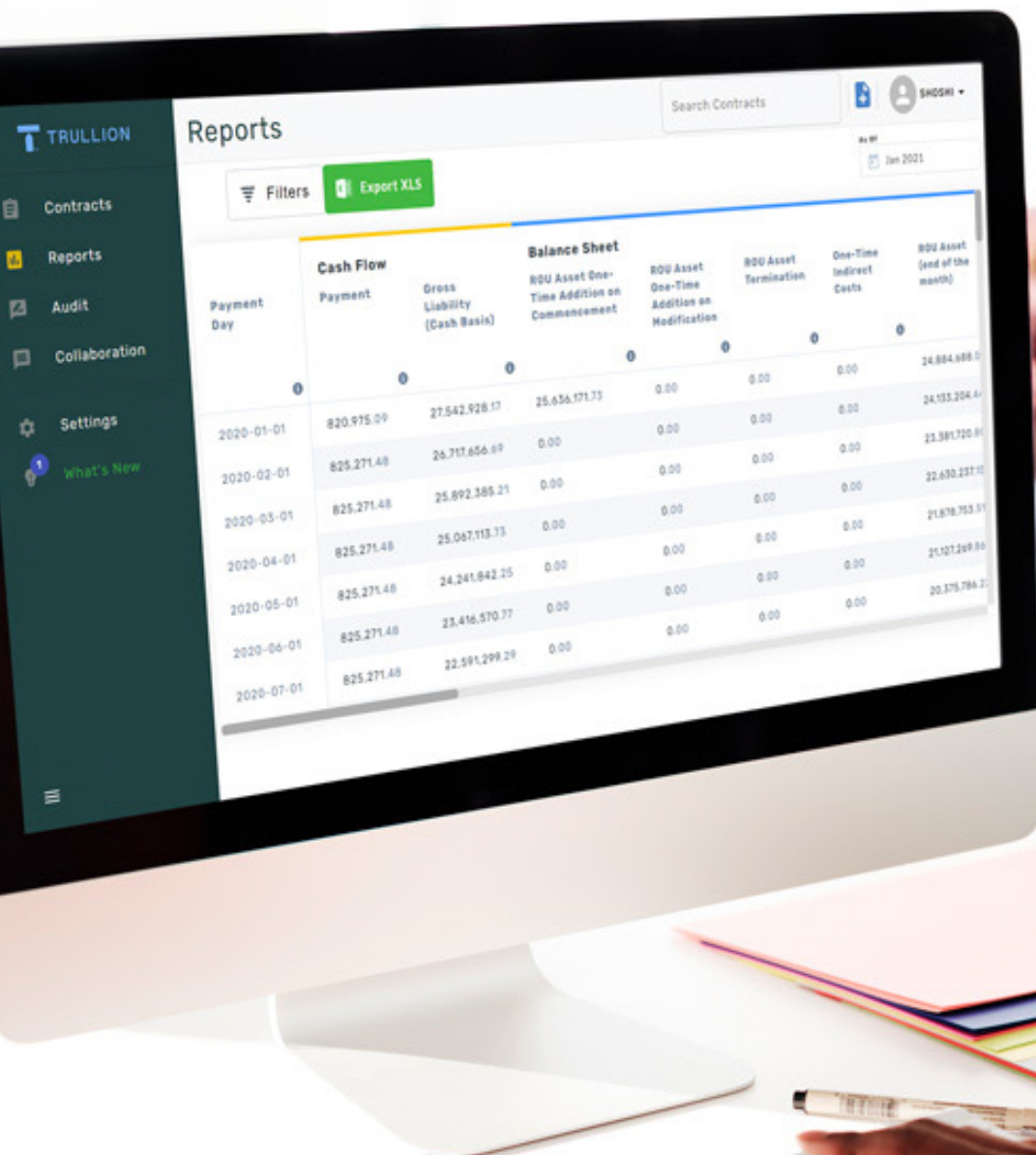


2022 Report

The Future of ASC 842 Is AI-Powered: A New Era of Lease Accounting



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Payment Day	Cash Flow		Balance Sheet				ROU Asset (end of the month)
	Payment	Gross Liability (Cash Basis)	ROU Asset One-Time Addition on Commencement	ROU Asset One-Time Addition on Modification	ROU Asset Termination	One-Time Indirect Costs	
2020-01-01	820,975.09	27,542,928.17	25,656,171.73	0.00	0.00	0.00	24,884,688.00
2020-02-01	825,271.48	26,717,656.69	0.00	0.00	0.00	0.00	24,133,254.48
2020-03-01	825,271.48	25,892,385.21	0.00	0.00	0.00	0.00	23,381,720.96
2020-04-01	825,271.48	25,067,113.73	0.00	0.00	0.00	0.00	22,630,237.48
2020-05-01	825,271.48	24,241,842.25	0.00	0.00	0.00	0.00	21,878,753.96
2020-06-01	825,271.48	23,416,570.77	0.00	0.00	0.00	0.00	21,127,270.48
2020-07-01	825,271.48	22,591,299.29	0.00	0.00	0.00	0.00	20,375,786.96



Introduction: The ASC 842 Deadline Is Here

It's here. From next year, private companies are going to have to implement ASC 842, the latest lease accounting standard. For many, there are mixed emotions: uncertainty about the future, relief that after so many delays there is now clarity, and even - dare we say - a certain excitement that accountants, CFOs, and controllers can now confidently move forward, and use this new standard to kickstart improvements they've been wanting to make for a while.

For others, this news may inspire a sense of dread. A feeling of being unprepared, uninformed, and unsure of what to do next. To those of you, we say: not to worry. As experts in ASC 842 implementation, and being at the cutting edge of technological innovation, we've seen how quickly organizations can get ASC 842 compliant, and you still have time (although not too much!).

In this paper, we'll explore together some of the challenges faced by those similar to you across industries, and what leaders in the field are doing to address these challenges - and come out stronger and better prepared for the future.

We'll discover interesting facts, learn about AI-powered accounting, see how automation can make our lives so much easier, and a whole lot more. Let's get started!

