

Using Spreadsheets for Lease Accounting is Risky

Spreadsheets, while popular among accountants, pose significant risks, especially with new lease accounting standards. They're error-prone, lack control features, and create uncertainties in output usage, falling short for the future. With the new standard mandating lease amounts on balance sheets, companies require solutions offering better internal controls and documentation, not just for initial implementation but also for ongoing maintenance.

In this eBook, we will highlight the risks of using spreadsheets to implement the new lease standard and discuss why using software results in less risk and a faster overall accounting and audit process.



Data Collection

Successful implementation starts with understanding and gathering the required lease data. One of the first steps—and major challenges of implementation—is creating an inventory of necessary information for all existing leases. For most organizations, lease data is usually not centralized in a single database, which means the data required for accounting calculations, such as fair market values, economic lives of assets and discount rates, may come from sources other than lease contracts.

The new lease standard's scope is broader than present GAAP because the definition of a lease has been expanded. This means more leasing contracts must be reviewed and analyzed, and additional data needs to be gathered from existing service and outsourcing contracts.

Documents stored in paper or image format are not easily uploaded for review which causes efficiency problems in the process of an accounting audit. There are many new financial statement disclosures—both quantitative and qualitative—that require obtaining and maintaining new lease data. Therefore, keeping all documents digital for easy retrieval will be more advantageous going forward.

Accountants need to maintain documentation to support the assumptions made and calculations performed during the lease accounting implementation. This documentation will be required for external auditors during the annual review or audit process. What follows are some key considerations for evaluating the use of a software solution for the new lease accounting standard.

Software is Accurate

The Risk of Using Spreadsheets

Since operating leases are now recorded on the balance sheet, accounting is performed at the asset level. This is a big change from ASC 840.

Even if the portfolio approach is applied, a more tedious type of accounting is required. Accuracy and strong internal controls are much more critical when lease accounting calculations are recorded on financial statements. One input or formula error can result in incorrect journal entries, and if outputs in an incorrect spreadsheet are used elsewhere, errors begin to compound. Spreadsheets do not have any built-in controls and are maintained by mistake-prone individual users.

When lease information is entered into spreadsheets, it needs to be reviewed for incorrect, missing or incomplete data. Spreadsheet data also needs to be reviewed to ensure it matches the various input sources/systems from which it was collected.

The Benefits of Software

Lease accounting software is developed, programmed, tested and regularly updated to continuously maintain compliance amid complex calculations and reporting. Software functionality validates formulas and ensures all calculations and formulas are systematically and consistently applied.

Furthermore, software is tested for quality, and formulas cannot be changed by users. Lease data entered once is available across all functions and reports. Calculations and the ability to manipulate large amounts of data happen much quicker than if using spreadsheets for performing the same functions. These internal controls focused on accuracy are critical when it comes to complying with the new lease standard.



Software is Secure

It is difficult to ensure the security of spreadsheets. The responsibility to keep them secure is in the hands of individual users. Spreadsheets are frequently printed, photocopied, emailed, accessed through shared folders and generally not sufficiently safeguarded

Additionally, the data in spreadsheets is easily modified and frequently left unprotected. Password protection is all or nothing, meaning companies cannot create different levels of user access based on roles.

As lease accounting becomes more central to financial reporting, there must be adequate controls over data security and disaster recovery. Databases are designed to hold more information than spreadsheets, a quality which is essential for companies with a large number of leases.

Lease accounting software like LeaseCrunch provides a password-protected system that safeguards sensitive company data. Databases are designed to grant multiple users access at a time and offer different levels of access control based on user roles and needs.

