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IFRS 16 "LEASES"

Supervisor

Antonio Davola

Prepared by

Yousef Qaisi

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ABSTRACT:

The aim of this study is to show and to represent the concept of IFRS 16 and explain the effectiveness of the IFRS 16 on the financial statement of the companies and explain that through the literature reviews and previous studies. For example, knowing the financial position statement of the lessee organization following the transition to the new IFRS 16 financial reporting standard and the results of the basic ratio adjustment. For this reason, the potential impacts of the implementation of the relevant standard on the financial condition of an organization operating have been analyzed. Our objective is to estimate the effect on the listed issuers of financial statements of the implementation of IFRS 16 and the various impacts that the new standard could have on various sectors of operation. The effects of IFRS 16 on the ratios of debt / total assets, EBITDA / revenue and debt / equity are calculated in this study. The findings summarize the impact on the results of the entity and its net financial position. The study indicates that major improvements would occur in the leaseholder's financial statements. In particular, an increase in lease assets, an increase in financial liabilities and a reduction in equity will be reflected on the balance sheet, while an increase in EBITDA and an increase in financing costs will be reflected on the income statement. Depending on the usage of operating lease contracts between the various business sectors, the effect of the implementation of IFRS 16 would be various. The data of this research is the secondary data (previous studies and the frame work). The result of the study that there are a clear effect/impact on the financial statement and how companies will be most affected by IFRS 16, and there are no longer differences between IFRS 16 and IAS 17.

Keywords: IFRS16, IAS 17, financial reporting, Financial Leases, Financing, EBITDA , financial statements

Table of Contents:

Chapter One:

General Framework

1. **Introduction**
2. **Objective of the Study**
3. **Research Problem and Questions**
4. **Importance of the Study**
5. **Methodology of the Study**
6. **Structure of the Study**

Introduction:

In January 2016, the International Accounting Standards Board (IASB) released IFRS 16 "Leases" to replace the existing IAS 17 "Leases" standard. IFRS 16, which is mandatory for financial years starting on or after January 2019, sets out new guidelines for the identification and calculation of rentals, leading to a shift in value for the products recognized in the financial statements, as well as for the financial metrics measured on the basis of those.

The new IASB and FASB lease models seek to increase the consistency of financial reporting. To this end, both standard setters require the identification of assets and liabilities for operating leases.

The studies on the changes made to the lease accounting were finalized with the release of IFRS16 Lease Standard as a result of a long period of time and commitment in January 2016. The related norm shall ensure (1) that all leases are published in the same manner, (2) that unrecorded leases are displayed in the financial statements and (3) that more clear, relevant and comparable information is given.

In this study, we will know and explain the IFRS 16 in all its details and the effect of that.

Objective of Study:

This study aims to investigate and show an introduction to IFRS 16 and show some of the relevant literature reviews of IFRS 16 and demonstrate the important framework on this topic. The purpose of this article is to present the new IFRS 16 by making a contrast between IAS 17 and IFRS 16, explaining the key consequences arising from its implementation.

Research Problem and Questions

The environment of the business world today is complex and unstable, so it requires greater attention and understanding of the financial statement, which is important for the manager who makes the decision and also to evaluate investment projects, determine the capital budget and makes the required investment in suitable conditions and in order to enhance the quality of financial reports in the future, we must understand more and focus on international financial reporting standards with credibility and transparency in all financial sectors, so in this study,

the researcher will present and show an introduction about IFRS 16 and the impact of this IFRS through the previous study.

The study problem can be expressed through the following question**:**

1. What is IFRS 16**?**
2. What is the impact of IFRS 16**?**

3. Does IFRS 16 enhance transparency in disclosure for enterprises?

Importance of the Study:

The significance of this study lies in the concept and explanation of IFRS 16 and the impact of IFRS 16 on the company's financial statements. Through the meaning and effect of IFRS 16.

Due to the importance of leasing, leasing is a very mature commodity in the foreign market as well as in all European countries and has been used by economic agents for several decades, for a brief history of rental transactions, by Taylor (2011)

Methodology of the Study:

The approach of this study is carried out by reviewing the IFRS 16 literature in order to examine and extend the range of definitions and conceptualizations in the different works of literature. The approach is assisted by the increasing literature on systematic reviews of accounting literature (Rousseau et al., 2008). This approach is an effective way to pool and combine knowledge on a subject that has been explored from a variety of viewpoints and perspectives. Denyer and Tranfield (2008) suggested that a systematic review be aimed at resolving a well-identified problem rather than merely presenting a description of the work on a single subject.

