



The Ultimate Guide to AASB 16:

Building a Controlled, Audit-Ready
Lease Accounting Process





AASB 16 is Australia's adoption of IFRS 16, issued by the Australian Accounting Standards Board and effective from 1 January 2019.

The standard replaced AASB 117 and brought most leases onto the balance sheet for the first time. For-profit entities complying with AASB 16 also satisfy IFRS 16 requirements.

In 2026, the challenge is no longer adoption – it's operational maturity. Finance teams need lease accounting to function as a repeatable, controlled month-end process: one that handles CPI-linked adjustments, modifications, multi-entity consolidation, and audit scrutiny without consuming close capacity or creating risk at year-end.

This guide is designed to help finance leaders move beyond technical compliance and build a lease accounting process that is consistent, auditable, and scalable as portfolios evolve.

Lease accounting software automates AASB 16 calculations, journals, and disclosures, helping finance teams stay accurate through modifications, CPI adjustments, and reporting cycles.



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AASB 16 at a glance

AASB 16 has fundamentally changed how Australian entities account for leases by requiring most leases to be recognised on the balance sheet through a right-of-use (ROU) asset and corresponding lease liability. The standard is designed to increase transparency around lease obligations and improve comparability across reporting entities.

Effective from 1 January 2019, initial adoption is now behind most organisations. In 2026, the focus has shifted from transition accounting to operational execution—repeatability, controls, modification handling, and audit defence.

Who AASB 16 applies to

AASB 16 applies to entities reporting under the Australian Accounting Standards, including:

- For-profit entities (who in complying with AASB 16 also satisfy IFRS 16 requirements)
- Not-for-profit entities, with additional “Aus” paragraphs applying specific requirements such as below-market-terms lease disclosures
- Tier 2 entities, which have simplified disclosure options available under AASB 1060





What's changed

The most significant shift under AASB 16 is balance sheet recognition. Leases previously kept off the balance sheet now generally require recognition of:

- Right-of-use (ROU) asset
- Corresponding lease liability

AASB 16 introduced a single lessee accounting model – removing the operating vs. finance lease distinction that existed under AASB 117 for lessees.

The ongoing impact is operational:

- Consistent identification of lease components across the portfolio
- Measurement discipline through CPI-linked adjustments, modifications, and reassessments
- Greater audit scrutiny around completeness, controls, and documentation

Why AASB 16 matters now

AASB 16 urgency in 2026 is driven by operational complexity and active regulatory review.

- **CPI adjustments are constant:** Australian leases frequently include CPI-linked rent reviews, creating ongoing remeasurement requirements that spreadsheet-based processes handle poorly at scale.
- **Group reporting adds structural complexity:** Consolidations, intercompany leases, and consistent policy application across entities increase the risk of inconsistency and manual adjustment at close.
- **Audit scrutiny focuses on process, not just output:** Auditors are testing how you arrive at the numbers, and evidence of controls, modification handling, and change tracking matters.
- **Post-implementation review is underway:** Following the ITC 55 consultation, teams need a strong operational baseline now, regardless of any future amendments.

Compliance is established. Operational control is what holds up under scrutiny.

What audit-ready means under AASB 16



Audit readiness under AASB 16 extends beyond producing a lease liability roll-forward.

Australian auditors are increasingly focused on:

- Completeness of the lease population, including embedded lease screening
- Consistency in policy application across entities and reporting periods
- Evidence supporting lease term assessments and renewal assumptions
- CPI adjustment methodology and the triggers that initiate remeasurement
- Discount rate determination and documentation
- Modification and reassessment handling, with clear before-and-after support
- Traceability from contract through to consolidated financial statements

An audit-ready process means:



Every lease has a clear, accessible documentation trail



CPI adjustments & remeasurements are processed consistently and supported period over period



Lease term and discount rate judgments are documented, not assumed



Outputs reconcile cleanly to the general ledger and group consolidation



Controls prevent unauthorised adjustments across entities

How to move from compliance to confidence



By now, most finance teams have achieved technical compliance with AASB 16. Transition entries were recorded, right-of-use assets and lease liabilities were recognised, and audit sign-off was obtained.

But compliance alone doesn't eliminate complexity. The real shift happens when AASB 16 moves from a periodic requirement to a controlled, repeatable process embedded in group finance operations.

Compliance is the baseline. What finance teams want is confidence that the numbers are right across every entity, the close is efficient, and the audit is defensible.

Know your numbers are right

As lease portfolios grow and CPI-linked adjustments become routine, the risk isn't usually technical misunderstanding – it's process breakdown. A CPI review triggers a remeasurement that isn't captured. A modification is processed manually and the schedule drifts. A formula is overwritten and nobody notices until audit.

The underlying concern becomes: Can we stay accurate across periods or are we rebuilding schedules every time a CPI review or modification hits?

Confidence in action:

- ✓ Standardised lease identification decisions applied consistently across the portfolio
- ✓ A consistent measurement approach across all entities
- ✓ CPI adjustments and modifications processed without manual schedule rebuilds

How lease accounting software helps:

- Handles modification and CPI complexity, generating calculations and journal entries automatically
- Supports portfolio-level scenarios across entities with multi-currency automation
- Maintains calculation logic consistently, no manual rebuilds required



Close faster with less manual work

Operational strain often surfaces at group reporting time. Differences in lease identification, CPI treatment, or policy application across entities create reconciliation work late in the close.

