



# 2021 Global Lease Accounting Survey

Opportunities to Optimize



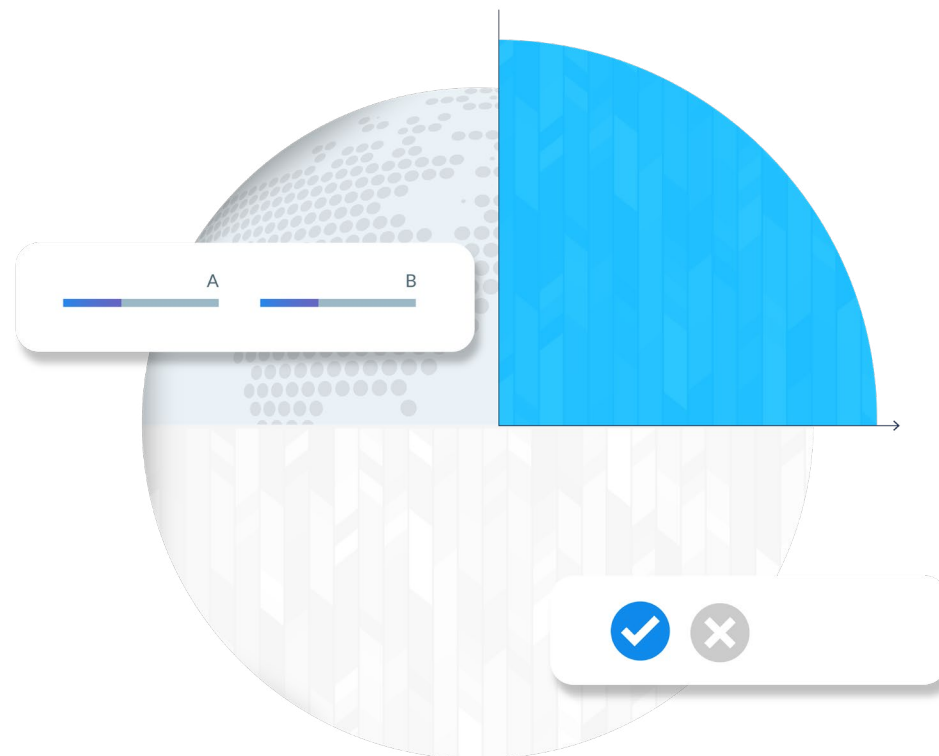
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## Executive summary

While the recent lease accounting standards have been around for several years, results from the 2021 Global Lease Accounting Survey – Opportunities to Optimize conducted by Ernst & Young LLP (EY) and LeaseAccelerator make it clear that there are still opportunities for improvement in the lease accounting and administration processes, technology and people for those who have implemented the new standards, as well as those who are preparing for implementation.



These gaps and others drive audit challenges and make it more difficult for organizations to realize the cash flow benefits and return on investment (ROI) they expected from leasing overall, as well as their lease administration and accounting systems and processes.

**58%**

of respondents say they  
don't have a centralized  
Lease vs. Buy process

**42%**

of respondents say that  
they return less than  
70% of their leases on  
time

**49%**

of respondents say  
they do not have  
lease accounting fully  
integrated with their  
ERP systems



This report includes guidelines for organizations at all stages of adoption, with recommendations for leading practices to make lease accounting more efficient, delivering increased ROI and long-term compliance.

For this report, we gathered industry benchmark data on how global organizations are managing their leasing process, how they are addressing the compliance challenges across Accounting Standards Codification (ASC) 842 and International Financial Reporting Standards (IFRS) 16, and what tools and processes they're using to drive long-term compliance.

There are logical market splits in the results for company size and the phase of adoption for each standard — the US public companies and international companies who have to comply with ASC 842 and IFRS 16 have already adopted the standard and are looking to improve their processes, while most private companies are at the start of their compliance journeys. As a result, these groups have some key differences, from the sizes of their teams and the complexity of their lease portfolios to where they want to take out cost and risk, the effectiveness of their end-of-term management and integration with the monthly close process.

With this data, we've identified several opportunities for organizations of all sizes to improve the leasing process and take out cost and risk. Use this report to provide benchmarks for your organization, assess the maturity of your approach and identify ways to use lease accounting as a catalyst to optimize your leasing process.