Inspired by systematic literature reviews, the researcher has established a review methodology that involves a number of steps **.**This method phase allowed the researcher to define the keywords for the initial search. The second stage involved incorporating search terms into the following databases – SCOPUS, EBSCO **,**Emerald and Google Scholar – which collectively cover a wide range of social science disciplines.

This initial search resulted in a large amount of research from a number of viewpoints and perspectives **.**The quest for these findings offered a much narrower and more feasible range of results for the advancement of this research.

Structure of the Study:

That the structure of the study is organized as follows:

- Chapter one: this chapter includes introduction, research problem and questions, objective of the study, importance of the study, methodology of the study and the structure of the study.
- Chapter tow (theoretical framework): this chapter contains an introduction to the chapter topics, defines the concept of IFRS 16 and consists of a framework of the research problems posed in

this research. The subject of the study was discussed and the comparative studies of previous researchers on a similar subject were discussed. Independent variables have been identified and comprehensive material analysis by previous researchers has been included to ensure a clear understanding.

- Chapter three (literature review): this chapter includes introduction of chapter topics, literature reviews, literature review summary, and what distinguishes this study from previous studies.
- Chapter four points out the Implication and analysis of the study of this research. Also, the overall findings of the results in Chapter 2, compared with previous findings on the same subject, will be highlighted. The research questions set out in chapter one will be answered with a detailed review. Also, areas for further study will be highlighted and the overall results will be concluded by the end of the chapter.
- Chapter five: this chapter includes recommendations of this study and future researches.

Chapter two:

Theoretical Framework

2-1 Introduction:

This chapter provides a theoretical background of the study; also, this chapter include a literature review, many of previous studies.

2-2 Theoretical Framework

That is clear that those who set out accounting principles (i.e., IASB or FASB) are subject to pressure from the management and shareholders of the major large corporations with the intention of optimizing their interests (Watts & Zimmerman, 1978:112).

The development of new accounting standards should therefore take all these factors into account and aim not only to concentrate on certain main features, such as**:**

- Improved quality of information (more reliable **,**detailed and timely information on financial statements **;**
- a slight gap in awareness of information between small investors and professionals (adverse selection **;**
- Improved comparability, removing many international variations in accounting standards and standardizing reporting formats; but mainly aiming to maximize the benefits to shareholders and, clearly, to managers (Ball, 2006, Brown, 2011).

There is no difference in the description of the lease between IFRS 16 and IAS 17. IFRS 16 directs the implementation of the amendments. Currently, the movie is based on the principle of power. IFRS 16 offers clarification as to whether the content of the contract, including the lease, gives users the right to use the asset for the time they use (IASB, 2016a:11).

In order to meet these needs and improve financial coordination, the standard setters have agreed to implement a new standard, also in the sense of leasing, namely IFRS 16.

The explanations for the current IFRS for leases are as follows **:**

- operating leases shall not be recognised in the balance sheets of the lessees, which shall affect the comparability of the financial statements of the companies operating in the same field, in particular, those which purchase the assets held and those which use leasing;
- 85 percent of the lease contracts are not included in the balance sheet of the company **;**
- more than USD 2,000 million will be able to "emerge" in the balance sheets (survey conducted by IASB and FASB in 2012);
- The financial statements of the companies are not comparable **;**
- Norm setters acknowledged that operating leases are used widely by companies with financial challenges to fund their operations and the rise in debt is not reflected in their financial statements. In particular, the Standard Setters carried out a specific analysis on the financial statements of the bankrupt companies and observed that in the years prior to the bankruptcy, they dramatically increased the use of operating leases, which provided them with an ability to hide real debt (FASB and IASB analyzes).

2-2-1 IFRS 16 Leases:

IFRS 16 is the outcome of a collaborative project undertaken by the IASB in collaboration with the U.S. National Standard Setter, the FASB, to resolve the issues posed by users of financial statements about decreased comparability between financial statements due to the very different accounts applied to operate and finance leases and the limitations on operating lease and organization details **.**

To resolve these issues, the two boards have agreed to develop a new approach to lessee accounting that allows the lessee to identify the assets and liabilities for the rights and responsibilities generated by the leases (with some minor exceptions) and to improve the mandatory disclosure of the leases.

IFRS and US-GAAP joint project key aspects:

In November 2009, the IASB and the FASB made an additional pledge to strengthen IFRS and US GAAP and to achieve their convergence in a joint statement. Initially, a Memorandum of Understanding (MOU) was released for major project proposals in 2006, which was later revised **.**

The Leasing Law was one of the main standard changes **.**

The primary purpose of the project was to enhance financial statements in order to identify all assets and liabilities resulting from lease contracts in the statement of financial position **.**

The definition was a radically new approach; it took almost ten years to approve and issue new IFRS and ASC requirements **.**

In the next segment, fundamental improvements will be compared to both the current IFRS – old IAS and IFRS – and the US-GAAP relationship.

