



# EQUIPMENT LEASE ACCOUNTING

HOW TO ACHIEVE COMPLIANCE THROUGH OPERATIONAL PROCEDURES



# TABLE OF CONTENTS

<b>PART 1: Understand the Fundamentals</b>	<b>3</b>
<b>PART 2: Establish Your Transition Plan</b>	<b>4</b>
<b>PART 3: Identify All Impacted Leases</b>	<b>6</b>
<b>PART 4: Team Up with the Right Partner</b>	<b>10</b>



## PART 1: UNDERSTAND THE FUNDAMENTALS

### AN OVERVIEW OF FASB/IASB

Take a moment to envision all the possible locations of your equipment leases. Chances are they are scattered throughout your organization – in file cabinets, hard drives, and buildings across the state, country – or possibly, the globe. It's estimated that there are \$3.3 trillion of lease commitments globally for public companies, of which 85% are currently off-balance sheet for financial reporting purposes.

With numbers like these, it's no surprise that many executives across all industries are troubled over the adoption of the new FASB/IASB lease accounting standards. According to a recent survey conducted by Deloitte, 41% of executives said they were concerned with implementing the new standards by the impending deadline. In this eBook, we look to help you and your organization lay out some basic strategies to assist your organization in FASB/IASB lease accounting adoption.

The new standards aim to bring greater consistency to corporate financial reporting, along with increased transparency to asset and liability balances on company balance sheets, regardless of whether the company leases assets or purchases and finances those assets. Public companies will need to provide their three-year comparative financial reporting under the new lease accounting standards, so they will need to track FASB/IASB lease calculations and schedules back to January 1, 2017, to provide accurate comparative reporting in 2019. Hence, for public companies, the window to prepare for that requirement is beginning to get short.

With those requirements on the table, it's time to lay out your plan for FASB/IASB adoption. Read on to find the framework you need to fully prepare.

It's time to learn some basic strategies for FASB/IASB compliance.



## PART 2: ESTABLISH YOUR TRANSITION PLAN

### RECRUITING YOUR COMPLIANCE TEAM

With equipment leases scattered across various departments of the organization, building out your cross-functional FASB/ IASB Compliance Team is one of the first steps you'll take when plotting your FASB/IASB transition. Find a project manager for the undertaking who will be accountable for the overall execution of the project. Next, select an executive sponsor who can approve the changes and potential systems investments you'll be making. Other Compliance Team members could include representatives from accounting and finance, real estate, procurement, legal, and IT. It's important to get leaders in each department involved in the compliance process. Here's how some of these team members can dig into the adoption process:

#### YOUR CROSS-FUNCTIONAL COMPLIANCE TEAM

- Accounting/Finance
- Real Estate
- Procurement
- Legal
- IT
- Project Manager
- Executive Sponsor



#### HEAD OF REAL ESTATE

The Head of Real Estate can assist by ensuring all data needed to complete the new calculations are tracked in a system that can prepare the necessary new schedules and accounting calculations. He or she can coordinate efforts with other groups who are responsible for calculation data outside of the real estate function.

## HEAD OF FINANCE/ACCOUNTING

The Head of Finance/Accounting has a responsibility to learn all about the new standards, which includes understanding the data that will be needed from outside of what is contained in the lease agreements. However, the most important task of the Head of Finance/Accounting is to make sure that they have 100% clarity on what their CAO/CFO and auditor expect the functional reporting outputs to look like. It is their responsibility to make sure the firm's auditor will be willing to mark their financial statements as being adequately and correctly prepared under FASB/IASB.

The Head of Finance/Accounting can also help in searching for documents, and should start with last year's year-end financial statements. He or she should also create a project budget, determining the dollars and time that will be necessary to complete the implementation. And most importantly, they should be the project champion, possibly acting as the executive sponsor to keep the team on track.

## HEAD OF IT

The Head of IT should evaluate the organization's current systems to ensure that they will be able to prepare the calculations. Part of the evaluation can include whether the system can support the administration and accounting for equipment assets and if the current system can integrate with all necessary systems, such as real estate, procurement, and ERP systems. If the resulting evaluation determines the need for a new technology solution, the Head of IT should then plan the process for a new system implementation, which includes vetting and evaluating new lease accounting software vendors.

## PART 3: IDENTIFY ALL IMPACTED LEASES

### LOCATING LEASES IN A DECENTRALIZED ENVIRONMENT

Decentralization is one of the most challenging issues for many companies when adopting the new accounting standard. With equipment leases, it is common that the procurement, administration, and accounting functions are not centrally organized, and therefore, conducted outside of standard corporate processes and procedures, with perhaps the exception of fleet and certain IT assets.

