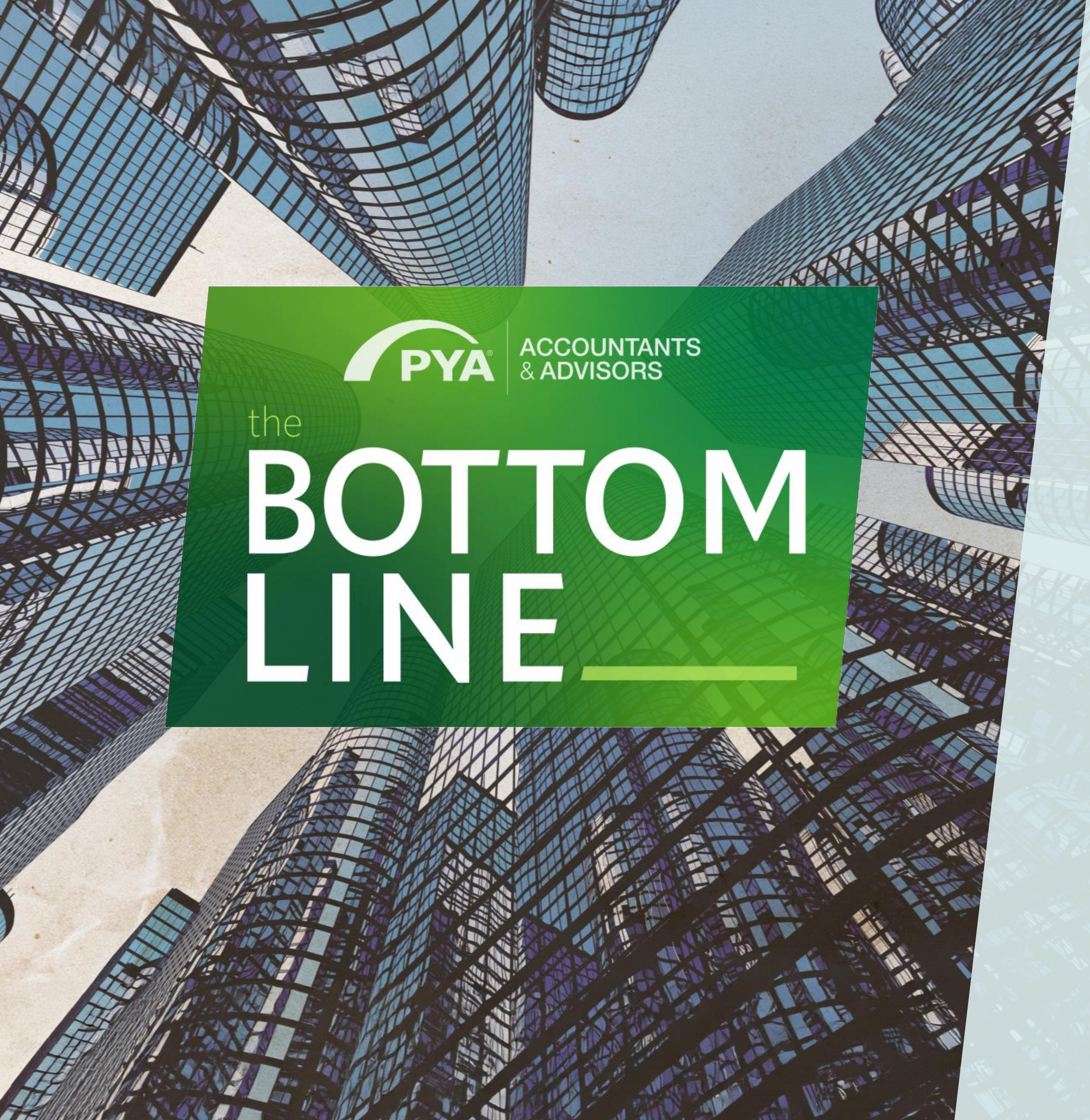

Accounting & Auditing:

Standards Updates, Estimates, and the Growing Impact of AI

July 9, 2026

Introductions

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Learning Objectives

1. Assess how artificial intelligence (AI) is being used in accounting departments and identify related control and governance considerations
2. Summarize common implementation challenges and lessons learned from recent accounting pronouncements, including CECL and ASC 606
3. Identify key changes introduced by SAS 145 and explain how they affect risk assessment and audit planning
4. Evaluate controls over accounting estimates, including areas of heightened risk
5. Describe SECURE 2.0 considerations relevant to employee benefit plan accounting and reporting

AI Risk Considerations

A Brief Disclaimer…

1. Data privacy and confidentiality

2. Model risk and "hallucination"

3. Transparency

4. Standard IT controls:
   - Access control
   - Segregation of duties
   - Vendor management

5. Keep the human in the loop!


ASC 842: Lease Accounting

Why Leases Still Matter

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Leases now recorded on the balance sheet

Impacts to debt metrics, covenants, and EBITDA optics

Ongoing risk and oversight

Lease Accounting Refresher

- **Most leases (term > 12 months) now recorded on the balance sheet** as lease liabilities and right of use assets
- **Lease liability = Lease payments** for expected term within a contract discounted to present value
- **Operating vs. financing classifications**
  - Ownership transfer to lessee
  - Purchase option reasonably certain
  - Lease term = major part of remaining economic life of asset
  - PV lease payments equals or exceeds substantially all of FV of asset
  - Asset of specialized nature with no alternative use

Updates to Lease Accounting

- Accounting Standards Update 2023-01
- Accounting for leases between entities under common control
- Practical expedient for determining if a lease exists and accounting/classification
  - Written vs. legally enforceable terms
  - Leasehold improvements
- **Does not apply to _all_ related-party leases**

Post-Adoption Issues: Lease Accounting

- **Unrecorded leases embedded in:**
  - IT contracts
  - Outsourcing arrangements
  - Other agreements
- **Other completeness considerations**

Tips for success:

- ✓ Lease review embedded in contract initiation workflow
- ✓ Periodic contract scans
- ✓ Review lease expense to ensure completeness of balance sheet
- ✓ AI can help you!

Post-Adoption Issues: Lease Accounting *(cont.)*

- Automation vs. manual tracking
- Complexity considerations
  - 50+ leases
  - Frequent modifications
  - Escalators and renewals

Tips for success:

✓ Consider lease software

✓ Integrate legal/contract teams

✓ Improve spreadsheet controls

Post-Adoption Issues: Lease Accounting *(cont.)*

- Lease changes and remeasurements

Tips for success:

- ✓ Proactive monitoring
- ✓ Integrate legal/contract teams
- ✓ Lease remeasurement checklist

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Post-Adoption Issues: Lease Accounting *(cont.)*

- Judgments and assumptions
  - Incremental borrowing rate (IBR) for discounting lease liabilities
  - Assess “reasonably certain” lease extension/termination options
- Inconsistently applied

Tips for success:

- ✓ Clear documentation of IBR methodology
- ✓ Written documentation of assumptions behind renewal/termination options
- ✓ AI can draft as a starting point!

SAS 145

Statements On Auditing Standards 145

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When did it become effective?	What is SAS 145?	Why does it matter?
• Periods ending on or after December 15, 2023	• Changes in risk approach	• Mandatory control evaluations • Additional skepticism, scrutiny, and inquiries

Source: https://www.aicpa-cima.com/resources/download/aicpa-statement-on-auditing-standards-no-145

Changes You Will See During Your Audit

- Increased inquiries regarding controls, processes, and monitoring activities
- Additional samples of journal entries and support requested for testing
- Emphasis on service organizations utilized – SOC reports
- Focus on IT general controls – diving deeper
  - Walkthroughs vs. questionnaires
  - Interviews with IT teams

ASC 326: CECL

Why Current Expected Credit Loss (CECL) Still Matters

Applies to:

Trade receivables	Contract assets	Notes receivable	Guarantees

Dollar impact is modest…

Process expectations are *not*

CECL Refresher: Data Considerations

Past events

- Historical loss experience

Current conditions

- Borrower credit quality
- Collateral values
- Economy

Reasonable and supportable forecasts

- Unemployment
- Interest rates
- Property values

Internal and external data

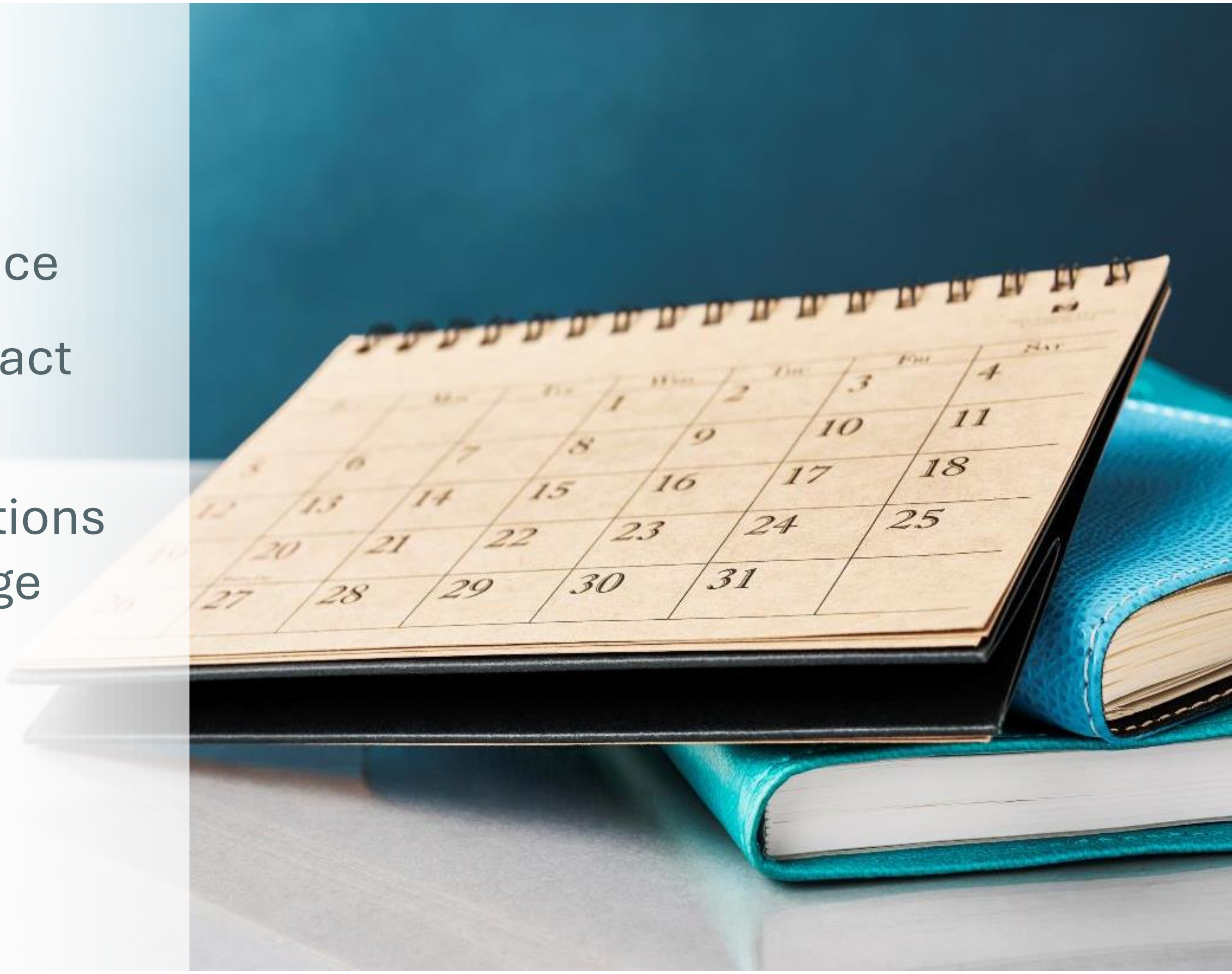
Qualitative adjustments

Credit enhancements

- Guarantees
- Collateral quality

Updates Since Implementation

- Accounting Standards Update 2025-05
- Practical expedient to simplify compliance
- Applies to current receivables and contract assets
- Allows entities to assume current conditions as of the balance sheet date don't change for the remaining life of the asset.
- Effective for reporting periods beginning after 12/15/2025



Post-Adoption Issues: CECL

- **Data and modeling challenge**
  - Overreliance on vendor-provided models
  - Lack of sufficient historical loss data
  - Assumptions not tailored to specific circumstances

