

The RGP logo is displayed in a large, white, sans-serif font. A thin vertical line is positioned to the right of the letters 'G' and 'P'.

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Resources  
Global  
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# **LEASE ACCOUNTING: BUILD YOUR ROADMAP TO ARRIVE ON TIME**

Developed by the RGP Lease Accounting Center of Excellence

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# Planning a **Successful** Journey

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# Where Are You Going & Where Are You Now?

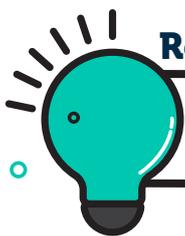


*Almost 55% of companies found the lease accounting project to be more complex than originally anticipated.<sup>1</sup>*



The Financial Accounting Standards Board (FASB) launched a sea change in financial reporting when they issued a new lease accounting standard that, for the first time, required organizations to bring leases onto their balance sheets. Public companies adopted the new ASC 842 standard (and IFRS 16 for international companies) in 2019. Private companies and nonprofits must now comply by their 2021 fiscal year-end. Public companies learned that the process is more complex, painstaking and time-consuming than you may think.

More than 40% of respondents in a 2019 LeaseAccelerator survey said the top implementation challenge was identifying leases and abstracting the data needed to support accounting calculations. Other bumps in the road included Day 2 business process transformation and project management.



## Road Tip

Choose experienced fellow travelers you can count on to help navigate the journey.

<sup>1</sup>Private Companies and Lease Accounting: A 2019 Progress Report, [LeaseAccelerator](#)



Every successful journey starts with careful planning—especially when the itinerary is ambitious and your time is limited. Reaching your destination on time leaves little room for wrong turns or serendipity, as more than half of public companies found when adopting the new standard in 2019.

Aside from strong executive support, managing the project plan and embedding change throughout your organization may be the most critical success factors. Such transformation projects affect many stakeholders, requiring a detailed plan and diligent management of milestones.

### **Case in Point:** *Partnering for a Successful Implementation*

Our Fortune 500 client in the metals industry was among the early adopters of the ASC 842 standard. They looked to RGP not only for support with the implementation itself, but also as a true partner to guide them through the process.

