JD Edwards Lease Accounting Overview

November 2019
Safe Harbor Statement

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Program agenda

1. Business Problem
2. Solution Overview
3. Solution Delivery
4. Resources
Business Problem
Lease Accounting Standard
FASB ASC 842 and IFRS 16 Leases

What
Lessee Accounting for property and non-property leases – on the balance sheet
Revenue Recognition for lease management companies
Straight-line rent accounting for lessors

Why
Regulatory accounting requirement - provide investors and creditors more transparency into long-term leases

When
January 1, 2019 – public companies
January 1, 2021 – private companies
Lease Accounting Standard
All Industries Leasing Property and/or Non-Property Assets

- Engineering and Construction
- Oil and Gas
- Real Estate
- Agribusiness
- Manufacturing & Distribution
- Other
Lease Accounting Standard

Are you affected?

• Lessees of Property and Non-Property Assets
  • Do you have long term leases for:
    • Equipment, vehicles, or other non-property assets?
    • Office or retail space, buildings or land, or other property assets?
  • Are you currently using A/P to manage long term lease payments?
  • If you answered Yes, you will need a solution to manage these leases as assets on the balance sheet

Most JD Edwards customers will need a solution
Lease Accounting Standard

Are you affected?

• Lessors of Property
  • Are you the lessor of office or retail space, buildings or land, or other property assets?
  • Are you using JD Edwards Real Estate Management
  • If you answered Yes, you will need enhancements to Real Estate Management to manage revenue recognition and straight line rent requirements

Most JD Edwards customers will need a solution
Lessee Lease Accounting Standard

Old Standard:

Rent:
- Equipment
- Office/Retail Space

Use AP:
- Make rent payments
- Expense rents

New Standard:

Lease:
- Equipment Assets
- Property Assets

Requires a leasing system:
- Manage lease terms
- Pay leases
- Account for leased assets on the balance sheet
Lessee Lease Accounting Standard

New Standard:

Lease:
- Equipment Assets
- Property Assets

=> Requires a leasing system:
- Manage lease terms
- Pay leases
- Account for leased assets on the balance sheet

### Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Fixed Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Property and Equipment</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Right of Use Assets</td>
</tr>
<tr>
<td>Inventory</td>
<td>Accumulated Depreciation</td>
</tr>
<tr>
<td></td>
<td>Accumulated Amortization</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>Long Term Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Long Term Debt</td>
</tr>
<tr>
<td>Accrued Payroll Liability</td>
<td>Lease Liability</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>Stock Holder’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>Long Term Liabilities</td>
<td>YTD Income (Loss)</td>
</tr>
<tr>
<td>Stock Holder’s Equity</td>
<td></td>
</tr>
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<td>Liabilities and Equity</td>
<td></td>
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</tbody>
</table>

JD Edwards customers
Lessor Revenue Recognition Accounting Standard

The core principle as stated from IFRS is to

“Recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to exchange for those goods or services.”

Here are the basic steps outlined related to this new standard:
1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied
Lessor Straight-line Rent Accounting Standard

From FASB:
Lessors should *continue* to recognize lease income for [operating] leases on a generally straight-line basis over the lease term

From IFRS:
A lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis
Solution Overview
Solution Overview
Where Lease Accounting Fits in JD Edwards EnterpriseOne
Solution Overview

Generally Available

• Lessee Accounting available for customers with a license to Financials
• Lessor Accounting available for customers with a license to Real Estate Management
• For EnterpriseOne releases 9.1 and 9.2
• Financials license now comes with a restricted use license of Real Estate Management:
  • Entitled Products and Restricted Use Licenses
  • A license of Financials includes a restricted-use of Oracle JD Edwards EnterpriseOne Real Estate Management, limited to lessee lease management features.
  • Any usage of sales overage, expense participation or lessor lease management requires a full use license of Real Estate Management.
Lessee Accounting Business Process

UX One Roles to execute the process

Lessee Accounting Manager

Lease Administrator
Lessee Accounting Solution
Lessee Accounting Business Process

Adjustments to Balance Sheet Accounts

Recurring Billing for Leases

Updates amortization schedules with journal entry audit information

Pay

Create

Adjustments to Balance Sheet Accounts

Monthly Processing

Lease Commencement Journal Entries

Create

Amortization Schedules

Create

Approve Lease Terms

Create

Accounting Manager

Reviews

Accounting Manager

Lease Information

Creates Leased Assets in Asset Master

Asset

Create

Billing Information

Creates Manual and Recurring Billing for the Leased Assets

Create

Lessee Administrator

Notification

Updates amortization schedules with journal entry audit information

Lessor

Pay

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Adjustments to Balance Sheet Accounts