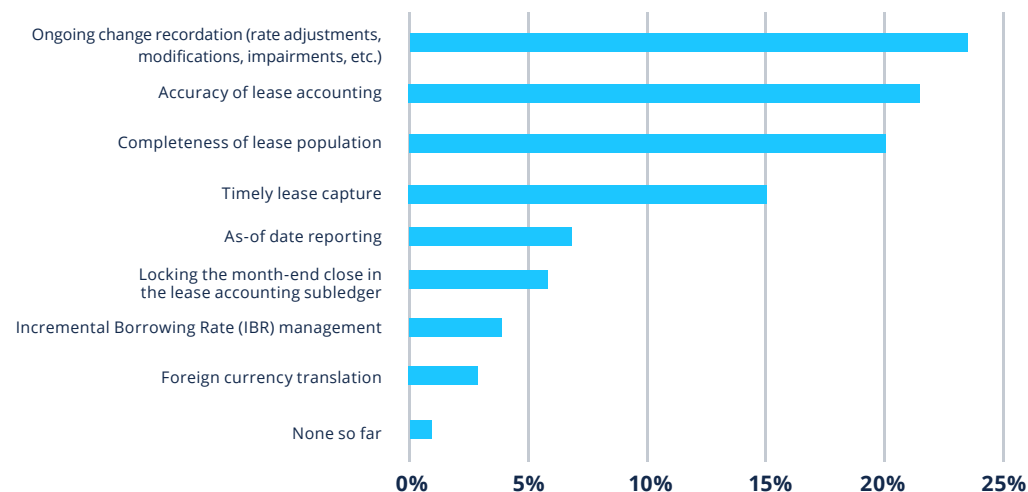
## Overall insights

In this time of rapid change and economic instability, taking control of lease portfolios and using automation to “do more with less” have never been more essential. Across mid-market and larger public, private and international organizations, the survey showed that 49% of respondents said their lease accounting is not fully integrated with Enterprise Resource Planning (ERP) systems, creating potential missed opportunities for business optimization. Although 51% of respondents have more than 250 leases, they aren’t centralizing decision-making and automating processes. As a result, they commonly face consequences, including:

### Heightened areas of audit challenges

Audit challenges often are indicators of substandard processes. Our respondents cited out-of-period adjustments requiring ongoing recordation changes (47%), accuracy of lease accounting (42%) and completeness of the lease population (40%) as the top three causes of audit challenges. Additionally, 58% of respondents do not have a formal Lease vs. Buy process, resulting in inconsistent decision-making and potential cash flow risk.

### Audit challenges – all respondents

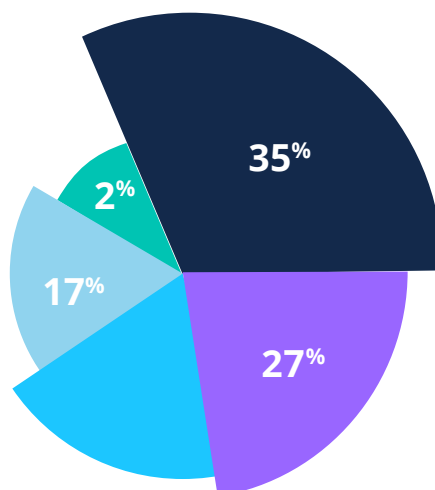


## Small teams, stressed resources

Process inefficiencies can lead to increased workloads, errors and audit risk. Overall, 35% of companies surveyed say three to five full-time employees (FTEs) manage leases, and more than a quarter of those companies say team members are stressed. However, 90% of respondents say they're not planning to change the size of the team. This shows that they will have to look outside the team for process improvements, either through increased automation, outsourcing support or a combination. Nearly half (46%) of companies surveyed are turning to a shared service or outsourcing/managed service model — either to assist in-house resources or because they don't consider lease management to be core to their processes.

