

Automating ASC 842 Compliance with AI



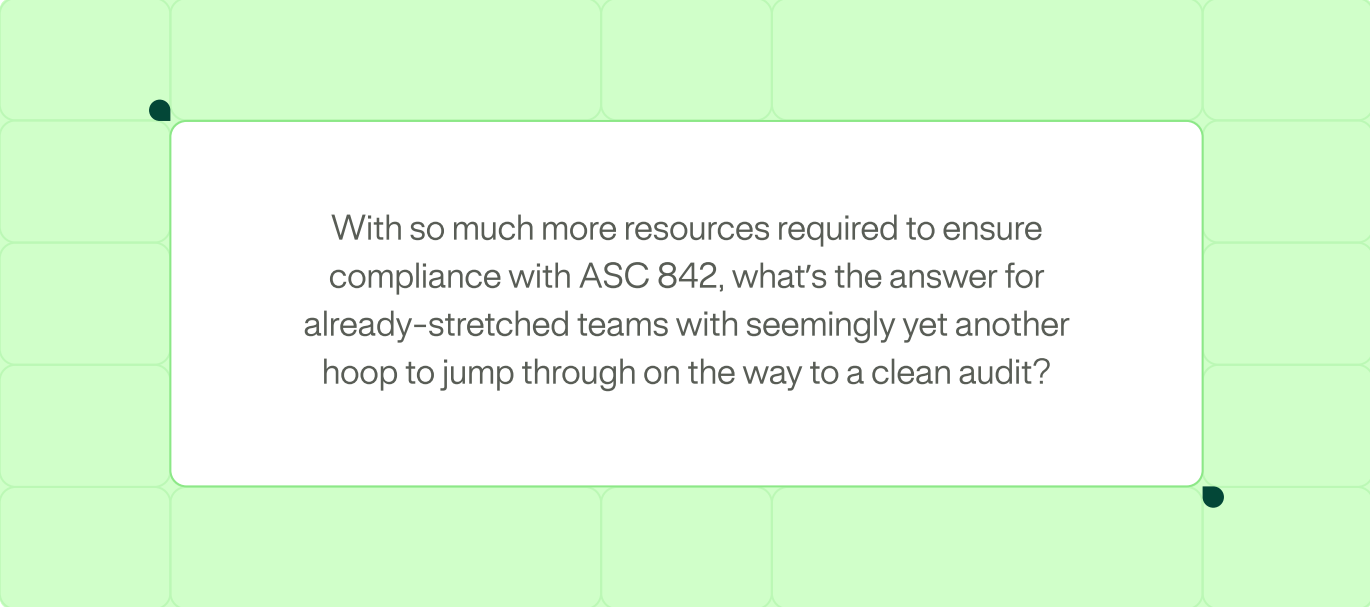
ASC 842

ASC 842 A New World

ASC 842 has been in effect since December 15, 2018 for public companies, and December 15, 2021 for private companies. It would not be an exaggeration to say that many organizations were caught completely off-guard, and are still catching up.

The requirements of ASC 842 – 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 ASC 840, with a few adjustments. With the full force of ASC 842 coming into effect, this approach is quite clearly no longer viable.



With so much more resources required to ensure compliance with ASC 842, 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 ASC 842 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 **ASC 842**

Understanding the history and reasons behind ASC 842 are crucial in applying the standard, or Topic, effectively. Here's a brief history:

Initial discussions and joint project with IASB:

The project began in the mid-2000s as a joint effort between the FASB (Financial Accounting Standards Board) and the International Accounting Standards Board (IASB) to converge U.S. GAAP and International Financial Reporting Standards (IFRS) in lease accounting. This collaboration aimed to address criticisms that the existing standards (ASC 840 in the U.S. and IAS 17 internationally) did not adequately represent leasing transactions in financial statements.

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.

Final standard issued:

After years of deliberation and revisions, FASB issued ASC 842 in February 2016. This new standard required lessees to recognize most leases on their balance sheets, a significant shift from the previous off-balance-sheet treatment of operating leases under ASC 840.

Implementation delays:

Initially, the effective date for public companies was for fiscal years beginning after December 15, 2018. For private companies, it was for fiscal years beginning after December 15, 2019. However, FASB later delayed the effective date for private companies and certain other entities to fiscal years beginning after December 15, 2021, due to challenges in implementing the new standard and feedback from stakeholders.

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 ASC 842 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 **ASC 842** Compliance

ASC 842, while providing much-needed consistency and visibility, also contains a number of hidden risks for companies.

These risks include:

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.

Such a situation, where a contract contains a lease without actually specifying so, is called an embedded lease. It is particularly important to identify such leases, as they are not obvious but can have a significant impact within the framework of ASC 842.

Communicating with stakeholders

Multiple stakeholders are affected by the changes brought in with ASC 842. 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 ASC 842, 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, ASC 842 compliance has 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 error-free, 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 ASC 842 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 ASC 842 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 **ASC 842** Compliance Efforts

Trullion offers AI-enhanced lease automation software built specifically for ASC 842 compliance. In fact, in accelerating your ASC 842 compliance, Trullion offers to get you up and running and completely streamlined in under 30 days.

The benefits are tremendous, and include:

Completely automated ASC 842 workflows

If you had to choose your most precious resource, you'd probably choose your time. With Trullion automating your ASC 842 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 ASC 842 compliance requirements
- Accelerate your ASC 842 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 accounting oversight platform that uses AI to simplify revenue recognition, lease accounting, and audit workflows. It's loved by accounting teams and auditors for lowering risk, making work easier, and getting the numbers right every time.

Trullion is the first platform that leverages the best data infrastructure and AI models into a single source of accounting truth that also offers specialized modules for key accounting roles. Teams in areas like lease accounting, revenue recognition, and auditing can access the platform using a tailored UI while automatically providing the compliant reports and useful insights to their stakeholders.



To learn more about incorporating Trullion's advanced technology into your accounting and auditing processes, connect with Trullion today.

www.trullion.com 

Learn more about meeting today's revenue challenges head-on.

Set up a call with a Trullion product expert.

For more information



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