



AUTOMATING FAS 109
Lessen Anxiety,
Free Up Valuable Time

Although spreadsheets are great tools and taking certain steps can improve their accuracy and effectiveness, relying on them to calculate increasingly complex tax provisions ignores an inherent weakness.

The propensity for provision spreadsheet errors increases in direct proportion to the number of people involved in creating the spreadsheet and the number of years it has been used. Recently, an electronics company with hundreds of entities throughout the world wanted to migrate from spreadsheets to one of the many FAS 109 software packages now available. Before completing the migration project, the company reached

a quarter close and needed to use its legacy spreadsheets to prepare its provision. In the middle of the

close, the tax department discovered that a federal net operating loss (NOL) related to a subsidiary was incorrectly stated. On one spreadsheet tab, the NOL was multiplied by the federal rate. The calculated amount was carried to another tab where, once again, the result was multiplied by the federal rate. Deferred tax assets were understated by \$20 million, raising issues internally and with the company's external auditors.

Instead of reviewing cells and formulas, why not spend time thinking through and improving processes?

Moving away from spreadsheets

Clearly, no organization will ever completely abandon the use of a spreadsheet tool to help with the provision. Certain M-3 calculations will always need supporting detail. The place for that is in a spreadsheet. Even FAS 109 software packages use spreadsheets to import and export data to and from various places.

But it is now time to consider an automated approach to provision preparation.

Automating the process and using a FAS 109 software package accomplishes two things. First, it removes much of the anxiety around the provision preparation. Most of the available software packages have no formulas or cells that can be overridden. If a number is input into the system, that number will appear somewhere on one of the reports. It cannot be hidden, missed, or modified, as so often happens in a spreadsheet tool. Second, it frees up time in the tax department to focus on more important issues than modifying formulas and making sure all cell references are still valid. Unfortunately, no matter how rigorous

a spreadsheet review is, in all likelihood, it still will not be perfect.

Instead of reviewing cells and formulas, why not spend time thinking through and improving

processes? Why not focus on the result? The time saved by using an automated FAS 109 software solution can be better used analyzing the provision results or considering the impact of various means by which the effective tax rate can be lowered.

Steps to a successful implementation

No matter what size the tax department is, putting spreadsheets aside is not an easy task. Due to spreadsheet "ownership" issues, tax department personnel may feel comfortable using the spreadsheets and apprehensive about moving to a different approach. Some may be uncomfortable having others take a too-detailed look under the hood for fear of what they might find.

To convert successfully from spreadsheets to a software package requires two important steps. First, the appropriate buy-in and commitment is necessary from

Jefferson Wells delivers professional services in the areas of risk advisory, tax, and finance and accounting. We serve clients, including Fortune 500 and Global 1000 companies, through highly experienced professionals working from offices worldwide.

To learn more about our firm and our professional services, contact your local Business Development Manager or visit our Web site at www.jeffersonwells.com.

Continued on page 2

all levels of the organization. Buy-in must start at the top with the audit committee. Just because the audit committee mandates the conversion, however, does not mean others will support it. Full support must be obtained from the CFO, the treasurer and all members of the tax department. This includes those who prepare tax returns, even if they have little or nothing to do with the provision, because converting to a software package will affect the tax return data flow.

Second, one person in the tax department must be given overall, total ownership of

the spreadsheet implementation process. While this individual cannot do it alone, ignoring this step can doom the implementation plan to failure. It's likely that no decisions will be made and little will be accomplished.

While there are many details to consider, stepping away from legacy spreadsheets can provide more comfort, security and reliability. Who knows? The tax department might even be able to close a day or so earlier and take some vacation.