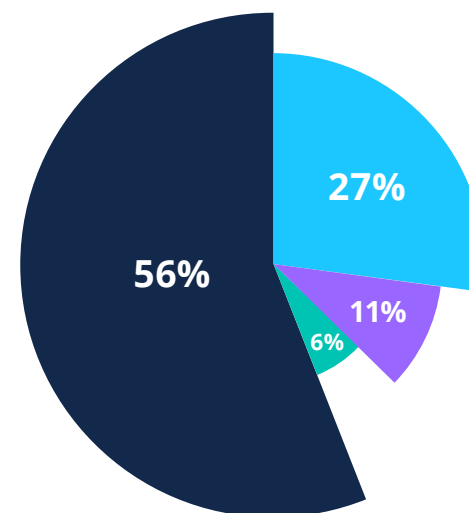
### Full-time employees managing leases

- 1–2 people
- 3–5 people
- 5–10 people
- 10+ people
- Not applicable



### Team status

- Long-term committed
- Fatigued
- Fresh
- Outsourced



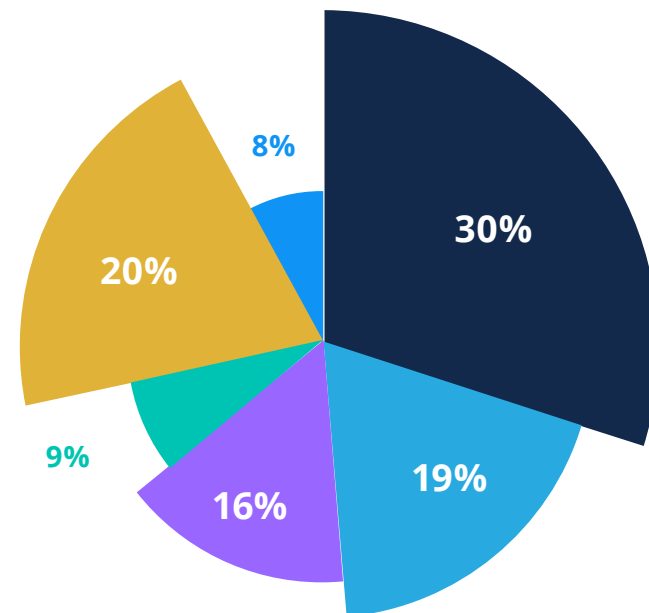


## Manual processes, limited integration

Across the board, 35% of respondents continue to do their lease accounting on spreadsheets. The majority of respondents (65%) are using a lease management solution — most respondents (72%) use their lease accounting software for accounting and compliance; only 4% have an end-to-end solution that includes competitive bidding of equipment leases all the way through to end-of-life management, limiting the opportunity to maximize cost savings and overall efficiency. Although over half of respondents have more than 250 leases, 49% haven't fully integrated lease accounting processes with existing ERP systems, increasing potential for audit challenges.

## Lease accounting integrated with ERP systems

- Yes, via file upload
- Yes, via application programming interfaces (APIs)
- No, using manual process
- Partially integrated
- No plan
- Planning full integration

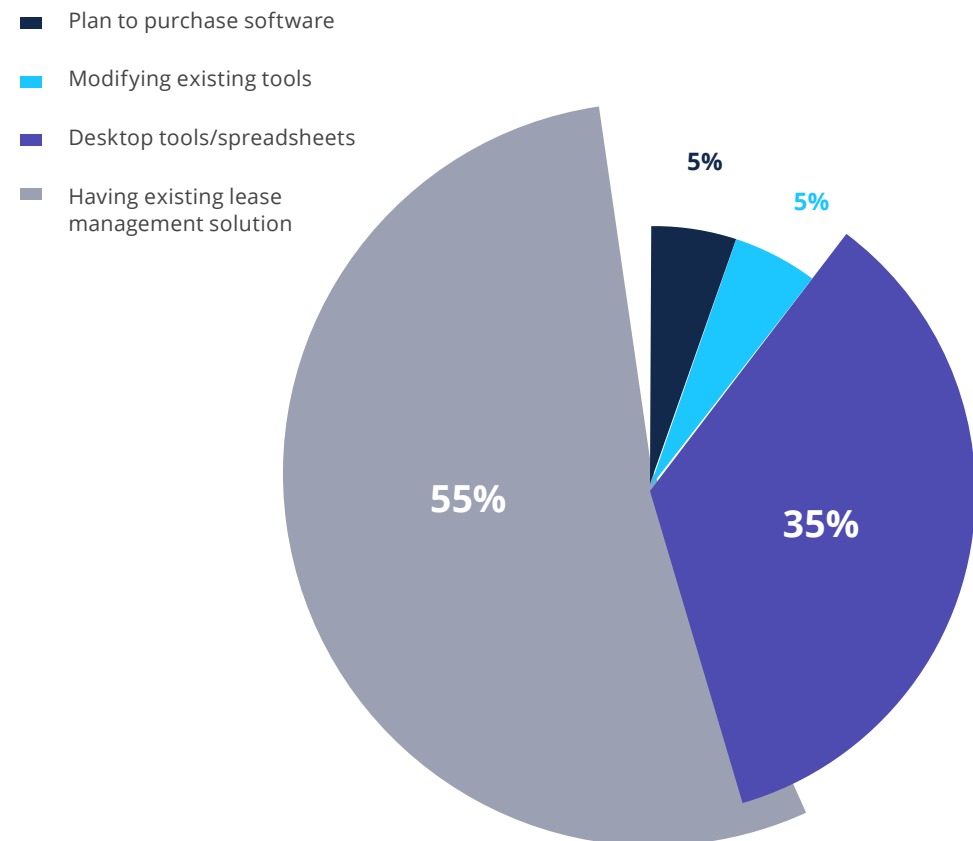




## Inadequate software

Some organizations foresaw the complexities surrounding lease standards implementation and purchased software solutions that they hoped would help, often experiencing mixed results from their selections. Only 16% of respondents say they are seeing ROI from their lease accounting software. Fifty-seven percent noted they were “not sure” their current lease accounting software is providing the expected ROI, and 36% said they were not seeing ROI.

