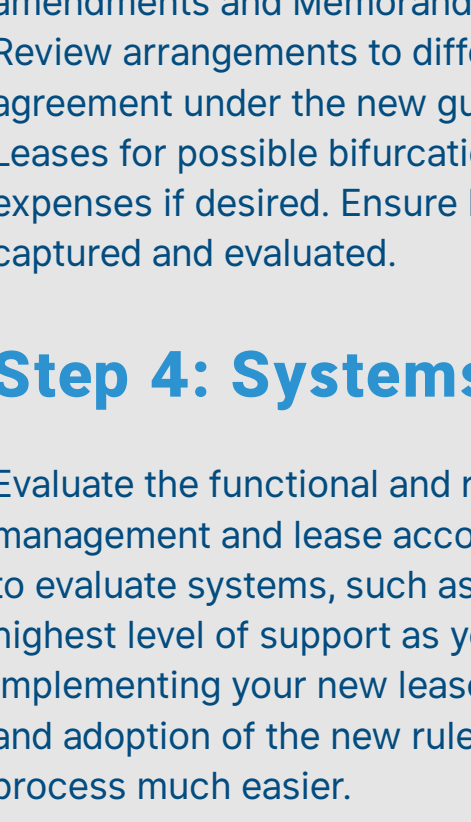
Do you know the location of ALL your current leases? Creating a full inventory of these leases and lease-like agreements, which may have previously been classified as a Service Agreement, is essential in preparation for the new lease accounting standards. Not reviewing these documents for completeness in terms of original leases as well as all amendments and Memorandums of Understanding terms and conditions will put your compliance project at risk. Remember, you may need to budget for thousands of hours of work for data collection and review. Hence the importance of building a comprehensive compliance project plan.

6 Not allocating sufficient resources to implement and achieve compliance



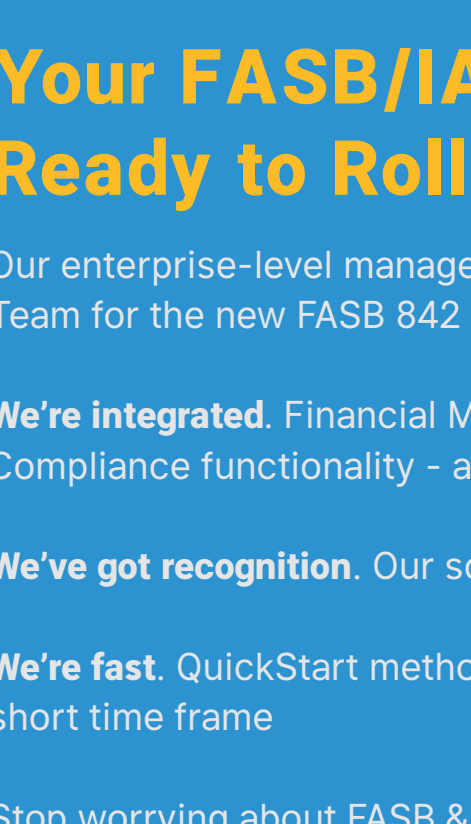
The FASB 842 and IFRS 16 changes are likely to affect many different parts of your organization. So it's imperative not to underestimate the amount of budget needed to cover the associated costs of compliance, as well as the additional company-wide workload.

7 Not reviewing and improving your leasing strategy



With the cost of operating leases set to be classified as an obligation on the balance sheet from January 1st, 2019, the traditional method of using discounted cash flow to analyze lease deals will no longer provide an accurate picture of the impact on a company's financial statements. In future, items such as lease components and renewal options will have a significant impact on the balance sheet, profit and loss as well as shareholder equity.

8 Not knowing how the FASB and IASB standards differ



It's important to recognize that the new FASB 842 and IFRS 16 standards differ on several key points. This factor will add extra complexity to compliance, and will present a major challenge for some companies — especially multinational enterprises with decentralized operations that fall under both sets of guidelines.

9 Underestimating the new accounting and reporting requirements

In a study by Deloitte, 88% of respondents felt that the new FASB 842 and IFRS 16 lease accounting standards will place a significant additional reporting burden on all lessees of real estate, vehicles and equipment. Some observers believe there could be a four-fold increase the amount of footnote disclosures on financial statements alone.

10 Failing to realize your lease accounting technology is not fit for purpose

The new FASB 842 and IFRS 16 standards will place greater demands on the capabilities of lease accounting technology. Experts warn that many existing lease accounting systems may need to be updated, or even replaced altogether, because they've been made obsolete by the new compulsory rules.

Deadlines are looming

By failing to prepare, you are preparing to fail.

— Benjamin Franklin

With the FASB ASC 842 & IFRS 16 deadlines looming, many real estate and finance leaders are scrambling to make sure their businesses are prepared.

Step 1: Project Team

If you haven't done so already, your first step is to immediately form a cross-functional compliance project team— comprising key people from your financial accounting, corporate real estate, tax, financial planning, HR and IT departments. This team of experts should be tasked with gaining an understanding of the implications of ASC 842 and IFRS 16 to their respective functional area and identifying the effects and/or changes that need to be acted upon. The team should include senior management champion sponsorship.

Step 2: Project Plan

Prepare a complete project plan with specific deliverables identified by the implementation team, due dates and responsible party starting from the date of first reporting under either pronouncement and working back through the present. Assign a project manager even on a part time basis to maintain momentum. Plan the work and work the plan!

Step 3: Inventory

Compile a full inventory of all leases and lease-like agreements which may have previously been classified as a Service Agreement. Review these documents for completeness in terms of original leases as well as all amendments and Memorandums of Understanding terms and conditions. Review arrangements to differentiate between a lease and a service agreement under the new guidance. Identify those leases which are Gross Leases for possible bifurcation so as not to capitalize non-lease operational expenses if desired. Ensure leases for equipment as well as vehicles are captured and evaluated.

Step 4: Systems

Evaluate the functional and reporting capabilities of your existing lease management and lease accounting system. You should also be taking steps to evaluate systems, such as Trimble Manhattan, that will offer you the highest level of support as you implement the new standards. Implementing your new lease administration system prior to the transition and adoption of the new rules will help to make the transition and adoption process much easier.

Step 5: Lease Capitalizing

Understand and plan for the effect of capitalizing the leases from both a Balance Sheet and income Statement perspective. Share the results of your forecasting and financial modelling with interested parties such as Financial Reporting and Financial Planning/Analysis professionals to name a few. Maintain open communication lines and equip them with value added information to do their job better. Remember, as a publicly traded company, failing to comply with the new standards by the first reporting period of 2019 WILL put your company at risk ... the only variable is the extent of the damage!

Your FASB/IASB Action Team is Ready to Roll

Our enterprise-level management system is like your personalized Action Team for the new FASB 842 and IFRS 16 standards.

- **We're integrated.** Financial Management, Lease Management and Compliance functionality - all built into a single system
- **We've got recognition.** Our solution has earned SOC 1 Type 1 certification
- **We're fast.** QuickStart methodology allows clients to be Go Live Ready in a short time frame

Stop worrying about FASB & IASB compliance and start preparing with Trimble's Manhattan application. Book a live demo with one of our experts today.

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