

ASC 842 & IFRS 16

# Lease Accounting Compliance

3 Critical Steps to Meet  
This Year's Deadline



# Today's Presenters



**Matt Waters, CPA**

Lease Accounting Specialist at CoStar

Formerly Lease Accounting Manager with Home Depot (6 years) and American Tower (100,000+ leases!)



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Solutions Consultant at CoStar

Formerly Client Support Manager and Technical Business Analyst with 9+ years in Real Estate Data Management

# The Lease Accounting Compliance Challenge

## Time Is Now Critical

- ▶ Focus areas: Policy, Data, Systems, Process
- ▶ More time needed for lease data collection and validation than expected.
- ▶ Some software systems can take 6+ months to configure and implement.
- ▶ **Ideal system must be proven, rapidly-deployed, and low risk to meet the compliance deadline.**



# 1<sup>st</sup> Audience Poll

**How much progress has your organization made toward ASC 842 lease accounting compliance?**

1. We haven't really started.
2. We're assessing our project needs.
3. We're into the project, collecting data and working on solutions.
4. We're done and just here for moral support.





## What Companies Should Do Now for Compliance:

- 1) Reduce compliance project scope to focus only on required system functionality, minimum integrations and standard reporting.
- 2) Find partners to help with project management, policies, data and system implementation.
- 3) Choose a proven lease accounting software product with a reputation for rapid deployment.

# 1. Reduce Compliance Project Scope

## Recommended Lease Accounting Software Implementation Plan

### Phase 1 | Tech Provider & Partner

#### Essential System Setup “Compliance Quick Start”

- Environment Build
- Single Sign-on
- Setup & Configuration
- Data Migration (*Real Estate & Material Equipment Only*)
- System Training
- Compliance User Acceptance Testing (*Sample Set Only*)
- Standard GL & AP Integration
- Exchange Rates Integration

**Go-Live: System Essentials**

### Phase 2 | Licensee & Partner

#### Equipment Data Collection

- Equipment Data Collection & Migration
- Accounting Policies & Controls
- ASC 840 Reconciliation
- ASC 842 & IFRS 16 Setup & Testing
- User Training

**Go-Live: Full Compliance**

### Phase 3 | Tech Provider

#### Additional Integrations & Customizations (As Needed)

- AP History
- Fleet/EQ Supplier
- MDM
- Others
- Custom Reporting

Business Policies & Processes

# 2<sup>nd</sup> Audience Poll




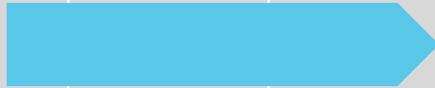

## What is your current project scope for lease accounting compliance?

1. Big, we want to overhaul business processes, lease admin software, the works.
2. Medium, we see opportunities for some improvements and want to make them.
3. Small, we just want to meet the bare minimum by the compliance deadline.
4. None, we're basically done already.



# Initial Implementation Setup & Delivery

## Set Up Timeline for Essential ASC 842 & IFRS 16 Requirements

Activity	Month 1	Month 2	Month 3	Month 4	Month 5
Initial System Setup and Configuration					
Discovery, Design and Project Definition					
Data Mapping and Migration					
Basic Configurations and Integrations					
Training and Roll Out					

### What can impact timeline?

- Deployment option selected
- Scope: Only lease accounting? More?
- Source & quality all lease data
- Number of required integrations
- Data migrations
- Corporate IT process



An overhead photograph of a business meeting. Several people are seated around a white table, looking at a laptop. The scene is brightly lit, suggesting an office environment. The image is partially obscured by a dark blue semi-transparent overlay containing text.

## 2. Find Partners to Help

Establish a Lease Accounting Compliance Transition Team

Accounting Advisory Services Partner

- Accounting policy decisions
- Internal process mapping and improvement
- Real estate and equipment data management

Lease Data Services Partner

- Close real estate lease data gaps
- Locate, abstract required equipment lease data

IT Project Services, Configuration & Implementation Partner(s)

- Testing, documentation, post-implementation audit

Enterprise Software Provider

- Software, integrations, hosting, customer support

# 3<sup>rd</sup> Audience Poll

**Is your organization going to work with outside partners for ASC 842 lease accounting compliance?**

1. No, we can do it ourselves.
2. Maybe, but we're concerned about cost.
3. Maybe, but we're not sure what partners yet.
4. Yes, we're relying on new or existing partner relationships for our compliance project.