- **Best practices**
  - Own your model and forecasts
  - Document assumptions
  - Lookback analysis
  - How AI can help: Data analysis and modeling and documenting assumptions used

Internal Controls Over Estimates

Estimates and Related Controls:
Accounts Receivable/Allowance for Doubtful Accounts

Internal Controls

Data Integrity and Model Controls

- Calculation controls
- AR/Allowance model controls

Management Review and Approval

Segregation of Duties

- Controls over adjustments
- Write off controls

Estimates and Related Controls: Fixed Asset Useful Lives

Internal Controls

Segregation of Duties
- Initial Useful Life

Data Integrity and Model Controls
- Depreciation calculations

Management Review and Approval
- Analytical review
- Ongoing monitoring

Estimates and Related Controls: Fair Value of Investments

Internal Controls

Data Integrity and Model Controls

- Data input controls

Segregation of Duties

- Valuation methodology
- Assumptions

Independent Evaluation

- Third Party

Management Review and Approval

ASC 606: Revenue Recognition

Refresher: Five-Step Framework

1. **Identify contract with customer**
2. **Identify performance obligations**
   - Distinct goods/services
   - Implicit and explicit promises/obligations
3. **Determine transaction price**
   - Variable considerations
   - Financing components
   - Noncash considerations
4. **Allocate price to obligations**
5. **Recognize revenue when/as obligations are satisfied**
   - Point in time with control transfer
   - Over time, based on specific criteria
   - Implicit and explicit promises and/or obligations

Refresher: Contract Assets and Liabilities

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Contract assets	**Contract liabilities**
Revenue earned but not billed	Deferred revenue or prepayment

Post-Adoption Issues: Revenue Recognition

- Errors identifying distinct performance obligations
  - Bundled contracts:
    - Example: software license with a year of "free" support

Best practices:

- ✓ Robust contract reviews to identify all performance obligations, including implicit obligations
- ✓ AI contract review

Post-Adoption Issues: Revenue Recognition (*cont.*)

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- Impacts of variable consideration
  - Examples: returns, rebates, performance bonuses
  - Overlooked or miscalculated
  - Consider uncertainties with a reserve (contra-revenue)

Best practices:

- ✓ Recognize ONLY the portion of revenue that is not likely to be reversed and record contra-revenue liability until resolved
- ✓ Document assumptions used in estimate process
- ✓ AI used in analyzing rebate and return trend to assist in estimate process

Post-Adoption Issues: Revenue Recognition (*cont.*)

- Timing of revenue recognition
  - Recognized too early or too late
  - Ignoring impacts of contract modifications

Best practices:

✓ Introduce “triggers” for contract reassessment

✓ Alignment with accounting and billing.

Secure 2.0 Act

Secure 2.0 Act Continuing Impacts on 401(k) Plans Effective Dates and Key Elements

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Effective dates

- FY 2024 – staggered through January 1, 2026

Key elements

1. **Mandatory auto-enrollment**
   - Default contribution rate of 3%
   - Annual increase 1% up to 10%
   - Exemptions
2. **Higher "super" catch-up contributions**
   - Who is affected?
   - Date tracking precision required

Source: https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf

Secure 2.0 Act Continuing Impacts on 401(k) Plans Key Elements (*cont.*)

3. Roth catch-up rules

- Mandatory design
- Coordination will be key
- Deemed election solution

4. Long-term part-time employees

- 500-hour mark, 2 consecutive years
- Administrative challenges in tracking
- Dual tracking for vesting

Secure 2.0 Act Continuing Impacts on 401(k) Plans Key Elements (*cont.*)