The main advantages of the global accounting norm can be set in three separate fields – Armstrong – Barth – Jagolinzer – Riedl (2010); Barker (2004):

(a) Transparency: This helps investors to make more informed decisions.

b) Accountability: increase the consistency of accounting and reduce the knowledge disparity betwee n within and outside the organization.

(c) Efficiency: markets can work more efficiently by providing a single, stable universal norm.

Both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have worked on an accounting standard that represents all lease processes on the bala nce sheet in order to comply with the concept of equal representation in the direction of liabilities res ulting from the lease process to reflect the sum to be reported on the balance sheet (IASB 2).

IFRS 16 terminates the implementation of the following standards (IFRS16: para. IN3):

- “IAS 17 Leases,
- IFRIC 4 Determining whether an Arrangement contains a Lease,
- SIC-15 Operating Leases—Incentives,
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 applies to all leases, including sub-leasing of the right to use properties, except for particular things protected by other standards **:**

- leases for exploration or use of minerals, oil, natural gas and similar non-regenerative resources **;**
- Contracts within the framework of the IFRIC 12 Service Concession Agreements **;**

- Intellectual Property Licenses within the scope of IFRS 15 Income from Contracts with Customers **;**
- For lessees, leases of biological properties within the scope of IAS 41 Agriculture and rights kept under licensing agreements within the scope of IAS 38 Intangible assets for products such as a motion picture Movies, video records, plays, manuscripts, patents and copyrights.

IFRS 16 attempts to differentiate a lease from a service contract on the basis of whether a customer may manage the asset being leased **.**

A contract is, or includes, a lease if the contract grants the customer the right to manage the use of the defined asset for a period of time in return for consideration. Control is assumed to exist if the consumer has (i) the right to receive substantially all the economic benefits from the use of the resource specified, or (ii) the right to guide the use of that asset.

At the beginning of the contract, the lessee shall accept both the right of use of the asset and the responsibility of the lease on the balance sheet. The date of the initial acceptance of the lease is known as the date on which the lessor makes the leased asset available to the lessor (known as the date of commencement).

In order to calculate the right of use of the asset, the lessee is expected to include the cost of the right **:**

- the amount of potential liability as measured by the lease agreement at the start date **;**
- any rental fee charged to the lessor at or before the start date, net of any potential benefits earned from the lessor **;**
- possible initial direct costs incurred by the lessee **;**
- an estimation of the costs to be incurred by the lessee in the event of dismantling and/or withdrawing the leased asset, restoring the position of the asset or restoring the leased asset under the terms and conditions of the contract.

Important issues relating to IFRS 16 are as follows (IASB, 2016b**):**

- Involved companies shall be allowed to apply IFRS 16 as long as they apply IFRS 15 **.**
- The most important reform made by the new standard is the transparency of all leases on the company's balance sheet and the improvement in the transparency of assets and liabilities **.**
- With IFRS 16, there will be no need to classify the leases as operating or financing leases in terms of the lessor and all leases will be known as financial leases **.**

- Properties with a duration of less than 12 months and low-value properties, such as personal computers, shall be excluded from these liabilities;

IFRS 16 Lease Accounting includes identification of the rights and obligations of the lessee resulting from leases in assets and capital. The new approach has revealed the product of a more secure submission of the lessee's assets and resources, along with an improvement in transparency.

In addition, IFRS 16 allows a more consistent presentation of the financial leverage and working capital of the lessee (IFRS 16: para. IN1-IN6). There was no major and separate liability in IFRS 16 relative to IAS 17 in terms of the lessor. The lessor shall continue to define its leases as finance or operating leases (IFRS16: para. IN14).

Lessee operations applying IFRS 16 (IASB, 2016a: 12):

- The assets and liabilities relating to the leases should be displayed on the balance sheet and the possible lease payments should be based on the present values **.**
- Amortization of the lease assets and interest on the lease liabilities should be recognized in the income statement during the lease duration **.**
- It should distinguish the leases based on the present value of the gross cash payments and should also distinguish the interest costs in the cash flow statement (belonging to financial or operational leases).

