

# CPA Australia Leases Research Report 1

IFRS 16 *Leases*: A review of  
implementation and  
effectiveness

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# Executive summary

This report provides an overview of the impact of adopting IFRS 16 Leases (IFRS 16) in Australia. The Australian version of IFRS 16 is AASB 16 Leases (AASB 16). The objective of this report is to assess whether IFRS 16 is achieving its intended goals, when applied by Australian listed companies. The report focusses on three key areas of IFRS 16 implementation in Australia:

- a. Lease recognition: The frequency and magnitude of lease liability recognition following the adoption of IFRS 16;
- b. Key Audit Matters: The frequency and nature of lease-related Key Audit Matters (KAMs) disclosed in 2024 audit reports; and
- c. Management commentary: Whether firms include lease liabilities in the denominator (invested capital) when voluntarily reporting Return on Invested Capital (ROIC) in the management commentary section of annual reports.

## Lease recognition

The data show a sharp increase in recognition, with the proportion of firms reporting lease liabilities, rising from 42% prior to IFRS 16 to approximately 90% post-adoption. This widespread recognition and economic materiality suggest that preparers have engaged with and operationalised the principles of IFRS 16. Moreover, the results indicate continued high level of compliance with the standard between 2021 and 2024, providing strong evidence that the standard's ongoing implementation costs are sustainable and in line with expectations.

## Key audit matters

In relation to KAMs, leases were identified as a KAM in only four per cent of audit reports across the sample. The small proportion suggests that lease accounting under IFRS 16 is not a significant source of audit complexity or cost.

## Management commentary

Finally, in relation to the reporting of ROIC, among the ten largest lease-intensive firms in Australia, 70% included lease liabilities in the ROIC denominator, consistent with the intention of IFRS 16 that leases are a source of funding and financial capital. This signals that many firms consider lease liabilities to be relevant and decision-useful for assessing financial performance, aligning with the objectives of IFRS 16. However, a notable minority (30%) excluded lease liabilities from the ROIC calculation. This practice has the potential to be misleading in relation to performance metrics.

## Conclusion

Overall, the evidence presented in this report supports the conclusion that IFRS 16 is achieving its intended objectives. The only area highlighted where further refinement is warranted relates to the treatment of lease liabilities in voluntary performance metrics such as ROIC. Given that ROIC is a key performance indicator used widely by analysts and investors, we recommend that the IASB address this issue through further guidance or educational material in relation to management commentary, or in IFRS 18 and related standards.

Addressing this issue would help ensure that the benefits of IFRS 16 in the primary financial statements are not undermined by selective reporting practices in management commentary.

# Background

There are two primary reasons for the University of Melbourne to undertake this current research project with the support of CPA Australia. Firstly, the research seeks to update previous research undertaken to understand impacts of the standard when it was issued. This initial research culminated in two research reports:

- [Implementing AASB 16 Leases: are preparers ready?](#)
- [AASB 16 Leases: investor perspectives](#)

Secondly, the current research project seeks to gather and present suitable empirical evidence to assist with the post implementation review of IFRS/AASB 16 being undertaken by the IASB/AASB.

This research report sets out findings from a benchmark analysis of listed companies that explores some potential disclosure impacts arising from the standard as described above. In addition to the findings from the benchmark analysis showcased in this report, the research project will also be informed by a series of roundtables to be conducted with various sector-based stakeholders to obtain further evidence of the impacts of the standard and opportunities for improvement. The aim of the research project is to make available further information to the standard-setters and other stakeholders as it becomes available, with a further report to be published in the first half of 2026.

## Introduction

The adoption of IFRS 16 *Leases* (IFRS 16) marked a pivotal shift in lease accounting, with the central aim of bringing greater transparency and comparability to financial statements by requiring lessees to recognise almost all leases on the balance sheet. The current International Accounting Standards Board (IASB) post-implementation review (PIR) evaluates the extent to which the standard is meeting these objectives, particularly in relation to its core principles, the informational value it provides to users of financial statements, and the costs incurred in its application, audit, and enforcement.

This report draws on data from Australian listed entities following mandatory adoption of IFRS 16 (AASB 16) and analyses the following focus areas:

- Lease recognition: The frequency and magnitude of lease liability recognition following the adoption of IFRS 16;
- Key Audit Matters: The frequency and nature of lease-related Key Audit Matters (KAMs) disclosed in 2024 audit reports; and
- Management commentary: Whether firms include lease liabilities in the denominator (invested capital) when voluntarily reporting Return on Invested Capital (ROIC) in the management commentary section of annual reports.

In analysing these areas, we aim to address the following three components of Question 1 in the IASB's Request for Information:

- a. Whether the core principles of IFRS 16 are clear and are being met in practice;
- b. Whether the information provided about leases meets the needs of users; and
- c. Whether the costs of applying, auditing, and enforcing the standard are as expected.

These and other findings are expanded on in the remainder of this report which is structured as follows. Section 1 documents the frequency and magnitude of lease liability recognition under IFRS 16 for Australian listed companies. Section 2 documents the frequency and nature of the designation of leases

as a Key Audit Matter in the audit reports of Australian listed companies in 2024. Section 3 examines if management, for the purpose of reporting ROIC in the management commentary section of the annual report, include lease liabilities in the calculation of invested capital (i.e., the denominator of ROIC).

## Section 1: Frequency and magnitude of lease liability recognition

The core principle of IFRS 16 is that lessees should recognise assets and liabilities arising from leases unless the lease is of low value or short-term. This approach represented a shift from the previous distinction between operating and finance leases under IAS 17 *Leases* (IAS 17), which allowed many lease obligations to remain off-balance sheet. IAS 17 drew a distinction between finance and operating leases, and only required recognition of assets and liabilities arising from finance leases.