This means that each location is on its own when it comes to assessing leased assets. Field offices may be responsible for procuring and leasing their own office equipment or warehouse equipment, for example. Leases are sometimes executed and paid for from the field offices themselves around the world.

And the more decentralized the company and the equipment leasing process is, the more difficult the document and data gathering process becomes. When leases are stored in field offices around the world, it can create a logistical problem when gathering data since there are many people to contact to gather the documents and data needed to comply with the accounting standard. This may result in a large project focused on locating the necessary documentation. Most organizations should be prepared – the gathering of documentation may be a long and tedious process.

Don't be discouraged by your organization's decentralized lease environment. Stick to your plan and you'll find success.

Here are a few departments you may want to scour to locate your equipment leases:

#### **MARKETING DEPARTMENT**

The marketing department may have leases for the signage on a building, from banners to billboards. Marketing and their campaigns must be reviewed for the likelihood of leases.

#### **HUMAN RESOURCES/PERSONNEL DEPARTMENT**

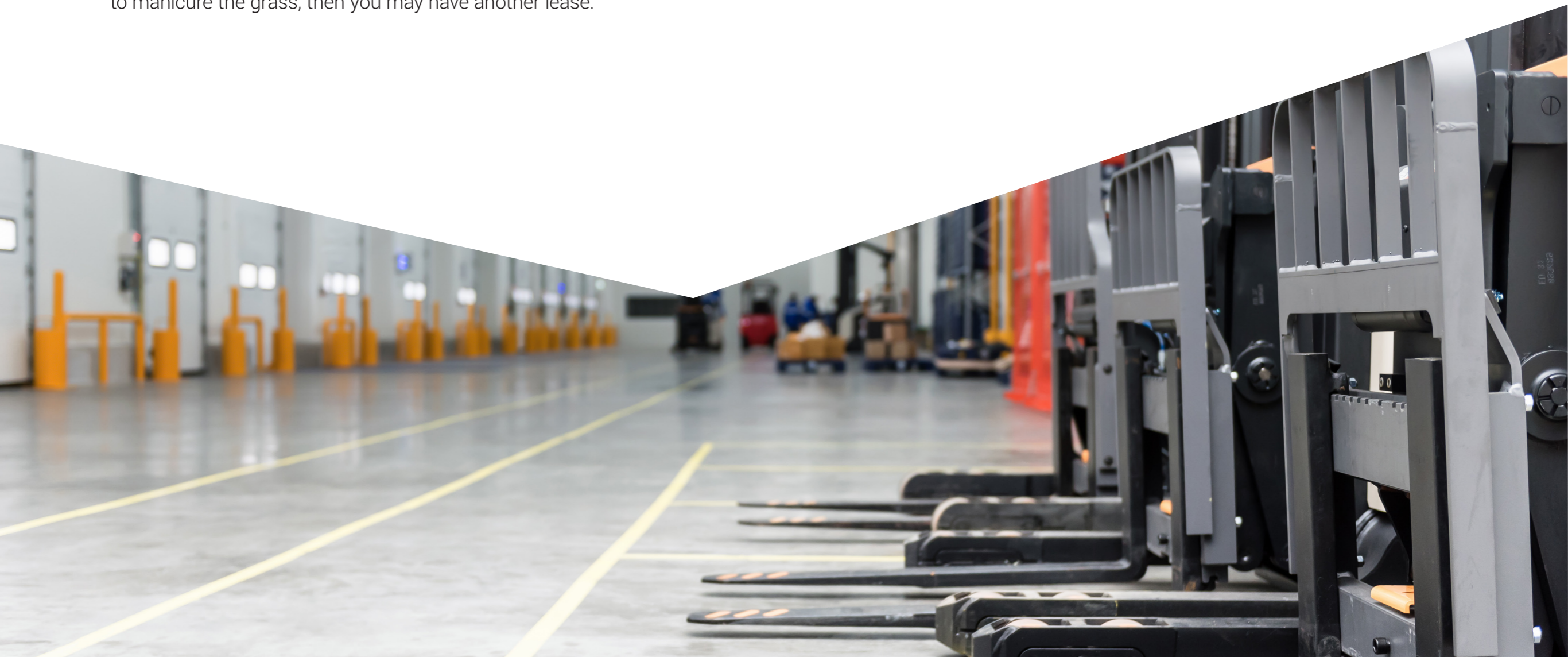
Keep an eye out for compensation packages that include leased assets, such as a company car. As you put together your lease strategy moving forward, it may be necessary to restructure certain employee compensation offers such that no employees pay for their own leased assets included in their compensation.

