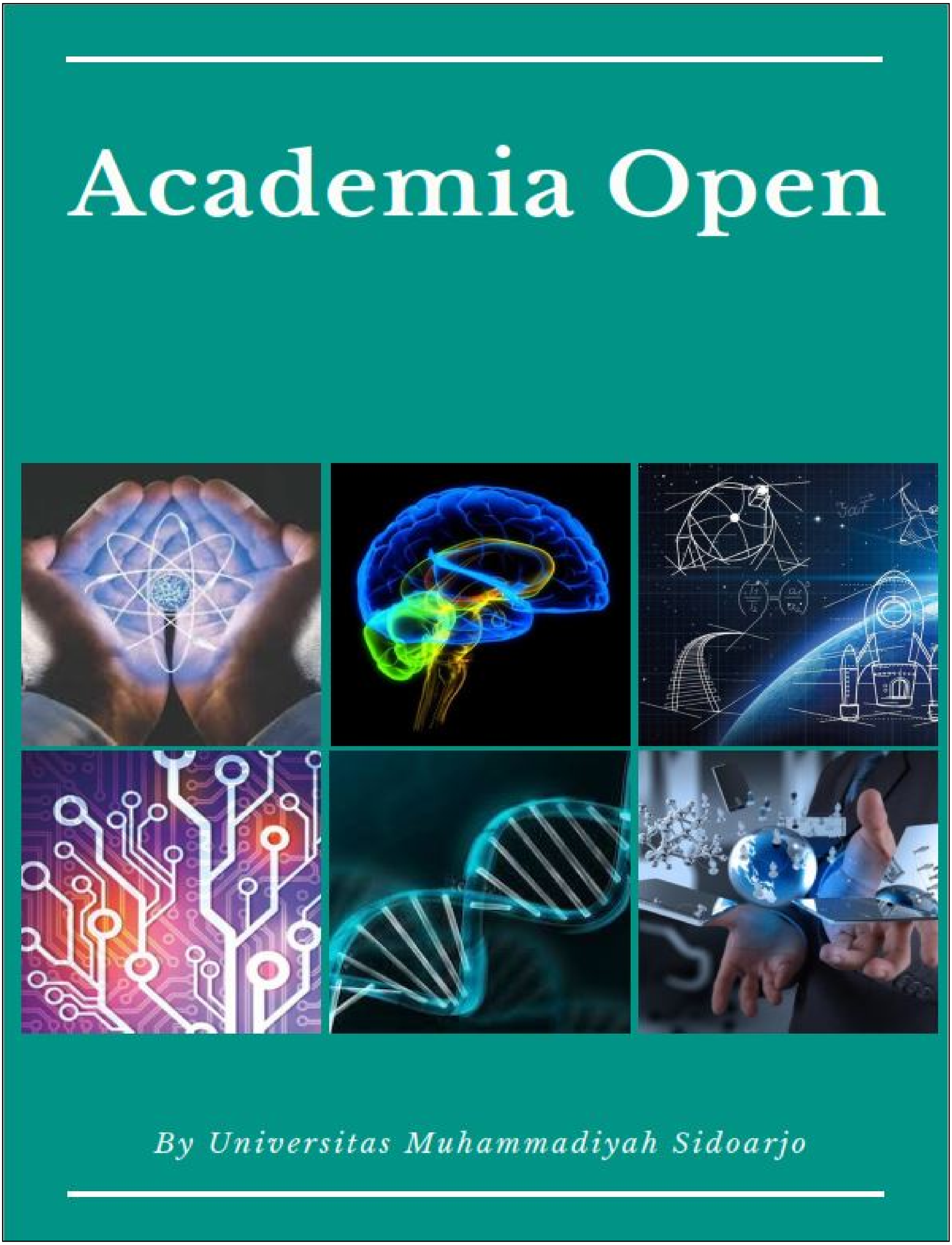
Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

Table Of Content

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)



ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

Originality Statement

The author[s] declare that this article is their own work and to the best of their knowledge it contains no materials previously published or written by another person, or substantial proportions of material which have been accepted for the published of any other published materials, except where due acknowledgement is made in the article. Any contribution made to the research by others, with whom author[s] have work, is explicitly acknowledged in the article.

