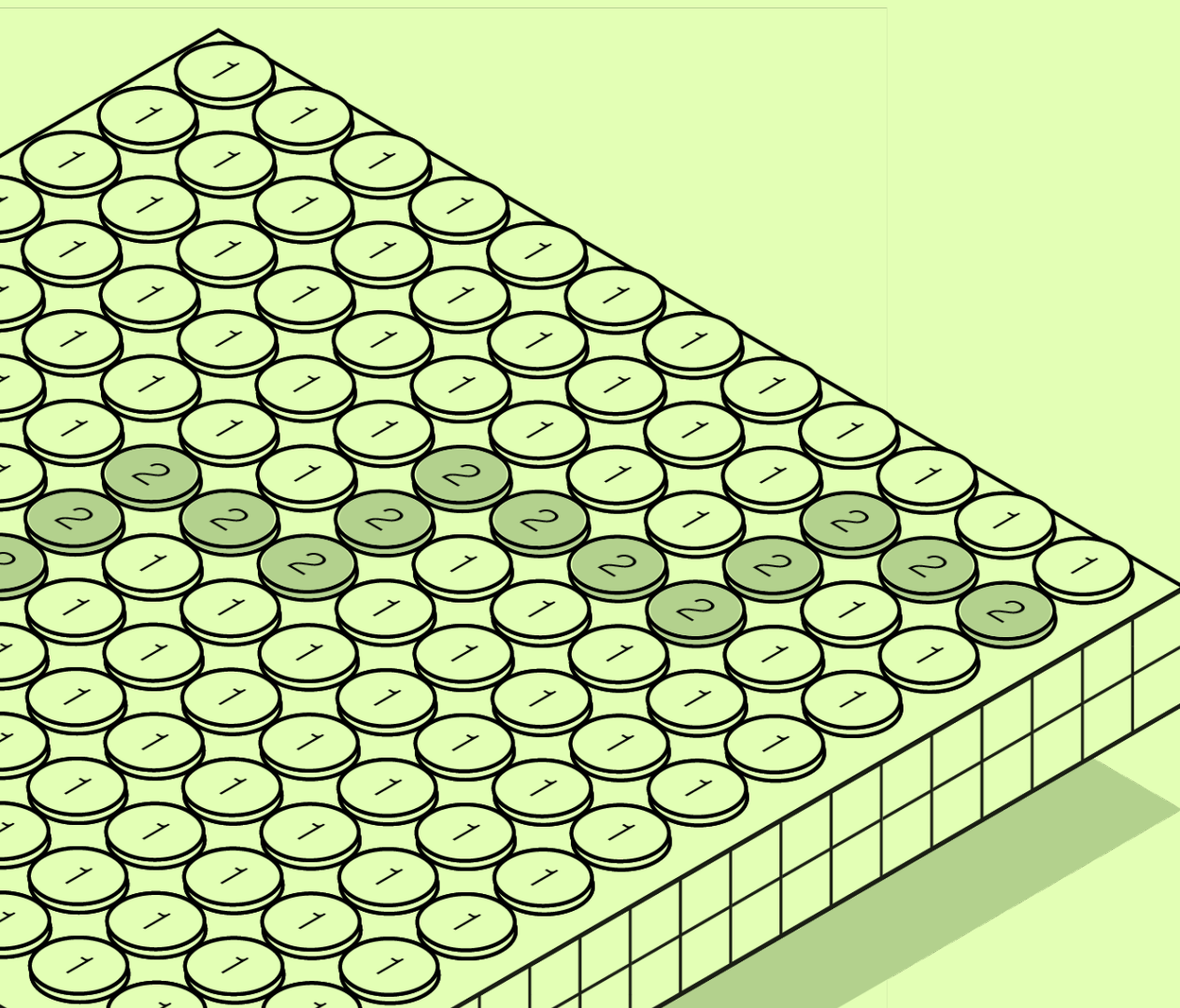


Automating IFRS 16 Compliance with AI



IFRS 16: A New World

IFRS 16 has been in effect since January 1st 2019, and it would not be an exaggeration to say that many organizations were caught completely offguard, and are still catching up.

The requirements of IFRS 16 – specifically the need to re-examine all leases within the organization, ensure compliance across the board, identify embedded leases, and stay on top of any changes to existing leases – mean that organizations have had to completely re-look at the way they manage their leases, and in particular how they account for such leases.

