IFRS 16 Lease Accounting Handbook

A 2020 GUIDE FOR LESSEES

Implementing processes, controls and systems, to achieve and maintain compliance with the lease accounting standard
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INTRODUCTION

The lease accounting standards.

A 2020 guide for lessees.
In 2019, the IASB lease accounting standard, IFRS 16, began to go into effect for companies worldwide. However, there are still some companies that have yet to adopt the standard, as well as those who may be struggling with how to handle leasing processes post-adoption in order to maintain compliance with IFRS 16. This handbook will provide an overview of the technical accounting of IFRS 16 as well as how companies can successfully achieve and maintain compliance with the standard.

Why the standard was introduced
The change to lease accounting rules comes with many other accounting standard updates, all created with the purpose of closing loopholes in accounting guidance that could potentially allow companies to mislead financial statement users as to the true nature of the company’s financial state.

IFRS 16 closes the lease accounting off-balance sheet loophole which allowed corporations to report their operating leases in the footnotes of financial statements. Under the new standard, companies are required to recognize most leases and report them as right-of-use (ROU) assets and lease liabilities. As a result of the shift, lease portfolios face increased auditor scrutiny, pushing companies to focus on ensuring accuracy and completeness of what they report as well as leading to greater comparability of financial statements.

The major changes for lessees
The most notable change is the elimination of the operating lease classification. Under IFRS 16, all leases, excluding those that meet the practical expedient for low-value and short-term leases, if elected, are treated as finance leases. The lease assets and liabilities are recognized on the statement of financial position, which may result in a significant increase in the amount of assets and liabilities many companies report.

Finance leases are also reported differently on the profit and loss (P&L) statement than operating leases under the previous standard. Operating leases were reported as a straight-lined rent expense. However, under IFRS 16, all leases are reported as a separate (usually straight-lined) depreciation expense of the asset and front-loaded interest expense on the liability. Therefore, as a result of the new standard, all leases expense on the liability, potentially impacting financial metrics, like EBITDA, that are dependent on the P&L statement.
The IASB also considers leases to be debt, so debt to equity ratios may see a dramatic increase. This could impact debt covenants not covered by frozen GAAP contractual provisions as well as credit ratings, if the lease liability recognition resulting from the adoption of IFRS 16 is significantly different from analysts’ expectations.

Lastly, when measuring the lease liability, variable rents, such as those based on an index or rate, will be included. IFRS 16 requires that the lease liability be reassessed and remeasured anytime the index or rate adjusts.
SECTION 1

Key provisions & changes in direction.

The lease accounting standards.
Key changes for the standard
For lessees, adoption of the rules will result in a significant change from IAS 17 reporting where operating leases were off-balance sheet.

Leases capitalized: The operating lease classification will no longer exist under IFRS 16. The new rules will require a lessee to capitalize all leases that do not meet the short-term and low-value practical expedient lease exemptions.

Estimates of lease term and lease payments:
For purchase, extension, and termination options, a lessee should reassess whether the exercise of an option is “reasonably certain” (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee’s control.

Transition: IFRS 16 provides two transition methods.
1. The full retrospective approach: This approach requires companies to restate comparative figures for the year prior to adoption by recognizing a cumulative effect adjustment to the equity at the beginning of the prior year. A company’s financial statements are presented as though the company has always been on the standard.
2. The modified retrospective approach: Under this approach, the cumulative effect of applying IFRS 16 is recognized as an adjustment on the effective date and comparative figures are not restated. The ROU asset may be recognized as equal to the lease liability or may be stated at a value reflecting amortization since commencement of the lease with the offset to equity. Under either method for the ROU asset presentation at adoption, the lease liability is the same in both elections.

Present value calculation: The lessee calculates the PV of the estimated lease payments using the implicit rate in the lease, if it is readily determinable, or the company's incremental borrowing rate (“the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment”). However, the IASB, in the Basis for Conclusions, stated that it is likely to be difficult for a lessee to determine the interest rate implicit in the lease and as a result it is expected that the company's incremental borrowing rate will be used in most cases.

The implicit rate is defined as follows in the new IASB standard: “The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.”

