

lease accounting



Market Readiness One Year after
the Publication of ASC 842

lease
accelerator[®]

EXECUTIVE SUMMARY

One year has passed since the initial publication of the new ASC 842 Leases standard by the Financial Accounting Standards Board (FASB). In an effort to provide a quantitative Progress Report on the status of lease accounting projects, LeaseAccelerator conducted a research study earlier this month with over 250 accounting and finance leaders. The survey respondents were from large US-based public and private companies, most with revenues of \$1 Billion or higher. A series of 10 multiple choice questions were asked to assess the progression of activities in areas such as project leadership, resource staffing, budget allocation, data collection and systems strategy. The key findings of the study are outlined below.

KEY FINDINGS

More than Two Thirds of Companies Are On Schedule

Companies are starting to take action and making progress, with two-thirds reporting to be ahead of schedule or on-schedule. Approximately, 70% of companies have assigned a formal project manager, indicating an executive-level commitment towards resourcing the project. However, fewer than 30% have taken the next step of assigning a formal budget for the project. A noteworthy 25% of companies have not started the project yet.

Most are Finding the Project More Complex than Anticipated

Almost two-thirds of companies are finding the lease accounting project to be more complex than originally anticipated. The top implementation challenge is modifying business processes, policies and controls across the business to support the new standards. Other top challenges include collecting and analyzing the leasing data; upgrading and deploying new software; and project managing the cross-functional work effort.

Equipment Leases Proving Most Difficult to Collect and Analyze

More than half of our survey respondents have defined the list of data that needs to be collected, and have taken an inventory of their lease portfolio. Approximately one-third of companies have progressed even further by collecting 25% or more of their overall lease accounting data. Leases from the IT, fleet and other equipment categories are proving to be the most challenging to analyze along with leases embedded in service contracts and outsourcing agreements

Most Have Defined a Software Strategy

Approximately 70% of companies reported having defined a systems strategy. The majority plan to replace spreadsheet-driven ASC 840 tools with a proper lease accounting software application. However, less than one-third have issued an RFP, selected a vendor or started loading data into a software application. Existing ERP vendors and new best-of-breed lease accounting providers are the most likely to be considered for software needs.

Few Have Extended the Project Beyond Accounting

The technical accounting and financial reporting organizations, as expected, are leading the project efforts at almost all companies. Roughly one-third of survey respondents have included the Corporate Real Estate and IT groups as strategic members of the lease accounting project team. Fewer companies have organized a true enterprise-wide team that includes critical functions such as Procurement, Treasury and Operations.

RECOMMENDATIONS

Allow Time for Testing and Reconciliation

We believe that most customers will plan to have three to nine months of parallel runs before transitioning. The parallel testing period will enable accounting to identify and reconcile differences between reports run under the current (ASC 840) standard and the new standard (ASC 842). Additionally, companies should avoid an “eleventh hour” deployment as systems changes made in the fourth quarter of a fiscal year could impact Sarbanes Oxley audits or create unnecessary risks with year-end reporting.

Extend Beyond Accounting to a Cross-Functional Project Team

Fewer than 50% of survey respondents indicated that any group other than accounting was playing a strategic role in the project. We believe that more companies should consider securing participation from the Corporate IT, Procurement and Treasury organizations, particularly as they think strategically about the business processes, policies and controls needed for long-term success. Corporate IT will have a critical role ensuring cybersecurity and application integration requirements are met with any new software deployed. As the tip of the spear in any new leasing transaction, Procurement is in the driver’s seat to ensure accounting is alerted to any new leases, end of term equipment buyouts or long-term real estate renewals. Treasury, which typically owns credit relationships with lessors, is well positioned to influence leasing companies, to provide all the documentation and data needed upfront.

Appoint an Executive Sponsor to Oversee Complex Projects

Less than 40% of companies reported having appointed an Executive Sponsor for the project. The importance of the Executive Sponsor role will vary depending upon the nature of your lease portfolio. Companies with a healthy mix of real estate, vehicle fleet, data center, material handling and transportation equipment leases will need to involve various operations teams and business units around the world to complete the project. Corporate functions such as Procurement, Treasury and Legal will need to be involved as well. Success with these types of highly-matrixed project teams will benefit greatly from the participation of an Executive Sponsor.

Move Quickly to Secure Budget and Resources

Fewer than 30% of companies have secured a formal budget for incremental spend items such as lease accounting software and implementation support from external firms. As a result, it would seem that many of these organizations have missed the budgeting window to secure the funds needed to procure software and hire consulting resources in 2017. To mitigate risks we would encourage project leaders to not to wait until 2018, but seek out creative ways of funding the project this year.

Develop a Contingency Plan for Implementation Support

Only 30% of survey respondents are currently planning to use outside consultants from the Big Four or other firms. However, we believe that tasks such as collecting all the necessary leasing data; re-designing cross-departmental business processes; and integrating systems will take much longer than anticipated. As a result, some companies will realize mid-implementation that they have under-estimated and under-funded their projects and will make the proverbial “911” call for outside help. We would encourage companies with more complex, international lease portfolios to develop contingency plans in place should they need to augment staff.



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