# Compliance Transition Team Roles



## Project Management

External Partner or Customer Team



Accounting  
Advisory  
Services



Policy  
Change  
Enablement



Lease  
Abstraction &  
Data Discovery



IT Project  
Services



System  
Configuration &  
Implementation



Software,  
Integrations,  
Hosting & Support

Performed by Partner(s)

Software Provider

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# Partners to Lead Lease Accounting Transition Teams

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Project Governance

Software Implementation

Accounting Policy

Business Processes

Data Mapping & Services

Integration Design

Testing



# 3. Choose a Proven Software Provider

Parallel reporting for ASC 840, ASC 842, and IFRS 16

Lease Accounting Software Dashboard

Asset and Liability Balances

Lease Review Workflow Status

AP, GL and Other System Integrations

Reports Menu

Amortization Profiles

Automates Transition Accounting



# 4<sup>th</sup> Audience Poll

## What technology solutions is your organization planning to use for lease accounting compliance?

1. We've built our own software systems.
2. We're using the lease admin software we already have.
3. We're shopping for software and evaluating some vendors already.
4. We don't know what we need yet.



# Required Financial Reporting, Easy and Accurate

## Standard, Automated Reporting and GL Integration:

- Balance sheet, P&L and cash flow data feeds ERP and financial systems to populate 10-K

Short Term Liability	Long Term Liability	Payments	Interest Expense
156,014.87	4,487,428.02	31,926.82	19,267.40
37,890.09	0.00	9,770.38	473.63

- Reconciled disclosures are easily and automatically created

Lease Liability Maturity Analysis	Finance Leases
2018	18,904,279.02
2019	18,934,568.19
2020	19,185,513.11
2021	19,418,693.87

- Comparison data for P&L, balance sheet and cash flow to support look-back period

P&L Statement	FY 2017	FY 2016
Lessee Income	95,534.74	85,639.27
Variable Lease Expense	95,534.74	85,639.27
Profit on Sale of Lease	95,534.74	85,639.27

# Features Designed to Make Accounting Easier

## Beyond Calculations and Reports Functionality Built from First-Hand Experience

	CoStar
Automated adjustments when lease terms and assumptions change	✓
Automatic disclosure reporting for ASC 840 / ASC 842 / IAS 17 / IFRS 16	✓
Automatic journal entry posting from user-defined workflow process	✓
User alerts re-measure assets resulting from lease admin changes	✓
Implicit interest rate calculations from FMV / discount rate comparison	✓
Classification testing and UI on one page / profiles	✓



# Test for Practical Accounting Variations

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## Lease Components

### Tested Under ASC 840, ASC 842 and IFRS 16 for:

- With / without escalations
- With / without free rent period
- Payment on first and last day of month
- Partial first month rent requiring proration
- Renewal and option exercise
- Modified retrospective or transition approach
- Renewal options from commencement
- Mid-term termination

