

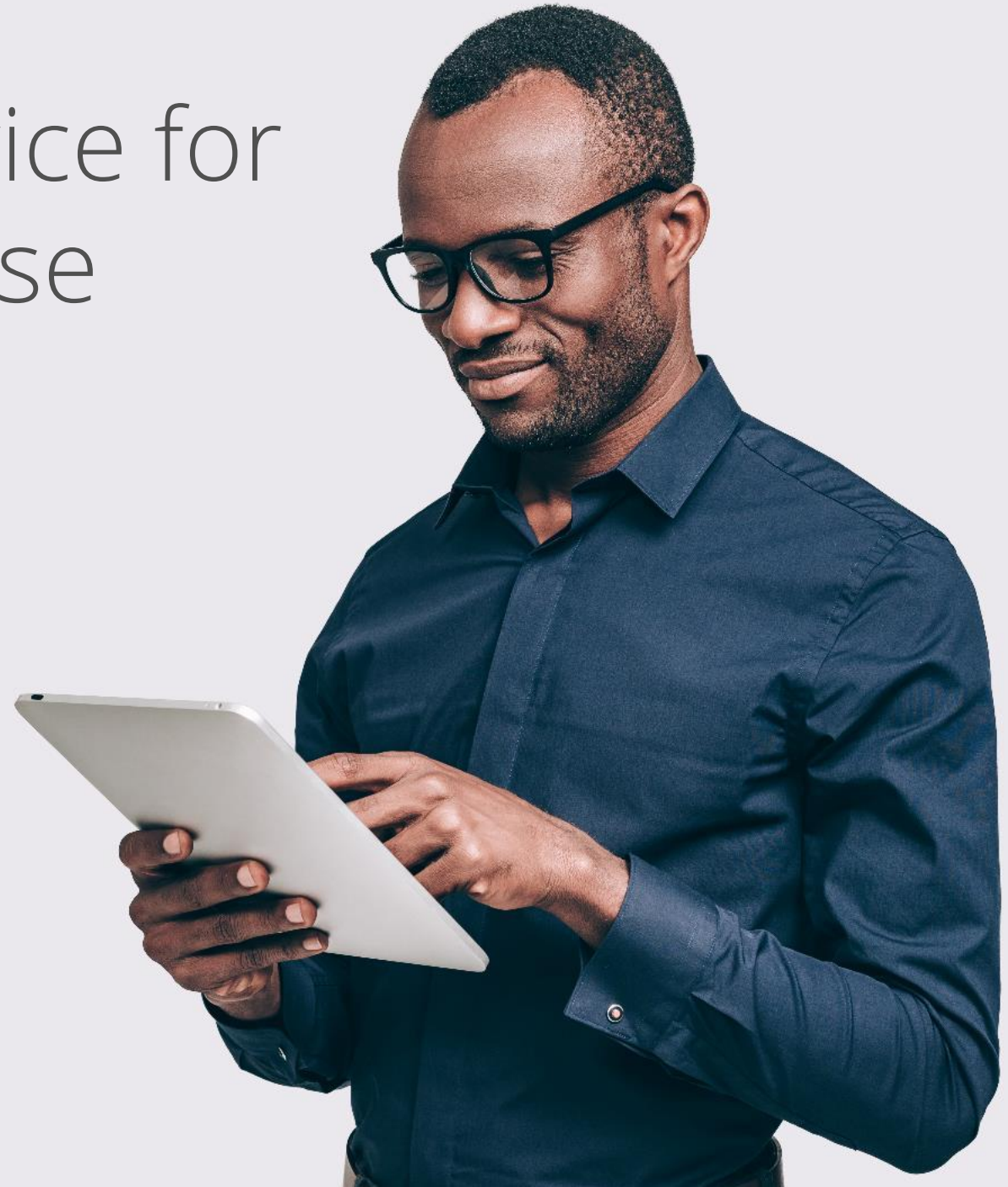
# Webinar: Practical Advice for Adopting the New Lease Accounting Standards

