



White Paper:

Finding the Right Lease/Loan Management System for use with Microsoft Dynamics GP



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Executive Summary

Organizations using Microsoft Dynamics GP that are in the business of leasing goods such as business equipment or motor vehicles need an efficient methodology to process recurring payments from customers. While Microsoft Dynamics GP offers out-of-the-box functionality called “Scheduled Payments”, for both the Receivables and Payables Management modules, third party products can also add more features and functionality on top of Scheduled Payments in Receivables Management to increase efficiency and add value to the processing and managing of leases and loans for customers.

To approach these situations this paper looks into:

1. What functionality exists in Microsoft Dynamics GP now to support lease and loan management
2. What you should look for in order to obtain optimal results within your environment
3. A suggested solution roadmap

Within Microsoft Dynamics GP, standard Scheduled Payments features within Receivables Management offers users the ability to easily create payment schedules with interest rates, payment frequencies, and number of payments, enabling the ability to charge interest to customers while creating the appropriate account distributions to the General Ledger.

Binary Stream’s Lease/Loans Manager adds simple but effective functionality to the existing Scheduled Payments functionality to allow the calculation of “Rule of 78” interest method, enhance inquiries and reporting capabilities, and most importantly, the streamlining of processing payments for schedules.

Objective of this Document

Businesses that use or who are interested in purchasing Microsoft Dynamics GP and that are involved in the leasing of goods or loans processing should be aware of the available functionality that could significantly enhance their business processes. While Microsoft Dynamics GP offers standard Scheduled Payments functionality within both the Receivables Management and Payables Management modules, many organizations have requirements that exceed this standard functionality. This whitepaper will examine this standard functionality as it pertains to business needs and show how, with the Lease/Loans Manager, this standard workflow can be enhanced to meet the needs of organizations with greater leasing and loan operations.

Why should you Read this White Paper?

The theme of the whitepaper is to assist decision-makers in recognizing whether there is a need for Lease/Loans Manager in addition to the pre-existing Microsoft Dynamics GP functionality.

Too often the lease and loan related activities of small and large companies, as they evolve over time, emerge into a clutter of Excel worksheets. They find themselves not able to merge their data efficiently into their accounting systems. The computations required to do extensive leasing and loans management can be very complex and time-consuming. Robust ERP systems are now required to ensure broad accounting and flexible workflow processing is taken into account. Items such as tax calculations, interest types, and varying payment frequencies need to be looked at carefully as they can consume numerous man-hours on spreadsheet manipulation.

One of the most desired requests is to have the ability to access Lease/Loan information at the tip of your fingers, all within one financial management system. It then goes without saying that a clean workflow providing users with ease of use and quick access to data is essential when looking for a lease and loan management solution. Some of the key data requirements are explored and suggested in this document. Items such as outstanding lease/loan balance reporting, interest and principle balance breakdowns, and well structured schedule utilities are addressed. Notwithstanding, flawless accounting distribution calculations such as tax components and commission inclusions are also considered as essentials requirements within the optimal solution.

Who Should Read this White Paper?

This whitepaper was designed for key decision-makers that are involved in the financial management and reporting of leasing or loans operations. From CEOs, CFOs, to Controllers, this whitepaper will help determine the appropriateness of using standard Microsoft Dynamics GP Scheduled Payments functionality over add-on products like the Lease/Loans Manager.

Key challenges addressed by this whitepaper include:

- Deciding & determining the functionality that should be included in a typical Lease/Loan solution
- The ability to use the “Rule of 78” interest rate calculation and additional account distributions to comply with Rule of 78 accounting rules
 - Defining the Rule of 78 interest rate calculation
- The ability to efficiently manage hundreds of recurring AR transactions per month that need to be applied to a lease/loans schedules
- The ability to use weekly and bi-weekly payment frequencies
- The ability to instantly determine the interest when all other variables are known

In this paper, we attempt to fill some of these information gaps and answer some common questions for you.

What is “Schedule Payments”?

Scheduled Payments refers to the out-of-the-box features offered by Microsoft Dynamics GP’s Receivables and Payables Management modules for any type of business that has a need to process recurring AR/AP payments, while having the option to apply interest charges.

Scheduled Payments as it Relates to Leasing / Loan Activities

Whether leasing business equipment or simply offering customers the ability to pay an invoice through monthly instalments, Scheduled Payments for Receivables Management offers standard payment processing functionality. For each AR invoice, a Scheduled Payment schedule can be created with payment frequencies, interest rate, and payment amount. Once you determine these key variables, you can post your schedule and the new the AR documents are created and associated to the original invoice and payment schedule. This functionality allows you to spread out the payment of an invoice over time and charge interest.