2-2-2 IAS 17:

IAS 17 "Leases **"**

Pursuant to the terms of IAS 17, the present lease arrangement is an operating lease. Consequently, the right to use the asset and the obligations of the lease agreement are not disclosed in the statement of financial condition. However, the notes need to present the total sum of payments produced by the contract, as well as the breakdown of payments for the following periods: up to one year and between one and five years (IAS 17.35).

The most generally accepted and influential model was developed and implemented by Imhoff, Lipe, and Wright (1991, 2001); Imhoff et al. (1991); and Beattie – Edwards – Goodacre (1998). Calculates the current value of all assets and liabilities. Calculation of the off-balance sheet assets includes information which is not directly accessible from the financial statement. In this case, this model provides an estimation of leased assets and liabilities.

Leasing liability is measured using the effective interest method, where the depreciation of the leased properties is measured in linear depreciation after inception.

The gap between assets and liabilities is most important in about half of the lease terms that can be found on the Imhoff graph after the t2 period. Imhoff reported that the value of unrecorded assets ranges between 60-80 percent of the reported off-balance-sheet liabilities in most cases.

As a rule of thumb, 70% of the unrecorded value of the lease obligation was used as unrecorded properties.

While leasing is a significant source of financing for many companies, IASB reports that in 2014, 85 per cent of the lease obligations of companies applying IFRS and USGAAP, i.e. $3.3 trillion, were not disclosed in their balance sheets (IASB, 2016a).

An reason for this would be that both the current IAS 17 and similar US standard3 allow for the class ification of leases in finance leases (which are reported by the lessee in the statement of financial

position) and operating leases (for which the lessee discloses details only in the notes).

There is no difference in the description of the lease between IFRS 16 and IAS 17. IFRS 16 directs the implementation of the amendments.

Currently, the documentary is based on the principle of command. IFRS 16 offers clarification as to whether the content of the contract, including the lease, grants users the right to use the asset for the time they use (IASB, 2016a: 11).

The existence of the two models laid down by IAS 17 has been criticized over the years, as it does not make a complete image of:

- Properties that are regulated and used to carry out the activities;
- Liabilities associated with lease arrangements that can not be avoided economically.

When the first-time tenant acknowledges lease liabilities and right-of-use properties, the following method can apply to all of its leases (IFRS 16: para. D9B):

(a) “Measure a lease liability at the date of transition to IFRSs.

A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs.

(b) Measure a right-of-use asset at the date of transition to IFRSs. The lessee shall choose, on a lease-by lease basis, to measure that right-of-use asset

At either:

(i) its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs; or

(ii) (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to IFRSs.

(c) Apply IAS 36 to right-of-use assets at the date of transition to IFRSs".

Chapter Three:

Literature Review

3-1 Introduction

3-2 The literature review for this study

3-1 Introduction

This chapter include a literature review for this study, literature review summary.

3-2 The literature review for this study:

1- B. Giner & F. Pardo. (2018), They conduct a value-added analysis to investigate whether as-if capitalized operating leases are valued by market users in a relatively unexplored environment. They consider the Spanish listed companies and use hand-collected data on operating leases disclosed in the notes to the financial statements to capitalize the assets and liabilities in a positive manner. Their research shows that investors in code-law countries with less developed markets and low compliance quality do not behave differently from those in common-law countries with more developed markets and tighter enforcement policies. Investors value similarly understood debts and operating lease liabilities arising from details in notes in the retail sector. In this opinion, these findings may give some relief to managers in the most impacted sectors, as they suggest that the move would not have a significant effect on the stock exchange.

2- Săcărin, M. (2017), This article aims to present, based on a comparative review of IFRS 16 and IAS 17, the key implications of the application of IFRS 16 for the financial statements and the financial indicators calculated based on the information presented by IFRS 16. The results of this study that, unlike the previous IAS 17, IFRS 16 can no longer distinguish between financing and operating leases for the lessee. Also, all lease contracts will be recorded in the Statement of financial position. At the lessee, this care would result in improvements to the details reported in the financial statements. In this line, the valuation of the assets and liabilities disclosed in the financial position statement would increase. Also, the gain or loss of the duration will no longer be calculated on a straight-line basis, as is usually the case with operating leases. The cost of the lease contracts, consisting of the amortization of the right of use and the cost of financing would vary between the reporting periods, depending on the length of the contract, the amortization of the right to use the asset, the payment deadlines and the implied interest rate or the marginal interest rate. Although the overall net cash flow will not be affected, the cash flow statement will display higher operating cash flow, while the net cash flow created by the funding activities will decrease by the same amount. A change in the amounts reported in the financial statements would indirectly result in a change in the financial metrics calculated on the basis of those metrics. The debt ratio, current liquidity and total asset turnover will also decrease, while the EBITDA and EBIT profitability measures will increase. As for the effects on net earnings, this will depend on the length of the contract, the payment deadlines, the effective interest rate of the contract or the marginal debt ratio, the lease contract portfolio, the amortization of the right to use the asset, etc.