October 24, 2018 | 1:00 – 2:00 PM ET

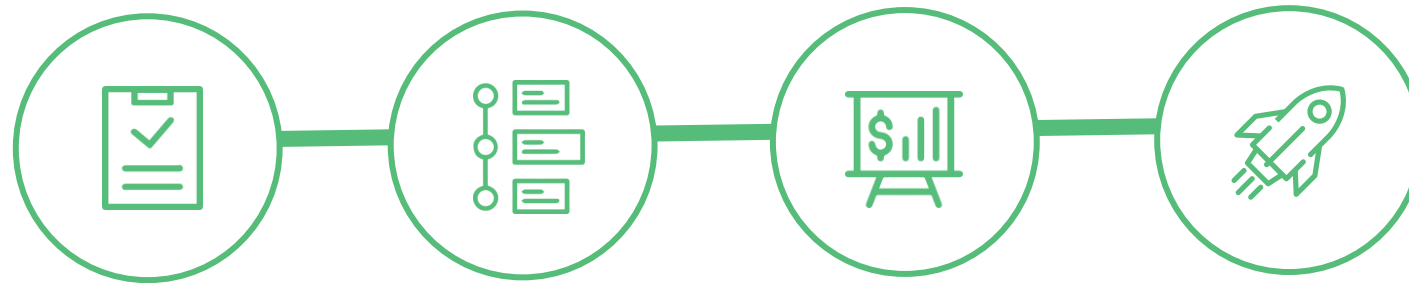


**NAKISA**<sup>®</sup>

**protiviti**<sup>®</sup>  
*Face the Future with Confidence*



# What we'll cover



Introduction

Learnings  
to Date

Technical  
Accounting

Rapid  
Deployment

# Our speakers



**Puja Mehta**

Technical Accountant,  
Nakisa

---

Puja Mehta is a Technical Accountant in the Center of Excellence at Nakisa. Puja has many years of experience in corporate accounting and specialized expertise in IFRS and US GAAP. Puja works closely with global companies across various sectors, ensuring compliance with new lease accounting standards.



**Madhu Mathew**

Associate Director in the Enterprise  
Application Solutions Practice, Protiviti

---

Madhu Mathew is an Associate Director in the Enterprise Application Solutions practice at Protiviti and based in New York. Madhu has been with Protiviti for the past ten years supporting clients with their needs regarding Nakisa Lease Administration, SAP GRC Access Control and SAP Security Optimization projects.



## Learnings to Date



# WHAT WE'LL COVER

**Lease Discovery & Abstraction**

**Lease Data Upload**

**Testing**

**User Training**

**Team Member Skillsets**

**Project Management**

# LEASE DISCOVERY & ABSTRACTION



Prior to solution implementation, it's important to consolidate all leases into a centralized lease database or repository.



You should obtain a thorough understanding of the data upload templates your solution requires to understand which data needs to be extracted from your leases.

# POLLING QUESTION 1

What do you think will be the biggest challenge associated with adopting the new lease accounting standards?

- a) Creating an inventory of all lease data
- b) Developing and implementing new policies, processes and controls
- c) Managing differences between the new standards for US GAAP vs IFRS
- d) Ongoing contract management and lease accounting

# LEASE DATA UPLOAD



After data is uploaded into your solution, it's important to validate to ensure that all data was transferred and the values are correct.



Once validated, activities and evidence of the data should be documented, reviewed and approved prior to go-live.

- Must be made available for review by external auditors



# TESTING

## Unit Testing

- End-to-end unit testing must be performed for representative lease types and transactions.
- If your solutions acts as a standalone subledger, validate internal posting numbers. If integrated, make sure your ERP system is receiving correct information in the appropriate accounts.
- Unit testing must occur during system configuration to identify and resolve issues before progressing to future stages of the project.

# TESTING

## User Acceptance Testing (UAT)

- Should include a representative sample of expected business scenarios and system functionality that end-users will experience.
- Should include a process to identify and resolve issues that are encountered.
- Accounting team must test generated accounting outputs calculated by the solution.

# TESTING

## Cutover Testing

- Cutover plan and activities should be documented, reviewed, and approved by management, prior to go-live.
  - Must be made available for review by external auditors.
- Cutover plan and activities should be tested in the QA system prior to your go-live date with your solution.
- Cutover plan must include a representative sample of lease contracts
  - Lease contracts must include lease contract beginning date and other financially relevant balances
- Any activities in the transition process should be performed to determine they work properly.

# TRAINING



It's important that users are training throughout the course of the implementation

- During Unit Testing
  - Allows project team to determine roles / responsibilities
- Prior to User Acceptance Testing
  - Allows testers to be able to navigate the solution and perform testing efficiently
- End-User Training
  - Prepare users for Go-Live of a new system
- Administrator Training
  - Allows system owner to understand configuration that was done and requirements to maintain system going forward

## Recommended training materials:

- Live demo of system activities / user responsibilities
- Configuration guides
- Reference guides
- Tutorials / Recorded sessions
- Q & A sessions

## POLLING QUESTION 2

Do you have a dedicated project team established to support your adoption of the new lease accounting standards?

- a) Yes
- b) No

# PROJECT TEAM STRUCTURE & SKILLSETS

## Team Structure



Project success is dependent on a strong, multi-disciplined team that has clear lines of communication into the overall compliance transformation PMO. Several roles are part time or as needed, but contribute towards the overall solution.