The PV is considered to be both (1) the value of the right to use the leased asset, and (2) the “principal” balance of the obligation to pay rent. This amount will be recorded as both an asset and a liability.

The profit & loss statement: All leases where the lessee has not elected the short-term or low-value exemptions are accounted for as finance leases. The asset is amortized as a depreciation or amortization expense in the P&L over the estimated lease term on a usually straight-line basis (SL). Interest expense on the lease liability is front-loaded. The sum of the interest and amortization creates a front-loaded expense pattern.
Below is an example of lessee accounting under the IFRS 16 standard and contrast to the previous IAS 17 standard.

A company leases several general-use PCs for three years. The PCs have a useful life of 5 years. There is no purchase option.

The rent is $1,700 a month for 36 months ($61,200 in total). Under IAS 17, this is considered an operating lease, as the PV of the payments is less than substantially all of the fair value of the assets and the lease period is for less than the majority of the asset’s useful life. Under the new IASB standard, the lease must be treated as a finance lease. That is, it is recognized as an asset and liability on the balance sheet with interest expense and amortization expense reported on the P&L statement.

At a 5.5% incremental borrowing rate, the present value of the rental payments is $56,557. This is the amount that is recognized on the balance sheet. The lessee’s initial balance sheet entries are:

- Debit Right-of-Use Lease Asset = $56,557
- Credit Lease Obligation = $56,557

On the P&L, the first year’s interest expense is $2,572 and the amortization expense is $18,852. Together, these two items total $21,425 for the first year’s lease expense.

Under the previous lease standard, the rent expense would total $20,400 on a straight-line basis. Thus, capitalizing the lease has increased the company’s lease expense by $1,025 in the first year.

The cross-over point occurs in the second year of the lease, when the total lease expense under the new standard would be less than the expense under IAS 17.
**EXHIBIT 2 | LEASE ACCOUNTING: A REAL-WORLD EXAMPLE**

Table 3.
Income statement impact of front-ended lease expense

<table>
<thead>
<tr>
<th>Year</th>
<th>IFRS Depreciations</th>
<th>IFRS Expense</th>
<th>IFRS Tool</th>
<th>IAS 17</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$18,852.36</td>
<td>$2,572.18</td>
<td>$21,424.54</td>
<td>$20,400</td>
<td>$1,024.54</td>
</tr>
<tr>
<td>2</td>
<td>$18,852.36</td>
<td>$1,566.55</td>
<td>$20,418.91</td>
<td>$20,400</td>
<td>$18.91</td>
</tr>
<tr>
<td>3</td>
<td>$18,852.36</td>
<td>$504.20</td>
<td>$19,356.56</td>
<td>$20,400</td>
<td>$(1,043.44)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$56,557.07</td>
<td>$4,642.93</td>
<td>$61,200</td>
<td>$61,200</td>
<td>$0</td>
</tr>
</tbody>
</table>
Evolution of key issues regarding lease payments

**Lease term:** The IASB decided that the lease term is defined at commencement as the noncancelable term plus extension or termination options, where the lessee is “reasonably certain” to exercise the option. Under the standard, for purchase, extension, and termination options, a lessee should reassess whether the exercise of an option has now reached the level of “reasonably certain” (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee’s control. The IASB has stated that the term “reasonably certain” is a high hurdle.

**Variable lease payments:** Only certain variable lease payments will be included in the lessee’s lease capitalization, including:

- Variable lease payments that depend on an index or a rate, using the spot rate at lease inception for floating leases.

- In-substance fixed payments that are “disguised” minimum lease payments based on usage of the underlying asset or on lessee performance — in other words, payments that are unavoidable, in which case the expected payments must be included in the lease payments to be recognized.

Impact of the standard

Companies are seeing significant changes because the majority of leases are now reported as finance leases. Potential impacts include higher debt amounts, permanent lost capital, new permanent deferred tax assets, and temporary reduced earnings after taxes in the first years following adoption of the standard.

Ratings agencies have typically included estimates of operating lease obligations in their analyses, so unless there is a large discrepancy between their estimate and what the company reports, there is not expected to be a large impact to credit ratings.