A Quick Summary Of ASC 842

Topic 842, commonly known as ASC 842, is the Financial Accounting Standards Board's new Lease Accounting standard that replaces ASC 840, the old accounting standard for leases. It presents a number of fundamental changes to how organizations account for leases, including but not limited to the definition of a lease, the requirement to bring leases onto the balance sheet in the form of a new asset and liability, and a comprehensive set of disclosure requirements.

ASC 842: The Day After Implementation

What's unique about ASC 842 is that this new lease accounting standard impacts so many different areas of a business. What's more, in its full implementation, its repercussions are felt far beyond the boundaries of the accountants' offices. Those affected include:



Investors and analysts

Notwithstanding the fact that more sophisticated investors and analysts will be alive to these changes, financial reporting is going to look different, disclosures are going to look different, line items on the income statement and balance sheet are going to look different, and key financial ratios may well be affected. New assets and liabilities will be created and comprehensive disclosure requirements ensure that companies report on the full extent of their lease liabilities.



Department heads

It's clear from those who have already implemented ASC 842 that the accounting department cannot ensure compliance alone. What's required is collaboration between the various departments and the accounting team to ensure that all leases are identified and dealt with correctly. This is especially important in the case of embedded leases.



Auditors

With ASC 842 coming into effect officially for all privately held companies (it's already in force for public companies,) auditors will want to focus on this area to ensure that they have faithfully performed their duties in relation to these new requirements. Specifically, auditors are likely to spend significantly more time looking for leases that have not been correctly identified, or subsequent changes to lease conditions that have not been appropriately dealt with.