3- M. Ozturk & M. Sercemeli. (2016), The aim of our study is to examine the declaration of financial position of the lessee undertaking following the transition to the new Financial Reporting Standard IFRS 16 and the effect of the adjustment in the basic ratios. For this reason, the potential impacts on the financial position of an airline operating in Turkey as a result of the implementation of the relevant standard have been investigated. The findings of the analysis indicate that representing the operating leases on the balance sheet would result in substantial changes in assets and liabilities, and for this reason; there will be a substantial increase in the ratio of liabilities to assets and a significant decrease in the return on assets.

4- Sarı et. al. (2016), The purpose of this study was to show the impact of IFRS 16 on the financial statements and financial ratios of companies operating in the retail sector in Borsa, Istanbul. The results show that IFRS 16 would have a statistically important impact on some of the financial ratios (debt/asset, debt/equity, return on assets and return on equity) and for 2010 – 2013. In addition, the findings indicate that the current lease norm will have a substantial impact on the financial metrics (total assets and total liabilities) in 2010 and 2011.

5- Tai (2013) investigated the effect of the proposal published in 2010 by IASB and FASB on two companies operating in the fast-food sector in Hong Kong. The ratio of unrecorded assets to unrecorded liabilities was calculated to be 85 per cent on the assumption that the lease term was 10 years, the interest rate was 6 per cent and 40 per cent of the life cycles of the assets were consumed, and the ratio of unrecorded assets to unrecorded liabilities was calculated to be 79 per cent on the assumption that the lease term remained the same.

6- Beattie et.al. (1998) In this research, which aimed to determine the effect on the financial statements of the decapitalized operating leases of 232 listed companies which were processed on the British stock exchange as of 1994. As a result of the study, unrecorded assets accounted for 6 % of the total assets and unrecorded long-term liabilities accounted for 39% of the liabilities reported on average. The levels of profit margins, the turnover of assets, the return on assets and the debt / equity and, for the most part, the service sector are influenced by major changes between the sectors.

7- Kostolansky and Stanko (2011) To calculate the effect of the new lease standard on the ratios and financial positions of the industries and companies represented in S&P 100 under different discounting ratios (3 per cent, 6 per cent, 9 per cent), it has been identified that in the event of the balance sheet reflection of the operating leases,(1) there have been major improvements in the total liability / total asset and returns on asset ratios of the businesses and (2) the retail sector is the most impacted sector with (43.16 per cent) total liabilities, (20.3 per cent) total assets and (14.77 per cent) the largest rise in total liabilities / total assets, (13.94 per cent) the largest decrease in return on total assets.

8- Singh (2012) analyzed the financial ratios of firms operating in the restaurant and retail sectors between 2006 and 2008 in order to analyze the effect of the draft text. Consequently, the study claimed that (1) both sectors are affected by these negligible changes, (2) the retail sector is affected more than the restaurant sector and (3) the size of the companies is an important factor in this effect.

9- Bostwick et.al. (2013)In the analysis carried out in which it was structured to evaluate the effect of the capitalization of the leases of five companies chosen from five separate industries, it compared and analogized the components of the financial statements (assets, liabilities, equity and net profit) and the performance scales (total liabilities/assets, total liabilities/equity, long-term liabilities/equity, return on assets. In the report, it was determined that the retail companies are the ones that are most / lowly impacted by the capitalization of the leases.

10- Fitó et.al. (2013) In this paper, which carried out an assessment of the possible effect of the reflection of the operating leases of 52 listed companies on the balance sheet in the Spanish stock market for the period 2008-2010, it was found that the impact of the leases on the financial ratios was statistically important and that the retail and energy sectors were the sectors most affected by this report.

11- Bohušová (2015) concentrated on the results of the operating leases on the financial statements following the capitalization of the improvements to be made to IAS17. As a result, the Commission has reported that the relevant amendments would have major effects on the financial statements and the financial ratios.

12- Ericson and Skarphagen (2015) analyzed how the capitalization of operating leases of 55 companies available to the public and operating in Stockholm NASDAQ OMX in Switzerland has an effect on debt and profitability ratios. As a result of the analysis, it was decided that the current lease standard, which does not have any differentiation between operating leases, has a major impact on liability/equity, equity/asset, profit margin, return on equity and return on assets.

