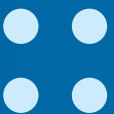


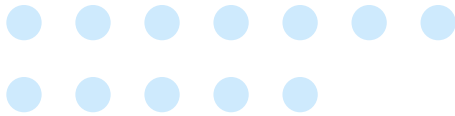


## **Lease Accounting:**

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# **A Comparison Between Spreadsheets and Software**





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## Introduction

The new lease accounting standards (e.g. ASC 842, IFRS 16) require operating leases to be included on the balance sheet in the form of right-of-use-assets and corresponding lease liabilities.

This isn't just a one-and done disclosure; it is a whole new approach to accounting with a much higher level of scrutiny.

For most companies, this is a massive, time-consuming and highly administrative lift. Leases are lengthy, complex legal documents, sometimes hundreds of pages, which can require trained professionals to negotiate and interpret. To maintain compliance, there are countless obligations, clauses and critical dates to continuously track.

Leases can be extremely dynamic. Terms change all the time as businesses take on new spaces, scale back or renegotiate, and every change must be accounted for under the new lease standards.

Further, the lease accounting requirements may change and evolve as well.

From initial preparation to your annual financial statement year end audit, the tool you select will greatly impact your success. It has an impact on your calculations, resources, lease information and your audit. Don't put it to chance.

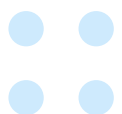
### **In this whitepaper, you will get insight into:**

- ✓ The tasks required to achieve and sustain lease accounting compliance
- ✓ The risks of using Excel and why technology is necessary
- ✓ How to set up your organization for success

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The solution you implement – whether Excel or a dedicated lease accounting software – needs to keep up with the changes to your leases and new interpretations of the standard requirements.

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# Lease Accounting Tasks, Using Spreadsheets vs. Dedicated Software

From initial preparation to the ongoing maintenance required to sustain lease accounting compliance, automation is essential to reduce the risks associated with incomplete and/or inaccurate lease data.

## ✓ Task 1 | Gather and organize applicable leases

Many businesses struggle to get a comprehensive view of their leases as they prepare to adopt the new lease accounting standards. For many, this is the first time looking at leases to this degree, which are typically not readily accessible or centralized.

However, this step is essential for lease accounting compliance, as companies are unable to accurately report on their leases until they have a firm handle on the details within their agreements.

Accounting and finance teams must often work with different departments (legal, real estate, procurement, human resources, etc.) to get a full picture of the business' leases, including embedded leases that can be located within a separate contract.



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This work is incredibly time-consuming and challenging. And if you neglect to use third-party software, you will spend even more time and effort preparing your lease information.

*In fact, private companies that are not using third-party software expect to spend 1,582 hours gathering all necessary lease information.\**

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### Using Excel

Although spreadsheets are a useful tool to sort data, leases contain far too many nuances to use it for lease management.

Leases can be hundreds of pages long – with their own unique lease terms, options, etc. Multiply that by the hundreds of leases in your lease portfolio, and you'll quickly see why spreadsheets are not suitable to centralize your lease data.

In addition, Excel lacks necessary checks and balances that is critical during data migration to ensure your lease data is set up correctly.

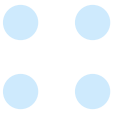
\*2021 VLDI analysis

### Using automated technology

Automated technology, such as Visual Lease, was made to simplify lease accounting and lease management by centralizing your lease data in one single source of truth.

Entering your lease data in a fully auditable system that is flexible to your business' needs sets you up for a successful audit – and saves you an incredible amount of time when referring back to your lease data.

You can enter lease terms and options any way you'd like to avoid having to search through hundreds of pages of leases. This makes your entire lease portfolio easily accessible, along with each of their unique nuances.



**CURO Group Holdings Corp.**, a public financial organization with more than 450 leases, saved hundreds of hours of time that was previously spent tracking down and verifying accurate lease information by switching to Visual Lease’s automated lease management technology. Prior to using Visual Lease, the real estate team manually searched through hard files and documents, but now, they can quickly and easily search for specific lease clauses that have been abstracted into the system.

Gathering and entering unique lease terms for each lease is time-consuming, detailed work. Like Penn State Health and CURO Group Holdings Corp, it’s advantageous for companies to extract lengthy, complex lease terms into a shorter format (also known as lease abstracting), so that each lease term could be easily searched upon within Visual Lease.

Although this requires up-front leg work, tracking lease data in a centralized location saves time and resources down the road, which is especially important for organizations that lack internal resources dedicated to lease administration and accounting.

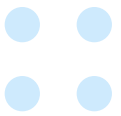
*If needed, there are third-party lease abstraction services that partner with software providers like Visual Lease to help businesses avoid making mistakes and accelerate the time it takes to go live.*

“This process would have taken significantly longer if we didn’t previously organize our lease information. Visual Lease made it super easy to import the data from our homegrown solution into the system.”