Conflict of Interest Statement

The author[s] declare that this article was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Copyright Statement

Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

EDITORIAL TEAM

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

Article information

Check this article update (crossmark)

Check this article impact (*)

Save this article to Mendeley

(*) Time for indexing process is various, depends on indexing database platform

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

Lease Accounting Transformation under IFRS 16: Recognition and Reporting Changes

Transformasi Akuntansi Sewa Guna Usaha di bawah IFRS 16: Perubahan Pengakuan dan Pelaporan

Yusupova Malika Botiralievna, myusupova@rambler.ru, (1)
Andijan State Technical Institute, Andijan city, Uzbekistan

(1) Corresponding author

Abstract

General Background: Lease accounting plays a critical role in financial reporting by ensuring transparency in a company's asset usage and obligations. **Specific Background:** The shift from International Accounting Standard (IAS) 17 to International Financial Reporting Standard (IFRS) 16 represents a major development in the recognition and presentation of lease transactions. **Knowledge Gap:** Despite the adoption of IFRS 16, several academic and practical sources have failed to comprehensively address its implications and how it differs from the previous standard. **Aims:** This article aims to analyze the key features of IFRS 16, compare them with IAS 17, and evaluate their impact on financial statements. **Results:** The study reveals that IFRS 16 introduces a unified accounting model for lessees, requiring recognition of right-of-use assets and lease liabilities, thereby significantly affecting financial position and performance metrics. **Novelty:** Unlike prior literature that either overlooks or addresses lease accounting from a narrow national perspective, this article presents a comprehensive comparison grounded in international standards, supported by expert insights and real-world implications. **Implications:** The findings underscore the need for enterprises to adapt their accounting systems and internal processes to ensure compliance and maintain transparency, highlighting the importance of aligning national standards with IFRS to enhance global comparability in financial reporting.

Highlights:

1. IFRS 16 requires lease liabilities and right-of-use asset recognition.
2. Enhances financial transparency and reporting consistency.
3. Replaces IAS 17's off-balance-sheet lease approach.

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

Keywords: IFRS 16, lease accounting, financial reporting, right-of-use asset, IAS 17

Published date: 2025-04-08 00:00:00

Introduction

The problem of lease relations, their objects and subjects is recognized as the most pressing and controversial issue at the international level. The Resolution of the President of the Republic of Uzbekistan dated February 24, 2020 No. 4611 "On additional measures for the transition to international financial reporting standards" stipulates that joint-stock companies, commercial banks, insurance organizations and legal entities classified as large taxpayers must carry out their financial activities [1].

The challenges associated with the implementation of the new standard are highlighted by experts as follows: “The transition from short-term, low-risk leases to a broad financial instrument for hiding liabilities has become a challenge for accountants. The new lease accounting standards have been introduced amidst complete controversy” [12].

We believe that this is a sufficient reason to once again emphasize the relevance of the issue under consideration. However, an analysis of scientific research in this area shows that this issue is slightly beyond the scope of research by accounting specialists.

Methods

In the textbook "Book of Accounting" by N.N. Ilisheva, E.R. Sinyanskaya, O.V. Savostina, accounting for the lease of fixed assets was not considered. In the textbook "Financial Accounting" written by S.B. Baimukhanova, the author approached the issue one-sidedly, or rather, he approached it based on the country's practice.

It should also be recognized that in some literature, lease accounting issues are covered according to international standards: "Leasing transactions are accounted for in accordance with IFRS 17 "Leases" (valid until 01.01.2019) and IFRS 16 "Leases" (developed on 01.01.2016 and comes into force on 01.01.2019).

“A lease is an agreement whereby the lessor grants the lessor the right to use an asset for an agreed period of time in exchange for one or more payments” [2]. However, the above definition does not fully meet the requirements of international standards today. The definition provided describes only three criteria for a lease. In particular, it states that it is an agreement that grants the right to use an asset for an agreed period of time in exchange for payments.

In the textbook “Accounting and Financial Accounting” written by I. V. Antsiferova, the definition of lease is given in its own way: “Lease is the temporary possession and use of fixed assets or their provision and receipt for temporary use for a certain fee. The relationship between the owner of the property and the lessee is regulated by a lease agreement (rent of property). The object of the lease is usually individual fixed assets or their parts or a whole set of fixed assets (enterprises). The lease agreement may provide for the possibility If the condition for the acquisition of the leased property is not provided for by the lease agreement, it can be determined by an additional agreement of the parties. If the term of the agreement exceeds one year, the property must be registered in the state register. The agreement specifies the amount of rent payable by the lessee for the use of the leased property” [5].

Rent can be reflected as follows:

Debit "Fixed assets", sub-account "Leased property" - fixed assets leased.

Credit "Fixed assets", sub-account "Own property"

Thus, the owner of the asset transfers the asset to the lessee as part of the leased property [5].