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Lease Information

Lease Master

Asset Master

Billing Information

Lease Administrator
Amortization Schedules

Lease Accounting Manager

Reviews Lease Information

Creates Amortization Schedules

Lease Liability Amortization Schedule

Right of Use Asset Amortization Schedule
Processing Lease Journal Entries

Lease Accounting Manager → Lease Commencement → Monthly Processing

- Adjustments to Balance Sheet Accounts
- Recurring Billing for Leases
- Payment → Lessor
- Create → Adjustments to Balance Sheet Accounts
Other notable features

- Multicurrency leases
- Lease terms changes
- Alternate Schedules and Ledger for Financial Reporting
- Mass update of lease terms
- Import/Export Lease Information
- Transition to New Lease Accounting Standard
Multicurrency Leases

- Directly tied to lease payments which are effected by changes in currency exchange rates
- Value of Lease Liability dependent upon the current exchange rate
- Balance subject to currency gain/loss reported monthly

- Not immediately effected by changes in currency exchange rates
- Not subject to currency gain/loss calculations
- May be periodically revalued based upon a material shift in a currency exchange rate
Lease Term Changes

Lease Administrator
Changes lease terms

Accounting Manager
Specify to remeasure or terminate the lease or clear lease changed flag

Reviews leases flagged as changed

Lease Detail Changes:
- Borrowing Rate
- ROUA End Date

Recurring Billing Changes:
- Lease End Date
- Payment information

For remeasurement:
1. Rebuild amortization schedules from the effective date of lease change
2. Create journal entries to adjust lease liability and ROUA balances

For early termination:
1. Mark amortization schedules with effective termination date
2. Clear lease liability and ROUA balances at terminate date
Alternate Schedules and Ledger for Financial Reporting

- Typically used when parent company reports under one accounting standard and child company reports under a different accounting standard.
- Example: Child company (US GAAP) and parent company (IFRS). Child company has operating leases (US GAAP) that need to be reported to parent as finance leases (IFRS).

**Child Company (US GAAP)**
- Lease
  - Operating Lease
  - Amortization Schedule

**Alternate Ledger**
Accounts posted based on alternate amortization schedule for lease

**Parent Company (IFRS)**
All leases are reported as finance leases
Mass Update Capabilities

Batch Process to update Lease information:

- Extend the length of the lease for one or more bill codes
- Change the amount in the middle of a lease starting at a specific date for one or more bill codes
- Specify changes across assets on a lease (e.g., changing terms to a master lease agreement)
Import/Export of Lease Information

- Data import/export includes:
  - Bill Codes
  - Unit Master
  - Area Master
  - Lease Header
  - Lease Detail
  - Recurring Billing
  - Manual Billing
- Add or update lease information
- Standard JD Edwards Z Table processing
Transition To The New Lease Accounting Standard

- Update system with new lease accounting information
- Write balance sheet entries into alternate ledger for retrospective reporting
- Create as-of lease liability and ROU Asset balances
- Set constants to tell system to use new standard
- Create / review amortization schedules
- As lease payments are made, create journal entries to adjust lease liability, ROU Asset and other accounts

Account for leases under **old** standard

Account for leases under **new** standard
Lessor Accounting Solution
Revenue Recognition for Real Estate

- Enhanced current Revenue Recognition Process to include Real Estate
- Added Real Estate invoices to the all processes
  - Batch process to recognize revenue
  - Workbench to manage exceptions
- Provided specific trigger configuration for Real Estate invoices
- Added ability to create a schedule for the recognition of amounts
  - Available for all invoice types with the exception of Sales Order Invoices.
Straight-line Rent - Improvements

- Prior to enhancement
  - Max of 10 bill codes specified in processing options for R15130
  - Max of 10 conversion bill codes specified in processing options for R15130

- After enhancement
  - Choose to continue to use the PO to specify bill codes
  - Setup default values of Straightline Rent Generation flag in Bill Code Master (P1512)
  - Manage Straightline Rent Generation in Recurring Billing (P1502) application by bill code
  - Unlimited number of bill codes and conversion codes per lease for Straightline Rent processing
Solution Delivery
Solution Delivery

Revenue Recognition
April 2017

Balance Sheet Lessee Accounting for Property Assets
January 2018

Lease Term Changes
October 2018

Multicurrency Leases
November 2019

July 2017
FASB13 Straight Line Rent

April 2018
Balance Sheet Lessee Accounting for Non-Property Assets

October & January 2018
UX One and UDOs
Solution Delivery

Revenue Recognition
February 2018

Balance Sheet Lessee Accounting for Property Assets
May 2018

Lease Term Changes
October 2018

Multicurrency Leases
December 2019

May 2018
FASB13 Straight Line Rent

May 2018
Balance Sheet Lessee Accounting for Non-Property Assets

May & October 2018
UX One and UDOs

Release 9.1
Resources
Search using ‘Lease Management’ on LearnJDE.com to Learn More
Lease Management

The 3D Edwards EnterpriseOne Lease Management solution provides programs and processes that enable lessees and lessors of property and non-property assets to accurately and efficiently account for those leases on their financial statements.

