

Dump the Pump

Portfolio Administration and Lease Accounting Software: Why Choosing a Fully Integrated Solution is Critical

In 2006, the Financial Accounting Standards Board and the International Accounting Standards Board decided to start the formal process of aligning their rules for lease accounting. After a decade of exposure drafts and comment periods, the ASC 842 and IFRS 16 standards were born. During the development of the standards, companies were faced with difficult decisions as to how to go about becoming compliant and their software vendors had serious design decisions to make in terms of how to provide the best software solution.

The release of the new standards created frenzied activity around the opportunity to help companies become compliant. Accounting firms of all sizes jumped in the game. New players in the commercial real estate software space emerged and veteran players rushed to augment their existing systems to support the new standard. Lease accounting requires accurate underlying information from a lease.

Two competing software models emerged – one model, “the pump”, driven by a desire to merely create bolt-on software to receive asset information from any external source system. The other model, a fully-integrated system, designed to holistically solve the complex ongoing accounting challenges that come with commercial real estate portfolios.

The Pump Model

The pump model became a common, albeit misguided, approach. The idea is that cash payment schedules in the lease data would be fed (or pumped) into a stand-alone lease accounting system. The stand-alone system would, in turn, perform the initial capitalization based on the cash data it received. While this was a much easier approach for those system vendors who lacked the ability to design and build elegant software solutions, it has many flaws:

- For each source system (i.e. a lease administration system or asset tracking system), a feed must be built and maintained in a format that is compatible with the system to which the data is being pumped. A change in data structure to either system will break the pump.

- When data is fed for the purpose of capitalization, two copies of the same data exist in two separate systems. This data must now be synchronized between both systems if it needs to change. The synchronization is often a manual process.
- Not all leases are created equal, and many stand-alone pump-oriented lease accounting systems simply aren't able to handle the complexity of commercial real estate rent schedules.
- The workflows needed to coordinate additions/changes/deletions between the two systems must be built and maintained outside of either system. These workflows tend to be manual in nature and prone to human error.
- The ability to seamlessly report across and access underlying lease data is critical to operational efficiency. Reporting across two separate systems with a pump connecting them is difficult or impossible.
- When changes happen in the source commercial real estate portfolio, those changes are not immediately reflected in the stand-alone lease accounting system. That timing difference can lead to accounting mistakes. For large, high-cost leases, this can have severe consequences.

The Integrated Model

The less-common, but superior alternative to the pump model is the integrated software solution. In this design, a single system contains not only a full-featured lease accounting solution with automated remeasurement, but also a full-featured lease administration system. A single database containing both lease data and lease accounting data allows critical additional features to be provided. While the additional features afforded by the integrated model are much harder to design and build, they provide a seamless solution that does not suffer from the deficiencies found in the pump model:

- A single vendor provides all of the functionality for both parts of the system and users don't have to settle for a system that is missing key features.
- No data pumps are required as the entire system is self-contained.
- There are no reliability concerns as new features are released because a single engineering team makes sure that the entire system works properly.
- There is no duplication of data within the system because both portions of the system are fully aware of each other.
- Workflows between the leasing and accounting departments are built into the system, improving operational efficiency and auditability.
- A single reporting system can be utilized to report seamlessly across both the lease accounting data and related underlying lease administration data.

- When there is change to a cash schedule relating to lease data, any related capitalizations are detected and the accounting team can be notified of the change. This all happens in real-time, so there is no opportunity for data to be out of sync.
- Since the cash schedules reside in the same system as the capitalizations, automated remeasurement can be achieved. Automated remeasurement solves the most difficult lease accounting challenge beyond the initial calculations.
- It is much easier to satisfy the needs of an auditor with a unified system that automates remeasurement and captures historical data changes across both lease administration and lease accounting.

The only real downside to the integrated model is the design and engineering skill required to build one. It's no wonder that the pump model was popularized and most commonly recommended by companies where software engineering is not the primary focus. It's important to recognize that a fully-integrated system is greater than the sum of its parts. One consistent system is able to provide efficiencies and cost-savings beyond the two core functions it performs.

When looking at solutions, it is imperative that you look to a fully-integrated system that features full depth of functionality in both lease administration and lease accounting. It is the right choice when it comes to automated remeasurement, operational accuracy, ease-of-use, separation of duty, auditability, and efficient workflow. The cost-savings that result can be orders of magnitude greater than any other approach.

About Lease Harbor LLC

Lease Harbor was founded in March 2000 with the express purpose of building the most complete, user friendly, cost-effective lease administration and lease accounting software solution. Over the past twenty-one years, more than 1,800 companies have trusted Lease Harbor, and the majority of our clients have used our services for over ten years. Our global clients range from small companies to large enterprises and represent all industries, including technology, health care, and finance.

As an employee-owned company, our clients rely on our experience, consistency, and continuing innovation. We offer scalable, reliable, well supported software priced at a fraction of the cost of our competitors. Lease Harbor's flagship product is the industry's first and only full-featured, completely seamless lease accounting and lease administration system.

Lease Harbor provides the industry-leading software and services you need to take control of your lease accounting and management.

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