Alan Teixeira, speaking of the lease standard, noted that “the standards are not robust enough to cope with a shock to the economic system” [9]. Alan F. Lisa acknowledged the problems of applying lease accounting: “Accounting for leases is clearly not a simple matter. Indeed, leases raise a host of issues that involve fundamental conceptual questions in accounting and finance. Any solution to these issues, such as ED 29, in turn raises problems of application” [11].

Other authors also wrote about the importance and specifics of applying IFRS 16: “Among the results obtained, it is emphasized that the financial indicators of companies have suffered a fatal impact when changing IFRS 16 on leases, due to changes in the items of financial position and presentation in disclosures of information, the uniformity of information with previous periods, among the factors are an increase in assets, an increase in liabilities and a decrease in operating expenses, which have a direct impact on the indicators that users take into account in their analysis” [10].

The comprehensive analysis of lease accounting under IFRS 16 in the article by Pereira, J. and Mendes, D. once

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

again confirms the importance of lease accounting issues in the modern environment [14].

This is why, already in 2016, explanations were provided to IFRS 16 by the audit firm KPMG [15].

As we can see, the issue of rent, rental relations between the lessee and the lessor and their consequences in accounting requires a deep analysis of theory and practice, as well as revision in accordance with the principles established in international standards.

The comparative analysis method was used to describe the new procedure for accounting for lease relations and its features. Using the research method, on the one hand, definitions and approaches in the existing literature were analyzed, on the other hand, a comparison was made of the lease calculation mechanism developed in International Accounting Standard No. 17 and the International Financial Reporting Standard No. 16 approved instead. This made it possible to talk about the implemented changes that created their economic relations, the proposed procedure and its advantages.

It is no coincidence that International Financial Reporting Standard No. 16 "Leases" was adopted in January 2016 based on the revision of International Financial Reporting Standard No. 17 "Leases". From January 2019, the new 16th IFRS standard will be applied to financial statements.

The main objective of approving the international standard on leasing was to define a unified methodology for accounting for rent. Yulia Mironova, Head of the Department of Consulting in the Sphere of Accounting Processes of the Russian Federation, Timlis LLC, in her article "IFRS 16 "Leases": Problematic Issues of Applying the Standard and Automating Calculations Based on the SAP Product" explained it as follows: "The main objective of the standard is to introduce a unified accounting model for the lessee, to increase the transparency of the activity. Compared with the standard IFRS (IAS) 17 "Leases" (hereinafter IFRS (IAS) 17), the recognition criterion is the right to use the identifiable asset and the right to receive almost all economic benefits from the use of the identifiable asset. At the same time, the accounting of the lessor has not changed at all compared to IFRS (IAS) 17" [8].

International Financial Reporting Standard No. 16 states the objective of the standard as follows:

"1. This standard establishes principles for the recognition, measurement, presentation and disclosure of leases. The objective of the standard is to ensure that lessees and lessors provide disclosures that faithfully represent those transactions. This disclosure provides the basis for users of financial statements to evaluate the effect of leases on the entity's financial position, financial performance and cash flows.

2. An entity shall consider the terms of the contracts and all relevant facts and circumstances in applying this standard. An entity shall apply this standard consistently to contracts of similar description and in similar situations" [3].

So, what is the difference between IFRS 16 and IAS 17? What are the benefits of Standard 16?

Before the adoption of IFRS 17 Leases, companies did not reflect information about the leased asset or lease liability indicators in their balance sheets. After this standard came into effect, the procedure for reflecting lease transactions in the financial statements of companies was changed. The main change is that the purchase of an asset is reflected as if it were carried out using debt funds. Further, when considering the nuances of reflecting long-term property leases, lease accounting is carried out in parallel with the accounting of long-term debt.

IFRS 16 defines a lease as "an agreement that provides, in return for a consideration, the right to control the use of an identified asset for a specified period or specific components of it." For such an agreement to exist, the user of the asset must have the following rights:

• Obtaining substantially all the economic benefits from the use of the asset.

• The right to direct the use of the asset.

The changes being made to international standards, or more precisely, the development of a new standard on rent, are considered in this article based on a comparative analysis of both standards

Result and Discussion

Based on the above theoretical analysis, we describe the application of some important aspects defined in International Financial Reporting Standard No. 16:

First, one of the important characteristics of a lease is the existence of an "identifiable asset". This is usually done by specifying the asset in the contract or in certain components of the contract. For an asset to be "identifiable", the supplier of the asset must not have the right to substitute an alternative, i.e. similar, asset for the entire period

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo

DOI: 10.21070/acopen.10.2025.10801 . Article type: (Business and Economics)

of use of the asset.