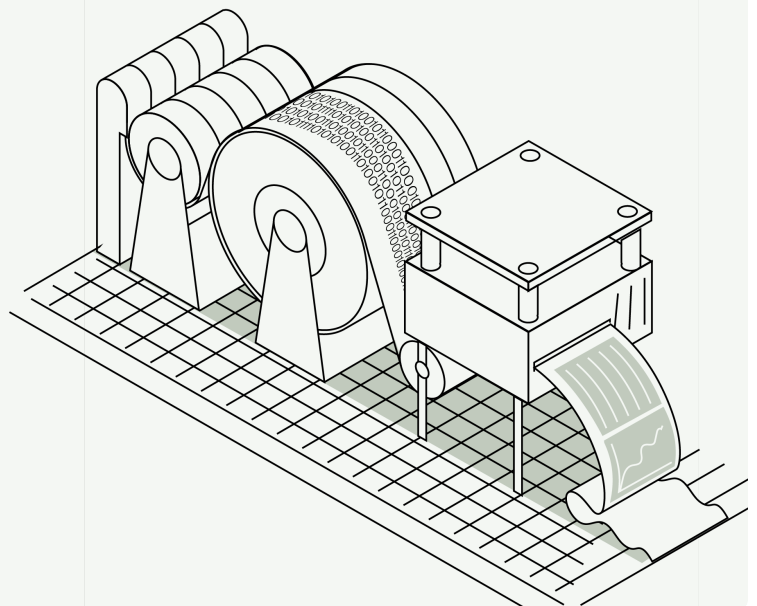
Many accounting teams assumed they could continue to relate to their leases the way they had done under IAS 17, with a few adjustments. With the full force of IFRS 16 coming into effect, this approach is quite clearly no longer viable.

With so much more resources required to ensure compliance with IFRS 16, what's the answer for already-stretched teams with seemingly yet another hoop to jump through on the way to a clean audit?

The secret lies in automation. Automation is the ideal answer for professionals wanting to ensure compliance while minimizing errors; and avoid manual, time-consuming and resource-draining work.

In this Paper we'll examine what automation really means for IFRS 16 compliance, including best practices, and what the very best lease automation software solutions can offer your business. But first, a bit of history.

Why We're Here: A Short History of IFRS 16



Before we jump in, it's informative to understand how we got here. In January 2016, the International Accounting Standards Board (IASB) replaced the previous lease standard, IAS 17 – together with IFRIC 4, SIC-15 and SIC-27 – with IFRS 16, Leases.

Officially, IFRS 16 aimed to “(a) faithfully represent lease transactions and (b) provide a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.”

To do this, companies would need to recognize a right-of-use asset and a lease liability; crucially, this meant that all leases would now be represented on the balance sheet.

This is in contrast to the previous standards, which allowed for operating leases for example to be expensed through the income statement.

Part of the reason for this change was a series of accounting scandals that rocked the business world in the 1st decade of the 21st century, including those relating to Enron and WorldCom. The methods used to take advantage of loose accounting requirements included the controversial use of “off balance sheet” financing, as well as the fact that minimal disclosure was required for operating leases.

What this means for companies like yours is that all leases (bar very few exceptions, such as when the underlying asset is of low value) now appear on the balance sheet, have to have full disclosure around them, and due to the change in standards, many contracts previously not classified as leases may actually come under the purview of IFRS 16 and have to be accounted for as such.

This has created some serious headaches: every contract may contain a lease element; a small change to a lease contract has a massive knock on effect throughout the financial reporting process; and external stakeholders such as auditors and investors will want clarity in terms of your lease situation.

The Challenges of IFRS 16 Compliance

IFRS 16, while providing much-needed consistency and visibility, also contains a number of hidden risks for companies.

Embedded leases

An agreement doesn't have to be named a lease in order to contain elements consistent with a lease. In other words, a contract can include a lease even if the word "lease" is not mentioned once. Consistent with the principle of "economic substance over legal form," IFRS 16 sets out what conditions need to be met in order for a lease to exist.

Such a situation, where a contract contains a lease without actually specifying so, is called an embedded lease (though the term itself is not actually used in IFRS 16.) It is particularly important to identify such leases, as they are not obvious but can have a significant impact within the framework of IFRS 16.

Lease modifications

A lease modification can apply in a number of circumstances, as defined in IFRS 16. A lease modification can include a change to the scope of lease, the consideration for a lease, or the conditions of a lease.

Lease modifications are either accounted for as a separate lease, or as a modification to the existing lease, depending on criteria defined in IFRS 16 44-46.

What's important to note is that a modification can result in the remeasurement of the lease liability and right-to-use asset on the balance sheet.

Communicating with stakeholders

Multiple stakeholders are affected by the changes brought in with IFRS 16. These include stakeholders such as investors who look at key financial ratios, stakeholders such as employees whose KPIs might be affected thanks to numbers changing as a result of the new standard, those valuing the business, and so on.

Communicating with stakeholders can be especially difficult when data is scattered across spreadsheets, with limited visibility to different stakeholders.