#### **REAL ESTATE DEPARTMENT**

You must consider all your lessor leasing agreements, or when you act as the landlord and derive extra income from a facility by leasing or re-leasing an unused portion.

#### **ADMINISTRATIONS/FACILITIES DEPARTMENT**

From the artwork to the gym equipment, be thorough when meeting with the head of facilities to ensure all pieces are accounted for. Be on the lookout for embedded leases as well. For instance, if you have a contract with a lawn landscaping service, and it states they will only use a specific piece of equipment to manicure the grass, then you may have another lease.





## MASTERING MASTER LEASES AND ASSET-LEVEL ACCOUNTING

Asset-level accounting allows accounting calculations and journal entries to be prepared on an asset-by-asset basis. With asset-level accounting, you can track lease terms, calculations and transactions, schedules, end-of-term options, FASB accounting assumptions, ASC 842 Tests, FASB/IASB schedules, and reporting at the individual asset level, even though there is not a separate lease contract for each individual asset as the general terms are governed by the Master Lease.

Organizations will need to prepare the necessary calculations for each individual piece of equipment. Just imagine the number of leased assets that a company might have – vehicles, fork lifts, batteries, and office equipment, to name a few. Tracking the data asset by asset becomes very complex.

And if only one item from a group of assets is removed from service, the accounting needs to have the capacity to remove that single piece of equipment while keeping the remainder of the group intact. For example, if a single forklift is damaged and is removed from under the lease, you should have the ability to pull that single asset out of your calculations.

### EQUIPMENT LEASE CATEGORIES

- Fleet
- Office Equipment
- Technology
- High Value Assets
- Embedded Leases

Your team will need to prepare the necessary calculations for each individual piece of equipment across the organization.



## CHALLENGES OF DATA COLLECTION

The first step in collecting your data is understanding where the data currently resides, for instance, existing systems, excel spreadsheets, auditor work papers. Then, determine where the data gaps are. Specifically, find out what information will be needed to prepare the new calculations that are not currently tracked.

Be prepared for thousands of leases (and service agreements) containing additional thousands of pieces of equipment combined with hundreds of data points combined with nuanced lease language. These data points create an environment that has the potential for data error, as does the interpretation of lease language. Accountants are adept at accounting, but may not be highly skilled at interpreting legal language, and those who can interpret legal language may not understand the accounting or have the industry background to apply the language to real-world situations. Therefore, it's important that your Compliance Team understand all three – the legal language, the accounting, and the nuance of interpretation within the applicable industry or asset class.

## CUSTOMER SUCCESS

Data integrity is mission critical to all aspects of the lease administration cycle, but many companies struggle with data accuracy and consistency. This can result in a lack of real-time information, which hinders meaningful portfolio analysis and effective decision making. An accurate and comprehensive lease abstraction of all leases (including real estate and equipment) is the essential first step in this process, which will be tedious as companies bring each and every equipment lease onto the balance sheet. Hundreds of data elements combined with nuanced and conflicting legal language can create a minefield of potential errors, omissions, mistakes in interpretation and missed opportunities that can cost millions of dollars. Navigating this minefield successfully on a consistent basis requires seasoned, sophisticated expertise and judgment. It also calls for fully integrated legal, financial, real estate and operations knowledge. A resource such as Fell Lease Administration, with its staff of seasoned attorneys, accountants, corporate real estate and other professionals, can help your team ensure accuracy and completeness during your data collection process. Visit [www.fell-lease.com](http://www.fell-lease.com) or call 630-581-5550 for more information.