However, because the IASB considers lease liabilities to be “debt,” the new standard may result in debt covenant breaches that will require negotiation and adjustment.

Financial metrics like return on assets, liabilities to net worth, leverage ratio, EBITDA, etc. can change, so a lessee should make pro forma calculations to determine if debt covenants, other contracts, or internal performance and incentive plans using those metrics are affected.

**Tax Impact — Minimal:** The changes to lease accounting for IASB companies may increase the administrative burden with regards to tracking deferred income taxes. This results from differences between the book value (based on IFRS 16) and tax calculations (based on unchanging tax laws).
Operational impact — substantial increase in administrative burden: The lease accounting standard increases a lessee's administrative burden due to the changes in process controls; data collection, analysis, and maintenance; monitoring; internal reporting systems; and, most importantly, audit scrutiny. Here are some of the key factors contributing to the added burden:

- Data to calculate payments comes from several sources in the organization, including Accounting, Procurement, Accounts Payable, and the asset users.
- Calculation of lease payments is complex.
- Non-lease components in gross or bundled billed payments must be separated (unless the practical expedient not to separate is selected by asset class).
- Calculation of some payments involves judgments and estimates.
- Financial disclosure requirements are expanded.

For most companies, the scale of the administrative requirements will mean additional systems and tactical support.

To meet the timetable for implementation, lessees must prepare now
For those lessees that have not already adopted, it is critical to not underestimate the timetable for implementation. This is especially true if a company’s lease portfolio includes many lease schedules with multiple assets, non-homogeneous assets, lessors, countries, or languages.

It is likely to take more than twelve months for some companies to fully overhaul the lease accounting processes, systems, and controls that will be required to comply with the new standard. Companies must: (1) understand the new rules to determine compliance requirements, (2) start and complete a transition process, and (3) develop an ongoing process for complying with the new standard beginning on the effective date.

The lease accounting rules are complex, so lessees must read them in detail to understand how to comply.

Setting objectives and defining compliance and ROI success
To address the lease accounting changes, companies have to change how they manage their leasing activities. Accounting for operating leases was relatively simple, since those leases were treated as operating expenses. Accounting for IFRS 16 leases, however, requires a much more rigorous approach, given the increase in risk and complexity. Such risks include the impact of estimation errors as well as the increased auditor scrutiny.

As with any change-management project, you should start by defining the objective, scope, and strategy of the project or process. Here is an example of an objective that you might establish for your company’s transition to the standard. It is deliberately stated in past tense as if it has already been accomplished. The objective is not exclusively focused on compliance. Instead, it is designed to yield financial returns from the investment in compliance by improving the financial performance of your leasing process and portfolio.
OBJECTIVE EXAMPLE

By the implementation deadline for the lease accounting changes, we will have developed, deployed, documented, and iteratively refined a leasing process that is compliant with the lease accounting standard. This process will be well-controlled, auditable, automated, and scalable. We will be able to demonstrate that we made good economic decisions throughout the lease lifecycle.

METRICS EXAMPLE

We know we have been successful in meeting this objective because:

- We can generate reports with the push of a button, quickly and easily, for:
  - The lease accounting changes that reflect the final lease accounting standard.
  - Preparation of our financial reporting disclosures, with full auditability.
  - Internal management of all lease terms that require timely decision making.
- All stakeholders who use the data trust the data.
- All stakeholders in the leasing process receive timely, accurate, and complete reporting and notifications, especially notifications about the end of term.
- The financial performance of our lease portfolio, processes, and people is measurable and continuously improving. For example, we know quantitatively how much money we are saving by leasing rather than buying. We know how much money we could be saving if specific underperforming people and groups managed their leased assets at the end of term more effectively and returned assets on time. We can provide those under-performers with the automated notifications and scorecards that they need to improve their performance quickly and easily.
- The lease sourcing process is rigorous and includes a standardized lease agreement with fair terms and conditions in addition to requiring a flexible lease structure that will allow for the lessee to maintain greater control of the lease program.
SECTION 2

Achieving & maintaining compliance.

How to continuously meet the requirements and drive savings.
Introduction

The remainder of this handbook will provide you with comprehensive guidance on implementing the lease accounting standard and best practices for maintaining compliance in the long-term.

