

The New Leasing Standard Using Spreadsheets is Risky

Many companies do not have processes and systems today that will enable them to effectively manage all of their lease agreements under the new lease accounting standard. Spreadsheets may have worked in the past because the accounting was a series of routine transactions with rent amounts generally set for the life of the lease and there were minimal financial statement disclosures. But this approach may not work going forward when lease amounts are recorded on the balance sheet, primarily because of the challenges of extracting, organizing, and maintaining lease data at adoption and beyond. There is a need for different internal controls and better documentation for initial accounting and subsequent changes.

Although accountants will continue to use them, spreadsheets are known to be risky. There are risks of errors with inputs, formulas, importing data, and using macros, along with access control, version control, and how the outputs are used. In this eBook, we will highlight the risks of using spreadsheets for implementation of the new lease standard and the benefits of using a software solution instead.



DATA COLLECTION

Because successful implementation starts with understanding and accumulating the necessary lease data, it is important to consider data collection. One of the first steps—and one of the major implementation challenges—is creating an inventory of necessary data points for all existing leased assets. Within each lease, contract provisions must be reviewed and assessed for their accounting implications and processes must be established for this to happen on an ongoing basis. Certain data required for accounting calculations, such as fair market values, economic lives of assets, and discount rates, will come from sources other than lease contracts.

Lease data within many companies is usually not centralized in a single database. Real estate leases are typically maintained separately from other leases, and equipment and vehicle leases may be decentralized across the company and tracked on multiple spreadsheets and in paper files. Under prior lease accounting requirements, a single company-wide application may not have been needed.

The new lease standard's scope is broader than present GAAP because the definition of a lease is now expanded and different assets may qualify as 'leased assets.' More agreements must be reviewed and analyzed. Additional data will need to be gathered from existing service and outsourcing contracts. Documents stored today in paper or image format may not be easily uploaded.

There are many new required financial statement disclosures—both quantitative and qualitative — that will require obtaining and maintaining new lease data. Also, the accounting team needs to maintain documentation to support assumptions made and calculations performed during the lease accounting process. This documentation will be required for the external auditors during the annual review or audit process.



TOP REASONS TO CHOOSE A SOFTWARE SOLUTION RATHER THAN TO USE SPREADSHEETS

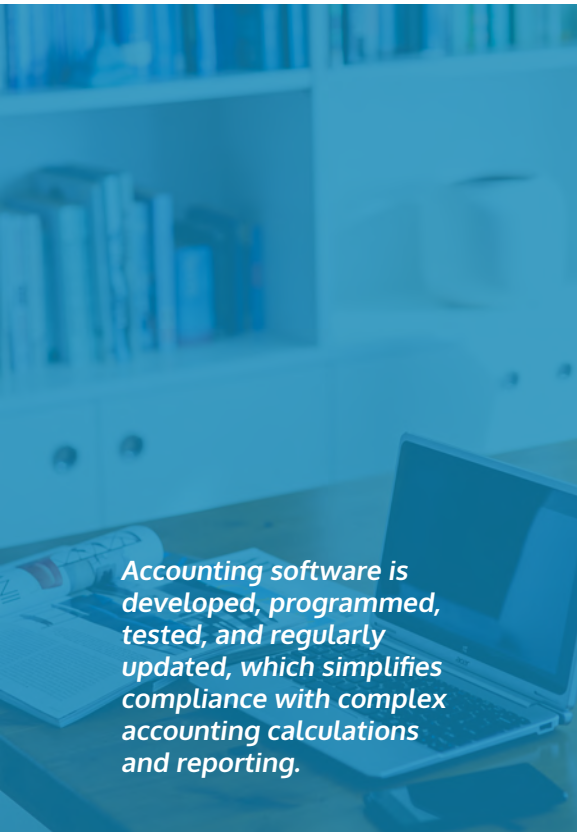
The following are some key considerations for evaluating the use of a software solution in place of spreadsheets.



ACCURACY

As operating leases are recorded on balance sheets, accounting will be done at the asset level. This is a big change from current accounting, where assets included in a lease schedule—like equipment and vehicle leases—could be tracked at the schedule level and did not need to be accounted for and reported on separately. Even if the portfolio approach is applied, a different level of accounting from today's standard will be required. Accuracy and strong internal controls are much more critical once lease accounting calculations result in amounts recorded on the financial statements.

