FYISOFT

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2021

TOP
EBOOK READS
in the world of accounting

The Dark Side of Excel

Our beloved tool has a sinister side. But here's how you can avoid it.

PLUS

Ripped from the headlines disasters you don't want to repeat.

Editor's Note

At FYIsoft®, we love Excel too. In fact, the innovation behind our core product, ReportFYI®, was created out of this love. Like many of you, we relied on Excel for EVERYTHING. Until we began feeling the pains you may be all too familiar with.

Years ago, the financial close for our rapidly growing company became more and more challenging. Our (brilliant) tech-savvy team knew there had to be a better way. And so began the development of FYIsoft.

That struggle and discovery process continues to be played out in companies across every industry. As you will read in this eBook, that beloved tool we all rely on - Excel - has its place in our daily lives. But when it comes to financial reporting, a very dark road looms ahead.

You're in for a thrilling ride as the learning adventure unfolds in the following pages.

FYIsoft

The FYIsoft team

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FYIsoft provides a unified suite of AI-powered financial reporting and FP&A software. | fyisoft.com

TECHNOLOGY

The Dark Side of Excel

In this eBook we explore the pitfalls of Excel when relied upon for financial statements and financial reporting needs, including real world use cases that illustrate the dangers.

Published by FYIsoft | AI-Powered Financial Intelligence

INTRO

Disclaimer: We Love .XLS

This body of work is not going to attempt to vilify Excel. Instead, we focus on what it's designed to do, and what it's not.

THE BACKGROUND

Excel is a powerful and brilliant microcosm of semi-possibility. But Excel is characteristically a bit like a Swiss Army knife. A Swiss Army knife has rudimentary tools within it – a screwdriver, a nail file, a saw, even scissors. But can we all agree that none of these are necessarily the best version of these specific tools? They are, at best, references to those tools.

Swiss Army knives are a tool of survival, for achieving the basics of a given task. But the tool doesn't facilitate adapting, thriving and executing a task flawlessly.

For many small companies with simple reporting and analytics needs, Excel is likely adequate to produce financial reporting. Although a powerful tool to house and interact with data as tasks require, it lacks any real built-in intelligence to truly master any of those specific tasks.

But enough about Excel as a specialized tool. We will get back to this in a bit. For now, we will move into Scene One and our lead character, the organization.

DID YOU KNOW?

Excel was initially released in 1987, over three decades ago. Maximum row capacity through Version 7 was 16,384 rows. Today, it can handle over 1,048,576 rows. That is a lot of data to track!

SOURCE: WIKIPEDIA

On the Fast Track

The Starring Role: Our Company

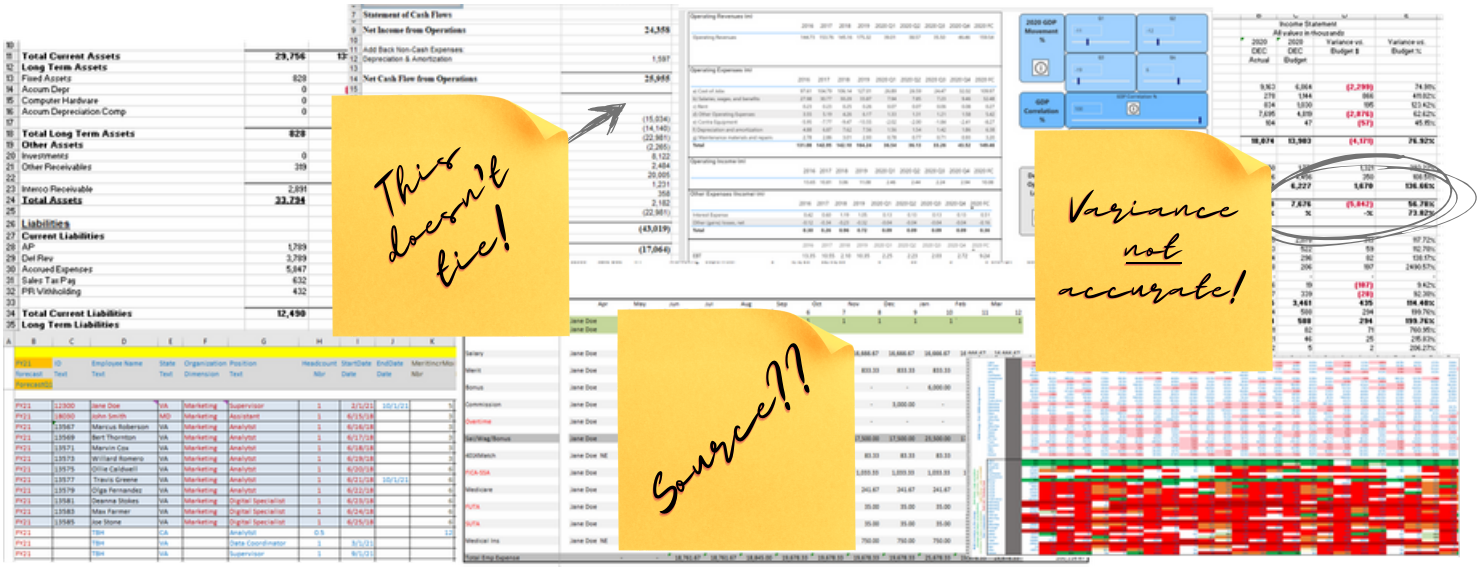
Our company has experienced explosive growth throughout the past few years (pre-pandemic). Needless to say, it's been a roller coaster ride for their C-suite, and especially their CFO. The company in this example is a Wisconsin-based leading manufacturer of brake pads for automobiles, large trucks, snowplows, and farm equipment.