13- Wong and Joshi (2015) for the purpose of this research to analyze the effect of the capitalization of the leases on the financial ratios and financial statements of the companies trading in the Australian Stock Exchange Market, while they noticed that the capitalization of the leases had a significant impact on the financial statements of the companies, they determined that the capitalization of the leases had a significant impact on the financial statements of the companies. In addition, it has been found in the analysis that, in the case of a representation of the leases on the balance sheet, the liability/equity, liability/asset and return on the asset will change substantially and the return on the equity will change marginally.

14- The objective of Bennett and Bradbury (2003) was to assess the effect on the financial statements of the capitalization of the leases of 38 companies listed on the New Zealand Stock Exchange Market. In this analysis, the ratio of unrecorded assets to unrecorded liabilities was estimated to be 81 per cent on the assumption that the life cycle of the leased assets is 10 years, that the interest rate are 10 per cent and that half of the life cycles of the leased assets have been consumed, and in this case, it has been assumed that there will be a 22.9 per cent rise in liabilities.

15- Duke and Hsieh (2006) used the conclusions made in Imhoff et.al's studies. (1991,1997) to measure the effect of the capitalization of the operating leases of six American companies identified by The Wall Street Journal as major users of unrecorded lease liabilities. Assuming that the interest rate is 10% and that only 15 years remain from the life cycle of the leased asset; it has been detected that if the value of the leased assets is equivalent to 70% of the value of the unrecorded leased liabilities, the liability / equity ratio is raised from 1,609 to 4,532 and thus raises the return on the asset ratio more than twice. It has also been estimated that the unrecorded lease liabilities are on average as much as 89.5 per cent of the reported liabilities and that the unrecorded assets are as much as 39.4 per cent of the reported assets.

16- Durocher (2008) analyzed the effect of the representation of the operating leases of 100 companies with the highest sales in 2002 and 2003 and whose shares were traded on the Canadian stock exchange on the balance sheet on financial metrics under certain assumptions (interest rate, overall life-cycle of the lease / consumed life-cycle / remaining life-cycle and tax rate). Results have shown that the reflection of operating leases on the balance sheet has led to substantial changes in liabilities and assets and, for this reason, a substantial increase in the ratio of liabilities to assets and a significant decrease in the current ratio and the effect of operating leases on the income statement are less relevant. It is also mentioned in the study that the capitalization of operating leases has a major impact on the return on assets, the return on equity and/or profit per share in only three sectors (merchandising and housing, oil and gas, financial service)

17- Branswijck et.al. (2011) reported that the most significant reform is the removal of the distinction between a finance lease and an operating lease in the draft study conducted by IASB and FASB published in 2010. The study analyzed the potential impacts of the relevant changes on companies operating in Belgium and the Netherlands. As a result, in the event of capitalization of the operating leases, it was calculated that the liability/equity ratio, the return on the asset and the current ratio were negatively affected. They also found that these impacts on the financial ratios indicate variations between the sectors.

18- In a study conducted by Kostolansky and Stanko (2011) to calculate the effect of the new lease standard on the ratios and financial positions of the industries and companies represented in S&P 100 under different discounting ratios (3 per cent, 6 per cent, 9 per cent), it was found that, in the event of a representation of the operating leases on the balance sheet, (1) a significant amount was reported.

19- In 2010, Singh evaluated the expected effect for a sample of 234 companies, including 64 restaurants and 170 retailers, from 2006 to 2008. He observed major relative and absolute disparities across and within the two sectors in terms of leverage, profitability and interest rate ratios.

20- In 2015, Nuryani sought to explore the determinants of operating lease policies (financial restriction, asset value, development and firm size) and the effect of constructive capitalization of operating leases on the company's financial ratios. The finding shows that all determinants excluding financial constraints affect operating lease policies, although most operating leases are explained by factors other than economic determinants.

Chapter four

Implication and analysis of the study

From the theoretical point of view, this study has some opinions about IFRS 16through two main result. First, the clear effect/impact on the financial statement and how companies will be most affected by IFRS 16, second there is no longer difference between IFRS 16 and IAS 17.

As Săcărin, M. (2017) mentioned in her article which explain through all lease contracts will be recorded in the Statement of financial position. At the lessee, this care would result in improvements to the details reported in the financial statements. In this line, the valuation of the assets and liabilities disclosed in the financial position statement would increase.

Also, the gain or loss of the duration will no longer be calculated on a straight-line basis, as is usually the case with operating leases. also the cash flow statement will display higher operating cash flow, while the net cash flow created by the funding activities will decrease by the same amount. The debt ratio, current liquidity and total asset turnover will also decrease, while the EBITDA and EBIT profitability measures will increase.

