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

Lease Accounting Compliance Presents an Opportunity

There's nothing like compliance with new regulations to bring about organizational change. But change presents opportunity. Making wise decisions for compliance with the new FASB and IASB lease accounting standards offers the opportunity to add value to companies by streamlining processes, empowering better decision-making and realizing cost savings.

The first – and most important – decision involves creating a plan to consolidate real estate, equipment and other leased asset data into a centralized technology system. The accounting group is the best choice for a department to lead such an initiative due to the technical nature of lease reporting requirements. And while other departments may retain responsibility for engaging new leases, the ideal technology solution will manage input from multiple sources and provide administrative insight to key organizational stakeholders.

This guide highlights the benefits of a unified lease data management system, the best approach to organizational data consolidation and the problems to avoid in the process.

The Benefits of One System

Better Quality, More Reliable Organizational Lease Data

Having all lease data managed in a single system has some obvious benefits including ease of access and the ability to have a global view of an organization's obligations. But the transition to one management system also encourages uniform processes for data entry and record-keeping, which leads to overall quality improvement and data reliability. For successful lease accounting compliance, reliability is the ultimate goal.

More Accurate Accounting and Reporting

Data reliability fosters complete and accurate accounting, improved auditability and time savings in the preparation of financial reports, 10K footnotes, budgets and forecasts. Time-savings can also be realized with the right software selection, as routine reports can be automated and run at the touch of a button.

Better Visibility and Control of Assets

Leases tracked in silos across a company are often managed with varying levels of scrutiny. Not only will the transition to a centralized data management system give companies a more accurate picture of leased obligations, it will provide individual departments with better control over procured assets. Many groups may still use spreadsheets to track leased assets that don't provide the management benefits of a software system including automated renewal reminders and data change notices. An ideal platform also enables departments to manage payment obligations, set approval workflows and control lease abstracting quality across an entire portfolio of leases.

Eliminate Wasted Spending on Outdated or Unnecessary Items

With visibility into all organizational lease portfolios, spending patterns can be seen along with opportunities to eliminate unnecessary spending or overpayments on lease obligations. Particularly with equipment management, the two most common areas for wasted spending relate to lack of unbundling and poor end-of-term decision-making. The outcome of these data management weaknesses is that companies overpay for leases. Significant cost savings can result from properly organizing data, enabling company-wide analysis. This also can provide better leverage for negotiations with vendors.

Lower Total Cost of Ownership for Lease Management

Perhaps the most compelling reason to consolidate data is the potential for lowering the overall cost of managing leases. A centralized system will likely reduce the overall spend for lease administration across any organization. When shopping for lease accounting software, keep in mind that not all 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.

Department Stakeholders for Lease Accounting Compliance

Data consolidation will involve stakeholders from numerous departments managing a variety of leased assets.

Department	Leases Traditionally Maintained
Real Estate	Retail and Corporate Buildings and Land
Property Management / Lease Administration	Lease Management
Maintenance	Forklifts, Pallet Jacks, Scissor Lifts
Logistics	Trucks, Conveyor Belts, Trailers, Rail Cars
IT	Servers, Copiers, Software, Computers
Procurement	Involvement with Most Leases
Legal	Involvement with Most Leases
Financial Planning	Budgeting and Forecasting of Lease Cost
Accounting	Financial Reporting and Lease Accounting
Treasury	Incremental Borrowing Rate and Debt Covenant Impact

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How to Approach Consolidation

Forecast Impact to the Balance Sheet

By now, most companies have tried to model the impact of the new lease accounting standards on their balance sheets. Question is, has this information been shared and socialized with the departments that manage the lease obligations? The financial impacts of the new regulations could influence changes in the strategies and decision-making processes used to procure leased assets in many areas of a business. This information is also the ideal starting point to discuss ways to improve efficiencies for the leases each department manages.