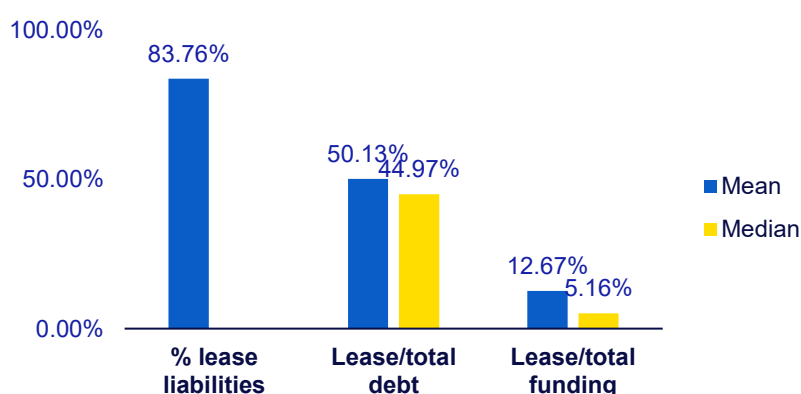
To address whether the core principles of IFRS 16 are clear and are being met in practice we analysed the frequency and magnitude of lease liability recognition under IFRS 16 across the period from the year of adoption in 2020 to 2024 for a sample of Australian firms<sup>1</sup> across the following:

- the frequency<sup>2</sup> and magnitude of lease liabilities recognised under IFRS 16 in 2024; and
- yearly time-series of the frequency and magnitude of lease liabilities since the adoption of IFRS 16 in 2020.

### Frequency and magnitude of leases liabilities – 2024 results

The following charts present the summary statistics for the sample as at 2024. The data these charts are based on are derived from Table 1 included in Appendix A to this report.

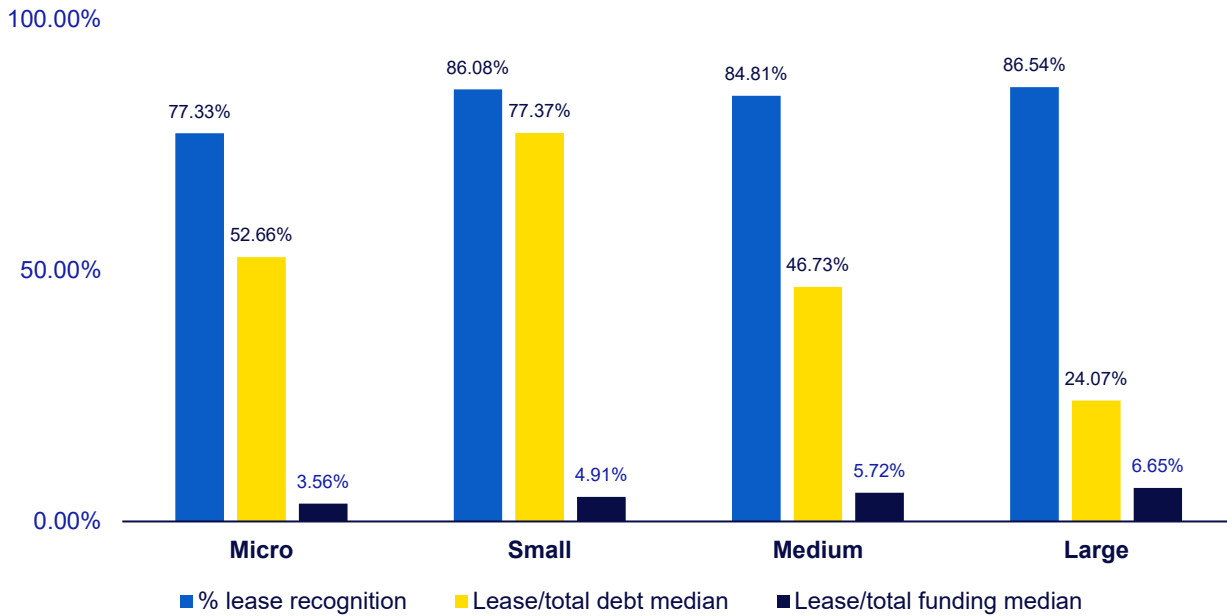
**Chart 1 - Frequency and magnitude of lease liabilities recognised by Australia listed companies - full sample**



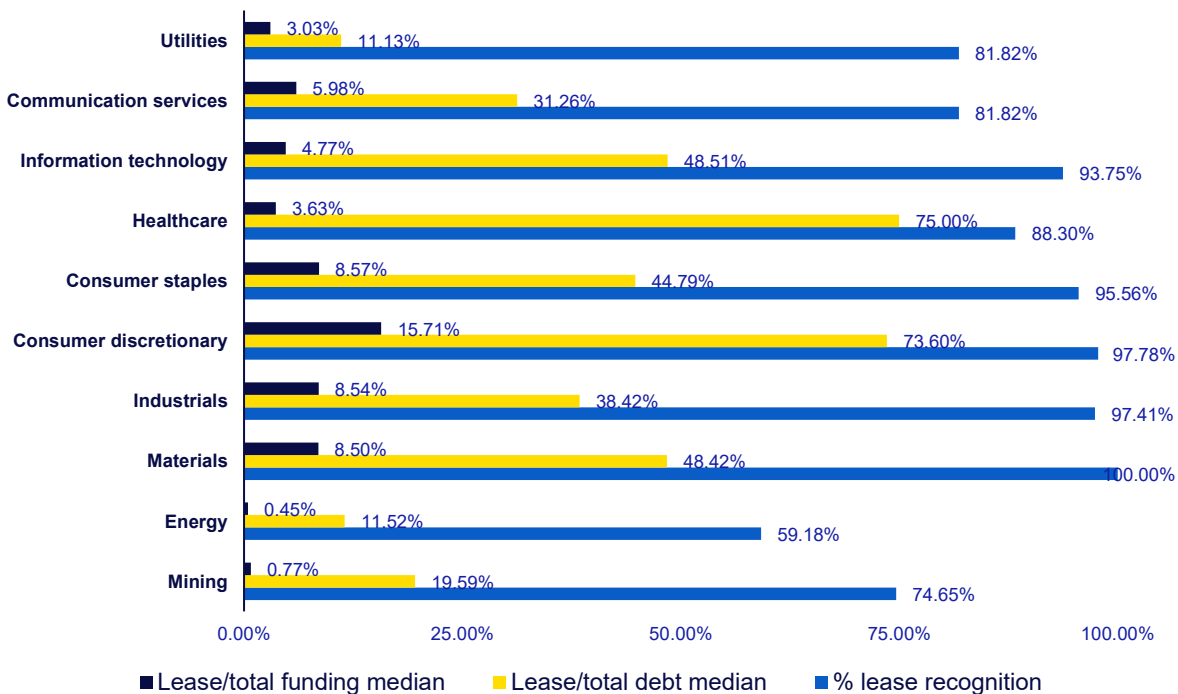
<sup>1</sup> See Appendix D for the sample construction.