## Software used for lease accounting

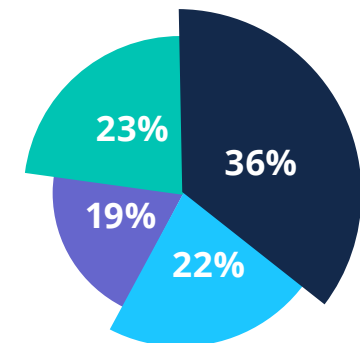


## Poor end-of-term management affects cash flow

Although 42% of organizations surveyed say their leasing is optimized, the same percentage also said that they return less than 70% of their leases on time. Over half (53%) of respondents are leasing to preserve cash and generate free cash flow, but they can't achieve those goals if leases aren't returned on time.

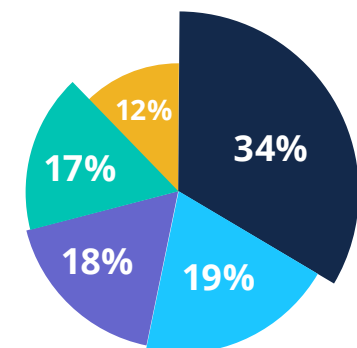
## Leases returned on time

- More than 90%
- 70%–90%
- 50%–70%
- Less than 50%



## Why do you lease equipment?

- Preserve cash for Investing
- Generate free cash flow
- Hedge risk of obsolescence
- Align expenses with revenues
- Other



## Optimization through centralized lease processes

When considering people and process, 34% of respondents are choosing outsourcing/managed services to optimize processes and lower cost/risk, where ongoing lease accounting is not core to their accounting. Forty-six percent of respondents are using shared services to centralize their processes. As companies look at their adoption plans, they should consider their operating model and what resources and skills are on board:

- Define resources that will support the lease accounting process on an ongoing basis at the outset of the implementation project
- Assess how key the lease accounting process is to core business operations and whether that knowledge should be retained in house
- Budget out costs associated with ongoing compliance of lease accounting

By using these data points as inspiration for process and team changes, companies can start to see improvements in their leasing programs. For those organizations that are just getting started with compliance, there are leading practices here that can guide them. For companies that have already implemented the lease standards, this is a good time to re-evaluate processes and make changes to optimize lease accounting.



**34%**

**of respondents  
are choosing  
outsourcing to  
optimize processes  
and lower cost/risk**

## Public company insights and issues/post-adoption

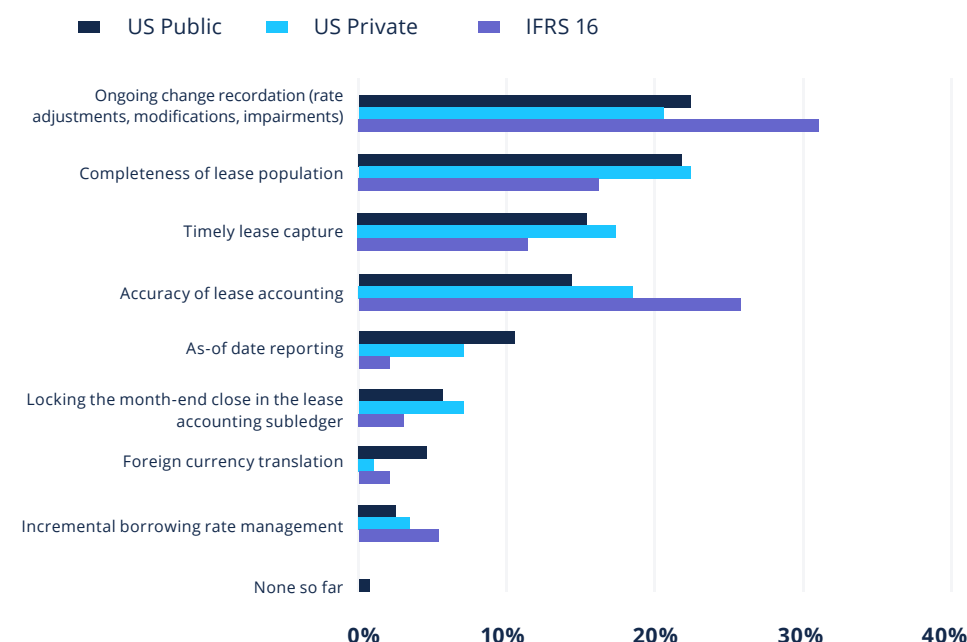
Lease accounting remains a significant challenge for public companies — including international companies with dual reporting footprints in both ASC 842 and IFRS 16. Even after adopting the new lease standards, many of these companies continue to seek process enhancements and improvements that will help them achieve broader business benefits.

- Companies that have adopted the lease standards often face audit challenges like ongoing change recordation, completeness of lease population and timely lease capture.

