

JD Edwards EnterpriseOne: The New Lease Accounting Standards Frequently Asked Questions

April 2018

Executive Overview

The new accounting and disclosure standards for reporting leases are Financial Accounting Standards Board (FASB) Update ASC 842 and International Accounting Standards Board (IASB) IFRS 16, Leases.

The new disclosure requirements are extensive and will require changes to financial systems and processes to collect the necessary data, even if the application of the new accounting standard results in no significant change in the reported amounts related to leases.

To meet these new standards, changes are being made to JD Edwards EnterpriseOne. Oracle's JD Edwards customers need to assess the impact to their business for the new standards. Decisions need to be made about when and how to transition to the new standard and when to upgrade their JD Edwards systems with the new features to support the new standard.

The effective date for public entities is expected to start with reporting periods beginning on or after December 15, 2018. The effective date for nonpublic entities will be deferred for one year to annual reporting periods beginning after December 15, 2019 and interims beginning after December 15, 2019. Early adoption is permitted one year earlier than these dates.

The following is intended to outline our general product direction. It is intended for information purposes only, and may not be incorporated into any contract. It is not a commitment to deliver any material, code, or functionality, and should not be relied upon in making purchasing decisions. The development, release, and timing of any features or functionality described for Oracle's products remains at the sole discretion of Oracle.

General

Q: When did the new lease accounting standards get finalized?

A: On February 25, 2016, the Financial Accounting Standards Board (FASB) with standard ASC 842, and on January 13, 2016, the International Accounting Standards Board (IASB) with standard IFRS 16, issued similar accounting standards related to lease accounting. These new standards, when implemented, will replace the accounting standards for lease accounting that currently exist under U.S. GAAP and IFRS.

Q: Why are FASB and IASB issuing this Accounting Standards Update?

A: The primary reason for this update is to ensure transparency into a company's leased assets and liabilities. Prior to this revised standard, lease assets and liabilities may not be clearly identified as they may be embedded in different parts of the system, including service agreements, as a simple accounts payable transaction, or they are provided along with goods and services. There is also the need to be able to compare companies that lease assets with those that buy assets. Finally, prior to this updated standard, the standards boards determined that companies often overestimate obligations that were not reported on the balance sheet.

Q: What is the new lease accounting standard?

A: At a high level, lessees must recognize leased assets on the balance sheet for both property (office space, retail space, industrial warehouses, etc.) and non-property (office equipment, vehicles, etc.). Lessors of property will also need to conform to the revenue recognition accounting standard "Revenue from Contracts with Customers" but following the adoption timeline for the lease accounting standard.

Q: What is the impact to Oracle JD Edwards customers?

A: Virtually all customers that are lessees of property and/or non-property are affected by the changes and will require software updates to be compliant. Companies will need to report their long-term leases of property and non-property on the balance sheet.

Q: What are the differences between the FASB and IASB lease accounting standards?

A: At a high level, the IASB standard requires most lessee leases to be categorized as finance leases. The FASB standard categorizes two types of lessee leases: finance leases and operating leases. There are also considerations to classify some leases for non-balance sheet accounting.

Q: Related to the FASB standard, for the lessee, what distinguishes a finance lease from an operating lease?

A: The FASB standard states that a lessee shall classify a lease as a finance lease if it meets any of the following criteria:

- a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

- c. The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
- d. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or exceeds substantially the fair value of the underlying asset.
- e. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.
- f. If none of the above criteria is met then the lease is classified as an operating lease.

It is always recommended to check with your internal and external audit firms as well as any financial advisors to determine the lease classification of each lease.

It is also important to note that operating leases are also reported on the balance sheet.

Q: Are there any enhancements to help transition to the new standard?

A: Yes. There are a number of features within the software that help you transition to the new standard.

1. You can easily import the terms and conditions of your leases from a csv (comma separated value) flat file into EnterpriseOne using Z table processing. You can also add your leases to EnterpriseOne through the standard lease entry system.
2. You can create the lease liability and right-of-use asset amortization schedules at any time prior to adhering to the new accounting standard. This feature enables your accountants to review the lease terms and amortization schedules for each leased asset before using the new standard.
3. Using data from the amortization schedules, you can create the leased asset balance sheet balances into an alternate ledger to help you with retrospective reporting. This activity can be done at any time prior to or after adhering to the new standard.
4. For companies currently using the Real Estate Management system to pay their leases as a lessee/tenant, you can update your existing leases with the new terms that are needed for the new accounting standard while still accounting for your existing leases under the old standard. When you have entered the new terms and are ready to use the new standard, you simply select an option in the Real Estate Constants to activate the processes that account for your leases using the new standard.