In addition Sarı et. al.(2016) study's which shows the impact of IFRS 16 on the financial statements and financial ratios of companies operating in the retail sector in Borsa, Istanbul. The results show that IFRS 16 would have a statistically important impact on some of the financial ratios (debt/asset, debt/equity, return on assets and return on equity) and for2010 – 2013.

In addition, the findings indicate that the current lease norm will have a substantial impact on the financial metrics (total assets and total liabilities) in 2010and 2011.Also, Beattie et.al. (1998) In this research, which aimed to determine the effect on the financial statements of the decapitalized operating leases of 232 listed companies which were processed on the British stock exchange as of 1994.

As result of the study, unrecorded assets accounted for 6 % of the total assets and unrecorded long-term liabilities accounted for 39% of the liabilities reported on average. The levels of profit margins, the turnover of assets, the return on assets and the debt / equity and, for the most part, the service sector are influenced by major changes between the sectors.

And, Wong and Joshi (2015) in his research which analyze the effect of the capitalization of the leases on the financial ratios and financial statements of the companies trading in the Australian Stock Exchange Market, while they noticed that the capitalization of the leases had a significant impact on the financial statements of the companies, they determined that the capitalization of the leases had a significant impact on the financial statements of the companies. In addition, it has been found in the analysis that, in the case of a representation of the leases on the balance sheet, the liability/equity, liability/asset and return on the asset will change substantially and the return on the equity will change marginally.

Kostolansky and Stanko (2011) study which calculate the effect of the new lease standard on the ratios and financial positions of the industries and companies represented in S&P 100 under different discounting ratios (3 per cent, 6per cent, 9 per cent), it has been identified that in the event of the balance sheetreflection of the operating leases,(1) there have been major improvements in the totalliability / total asset and returns on asset ratios of the businesses and (2) the retail sector is the most impacted sector with (43.16 per cent) total liabilities, (20.3 per cent). total assets and (14.77 per cent) the largest rise in total liabilities / total assets, (13.94per cent) the largest decrease in return on total assets.

Bostwick et.al. (2013)In the analysis carried out in which it was structured to evaluate the effect of the capitalization of the leases of five companies chosen from five separate industries, it compared and analogized the components of the financial statements (assets, liabilities, equity and net profit) and the performance scales (total liabilities/assets, total liabilities/equity, long-term liabilities/equity, return on assets.

In the report, it was determined that the retail companies are the ones that are most / lowly impacted by the capitalization of the leases. Bohušová (2015) concentrated on the results of the operating leases on the financial statements following the capitalization of the improvements to be made to IAS17.

As a result, the Commission has reported that the relevant amendments would have major effects on the financial statements and the financial ratios. Ericson and Skarphagen (2015) analyzed how the capitalization of operating leases of 55 companies available to the public and operating in Stockholm NASDAQ OMX in Switzerland has an effect on debt and profitability ratios.

As a result of the analysis, it was decided that the current lease standard, which does not have any differentiation between operating leases, has a major impact on liability/equity, equity/asset, profit margin, return on equity and return on assets.

Fitóet.al. (2013) In this paper, which carried out an assessment of the possible effect of the reflection of the operating leases of 52 listed companies on the balance sheet in the Spanish stock market for the period 2008-2010, it was found that the impact of the leases on the financial ratios was statistically important and that the retail and energy sectors were the sectors most affected by this report.

Tai (2013) investigated the effect of the proposal published in 2010 by IASB and FASB on two companies operating in the fast-food sector in Hong Kong. The ratio of unrecorded assets to unrecorded liabilities was calculated to be 85 per cent on the assumption that the lease term was 10 years, the interest rate was 6 per cent and 40 per cent of the life cycles of the assets were consumed, and the ratio of unrecorded assets to unrecorded liabilities was calculated to be 79 per cent on the assumption that the lease term remained the same. M. Ozturk& M. Sercemeli. (2016),

The aim of our study is to examine the declaration of financial position of the lessee undertaking following the transition to the new Financial Reporting Standard IFRS 16 and the effect of the adjustment in the basic ratios.

For this reason, the potential impacts on the financial position of an airline operating in Turkey as a result of the implementation of the relevant standard have been investigated.

The findings of the analysis indicate that representing the operating leases on the balance sheet would result in substantial changes in assets and liabilities, and for this reason; there will be a substantial increase in the ratio of liabilities to assets and a significant decrease in the return on assets.