Spreadsheets are prone to errors. One input error or calculation formula error can result in incorrect journal entries. If outputs in an incorrect spreadsheet are used as inputs in other spreadsheets, the errors can compound. Spreadsheets do not have any built-in controls. They are often designed and maintained by individual users that are solely responsible for their accuracy and updating, so their quality depends on the skills and training of those users.



Accounting software is developed, programmed, tested, and regularly updated, which simplifies compliance with complex accounting calculations and reporting.

When lease data is entered into spreadsheets, data for each lease on each spreadsheet will need to be reviewed to be sure there is no incorrect, missing or incomplete data. Also, spreadsheet data will have to be reviewed to ensure that it reconciles to the various input sources/systems it was collected from and that it is consistently included in different spreadsheets prepared by different users.

Accounting software is developed, programmed, tested, and regularly updated, which simplifies compliance with complex accounting calculations and reporting. Software functionality can validate formulas and ensure that all calculations and formulas are systematically and consistently applied. Software is tested for quality, and formulas cannot be accidentally changed by users. Lease data entered once is available consistently across all functions and reports. Calculations and the ability to manipulate large amounts of data happen much faster than performing the same functions in spreadsheets. These internal controls over accuracy are critical features for implementation of the new lease standard.



SECURITY

It is difficult to ensure the security of spreadsheets. Responsibility for spreadsheets is in the hands of individual users. Spreadsheets are frequently printed out, photocopied, emailed to others, accessed through shared folders, and generally not safeguarded. Additionally, the data in spreadsheets is easily modified and not always protected. Password protection is generally on an all or nothing basis and does not provide different levels of user access.

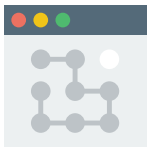
As lease accounting becomes more central to financial reporting, there must be adequate controls over data security and disaster recovery that spreadsheets do not provide. Databases are designed to hold much more information than spreadsheets, which can be essential for companies with a large number of leases. Lease software provides password-protected system access that protects sensitive company data. Databases are designed to allow data access by multiple users at a time and offer different levels of secure access depending on user roles and needs.



INTEGRATION

Spreadsheets are outside of accounting systems and, therefore, require manual entry into the systems. Manually entering lease data takes longer and is more prone to errors than an automated approach. A major issue with using spreadsheets, in general, is lack of integration. In today's environment, it is common for different departments to maintain their lease data in their own spreadsheets. Pulling them together for consolidated lease accounting and reporting can be very difficult. Data in a number of different spreadsheets does not provide business intelligence, and it can take a significant amount of resources to extract and analyze the data. Also, multiple versions and spreadsheets that are not tied to a unified data source can result in variances and errors that waste time and can create inaccurate financial results. If the lease portfolio includes many assets, integration issues become more significant.

Software provides the ability to configure downloads of lease data that can then be uploaded into accounting systems. Lease data in an unstructured format (like in paper documents, or PDFs and JPEGs) has to be manually entered or abstracted and converted before it can be uploaded, but data in digital format is ready to be uploaded to a lease accounting database. Data can be entered once and be instantly accessible to authorized users. System outputs of lease data are faster and more reliable.



EASE OF USE

In general, spreadsheets take longer to design and maintain and are less reliable than a software solution. The accounting team with responsibility for accounting and reporting will need to create new spreadsheets for lease accounting general ledger data entry, journal entries, notes to financial statements, and management reporting. They will need to have extensive training on the details of the new lease standard to design the form and functionality of these spreadsheets in compliance with the standard. Once created, spreadsheets will have to be checked for accuracy and updated for changes on an ongoing basis. Journal entries must be created using spreadsheet data, which has the potential for error.

Wizards, alerts, and tips within software can assist the accounting team with their learning curve on the new lease standard's requirements and provide ongoing reference tools once the standard is adopted. For example, software can guide users through a series of questions to ensure that a lease is properly classified as finance or operating. Software also has built in controls to ensure accurate lease data inputs and can instantly provide calculations for journal entries, required footnotes, and management reporting. Integrated lease accounting solutions can streamline the journal entry process and provide documentation and audit support.

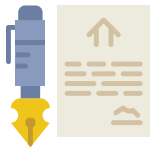
Software solutions offer the ability to maintain tables of lease data and assumptions. A package of standard reports, along with customized and ad hoc reporting capabilities, are available in most software solutions.