Q: What releases of JD Edwards will the enhancements be in?

A: The enhancements are planned for release 9.1 and 9.2 of JD Edwards EnterpriseOne

Q: Will the new lease accounting standard affect accounting processes, IT systems, and/or internal control?

A: Most likely. Some of the possible changes are:

- Internal controls will require updating, if not a complete overhaul, to reflect changes in accounting policies and processes.
- Processes might need to be developed or updated to incorporate new management judgments.
- Systems might need updating to capture new data used for accounting and additional disclosures.

- Some leases might need to be added or updated to track the new attributes related to the new lease accounting standard.
- Revenue recognition process and policy documentation will require updating.

Q: What businesses are affected by the changes in this accounting standard?

A: Affected entities are those that either:

- Are lessors of property and/or non-property, or
- Are lessees of property and/or non-property.

Q: Which JD Edwards releases will support these changes?

A: We plan on delivering a number of incremental changes to JD Edwards EnterpriseOne releases 9.2 and 9.1. The enhancements already delivered in release 9.2 include: Revenue Recognition for Real Estate, enhancements to FASB 13 (straight-line rent) and Balance Sheet Lessee Accounting for Property and Non-Property. Enhancements already delivered in 9.1 include Revenue Recognition for Real Estate. See the Product Catalog on learnjde.com for more details on remaining planned enhancements.

Q: I see that these enhancements are made in the Real Estate Management module. Do I need a license of this module in order to be able to account for my leased assets under the new standard?

A: Companies with their license of Financials have a restricted use license of the Real Estate Management module. Companies that use Real Estate Management under the restricted use, do not need a license of Real Estate Management. The restricted use license for Real Estate Management can be found at: <http://www.oracle.com/pls/topic/lookup?ctx=E53430-01&id=EOTLI184>

Q: What are the recommended next steps for JD Edwards' customers?

A: JD Edwards' customers are in different stages of adopting the new standard. Some have no awareness. Some have awareness with no action plan. And some are more strategic, with awareness and a plan of action for handling the changes. Although the effective date is still in the future, how your business chooses to adopt the lease accounting standard will affect several years of lease accounting reporting.

To be prepared for the changes, companies should take advantage of upcoming software updates from Oracle. We recommend that you upgrade your software before the effective date applicable to your organization in preparation for the transition to the new standard. All organizations should evaluate the potential impacts on financial statements, information systems, processes, and controls.

The direct effect of a change in accounting principles associated with Revenue from Contracts with Customers will be a restatement. If a public entity chooses full retrospective adoption, revenue and the direct effects of change in accounting principles to all contracts must be restated for 2016 and 2017 to show comparative financial statements with a cumulative adjustment as of January 1, 2016.

Use this roadmap to ensure that your company, as well as its management team and staff, is prepared:

1. **Talk** with your internal financial team/auditors/advisors.
2. **Review** periodicals and web sites to stay current.
3. **Analyze** your company's leases against new standards.
4. **Learn** how the JDE software enhancements help manage this change.

5. **Understand** the changes to current leased assets.
6. Establish a cross-functional implementation team including, but not limited to, accounting, tax, IT, legal, and sales personnel. Compensation and benefits personnel may also need to be included. This will be a significant change and entities should not underestimate the effort involved, including the need to engage external specialists.
7. Understand transition and retrospective adoption of the lease accounting standard, and determine how your company will adopt the new guidance.
8. Find resources to help train your professional staff to ensure effective and efficient implementation of the lease accounting standard.
9. Educate users about the changes they can expect in your company's financial statements.
10. Derive an enterprise applications "Net Change" plan that communicates the future changes to JD Edwards EnterpriseOne or World and other core solutions that integrate with Oracle's solutions.

Q: Where can I find more information?

A: Updates from Oracle's Office of Finance Solutions are available at the [Financials Marketing Blog](#).

Updates from the Financial Accounting Standards Board are available at [FASB.org](#).

Updates from the International Financial Reporting Standards are available at [IFRS.org](#).

Public accounting firms provide a wealth of information and many have updates that address how the new standards impact various industries. The following Oracle partners provide updates on their websites:

- [Deloitte](#)
- [Ernst & Young](#)
- [Grant Thornton](#)
- [KPMG](#)
- [PricewaterhouseCoopers](#)

Be sure to contact your current external auditor for more information, if one of the firms above is not your auditor.

Find supporting JD Edwards resources for lease accounting on [LearnJDE.com](#).



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