Receivables Scheduled Payments Entry

Save Clear Post Delete

Schedule Number: SCHPY0000000000004
 Schedule Description:

Interest Type: Compound Simple Rule of 78

Original Document Number	SALES00000001013	Schedule Interest Rate	10.0000%
Original Document Type	Sales / Invoices	Number of Payments	36
Customer ID	AARONFIT0001	Payment Frequency	Weekly
Customer Name	Aaron Fitz Electrical	Calculated Payment Amount	\$870.49
Schedule Document Date	4/12/2007	First Invoice Document Date	4/12/2007
Schedule Amount	\$27,390.75	First Invoice Due Date	4/19/2007
Currency ID	Z-US\$		

Posting Accounts

Accounts Receivable	000 -1200 -00	Accounts Receivable
Receivables Offset	000 -1271 -00	Accounts Receivable - Canada
Interest Income	000 -7020 -00	Interest Income

Payments Status: Calculate Amortization

Navigation: Schedule Number:

Common applications include:

- Vehicle leasing
- Business equipment leasing
- Truck leasing
- Personal loans
- Business loans
- Employee loans

What is the Rule of 78?

The Rule of 78 is an alternate method of calculating interest payments from the most typical simple interest method. In simple terms, the "Rule of 78" allows leasing party (lessor) to calculate the same amount on a lease as they would if it were a "Simple Interest" type. However, if the lessee were to default on the lease the amount to the lease would be more, since it is front-end loaded with interest.

To assist in further defining the Rule of 78, we find that:

- The standard interest rate found on loans is called "simple interest". You borrow some money and at the end of the period you pay it back plus interest. For longer term loans, you make periodic payments. With some consumer loans, especially with auto loans, you may encounter a different type of loan which mentions the "Rule of 78". It is a different way of

deciding how much of each monthly payment is interest and how much is principal.

If you do not terminate the loan early, simple interest loans and the Rule of 78 loans will be equivalent. You will pay the same amount and get the interest rate quoted. However, if you pay off the loan early, you will end up paying more interest with a "Rule of 78" loan than with the corresponding "simple interest" loan.

- When lenders use the Rule of 78, they distribute the total finance charge over all payments but charge more interest early in the loan term and less later, compared with other methods. The Rule of 78, also called "the sum of digits method," gets its name because the sum of digits 1 through 12, the months in a one-year loan, equals 78.

Here's how the Rule of 78 works for a 12-month loan: You pay 12/78 of the total finance charge the first month, 11/78 the second month, 10/78 the third month, and so on. The Rule of 78 applies the same way for long-term loans. For example, a 24-month loan - where the sum of the digits for months 1 through 24 is 300 - would have a first month's interest of 24/300, second month's interest of 23/300, and so on. Interest on a 36-month loan would be broken into 666 parts.

What is the "Lease/Loans Manager"?

The Lease/Loans Manager is a solution offered by Binary Stream developed exclusively for Microsoft Dynamics GP. This solution was developed after it was discovered that Scheduled Payments for A/R functionality in Microsoft Dynamics GP required additional features.

Developed using Dexterity, Lease/Loans Manager offers these key embedded features:

- Rule of 78 Interest Rate calculations and additional account distributions
 - Mass cash receipts processing
 - Weekly and bi-weekly payment frequencies
 - Client/Invoice mailing capabilities
 - Unique Scheduling functionality
 - Enhanced inquiries for viewing amortization schedules and payment status along with in-depth reporting capability
 - New inquiry window for all schedules that can export to Excel
 - Strong workflow engine
 - Seamless integration to GP
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Lease Loan Management Processes in Scheduled Payments

Within Microsoft Dynamics GP's Scheduled payments offers lease and loans managers a robust financial solution with a basic lease and loan management workflow. In the discussions below we look at the four-step process that most companies use and highlight some of the key areas where Binary Stream's enhancement makes a difference.

1. Create an AR transaction
 - a. This step allows users to generate an actual invoice which will in turn be scheduled through Scheduled Payments.
2. Create a schedule and post it
 - a. By creating a schedule, users will be able to access the associated individual documents. The amount of documents created is dependent on the payment frequency used in the GP environment. Binary Stream has added additional payment frequencies.
3. As payments are physically received, you can post the related AR documents associated to the schedule.
 - a. This allows users to view all of the associated documents to a scheduled invoice.
 - b. There are a couple of major challenges which result from the out-of-the box scheduled payments. One of the challenges is not having the ability to send individual invoices (the actual related document for that owed payment period/due date). Binary Stream approaches the issue in a fashion that would allow users to send off the actual dated document as an outstanding invoice to their clients.
4. Create a cash receipt transaction and apply the payment to the AR document
 - a. One of the biggest problems seen in a leasing environment is to "quickly" process the cash receipts on a given due date. Binary Stream allows the processing of payments in batch methodology for scheduled documents.
 - b. Additionally cash receipts currently cannot be done in a clean manner in GP for EFT transactions.