Features and Benefits

Content Organized by Role: Decision Maker, Implementer, User

Get Started

- Data Sheet: Real Estate Management
- Data Sheet: Fixed Asset Management
- FAQ: The New Lease Accounting Standards
- FAQ: The Impact of Revenue from Contracts with Customers
- Balance Sheet Lessee Accounting Quick Tour
- 3D Edwards EnterpriseOne Revenue Recognition Functional Overview
- 3D Edwards EnterpriseOne Financials FASB - Revenue Recognition in Real Estate Management
- The New Lease Accounting Standard - What This Means to 3D Edwards EnterpriseOne for Lessees of Property and Non-Property

Implement

- Processing Lessee Accounting for Property and Non-Property Assets in 3D Edwards EnterpriseOne
- Setting Up Balance Sheet Lessee Accounting
- Understanding Performance Liability Accounting
- Balance Sheet Lessee Accounting
- Revenue Recognition for Real Estate Management
- Straight-Line Rent
- Real Estate Management Implementation Guide
- Accounts Receivable Implementation Guide
- Business Interfaces for Lease
- MOS Document: Lease Management Sample Files for Z-File Processing
- MOS Document: User Defined Objects for 31 Lessee Accounting
- MOS Document: FAQ for Balance Sheet Lessee Accounting

Use

- Setting Up a Lessee Lease
- Running Lease Commencement for Balance Sheet Lessee Accounting
- Running Monthly Processes for Balance Sheet Lessee Accounting
- Managing Lease Term Changes
- Using Blind Revenue Recognition and Guided Revenue Recognition
- Recognizing All, Less, or More Revenue
- Real Estate Management Implementation Guide
- Accounts Receivable Implementation Guide

More

Be aware of the MORE/LESS Option

Description and Quick Tour
Search using ‘Revenue Recognition’ on LearnJDE.com to Learn More

Announcing EnterpriseOne Tools Release 9.2.4.3 and Application Enhancements

We are announcing EnterpriseOne Tools Release 9.2.4.3 with enhancements that drive digital process transformation, significant improvements in user experience, features to simplify and automate the ongoing maintenance of JD Edwards, along with updated platform certifications.
Revenue Recognition

Revenue recognition is the accounting rule that defines revenue as an inflow of assets, not necessarily cash, in exchange for goods or services. It requires the revenue to be recognized at the time, but not before, the performance obligation has been satisfied. You use revenue recognition to track your performance liability separate from your invoices and revenue.

Features and Benefits

Content Organized by Role: Decision Maker, Implementer, User

Get Started

į Revenue Recognition Functional Overview
į Presentation: The New Global FASB IASB Revenue Recognition Accounting Standard
į Presentation: Is Your Company Prepared for the Upcoming Revenue Recognition Changes
į Presentation: Revenue Recognition-Sales Order Management & Contract and Service Billing

Implement

į Accounts Receivable Implementation Guide
į FAQ: The Impact of Revenue from Contracts with Customers
į Information Center: Revenue Recognition Enhancement for Accounts Receivable
į Financials FASB - Revenue Recognition in Contract Service Billing
į Financials FASB - Revenue Recognition in Real Estate Management
į Enhanced FASB 15 (Straight Line Rent Accounting) for JD Edwards Real Estate Management
į Financials FASB - Revenue Recognition - Performance Obligations

Use

į Accounts Receivable Implementation Guide
į Sending A/R Invoices to the Revenue Recognition Process
į Understanding Performance Liability Accounting
į Using Blind Revenue Recognition and Guided Revenue Recognition
į Recognizing All, Less, or More Revenue
į Working with Revenue Performance Obligations in the JD Edwards EnterpriseOne Job Cost System
Resources

Real Estate Management – Implementation Guide
https://docs.oracle.com/cd/E64610_01/EOARM/toc.htm

Lease Management on LearnJDE.com
https://docs.oracle.com/cd/E84502_01/learnjde/financial_management.html#lease-management

Revenue Recognition on LearnJDE.com
https://docs.oracle.com/cd/E84502_01/learnjde/financial_management.html#revenue-recognition

Standards boards

- FASB.org
- IASB.org
Be Informed, Get Connected, and Share!

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Thank you

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