Complying with the standard will require the collaboration of many individuals and departments within your company. At the same time, the processes we recommend here will achieve major efficiencies in the handling of lease-related information across your entire company and improve the financial performance of your leasing process and portfolio. The result: significant, recurring, annual cost savings for the company as a whole and a measurable, positive ROI for your compliance project. Thus, while these process changes are motivated by the need to comply with the standard, it is also an investment in managing the company’s leasing activities more effectively.

We recommend an 8-step process (page 14) that will most effectively get your entire company into compliance with the new standard.

Before you start the 8-step process, it is critical to thoroughly evaluate your company’s leasing policies because of: (1) the complexities of the new standard, (2) the additional administrative burdens that will be entailed, and (3) the changes that will be required.

Lease vs. Buy: Review of your leasing policies includes reviewing your Lease vs. Buy (LvB) analyses. The LvB analysis is not only crucial to achieving economic efficiencies, but also can serve as a control to ensure completeness of your lease portfolio. In an asset purchase, depreciation is recognized over the asset’s useful economic life. Under IFRS 16, all leases are depreciated over the lease term, which usually is less than the useful life of the underlying asset. Thus, under the lease accounting rules, because of additional assets on the balance sheet and the acceleration of lease costs, the return on assets/return on equity calculations will look worse for a now-capitalized operating lease. However, it is important to recognize that the difference is purely one of timing, which is why LvB analysis is so critical. It compares the option based on present value analysis, removing the timing difference as a factor.

Why leasing will remain attractive despite the accounting changes: However, your review of leasing policies should also take into account the quantitative and qualitative reasons why leasing will remain attractive. Under the rules, the accounting benefits for leasing (off-balance sheet financing) will only partially recede.
The PV of a lease that covers less than the asset’s full economic life is still less than the cost of buying the same asset. For example, if you lease an asset for 80% of its economic life, and the terms are fair, you are only paying for 80% of the asset rather than 100%. Therefore, from a budget perspective and on an actual cash flow basis, the amount of the capitalized lease payments is still less than the purchase amount.

There are also many additional reasons why companies lease, and most remain favorable per the chart below.

Ultimately, companies should conduct a Lease vs. Buy analysis for every major asset procurement decision to analyze the pros and cons of the two scenarios to ensure that they enter into the most economical arrangement.

<table>
<thead>
<tr>
<th>REASON FOR LEASING</th>
<th>DETAILS</th>
<th>STATUS AFTER NEW RULES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise Capital</td>
<td>Additional capital source, 100% financing, fixed rate, level payments, longer terms</td>
<td>Still a major benefit versus a bank loan, especially for SME &amp; non-investment grade lessees with limited sources of capital</td>
</tr>
<tr>
<td>Low cost capital</td>
<td>Low payments/rate due to tax benefits, residual &amp; lessor low cost of funds</td>
<td>Still a benefit versus a bank loan</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>Lessee can’t use tax benefits &amp; Lease vs. Buy shows lease option has lowest after-tax PV cost</td>
<td>Still a benefit</td>
</tr>
<tr>
<td>Manage assets; Residual risk transfer</td>
<td>Lessee has flexibility to return asset</td>
<td>Still a benefit — if lessee can manage end of term</td>
</tr>
<tr>
<td>Service</td>
<td>Outsource servicing of the leased assets</td>
<td>Still a benefit</td>
</tr>
<tr>
<td>Convenience</td>
<td>Quick &amp; easy financing process often available at point-of-sale</td>
<td>Still a benefit</td>
</tr>
<tr>
<td>Regulatory</td>
<td>Capital issues</td>
<td>Regulators should still treat ROU assets as “capital free” as they are an accounting contrivance and do not represent an asset in a bankruptcy liquidation</td>
</tr>
<tr>
<td>Accounting</td>
<td>Off-balance sheet</td>
<td>Partial benefit if the PV is less than the cost of the asset, which should be true for many leases</td>
</tr>
</tbody>
</table>

Source: https://www.elfaonline.org/docs/default-source/industry-topics/accounting/leaseacctingleasebuydecisionqb07132016.pdf
SECTION 2 | ACHIEVING & MAINTAINING COMPLIANCE

Transitioning to the Standard: A Comprehensive 8-Step Process

For many companies, leasing will continue to be an important technique for acquiring the use of assets. At the same time, given the nature and complexity of the requirements under the standard, establishing the right processes will require substantial time and effort.

