

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

May 2019

Executive Overview

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

The new standards are extensive, and companies will require changes to their financial systems and processes to collect the necessary data for reporting. Companies will have to make these changes even if the application of the new accounting standards result in no significant change in the reported amounts related to leases.

To help customers meet these new standards, changes have been made to JD Edwards EnterpriseOne. Oracle's JD Edwards customers need to assess the impact of the new standards on their business. The customers need to decide when and how to transition to the new standards and when to upgrade their JD Edwards systems with the new features to support the new standards.

The effective date for public entities is expected to start from 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.

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General

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

A: The Financial Accounting Standards Board (FASB) published ASC 842 on February 25, 2016, and the International Accounting Standards Board (IASB) issued IFRS 16 on January 13, 2016. 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 the FASB and IASB issuing these updates to the accounting standards?

A: The primary reason for these updates is to ensure transparency into a company's leased assets and liabilities. Prior to these revised standards, leased 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. The updated standards also address the need to compare companies that lease assets with those that buy assets. Finally, prior to these updated standards, the standards boards had determined that companies often overestimate obligations that were not reported on the balance sheet. The updated standards are designed to address this issue.

Q: What is the new lease accounting standards?

A: At a high level, lessees must recognize leased assets on the balance sheet for both property (office space, retail space, industrial warehouses, and so on) and non-property (office equipment, vehicles, and so on). 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 standards.

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

A: Virtually all customers that are lessees of property or non-property are affected by the changes and will require software updates to be compliant with the new standards. 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, what distinguishes a finance lease from an operating lease for the lessee?

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.

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 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 standards?

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

- a. You can 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.
- b. 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.
- c. 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.
- d. For companies that are currently using the Real Estate Management system to manage their lease as a lessee/tenant: You can update your existing leases with the new terms that are needed for the new accounting standards while still following the old accounting standard for your existing leases. After you enter the new terms and are ready to use the new standard, you can select an option in the Real Estate Constants to activate the processes that account for your leases using the new standard.

Q: Which releases of JD Edwards will have the enhancements?

A: The enhancements are planned for releases 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 completely overhauled, to reflect changes in the accounting policies and processes.
- Processes might need to be developed or updated to incorporate new management judgments.
- Systems might need to be updated to capture new data that is 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 standards.
- Revenue recognition process and policy documentation will require updating.

Q: Which 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 have delivered a number of incremental changes to JD Edwards EnterpriseOne releases 9.2 and 9.1. The enhancements delivered include:

- Revenue Recognition for Real Estate
- Enhancements to FASB 13 Straight-line rent
- Balance Sheet Lessee Accounting for Property and Non-Property Assets

See the Product Catalog on [LearnJDE.com](http://www.oracle.com/learnjde) for more details.

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

A: Companies with a license for Financial Management have a restricted-use license of the Real Estate Management module. Companies that use the Real Estate Management module under the restricted-use license, do not need a license of this module. 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?

JD Edwards' customers are in different stages of adopting the new standards. Some customers have no awareness about the changes and the impact on their business. Some customers have the awareness, but are yet to develop an action plan. Some customers are more strategic, and have both the awareness and a plan of action for handling the changes.

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. You 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 company 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 for the transition to the new standards.

1. **Talk** with your internal financial team/auditors/advisors.

2. **Review** periodicals and web sites to stay current.
3. **Analyze** the impact of the new standards on your company's leases.
4. **Learn** how the JDE software enhancements help to manage this change.
5. **Understand** the changes to the 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. Moreover, external specialists may need to be engaged.
7. Understand transition and retrospective adoption of the lease accounting standard and determine how your company will adopt the new standards.
8. Find resources to help train your professional staff to ensure effective and efficient implementation of the new lease accounting standards.
9. Educate users about the changes they can expect in your company's financial statements.

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 mentioned above is not your auditor.

Find many supporting JD Edwards resources for lease accounting on the Lease Management page on [LearnJDE.com](#).

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