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The New Lease Accounting Standard Made Easy With Deloitte and SAP

The latest lease accounting standards require new insights and an extension of your SAP solution

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With the introduction of new lease accounting standards, organisations will have to change the way they manage their lease processes and the way leases are recorded in their SAP® systems. The revised set of standards will take effect on January 1, 2019 for any fiscal year beginning in the 2019 calendar year.

What changes does AASB 16 bring?

AASB 16 Leases introduces a new lease accounting model for lessees that requires all leases to be brought to account on the balance sheet. This is expected to have a significant impact on organisations with large or material lease portfolios, due to the extensive data collection, process, and system changes that may be required during the transition.



How can organisations respond?

The change means companies will have to examine their lease contracts, business processes, and the technology tools they use for lease accounting—and update the way they manage and account for the leases.

The Deloitte team is uniquely positioned to help you address new lease accounting demands. We know both the AASB 16 standard and the SAP tools that can help you meet the requirements of the standard. By leveraging tools such as SAP Flexible Real Estate or SAP Lease Administration by Nakisa, we can help organisations align business processes and technology to rapidly meet the new lease accounting requirements.

What changes with AASB 16?

Historically, finance leases have been shown on the balance sheets as both a liability and a fixed asset, while operating leases were recorded off balance sheet. AASB 16 introduces a single model for the classification and accounting of leases by lessees, moving away from the previous distinctions of finance and operating leases. All items previously recorded as operating leases will soon have to be reflected on the balance sheet.

Specifically, the new standards require that operating leases of 12 months or more must be reflected on the balance sheet as both right of use assets and liabilities—even if the lessee’s intent



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It’s all connected

New accounting standards require that organisations account for leased assets on the balance sheet—as a right-of-use asset and as a liability. The change means companies will have to examine their contracts, business processes, and the technology tools they use for lease accounting.



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is to return the asset to the owner or landlord. The standards apply to real estate as well as tangible business property, equipment, vehicles, aircraft, rail cars, photocopiers, and more.

No small change

The revamped standards represent a huge change for all public and government organisations. The change will increase the amount of debt on balance sheets of Australian companies by as much as \$300 billion. This will impact the balance sheet of organisations in all sectors of the economy, including state and federal government, resources, public sector, airlines, travel, retail, transport, and manufacturing.

The standard will provide investors and other stakeholders with a more transparent and complete view of a company's financial situation. The change also means that companies across the world must review their business processes

and supporting technologies, and implement changes to comply with the standards.

How can organizations move forward?

To begin addressing the new standard, organisations should start by conducting a thorough technical assessment of their leases and rental agreements. The effort will involve reviewing paper contracts as well as electronic data repositories to inventory their leases. Once all lease contracts are available, a thorough analysis is needed to determine whether contracts meet the definition of a lease and to determine the impact of AASB 16 on key metrics, debt covenants, and management compensation as well as the establishment of an accurate and cleansed lease register to form a correct baseline of financial information.

Secondly, companies will have to assess technology solutions that are best-suited to support



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them in complying with the AASB 16 standard. The solution should capture all relevant lease data, integrate with business processes, and present accurate and actionable lease-related information for balance sheet reporting.

Selecting a solution

Many leasing technology solutions in the marketplace today lack the necessary lessee perspective for addressing the new standards

The big idea

Solutions like SAP Flexible Real Estate and SAP Lease Administration by Nakisa, with implementation assistance from Deloitte, can help organisations align business processes and technology to rapidly meet new lease accounting requirements.

effectively. Selecting a solution will require your organisation to assess technologies based on the requirements for accounting and lease abstraction capabilities, as well as the ability of the solution to integrate with ERP platforms such as SAP and the impacted process areas—such as the general ledger, procurement, fixed assets, materials management, and equipment maintenance activities.

SAP provides a choice of two solutions which can be used for compliance with AASB 16. They are SAP Flexible Real Estate and SAP Lease Administration by Nakisa (SLAN). The use of one of these solutions provides all the requisite functionality to support the lease management requirements arising from the new standard.



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SAP Lease Administration by Nakisa (SLAN)



Enable an end-to-end lease management, accounting, and reporting solution that supports compliance with new lease accounting regulations



Leverage real-time native connectivity with SAP financial modules, including Asset Accounting, General Ledger, Accounts Payable, and Plant Maintenance



Save on the significant costs that can come from payment penalties, past-term leases, and lost equipment.

Compliance. The SAP Lease Administration by Nakisa solution is fully compliant with the AASB 16 standard.