Organic revenue growth was very healthy domestically over the past five years, and the addition of both manufacturing and distribution capability into Mexico and Central America has facilitated further growth in the international space.

Additionally, the acquisition of a small manufacturer of brake rotors in South Carolina extended their product lines. Moreover, with all this growth, a change in leadership (CEO) reset strategic imperatives, while the company came under ownership by a Private Equity firm based in New York City. Finally, a new tranche of financing to help capitalize this fantastic growth story was secured in mid-2019.

From many angles, the pace of change in this organization is dizzying. The organization is expanding, reorganizing, internationalizing, retooling, adding stakeholders, and doing everything that they can to position themselves into a successful future.

And yet, they still use Excel for reporting.



Above
Massive amounts of tabs and spreadsheets present fertile hiding ground for errors, with no easy way to hunt them down.

The Problem(s) with Excel

Like many companies, their financial reporting chain is strung together with multiple aging spreadsheets, little documentation, and even less security. Excel as a financial reporting tool is limited in so many ways:

- Excel is two-dimensional, which limits abilities to incorporate multiple variables at the same time.
- The more linked sources feeding information, the more the potential for errors exponentially grows.
- Data may not be secure, is vulnerable to security breaches, and can be lost. Just think of all the times that a spreadsheet becomes corrupt, locks up, doesn't update.
- Risk can grow as companies attempt to store more and more key information within spreadsheets.
- Multiple spreadsheets, tabs and links can duplicate and proliferate errors. These can grow like a pathogen through multiple reports and models, making it impossible to find its origin or root cause.
- Excel does not adapt or scale well, which becomes problematic in growing companies with dozens of departments, changing organizational charts, morphing Chart of Accounts that adapt to new business lines and expenses, and multiple scenarios. These "simple" changes often consume many days each month for a staff of accountants that must manually edit formulas in every report that is impacted by these changes.

Excel provides autonomy to customize and tweak data, which is necessary to optimize daily work. But official reporting documents are not the playground for the curious.

- Reconciliation back to General Ledgers becomes a full-time job, and Accounting Departments end up hiring additional staff accountants specifically for this purpose.

- Excel is not built for consolidations. It's built for micro-work. Formulas on one (or maybe a few) tabs associate rows and columns to come to some sort of calculated answer. Setting up a consolidation requires significant thought and planning, and always ends up being much more effort than originally anticipated. Done poorly, by no fault of the design, users are going to be consistently trying to change, add, delete, and restructure information that jeopardizes the reliability of the data.

- Templates break. It is a fact of life. People want autonomy to customize and tweak reporting. Everyone wants to show off their skills with Pivot Tables, lookups, and macros. There is no inherent harm in this desire, but "official" reporting documents are not the playground for the curious. One person can become the single point of failure for the entire organization.