Singh (2012) analyzed the financial ratios of firms operating in the restaurant and retail sectors between 2006 and 2008 in order to analyze the effect of the draft text. Consequently, the study claimed that (1) both sectors are affected by these negligible changes, (2) the retail sector is affected more than the restaurant sector and (3) the size of the companies is an important factor in this effect.

In all these literature reviews support our first result which is the clear effect/impact on the financial statement and how companies will be most affected by IFRS 16.

Also our point of view that we found from reviewing the literature review, there are the clearly impact of IFRS 16 on the financial statement of the companies, that effect comes from the differences of the amount of the asset and liability as a general, also that will lead to effect on the financial ratio of the companies like liability/asset and liability/equity, etc . As a cause from change on the amount of asset and of the amount of liability.

In other literature reviews supports another result that there is no longer difference between IFRS 16 and IAS 17. Like B. Giner & F. Pardo. (2018), they conduct a value-added analysis to investigate whether as-if capitalized operating leases are valued by market users in a relatively unexplored environment.

They consider the Spanish listed companies and use hand-collected data on operating leases disclosed in the notes to the financial statements to capitalize the assets and liabilities in a positive manner.

Their research shows that investors in code-law countries with less developed markets and low compliance quality do not behave differently from those in common-law countries with more developed markets and tighter enforcement policies. Investors value similarly understood debts and operating lease liabilities arising from details in notes in the retail sector.

In this opinion, these findings may give some relief to managers in the most impacted sectors, as they suggest that the move would not have a significant effect on the stock exchange.

And, Ericson and Skarphagen (2015) analyzed how the capitalization of operating leases of 55 companies available to the public and operating in Stockholm NASDAQ OMX in Switzerland has an effect on debt and profitability ratios. As a result of the analysis, it was decided that the current lease standard, which does not have any differentiation between operating leases, has a major impact on liability/equity, equity/asset, profit margin, return on equity and return on assets.

Also, Săcărin, M. (2017), This article aims to present, based on a comparative review of IFRS 16 and IAS 17, the key implications of the application of IFRS 16 for the financial statements and the financial indicators calculated based on the information presented by IFRS 16.. In this line, the valuation of the assets and liabilities disclosed in the financial position statement would increase.

Also, the gain or loss of the duration will no longer be calculated on a straight-line basis, as is usually the case with operating leases. The cost of the lease contracts, consisting of the amortization of the right of use and the cost of financing would vary between the reporting periods, depending on the length of the contract, the amortization of the right to use the asset, the payment deadlines and the implied interest rate or the marginal interest rate.

Although the overall net cash flow will not be affected, the cash flow statement will display higher operating cash flow, while the net cash flow created by the funding activities will decrease by the same amount.

A change in the amounts reported in the financial statements would indirectly result in a change in the financial metrics calculated on the basis of those metrics. The debt ratio, current liquidity and total asset turnover will also decrease, while the EBITDA and EBIT profitability measures will increase.

As for the effects on net earnings, this will depend on the length of the contract, the payment deadlines, the effective interest rate of the contract or the marginal debt ratio, the lease contract portfolio, the amortization of the right to use the asset, etc. At the same these literature reviews agree with our opinion ,that there is no big deal or distinguish between IFRS 16and IAS 17.

Conclusions:

The aim of this study is to show and to represent the concept of IFRS 16 and explain the effeteness of the IFRS 16 on the financial statement of the companies and explain that through the literature reviews and previous studies. For example, knowing the financial position statement of the lessee organization following the transition to the new IFRS 16 financial reporting standard and the results of the basic ratio adjustment.

For this reason, the potential impacts of the implementation of the relevant standard on the financial condition of an organization operating have been analyzed.

Our objective is to estimate the effect on the listed issuers of financial statements of the implementation of IFRS 16 and the various impacts that the new standard could have on various sectors of operation.

The effects of IFRS 16 on the ratios of debt / total assets, EBITDA / revenue and debt / equity are calculated in this study. The findings summarize the impact on the results of the entity and its net financial position.

The study indicates that major improvements would occur in the leaseholder's financial statements. In particular, an increase in lease assets, an increase in financial liabilities and a reduction in equity will be reflected on the balance sheet, while an increase in EBITDA and an increase in financing costs will be reflected on the income statement.

Depending on the usage of operating lease contracts between the various business sectors, the effect of the implementation of IFRS 16 would be various.

The data of this research is the secondary data (previous studies and the frame work). The result of the study that there are a clear effect/impact on the financial statement and how companies will be most affected by IFRS 16, and there are no longer differences between IFRS 16 and IAS 17.

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