**Lisa Slifko**  
Director of Accounting and Financial Reporting  
**Penn State Health**





## ✓ Task 2 | Generate accurate calculations and reports

Prior to ASC 842, companies used Excel to comply with ASC 840. However, the new lease accounting standards are much more complex, which therefore, increases the need for dedicated technology.

Now, businesses must include operating leases on the balance sheet in the form of right-of-use-assets and corresponding lease liabilities.

And although some organizations manage and report on their leases using Excel, [research](#) has repeatedly shown that 90% of spreadsheets contain errors with 50% of processes enabled through those spreadsheets having “material defects”.

As you prepare for a financial audit, you’ll want to reduce the risk of misreported lease financials as much as possible, as they can result in a failed audit, fines and fees.

“Using Visual Lease, our team has been able to quickly produce quarterly reports.”



**Nick DeNichilo**

Director of Financial Reporting and Technical Accounting  
**Apex Tool Group, LLC**

**In fact, a staggering 99% of senior finance and accounting professionals surveyed acknowledge real fears in potentially misreporting company lease information, including:**

- ✓ Increased audit fees and fines
- ✓ Risk of legal action
- ✓ Damage to a company’s reputation
- ✓ Damage to their own professional reputation\*

### Using Excel

Just one error within your spreadsheets can lead to significant deficiencies in your lease process.

Manual calculations will typically raise red flags for your auditors, as they look for a defined, reliable process that eliminates the room for human error within calculations.

Besides being prone to human error, calculations within Excel may break or be unable to support the number of required transactions.

Essentially, spreadsheets lack the ability to simply verify your calculations are accurate and reliable.

*\*2021 VLDI analysis*

### Using automated technology

Lease accounting technology is the only way to create trustworthy, accurate reports.

With calculations and reports built right into the platform, backed by a SOC I Type II audit, you can rest assured that the calculations are reliable when it’s time for your audit.

The automation of otherwise complex reports and calculations also significantly reduces the time and resources required by your business.

Most importantly, auditors won’t need to spend as much time testing the detailed transactions as much as they would with manual spreadsheets.



## **PennState Health**

Penn State Health, a multi-hospital health system with ~200 leases, saved 180 hours a year by automating lease accounting reports.

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“Visual Lease is really simplistic and provides a single source of truth for all that lease data. From an auditability standpoint, it gives our auditors a lot of comfort that we are utilizing the right figures to get the right results.”



### **Anthony Cacchiani**

Senior Manager of Global Finance  
**Indeed**

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## **Task 3 | Maintain up-to-date lease data**

Sustaining lease accounting compliance is a continuous, ongoing effort. There is a lot of work, time and effort required to keep your data up to date, given the dynamic nature of leases.

Like initially gathering your lease data across the business, lease management is typically a cross-departmental effort. Once you've identified who will be involved – and their responsibilities – you can determine a process to capture any lease updates.

The process should account for any new leases that are signed, existing leases that are amended and terminated leases. How will you ensure these changes are reflected in your centralized lease portfolio?

This is another area where automation and technology are critical to your success, while Excel can be detrimental.

### **Using Excel**

Excel's inability to easily capture the specific nuances within your leases will greatly impact your ability to maintain lease data as it changes.

Furthermore, one of the biggest flaws as it relates to updating lease information using a spreadsheet is the lack of a reliable audit trail. Excel does not support the ability to track when, who or what changes were made to your lease data. This information is critical throughout Day 2 and for your audit.

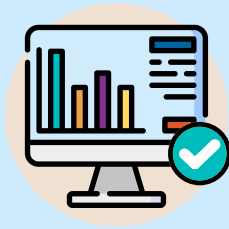
### **Using automated technology**

Contracts as complex (and expensive) as leases require a system that is flexible and can keep up with lease changes.

Rather than struggling to identify lease data, technology streamlines visibility and supports data integrity within a single source of truth for leases.

You'll never have to guess if your lease data is up to date because you have visibility into who, what and where each change was made in the platform.

By supporting audit trail and user role capabilities, you end up saving time, improving processes and ensuring accuracy – which are all critical to Day 2 lease accounting.



On average, private companies save roughly 600 hours by using third-party lease accounting software.

*2021 VLDI analysis*

“Saving time is important to us, given we don’t have a lot of people on our team. Visual Lease has made us at least 50% more efficient.”



**Dru Ingram**  
VP Corporate Controller  
**Bassett Furniture**

## ✓ **Task 4 | Cross-functional collaboration**

As stated above, lease accounting is not just a finance and accounting project – it is a leasing project. It is highly administrative, and you need to make sure you have enough of the right resources to support the project.