**Key**  
Project Team  
System Integrator

# TEAM MEMBER SKILLSETS

## Project Team Roles & Responsibilities

### Steering Committee

- Provide overall support and guidance to achieve defined objectives

### Project Manager / PMO

- Co-manage project with implementation partners and lead internal efforts
- Monitor and track tasks in project plan
- Manage project stakeholders and action items

### Finance and Accounting Team

- Lead lease discovery efforts and provide data inventory
- Provide guidance on accounting treatment of leases – Chart of Accounts, Asset Accounting, and Financial Reporting
- Provide guidance on existing procurement processes
- Provide input and feedback on system design

### Corporate / Technical Accounting

- Provide guidance on current accounting treatment of leases – Chart of Accounts, Asset Accounting, and Financial Reporting
- Provide input and feedback on system design
- Identify and define impact of accounting standards

### Procurement / Accounts Payable

- Support lease discovery efforts
- Provide guidance on existing procurement process
- Provide input and feedback on system design

### Asset Accounting Analyst

- Provide guidance on existing ERP configuration
- Provide guidance on existing procurement processes

### IT Personnel (i.e. Basis / Network Admin)

- Support installation and environment maintenance discussions
- Interface development discussions

**A successful solution implementation requires various skillsets from various project team members.**

# TEAM MEMBER SKILLSETS

## System Implementer Roles & Responsibilities

### Overall Engagement Lead

- Lead overall engagement and provide support on project planning

### Lead / Project Manager

- Lead the solution design team through workshops, documentation process, and final deliverables

### Functional Consultant

- Support design development from a functional perspective and document decisions

### Lease Accounting Advisory Lead

- Provide advisory related to the ASC 842 and IFRS 16 requirements

### Technical Consultant

- Support design development, other deployment related questions from a technical perspective and translating the requirements to the system configuration

### Solution Architect

- Lead functional design workshop / blueprinting discussions and translating the requirements to the system configuration

### Technical Accountant

- Provide regulatory implications for the system design / blueprinting, configuration, and reporting and translating the requirements to the system configuration



# PROJECT MANAGEMENT



Project should have strong project sponsorship and full senior management buy-in



Project Steering Committee and key project stake holders should review and sign-off on all critical portions of a project including:

- System design, testing, data validation, and the cutover process / transitional accounting to the new lease accounting standards



Project plan should encompass all milestones and QA checks



Status meetings should occur with the project team and the system implementer on a regular basis

- Project plan must be updated appropriately throughout the project



# Technical Accounting



# Grey areas of the new lease accounting standards

Accounting standards are filled with legal jargon. The new lease accounting standards provide guidance on the new accounting treatment for leases. However, it's an accountants job to interpret the information and decide how it is to be applied in regular accounting practice.

## Nakisa Lease Accounting User Group

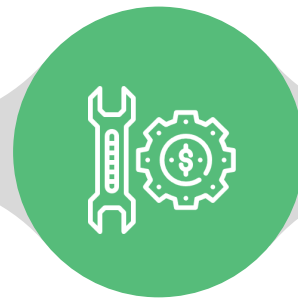
Nakisa customers have formed a user group where subject matter experts come together to determine what is the recommended reporting approach for commonly asked questions. The following topics were recently discussed:



**Non-Calendar  
Fiscal Year**



**Reconciliation  
with Excel**



**Restoration  
Cost**



**Evergreen  
Leases**

# Common questions



## Non-Calendar Fiscal Year

1. What is a non-calendar fiscal period?
2. What does the posting schedule look like for a non-calendar fiscal year?



## Reconciliation with Excel

1. How can I use Excel for reconciliation?



## Restoration Cost

1. What is restoration cost?
2. Is there a difference under ASC 842 vs IFRS 16?
3. How do I account for restoration cost under IFRS ?



## Evergreen Leases

1. How are evergreen leases defined by the new standards?
2. What has been determined as the accounting requirements for evergreen leases?
3. What part is under discussion?