<sup>2</sup> The frequency of recognition is simply measured as the number of firms that have recognised a lease liability as a percentage of the total sample of firms. The two metrics we use to assess magnitude are: (1) the value of lease liabilities as a percentage of total debt. Where total debt is the sum of borrowings and lease liabilities. The descriptive statistics for this metric are based on the sample of firms that have debt > 0 and thus is bounded between 0 and 100%, and (2) the value of lease liabilities as percentage of total funding where total funding is total debt plus total shareholder equity.

**Chart 2 - Frequency and magnitude of lease liabilities recognised by Australia listed companies - by entity size<sup>3</sup>**



**Chart 3 - frequency and magnitude of lease liabilities recognised by Australia listed companies - by sector**



<sup>3</sup> Firm size categories, based on total assets, are defined as follows: Micro – less than \$23 million; Small – \$23 million to less than \$102 million; Medium – \$102 million to less than \$593 million; Large – greater than \$593 million.

Our findings strongly suggest that the core principle of IFRS 16, capitalisation of leases, is both widely understood and implemented in practice. By 2024, 84% of firms in our sample recognised lease liabilities (Chart 1 above). Importantly, lease recognition rates were consistent across firm size categories. Even among micro-cap firms, 77% recognised lease liabilities in 2024, and among small to large entities, this figure was 86% (Chart 2 above). All sectors have a high level of lease recognition with the lowest being in the mining (75%) and energy sectors (60%)<sup>4</sup> (Chart 3 above). This widespread application indicates that the principle of capitalisation is understood and applied not only by large entities with sophisticated accounting functions, but also by smaller entities where accounting resources may be more limited.

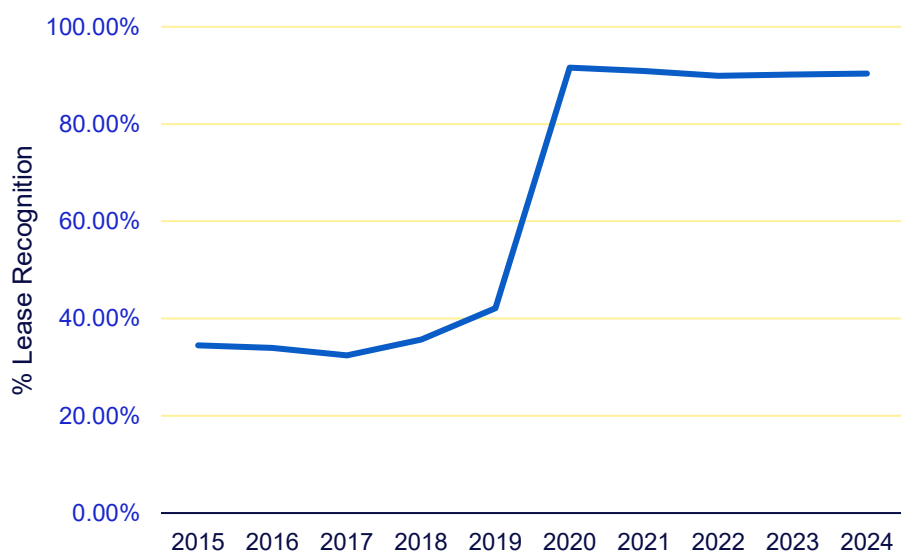
Moreover, the reported lease liabilities were economically material, as demonstrated by the magnitude of lease liabilities as a percentage of total debt for the median firm being 45%<sup>5</sup> (Chart 1 above).

Taken together, these findings support the conclusion that the core principle of lease capitalisation is not only clear but also being broadly applied consistently in practice. IFRS 16 is achieving its objective of bringing leases onto the balance sheet and improving the quality of financial statements.

### Changes across time in the frequency and magnitude of lease liabilities

To provide insight into the impact of IFRS 16, we also undertook a time-series analysis of lease liabilities from 2016 to 2024.<sup>6</sup> The results are presented in Table 2 (see Appendix A), and graphically in Figures 1 and 2 below.

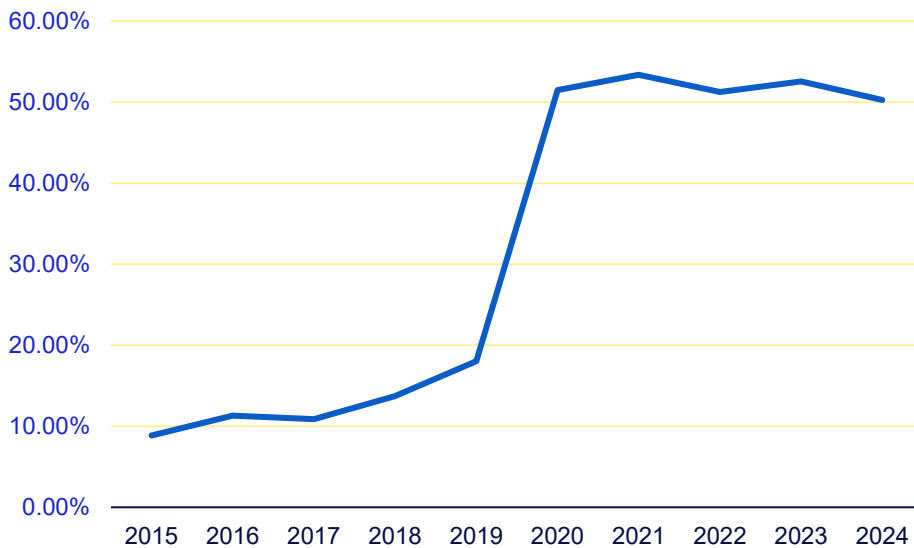
**Figure 1 – % Lease Liability Recognition**



<sup>4</sup> The sector with the greatest level of lease liabilities is the retail sector, where, in Australia, prime locations in shopping centres are typically held by property investors and must be leased rather than purchased.