Each contract entered into in the course of business is concluded on the basis of specific terms. This means that in some cases the agreements between the lessor and the lessee may be different. In particular, if repairs are necessary to keep the asset in working order, who should be responsible for this process is a separate issue. If an asset needs to be repaired, the contract may specify the right or obligation to replace it with another one. The fact that the lessor has the right or obligation to replace the asset if repairs are necessary does not prevent the asset from being an “identified asset”.

It is evident that the identified asset may be interpreted differently by industry experts. For example: “It is additionally necessary to assess whether the lessor has the right to replace the asset. If the lessor has the opportunity to replace the asset and receive economic benefits from the exercise of its right to replace, such a right exists. This means that the lessor receives economic benefits from the exercise of such a right. For example, a lessee leases a vehicle with the right to replace it with a vehicle with lower technical characteristics in accordance with the terms of the agreement. In this case, the lessor receives economic benefits from the possibility of exercising his rights.” [8] Thus, the design of the lease agreement emphasizes that the leased item can be replaced by the lessor, that is, the owner of the property**.**

In our opinion, there is another side to the acquisition of the right to use an identified asset, that is, the question of whether the lessor has the right to replace it or is obliged to replace it is only one side of the issue. The second part is related to the lessee. The lessee reflects, that is, recognizes the leased asset, i.e. the fixed asset, in its accounting system, according to conceptual principles, at the time of signing the lease agreement. So, if the lessor has the right or obligation to replace the asset, how does the lessee ensure that the replaced asset will be reflected in the financial statements? In what cases is replacement possible? These issues are closely related to the concept of "identified asset".

In specific cases, the terms of the exchange should be clearly stated in the lease agreement. It is important that the exchange terms specify the obligations of the lessor regarding the condition of the asset, as well as the obligations of the lessee during the period of use of the asset, since, in our opinion, a situation caused by the fault of the lessee should not be a basis for exchanging the asset.

In order to answer the questions posed, we believe that it is necessary to analyze the consequences of the substitution. As a result of the exchange, there is a high probability that the name of the asset will not change, but other indicators will. For example, the cost, service life, etc. may differ from the previous asset. This situation, naturally, requires the receipt of the leased item in connection with the write-off and replacement of the leased item reflected in the balance sheet.

For this reason, we would like to emphasize that the concept of "identified asset" was not included in the international standard for nothing. This means that the right of substitution can be waived only in exceptional cases, as we said above, by specifying specific conditions for both parties.

Secondly, under IFRS 16, the customer has the right to direct the use of the identified asset. This can be explained as follows:

• The customer has the right to direct how and for what purposes the asset will be used during the period of use;

• The relevant usage decisions, i.e. agreements, are predetermined. In this case, the customer has the right to use the asset during the period of use, and the lessor does not have the right to change the usage instructions.

This issue raises additional questions: is it sufficient to specify in the lease agreement that the customer has the right to determine the method of using the asset, or should the agreement clearly indicate the purpose of its use? In our opinion, it is usually sufficient to specify in the lease agreement that the buyer has the right to determine the method of using the asset. Otherwise, the right of business entities to maintain commercial secrets will be violated.

Another feature of the use of International Financial Reporting Standard No. 16 is the reflection of the obligation arising from the direct lease of an asset.

It is known that according to International Financial Reporting Standard No. 17, leases are divided into operating and finance leases. With very few exceptions (see Section 3.4 for more details), IFRS 16 eliminates the distinction between operating and finance leases in the financial statements of lessees. Lessees recognize a right-of-use asset and a corresponding liability at the beginning of the lease term. On the specifics of the new standard regarding operating leases, Yan Shi Gibson notes: “This standard eliminates off-balance sheet financing by capitalizing operating leases. This article explains the impact of IFRS 16 on financial performance” [13].

Conclusion

The first conclusion concerns the definition of a lease, and we believe that this is a fundamental issue. Unlike the above, i.e. IFRS No. 16, the national standards of Uzbekistan provide the following definition: "A lease is the provision by agreement of one party (the lessor) to another party (the lessee) of temporary possession and use, or the right to use, property for an agreed period." In our opinion, this definition should include the concept of "identified asset." At the same time, we believe that attention should be paid to the phrase "temporary possession." Regarding the definition of a lease, we propose the following option: "A lease is an agreement to transfer the right to use an asset by the owner of a specific identified asset, i.e. the lessor, for a specified fixed period and during that period to the lessee in exchange for agreed payments."