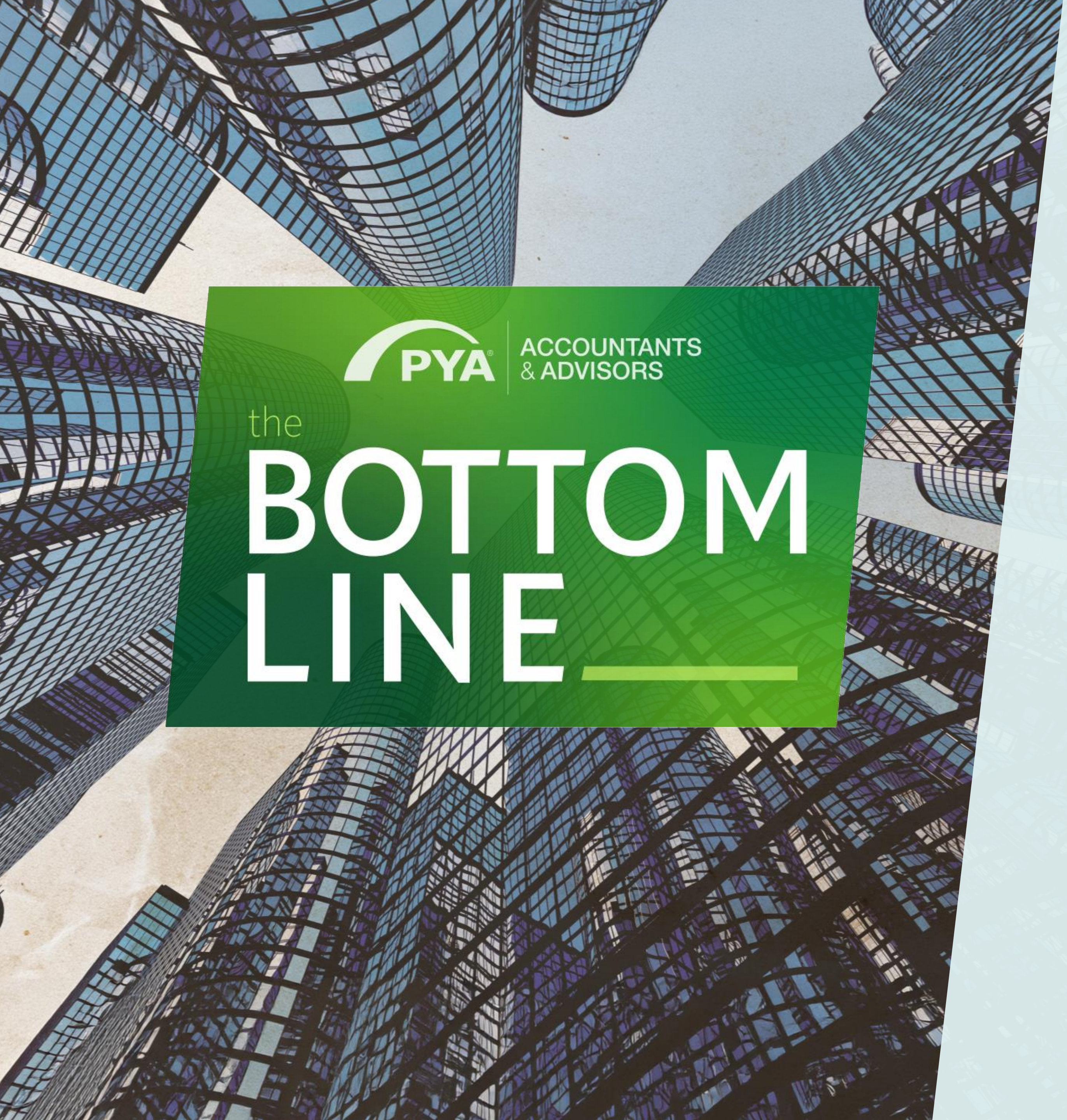
5. **Emergency and hardship access**
    - Qualified disaster recovery distribution
        - Up to $22,000/disaster, no 10% penalty, income spread over 3 years and can repay within 3 years
    - Domestic abuse withdrawal
        - Sensitive subject matter

6. **Roth employer contributions**
    - Treatment of elective and nonelective Roth option
    - Phased rollout challenges
    - Dedicated Roth accounts

Secure 2.0 Act Continuing Impacts on 401(k) Plans Key Elements (*cont.*)

7. **Required Minimum Distributions (RMDs)**
   - Mandatory withdrawal age
   - Roth accounts in employer plans
   - Split age range tracking

8. **Student loan match**
   - Elective deferral treatment
   - Qualification verification concerns



Our Next Installment:

September 24, 2026
12:30 pm – 1:30 pm ET

Forensic Accounting
1 CPE credit available

Please leave a comment regarding topics for future installments of The Bottom Line!

Thank you for attending!

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