Respondents indicated there are several challenges that could impact internal control, including:

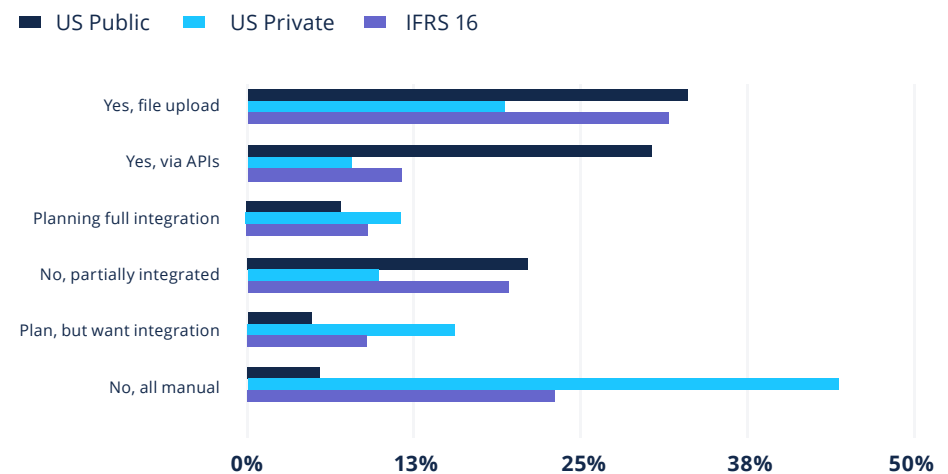
- Handling of modification events
  - Reconciliation of lease payments per the agreement to lease system
  - Validation of complete lease population on an ongoing basis
- Seventy-nine percent of US public companies surveyed use lease accounting software, but only 7% use the software as an end-to-end solution that includes the competitive bidding of equipment leases all the way through to end-of-life management. More than half (58%) of respondents are using the software primarily to manage accounting and compliance. A few (17%) are still using spreadsheets.

### Audit challenges by company type

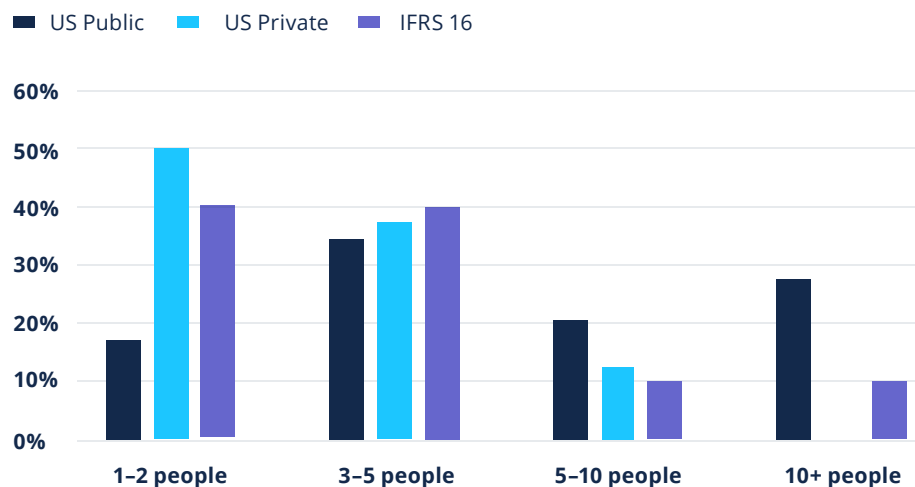


- Only 4% of public companies surveyed report advanced automation in their software (i.e., robust reporting and two-way email communication). However, 33% of respondents are considering additional automation around notifications and workflow, and another 23% are considering integration with upstream systems that could improve efficiency.
- Only 21% of US public companies surveyed and 14% of IFRS companies surveyed are seeing ROI from their lease accounting software. One-third of public and 36% of private companies surveyed have yet to see any ROI.
- Processes are not yet centralized or integrated with the financial statement close — 35% of US public companies surveyed haven't fully integrated lease accounting with ERP systems, creating inefficiencies and increasing the risk of errors.