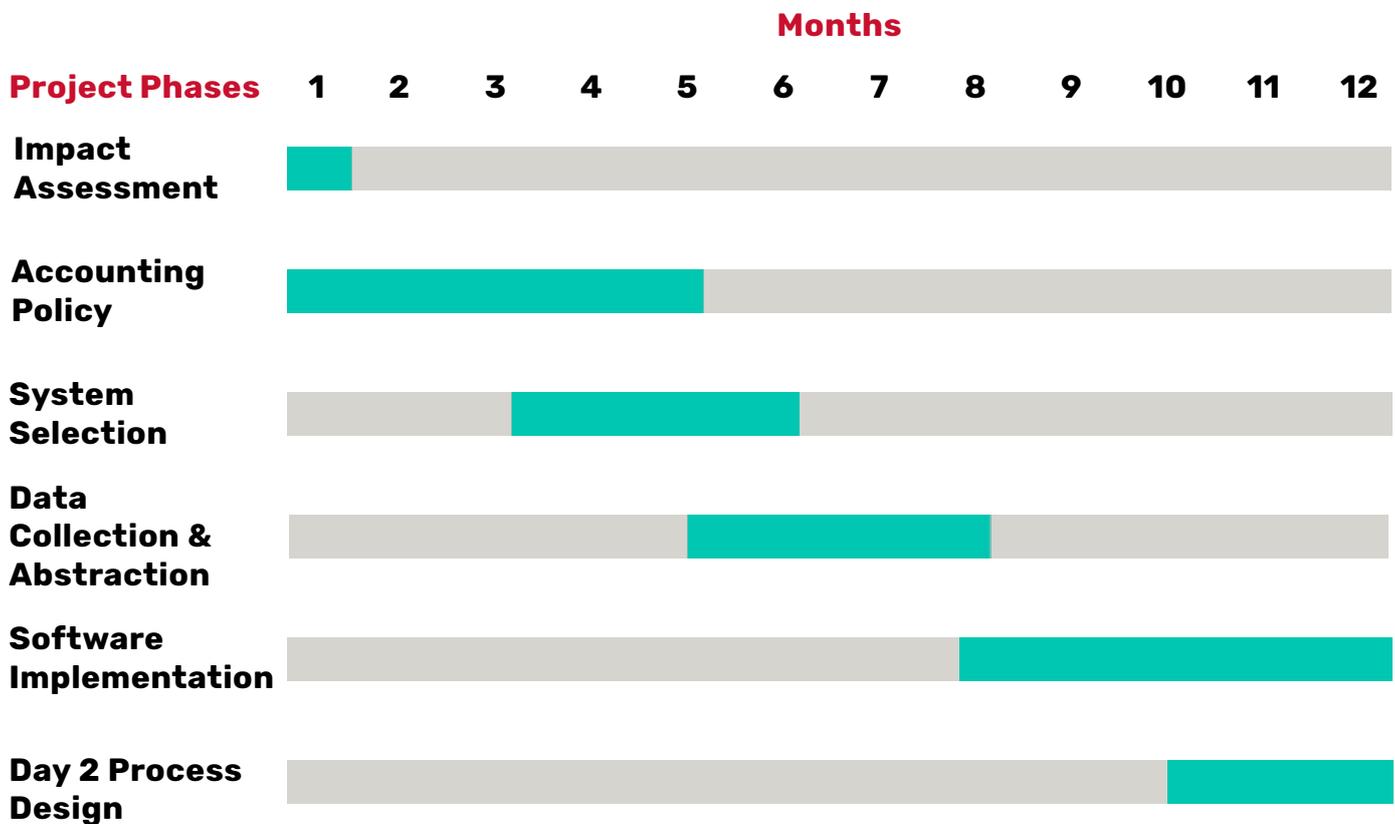
We brought a powerful combination of skills to the engagement, with deep technical expertise and certification for the software platform the company chose, as well as project management prowess backed by a proven approach and methodology for implementation.

# Managing the Milestones

## Toward Compliance

How long does all this take? The typical roadmap for implementing the lease accounting standard spans 12-14 months and includes six key phases:

1. Impact Assessment
2. Accounting Policy
3. System Selection
4. Data Collection
5. Software Implementation
6. Day 2 Process Design



Given the project duration, adhering to a strict timeline is essential to stay on track. There are several factors that impact the length of the various stages. Some portfolios will need additional time to abstract required information from leases and to configure and test systems.



A **successful roadmap** also includes careful consideration of the dependencies between the major phases of the project. For example:



**Project objectives.** Align project objectives across stakeholders at the outset to avoid scope creep later in the project.



**Lease identification.** Address lease portfolio completeness early to streamline data abstraction efforts and policy decisions.



**Business requirements.** As the policy and accounting changes begin to mature, identify and document key requirements for accounting and administration objectives.



**Data readiness.** The data required for compliance is directly dependent on accounting policy decisions, lease administration needs and system selection.



**System design.** An agreed upon set of final business requirements allows for a smooth transition into the system design and implementation.



### Road Tip

Put a professional project manager in the driver's seat to steer around potholes and avoid unexpected delays.



# Assessing the Impact & Designing Your Roadmap



*Top-level management support from the get-go is critical for a successful implementation.*



**Cindy Dailey**

*RGP Program Management  
Consultant*

Every company is unique. Every lease portfolio is unique. So it's important to understand how your systems are structured and where the information is. The complexity of your lease portfolio will impact the timing of almost every phase of the journey, with some portfolios requiring additional horsepower to comply.

### **Lease Administration Requirements**

Is the project scope focused only on accounting compliance? Or does the project include streamlining lease administration? As companies evaluate scope, other organizational requirements may be beneficial to address. Our clients are finding significant benefits with aligning lease administration and lease accounting teams onto a common platform.

