Lessee Accounting

By Beth Outtrim

E1 **Editor's Note**: Beth explains the implications and steps necessary to become compliant with the new Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) regulations regarding placement of Capital Leases and Operating Leases in your organization's financial statements.

Introduction

Since the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board's (IASB) announcement on February 26, 2016 regarding the placement of Capital (Financial) Leases and Operating Leases in an organization's financial statements, Oracle has been working diligently to ensure that the required changes are included in the JD Edwards software. According to Karen Brown, Senior Principal Product Manager at Oracle, the Oracle team worked with accounting and auditing firms as well as customers to understand the implications of this ruling (see Appendix D) and to put a process in our hands as quickly as possible. The deadline for adhering to these regulations "…for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other organizations, the Accounting Standards Update (ASU) on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020."

If you saw my earlier articles on the Revenue Recognition and Profit Recognition, you will be as pleasantly surprised as I was with this functionality. It is built on the Real Estate module since there is already a robust Lease Master there, F1501, and uses a small part of the Fixed Asset Master, F1201, for the Right of Use Asset (ROUA) to record the Asset you're leasing.

There are brand new Automatic Accounting Instructions (AAI) that need to be set up and you can use either of the new UBEs (Universal Batch Engines) to set them up. Then all you do is fill in the G/L Class Code, which in this case relates to the Billing Code (also in the Real Estate module already), if needed and the correct General Ledger Account numbers.

You must use the Recurring Billing functionality to trigger the entries for accruals, interest, and expenses but you do not necessarily need to use the Vouchers that it creates.

Best of all, if you are already licensed for the full Financial Suite of JDE, you can use all that you need from the Real Estate module without any additional licensing fees or setup. Let's see how this all works. I used release 9.2 with the latest ESU (Electronic Software Update) applied (see Document ID 2356624.1 in the Bibliography).

Setup

Real Estate Management Constants (P1510)

If you are already using the Real Estate Management module, but you have not recently downloaded the latest ESUs, you may want to revisit them to use Lessee Accounting. There are four important settings that we need to consider:

- Lease Classification defaults
  - ◊ Finance Lease
  - ◊ Operating Lease
  - ◊ Not on Balance Sheet – this will disable the "Effect Lease Liability on the Recurring Billing" rows
- Reasonably Certain to Exercise Option (informational only)
- Generate Unit Asset (a very handy tool)
- Activate Balance Sheet Accounting

These are on Company 00000 only. See Figure 1 for Company 00000, Figure 2 for a company-specific setup.
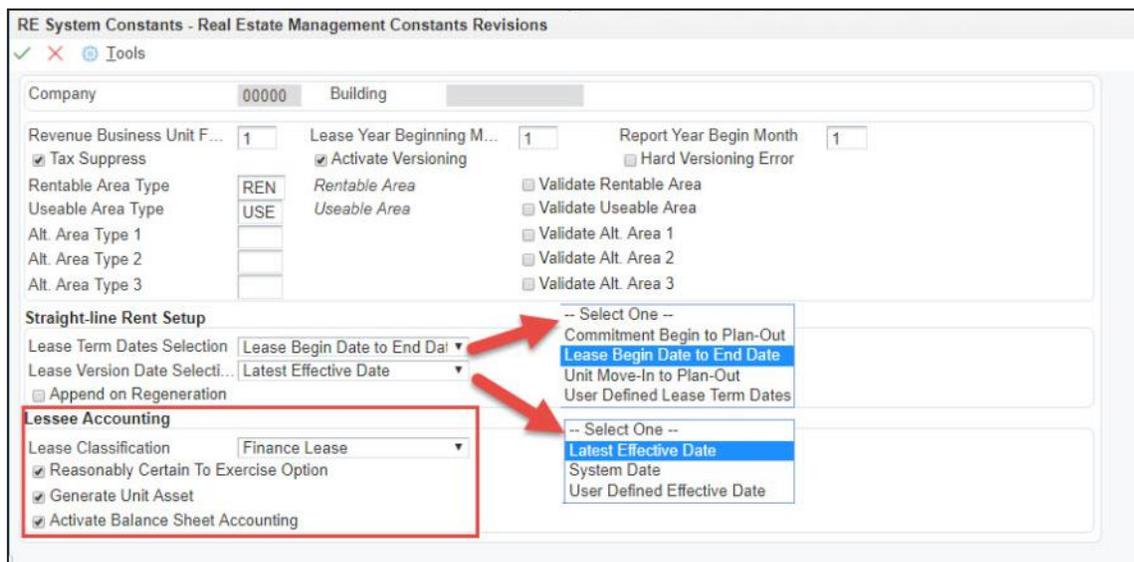

Figure 1 - Company 00000 Constants - P1510

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