## Decrease in Lease Term

1. What is the accounting treatment for a decrease in lease term under IFRS 16 and ASC 842?



## Disclosure Reports

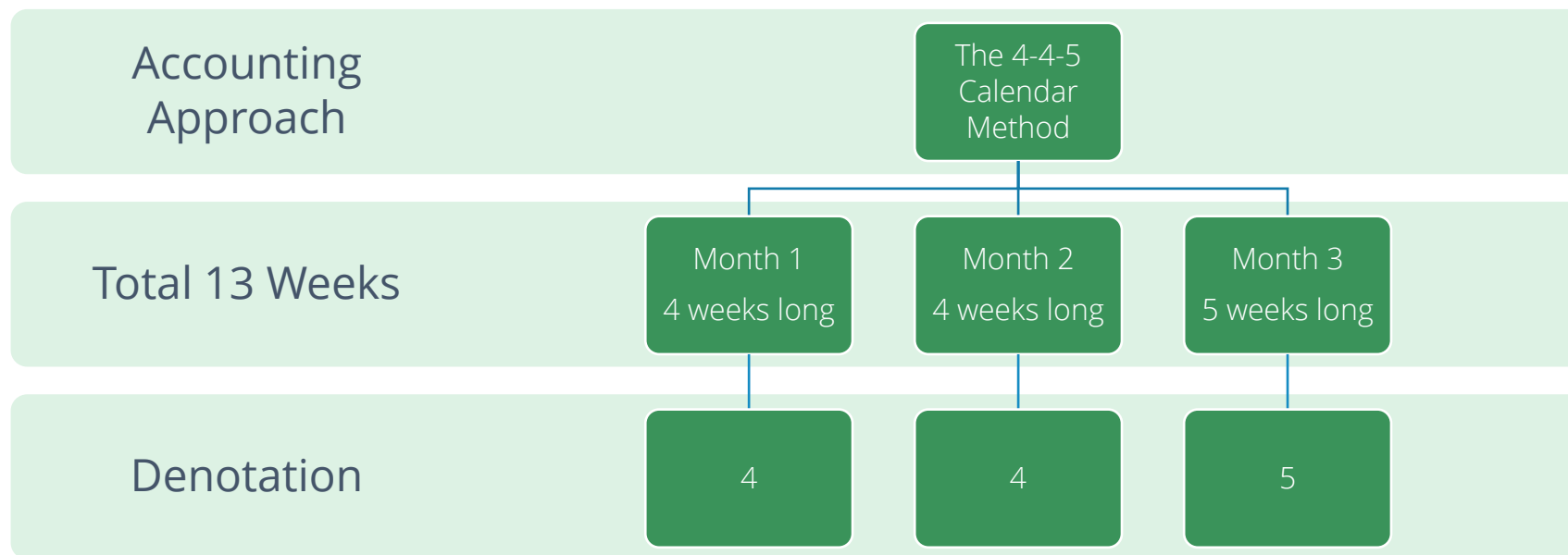
1. What are the quantitative note disclosure requirements under the new lease accounting standards?



# Non-Calendar Fiscal Year

# What is a non-calendar fiscal period?

- The non-calendar fiscal period such as 4-4-5 calendar is a method for managing accounting periods, which is common for industries operating in the retail and manufacturing space.
- The spirit of this approach divides a year into 4 quarters, whereby each quarter is represented by 13 weeks.



# What does the posting schedule look like for a non-calendar fiscal year?

Period 1

Interest Expense (1)

Jan 01

1st Payment Posting:  
Principal Portion

Dr ST Liability  
Cr AP Clr Acc

Jan 08

1st Interest Accrual Posting:  
Interest Expense (1)

Dr Int. Exp.  
Cr ST Liability

Period 2

Interest Expense (2.a)

Interest Expense (2.b)

Interest Expense (2.c)

Jan 29

Feb 01

2nd Payment Posting:  
Interest portion (1 + 2.a)  
+  
Principal Portion

Dr ST Liability  
Cr AP Clr Acc

Mar 01

3rd Payment Posting:  
Interest portion (2.b)  
+  
Principal Portion

Dr ST Liability  
Cr AP Clr Acc

Mar 04

2nd Interest Accrual Posting:  
Interest Expense (2.a + 2.b + 2.c)

Dr Int. Exp.  
Cr ST Liability

Period-end Interest Balance:  
Interest Expense (2.c)

## Polling Question 3

What tool are you planning to use for accounting under the new standards?

- a) Excel
- b) Use an existing lease accounting system
- c) Select a new lease accounting solution
- d) Haven't decided





# Reconciliation with Excel

# How can I use excel for reconciliation?

- 1 PV calculation uses 360 convention as default
- 2 For 365 convention use XNPV formula
- 3 For 4-4-5 or non-calendar reporting use XNPV formula with accruing interest based on the number of days in the given period and amortize the lease liability based on payment schedule
- 4 Under 4-4-5 reporting 365 convention must always be applied
- 5 Take note of payments in advance or in arrears as well as its frequency
- 6 Payment frequency determines the compounding frequency



# Restoration Cost



# What is restoration cost?

Definition of restoration cost:

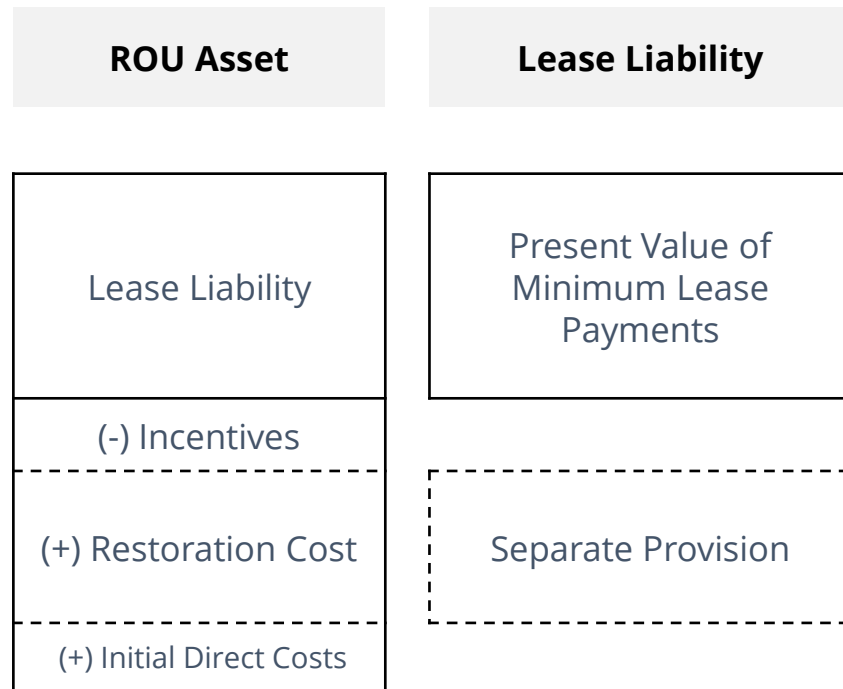
“

An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

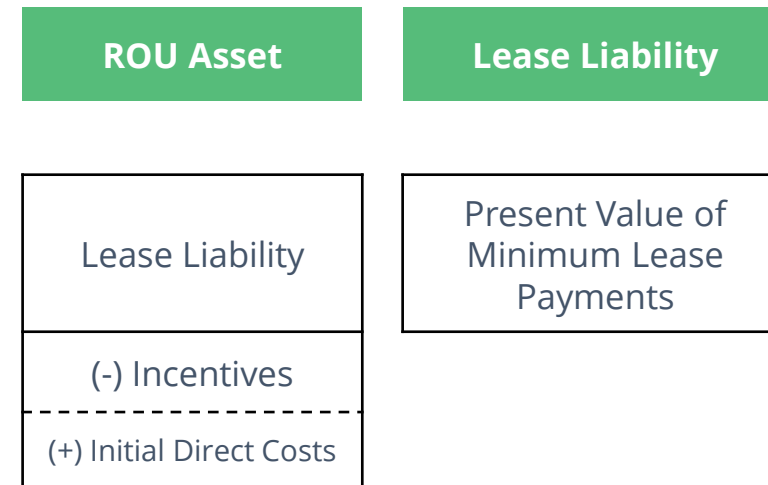
”

# Is there a difference under ASC 842 vs IFRS 16?

## IFRS 16



## ASC 842



\* The restoration costs are included in the minimum lease payments

# How do I account for restoration cost under IFRS?

Dr. ROU Asset (Initial measurement of restoration cost)

Cr. Separate Provision (Initial measurement of restoration cost)

The expected restoration cost is measured applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

→ Initial Measurement: IAS 37, prg 36, 45, 47

→ Subsequent Measurement:

- ROU Asset: IFRS 16
- Lease Liability: IAS 37, prg 60

→ Remeasurement: IAS 37 prg 47, IAS 21.23



# Evergreen Leases



## Definition of evergreen leases:

- ▶ Automatically renew until either party terminates the agreement
- ▶ No fixed contractual end data

