RIZING

REAL ESTATE SERVICES

COMPLYING WITH THE NEW REAL ESTATE LEASE ACCOUNTING STANDARDS

Challenge

The aftermath of the Enron and WorldCom collapse in 2001 and 2002 set in motion U.S. Securities and Exchange Commission's (SEC) investigation into their off-balance sheet transactions. It also gave rise to the Financial Accounting Standards Board (FASB) being asked by the SEC to work with the International Accounting Standards Board (IASB) and develop a new, global and converged standard. The IASB and FASB announced their new lease accounting standards in Q1 2016.

Although it started as a joint project between the two boards, certain critical elements could not be agreed upon. The result of which, the IASB published their IFRS 16 leasing standard on January 13, 2016 and FASB published theirs, ASC-842, on February 25, 2016. Both standards are mandatory from 2019 onwards: IFRS 16 from January 01, 2019 and ASC-842 from the fiscal year after December 15, 2018. The biggest similarity between these two standards are that all leases must be recorded on balance sheet. This means that leases are capitalized which increases assets and liabilities. Lessees are required to recognize a liability when lease payments are made and a Right-of-Use (RoU) asset represents their right to use the underlying asset for the term of the lease.

The challenge facing practically every organization that leases property is to prepare for these new accounting standards in good time and comply by the time the due date comes around. Plans ought to be started sooner rather than later.

Solution

Built on many decades of global experience, SAP Real Estate Management (RE-FX) is an integrated software solution that is delivered fully compliant with the new IFRS 16 and ASC-842 leasing standards.

New valuation functionality supports simulations, postings and the impact analysis for real property leases. It also supports multiple valuation principles assigned to a single lease with posting support for parallel ledgers or multiple GL accounts. Based on terms and valuation parameters defined in the lease agreement, Right-of-Use assets are created automatically. In addition, the following assignments to a contract condition in the context of valuation is supported:

A = Lease Installment
Conditions are included in the calculation of the present.

B = Initial Costs
Initial costs are incurred when vendor contracts are concluded, which increases the value of the asset at the time of capitalization.

C = Present Value Specified
Conditions specify the present value, that is the leasing liability or leasing receivable.

D = Cash Surrender Value
Conditions define the cash surrender value at the end of term.

Solutions (continued)

E = Remaining Value Guarantee
Conditions define the asset's and leasing liability's remaining value at the end of term.

F = Net Worth Value Specified
Conditions specify the net worth value, that is the value of the asset (vendor contracts).

G = Depreciation
Conditions define extraordinary depreciation or write-up (depending on the flow type for the condition) at the start of consideration.

I = Incentive
Incentives are initial payments for concluding vendor contracts, which decreases the value of the asset at the time of capitalization.

R = Asset Retirement Obligation
Conditions define the obligations that are to be applied for a retirement and increases the net worth value.

S = Penalty Payment
Conditions define penalty payments at the end of term, e.g. due to early notice.

U = Transfer Posting/Linearization
Conditions are transfer posted or linearized.

V = Subletting
In vendor contracts, conditions define changes to the net worth value due to subletting at the start of consideration.

X = Miscellaneous: Conditions that are not used in the valuation.

Value

1 Comprehensive

SAP Real Estate Management (RE-FX) is a comprehensive end-to-end real estate lifecycle management solution.

2 Single Point of Entry

RE-FX provides a single point of entry for the collection and validation of lease contract data, performs valuation calculations and generates all the required financial postings derived from these calculations.

3 Fully Integrated

RE-FX is a fully integrated solution that is compliant with IFRS 16 and ASC-842. No interfaces are required (as would a third-party solution having to interface to an ERP system).

4 Customers Have A Choice

- Implement a broad range of RE-FX functionality, including the real estate contract, to meet both compliance as well as any other real estate related business requirements, or
- Implement the real estate contract only for the purposes of compliance, and if required later, incorporate additional functionality to meet their overall real estate business requirements.

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