The most notable feature associated with processing/applying cash to the (posted) scheduled documents is that only one customer can be processed at a time. This can cause many delay problems. Imagine receiving 1000 leases at the end of the month and having to process them all. This means you must open each document one by one and apply cash to each one individually. This is a repetitive and lengthy process, but it is one that is absolutely necessary when managing lease and loan activities. Binary Stream has addressed this issue through the use of the "Mass Cash Receipts Utility" as discussed below.

Easing the “Workflow” of Scheduled Payments – Mass Cash Receipt Utility

Companies look for ways to be more effective and productive. When applying payments to hundreds of schedules on a monthly basis, the standard GP functionality workflows are cumbersome. Because of this there is great value in streamlining this process of applying payments to lease and loan schedules. One of the many functions that Binary Stream added to assist in managing Leases/Loans is the “The Mass Cash Receipts Utility”. This functionality was developed by Binary Stream for organizations that process hundreds of schedules per month. Rather than following the standard process of applying payments to schedules, the Mass Cash Receipts window allows users to process payments for multiple payment schedules all in one window for multiple customers all at once.

The process is simple:

- As payments are received,
- AR staff need only to enter the payment information in this one window
- The software will automatically post the appropriate AR documents, create and post the appropriate cash receipt,
- Furthermore it will apply the payment to the AR document.

Customer ID	Schedule ID	Due Date	Payment Amount	Amount Remaining	Amount Paid

Depending on the number of cash receipts this simple batch processing methodology can save numerous hours of processing time. With average time

saving of two minutes per receipt, the larger the processing job the greater the benefit.

What “features” are required to provide strong ROI for a Lease/Loans Management environment?

The need for enhanced Scheduled Payments functionality is simple. Any organization that has one or more of the following requirements would be candidate for Lease/Loans Manager.

- Ability to use the “Rule of 78” interest rate method, with the flexibility to offer and calculate various Interest types.
- Weekly or bi-weekly payment frequency calculations included. Currently Microsoft Dynamics GP offers semi-monthly and greater. The Binary Stream solution has added weekly and bi-weekly adding more frequency.
- Do companies have that continued touch with their clients?
 - Ask Yourself:
 - How do you invoice your clients on a regular basis?
 - Can you assume the client know they should pay on time?
 - Do you have a system that provides integrated mailing functionality?
 - What information do you want to send to your clients?
 - How often do you need to reach out to your clients?
 - Does your existing system automatically do it for you or is there some manual process involved?
- Need flexible reports that can export to Excel for further analysis.
 - Keeping in mind that the main reason many people examine moving to Integrated systems, the last thing that should be examined is the need for excel. However, Excel is a strong tool and if used properly, data can be exported to it in order to utilize functionality such as data cubes and so on. A strong integrated solution with export capability is recommended.

Can you get a good “ROI” for an integrated system?

Consider a business that has 1,000 schedules that are billed on a monthly basis. A two minute saving per cash receipt would equate to the following savings in hours per year:

$$1,000 \times 2 \text{ minutes} = 2,000 \text{ minutes} = 33.33 \text{ hours}$$
$$33.33 \text{ hours} \times 12 \text{ months} = \sim 400 \text{ hours saved per year}$$

If this business pays \$20/hour for someone to process these payments, this would equate to an \$8,000 savings per year in salary expenses.

What else do you need to know about Lease/Loans Manager?

- ⇒ Lease/Loans Manager is only available for the Microsoft Dynamics GP Receivables Management module at this time
- ⇒ Payables Management functionality can be offered for customers that deal with multiple AP leases or loans
- ⇒ Additional payment frequencies and customized schedules can be added. For example, some businesses may want to offer promotions on financing agreements such as “first 3 months free”.
- ⇒ Special payment customized schedules can be created. Let’s assume, some businesses may want to offer Leases/Loans on financing agreements such as predetermined months should not be taken into consideration in the Amortization Schedule. A good business example of this applies to teaching environment. Sometimes Teachers “need” special schedule as they do not work summer months.
- ⇒ Lease/Loans Manager does not work with the Sales Order Processing module at this time
- ⇒ This product can only be purchased through your Microsoft Dynamics GP Value-Added Reseller (VAR). However, Binary Stream can be contacted directly to answer questions, demo requests, and provide pricing information. Pricing is dependent on the total number of Microsoft Dynamics GP users

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