To help those companies that have not yet transitioned achieve compliance in an efficient and timely fashion, we have devised an 8-Step Transition Process to guide you from creating an internal transition team to acquiring lease accounting software that will facilitate your ongoing compliance efforts with the lease accounting standard.

**STEP 1**
Create a lease accounting project team
Companies should create a Lease Accounting Project Team that will oversee the transition process, establish timelines, and be fully responsible for timely and effective completion of the project. The team should include representative stakeholders that lease equipment, administer leases, or use information concerning leases from all sites around the globe. These would include Finance/Treasury, Procurement, Lease Administration, IT, Accounting, and other business units.

**STEP 2**
Deploy software designed for your processes and portfolios - Lease Lifecycle Automation for real estate and equipment leases
If your company is still using spreadsheets, a fixed asset subledger, or an asset management system (a system without the required lease and accounting capabilities) to manage your portfolio of leased assets, it is critically important to acquire software specifically for your unique lease management requirements. Full Lease Lifecycle Automation is required to capture the data and documents and to maintain the completeness and accuracy required to generate auditable financial reporting, both on the initial deadline and beyond. Furthermore, you must verify that your software provider meets the lease accounting standard’s requirements; can support your firm’s transition process; as well as support the processes, policies, and controls you establish for ongoing compliance.

Because leasing is fundamentally an interdepartmental, decentralized process in most large geographically distributed companies, selecting a software system that is web-based or cloud-based is essential to including all of your stakeholders, wherever they may be, in order to achieve your objective. The Software-as-a-Service (SaaS) model is now widely accepted and available as a delivery model.
If you are an international company, the software should be multicurrency and have the capability to interact with multiple ERP environments. It should also have multi-lessee capabilities because most large companies lease from a mix of commercial banks, vendor captives, and independent leasing companies. This eliminates the possibility of using any software system offered by a single lessor (often offered to clients in an effort to monopolize their leasing business).

Your software provider should also have the ability to integrate with not only your internal ERP, procurement, and asset management systems, but also your lessors’ systems to achieve straight-through processing (STP).

You also need to be able to load any kind of asset into the system—essentially, whatever you lease: real estate, furniture, airplanes, forklifts, water coolers, copiers, rail cars, pea pickers (seriously), etc.

To determine whether a particular software solution is appropriate, start by giving the prospective software provider a sample data set so that you can test your data in their system. Then, ascertain whether or not the system can generate capital lease debits and credits for each asset, each transaction, and the portfolio as a whole. If it can’t perform these basic and essential functions, it won’t support your transition to the lease accounting requirements, and certainly won’t support long-term compliance. The ability of your software to easily integrate into your ERP is also important. Your software vendor should have the ability to export journal entries at both the asset and summary levels with any account configuration.

Once you have decided on appropriate software, you should configure and integrate the system for maximum efficiency. You should: (a) include your organizational structure, GL coding, and other business coding; (b) set up users, groups, and their authorizations; (c) integrate the system with your single sign-on, purchasing, accounts payable, and general ledger systems where appropriate; and (d) train your stakeholders.

**STEP 3**

**Establish a lease information database**

To be absolutely sure that you have all the information you need to comply with the standard, you should establish a new lease information database. Of course, you already have accumulated a substantial amount of data about your current leases. But setting up a completely new database will ensure that all members of the company’s team and all departments that need the information for compliance will have it at their fingertips. This procedure will also ensure that your current database is completely accurate, especially if you scrape the data from the original documents or reconcile your existing data to your original documents. Here are the steps we recommend:

- Create a master list of data elements by obtaining all relevant reports and data from all stakeholders within your company.
STEP 4  
Build a reports library and automate the distribution of reports to stakeholders

Create a set of reports that allows you to report on and analyze all leases and underlying assets, expenses, and obligations in your lease portfolio. The Lease Lifecycle Automation platform that you choose should have a library of canned reports immediately available when you load your database. In addition, you should be able to easily build your own reports from scratch. The reporting should be automatically updated when you load the data and documents for a new lease.