There is much at risk for those who do not heed these warnings and continue relying on that trusty "Swiss Army knife" for the specialty requirements of financial reporting.

> **"Excel is flexible but corruptible, which makes it dangerous for something as critical as our financial information."**
>
> -Becky Roth, Mutual Insurance Company of Arizona

Ripped from the Headlines

The real life examples below show the consequences of trying to make Excel become something that is not designed for.

- JP Morgan tried to use a poorly constructed Excel spreadsheet by introducing disparate data sources into a Value at Risk (VaR) model. When combined with some pretty run-of-the-mill Excel flaws, the result was **$6.0 billion** in trading losses. "The model operated through a series of Excel spreadsheets, which had to be completed manually, by a process of copying and pasting data from one spreadsheet to another..."

- In an example of what news NOT to deliver to your shareholders, Fidelity saw a major Magellan fund being forced to cancel a year-end dividend distribution due to a simple, but 100% avoidable error. An accountant incorrectly performed a copy/paste into a spreadsheet, turning net capital loss to a gain, "causing the dividend estimate to be off by **$2.6 billion**."

RIPPED FROM THE HEADLINES

These real-life examples are excerpts from the original publications cited below:

BUSINESS INSIDER

Excel Partly to Blame for Trading Loss

ORACLE BLOG

10 of the Costliest Spreadsheet Boo Boos in History

- While changing accounting systems, Fannie Mae was hit with a **$1.14 billion** error in total shareholder equity due to an "honest mistake." The mistake was within a spreadsheet used to implement a new accounting standard, driving a Q3 restatement of their financials.

- When Lehman Brothers went belly up in 2008, Barclays Capital went after certain assets in the post-bankruptcy feeding frenzy. They ended up acquiring significantly more than they bargained for with an unintentional purchase of **179** unwanted contracts, due to a massive array of cells within a spreadsheet that were hidden (rather than deleted). "When the spreadsheet was converted into a PDF to be posted to the bankruptcy court's website, the cells appeared again. Barclays Capital filed a legal relief motion, but in the end had to swallow the losses, for an undisclosed sum."

The financial news ecosystem is wrought with so many of these tales of woe. While it makes for salacious reading and gossip across LinkedIn and the blogospheres, these stories drive home real-life, sobering examples of where a company or organization felt safe with their trusty old Swiss Army knife and ended up suffering massive financial consequences. Let's get back to our Brake Manufacturer.

If it can happen to Fidelity, can it happen to your company?

An accountant incorrectly performed a copy/paste into a spreadsheet, turning net capital loss to a gain, "causing the dividend estimate to be off by $2.6 billion."

The Villain Exposed

Given the new legal entities, new divisions, new product lines, and reorganization, the accounting staff did their best to continue to adjust spreadsheets for the continuing changes so that financial statements were accurately updated. These financial statements include Income Statements (by geography, by division, and by product line), Balance Sheets, and Statements of Cash Flow. Like most organizations, many variations of these statements are created to reflect current financials versus prior month, versus same period prior year, versus year-over-year, versus budget, and versus most recent forecast.

The most challenging struggles were consistently integrating with Chart of Account additions, completeness of reporting accounts, organizational rollups, consolidation, changing GL rollups, and columns. The slightest change required manually updating virtually every report on the fly. Version control, rollups, formulas, tabs, naming conventions, accounts – everything became an issue that piled on itself.

But the Accounting Department soldiered on each month, feeling more overwhelmed than the month before in trying to keep up with the pace of change of the company and the world as a whole.

The situation continued to deteriorate so much that variance analysis became virtually impossible. Was the variance driven by real spending decisions? Was it driven by a spreadsheet error? Was it fraud or a typo?

Accountability in a way that protected against malfeasance or a simple mistake was becoming nonexistent, which isn't surprising considering various studies report that 88% of spreadsheets contain at least one error. Distrust became widespread, and there was no longer "one version of the truth," regardless of how stringent the processes and procedures appeared to be.