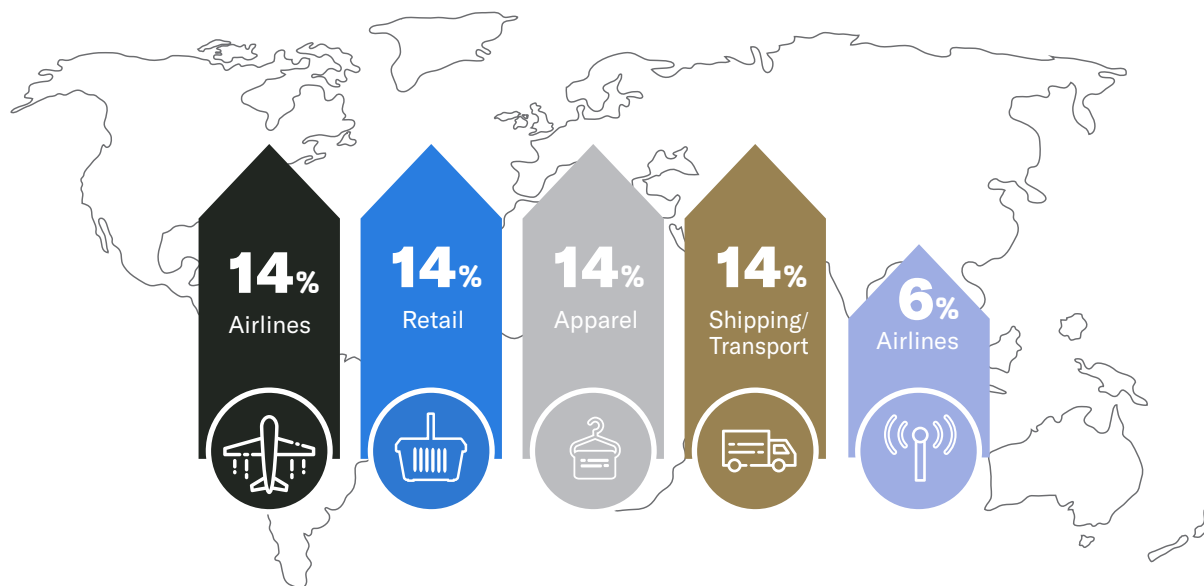


Other stakeholders

Stakeholders such as employees, regulators, and suppliers are also affected by these changes, albeit indirectly. For example, employee remuneration may be tied to certain financial ratios, which are likely to be impacted by the changes demanded by ASC 842.

Expected increase in total assets by industry

According to research by EY, IFRS 16 – which bears many similarities to ASC 842 – is expected to drive the following changes in total assets:



The “Day after implementation” theme is critical here. In order to ensure ongoing compliance, it means new processes, new ways of doing things, and new pitfalls to look out for.

Challenges, Changes and A Chance To Gain An Advantage

There's no doubt that the implementation of ASC 842 has posed - and will continue to pose - many challenges. It's a sweeping Topic that changes the very definition of a lease. Implementing ASC 842 essentially means going over almost every single contract to check there is no lease explicitly or implicitly written into the contract, as well as going over monthly payments to ensure that none of these might be lease-related per the definition according to ASC 842.

Trullion research shows the massive challenges and potential resource drain involved in manual compliance:

Expected total time spent on fully transitioning to ASC 842 compliance



175 days

Without automated lease accounting software

VS



30 days

With Trullion automated lease accounting software (maximum)

Expected cost of transitioning to ASC 842

Expected minimum amount spent on fully transitioning to ASC 842 compliance without automated lease accounting software based on [PWC](#) research

Revenue over \$1bn:

42% will spend over \$250k



20% over \$500k



Revenue over \$100m:

14% over \$250k



4% over \$500k



Revenue less than \$100m:

8% over \$250k



According to the survey, if you have over 500 leases, you're likely to need to spend over \$500k to ensure ASC 842 compliance, if you don't use automated lease accounting software.

A new standard always brings uncertainty - especially before the financial statements have been audited. One can be forgiven for thinking, "I hope I'm doing this right." The consequences of non-compliance can be painful; from qualified financial statements to increased audit cost, late nights at the office, additional stress and pressure - and perhaps worst of all, huge amounts of time spent just trying to get fully ASC 842 compliant.

Like every cloud, this one too has a silver lining. Inherent in the requirements of ASC 842 is the opportunity to strategically take your organization to the next level. How can the accounting function drive this?



Create inter-departmental synergies

In many organizations, the accounting department is in its own silo. Each department is also isolated from the others, to varying degrees.

In implementing ASC 842, the accounting department must meet with other department heads and deepen working relationships. This is one of the most effective ways to ensure that there is broad understanding of a lease definition, according to the new approach, across the organization; that other departments are enlisted as allies in the quest for full ASC 842 compliance; that department heads understand the challenges faced by the accounting department and appreciate their efforts; and that each department can report back on methods and best practices in identifying lease agreements.