<sup>5</sup> The *variation* in the magnitude of leases as a % of debt financing is substantial. As reported in Table 1 panel A the 25<sup>th</sup> (75<sup>th</sup> percentile) is 14% (97%). This implies that for 25% of firms, leases are the primary or only source of debt financing (>97% of debt financing is from leases) and for another 25% of firms' leases are a very low source of debt financing (<14% of debt financing is from leases).

<sup>6</sup> The analysis is restricted to firms that existed in all years of the sample period. This restriction ensures that observed changes are attributable to the adoption and application of IFRS 16, rather than to firms entering or leaving the listed population due to new listings or delistings. The data are reported by calendar year, based on the financial year-end of each firm. IFRS 16 became mandatory for financial years beginning on or after 1 January 2019. As a result, the calendar year 2020, which includes both 30 June and 31 December year-ends, represents the first full year of adoption for most Australian firms.

**Figure 2 – Lease Liability/Total debt**

A clear pattern emerges when comparing the year of adoption, 2020, to the preceding year, 2019. The proportion of firms recognising lease liabilities increased significantly from 42% in 2019 to 92% in 2020. In addition to this increase in frequency, there was a material change in the magnitude of reported lease obligations. The average ratio of lease liabilities to total debt rose from 18% in 2019 to 51% in 2020. This shift demonstrates that for the average firm, the capitalisation of leases had a substantial effect on reported leverage. These findings suggest that IFRS 16 impacted a broad cross-section of firms and materially changed the presentation of financial obligations. As such, they provide support for the view that the standard improves both the transparency and comparability of financial information.

Looking at the years following initial adoption, from 2021 through 2024, the percentage of firms recognising lease liabilities remained stable. Similarly, the average ratio of lease liabilities to total debt did not exhibit any material decline. This ongoing consistency suggests that firms have continued to comply with the requirements of IFRS 16 without withdrawing from recognition over time. The absence of any reduction in recognition implies that the costs of applying and complying with IFRS 16 have not deterred firms from ongoing compliance with the Standard nor led firms to alter financing arrangements significantly.

### Implications for standard-setting

These findings provide evidence that the ongoing costs of applying IFRS 16 are reasonable and appropriate; broadly consistent with the IASB's expectations. Two factors support this interpretation:

- First, compliance with IFRS 16 does not appear to deter the use of leases by either micro firms or firms for which lease liabilities represent only a small proportion of total debt. This suggests that even firms with limited resources or minimal lease exposure are able to comply with the standard without undue cost or burden.
- Second, the near-universal recognition of lease liabilities implies the presence of substantial scale economies. The widespread use of leases across firms likely facilitates the sharing or adoption of common systems, software, and accounting processes for lease recognition, thereby reducing the per-unit cost of compliance, particularly for property and buildings leases.

In addition, the consistently high level of lease liability recognition, along with the economically significant magnitude of lease liabilities for the typical firm, provides evidence that the information produced under IFRS 16 is materially relevant. This supports the view that the standard meets its objective of improving

the faithful representation of financial position and performance by bringing lease obligations onto the balance sheet.

Finally, the significant variation in the extent to which firms use leases as a source of debt financing indicates that IFRS 16 contributes meaningfully to improving the comparability of financial information. By requiring the recognition of lease liabilities, IFRS 16 enables users to better assess and compare the total level of financial leverage and associated risk across different firms and industries.

## Section 2: The frequency and nature of lease-related Key Audit Matters

The shift to on-balance sheet lease accounting was expected to improve the ability of users, especially investors, analysts, and creditors, to assess leverage, capital efficiency, and cash flow commitments. In this section of the report, we examine the frequency and nature of the designation of leases as a Key Audit Matter (KAM) in the audit reports of Australian listed companies.<sup>7</sup>

Audit reports offer a unique lens through which to observe the relative complexity and judgement involved in applying IFRS 16. Auditor's reports of listed entities in Australia are required to provide information about key audit matters (KAM). KAM are "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period".<sup>8</sup> The audit report is required to include a description of each key audit matter that addresses why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter. This is the "Why Significant" section of the audit report.<sup>9</sup>

As KAMs are relative, if the costs and complexities of accounting for and auditing leases are larger than expected we should find an abnormal frequency of leases identified as a KAM. Furthermore, if the costs are larger than expected, the designated reasons for the KAM in the "Why Significant" section of the audit report should be for underlying reasons of judgment and uncertainty that were not expected.

Out of the full sample, only 4% of firms (17 companies) had an audit report in which leases were identified as a KAM subject matter. These firms are listed in Table 3 included in Appendix A. Across all firms, there were 955 individual KAMs reported in total; of these, only 17, or 2%, had leases as the subject matter. This makes lease-related KAMs relatively rare. The full list of KAM subject matters and their frequency is reported in Table 3 in Appendix A.

The results also showed a concentration for KAMs in certain sectors. Fifteen of the 17 firms with lease-related KAMs were in the consumer staples or consumer discretionary sectors. This may reflect the

<sup>7</sup> We sampled the full population of Australian listed entities (excluding mining, real estate and banking firms) with reporting periods ending in 2024. We categorised and classified the KAMs into subject matters based on the primary financial statement account that it related to (e.g., revenue, inventory, provisions, intangibles, leases). The details of the sample selection and methodology for classification of the KAMs is discussed in Appendix E. Overall, we have a final sample of 529 firms. We have classified 29 distinct KAM subject matters. As each audit report may have more than one KAM we have a total of 955 KAMs.

<sup>8</sup> ASA 701.8 *Communicating Key Audit Matters in the Independent Auditor's Report*. For audits of financial statements for periods ending on or after 15 December 2016, auditor's reports of all listed entities in Australia have been required to provide information about key audit matters.

<sup>9</sup> ASA 701.13. A full extract of an audit report with a lease as KAM is provided for illustrative purposes in Appendix B.

higher prevalence of leased assets in retail and franchise-heavy industries, where physical premises and equipment are commonly leased.

Taken together, these findings suggest that leases are not frequently regarded as a high-risk area requiring special audit focus. As such, there is no evidence from audit frequency that the cost and complexity of auditing lease-related disclosures under IFRS 16 has been greater than expected.