This is because Excel is so corruptible by design. It allows users to effortlessly copy, paste, cut, edit information with little history or audit trail of edits, or the reasoning behind them. Information is easily transportable between spreadsheets, and this can result in users (and stakeholders) operating off of multiple, incongruent sources. With no standardized report delivery mechanism to officiate a single source of truth, collaboration becomes anarchy.

So how does this story end? Well, grab your tissues as many tears are about to be shed.

ALMOST 90% OF SPREADSHEETS HAVE ERRORS

Studies over the past few years report that 88 percent of all spreadsheets have "significant" errors in them.

FORBES

Sorry, Your Spreadsheet Has Errors

The Plot Thickens

The Private Equity (PE) firm had stringent reporting requirements to facilitate integration into its broader portfolio of business holdings. Accounting tried in vain to facilitate the nomenclature, rollups, structure, and deadlines that the PE overlords required.

Deadlines were missed and integrations continued to blow up, consuming countless hours of accounting staff to create the custom templates and rollups required to satisfy this stakeholder. Simply put, Excel required countless hours of modifications to submit reporting. The PE Firm branded the company an ongoing reporting issue and they were put on notice. (Anyone who has been in this situation knows: you do not want to anger Private Equity).

Meanwhile, Debt Covenants were breached with the lenders by slow and improperly formatted liquidity and profitability reporting (Balance Sheet), costing the company demand penalty payments, increased capital costs, and additional collateralization of assets. Once again, put on notice.

Both of the above illustrations center around speed of distribution and formatting. But what about accuracy? Oh, this is where it gets really juicy. The challenges were numerous:

- Inability to incorporate the Latin American operations into the consolidation was hampered by a disparate General Ledger system coupled with inaccurate currency conversion. Trying to use Excel, with home grown conversion tables, resulted in significant overstatement of Revenues, understatement of Assets, and issues with auditors.

- The integration of the acquisition in South Carolina - an entity that used an entirely different General Ledger - slowed the financial close even more. Inconsistently formatted and pieced together financial results were being distributed three to five weeks beyond a close date.

- The glacial pace of information sharing meant that informed decision making came late and was based on manually-altered information. Inquiries from the Financial Review team related to the supporting documentation were met with unreturned phone calls from an inundated Accounting and Finance department. Put simply, no one understood the numbers.

- Ultimately, internal auditors were called in, driven by regulators and PE intervention, to investigate the financial results. As a result of the deep dive into the reporting results, there were significant restatements required. Over a three year period, six quarters (50%) were discovered to be improperly reported due to consolidation and completeness issues, and required restatement (due to adverse audit opinions).

All of these challenges stemmed from the inability to quickly report financial results to stakeholders in the proper manner by trying to use Excel for financial reporting - a role it was never intended for. The results were a profound case of information failure.

The moral of this sad yet unavoidable story is this:

Many companies continue to push the limits of Microsoft Excel to do way more than it was ever designed for. A simple lack of awareness of alternative tools and approaches may be the root cause of overworked accounting teams continuing to rationalize the usage of Excel for financial reporting, and postpone addressing the lifesaving addition of a centralized Report Writing tool.

An Alternative Universe

In this last scene of our story, we pivot to an alternative universe, where instead of going down that harrowing road, our company foresaw the immense risk, inefficiencies, and inability to adapt and scale in using Microsoft Excel for reporting, and instead chose a different path.

While Excel is technically free from a procurement cost, the organization realized the potential massive real costs (risk and operational) of continuing to force its shortfalls into a Reporting platform. A cost-effective software tool designed to enhance their legacy system called ReportFYI (from FYIsoft) was the clear path. The financial reporting software was ideal for multi-entity and fast growing companies, much like themselves.

So how did this help our company avoid the horrendous outcome from the Audit results and restatements?

It's ironic that those most likely to rationalize the usage of Excel for financial reporting are the overworked accounting teams that could stand to benefit the most from the lifesaving addition of a centralized reporting tool.

What if we did things differently?

Consider leveraging newer technology designed specifically for financial reporting rather than trying to force-fit Excel into a shoe size it was never meant to wear.

With FYIsoft, those messy spreadsheets are replaced with organized, auditable, and accurate financial statements.

- Consolidation was easy and accurate, thanks to the design of ReportFYI. The component-based architecture was logical and effortless to setup a “mix-and-match” design to every Financial Statement. Rows, columns, and organizational definitions were intuitive to create and maintain, and have on the shelf ready to reuse as new report requests surfaced.

