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marking a major change in how companies have historically accounted for leases.

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New rules more than a decade in the making will "bring leases to the balance sheet," marking a major change in how companies have historically accounted for leases.

While leases have remained off-balance sheet in the footnotes of financial statements, the new rules will require companies to recognize and report almost all leases – with the exception of low-value asset leases and short-term leases lasting

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Organizations lagging in their lease accounting transition should consider these strategies to expedite the transition as the deadline looms:

1. Don't spend time answering the wrong questions

Whether accounting is at the start or in the midst of transition, it will pay to critically evaluate the compliance process. Asking the following questions will help to ensure that processes are streamlined and efficient:

Will the system shorten timelines? Effective leasing administration systems should speed up, rather than slow down the compliance process due to complex implementation or integration processes.

Does the system reduce risk? Consolidating extensive leasing data and identifying embedded leases is a complicated undertaking with lots of room for error. Lease accounting systems should reduce the chance for error—not add to it.

Does the system eliminate dependencies? Integration with ERP and other systems take time and effort, and customized systems can create unnecessary complexity. Effective lease accounting solutions should provide the options for quick, standalone deployment and the flexibility to have the solution integrated with other modules once the compliance has been achieved.

Will the system achieve compliance with minimal effort? Effective lease management systems should allow accounting teams to comply with the new standards, while limiting the amount of manpower and resources needed.

2. Keep data collection and abstraction lean

Data collection, the important step in achieving compliance, can be the most burdensome. To comply, accounting will require tools that are able to identify, gather, and organize leasing data. This does not necessarily need to happen from

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database.

3. Know the transition methods and practical expedients that apply to new law

Identify which shortcuts are within your reach to execute a concise rapid deployment strategy.

Under ASC 842 initially only modified retrospective method was allowed and under which the companies will apply the new guidance at the beginning of the earliest comparative period presented in the financial statements and will change the comparative numbers. FASB recently announced a transition relief under which companies will not need to change the comparative numbers. ASC 842 also allows few practical expedients, under which, organizations can choose not to reassess:

- Whether any expired or existing contracts are or contain leases under the new definition of a lease.
- The lease classification for any expired or existing leases. In other words, all existing leases that were classified as operating leases in accordance with current standard (ASC 840) will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 will be classified as finance leases).
- Initial direct costs for any existing leases.

The above expedients must be elected as a package and applied consistently by an organization to all of its leases. In addition, ASC 842 also allows the use of hindsight to determine the lease term and to assess impairment of right-of-use assets, whether on its own or with the above package of practical expedients.

The transition approach under IFRS 16 offers the choice between a full retrospective

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options to extend or terminate the lease.
- Elect not to apply the transition requirements to leases for which the lease term ends within 12 months of the date of initial application.
- Rely on its assessment of whether leases are onerous applying IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) immediately before the date of initial application as an alternative to performing an impairment review.

4. Understand and take advantage of technical capabilities

Companies require lease accounting applications that accommodate business processes, accounting policies, and leasing programs.

For instance, organizations with fleet contracts will require an application that supports the capitalization of ROU assets and lease liabilities in different batches at different points in time within the same contract. Tracking by individual asset allows for unit-specific amortization schedules, streamlines accounting for the casualty of a specific unit, and is helpful for handling fleet leases.

A rapid deployment strategy will be necessary to comply within a three-month timeframe. One key consideration is to defer a lengthy integration process with existing accounting and financial systems until compliance with the new standard has been achieved. Software with standalone capabilities can provide faster access to a lease accounting solution and software set-up, and accelerate adoption.

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Imran Mia is a lease accounting expert at Nakisa Lease Administration, an enterprise software provider that works with world-leading organizations to plan, transition, and comply with new leasing standards and financial regulations.

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