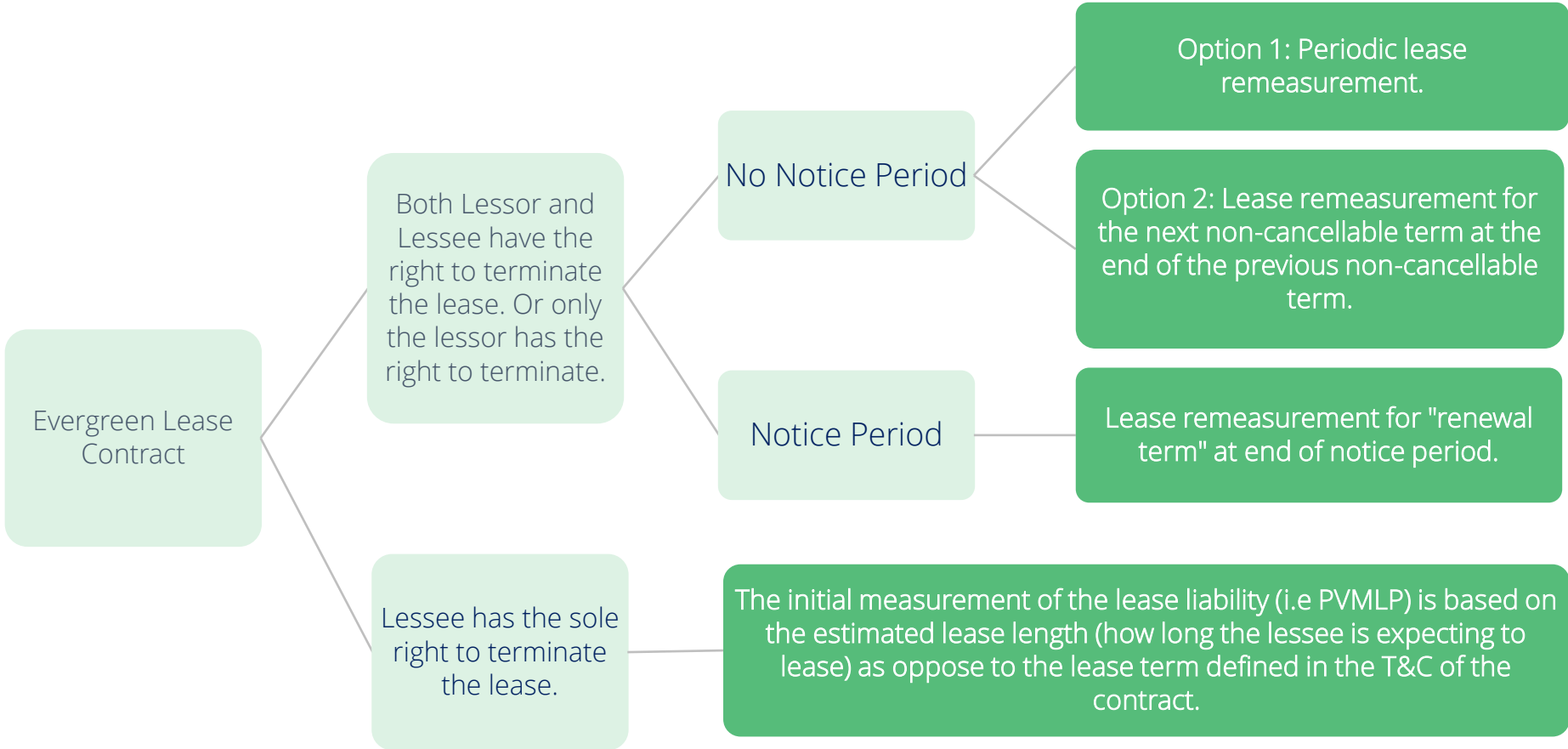
How are evergreen leases defined by the new standards?

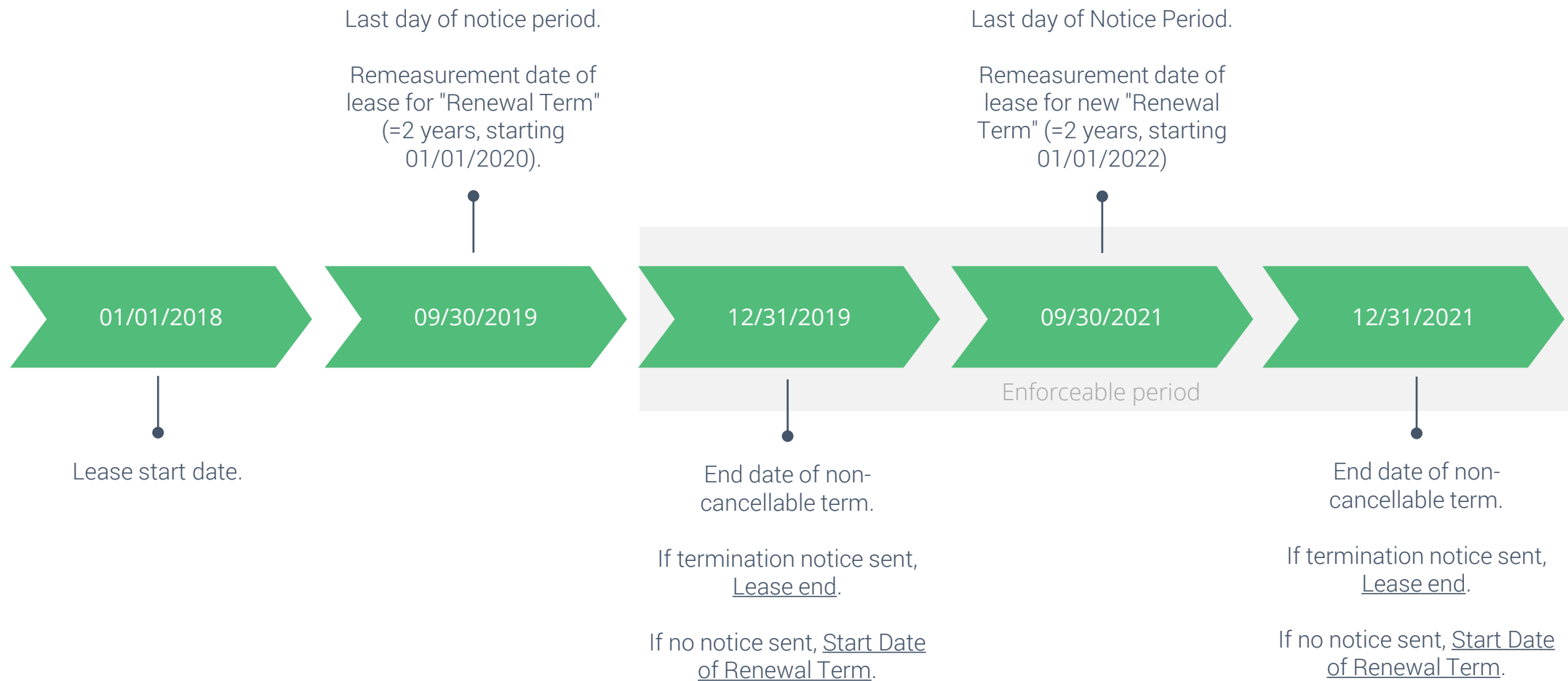
## Accounting Treatment:

- ▶ No specific requirements outlined in the new lease accounting standards for reporting of evergreen leases
- ▶ Accounting treatment for evergreen leases is under discussion based on best practices



# What has been determined as the accounting requirements for evergreen leases?





# What is under discussion?



A month-to-month  
evergreen  
term

Accrue and pay  
vs  
Adjustment to  
ROU asset and  
lease liability



# Decrease in Lease Term



## What is the accounting treatment for a decrease in lease term under IFRS 16 and ASC 842?

- In the event of a modification whereby solely the lease term has decreased there is a separate accounting treatment between IFRS and US GAAP.
- IFRS: This is considered a decrease in scope whereby a gain/loss impact is reported.
- US GAAP: This is considered as a lease remeasurement i.e. no gain/loss impact.



# Disclosure Reports

# What are the quantitative note disclosure requirements under the new lease accounting standards?

List of Quantitative Disclosures	IFRS 16	US GAAP ASC 842
<b>Lease Cost</b>		
Finance Lease Cost		
Amortization of right-of-use assets	✓	✓
Interest on lease liabilities	✓	✓
Operating lease cost		✓
Short-term lease cost	✓	✓
Low-value asset lease cost (IFRS 16)	✓	
Variable lease cost	✓	✓
Subleasing Income	✓	✓
<b>Quantitative Disclosures - Other</b>		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	✓	✓
Operating cash flows from operating leases		ü
Financing cash flows from finance leases	✓	✓
Total cash outflow for leases	✓	
Additions of all Right-of-use assets during the period, inclusive of ROU in exchange for Cash (Prepaid leases) - IFRS 16	✓	
Right-of-use assets obtained in exchange for new Finance lease liabilities		✓
Right-of-use assets obtained in exchange for new Operating lease liabilities		✓
Carrying amount of Right-of-use assets disclosed by underlying asset classes (IFRS 16)	✓	
Weighted-average remaining lease term - finance and operating leases		✓
Weighted-average discount rate - finance and operating leases		✓
Maturity Analysis of finance and operating lease liabilities for each of the first five years after the balance sheet date and in total thereafter (undiscounted cash flows reconciled to the amounts presented in the balance sheet)	✓	✓
Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:		
Variable lease payments	✓	
Extension options and termination options	✓	
Residual value guarantees	✓	
Leases not yet commenced to which the lessee is committed	✓	

## Polling Question 4

Are you on track to go-live on-time with the new lease accounting standards?

- a) Yes
- b) No
- c) I don't know





# Rapid Deployment



# What is Nakisa's Rapid Deployment?



## Phased Approach:

### ✓ Phase 1: Standalone Mode

Standalone configuration accelerates the timeline from data collection to lease accounting

### ✓ Phase 2: Integration

Once organization's have made their deadline, they can turn their attention to process efficiency through integration with ERP systems.



## Cloud Technology:

✓ Cloud technology eliminates the need to purchase, install, or maintain servers, resulting in cost savings and decreased dependency on internal IT resources

### ✓ Scalable

(handle 1000-100000+ contracts)

### ✓ Rapid deployment

(30, 60, 90 days)