In addition, your software should enable you to send the reports automatically to any other specified stakeholder on a routine basis.

STEP 5  
Analyze and triage the end of term-generate immediate savings and better data

Generate reports for all asset classes based on their end-of-term status: return, purchase, or renew.

Generate an over-payment (“evergreen”) report to determine the status of leases that are past their original lease end date, including all contractual extensions (intentional) and automatic evergreens (unintentional).

Follow up with asset users for every lease schedule past due and resolve the issues:

- Update information in the lease administration system at the asset level.
- Recalculate expected payments if it is a partial buyout or partial return, where only some but not all of the leased assets are purchased or returned, and reconcile against invoices.
- Perform analysis with users to determine the best economic option, make the decision, and act on it.
- Calculate savings created from these actions.

Configure end-of-term internal and contractual notifications.

Develop procedures to manage the end of term effectively:

- Pay attention to the date required to notify lessors about end-of-term decisions and use it as a marker to determine when to notify asset users.
- Include asset-level data and economic analysis of end-of-term options to accelerate the decision about lease extension.
- Require a decision and, if necessary, a commitment, for the return of the equipment by the deadline.
• Send follow-up automated notifications on the date committed for the return of the equipment and require the asset user to report the date the equipment was returned, so that you can determine if you owe anything to the lessor.

• Create an asset user scorecard, which measures the performance of each asset user, and distribute it to the asset users and their supervisors.

STEP 6
Maintain database accuracy and completeness

In order to maintain the accuracy and completeness of your lease information, you must capture all new leases as they become available. Because of the decentralized nature of many companies, this is often difficult to accomplish. One strategy that has proven to be effective is to mandate that users around the world use a common, simple, and automated country-specific Lease vs. Buy tool that is integrated with your platform. This will allow you to see all of the LvB activity, such that if the outcome of the LvB analysis is a recommendation to lease, you can track the transaction as it moves through your automated process. LvB is the earliest opportunity to establish a control that enables distributed, local decision making while facilitating centralized visibility.

Here are the steps we recommend to maintain the accuracy and completeness of your database:

• Gain visibility into your leasing pipeline by mandating a global Lease vs. Buy process and tracking lease originations.

• Identify internal sources for a variety of variables, including intentions to exercise options to renew leases or options to purchase.

• Manage transactions for efficiency and the benefit of internal users; capture new leases as they are signed.

• Send periodic notifications to asset users to test the accuracy of the data and capture changes during the lease term.

• Ensure consistency of contractual terms and conditions for new leases to improve the downstream administration and accounting process.

STEP 7
Roll out the leasing process globally

Having completed all of the previous steps, you will be ready to implement the transition to the lease accounting standard. Here are the steps in the global rollout:

• Develop a launch strategy that works for your company and culture (e.g., by business unit, country, etc.).

• Take into account the degree of centralization / decentralization within the company and with respect to the conduct of leasing activity.

• Seek to enable decentralized work and decision making with centralized controls and reporting.

• Test-launch the transition roll-out with early adopters and streamline the process by incorporating the lessons learned (e.g., 6-Sigma approach for repeatability and scalability).

• Train users (or train the trainers, as appropriate for your company’s culture) on new processes, procedures, and tools.

• Communicate with all concerned to achieve universal adoption of the processes.
• Listen to feedback and suggestions from users to improve the processes incrementally, especially concerning ease of use.

**STEP 8**

**Ongoing activity — generate accounting information required by IASB monthly and annually**

After completing this intensive preparation and rollout process, you will be ready to transition to the standard at your effective date and continuously improve the performance of your leasing program.

Companies need to develop and implement operating procedures to generate the accounting information required for financial reporting under IFRS rules as required.

Using the automated reporting function of your Lease Lifecycle Automation platform, you can access and analyze complete, accurate, and up-to-date lease information. You can calculate: (1) contractual rents and bargain extension rents, (2) the variable rents for the term, (3) any expected payment under residual guarantees, (4) the PV of the total estimated payments over the term, and (5) the principal and interest of the lease obligation.