Software is Integrateable

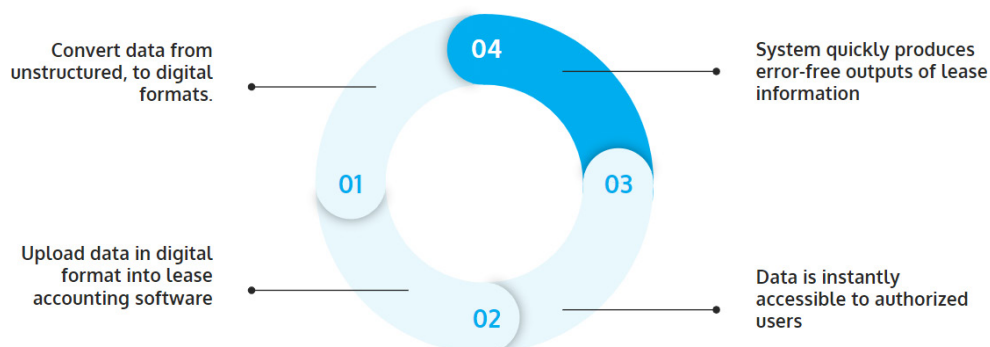
A major issue with using spreadsheets is their inability to integrate. In today's technology-saturated environment, it is common for different departments to keep their lease data in their own spreadsheets. Pulling disparate spreadsheets together for consolidated lease accounting and reporting can be difficult.

In addition, multiple versions of spreadsheets that are not tied to a unified data source can result in variances and errors that waste time and create inaccurate financial results. If the lease portfolio includes many assets, integration issues become even more prominent.

How Software Organizes Data

Lease accounting software provides the ability to export lease data that can then be imported into other accounting systems. Lease data in an unstructured format (like in paper documents, PDFs, or JPEGs) has to be manually entered and converted before it can be uploaded. Data in digital format is ready to be uploaded to a lease accounting database.

With lease accounting software, data is entered once and then instantly accessible to authorized users, making system outputs of lease information faster and more reliable.



Software is Easy to Use

In general, spreadsheets take longer to build and maintain, and are less reliable than a software solution. Accounting teams need to create new spreadsheets for things such as general ledger data entry, journal entries, notes to financial statements and management reporting.

On top of this, accountants need to have extensive training on the new lease standard to build the spreadsheets. Once created, spreadsheets have to be checked for accuracy and updated for changes on an ongoing basis. Since journal entries are created using spreadsheet data, they also have the potential to contain errors.

Software is Easier to Use than Spreadsheets

Wizards, alerts and tooltips built into software solutions can assist accounting teams with their learning curve on the requirements of the new lease standard and provide ongoing reference tools once the standard is adopted. For example, the software can guide users through a series of questions to ensure that a lease is properly classified as either a finance or operating lease as it is being inputted.

Lease accounting 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 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.

Software is Cost-Effective

It's no secret that spreadsheets can slow down the closing and reporting process. Significant human resources are often required for preparing, revising, correcting and consolidating multiple spreadsheets across an organization.

There is also a potential cost to the company that comes from using disconnected spreadsheets for management reporting, which can result in producing inaccurate data for financial reporting.

The use of lease accounting software results in fewer processing errors, better data analysis, and economies of scale in handling lease accounting efficiently. All of these outcomes result in lower finance department operating costs and better reporting. Audit trails tracked by software improve the external audit process, with potential cost savings and better use of internal resources than a run-of-the-mill spreadsheet.

Software Makes Lease Modifications a Breeze

Modifying leases is a challenge under the new lease standard. Minor events such as changes in variable rents, assets changing location or cost center, or being returned or bought out, 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 initial calculations and apply new lease inputs and calculations when the lease is re-measured, modified or impaired. Depending on the size of the lease population, updates can happen daily as asset needs change. Keeping track of all of these dates and numbers is challenging on a spreadsheet.

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

Instead, software includes 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 changed and original amounts, which spreadsheets cannot provide. This feature is much more important under the new standard, as changes that occur over the life of the leases will now have implications for financial statements.



Software is Efficient

Have Scalable Workflows and Built-In Audit Control

Enforcing workflows and utilizing different versions in spreadsheets limits efficiency. Furthermore, as spreadsheets get more complex, they become increasingly cumbersome to use. Maintaining and sharing up-to-date spreadsheets is further complicated by multiple different users inputting data.

Lease accounting software workflows designed specifically for efficiency and multi-user use bring economies of scale and faster audits. Data is always up-to-date and accessible. Automated workflows with clearly defined steps help employees be 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.

Designed workflows in lease accounting software bring economies of scale, along with faster audits. Data is always up-to-date and accessible.

Software Mitigates Risk

Using spreadsheets to account for the new lease standard is 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 won't be able to rely on spreadsheets when lease data moves to the balance sheet, and companies with large lease portfolios face greater risks. Implementing the new lease standard is difficult enough without introducing additional inefficiencies and internal control weaknesses to the process.

The Bottom Line

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.