Further, there are noteworthy business concerns that have delayed the adoption of the lease accounting standards thus far. Ninety-three percent (93%) of private companies say their team is already stretched thin, making the transition to compliance with ASC 842 even more overwhelming. And nearly 40% cite concerns over employee burnout as they face the work required to achieve proper lease controls and accounting across their portfolio.\*

This points to an already struggling workforce that is not prepared to tackle lease accounting without automation. For teams with limited resources, third-party lease accounting software is a must to adopt the standard in time for their year-end audit.

### **Using Excel**

Excel’s lack of automation is incredibly time-consuming and draining on your internal resources.

Working cross-functionally in a spreadsheet can cause many issues and errors, and it lacks a clear process to support user rights and permissions.

### **Using automated technology**

You don’t have to change the way you work to work together. Real estate, procurement and accounting teams each get purpose-built tools to work with their workflows, and it’s easy to set up alerts for outside teams that touch leases.

*\*2021 VLDI analysis*

**In fact, private companies have reported that third-party lease accounting software has helped them:**

- ✓ Replace and streamline essential, manual tasks and improve accuracy through automation
- ✓ Keep employees in the know of rules and regulations
- ✓ Introduce a new level of customer service and support available to their internal teams, while simultaneously reducing the risk of misreporting company lease information



## ✓ Task 5 | Testing and validation

Are you confident in your ability to interpret or apply the standards, ASC 842 and/or IFRS 16, on your own?

“Ideally, organizations should build in time to test and validate their lease data, calculations and reports prior to the deadline,” stated Joe Fitzgerald, Senior Vice President of Lease Data Strategy at Visual Lease.

### Using Excel

The high risk of manual error from using a spreadsheet for lease accounting is even more concerning due to its lack of testing and validation capabilities.

It may not be able to support all your lease information, and there is no dedicated support personnel besides your internal team to help you navigate any issues you will likely run into.

### Using automated technology

Software makes it easy to run tests to validate your lease data at any point in time.

Further, best-in-class technology, like Visual Lease, prioritizes its customer support and implementation teams to ensure you are set up for success and supported all year long.

“Without Visual Lease, there’s no way we could have successfully completed the project on time.”



**Lauren Tinsley**  
Corporate Accounting Manager  
Waste Connections

## What Comes Next | Steps for success

Today, nearly all private companies (98%) have started the transition to ASC 842, but one-third (33%) are still not fully prepared to transition to the new standard, which points to the massive pressure organizations are under as they attempt to retroactively learn and organize the details of their leases in advance of their initial reporting period under the new lease accounting standard.

Despite the private market making progress toward lease accounting compliance, many companies are not yet where they should be in order to successfully achieve and maintain compliance.

In July 2021, The Visual Lease Data Institute reported that 75% of surveyed private companies were not yet fully compliant with ASC 842, and 40% said they were underconfident in their ability to comply with the new lease accounting standard because they didn’t have all the necessary lease data gathered.



**33%**  
of private companies are not fully prepared to adopt ASC 842

To continue to make progress towards lease accounting success, you should:

- 1 Identify leases across your organization**
- 2 Select personnel across your business to be involved, the number of resources and third-party advisory services**
- 3 Choose and implement your solution**

## Conclusion

Lease accounting software is essential to ASC 842 & IFRS 16 compliance. Don't jeopardize your business' lease accounting compliance with unreliable spreadsheets.

Your lease portfolio contains far too many moving parts – and is way too expensive – to not have proper controls in place. Using spreadsheets will only cost you more in the long-run – and put you at increased risk of a failed audit.

Lease accounting software, like Visual Lease, is built to support your lease portfolio as it grows and changes – and ensure you remain compliant long after initial adoption.



**At minimum, you'll want to make sure the technology you select enables you to:**

- Access lease data in one, centralized location
- Configure the system and data any way you'd like – without the headache and added cost of customized software
- Run automated calculations that reduce the risk of human error
- Select from a library of lease accounting report templates or configure your own with an ad-hoc reporting engine
- Stay on top of any updates or changes to your lease portfolio
- Ensure up-to-date, accurate lease data
- Navigate complex arrangements involving lease modifications, subleases, sale-leaseback transactions, lease incentives and related-party leases
- Seamlessly integrate your lease data and financial information with ERPs including general ledger, accounts payable and accounts receivable modules

To see the only software named a Leader by G2 in both Lease Accounting and Lease Administration, visit [www.visuallease.com](http://www.visuallease.com)

## About Visual Lease

Visual Lease is the #1 lease optimization software for managing, analyzing, streamlining and reporting on lease portfolios. Developed by industry-leading lease professionals and CPAs, it combines GAAP, IFRS and GASB-compliant lease accounting controls with easy, flexible and automated lease management processes. More than 1000 of the world's largest publicly traded and privately-owned corporations rely on Visual Lease to control their lease portfolios, integrate with their existing business systems and maintain regulatory compliance. Committed to ongoing innovation and unparalleled customer service, Visual Lease helps organizations transform their lease compliance requirements into financial opportunities.