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Mar. 01, 2024

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In recent years, lease accounting standard ASC 842 has replaced the ASC 840 standard. As per the Financial Accounting Standards Board updated accounting standards, ASC 842 requires that all leases, whether operating or finance, be recognized on a company's balance sheet as right-of-use assets and corresponding liabilities.

Consider the example of a data center lease. Under the lease, company A uses the

Noncompliance with ASC 842 carries significant risks, including financial misreporting, regulatory penalties and a loss of stakeholder trust.

Where artificial intelligence comes in

Fortune Business Insights projects that by 2026, the global accounting software market will be worth $20.4 billion. In 2019, the global artificial intelligence (AI) in accounting market, specifically, was valued at $646 million, according to BCC Research, which projects it to reach $14 billion by 2027.

I believe that AI is going to play an important part in the successful implementation of ASC 842. All companies—whether big or small, public or private—have to implement this new accounting standard. A business might have thousands of leases that are required to operate on day-to-day operations, which means that manually converting each lease item is not a viable option. AI can convert these leases into right-of-use assets in just a fraction of a second.

Incorporating AI into lease accounting processes can significantly enhance efficiency and compliance with ASC 842. Integrating AI into these processes can not only streamline operations but can also ensure accuracy. Successful implementation, however, requires a blend of technology and human oversight. Here are some best practices and insights on effectively leveraging AI in lease accounting, while highlighting the importance of human intervention at critical junctures.

Best practices for using AI in lease accounting

- **Enhancing lease identification.** The initial challenge in lease accounting is accurately identifying new lease acquisition dates, a task often complicated by the lack of explicit information in contracts. AI can assist in this process by analyzing

communication and documentation from both internal and external sources to

incremental borrowing rates — transforms lease schedule creation. By extracting critical data points and applying the appropriate foreign currency rates based on lease terms, AI can not only streamline schedule creation but also enhance the accuracy of financial reporting.

- **Including human oversight in AI-generated schedules.** Despite AI's capabilities, human verification remains crucial. A "human in the loop" approach ensures that lease schedules generated by AI align with contractual realities and accounting standards, providing an essential layer of oversight for compliance and accuracy.

Common missteps when using AI in lease accounting and how to avoid them

- **Over-relying on AI.** One common mistake is over-relying on AI without adequate human oversight. Ensure that your process incorporates regular checks by knowledgeable staff to validate AI's output, especially for complex lease agreements or unique scenarios that AI may not fully comprehend.
- **Underestimating the importance of data quality.** AI's performance is directly tied to the quality of the data it processes. Inaccurate or incomplete data can lead to erroneous outputs. Regular data audits and validations are essential to maintain the integrity of your lease accounting process.
- **Neglecting training and updates.** AI systems, like any software, require updates to stay effective. Failing to keep your AI system and team's knowledge up to date with the latest lease accounting standards and AI advancements can lead to compliance risks.

AI is set to accelerate the implementation of the ASC 842 accounting standard across various industries. Its ability to swiftly and accurately process a multitude of lease items is invaluable. Companies, regardless of their size or current software infrastructure, stand to benefit significantly from AI's transformative potential.

The future of accounting and finance is undeniably intertwined with AI, making it

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