The second implication relates to the measurement and accounting treatment of leases. IFRS 16 requires that the right-of-use asset and lease liability be initially measured at the present value of the outstanding lease payments at that date. The discount rate used to determine the present value must be consistent with the interest rate specified in the lease. This requirement is consistent with the accounting treatment for finance leases in International Accounting Standard 17.

The third conclusion is related to the fact that the identified asset is reflected in the accounting system as an item of financial statements. If the "right-of-use asset" is acquired for a period of more than one year, it is natural to recognize it and indicate it as a long-term asset, for example, fixed assets. In the absence of ownership, the lessee pays for this asset, or more precisely, for the right to use the asset. However, the fact that this payment is urgent requires the reflection of a long-term liability. Thus, the principles and procedure for recognizing assets and liabilities remain the same as in the old standard. I would also like to emphasize that when concluding a short-term lease agreement, it is natural that the financial statement of the lessee reflects not assets, but expenses and related short-term liabilities.

The main conclusion is that the new IFRS 16 pays more attention to the essence and legal aspects of leases and related relationships. In this regard, I would like to emphasize once again that the inclusion of items related to lease relationships in the structure of long-term assets and long-term liabilities does not lead to fundamental changes. It is possible that there will be proposals to change the terms or account names used so far.

Thus, the process of transition to the new IFRS 16 standard for accounting of lease agreements is quite long and requires a lot of work. Responsibility for the formation of reliable financial information requires the involvement of a large number of resources from financial departments, IT departments, as well as departments that make further decisions on the formation of the portfolio of lease agreements.

References

1. The President of the Republic of Uzbekistan, Resolution No. 4611 on Additional Measures for the Transition to International Financial Reporting Standards, Feb. 24, 2020. [Online]. Available: https://lex.uz/uz/docs/4746047
2. Association of Business Teachers of the Republic of Uzbekistan, Financial Accounting-1, p. 131. [Online]. Available: https://renessans-edu.uz/files/books/2023-11-02-04-41-8_00452683D8C3F2B1F6A9E9D5734DEC0F.pdf
3. ACCA Global, "IFRS 16 Leases," ACCA Technical Articles, [Online]. Available: https://www.accaglobal.com/cis/ru/student/exam-support-resources/dipifr-learning-resources/technical-articles/ifrs16.html
4. International Accounting Standards Board, International Accounting Standard (IAS) 17: Leases. [Online]. Available: https://nrm.uz/contentf?doc=650066_(ias)_17_arenda&products=1_vse_zakonodatelstvo
5. I. V. Antsiferova, Bukhgalterskiy Finansovyy Uchet, Moscow: Dashkov & K Publishing, 2016.
6. S. B. Baykhumanova, Finansovyy Uchet, Almaty: Ekonomika Publishing, 2008.
7. N. N. Ilysheva, E. R. Sinyavkaya, and O. V. Savostina, Bukhgalterskiy Uchet, Yekaterinburg: Ural University Publishing, 2016.
8. Yu. Mironova, "IFRS 16 'Leases': Problematic Issues of Standard Application and Calculation Automation Based on SAP," FinOtchet, [Online]. Available: https://finotchet.ru/articles/1475/
9. A. Teixeira, "Accounting for Leases – Lessons from COVID-19," Pacific Accounting Review, vol. 33, no. 2, pp. 238–245, 2021. [Online]. Available: https://doi.org/10.1108/PAR-09-2020-0186
10. O. C. Castellanos Polo, J. A. Velasquez Ochoa, and J. C. Cardona Acosta, "Financial Statements in Accordance with IFRS 16 for Leases in the Context of COVID-19," International Journal of Membrane Science and Technology, vol. 10, no. 1, pp. 910–917, Jul. 2023.
11. A. F. Fox, "Accounting for Leases – The Major Issues," Managerial Finance, vol. 9, no. 2, pp. 15–23, 1983. [Online]. Available: https://doi.org/10.1108/eb013519
12. Y. S. Gibson, The New Lease Accounting Standards (Topic 842): An Empirical Analysis of Its Impacts on Key Financial Performance Metrics, Doctoral Dissertation, Liberty University, 2021. [Online]. Available: https://digitalcommons.liberty.edu/doctoral/3143/
13. S. Durocher, "The Impact of IFRS 16 on Lessees' Financial Statements," Journal of International Accounting Research, vol. 18, no. 1, pp. 45–68, 2019.
14. J. Pereira and D. Mendes, "Lease Accounting Under IFRS 16: A Comprehensive Analysis," European Accounting Review, vol. 28, no. 3, pp. 567–589, 2019.
15. KPMG International, IFRS 16 Leases: The New Standard Explained, 2016.

ISSN 2714-7444 (online), https://acopen.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo