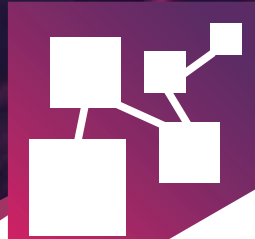
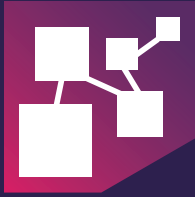


WHITE PAPER



# Back on the market

What you missed in your initial search  
for a lease accounting solution



Aptitude  
**Lease  
Accounting  
Engine (ALAE)**

In this white paper we look at why three organizations are back on the market and looking for a better way to address lease compliance. Use cases include:

1. High lease volumes with a lessor requirement
2. Requirement to automate revenue management and lease accounting
3. Replacing excel with a SaaS solution for increased simplicity and control

We'll conclude by taking a look at what the future of lease accounting might hold.

# Did you rush to comply with IFRS 16 & ASC 842?

For many global companies, the run-up to the IFRS 16 and ASC 842 lease accounting standards deadline looked very similar. More challenging than expected revenue recognition compliance projects had forced most companies to delay kicking off leasing projects, which resulted in a rushed process leading up to the deadline.

Most companies ran the process start to finish in under 12 months, some in as little as a quarter. While they didn't have a lot of time, the vast majority of public companies did manage to either select and implement a vendor solution, complete an in-house build or Excel model, or use an external consulting company to meet the required deadline. The lease data was sourced, the compliance deadline met, and the auditors relatively satisfied. But it seems that while the compliance box was ticked in time, many organizations are still struggling which is creating a wave of organizations looking for a better solution.

Why are so many companies dissatisfied with the solution they have in place? The truth appears to be that many organizations are finding their current solution simply doesn't support the required disclosures and management reporting. More importantly, these less than comprehensive solutions are not helping finance departments shift toward the fast, efficient, real-time reporting they are striving for. They lack the flexibility to accommodate new business models and company growth and fall short of the automation required to drive cost savings and increased efficiencies.

In this white paper we look at why three real-world organizations are back on the market and looking for a better way to address lease compliance.



# Global organization with high lease volumes and a lessor requirement

## Company overview:

This global, 40-billion-dollar organization in the TMT space has a lease portfolio high in volume and complexity, with over 100,000 contracts and approximately 30,000 daily lease lifecycle events like upgrades and terminations. New marketing and product offers are regularly introduced, and a portion of their lease portfolio requires the application of lessor accounting.

## Current solution:

Prior to the effective date for public companies, the organization decided to opt to use their existing lease administration system to achieve compliance. They hoped by taking an upgrade, the solution would provide the new functionality needed to comply with ASC 842 and IFRS 16, but it soon became clear the solution was not purpose-built for compliance and lease accounting at scale.

## Pain points and drivers of change:

- Performance issues with volume processing
- Lacks the finance and accounting control required for audit-ready disclosures
- No lessor capability
- Lack of flexibility in reporting

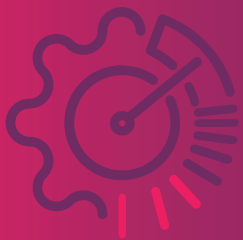
## Path forward:

The organization is re-evaluating lease accounting solutions and will be closely looking at solution configuration and ease of integration with surrounding systems given the number of contract modifications and lifecycle events.

In addition to validating the accounting output for selected use cases, any solution will need to prove it can handle the data and calculation volumes generated by their lease portfolio size. Out-of-the box handling of multiple payment types, including variable payments is also important. Finally, configurable disclosure templates that give the organization a starting point for reporting with the ability to configure to reflect their business is critical.

## LEASE ADMINISTRATION SOLUTIONS vs. LEASE ACCOUNTING SOLUTIONS

**Lease management and lease administration solutions provide a central point for leases and do well at things like managing lease renewals, lease payment reconciliations, environmental performance management and facilities management. However, lease management systems do not tend to have robust accounting capabilities and may not be able to handle the financial and accounting complexities and data volumes triggered by IFRS 16 and ASC 842.**



Many companies state that their existing leasing systems can take days to process lease modifications. At Aptitude Software, the metric we use for measuring our processing performance is minutes not days.



# Global medical device company looks to automate revenue recognition and lease accounting

## Company overview:

With over \$3B in revenue, this global, publicly held, medical device company leases high-tech equipment generating a lessor requirement under IFRS 16/ASC 842. Lease agreements with customers are complex and need to take into account compliance requirements under the revenue recognition standard IFRS 15/ASC 606.

## Current solution:

Currently, the organization is solving both IFRS 15/ASC 606 and IFRS 16/ASC 842 requirements using spreadsheets and point solutions but now they are looking for a single, holistic solution that can increase automation and accuracy as well as leverage revenue and leasing data to glean better insights to direct business activity.

Lease obligations are predominantly lessor in nature, so they are looking for out-of-the box lessor functionality in addition to lessee functionality.

## Pain points and drivers of change:

- Spreadsheet solution is complex and increases the risk of non-compliance
- Lacks the finance and accounting control required for audit-ready disclosures
- Manual workarounds and requirements are resource-draining
- Lack of robust reporting and analytics

## Path forward:

The organization is looking to automate accounting for both revenue recognition and lease accounting – from contract identification to allocation, recognition and accounting output generation. The ability to automate SSP calculations and the classification of lease and non-lease line items within contracts is especially critical. The ability for end users to easily navigate and generate standard and ad-hoc reporting was also important so the business could not just meet the regulations but also benefit from the additional data they required.



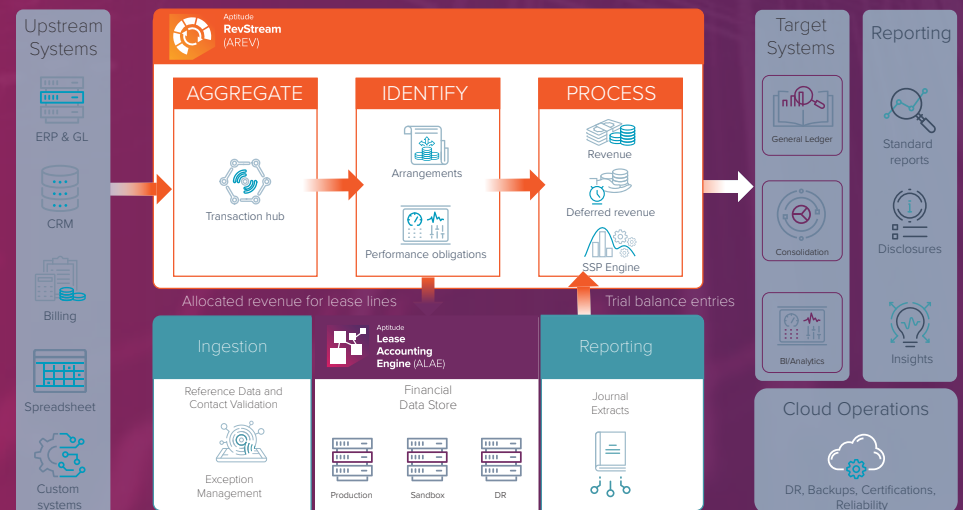
Aptitude  
**Lease  
Accounting  
Engine (ALAE)**



Aptitude  
**RevStream  
(AREV)**

Given the interconnectedness of the revenue recognition and leasing requirements when it comes to lessor accounting, companies should look to implement revenue recognition and leasing solutions that ‘talk’ to each other to avoid significant challenges.

This graphic illustrates how Aptitude’s Revenue Management solution, RevStream (AREV) interacts with the Aptitude Lease Accounting Engine (ALAE) and other surrounding systems.





# A global organization in the energy storage space

## Company overview:

This global organization generates over \$6B in revenue with facilities worldwide. Their lease portfolio consists of thousands of leases comprised of real estate, vehicles, equipment and IT leases.

## Current solution:

For the first year under the new leasing standard, the organization used an excel-based solution for all global entities.

In early 2020, they kicked off a sales process to select a SaaS based solution that could support IFRS 16 and ASC 842 as well as provide a central point of control for all lease data, agreements, and processes – capturing data at the ‘asset level.’ They also wanted to see a dashboard with key metrics with the flexibility to create ad-hoc reporting when needed.

## Pain Points and drivers of change:

- Spreadsheet solution is complex and increases the risk of non-compliance
- Lacks the finance and accounting control required for audit-ready disclosures
- Wanted the flexibility of a SaaS solution that would serve as a holistic lease accounting solution
- Required robust reporting and analytics in an easy to consume dashboard

## Path forward:

After an evaluation process, the organization selected the Aptitude Lease Accounting Engine to address their requirements. They selected ALAE based on the flexibility and configurable nature as well as the ease of integration with surrounding systems. The finance team was particularly drawn to the solution’s trial balance capabilities which would allow them to see the impacts of lease decisions and verify numbers before they were fed to the General Ledger. Finally, Aptitude could meet their aggressive implementation timeline, delivering complete functionality in under four months.

## Aptitude Lease Accounting Engine (ALAE) was a ‘fit’ for all requirements:

- Produce accurate journal entries and financial reports that are in compliance with ASC 842 and IFRS 16 requirements, accommodating all lease types
- Generate accounting entries against transactional currency (lease), local (leasing entity) and base (group entity)
- Produce a comprehensive lease roll forward
- Report lease activity by state
- Accommodate non-standard fiscal calendars and multi-entity frameworks
- Handle a wide variety of fixed and variable payment types
- Support scenario modeling such as lease vs. buy analysis
- Provide appropriate storage capacity, data privacy and information security processes
- Centralize and organize data, agreements and processes
- Store electronic signed agreement copies
- Track and categorize renewal dates, pricing and other key data from agreements
- Capture ‘asset level’ information by location
- Provide a dashboard of key metrics



# The future of leasing

With the global lease market expected to grow at rate of almost 6% in the run-up to 2025, leasing remains an important, cost-effective mode of acquiring assets and an important revenue stream for lessors. A combination of factors will shape the lease environment over the next five years.

## Accounting standards

The effective date may have passed, but private companies are still facing compliance hurdles and GASB 87 has introduced complexity in to leasing for government agencies. Expect companies to spend the next 1-2 years refining and enhancing their lease accounting solutions and processes.

## Market environment

The impacts of COVID-19 have introduced significant uncertainty into the market and the upheaval has no clear end in sight. This, in addition to low interest rates, will impact lease versus buy decisions for machinery, equipment, and other necessary assets for the healthcare, construction, hardware, telecom, and other industries. CV-19 is also likely to impact the real estate market. US political elections in November will also contribute to market uncertainty.

## Business model shifts

From new forms of leasing, represented by companies like WeWork, Airbnb, and Zipcar to an increase in business models like performance-based leasing and subscription-based leasing, innovation in the industry continues. Ensuring the flexibility to embrace and account for these new contract types will be critical to business success.

## CFO goals and priorities

Look at any of the recent articles outlining CFO priorities and it's clear that providing better business insights and more accurate forecasting is top of the list. In a recent Accenture survey, a full 81% of CFOs saw identifying areas of new value across the business as their primary responsibility. For many companies, complying with the standards has meant that lease data is now more centralized and organized than ever and can be analyzed with greater scrutiny and provide better business intelligence.

“

Business performance shows deterioration from the effects of the coronavirus pandemic, with volume levels and portfolio quality metrics both falling in tandem.

The expectation is that this pattern continues into the summer months as the nation's economy dips into a recession.

Time will only tell whether these conditions stabilize in the face of massive fiscal stimulus provided by the federal government.”

*Equipment Lease and Financing Association  
(ELFA) President and CEO,*

*Ralph Petta*



# Aptitude Lease Accounting Engine (ALAE)

Aptitude™  
SOFTWARE

You can learn more about the Aptitude Lease Accounting solution using the resources below:



## SOLUTION BROCHURE

A standalone SaaS solution purpose-built to support IFRS 16 and ASC 842 compliance, the Aptitude Lease Accounting Engine (ALAE) is flexible, highly configurable and integrates seamlessly with existing systems, finance workflows, and surrounding architecture.

<https://bit.ly/alae-20>



## PODCAST

Many companies are realizing workaround solutions implemented in a rush for the 2019 lease accounting standards deadline are no longer enough. Listen to our CTO discussing the technical differentiators of the Aptitude Lease Accounting Engine (ALAE)

[https://bit.ly/ac03\\_alae](https://bit.ly/ac03_alae)



## CASE STUDY

**Meeting the compliance deadline with high lease volumes**—with just six months to go before the IFRS 16 reporting deadline, ISS had an extremely tight timeline to select and implement a lease accounting solution.

<https://bit.ly/CS01-alae>



## RESOURCE LIBRARY

To access more resources about ALAE visit our **online resource library**—simply use the link below and select Aptitude Lease Accounting Engine from the Product dropdown, filter further using the topic, industry and type filters to narrow your search

<https://www.aptitudesoftware.com/resources/>



Aptitude Software provides software solutions that enable finance professionals to run their global businesses, forecast decision outcomes, and comply with complex regulations. Uniquely combining deep finance expertise and IP rich technology, Aptitude gives finance leaders the tools they need to transform their business and achieve their ambitions.

Aptitude is proud to have served the offices of finance for over 20 years, delivering financial control and insight to create a world of financial confidence for our global clients.

Aptitude Software supports businesses with combined revenues approaching \$1 trillion and over 500 million end customers. Headquartered in London, Aptitude Software is an operating company of Aptitude Software Group plc.

**For further information, email us at [info@aptitudesoftware.com](mailto:info@aptitudesoftware.com) or contact us:**

**London (Headquarters)**

Old Change House  
128 Queen Victoria Street  
London EC4V 4BJ  
Tel: +44 (0)20 3687 3200

**Boston**

Suite 1310  
101 Federal Street  
Boston, MA 02110  
Tel: +1 (857) 201 3432

**Singapore**

Centennial Tower, Level 17  
3 Temasek Avenue  
039190 Singapore  
Tel: +65 3158 6167

**Toronto**

Suite 700  
2 Bloor Street West  
Toronto, Ontario M4W 3R1  
Tel: +1 (416) 642 6508

**Wrocław**

ul. Muchoborska 6  
54-424 Wrocław  
Poland  
Tel: +48 71 35 83 010

Copyright © Aptitude Software Limited 2014 - 2020

All Rights Reserved. APTITUDE, APTITUDE ACCOUNTING HUB, APTITUDE ALLOCATION ENGINE, APTITUDE REVENUE RECOGNITION ENGINE, APTITUDE REVSTREAM, REVSTREAM and the triangles device are trademarks of Aptitude Software Limited. Aptitude – U.S. and European patents pending.

For more information, please refer to: [https:// www.aptitudesoftware.com/patentsandtrademarks](https://www.aptitudesoftware.com/patentsandtrademarks)

[www.aptitudesoftware.com](http://www.aptitudesoftware.com)