Let the accounting function become a value driver

For too long, the accounting department has been seen as a cost center, rather than a value driver. The implementation of ASC 842 is a golden opportunity to show how the accounting team can be a huge asset to the organization. In implementing ASC 842, accounting teams have to interface with all departments, as we just saw; they have to synthesize large amounts of information and present these in an easy-to-digest manner; and perhaps most importantly, instead of just expensing lease payments through the income statement as was previously allowed, accountants now drive a process where a more realistic picture of a company's assets and liabilities - and therefore future prospects - is presented.

Accountants can spot inefficiencies: for example where certain departments are getting worse lease conditions than others; they can be sounding boards for other departments when negotiating lease agreements; they can identify red flags, large embedded liabilities, and other issues early; and they can advise senior management on strategic decisions given their unique viewpoint at the heart of the organization.



Gain strategic visibility

Of course, company leadership do not want to wait for annual or quarterly results to be officially released before making strategic decisions. Of course they review management accounts and dashboards, but the approach of ASC 842 ensures that leaders have an ongoing, accurate and strategic view of the organization as a whole. Leases are pervasive - they exist in almost every sphere of operations, from office space to IT. Accounting for leases according to the new standard adds tremendous value in terms of this visibility. Because accountants are the ones preparing this information, they can also add to the strategic visibility encouraged by ASC 842 and give real-time feedback and early warning of anything falling outside usual parameters.

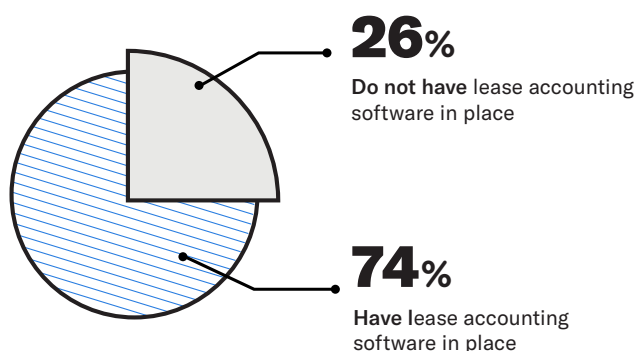
The Future Is Now: AI And Automation

All of this is incredibly positive, in theory. However the gap between the intention to implement ASC 842, and its actual rollout, can be wide.

In this regard, ASC 842 has been crucial in heralding a new era in accounting; one driven by artificial intelligence (AI) and automation.

For example, manually accounting for dozens, and sometimes hundreds or even thousands of leases is just not tenable. Then there are changes and modifications which make things even more complicated, not to mention changing requirements and updates to existing regulations. Excel spreadsheets are great, but they can only take one so far. There is no doubt that for the vast majority of organizations, a technological advancement is required in order to cope - nevermind remain 100% compliant.

Based on a **Deloitte** [survey](#),
percentage of companies that have dedicated lease accounting software in place:



Enter Trullion

Trullion, developed by leading technologists and a team of highly respected CPAs, leverages AI to read and understand leases and sales agreements in any format. Using the latest AI-enhanced technology, the Trullion platform automatically extracts data from source documents such as Excel files and PDFs, simplifies journal entries, and creates a clear audit trail that's accessible to both your internal team and external auditors.

Trullion's proprietary OCR (Optical Character Recognition) software leverages advancements in computer vision and deep learning to read, and process even poorly scanned contracts. This data forms the input for our AI NER (Named Entity Recognition) engine to extract insights from. Our approach combines the latest advancements in deep-learning, with domain-specific ontologies to go where no competitor has gone before.

Trullion automates ASC 842 workflows to ensure compliance, eliminate error and streamline operations in a fraction of the time it would take without Trullion's lease accounting software in place.

Companies, and specifically accounting departments, are learning that AI and automation can be game-changers when it comes to areas such as lease accounting.



ASC 842 Is Here To Stay

There is no turning back. ASC 842 is becoming mandatory, and we all have to live with it going forward. As we've seen however, far from being a burden, this is a fantastic opportunity to take your organization to the next level.

One of the primary advantages to come out of this is the opportunity to implement AI-powered automation for your company's lease accounting requirements. You'll be able to:

- T** Seamlessly meet ASC 842 compliance requirements
- T** Accelerate your ASC 842 adoption timeline
- T** Produce 100% accurate and consolidated reports in minutes
- T** Effortlessly trace your audit trail back to the source data
- T** Access simple reports and clear financial schedules

If you're interested in finding out more or seeing a demo, [get in touch with the Trullion team today.](#)