Involve Stakeholders Early in the Process

Consolidating lease data into one system is a cross-functional effort that will not be successful unless it has buy-in from all departments involved. The accounting department should take an early lead on identifying a lease accounting compliance leader with solid project management and communication skills, as well as the representatives from the various departments that need to be involved.

Once a team is identified, a project roadmap with timelines for milestones such as software system selection and data collection should be created. Involving department stakeholders in the project planning process will help ensure that deadlines for milestones are agreed upon and effectively met.

Sell the Value of Lease Data Consolidation

The most common objection from internal department leaders for consolidating lease data will be related to concerns over losing control of resources needed for their business. It is critical to convince these stakeholders that consolidating lease data into one location is intended to add value to the existing leasing process, not take away control. Business units will still procure leases in the same way with the same budgets, but they will gain many benefits from the software system including the added functionality for the reporting and tracking of key data metrics.

Evaluate Software Options First, Then Focus on Process Changes

Instead of having the accounting group select a software system that becomes mandated for other departments to use, a better approach is to let department representatives participate in the selection process. With effective vendor demonstrations, stakeholders will begin to see the value of a centralized system and how it will enhance their own departmental functions. Once a software solution is selected, effective data management processes can be jointly created with the vendor and organizational stakeholders. Some vendors may also offer professional services that can greatly reduce the workload required for additional lease abstraction, data migration and the design of data management best practices.

Top 10 Questions for Selecting Lease Accounting Software

1. Can your system manage and report on real estate, equipment and other leased assets?
2. Is your software delivered in a cloud-based, SaaS (software-as-a-service) format?
3. Will software updates and future versions be provided free of additional upgrade costs?
4. Does your platform complete an annual SSAE 16 audit for Sarbanes-Oxley compliance?
5. Does your system readily integrate with existing ERP and IWMS systems?
6. Can your solution produce standard accounting reports and custom ad hoc reports?
7. Does your system provide audit trails and tracking of all data changes?
8. Is your system officially recommended by any notable accounting firms?
9. Is your platform backed by a financially stable organization for long-term data management?
10. Is your platform proven, with more than 5 years of FASB and IASB compliant functionality?

A Lease Accounting Manager Speaks From Experience

Matt Waters, CPA, MBA, CGMA

*Former Lease Accounting Manager with the
Largest Home Improvement Retailer in the U.S.*

I worked with a Fortune 50 retailer when the initial lease accounting regulation draft was released and the entire accounting industry was buzzing. I received requests from the highest level of the organization to analyze our lease obligations and forecast their impact on the balance sheet. Soon afterward, I was asked to lead the company's efforts to prepare for the new standards, because we understood that they presented a "not if, but when" situation.

As we considered our obligations, we recognized that consolidating all lease data into one department would help gain efficiency in the preparation of financial reports, 10K footnotes, budgets and forecasts. Initially I was concerned that other departments, which had traditionally housed their own lease data, might resist the move to consolidate all of their lease information with the accounting group. I was sensitive to protecting relationships across departments, and I made sure to communicate that I was not interested

in restricting the ability to manage their leases. After explaining how our efforts would bolster the visibility and control over lease data, there were no objections. Everyone was happy to help.

As I went through the consolidation process involving multiple departments and thousands of leases, it quickly became necessary to evaluate software solutions. I wanted something scalable and intuitive. Also, to support my relationships with other leaders across the company, I wanted a software solution that was not just created to be an accounting tool. It had to be designed to support the business and provide robust accounting functionality.

While reviewing software solutions, I realized that I could add even more value to the organization. Organizing lease data in one system allowed the business to see patterns, eliminate waste and make more informed decisions. Ultimately, not only could I provide better data around leasing, but I could also add money back to the bottom line.

Success Story:
Fortune 500 Flooring Manufacturer Covers Lease Accounting Needs

The Client

This Fortune 500 company is one of the largest manufacturers and distributors of residential and commercial flooring in the U.S. and has a portfolio of more than 5,000 leased assets including almost 400 locations and more than 700 trucks.

