

Final Report for AFAANZ Grant received for 2019-2020

1. Name, Position, Contact Details of Applicants

- a. Chief Investigator: Dr Tricia Ong (s.ong@ecu.edu.au)
- b. Associate Investigator: Associate Professor Hadrian Djajadikerta (h.djajadikerta@ecu.edu.au)

2. Project Title

Impacts of new leases accounting standard: A comparative study between the airline and retail industries

3. Updated Project Summary

This project investigates the impacts of the new accounting standard AASB 16 *Leases* on companies. AASB 16 was issued in 2016 to address the issues of off-balance sheet disclosures, and it became mandatory in 2019. The new standard requires all leases to be classified and reported as finance leases, with stringent exceptions for those with a lease period of less than 12 months and for assets with low value. AASB 16 requires a lessee to record the right-of-use of leased assets and the corresponding liabilities as leased payments in the balance sheet. The resulting effects are significant increases in lease assets and financial liabilities and decreases in lease expenses, and consequently, changes in profitability and leverage ratios. It is expected that companies from different industries may be affected with varying degrees depending on their reliance on operating leases.

This project aims to investigate the impacts of AASB 16 implementation on companies' key financial ratios. It initially selected to focus on companies in the airline and retail industries as airline companies generally have the majority of their air fleets accounted as operating leases, and companies in the retail industry are affected by their leased properties. However, impacts from the pandemic COVID 19 have significantly affected the financial performance of companies in both the airline and retail industries because of travel restrictions and lockdowns, making comparisons of companies' key financial ratios inappropriate. Hence, the project has expanded the study to investigate the impacts of AASB 16 implementations by companies in different industries. Specifically, the project examined the challenges, benefits and costs of implementing AASB 16 through a survey with respondents who have current or had prior accounting roles that involved AASB 16.

This study manages to get responses from 223 participants who worked in companies across different industries, with 48% of them working in a public accounting firm. Most of them became aware of AASB 16 in 2016 when it was officially launched, and most were made aware of the new reporting requirements through accounting professional bodies.

This study finds that while most participants understood the need for increased transparency in the reporting of leases, many of them indicated that there were many challenges with additional costs incurred in the implementation process. There were concerns of whether the intended benefits from the new reporting requirements were achieved as many cited confusions in reporting due to inadequate knowledge of new requirements and inconsistency in professional judgements. Many participants have indicated that staff training on AASB 16 is extremely crucial, and one of the most challenging aspects of the AASB 16 implementation was to explain to the stakeholders about the changes in key financial ratios due to the changes in the new accounting standards.

4. Funds Granted

\$4,000

5. Detailed Report on Expenditure of Funds against Budget Items

\$3,987 is used in engaging a professional market research company to administer the survey. A copy of the financial acquittal report is attached.

6. Outcomes

A draft manuscript is being prepared and carefully finalised, with a target submission to Accounting, Auditing and Accountability Journal by early next year.

7. Future Intentions

- a. Conference submissions: We plan to submit a paper to AFAANZ conference in 2022.
- b. Journal submissions: We plan to prepare a paper for submission to Accounting, Auditing and Accountability Journal.
- c. Grant applications: There are plans to expand the project to study further the impact of the new leasing accounting standard with comparisons to companies in different countries across different industries with overseas collaborators for grant applications to AFAANZ and CPA.
- d. Projects: We intend to share the results of this project with the Australian Accounting Standard Board to contribute to the post-implementation review exercise for AASB 16.

8. Summary of Outcomes and Benefits

We acknowledge and appreciate the funding from AFAANZ to support this research project. The funding has made it possible for us to engage a professional market research company to administer the survey to accountants and auditors to provide insights into the impacts of AASB 16 implementation. With the data collected, we are able to obtain empirical evidence on challenges, benefits and costs experienced by companies in the implementation of AASB 16. These results will provide stakeholders, including regulators and investors, with insights from the preparers' perspectives of AASB 16 implementation.

Submitted by: Tricia Ong & Hadrian Djajadikerta