### Leasing accounting integration with ERP systems

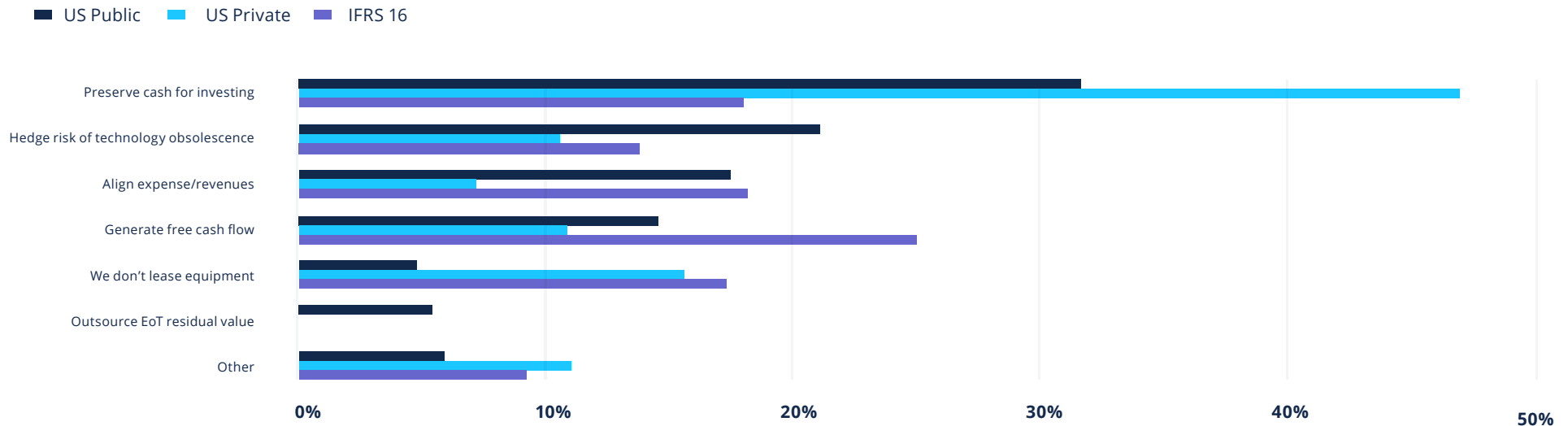


### Current team size (FTEs)



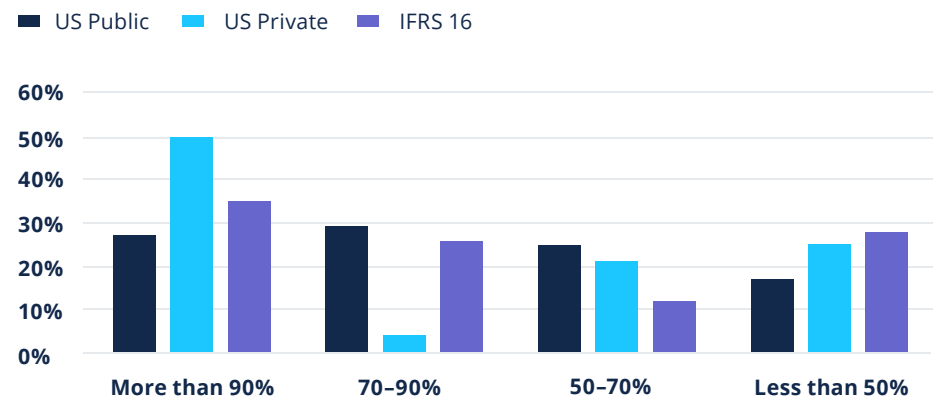
- The teams at US public companies surveyed are larger than other companies and more likely to be dedicated, but workloads are increasing, and team size is not growing. Although, even as fatigue is setting in, companies, in general, are not investing in their resources.
- Although IFRS companies surveyed have already adopted the standard, a majority of respondents said they don't have formal Lease vs. Buy processes (66%), leading to inconsistent leasing decisions.
- Only a few of the IFRS companies surveyed (14%) are considering Shared Services Organizations (SSO) (14%), even though they tend to have smaller teams. It may be because they have smaller leasing portfolios than the other groups in the survey and therefore less ongoing complexity — 68% of respondents said they had 1 to 250 leases.

## Why do you lease equipment?



Although preserving cash and cash flow are top priorities for US public companies surveyed, not all are seeing the value from their leasing programs, especially with 42% of respondents saying that 70% or less of their assets are returned on time. More advanced transformation and automation projects like contract management and improved sourcing are not yet on the horizon, which could drive ROI.

## Assets returned on time





## Private company insights and issues: pre-adoption

Many of the private companies surveyed haven't yet started their compliance journeys since the deadlines shifted out to 2022. Even the US public companies surveyed that are three years into the process are facing challenges, such as the lack of integration, ongoing manual processes and not returning assets on time. Private companies can learn from these and take a proactive approach. Twenty-two percent of respondents are doing that by implementing early, and 4% have already implemented.