### Additional analysis

To explore the audit rationale for identifying leases as a KAM, we reviewed the “Why Significant” sections of the audit reports for all 17 firms. (See extracts in Appendix C). The rationale provided by auditors typically centred on two factors: the economic significance of lease liabilities, both in volume and value, and the requirement for management to make key judgments and estimates. Among the 17 firms, the most commonly cited area of audit judgment was the determination of the incremental borrowing rate used to discount future lease payments. Other areas, though less frequently mentioned, included the accounting treatment of backdated rent variations, the assessment of renewal options contained within leases, and the handling of sub-lease arrangements, particularly in franchise models.

Overall, the review of audit report disclosures did not identify any unexpected sources of estimation uncertainty or judgment that would suggest IFRS 16 presents unforeseen challenges in practice. The findings provide further support for the conclusion that the auditing of IFRS 16 lease obligations is operating as intended and without undue burden.

## Section 3: Computation of ROIC reported in management commentary

This section examines how companies treat lease liabilities when calculating Return on Invested Capital (ROIC) in the management commentary section of their annual reports. ROIC is widely regarded as a key performance measure for assessing the efficiency of capital use and value creation. The analysis focuses on whether lease liabilities recognised under IFRS 16 are incorporated into the denominator of ROIC, which reflects the total invested capital.

ROIC is a voluntary reported metric and, therefore, reflects the demand and needs of users. ROIC as following examples illustrate, is the most widely used metric to measure performance and productivity and thus the amount of value a company creates.<sup>10</sup>

*“Underlying return on capital employed is an indicator of the Group’s capital efficiency” (BHP, 2024, p18.)*

*“ROC has been adopted as the principal measure of performance for the divisions. ROC focuses the divisions on increasing earnings and/or increasing capital productivity by managing existing assets efficiently” (Wesfarmers 2024 Annual Report, p.16)*

<sup>10</sup> At a conceptual level the definition of ROIC is:

$$ROIC = \frac{\textit{Profit}}{\textit{Invested Capital}}$$

*“Underlying ROCE measures how efficiently we generate profits from investment in our portfolio of assets” (RIO Tinto, 2024, p.12)*

We examine if firms include or exclude lease liabilities in their definition of Debt for purposes of computing *Invested Capital* and *ROIC*. It is expected that lease liabilities would be included in the calculation as the objective of ROIC is to measure the returns on all capital invested in the business.

As outlined in the below Table4, the findings indicate that a significant majority, 70% of the sampled companies, include lease liabilities in the denominator of ROIC. This finding suggests that most firms consider lease liabilities to represent a meaningful component of financial capital. Their inclusion in invested capital supports a more accurate and reliable assessment of financial performance and capital efficiency, in line with the broader objectives of IFRS 16.

**Table 4 – Australian companies examined to determine if leases included in computation of ROIC<sup>11</sup>**

Company	Total Assets (\$m)	Leases Liabilities (\$m)	Lease liabilities / Total Funds	Lease included in ROIC?
Woolworths Group Limited	33,936	12,144	54.48%	Yes
Coles Group Limited	19,870	8,417	61.50%	Yes
Wesfarmers Limited	27,309	6,522	32.83%	No
Ramsay Health Care Limited	20,894	5,854	35.55%	No
Endeavour Group Limited	11,783	3,913	39.76%	Yes
BHP Group Limited*	102,362	3,116	4.46%	Yes
TPG Telecom Limited	19,094	2,205	12.62%	Yes
Woodside Energy Group Ltd	61,264	1,623	3.40%	Yes
Qantas Airways Limited	20,564	1,556	22.60%	Yes
Sonic Healthcare Limited	14,826	1,527	12.13%	No

\*Numbers quoted are in US Dollars

However, a notable minority, 30% of the sample, exclude lease liabilities from their ROIC calculations. This practice raises concerns regarding the comparability and reliability of ROIC as a performance metric across firms. When lease liabilities are excluded, ROIC figures may be overstated, potentially presenting a distorted view of how efficiently a company uses its capital.

This inconsistency suggests that, while IFRS 16 has significantly improved the quality of financial statements, the effectiveness of lease information in management commentary and voluntary

<sup>11</sup> The information in Table 4 has been extracted from the publicly available 2024 Annual Reports

performance metrics remains uneven. The divergence points to a possible gap in guidance under IFRS 18 and IFRS Practice Statement 1. In particular, paragraph 121 of IFRS 18 requires management performance measures to faithfully represent financial performance, which may not be achieved when lease liabilities are selectively excluded from capital-based metrics.

To address this issue, we suggest that the IASB explore available educational avenues, such as through IFRS Practice Statement 1 *Management Commentary* (revised), or other educational material to provide clearer guidance on the appropriate treatment of lease liabilities in performance metrics disclosed in management commentary.

The issue is not limited to the consideration of IFRS 16, however. It also intersects directly with the reporting of management-defined performance measures and disclosures related to capital, as outlined in IFRS 18 *Presentation and Disclosure in Financial Statements* which becomes effective in Australia for annual reporting periods beginning on or after 1 January 2027.<sup>12</sup> Arguably, the exclusion of lease liabilities from invested capital in ROIC calculations may conflict with the objectives of IFRS 18. Specifically, such reporting may not provide users with an unbiased, representative, and faithfully presented view of a firm's financial performance.

Given the significance of ROIC to financial analysis and investor decision-making, we recommend that the IASB consider this issue as part of the post-implementation review of IFRS 18, if not addressed earlier.

We conclude that IFRS 16 is fulfilling its intended objective of improving information quality in the primary financial statements. Nonetheless, there is room for improvement in ensuring that this enhanced transparency is carried through to performance reporting in management commentary.

## Conclusions and policy recommendations

The evidence presented in this report supports the conclusion that IFRS 16 has largely achieved its objectives. The requirement to recognise leases on the balance sheet has led to greater transparency and comparability in financial statements and has proven to be well-understood and applicable across a diverse range of entities. Auditors and preparers appear to be managing the judgements and estimates inherent in the standard without undue difficulty.

At the same time, our findings point to opportunities for improvement, particularly in the alignment of voluntary performance metrics with the principles of IFRS 16. Inconsistencies in the treatment of lease liabilities in metrics such as ROIC, despite their materiality, may undermine the comparability and reliability of management commentary. This is an area where further guidance or educational material in relation to management commentary, or in IFRS 18 and related standards would be beneficial.