Versatility. SLAN can account for property and non-property leases.

SAP functionality. The solution integrates seamlessly with SAP ERP modules, allowing organisations to rapidly adopt SLAN and integrate with their existing SAP solutions.

Lease lifecycle. SLAN accounts for the entire lifecycle of leases. The solution manages calculations and the posting of entries across the life of the lease—from acquisition to operation, valuation, and renewal.

Usability. The solution is delivered through an intuitive, user-friendly SAP Fiori®-based interface.

Analytics. SLAN provides deep insights on your leases, allowing you to generate dynamic analytic reports or run what-if scenarios for a specific set of leases or for your entire lease portfolio.

Flexible. SLAN can be deployed “in the cloud” or “on-premise.”



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SAP Flexible Real Estate (RE-FX)

SAP Real Estate Management is a subcomponent of SAP Finance and when used instead of a stand-alone solution can simplify your solution landscape by:

 Producing real-time valuation of leases

 Eliminating financial interfaces

 Reducing the number of applications in your system landscape

Compliance. The SAP Flexible Real Estate fully supports meeting the AASB 16 standard.

SAP functionality. The RE-FX solution is part of the core SAP ERP product, which provides embedded integration with all other SAP functionality.

Lease lifecycle. The solution manages all lease contracts, calculations, and financial postings based on abstracted lease data.

Usability. Since the RE-FX solution is part of the existing SAP solution, customers who use RE-FX do not need any additional training and would be familiar with the SAP user interface.

Analytics. Reporting and analytics is available through your existing SAP reporting tools.

Deployment options. RE-FX functions as part of your existing SAP solution and can be added onto whatever existing deployment you use—cloud or on-premise.



How Deloitte can help?

Making sure your organisation transitions to the new standard at the lowest cost and highest confidence in the valuation of your leases requires more than a technical implementation. Deloitte is able to address a spectrum of needs for planning and implementing your transition.

High-level impact assessment

By using simulation tools, we can provide a list of the possible adjustments required if the operating lease commitments, as currently disclosed in an organisation's financial report, were recognised on the balance sheet as a liability with a corresponding right-of-use asset. The simulation includes illustrations of the possible impacts on various financial ratios, particularly the net-debt-to-equity ratio.

Lease data readiness

We use proven software to automate the process of reading and extracting critical data from your

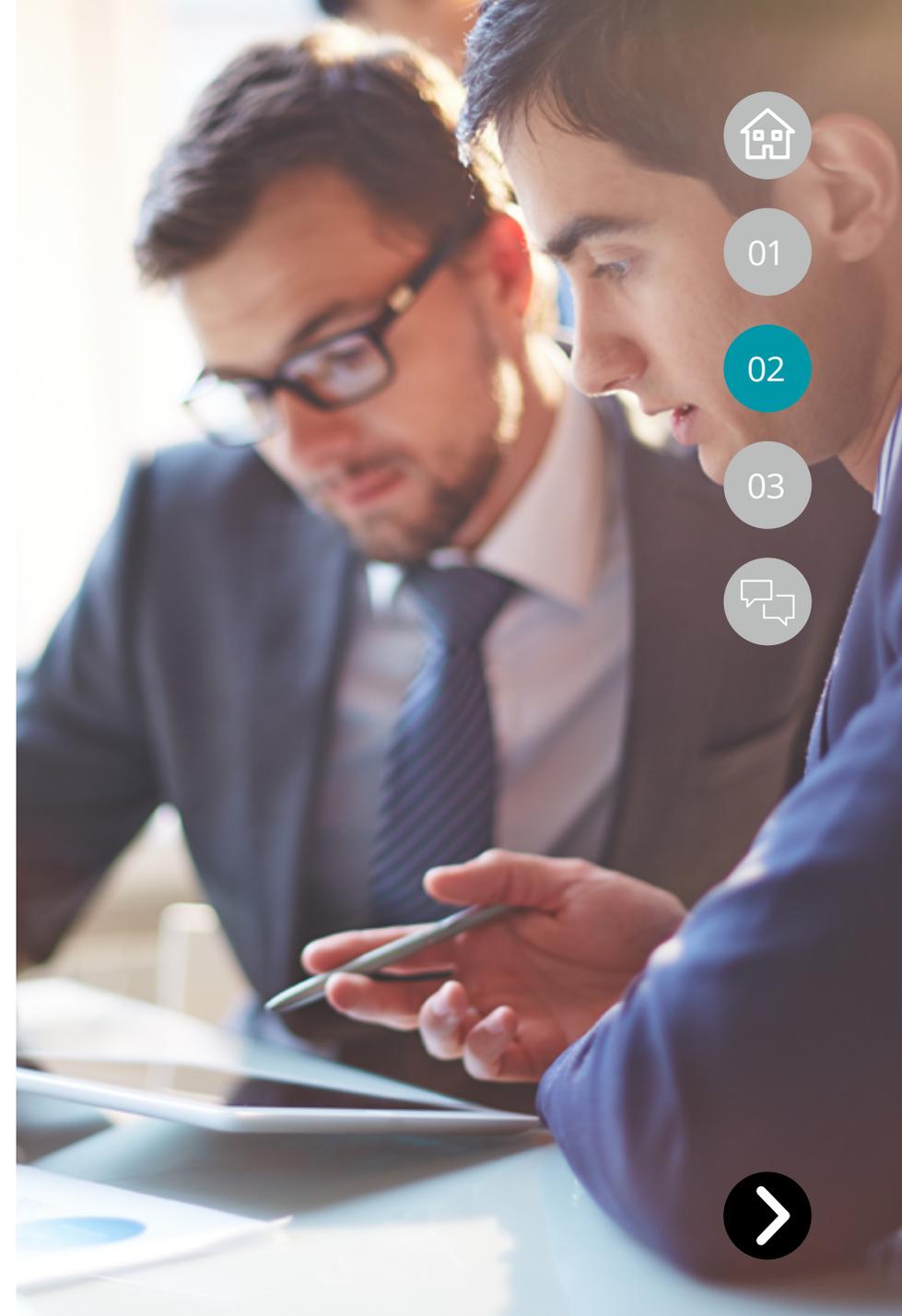
lease documents and contracts. We collect and consolidate data from leasing contracts ensuring completeness. We assess lease data quality and potential data gaps and provide a plan to remediate and address missing data.