The Challenge

Before consolidating data into one solution, the company's lease data was stored in 33 separate spreadsheet documents. The lack of organization prevented total control and confidence in data accuracy. As a result, the company faced challenges on a daily basis to effectively understand and manage their lease obligations

The Solution

In 2010, the company selected CoStar Real Estate Manager to consolidate its real estate, equipment and other leased assets into a single software solution. To facilitate a smooth implementation, CoStar professionals consulted with each business division to identify the key data requirements. CoStar's Lease Services team then abstracted the remaining pertinent data and audited all imported data. More than 5,000 leases were consolidated and abstracted into the system in less than four months, creating instant online access to all data by all information stakeholders. The solution was then integrated with the customer's multiple ERP systems, enabling nightly vendor integrations and the ability to create expenses and check payment history to landlords and suppliers from one database.

The Results

The company can now make better management decisions based on accurate lease information from a single source that represents the entire real estate portfolio and equipment inventory. Integration with multiple ERP systems eliminated information silos and allow for the creation of accurate and timely reports. Abstracting and auditing all leases empowered the company to track critical dates and the plethora of schedules that relate back to master equipment agreements. The company is now set up for compliance with current financial regulations as well as the new FASB and IASB lease accounting standards.

Problems to Avoid

Miscommunicating Intent of Lease Consolidation to Departmental Stakeholders

Lease accounting compliance means additional work for representatives of many departments, especially in accounting. No one wants to think that these new regulations will also mean losing control over the leased assets they manage or suffering budgetary cuts. Framing the project as an opportunity to create value and enhance control to the organization – as well as to the representative departments – will make things progress smoother from the onset to the finish line.

Compliance Deadline Time Crunch

For public companies, the new guidance is effective for reporting fiscal years that begin after December 15, 2018. With the required two year look-back, that means lease data must be accounted for as far back as January 2017. But the time crunch is not related to just data collection and consolidation. Software providers anticipate demand will surge as deadlines draw near, and they may struggle to keep pace with the demand for new implementations, which can take up to 12 months or more. And as demand for software increases, so do the associated prices for license fees and implementation services.

Underestimate Size and Scope of Data Consolidation Project

Data collection is the easily the biggest obstacle to lease accounting compliance. Leases contain voluminous amounts of data and must be organized in a consistent fashion to comply with the new guidelines. Critical lease data may currently exist in paper form only or in spreadsheets and various databases. Estimating the amount of data and the timeframe to migrate it to one system is an educated guess, at best, so building in more time than is estimated for data collection is the wisest plan.

Underestimate the Amount of Incomplete or Missing Lease Data

As data is migrated to a centralized system, many companies will discover that some critical data elements are missing for compliance reporting. This will involve going back to many, if not all, original lease documentation and re-abstracting the pertinent information.

It can be a difficult and arduous task to identify critical lease information from the non-lease components. Utilizing a vendor capable of providing specialized lease abstraction services can not only ensure data accuracy, but will help alleviate the need for temporarily staffing or additional demand on internal resources.

Conclusion

Lease accounting compliance will be a marathon, not a sprint, for most companies. And while it will be a difficult challenge, it also presents an opportunity to add value to the organization and foster team work among various business units.

There are plenty of consulting and software vendors looking to capitalize on compliance with the new regulations. However, to fully leverage this opportunity, companies should select solutions that add value beyond compliance. A successful compliance project will result in streamlined operations that positively impacts the bottom line.

The ideal solution for data consolidation should already have a proven track record of FASB and IASB accounting compliance, be easy to use for all stakeholders and be backed by a financially stable company. A low total cost of ownership is also essential for decreasing costs associated with lease administration and for facilitating collaboration and visibility across departments. Plus, the ability to integrate with existing ERP and lease management systems leverages the investments made in current software solutions and maximizes efficiency.

Talk to Us About Your
Compliance Needs for
Lease Accounting

"With CoStar, you can drive business results
and meet the new accounting requirements.
It's clearly the best all-around choice."

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