Overall, we recommend that the IASB maintain the current scope and core principles of IFRS 16, which are being effectively applied in practice and provide additional guidance or examples to encourage the faithful representation of leases in management-defined metrics.

These measures would help ensure the full benefits of IFRS 16, going beyond the balance sheet to improve transparency, consistency and usefulness of financial reporting.

<sup>12</sup> See paragraphs 117–123 and 126–129.

# Appendix A

## TABLE SUMMARY

**Table 1 – Frequency and magnitude of lease liabilities recognised by Australian Listed Companies in 2024**

### Panel A Full Sample

	Observations	P25	Mean	Median	P75
% Lease Liabilities	622		83.76%		
Lease/ Total Debt	562	13.51%	50.13%	44.97%	96.66%
Lease/ Total Funding	622	1.06%	12.67%	5.16%	14.94%

### Panel B By Firm size

Size Category	Observations	Lease Recognition (%)	Lease/ Total Debt			Lease/ Total Funding		
			P25	Median	P75	P25	Median	P75
Micro	150	77.33%	11.70%	52.66%	100.00%	0.26%	3.56%	12.85%
Small	158	86.08%	19.58%	77.37%	100.00%	1.01%	4.91%	16.93%
Medium	158	84.81%	17.37%	46.73%	97.14%	1.25%	5.72%	14.77%
Large	156	86.54%	10.46%	24.07%	53.10%	2.14%	6.65%	15.55%

## Panel C By Sector

GICS Sector	Lease Recognition (%)	Lease/ Total Debt			Lease/ Total Funding		
		P25	Median	P75	P25	Median	P75
Mining	74.65%	3.80%	19.59%	89.78%	0.02%	0.77%	4.06%
Energy	59.18%	0.00%	11.52%	35.52%	0.00%	0.45%	2.35%
Materials	100.00%	14.75%	48.42%	73.94%	4.47%	8.50%	13.98%
Industrials	97.41%	15.43%	38.42%	84.89%	3.57%	8.54%	16.95%
Consumer Discretionary	97.78%	36.83%	73.60%	98.29%	5.88%	15.71%	39.31%
Consumer Staples	95.56%	14.59%	44.79%	72.62%	2.14%	8.57%	21.31%
Health Care	88.30%	19.31%	75.00%	100.00%	1.30%	3.63%	12.83%
Information Technology	93.75%	16.45%	48.51%	100.00%	1.93%	4.77%	10.70%
Communication Services	81.82%	12.48%	31.26%	84.36%	1.49%	5.98%	14.99%
Utilities	81.82%	0.96%	11.13%	62.10%	0.36%	3.03%	8.25%
Mining	74.65%	3.80%	19.59%	89.78%	0.02%	0.77%	4.06%

%Lease Recognition is the % of the total sample of firms that recognize lease liabilities

Total Debt is Borrowings plus Lease Liabilities

Total Funding is Shareholders Equity plus Total Debt

P25 and P75 are the observations at the 25th and 75th percentile of the distribution. They imply that 25% of the sampled firms lie below (above) the 25th (75th) percentile observation respectively.

The sample is all Australian listed companies in 2024 excluding companies in the mining, finance and real-estate sectors.

**Table 2 – Lease liability recognition across time**

Year	Lease Recognition (%)	Lease/ Total Debt	
		Mean	Median
2015	34.52%	8.86%	0.00%
2016	33.98%	11.33%	0.00%
2017	32.42%	10.87%	0.00%
2018	35.69%	13.73%	0.00%
2019	42.09%	18.01%	0.10%
2020	91.60%	51.49%	49.87%
2021	90.89%	53.37%	50.40%
2022	89.95%	51.26%	45.72%
2023	90.21%	52.54%	46.55%
2024	90.36%	50.26%	44.88%

% Lease Recognition is the % of the total sample of firms that recognize lease liabilities  
The sample is Australian listed companies that existed for the years from 2019 to 2024.

**Table 3 – Frequency of KAMS by subject matter for Australian companies in 2024**

KAM Subject Matter	Lease Recognition (%)	Median
Impairment	261	27.33%
Revenue	229	23.98%
Inventory	67	7.02%
Business Combinations	59	6.18%
Financial Instruments	48	5.03%
Intangibles	43	4.50%
Share Based Payment	38	3.98%
Going Concern	33	3.46%
Taxation	32	3.35%
Provisions	22	2.30%
PPE	19	1.99%
Leases	17	1.78%
Discontinued Operation	15	1.57%
Deferred Tax Asset	12	1.26%
Account Receivable	9	0.94%
Information Technology	8	0.84%
Equity Method	6	0.63%
Exploration Assets	6	0.63%
Biological Assets	5	0.52%
Contingent Liabilities	5	0.52%
Investment Property	5	0.52%
Expenses	4	0.42%
Related Party Transactions	4	0.42%
Cash	2	0.21%
R&D	2	0.21%
Grant	1	0.10%
Joint Venture	1	0.10%
Management Fee	1	0.10%
Trade Payables	1	0.10%
<b>Total</b>	<b>955</b>	<b>100.00%</b>

# Appendix B

## ILLUSTRATIVE AUDIT REPORT WHEN LEASES WERE DESIGNATED AS A KAM

### Independent Auditor's Report to the members of JB Hi-Fi Limited<sup>13</sup>

[...]

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[...]