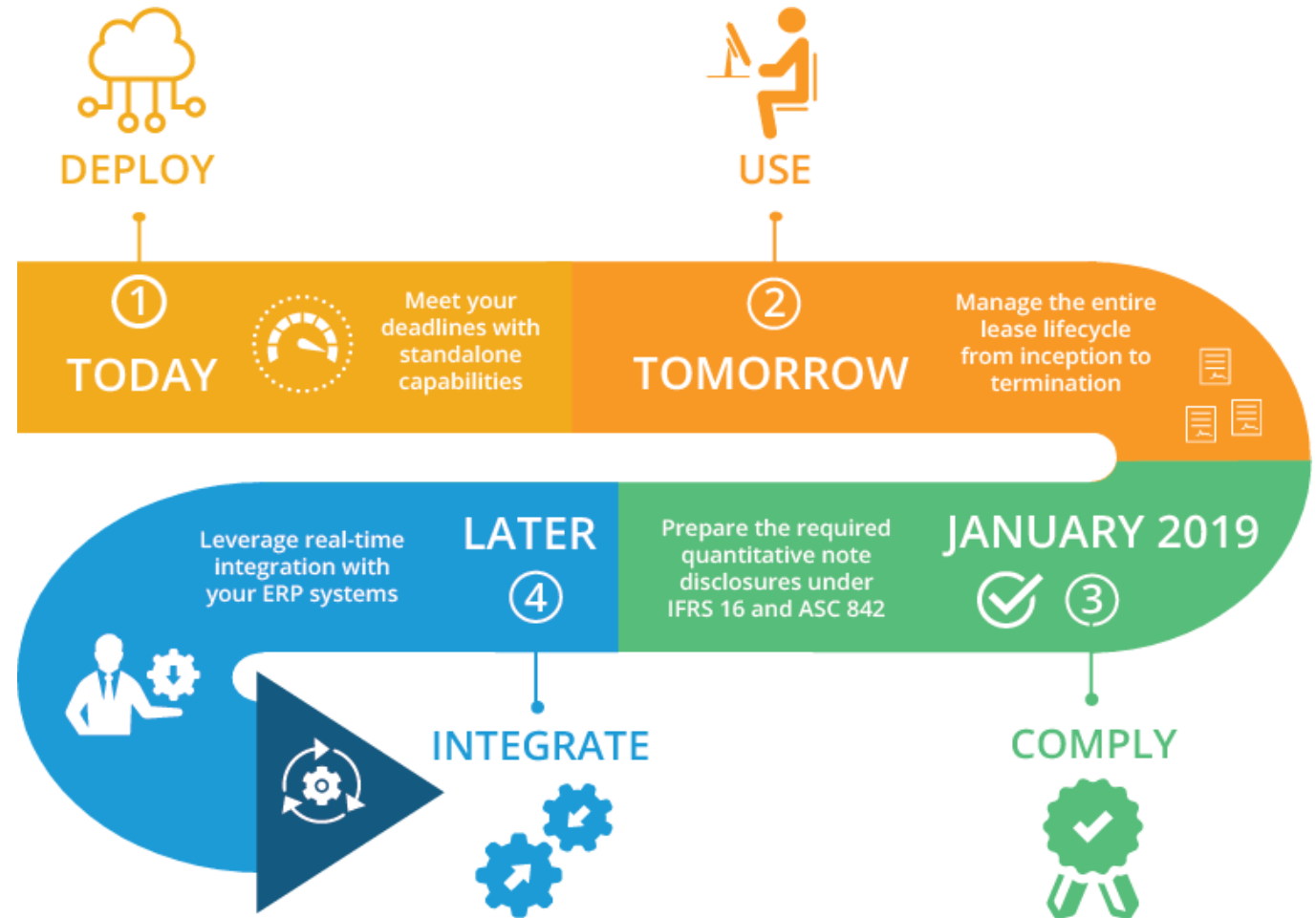
# Is rapid deployment right for me?

- ✓ Rapid deployment is suitable for organizations with aggressive go-live targets.
- ✓ Project plans are scoped according to number of contracts, number of company codes, and contract complexity.



# How does standalone mode work?

- ✓ Standalone mode means the system acts as a full subledger.
- ✓ Eliminates the most complex part of solution deployment.
- ✓ Allows entities to get the financial impact in time for Q12019 reporting





# Q & A

## Contacts



### **Puja Mehta**

Technical Accountant  
Nakisa



[Puja.Mehta@nakisa.com](mailto:Puja.Mehta@nakisa.com)

---



### **Madhu Mathew**

Associate Director in Enterprise  
Application Solutions Practice  
Protiviti



[Madhu.Mathew@protiviti.com](mailto:Madhu.Mathew@protiviti.com)

© 2018 Nakisa Inc. All rights reserved.

The information in this presentation is confidential & proprietary to Nakisa, & may not be disclosed without the permission of Nakisa. This presentation is not subject to your license agreement or any other service or subscription agreement with Nakisa. Nakisa have no obligation to pursue any course of business outlined in this document or any related presentation, or to develop, release or implement any functionality mentioned therein. This document, or any related presentation & Nakisa's strategy & possible future developments, products & or platforms directions & functionality are all subject to change & may be changed by Nakisa at any time for any reason without notice. The information in this document is not a commitment, promise or legal obligation to deliver any material, code or functionality. This document is provided without a warranty of any kind, either express or implied, including but not limited to, the implied warranties of merchantability, fitness for a particular purpose, or non-infringement. This document is for informational purposes & may not be incorporated into a contract. Nakisa assume no responsibility for errors or omissions in this document, except if such damages were caused by Nakisa intentionally or grossly negligent.

All forward-looking statements are subject to various risks & uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, & they should not be relied upon in making purchasing decisions.