



# SAP REAL ESTATE MANAGEMENT (REFX)

## New Lease Accounting Standings – IFRS 16

By Zimele Technologies



# LEASE ACCOUNTING FOR REAL ESTATE MANAGEMENT



# WHY INTRODUCE IFRS 16

In 2001/2002 Enron and WorldCom's filed for bankruptcy. The Securities & Exchange Commission's (SEC) decided to analyse their balance sheet transactions. The conclusion of the investigation was that none of their operating leasing were on the balance sheet. Thus the SEC asked the Financial Accounting Standard Board (FASB) to work with the International Accounting Standards Board (IASB) to develop a new standard that would provide transparency on companies lease and liabilities.

The new accounting standards mandate that both property and equipment leases must be recorded on the balance sheet.

IASB's IFRS is leasing standards is mandatory from 1 January 2019.

1

The flexibility to design leases as operating leases or finance leases gave companies an option to hide their financial obligations on the balance sheet.

2

Most operating leases are comprised of financial obligations similar to finance lease and other financial commitments.

3

Company boards have concerns about the lack of transparency of information about lease obligations for investors and analysts.

4

Listed companies using IFRS Standards or US GAAP are estimated to have around \$33 trillion in lease commitments.

5

Over 85% of these lease commitments do not appear on the balance sheets today.

6

Record financial and operating leases on the balance sheet

# IMPACT ON LESSOR AND LESSEE



The new accounting standards does not have a significant impact lessor accounting. – there are requirements regarding disclosure reporting.



IFRS16 will have a big impact on lessee accounting – companies are required to recognize almost all leasing contracts on their balance sheet

Lessor

Accounting Unchanged



Lessee



Recognize most leases on their balance sheet. Single accounting model for all leases, with certain exceptions

# UNDERSTANDING IFRS 16 IMPACT

## THE OBJECTIVE IS TO MINIMIZE THE IMPACT ON THE BALANCE SHEET

1. Capitalisation on the contract duration including renewals and termination
2. Expenses to be capitalised
3. Discount rates to calculate interest on lease liability
4. Deductions are allowed
5. Landlord allowance such as tenant installation
6. Initial cost incurred
7. Impairment of Right of Use asset (reduced value on the asset)

## NEW CONDITIONS ARE INTRODUCED THAT WILL BE CONSIDERED AS PART OF THE VALUATION

### Measurement of the Lease Liability

- A – Lease Instalment (for fixed and variable payments)
- E – Remaining Value (for expected amounts under residual value guarantees)
- D – Cash Surrender Value (for example the price of a purchase option)
- S – Penalty Payment
- I - Incentive
- V - Subletting

### Measurement of the Right of Use

- B – Initial Costs
- R – Asset Retirement Obligation (for costs in dismantling and removing the asset)
- G – Depreciation (for impairment losses)

### Off balance-sheet accounting

- U – Transfer Posting/Linearization

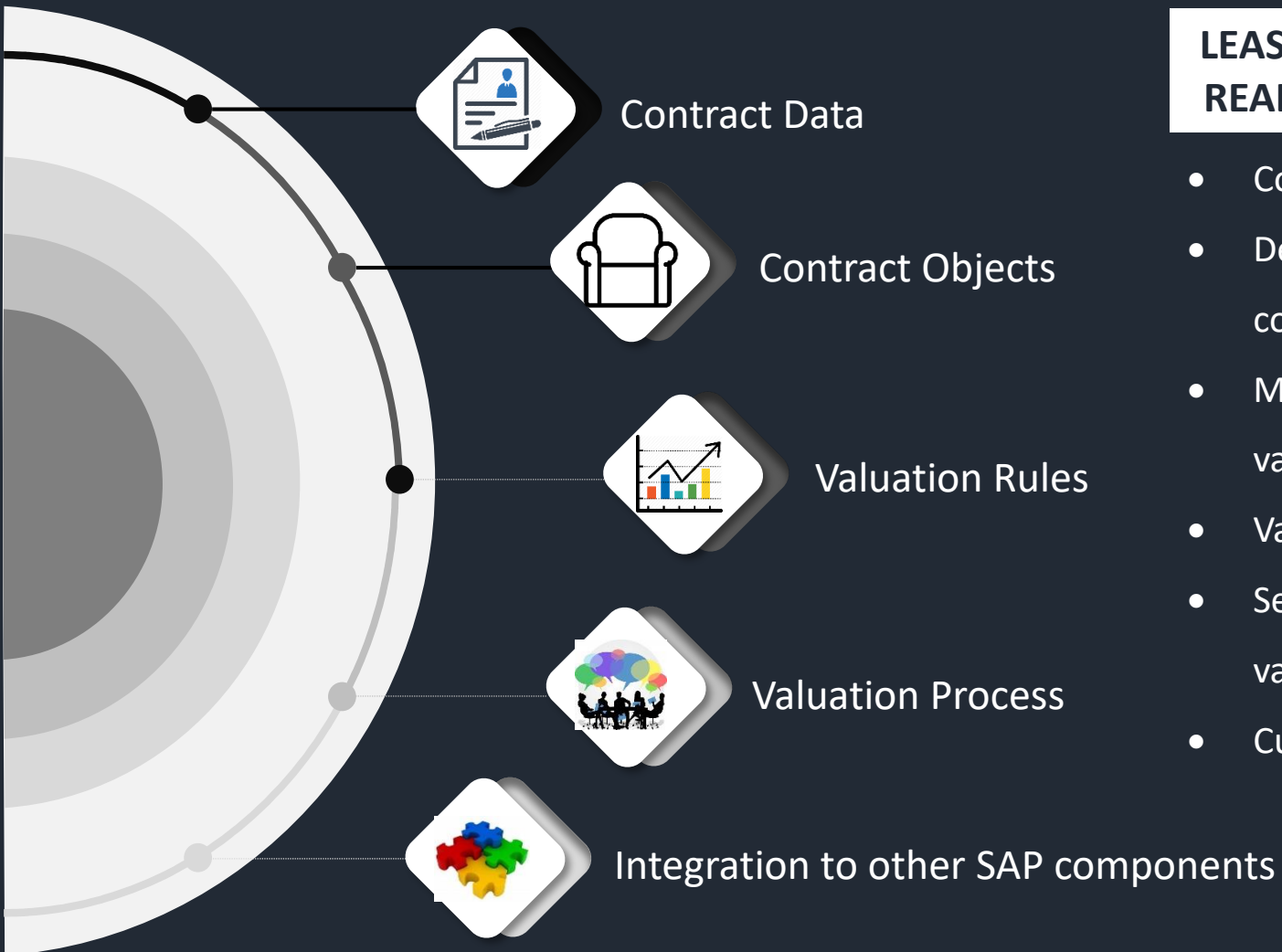
### Transition Approach

- C – Present Value Specified
- F – Net Worth Value Specified

### Not to consider

- X - Miscellaneous

# OVERVIEW OF NEW FUNCTIONS



## LEASE ACCOUNTING IS A FUNCTIONAL EXTENSION OF SAP REAL ESTATE MANAGEMENT, THE EXTENSION INCLUDES:

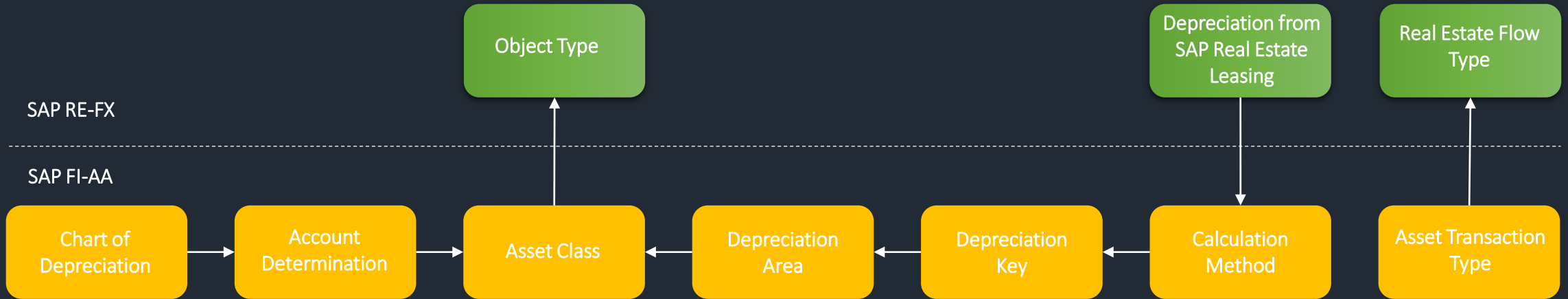
- Contract objects for lease contracts
- Definition and assignment of valuation rules for contract conditions
- Mass maintenance transaction for creating and changing valuation rules
- Valuation run and valuation postings
- Separate authorizations for the maintenance of normal and valuation-related contract data
- Customizing settings for the definition of valuation rules

# EFFECTS ON BALANCE SHEET

ONCE THE CONTRACTS HAVE BE PROCESSED THE BALANCE SHEET WILL BE EFFECT

- Sum of lease assets will increase significantly, increase to the balance sheet total.
- The increase of lease assets is tied directly to the financial liabilities which also increase.
- Ratio of equity to liability will decrease due to the rise of financial liability.
- Leverage will increase due to the rise in lease assets recognized on the balance.
- This also leads to a decrease in asset turnover.

# VALUATION INTEGRATION TO ASSET ACCOUNTING



During the Contract Valuation, the system calculates the depreciation values according to the Valuation Rule. The Calculation Method contained in Depreciation Key for the Asset Class determines that the depreciation values are calculated externally. After posting the Contract Valuation to the Asset, the calculated depreciation values are visible as Planned Depreciation in the Asset Values. The actual posting of the Planned Depreciation is done via the normal Depreciation Run in Asset Accounting.



# KEY VALUATION RULE SOLUTION DECISION & PROCESSING QUESTIONS

## KEY IMPLEMENTATION DECISIONS

- The version of the systems needs to be : EA-FIN: 617 SP12 or 700 SP9
- The Accounting Integration Approach needs to be agreed
  - Asset Accounting Integration
  - Balance Sheet Accounting
- If Asset Accounting is required the following changes will be required:
  - Assets class for IFRS 16 to allow negative postings
  - Status of fields for assets needs to be verified
  - Calendar variant for V6 need to be checked and extended beyond the end date of the longest contract in the system

## KEY QUESTIONS WHILE APPLYING VALUATIONS RULES

Q1

Is the contract relevant for the valuation process?

Q2

Which accounting principle/principles are relevant?

Q3

Which conditions are valuation-relevant?

Q4

Are additional (statistical) conditions necessary?

# IMPLEMENTATION APPROACH

## Implementation of lease accounting functions for existing SAP RE implementations

- Customizing setting for valuation rules and valuation process
- Existing Contracts are extended with new registers for valuation data
- New functions for valuation calculation and posting

## New Implementation of SAP Real Estate Management

- Customizing setting for lease contracts and valuations
- Customizing setting for the accounting integration (SAP FI, SAP FI-AA, SAP CO)
- Implementation of further SAP RE functions

# HOW WE CAN HELP

**ZIMELE TECHNOLOGIES HAVE EXTENSIVE EXPERIENCE IN BEST PRACTICE REAL ESTATE MANAGEMENT AND IFRS SOLUTIONS ACROSS MULTIPLE INDUSTRIES THAT ALLOWS US TO HELP CUSTOMERS BECOME COMPLIANT WITH THE NEW LEASING STANDARDS.**



- Project setup
- Analyse and plan IT landscape
- Define business/system processes and change management roadmap

- Upgrade solution to required IFRS 16 standards
- Design solution and business processes to meet business needs

- Install and configure lease management to fit IFRS 16 requirements
- Realign business processes with new leasing standards
- Implement change management

- Capture and manage relevant leases impacted by the new standards
- Estimate impact on the balance sheet
- Perform user training on new functionality

- Go-live with IFRS 16
- Hand holding process starts to ensure knowledge transfer and understanding of the new solution

IS YOUR COMPANY READY FOR THE BIGGEST  
LEASE ACCOUNTING CHANGE THE WORLD HAS  
SEEN IN A DECADE?

BECAUSE WE ARE...

For more information about us, Sap Real Estate  
Management, IFRS 16 or to request a demo contact  
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