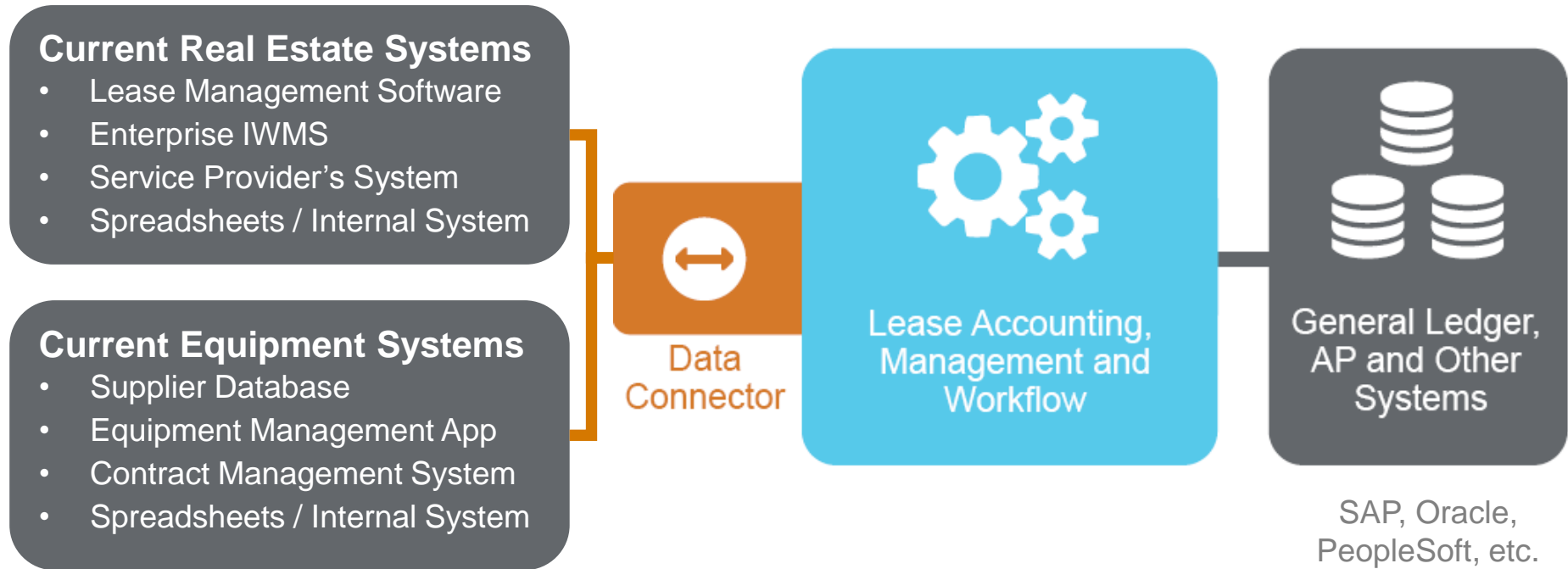
## Non-Lease Components

### Tested for Utilities, CAM and Insurance including:

- Monthly payments
- Annual payments in advance
- Annual payments mid-year requiring accrual and prepaid functionality
- Percentage and variable rent
- CPI and other index driven increases

# Lease Accounting Software Rapid Deployment Model

**Fastest, easiest and lowest cost lease accounting compliance option**



Connect existing lease management systems via a Data Connector.

# Fast, Accurate Data Transfer with Proprietary Tools

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1.

## Extract

Data from current system

- Extracts locations, leases and financials



2.

## Transfer

Data mapped to new system

- Define and scrub data fields, transfer to MS Excel



3.

## Load

Data migration to CoStar

- Establishes locations, leases and financials

# Lease Accounting Resources at [costarmanager.com](http://costarmanager.com)

**Success Story:**  
Fortune 500 Flooring Manufacturer

**The Client**  
The Fortune 500 company is one of the largest manufacturers of flooring in the U.S. and has a portfolio of more than 5,000 more than 700 trucks.

**The Challenge**  
Before consolidating data into one solution, the company's data was scattered across multiple ERP systems. The lack of organization prevented total visibility into the company's lease portfolio, and the company faced challenges on a daily basis to effectively manage its lease portfolio.

**The Solution**  
In 2010, the company selected CoStar Real Estate Manager to consolidate all other leased assets into a single software solution. The company's IT professionals consulted with each business division to identify the data points that were most important. The Services team then abstracted the remaining pertinent data points. Leases were consolidated and abstracted into the system, providing access to all data by all information stakeholders. The company's multiple ERP systems, enabling nightly vendor integration and payment history to landlords and suppliers from one source.

**The Results**  
The company can now make better management decisions. The single source that represents the entire real estate portfolio eliminated information silos and allow for the consolidation of all leases empowered the company to be able to return back to master equipment agreements. The company's financial regulations as well as the new FASB and IASB.

**CoStar REAL ESTATE MANAGER™**

**Data Consolidation for Lease Accounting Compliance**  
An Opportunity to Create Value for Real Estate and Equipment Management

Real Estate   Equipment   Leased Assets

systems offer the same pricing structure. Many large enterprise options have large overhead costs to cover, while other models are priced solely on the number of system users. A better pricing model focuses only on the amount of data managed, based either on the number of leases or amount of data managed, which provides an unlimited amount of system users for all departments and stakeholders in the organization.

**Lease Accounting Compliance**  
... numerous departments managing a variety of

**itionally Maintained**

- Corporate Buildings and Land
- Equipment
- Forklifts, Scissor Lifts
- Trucks, Trailers, Rail Cars
- Software, Computers
- Most Leases
- Most Leases
- Forecasting of Lease Cost
- Leasing and Lease Accounting
- Leasing Rate and Debt Covenant Impact

**CoStar REAL ESTATE MANAGER™**

# Questions?

ASC 842 & IFRS 16

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