### **Vendor Negotiations**

This is easy to overlook. Be sure to allow time to set up contracts with required vendors, including your software provider and other partners. And ensure the roadmap reflects the timing of your procurement process including:

- Vendor demos
- Vendor evaluations
- RFP process and contract negotiations

From initial demo to final contract, these steps can take months depending on the organization and how your purchasing decisions are made.



### **Road Tip**

To keep your journey on schedule, determine which objectives are in scope at the outset and establish priorities through a defined rollout strategy.

## Case in Point: Finding a Cure for Global Complexity

With locations in the US as well as Canada and Europe, a global Fortune 100 healthcare technology and pharmaceutical distribution company faced multifaceted challenges in implementing the new lease accounting standards. When assessing the impact, our client not only had to account for regulatory differences in each country, but also organizational and cultural differences. And the sheer scale of this initiative was massive:

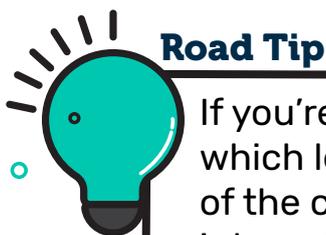
<b>750M</b>	<b>12,000+</b>	<b>\$2.2B</b>
journal entries two months into transition	lease assets	lease portfolio value

RGP brought in a large team to support the implementation, led by an experienced program manager reporting into the PMO. Our project leadership, combined with top-level management support proved critical to weaving complex threads into a cohesive whole, with the training, documentation and knowledge sharing to ensure sustainable compliance.

## Defining Accounting Policy

Next, consider how accounting policy decisions could streamline your implementation or create administrative obstacles to operationalize. For instance, the short-term lease expedient may gross down your balance sheet but will cause additional work to track due to reassessment and disclosure requirements. On the other hand, the package of transition expedients and newest transition option consistently reduces implementation time.

When outlining your lease policy, consider the pros and cons of practical expedients as well as technical questions about embedded leases to ensure you haven't missed anything. Policy decisions impact the amount capitalized on the balance sheet and expensed in the income statement and thus affect EBITDA and other metrics important to debt covenants and executive compensation.



### Road Tip

If you're implementing a software solution, consider prioritizing which leases to enter into the system based on the complexity of the contracts, decisions regarding short-term exclusions, integrations with accounts payable, and materiality.

# Selecting the Right Software

Most companies don't have all their leases in an existing database or software, and those that do typically have used software to manage only their real estate leases. Now that it's imperative to maintain accurate data for *all* leases, companies with more than about 50 leased assets—and there may be multiple assets per lease—need a software solution to ensure ongoing, sustainable compliance.

When selecting the best software, you'll need to consult all stakeholders about the outputs and features they need, whether it's facility or equipment planning, tax or regulatory compliance, or financial reporting. **The capabilities, ease of use and cost vary significantly.**

You'll also want to consider whether the software has been tested by a reputable accounting firm for calculation accuracy and internal controls. Before signing any contract, check with references and ensure you're comfortable with the output (including journal entries) from your own transaction use cases.



## Road Tip

A little planning and diligence upfront goes a long way. Our [Software Selection Checklist](#) can help you pick the right software the first time.

## Collecting & Analyzing the Data



*There is no scale. The only scale you get is more hours or more people.*

**Michael Allen**

*RGP VP and Head of  
Finance & Accounting*

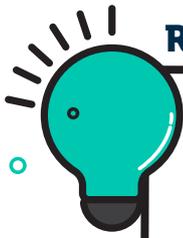
### Do you know where your leases are?

If you don't know, you're not alone. Leases, particularly equipment leases, tend to be scattered throughout your organization, driving a lack of transparency at the corporate level. **Never before has it been so important to know where your leases are.**

Gathering leases and extracting applicable data takes longer than any other activity. This includes not only finding the final and current lease contracts with amendments, but also any contracts with embedded leases. **Your auditors will require you to prove completeness of your lease population.**

The most challenging contracts are those in foreign languages, older leases that have been modified through the years, and leases stored as hard copies in file cabinets. Depending on the system you choose and your requirements, there could easily be more than 70 fields needed for each lease, and only some of those come from the agreements.