Transition readiness

We model your key financial metrics if you were to adopt AASB 16 today, using detailed lease contract data supported by key assumptions, and we compare the impact of the three transition methods. We advise on which assumptions will need to be made to determine the pro-forma adjustments, such as the incremental borrowing rate. We assess your current SAP system and provide recommendations on the most suitable SAP options.

Implement a long-term SAP solution

We can implement the appropriate SAP solution for all impacted leases as well as adjustments



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of the SAP fixed asset register for right-of-use assets to meet AASB 16 requirements. We assess the impact on all related SAP areas, such as the general ledger, fixed assets, accounts payable, and procurement. To manage and govern the implementation of the SAP solution, we use the Deloitte Enterprise Value Delivery methodology.

Tax consulting know-how

Our tax advisory professionals can offer a focused perspective on what the new rules mean for your organisation and can provide meaningful strategies to comply with the new standard.

Speed to transition

We understand that, with the 2019 deadline, speed is critical. Based on thousands of

successful SAP projects, the Deloitte team has developed the Enterprise Value Delivery methodology, which we use to guide lease accounting transformations. The methodology provides a set of proprietary tools, such as industry-specific templates, to accelerate and de-risk the transition to AASB 16.

SAP strength

Deloitte and SAP have been collaborating closely since 1989, and the Deloitte global network of more than 18,000 business and technology professionals focused specifically on SAP means we can address needs across the enterprise, across industries, and across geographies. We are also SAP value-added resellers and offer a single point of contact for all SAP needs.

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Working with Deloitte to implement SLAN or SAP Flexible Real Estate as a solution to meet the AASB accounting standards can provide a number of potential benefits.



Move toward greater compliance with applicable rules and regulations



Boost employee productivity through an intuitive lease accounting solution



Develop greater transparency of your financial performance



Support strategic and operational decision-making



Bring new efficiencies to how you manage your leased assets

Questions to consider

As organisations begin exploring the viability of using SAP for lease accounting, a few key questions emerge.

- How does my organisation manage leases now? Who handles them?
- What steps can we take to improve the management of our leases?
- How seamlessly can a new lease accounting solution integrate with our existing financial systems?
- How will the new standards and a technology solution to address those standards influence month-end, quarter-end, and year-end finance processes?
- What is the potential impact on reporting and disclosure?



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The new standard mandates that publicly traded companies transform their lease accounting capabilities. Transitioning to the new standard is potentially a huge task for large organisations. Deloitte can help by providing a deep understanding of the standard, contracts and data requirements, and the long-term SAP solution needed to support the standard. Want to start planning for 2019? Let's start with a conversation. Contact us to discuss how you can begin getting ready for the new rules.

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