

# Using Spreadsheets for IFRS 16 is Risky

Many organizations do not have processes and systems that enable them to effectively manage their lease agreements under the current lease accounting standard. While spreadsheets may have worked in the past because there were minimal financial statement disclosures, that approach is more complicated now with lease amounts recorded on the balance sheet and complicated financial statement disclosures required. Now, there is a need for different internal controls and better documentation to maintain lease accounting records.

Although accountants 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 highlight the risks of using spreadsheets for the current lease standard and the benefits of using a software solution instead.



## Data Collection

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When implementing the current lease standard, many organizations start by understanding and accumulating the necessary lease data. If they used spreadsheets, they are tracking a complex array of data elements for their leased assets. Certain data required for accounting calculations such as fair market values, economic lives of assets, and discount rates might come from sources other than lease contracts, and these also need to be stored and maintained.

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

# Top Reasons to Choose a Software Solution for IFRS 16

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## Accuracy

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.

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 current lease standard.



# Security

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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.

For lease accounting, 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

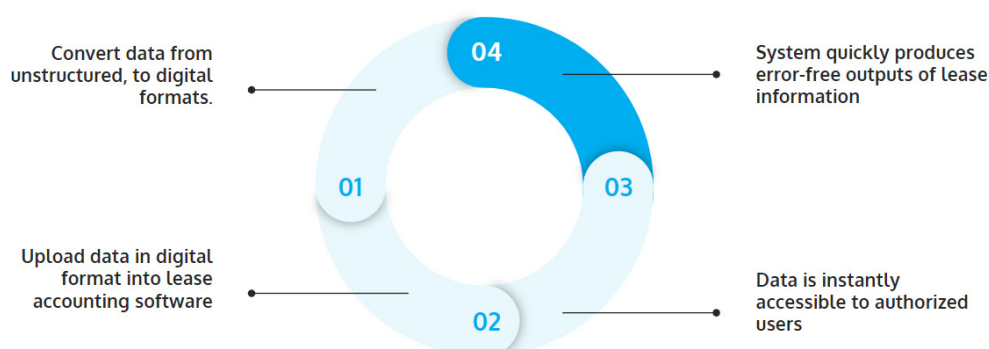
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Spreadsheets are outside of accounting systems and, therefore, require manual entry into the systems. Manually entering lease data takes longer and is more prone to errors than an automated approach. A major issue with using spreadsheets, in general, 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 complicated. Additionally, 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.

# How Software Organizes Data

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## Ease of Use

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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

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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.

## Cost-Effective

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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

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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.



# Efficiency, Scalable Workflows, and Audit Control

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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

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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

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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.