Many companies assume that if their leases are managed by a third party or in existing systems, the data will be complete, accurate and easily exported to upload into a software tool. Unfortunately, in many instances only basic data fields were updated, leaving significant data gaps. **The importance of data accuracy and validation prior to uploading into your system cannot be underestimated.**



### Road Tip

Choose your software before you start working with your data so that you capture all the right fields, in the right way, the first time.

### **Case in Point:** *Lease Compliance Isn't 'One & Done'*

With a \$450M lease obligation and over 10,000 assets, a multinational food processing leader struggled with data decentralization, quality and completeness. First and foremost, they needed a project manager to lead and execute their lease data capture program to meet the requirements of their new lease system and then oversee the system implementation.

But as they quickly discovered, lease accounting and administration isn't a "one and done" task. What began as a data collection project evolved into a full-scale implementation, including not only an impact assessment and gap analysis, but also a data governance program, as well as project management, change management and a 60-day "hypercare" program to instill knowledge and trust in the new system.

# Implementing the **Software**

In many ways, implementing the technology platform for lease accounting is like any other financial system implementation. Companies typically encounter challenges with technical configuration details, business processes and ERP systems. On paper, it's simple. But, as noted above, the biggest bottleneck often comes down to the data. That's why it's so critical to get your data properly tuned before you hit the road.

## **Case in Point:** *One System, Multiple Implementations*

Adopting a new lease accounting standard is a heavy lift under any circumstances. For one of the largest higher education systems in the US, it's even more challenging. Each location has its own ERP system, data requirements and integration considerations. And each determines their own policies and processes for implementing the GASB 87 standard.

After helping our client select a software platform to automate the lease accounting process, RGP's team of vendor-certified experts, led by an embedded program manager, shepherded the implementation across all the system's locations. Even with the pause forced by the COVID-19 pandemic, the system is on track to go live well before the deadline.

# Planning for Arrival & Sustainable Compliance

The effective date is actually **the beginning** of the work and **not the end**.

The lease accounting journey doesn't end when you reach your destination. As many public companies discovered in the race to meet the deadline, it's easy to focus only on the implementation, leaving the sustainability part to the end. But in reality, the effective date is actually the beginning of the work and not the end. A safe arrival is possible only with careful design of processes, roles and controls, supported by automation. The importance of this Day 2 process design should not be underestimated.

## Change Management: Planning for the 'People Part'

The sheer number of individuals who are involved in the project impacts a variety of tasks, including requirements gathering, system evaluation input, process discussions, user testing and training. As you begin to consider Day 2 processes and identify potential process changes across teams, factor in the time to address these new team interactions. Plan for time to document information flow, test new process interactions and provide training to teams impacted.

Accountability is key to help ensure all individuals contribute in a timely manner. With a short runway to compliance, the workstreams to assess the impact, collect data, select and implement software, train staff and design Day 2 processes and controls must be carefully managed. While it may be only a part-time role, dedicated resources are best rather than adding the responsibilities to someone's already full-time job.

## Are We There **Yet?**

See how long it will take your organization to reach compliance with our simple online tool.

[Calculate Your ETA](#)

## **5 Roadblocks to Avoid on Your** Path to Lease Accounting **Compliance**

When you're on a tight schedule to arrive at your destination on time, you can't afford to take any detours. Map out your path to compliance with the new lease accounting standards, avoiding these five common roadblocks.



### **1. Lease Complexity**

Anticipate where you might encounter traffic jams.

Are you a multinational organization that needs to account for the varied reporting requirements and accounting standards of different countries? Do you have a large variety of lease types such as operating, capital, real estate, equipment, embedded or variable payments? Get a sense of how much time these will add to your journey when mapping out your path.



### **2. Software Selection**

Make sure your engine is well-oiled before hitting the road.

Do you have 50 or more leases? If yes, do you have the internal resources to manually separate lease components, group leases and record judgments? Are you confident in your ability to maintain an audit-ready subledger and accurate disclosures? Software can accelerate compliance but can take months to select and implement. Make sure you've got an engine with the power to get you to your destination.