### US private company adoption status

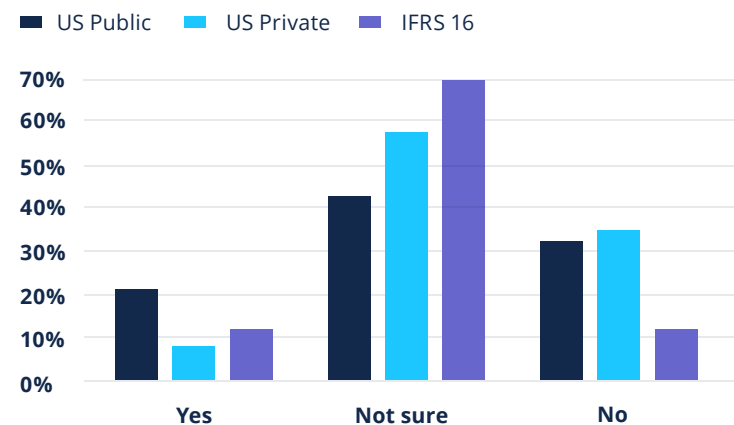


## Here's how private companies responded:

- Lease accounting teams in private companies surveyed are small — 50% have one to two people, and nearly all companies (93%) have no plans to add resources. However, only 4% of private companies surveyed report stress in their teams, most likely since many have yet to start their compliance projects.
- Twenty-one percent of private companies surveyed report using lease accounting software for accounting and compliance, similar to the number that say they are implementing already. None of those surveyed are using an end-to-end solution, which is to be expected, since they are just getting started in automating the overall lease management process.
- Although most companies report limited integration with ERP systems, private companies lag in both areas. Forty-three percent of respondents claimed only manual processes for the monthly close, and 61% show no lease accounting integration. This can lead to audit risks and inefficient business processes.
- Private companies also have limited software automation — 68% of respondents have no automation and instead use an accounting engine. With limited automation, it is difficult to assess ROI.
- Although just under a third of private companies surveyed have centralized competitive bidding and sourcing processes, 36% say their equipment leasing approach is “already optimized.” Currently, 54% of private companies surveyed have no plans to centralize their lease sourcing processes. Without centralized controls, private companies may not be able to realize the savings they planned from their leasing programs.

Private companies that have yet to adopt lease standards may find that taking advantage of these, and other lessons learned from the experiences of public companies, can help to facilitate implementation, optimize processes and increase confidence.

### ROI from lease accounting software



## Organizations that start now have more time to address challenges like these:

- Identification of all arrangements that may be a lease and that need technical accounting review is more time-consuming than anticipated and also requires input from various stakeholders in the organization (procurement, business units, IT, finance, etc.).
- Obtaining all key data fields from lease arrangements to be input into lease accounting system is central to a successful adoption and is often the most time-consuming task.
- Data collection requires an understanding of key accounting policy elections taken and planned uses for the data in the lease accounting system (admin vs. accounting only).
- Understanding and designing an overall process flow for how lease accounting will support monthly close require the proper skills and resources.
- Identifying and establishing key controls that mitigate new risks in the lease accounting process.

- Understanding any downstream impacts on tax associated with adoption of the lease accounting standard may require extra time and resources.

In order to go beyond basic compliance and generate ROI for their lease accounting compliance project, private companies should understand the overall business requirements for the system, map out how the lease accounting system will interact with other systems and consider external financial reporting requirements. By determining the end vision for lease accounting, each organization can choose the resource model that aligns with its strategic objectives. Taking a holistic view that includes integrations and business processes can generate long-term value.

To go deeper and get a personalized assessment of how your leasing process compares to those of your peers, contact us at **[leaseaccelerator.com](https://leaseaccelerator.com)**.

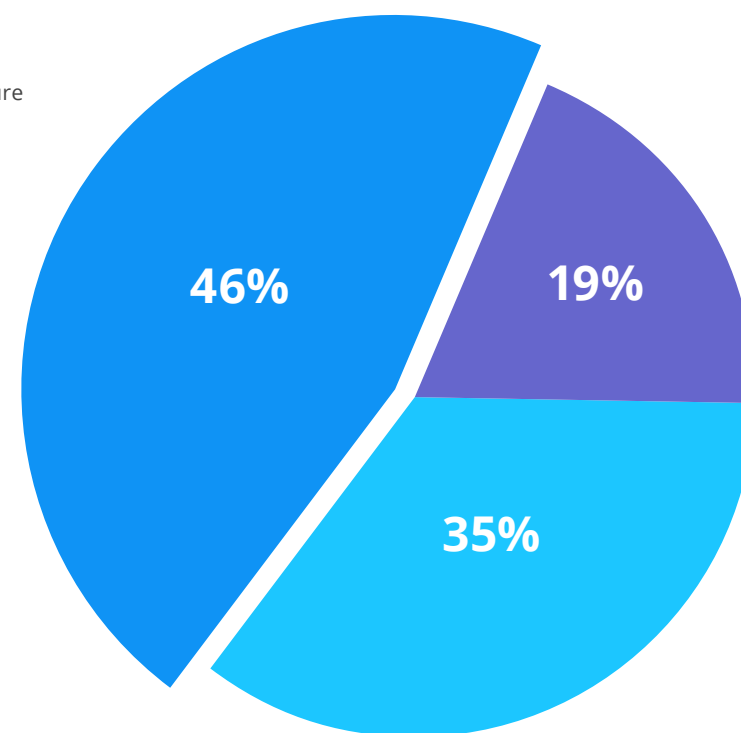
## Ongoing compliance

The ongoing audit process under ASC 842 has been challenging. It is important that companies are properly prepared for the first audit while also selecting the appropriate platform for growth — one that will position them for long-term sustainable compliance, ROI and business optimization. Each company should consider the right mix of people, process and technology to achieve the right outcomes.