## PART 4: TEAM UP WITH THE RIGHT PARTNER

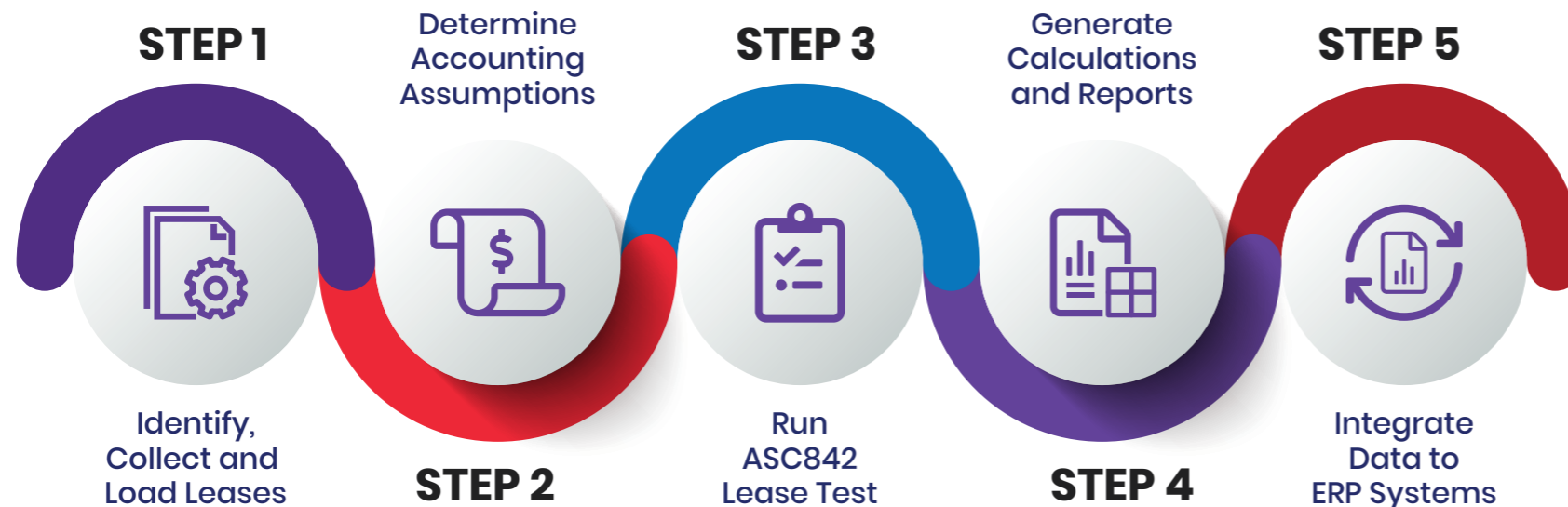
### LOCATING LEASES IN A DECENTRALIZED ENVIRONMENT

As the deadline approaches, more resources will be required to become compliant in fully adopting the new standards. Companies will also be competing for external resources, such as auditors and data abstraction services, which makes it even more vital to begin the process today.

That's why the right technology solution can be one of the most critical components of your plan. It's important to adopt a resource that can handle lease administration, accounting, and compliance, for the needs of managing both real estate and equipment leases. A qualified software partner can help you transition to centralized and standardized equipment lease data, controls and workflows and provide ease of entering equipment lease data via spreadsheet uploads and mobile device data entry.

A specific equipment leasing software solution will allow you to have greater flexibility in managing equipment lease portfolios. As equipment contracts do not have to be tied to a location, and the assets of a Master Lease can be tied to many locations, the software should be able to provide asset-level accounting for FASB/IASB compliance and the ability to manage transactions, enabling the easy removal or replacement of an asset in the overall equipment list of the contract.

With the most combined expertise in the industry and a highly skilled team of developers, Lucernex, an Accruent company, has a 100% implementation success rate to ensure you're able to convert from your noncompliant software to our independently verified solution with our proven five step implementation process.



Once your solution is selected, it's time to start thinking about post-adoption processes and procedures, such as who will own the data, who will own the calculation process, and what processes will need to change to ensure you are prepared to report whether at the end of each quarter, annually or other. It may also be the time to consider centralizing your entire leasing procedure, which can result in global purchasing power, better planning for end-of-lease activities, reduced holdover or evergreen situations, and have better control over your physical assets.

## **ABOUT LUCERNEX, AN ACCRUENT COMPANY**

Acquired by Accruent in August 2017, Lucernex™ provides proven cloud-based real estate lifecycle management as well as financial contract and compliance solutions to companies in more than 70 countries across five continents. With a 99% client retention rate, the Lucernex solutions help more than 180 brands in tens of thousands of locations globally drive growth, manage capital and access real-time data for strategic decision making leading to increased shareholder value. Lucernex is the market leader in helping customers mitigate risk through regulatory compliance of the new accounting guidelines with third-party verification of FASB and IASB calculations.

**Learn more at [Lucernex.com](https://lucernex.com).**

## **OUR IMPLEMENTATION PHILOSOPHY**

### **Partnership**

We are in this together as a team.

### **Subject Matter Expertise**

We engage the best players from our team for your team.

### **Joint Configuration**

Our clients take an active role in the configuration of the system.

### **Knowledge Transfer**

Our clients take ownership and management of the system as soon as possible.

### **Ownership**

Acceptance testing and training are owned and conducted by you with our support.

**CONTACT FOR A DEMO**

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