### 3. Data Collection

Pack the right items for your trip so you're not caught unprepared.

Where are all your lease contracts? Do you have embedded leases that you need to properly account for? Contracts in foreign languages? Hard copies forgotten in a drawer somewhere? Your auditors will require you to prove the completeness of your lease population, and collecting contracts and abstracting data will take longer than you think. Start packing early to avoid leaving essentials behind.



### 4. Change Management

Prepare for twists and turns along your journey to compliance.

Are your management, operations, treasury, IT, real estate, procurement and accounting teams prepared for this transition? Have you established workstreams, processes and controls with clear roles, responsibilities and accountability? Change management may be the most critical factor in achieving compliance. If you're driving, you'll want to make sure your travel companions are all in the right seats.



### 5. Day 2 Operations

Plan out the first thing on your itinerary after you arrive.

What's next after you achieve compliance? How will your transition affect your lease and buy process and how you extract, input and maintain lease data? What about your organizational design and the implementation of controls? Planning your Day 2 itinerary in advance will help you avoid wasting precious time at your destination and ensure a successful trip for everyone.

## Get Your Team Ready for the Road

Download and share our infographic to help others avoid these common roadblocks.

[View Now](#)

# Lease Accounting Center of Excellence

## Provides Ongoing Support

“One of the biggest post-adoption challenges for companies will be in the areas of talent, staffing, and training.<sup>1</sup>”

Once you shift gears from the initial implementation of ASC 842, IFRS 16 and GASB 87, your next challenge will be to develop a permanent pool of skilled professionals to maintain the new standards—a task that may be easier said than done. As an op-ed in CFO.com<sup>1</sup> noted after public companies adopted the new standards, “One of the biggest post-adoption challenges for companies will be in the areas of talent, staffing, and training.”

The article goes on to say that many larger companies are developing a lease accounting center of excellence (CoE) to support ongoing compliance, but that finding the right talent might be challenging, because lease accounting hasn't been a focus for finance and accounting until recently. But even if your own organization isn't able to support a lease accounting CoE, you can take advantage of RGP's team of experts and flexible lease accounting services.

Our Lease Accounting CoE brings together cross-functional teams with deep expertise and experience in all aspects of the implementation, led by professional project managers working in close collaboration with experts in data, technology and compliance processes and controls.

<sup>1</sup>Lease Accounting Post-Adoption, [CEO](#)

# RGP Can Help You Navigate the Journey to Compliance

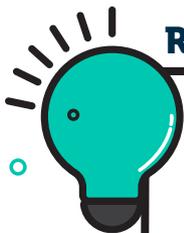
Our team includes consultants certified in all the leading lease accounting platforms. Together, we can help you:

Review your strategy around which assets are purchased or leased and implementing an effective lease/buy process.

Evaluate organizational design of roles for lease origination in real estate, procurement, legal or business units.