When considering people and process, 34% of respondents are choosing outsourcing to optimize processes and lower cost/risk, where ongoing lease accounting either is not core to their accounting process or is better managed in a central manner. Forty-six percent are using shared services to centralize their processes.

### Using shared services environment

- Yes
- No
- Not sure



As companies look at their adoption plans, they should consider their operating models and what resources and skills are on board:

- Define resources that will support the lease accounting process on an ongoing basis at the outset of the implementation project
- Assess how key the lease accounting process is to core business operations and whether that knowledge should be retained in house
- Budget out costs associated with ongoing compliance of lease accounting

On the technology side, even though 35% of respondents are using spreadsheets to achieve compliance, most realize that approach isn't sustainable. With ongoing complexity of even small leasing programs, 55% of respondents already use lease management solutions. Leading solutions deliver critical capabilities to manage the lease lifecycle, like lease data management, Lease vs. Buy analysis, full lease accounting, audit-ready reporting and end-of-term management. As companies evaluate software, they should look beyond the initial compliance deadline requirements and consider products that can enable long-term, sustainable compliance while delivering ROI.



## Building an action plan

Regardless of where each organization falls in adopting the lease accounting standards, the survey results show that there's an opportunity to optimize the lease accounting and overall lease lifecycle to increase ROI and business value. The survey highlighted the differences between companies at different stages of maturity and adoption that can be mapped against risk and business value.

All organizations start out toward the lower left of the maturity model, when they initially adopt the standards. Over time, they progress toward the right and upward as they centralize resources into shared services and outsourcing and work to optimize the overall business process. As they reach the Innovators quadrant, they start to transform and automate the full lease management process, integrating systems and stakeholders, and using insights to make better leasing decisions overall.

### Maturity model



## To continue the shift toward increased business value and lower risk, here are some key steps to take:



### **Assess where your organization falls on the maturity model**

and consider how to drive greater business value while reducing overall audit risk.



### **Drive toward integration with the business and financial systems**

— reduce cost and risk by removing manual steps and processes. Optimize the flow of information to make better decisions throughout the lease lifecycle. Leverage the experience and resources from trusted service providers.

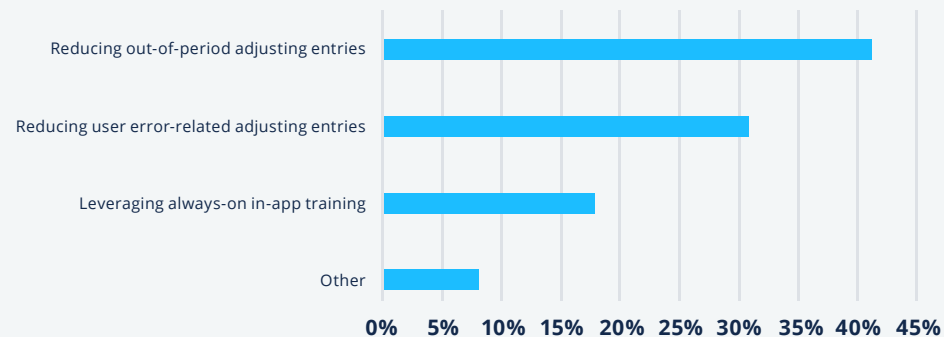


### **Centralize and automate lease administration and accounting processes**

to manage leasing complexity and help improve decision-making. Engage the rest of the organization beyond accounting to optimize the leasing process from end to end and drive down “evergreen” costs.



## How removing cost, risk and time from monthly close



To get a personalized  
assessment of how your  
leasing process compares  
to those of your peers,  
contact us at

[www.leaseaccelerator.com](http://www.leaseaccelerator.com).

Private companies should be proactive in their approach and take advantage of the lessons learned from those that have gone before, and most US public companies have an opportunity to improve the processes they have in place. The same is true for the international companies who have already adopted IFRS 16.

With that said, your company is unique. Although your environment may be different from the survey results here, the results may help you inform your decisions. We know this is no easy task, and we are here to help.

# About LeaseAccelerator

LeaseAccelerator provides Lease Lifecycle Automation software that ensures long-term compliance, improves operational efficiency, and frees up cash. Thousands of users rely on our secure Software-as-a-Service (SaaS) platform to manage and automate 700,000 real estate and equipment leases valued at \$200 billion across 5 million assets in 172 countries that generated 8 billion journal entries.

**Learn more at [leaseaccelerator.com](https://leaseaccelerator.com)**



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