The recurring question becomes: Are we consistently identifying leases and applying policies across all entities or fixing inconsistencies at consolidation?

Confidence in action:

- ✓ Month-end follows a defined workflow, not a last-minute project
- ✓ Lease identification and policy application are standardised across entities
- ✓ Journals and disclosures are generated consistently each period
- ✓ Consolidated reporting aligns without manual adjustment layers

How lease accounting software helps:

- Generates journals and exports aligned to your reporting cycles
- Enables consolidated reporting where required, reducing manual aggregation

Be audit-ready without the scramble

Auditors are increasingly focused on how teams arrive at their numbers, not just the final balances. When documentation is fragmented across entities, spreadsheets, and shared drives, audit pressure builds quickly.

The core question becomes: Can we prove the numbers to auditors quickly and clearly without rebuilding the story behind them?

Confidence in action:

- ✓ Transparent calculations supported by documented assumptions
- ✓ Clear rationale for CPI methodology, lease term, and discount rate judgments
- ✓ Easy access to contract documentation and modification history
- ✓ Consistent support across entities for consolidated reporting

How lease accounting software helps:

- Centralises lease data and documentation in one source of truth
- Provides built-in audit trail visibility for changes and remeasurements
- Offers enterprise controls such as role-based permissions and period locking when required



Get started with the AASB 16 checklist

Whether you're evaluating lease accounting software or preparing to strengthen your existing process, this checklist is designed to help you move from fragmented compliance to a controlled, repeatable workflow under AASB 16.

Use it to pressure-test your current approach – and identify where manual work, hidden risk, or audit friction may still exist.

Data

Strong reporting begins with complete and consistent inputs.

- Complete your lease inventory, including embedded lease screening where applicable
- Capture renewal options, CPI-linked adjustments, variable payment structures, incentives, and your discount rate methodology
- Confirm entity structure, consolidation requirements, currencies, and intercompany lease arrangements

If lease data and judgments vary across entities, consolidation pressure will surface later.



System configuration

Consistency is established in configuration, not at consolidation.

- Set policy decisions (including short-term and low-value exemptions, if elected) and apply them consistently across entity groups
- Define your chart of accounts and journal entry structure
- Configure an approval workflow for new leases and modifications

The goal is a framework that doesn't rely on individual interpretation from period to period.

Reporting

Month-end should feel structured, not improvised.

- Set a defined month-end calendar and reporting cadence
- Standardise reporting packs and disclosure outputs across entities
- Validate your first period output against prior methods
- Once validated, move to an operationalised cadence rather than running parallel processes

Inconsistent reporting cycles create unnecessary reconciliation work at group level.

Audit readiness

Audit readiness under AASB 16 depends on documentation and transparency.

- Maintain a consistent evidence pack per lease: contract, key assumptions, calculations, and modification or reassessment history
- Enable audit trail functionality where available
- Add period locking and role-based controls if multiple stakeholders manage the portfolio

Audit scrutiny often focuses on judgment, so ensure the rationale is as clear as the calculation.









Australian-specific considerations

AASB 16 includes requirements and obligations that are region-specific.

- If not-for-profit: review the AASB 16 “Aus” paragraphs for below-market-terms lease disclosure requirements
- If Tier 2: confirm your simplified disclosure obligations under AASB 1060
- Monitor the AASB’s post-implementation review (ITC 55) for forthcoming amendments or guidance that may affect your process or disclosures

Signs your AASB 16 process may be at risk

Even compliant teams can experience operational fragility. You may want to reassess your process if:

-  CPI adjustments are being calculated manually outside your core lease accounting process
-  Lease modifications require rebuilding amortisation schedules from scratch
-  Entities apply discount rate or exemption policies inconsistently across the group
-  Intercompany leases are tracked separately and reconciled manually at consolidation
-  FX impacts create reconciliation surprises at period-end
-  Audit requests require gathering support from multiple systems, spreadsheets, or team members

Compliance confirms adoption. Control ensures it holds up every period.



Ready to build confidence into your AASB 16 process?

If your team is managing CPI adjustments manually, rebuilding schedules when modifications hit, or scrambling to pull audit support together at year-end, the process may be technically compliant – but operationally fragile.

There is a more controlled approach.

Cradle is purpose-built lease accounting software that supports AASB 16 with structured workflows, automated calculations, and consistent journal generation, helping Australian finance teams reduce manual risk, strengthen controls, and approach month-end and audit with confidence.



[Start your free trial](#)



About Prophix®

Prophix® is a global leader in financial performance management, empowering finance teams to lead with clarity, capacity, and confidence. From planning and budgeting to forecasting, reporting, reconciliation, and consolidation, Prophix brings it all together in one intelligent platform.

Prophix One™, the flagship Autonomous Finance Platform, combines AI, automation, and intuitive technology to simplify complex work and elevate finance to a more strategic role. With nearly four decades of innovation and a global footprint serving more than 3,000 customers in 100+ countries, Prophix is the trusted partner for organizations ready to transform finance into the driving force behind business growth.



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