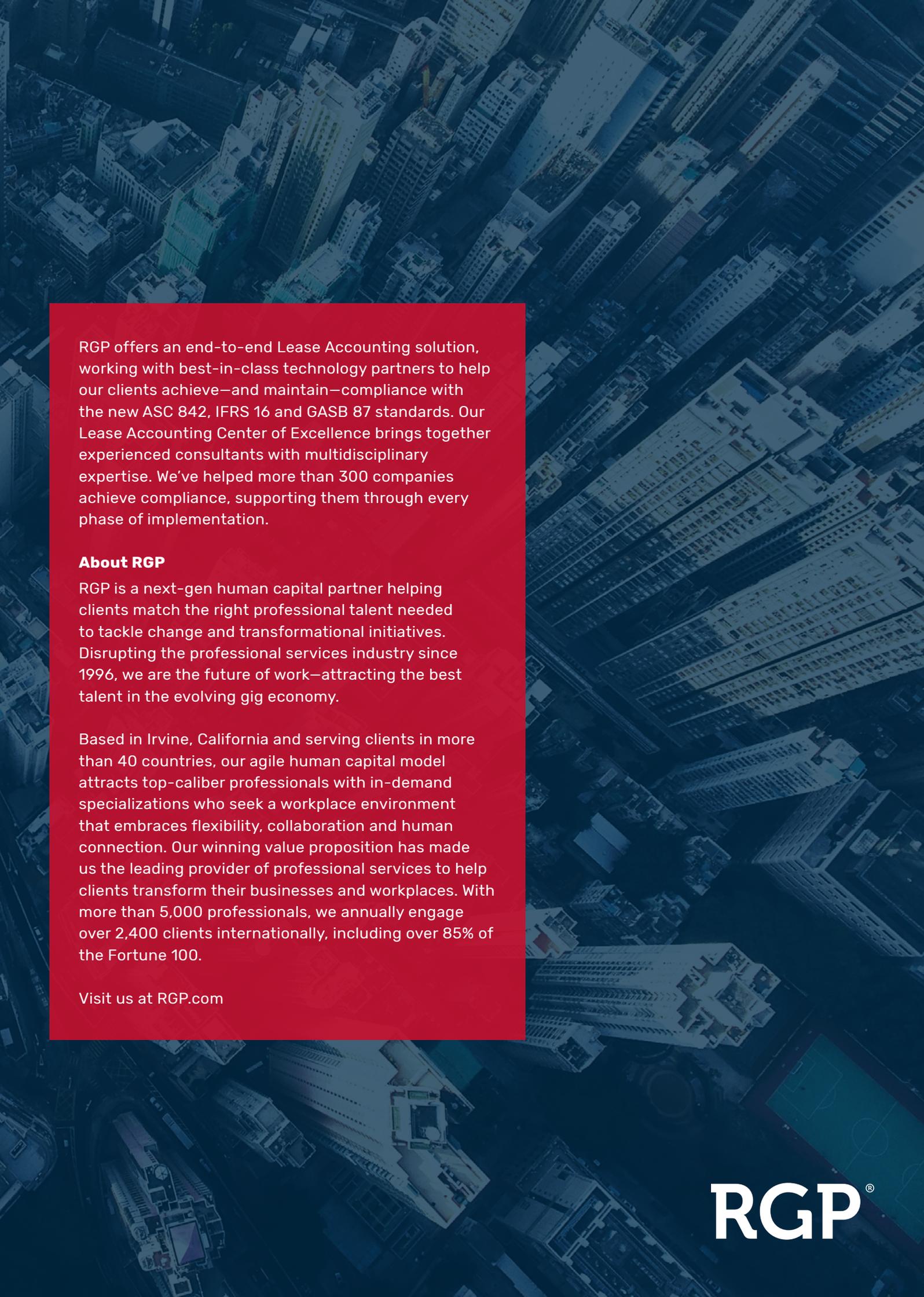
Extract, enter and maintain accurate lease data.

Design controls to prevent and detect accounting errors, ensure lease population completeness, and provide effective end-of-term management to capture a return on your investment.



## Road Tip

Talk with one of our lease accounting experts to help you plan your journey to compliance. Get the keys to a smooth ride today at [leases@rgp.com](mailto:leases@rgp.com).



RGP offers an end-to-end Lease Accounting solution, working with best-in-class technology partners to help our clients achieve—and maintain—compliance with the new ASC 842, IFRS 16 and GASB 87 standards. Our Lease Accounting Center of Excellence brings together experienced consultants with multidisciplinary expertise. We've helped more than 300 companies achieve compliance, supporting them through every phase of implementation.

#### **About RGP**

RGP is a next-gen human capital partner helping clients match the right professional talent needed to tackle change and transformational initiatives. Disrupting the professional services industry since 1996, we are the future of work—attracting the best talent in the evolving gig economy.

Based in Irvine, California and serving clients in more than 40 countries, our agile human capital model attracts top-caliber professionals with in-demand specializations who seek a workplace environment that embraces flexibility, collaboration and human connection. Our winning value proposition has made us the leading provider of professional services to help clients transform their businesses and workplaces. With more than 5,000 professionals, we annually engage over 2,400 clients internationally, including over 85% of the Fortune 100.

Visit us at [RGP.com](https://www.rgp.com)

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