The impact of keeping up-to-date

With so many contracts scattered across the organization – even in smaller entities – the challenge of keeping up-to-date with leases is a pressing one. This includes not only existing leases but potential leases, changes to existing leases, and so on.

Making matters worse is that many non-accounting departments are not aware of the requirements of IFRS 16, leading to lease contracts that “fall through the cracks.”

This is in addition to the lease-related challenges of estimations, subsequent measurement and remeasurement, dealing with direct and indirect costs, impairment testing, implicit rates and incremental borrowing rates, and disclosures.

In summary, IFRS 16 compliance is going to become a key focus area, from both an internal and external perspective. Dealing with these challenges should therefore be the highest priority for those involved with leases.

Where Automation Comes in

The challenge of keeping all leases up-to-date, visible to stakeholders from the CFO to the auditors, compliant with new standards, and errorfree, is vast.

Sure, we all use Excel to handle calculations – including leases – and it will likely have a part to play in future, too. But to be truly efficient, an automated solution for IFRS 16 is required.

Let's demonstrate this with an example.

Your company, Anvil Ltd. leases office space from The Hammer Group. You decide you might want to change an estimate regarding the lease term. Previously, this change would not have been too big of a deal.

Under IFRS 16 however, this could be a lease modification and thus a reassessment of the lease liability is required. Numerous updates are now required, including:

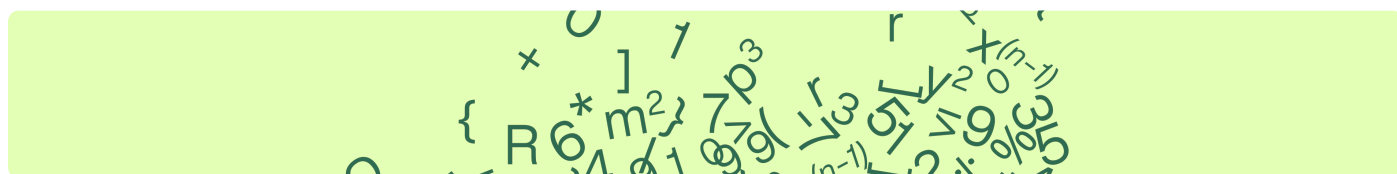
- The actual lease calculations
- Journal entries
- Disclosures
- You'd have to update multiple parties, for example as financial ratios will have changed

Updating a spreadsheet, and then going through all of these different steps and making changes individually to each one, can be time-consuming at best and punch-your-screen at worst – especially when the pressure is on before an audit, for example.

Now imagine changes like these happening on multiple fronts, for example across your fleet of leased vehicles, in your IT department, operations... the list just increases, as do your folders of contracts (whether PDFs or paper.)

You can clearly see the advantages of automation, and specifically of automated lease accounting software.

As opposed to the previous situation, imagine the following: you upload all your operations-related contracts as PDFs. The system automatically scans them, and uses Artificial Intelligence (AI) to identify key data points such as dates and amounts. It automatically updates all lease calculations, journal entries and disclosures. All while you sip your flat white.



Let AI Lead Your IFRS 16

Trullion offers AI-enhanced lease automation software built specifically for IFRS 16 compliance. In fact, in accelerating your IFRS 16 compliance, Trullion offers to get you up and running and completely streamlined in under 30 days.

The benefits are tremendous, and include:



Completely automated IFRS 16 workflows

If you had to choose your most precious resource, you'd probably choose your time. With Trullion automating your IFRS 16 workflows, you get compliance, eliminate errors and streamline operations in just a fraction of the time it would take without Trullion's lease accounting software in place.



A clear audit trail

Trullion not only automatically extracts key data from source files such as Excel documents or PDFs, but it simplifies journal entries, thus creating a clear audit trail that's accessible to both your internal team and external auditors.



Consistency across your team

Using AI-enhanced technology, Trullion offers your business one unified source of truth when it comes to leases – empowering leaders to make the best decisions.

If any of these are important to you, then Trullion's automated lease accounting software is perfect for your business:

- Seamlessly meet IFRS 16 compliance requirements.
- Accelerate your IFRS 16 adoption timeline.
- Produce 100% accurate and consolidated reports in minutes.
- Effortlessly trace your audit trail back to the source data.
- Access simple reports and clear financial schedules.

For more information, and to see how easy it is to get automation working for you, get in touch with Trullion today.

About Trullion

Trullion is an AI-powered accounting platform that automates financial workflows for CFOs, Accountants, and Auditors to increase efficiency, prevent costly oversights, and drive collaboration. Our Platform unifies the unstructured and structured worlds of accounting, translating them into financial workflows and giving you back your time, with confidence.