- Reporting was flexible and easily integrated with the legacy ERP system, and consolidated perfectly converted foreign operations by using the CurrencyFYI function.

- As a result of the layout, Financial Statements were perfectly designed for every stakeholder. What about the Private Equity reporting requirements that needed to be integrated into their portfolio? No worries – the requirements were no match for their flexible templates and reporting was completed and distributed on time, every time.

- Close and Financial Statement distribution was lightning fast. Departments and stakeholders received their cloud-based reporting within days (or even hours) of close, rather than weeks afterwards. Trust in the numbers as “one version of the truth” was at an all-time high. Accurate and actionable information was available and used consistently. Collaboration between stakeholders was fluid – using tools that exported financial reporting with just a few clicks.

- Reporting with ReportFYI was highly transparent. Licensed users were able to drill through their financials in a secure, web-based environment. Department managers could find answers themselves, rather than constantly calling accounting every month.

- The Accounting and Finance Departments remained lean and efficient as a result of a robust reporting infrastructure that used ReportFYI as a turnkey solution.

- Report distribution was secure and surgically accurate. Through the use of a powerful Distribution Lists function, accounting was assured that users could view only the financial reports that they were assigned to.

- External auditors were empowered to easily review controls and reporting framework, resulting in a consistently beautiful and coveted Unqualified Opinion – meaning “clean reporting.” Debt Covenants were followed, and regulatory reporting was followed. Stakeholders were happy and satisfied.

- The unbridled growth of our company was not constrained by pedestrian and archaic reporting processes. ReportFYI easily facilitated an ever-growing Chart of Accounts, organizational structures, geographic footprint and expanding reporting needs.

Conclusion

Excel remains on the throne of our must-have tools in accounting and finance. Like that Swiss Army knife, most of us cannot imagine performing our jobs without it.

Like you, we will continue to use our beloved Excel today, tomorrow, and into the foreseeable future. But when it comes to preparing those official reporting documents that our executives, Board members, auditors, and all stakeholders rely on, our own ReportFYI becomes our beloved go-to.

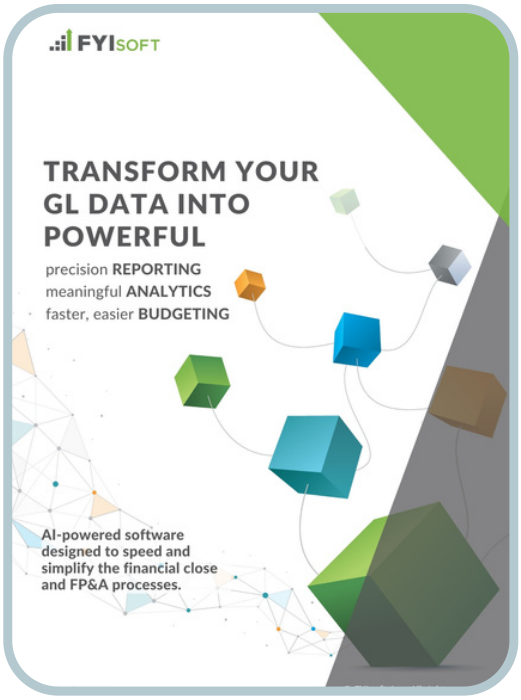
ReportFYI was designed for all the needs of today's growing organizations: ever-increasing scale, complexity, change, and speed - all in a simple-to-use software that is thoughtfully designed for accounting and finance professionals.

Sure, you can continue to rely on Excel or Excel-based report writers but dangers may be lurking ahead.

After reading this eBook, don't say we didn't warn you.

FYIsoft

The FYIsoft team



About FYIsoft

FYIsoft provides reporting and FP&A software that leverages AI and financial expertise to deliver solutions that are easy to use, fast to implement, and loaded with robust functionality to enable:

Reports and financial statements that are accurate, fast and easy to generate from any GL.

Analytics that are brilliant and forward-thinking.

Budgets that are based on sound assumptions, void of manual errors and easy to change.

All resulting in an impressive ROI for our customers. Learn more at FYIsoft.com.

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