COST

Spreadsheets can slow down the closing and reporting process. Significant human resources can be required for preparing, revising, correcting, and consolidating multiple spreadsheets across an organization. There is also a potential cost to the company of using disconnected spreadsheets for management reporting or producing inaccurate data for financial reporting.

Software can be deployed to give multiple users access at a reasonable cost without expensive updates. The use of software results in fewer processing errors, better data analysis, and economies of scale in handling additional lease transactions efficiently, all of which result in lower finance department operating costs and better reporting. Audit trails available in software will improve the external audit process, with potential cost savings and better use of internal resources.



LEASE MODIFICATIONS

Modification accounting is a challenging new area under the new lease standard. Minor lease events, like changes in variable rents, assets changing location or cost center or being returned or bought out, all must be identified and accounted for. Even more challenging is accounting for modifications when an asset is impaired, like a piece of equipment breaking, or a lease is extended. With spreadsheets, it is difficult to lock down the initial calculations and apply new lease inputs and calculations only on a go-forward basis as of the date a lease is re-measured, modified, or impaired. Depending on the size of the lease population, changes can happen daily as asset needs change.

Designing and maintaining spreadsheets that can handle all types of modification accounting requires a deep understanding of the standard. A reliable process with strong internal controls has to be designed to monitor and account for modifications of new and existing leases on an ongoing basis over the terms of all those leases.

Software can include steps for each type of lease modification to guide users through the requirements in the standard. These steps ensure a consistent approach, assist users as they establish internal controls over the modification process, and include documentation of any assumptions made. In addition, there is an audit trail for the company and its auditors of both the changed and the original amounts, which spreadsheets cannot provide; this feature will be much more important under the new standard as changes that occur over the life of the leases will have financial statement implications.

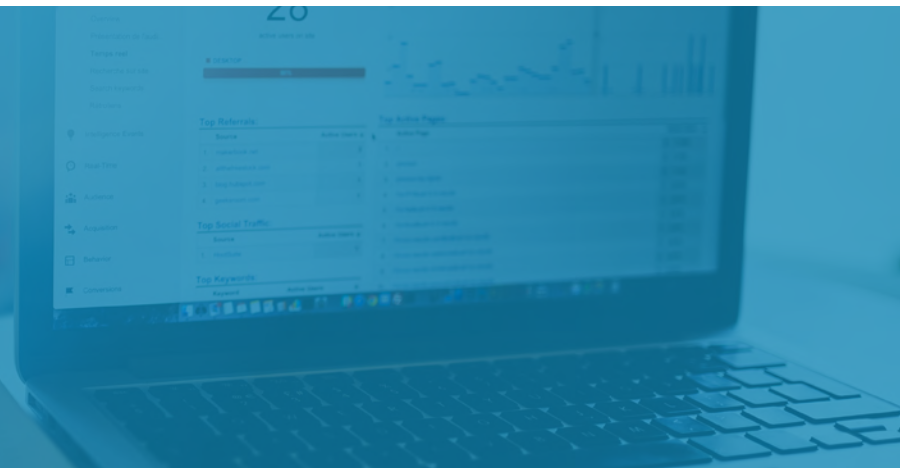


EFFICIENCY, SCALABLE WORKFLOWS AND AUDIT CONTROL

Enforcing workflows and versions in spreadsheets is challenging and limits efficiency. Further, as spreadsheets get larger, they are increasingly cumbersome to use. Maintaining and sharing up-to-date spreadsheets is further complicated when multiple users are inputting data.

Designed workflows in software bring economies of scale, along with faster audits. Data is always up-to-date and accessible. Automated workflows with clearly defined steps for accomplishing tasks help employees to be more efficient. They can better evaluate and improve their procedures, including how they share information with each other. Software also provides an audit trail of access and changes that spreadsheets do not.

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MITIGATE SPREADSHEET RISKS

Spreadsheet use for the new lease standard will become extremely complicated and time-consuming. The risk of creating financial statement errors is high because of the many manual activities required to track lease activity and maintain the accuracy of lease data. Companies of all sizes generally won't be able to rely on spreadsheets when lease data moves to the balance sheet, and companies with a large lease portfolio face greater risks.

Implementing the new lease standard is difficult enough, without introducing additional inefficiencies and internal control weaknesses to the process that can result from the use of spreadsheets. The time for preparing for implementation is getting shorter as the effective date is approaching. Using a lease accounting software solution in place of spreadsheets can mitigate all of these risks and more.