**Keeping internal groups up-to-date**

**Meet Routinely:** On each accounting reporting date as defined by your Controller’s team, review all leasing assumptions with the appropriate internal group. For example, review:

• Variable rent assumptions with the controller’s team
• Extension assumptions with Operations
• Changes in floating rate or CPI based variable rents
• Changes in residual guarantees

Auditors may look at historical extensions to corroborate assumptions being made on existing leases. Companies should assume that historical extensions and evergreen (over-payment) activity will need to be readily available for audit scrutiny. This will require systems that are more sophisticated and transparent than traditional ERP systems.

**Provide Controller with Reports for Financial Statements:** Prepare disclosure information annually for the controller’s department to be included in the annual report’s leasing footnote. The following are the quantitative disclosure requirements for lessees:

1. Additions to right-of-use assets.
2. By class of underlying asset, the year-end carrying amount of the right-of-use assets.
3. Lease liabilities.
4. Maturity analysis for lease liabilities.
5. Depreciation expense of right-of-use assets.
6. Interest expense on lease liability.
7. Expense relating to short-term leases when they are exempted from being capitalized.
8. Expense relating to low-values leases when they are exempted from being capitalized.
9. Expense relating to variable lease payments NOT included in lease liabilities.
10. Income from subleases.
11. Gains/losses from sale-leaseback transactions.
12. Total cash outflow for leases.

**Provide journal entry information:**
Provide information for necessary journal entries directly from the Lease Lifecycle Automation platform, which has a lessee accounting subledger that can generate debits and credits at a detailed asset level and/or general ledger summary level.

**Conduct a periodic review of estimates:**
Every time the company reports earnings, you should re-run the entire process as outlined above, contacting internal sources to get new estimates of key information. Then, input changes into the system and assess any requirements for adjusting journal entries.

**Send reports for tax leases to the tax team:**
Each year, provide to the tax department actual rents paid under “true” (tax) leases and accounting lease expenses for those leases. This information is to be included in the company’s tax return and used to prepare deferred tax entries, as the accounting expense may be different from the tax deductions for those leases. You should specifically provide the actual rent paid (for the tax return) and the deferred tax accounting entry.

**If you haven’t already, start now**
Getting ready for the implementation of the lease accounting standard takes resources, dedication, smart planning, and cooperation across all groups in the organizations that are involved with leasing activity.

Companies can follow two implementation paths - a FastTrack, flat fee services project that uses pre-configured software to get up and running in 8 weeks, or a more involved and customized implementation that could run closer to 9-18 months. The more lease transactions in a company’s portfolio, the longer the transition is likely to take.
Maintaining compliance
Compliance with the lease accounting standards doesn’t end once you adopt. IFRS 16 is an ongoing compliance project. To save time and effort post-adoPTION, incorporate establishing sustainable processes, policies, and controls to manage your lease portfolio into your project. If you are already post-adoption, look to best practices, like requesting asset updates from the asset users to maintain accuracy and utilizing a Lease vs. Buy analysis to capture new leases and maintain completeness. Many companies made the mistake of focusing only on achieving compliance by the deadline and did not plan for how they would maintain compliance beyond the deadline, so they fell behind again. It will save your company from a major headache if you plan for post-adoption ahead of time and secure Lease Lifecycle Automation software that you know is capable of supporting you on day 2 of the new standards and beyond.

In Summary
The transition process to the lease accounting standard includes the development of a leasing strategy; the creation of processes and controls; and the selection, management, and implementation of software. Throughout the process, it is important to incorporate lessons learned from companies that have already adopted the standards in order to continuously improve the implementation and ongoing, sustainable processes for lease accounting.

LeaseAccelerator provides a global Lease Lifecycle Automation platform that improves free cash flow and ensures long-term compliance across equipment and real estate assets. Thousands of users rely on our Software as a Service (SaaS) platform to manage and automate 700,000 leases valued at $200 billion across 5 million assets in 172 countries that generated 8 billion journal entries.