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Lease accounting</b></p> <p><b>Refer to Note 16 of Right of use assets and lease liabilities</b></p> <p>The Group holds right of use assets of \$568.3 million and lease liabilities of \$642.4 million. These balances are significant in the context of the Group's balance sheet as at 30 June 2024.</p> <p>In applying AASB 16 Leases, the Group is required to make a number of judgments and estimates as disclosed in Note 16, including:</p> <ul style="list-style-type: none"> <li>Measuring the lease term (including judgements associated with lease renewal options and the accounting for leases in hold over).</li> <li>Determining an appropriate incremental borrowing rate to be applied in the measurement of right of use assets and lease liabilities upon initial recognition of a lease and for certain lease modifications.</li> </ul>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>Understanding the Group's processes and key controls related to the accounting for leases.</li> <li>Testing on a sample basis, movements in the right of use assets and lease liabilities and recalculating the interest and depreciation recognised in profit or loss.</li> <li>Evaluating the judgements applied by management, including the probability of exercising renewal options.</li> <li>Assessing the incremental borrowing rates adopted by management, by preparing an independent expectation of the incremental borrowing rates.</li> <li>Evaluating the adequacy of the disclosures included in Note 16 to the financial statements.</li> </ul>

<sup>13</sup> As extracted in the independent auditor's report of JB HI-FI Annual Report 2024

# Appendix C

## EXTRACTS FROM THE “WHY SIGNIFICANT” SECTION OF AUDIT REPORTS, WHEN LEASES WERE DESIGNATED AS A KEY AUDIT MATTER

### **XREALITY GROUP LIMITED**

#### **Right of use asset and lease liability**

The group performed a reassessment of the calculations for the right-of-use asset and lease liabilities due to the flow on effect of higher sustained inflation and the impact on future rent increases. The right-of-use assets and lease liability calculations involves a degree of complexity and judgement around potential rent increases based on inflation. We considered in the persistent inflationary environment reviewing the right-of-use asset and lease calculations are a key audit matter due to the significant uncertainty around the current period of economic volatility. The value of the right-of use assets also forms part of our impairment assessment described above

### **JB HI-FI LIMITED**

#### **Lease accounting**

The Group holds right of use assets of \$568.3 million and lease liabilities of \$642.4 million. These balances are significant in the context of the Group’s balance sheet as at 30 June 2024. In applying AASB 16 Leases, the Group is required to make a number of judgments and estimates as disclosed in Note 16, including:

Measuring the lease term (including judgements associated with lease renewal options and the accounting for leases in hold over).

Determining an appropriate incremental borrowing rate to be applied in the measurement of right of use assets and lease liabilities upon initial recognition of a lease and for certain lease modifications.

### **SILK LOGISTICS HOLDINGS LIMITED**

#### **Assessment of Lease term and incremental borrowing rate under AASB 16 Leases**

As at 30 June 2024 the Group has reported right of use assets of \$283.7 million (\$142.8 million at 25 June 2023) relating to property related leases. The estimated lease term of these properties and the incremental borrowing rate forms part of the assessment for determining the right of use asset and associated lease liability at the time of initial recognition. The accounting policy and the significant estimates and judgements in relation to determining the lease term are disclosed in Notes 2 and 3. In reassessing the lease term, the Group is required to determine whether there are significant events under their control which result in renewal options being required to be incorporated into the assessment. Where lease terms have been reassessed, the Group is required to determine an appropriate incremental borrowing rate to be applied in the calculation of right of use assets and lease liabilities.

## GUZMAN Y GOMEZ LIMITED

### Lease

The Group has a significant lease portfolio which includes leases for restaurant sites as well as office and other leases. As set out in Notes 15, 17 & 21 to the financial statements, at 30 June 2024 the Group has recognised lease liabilities of \$239.5m, finance lease receivables of \$126.4m and right-of-use assets of \$93.8m. There were additions of \$65.5m to lease liabilities, \$24.3m to finance lease receivables and \$36.9m to right-of-use assets during the year. Included in the lease portfolio are leases which are entered into for franchise restaurants with the Group as the head lessee, and sub-leases entered into with the franchisees under the same terms as the head lease. Where the sub-lease transfers substantially all of the risks and rewards of the underlying right-of-use asset, the sub-lease is classified as a finance lease and is recognised as a finance lease receivable. Alternatively, other sub-leases are classified as operating leases and recognised as right-of-use assets. For lease additions and modifications during the year, the Group applied significant judgement in determining the incremental borrowing rate {IBR}, including the calculation method, appropriate data utilised, and the determination of the lease term with extension options.

## PREMIER INVESTMENTS LIMITED

### Accounting for leases

The Group holds a significant volume of leases by number and value over retail sites as a lessee. The recognition and measurement of new and remeasured lease agreements executed during the year in accordance with AASB 16 Leases ("AASB 16") are dependent on a number of key judgements and estimates. These include:

The calculation of incremental borrowing rates;

The treatment of the option to extend the lease term under holdover; and

The impact of backdated rent variations.

Accordingly, given the significant judgements and estimates involved we considered this a key audit matter.

## VIVA LEISURE LIMITED

### Right Of Use Assets and Lease Liabilities

At 30 June 2024, the group recognized \$255,307,160 in Right of Use Asset and \$290,225,494 in lease liabilities. The group has numerous lease arrangements in place which requires certain judgments to be made at point of recognition and measurement. We focused on this area as a key audit matter given the significance of the balance and there is risk that the leases may not be accounted for in accordance with the requirements of AASB 16 Leases.

## CARLY HOLDINGS LIMITED

### Lease accounting

As at 30 June 2023, the Group has recognised a current lease liability of \$346,770 and a non-current lease liability of \$640,550 in relation to an office lease and vehicle leases. We determined lease accounting to be a key audit matter as it is material, important to the users' understanding of the financial statements and involved the most audit effort and communication with management.

## RETAIL FOOD GROUP LIMITED

### Lease accounting - estimate of lease arrears and assessment of recoverability of lease receivables (\$61.7m)

The Group has a significant lease portfolio that includes sub-lease arrangements with franchisees where the Group has entered into the head lease agreement with the landlord. Where the franchise store sub-lease is assessed by the Group as a finance lease using AASB 16 Leases, the Group recognise a finance lease receivable. Following this, the impairment requirements of AASB 9 Financial Instruments apply to the net investment in these leases. The Group determined their expected loss provisioning amounts using a forward-looking expected credit loss impairment model. This involves significant judgement as the expected credit loss reflects information about past, current and future conditions. Overall, the relative size of balances has a significant financial impact on the Group's financial position and performance. We involved our senior audit team members in assessing this key audit matter

## CHRYSOS CORPORATION LIMITED

### PhotonAssay operating lease income

PhotonAssay operating lease income was a key audit matter due to:

The quantum of operating lease income earned during the year, which comprised 92% of total revenue and other income.

The judgement required in applying revenue recognition and lease accounting standards to the PhotonAssay leases.

To classify each lease the Group applies judgement to assess whether the agreements transfer substantially all the risks and rewards of ownership of the underlying PhotonAssay assets. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. Significant judgement is required to determine the lease term. Consideration is given to the non-cancellable periods and early cancellation penalties contained in the leasing arrangements. In assessing this key audit matter, we involved senior audit team members who understand the Group's business and industry.

