A Software Solution for Leases May Prove Elusive

I read with interest "Preparing for the Looming Changes in Lease Accounting" (Dennis Chambers, James Dooley, Catherine A. Finger, The CPA Journal, January 2015), and I commend the authors of identifying "the problem" in a clear manner. The authors are correct to point out that there is an operational and accounting challenge in acquiring, retaining, maintaining, analyzing, and reporting the various types of leases defined by FASB.

Less clear in its practicality is the solution that the author proposes. Software implementation of a changed accounting rule for enterprise resource planning software, and even just for accounting software, carries with it risks, challenges, and—significantly—increased costs.

Simply assuming that existing software (be it enterprise-resource planning [ERP], custom-built, or off-the-shelf accounting software) can be effectively and efficiently revised is a course of action that most small and midsized entities are unable to take.

The article's example from Johnson & Johnson drives that point home: a Fortune 500 company can undertake this kind of effort successfully; success in implementation may not be at hand for most small and midsized entities, however.

The risks for small and midsized entities are that attempts to use existing off-the-shelf software may result in incorrect disclosures. Alternatively, the risks of creating ad hoc databases for lease accounting may result also in subpar quality of software, as well as incorrect results.

I fear that a solution is not immediately at hand. Software developers will eventually include features that partially or fully address the complexity of lease accounting. Until then, it is really FASB's role to understand that in its effort to revise the rules, some serious unintended consequences have resulted to most, if not all, stakeholders.

Yigal Rechtman, CPA, CFE, CITP, CISM
Grassi & Co.
New York, N.Y.
Member, *The CPA Journal* Editorial Board

The Authors Respond

We appreciate Yigal Rechtman's interest in our article and his comments on the subject. It appears that (as of the last FASB meeting in February 2015) the new leasing standard is moving forward and is more a matter of when, not if, it will happen. The boards have been soliciting feedback, listening, and deliberating since the original exposure draft was issued in August 2010.

Now is the time for companies to get ready and assemble a plan to address the new standard. The primary changes that have been made since the original exposure draft have been mostly about how to amortize these costs off the balance sheet, which led to the reexposure in May 2013. Along the way, it has been fairly consistent that operating leases are going onto the balance sheet.

Given that apparent certainty, the authors believe it is necessary to determine how to move current operating leases to the balance sheet easily, accurately, efficiently, and consistently. The tenets of this approach will be scalable from small to medium to large organizations. The nine points cited in the article citing the Johnson & Johnson example are universal, and good guidance for an organization of any size.

Change is always risky. That is why starting as soon as possible is the preferred way to help mitigate risk. There are few software offerings available today, but CoStar Real Estate Manager delivered new data elements and functionality as far back as January 2012 to help companies collect the data needed and quantify the impact on the balance sheet. This allows an organization to collect, audit, and input the data now, which is a large part of the work for every organization.

The benefits of just getting "ready" for the changes are numerous, let alone preparing for the ultimate compliance and need for restatements. Our article lists such benefits gained by Mohawk Industries—cost savings, improved accuracy, process efficiencies, saved time, and increased confidence in the data. This helps in negotiating better leases, reduces audit fees, and has the benefit of preparing for the final accounting standard and quantifying the estimated impact.

The solution is more available than companies might think. Hoping that change will not happen, or will be delayed, does not seem to be a viable option.

Dennis Chambers, PhD
Kennesaw State University, Kennesaw, Ga.
James Dooley, CPA
CoStar Real Estate Manager
Catherine Finger, PhD
Saint Mary's College of California, Moraga, Cal. ❑

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