## INGHAMS GROUP LIMITED

Accounting for AASB 16 Leases – (right of use assets and lease liabilities amounting to \$1,031.7 million and \$1,138.4 million respectively)

AASB 16 Leases (“AASB 16”) is complex with specific lease-features driving different accounting outcomes, increasing the need for interpretation and judgement. AASB 16 Leases is a key audit matter due to the:

Relative materiality of the right of use assets and lease liabilities to the financial report.

Number of leases in the Group, including the individual nature of the lease agreements used to estimate the lease liability and right-of-use asset.

A focus for us was the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key dates, fixed and variable rent payments, renewal options and incentives. The key areas of judgement we focussed on was in assessing the Group’s:

Renewal options contained within leases. Assessing the Group’s determination of whether it is reasonably certain renewal options will be exercised impacts the measurement of the lease, therefore is critical to the accuracy of the accounting.

Grower contractual arrangements and the features of the underlying grower contracts against the definition of a lease under the accounting standards.

Incremental borrowing rates determined by the Group. These are meant to reflect the Group’s entity specific credit risk and vary based on each lease term. We involved our senior audit team members in assessing these areas

## SONIC HEALTHCARE LIMITED

### Lease accounting

Lease accounting was a key audit matter due to the:

financial significance of lease liabilities and right-of-use assets to the consolidated balance sheet; and

significant judgements required by the Group such as determining the lease term and the incremental borrowing rate

## UNIVERSAL STORE HOLDINGS LIMITED

### Accounting for leases

Accounting for leases was a key audit matter due to the size of right-of-use assets and lease liability balances included in the financial report and the judgement involved in determining the balances, including the incremental borrowing rate used for discounting, accounting for leases in holdover and treatment of lease incentives and modifications.

## BAPCOR LIMITED

### Accounting for leases

At 30 June 2024, the Group recorded right of use assets of \$249.9 million and a lease liability of \$288.6 million. Accounting for leases was a key audit matter due to the financial significance of right-of-use assets and lease liability balances and the judgement involved in determining these balances, including the incremental borrowing rate and option renewals.

## BIOXYNE LIMITED

### Accounting for leases

The Group has significant lease arrangements. AASB 16 Leases, has introduced new complexities in lease accounting, requiring significant management judgment and estimation. This includes determining the lease term, discount rates, and the classification of leases as either operating or finance leases. Given the material impact on the financial statements and the complexity involved, accounting for leases was identified as a key audit matter

## ALTERRA LIMITED

### Leases

The Group has continued to recognise right-of-use assets and lease liabilities in relation to its lease arrangements over office premises and Carpenters plantation site. The majority of the right-of-use asset and lease liability recorded relates to the long-term Carpenters lease. Accounting for leases is a key audit matter as the balances recorded are material and there are significant judgements involved in determining the appropriate lease payments necessary to be used in the calculation of the lease liability and right-of-use asset

## OOH MEDIA LIMITED

### Lease Accounting

The accounting requirements of MSB 16 Leases are inherently complex, where specific and individualised lease-features drive different accounting outcomes, increasing the need for interpretation and judgement. This increases our audit effort and is a key audit matter. We focused on:

High volume of leases - the Group has a high volume of individualised lease agreements required to be assessed in determining the lease liability and right-of-use asset. A focus for us was the completeness of the lease population and the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key terms of the lease agreements, such as key dates, fixed rent payments, renewal options and incentives.

Complex modelling process - the Group developed a lease calculation model, which is largely manual and complex, and therefore is at greater risk for potential error and inconsistent application.

Relative magnitude - the size of balances has a significant financial impact on the Group's financial position and performance.

The most significant areas of judgement we focused on were in assessing the Group's:

Incremental borrowing rates used - these reflect the Group's entity specific credit risk and vary based on each lease term. The Group periodically engages an external expert to assist with determining each of the Group's incremental borrowing rates.

Lease terms where leases have renewal options - assessing the Group's judgement of whether it is reasonably certain renewal options will be exercised impacts the measurement of the lease, therefore is important to the accuracy of the accounting. We involved our senior audit team members in assessing these areas

## **COLLINS FOODS LIMITED**

### **Accounting for Leases**

The Group applies Australian Accounting Standard AASB 16 Leases in accounting for the Group's portfolio of restaurant leases. As a result, Right-of-use assets and Lease liabilities are recognised in the balance sheet. We considered this a key audit matter given the financial significance of the related balances in the Group's balance sheet and the critical judgements used in determining the lease term assumptions in the lease calculations, as well as the significant amount of audit effort in auditing the balances.

# Appendix D

## SAMPLE CONSTRUCTION FOR DESCRIPTIVE STATISTICS IN REGARD TO FREQUENCY AND MAGNITUDE OF LEASE LIABILITES

The starting population is all Australian listed entities over the period from 2016 to 2024. We removed entities missing data on total assets, total revenue, shareholders' equity, net statutory income, or a GICS sector. We also removed entities in the GICS Sectors: financials (GICS #40), real estate (GICS #60) and mining (GICS Industry 151040). Finally, we removed entities with totals assets less than \$5 million.

The finance and real estate sectors were removed both because of their fundamental different business models to the typical firm (e.g. REITS and exchange traded funds) and the nature of the accounting is different. The mining sector was removed because of the predominance of Metals and Mining entities in the Australian economy

The size cutoffs in total assets are as follows. Micro (< \$m23); Small (>\$m23 and < \$m101); Medium (>\$101m and < \$593m) and Large (> \$m593).

# Appendix E

## METHODOLOGY FOR CLASSIFICATION OF KEY AUDIT MATTER SUBJECT MATTER

We classified the KAMs into subject matters based on the following three broad decision rules:

- First, if the subject matter was not an impairment and related to a specific primary financial statement account (e.g., revenue, receivables, inventory, provisions, leases) then that account was the category.
- Second, we had categories for any subject matter that related to impairments, and business combinations. The impairment category includes impairments regarding all assets.
- Finally, we had a range of subject matters that were relevant to the audit that may not directly affect a specific financial statement account (e.g., information technology, due to implementation of enterprise resource systems).