

# SOME ISSUES OF ORGANIZING LEASE ACCOUNTING BASED ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

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## Abstract

This article analyzes the basis and specific aspects of the organization of lease accounting in accordance with international financial reporting standards. In particular, the differences between the national standard and the international standard, as well as the obstacles and positive aspects of the application of the international standard, are studied, and conclusions are drawn.

**Keywords:** Lease, IFRS, financial leverage, right-of-use asset, lease liability, lease payments, interest rate, leaseback and sale.

## Introduction

With the increasing international integration of economies, the significance of leasing relationships is also rising steadily. In contemporary market conditions, companies must consistently invest to enhance operational efficiency and remain competitive. Leasing has become an effective financial solution to meet these market demands. It allows businesses to acquire essential equipment and property without significant initial investment. Additionally, leasing supports innovation by enabling companies to replace outdated, inefficient assets with modern, high-performance alternatives. For asset owners, leasing prevents their assets from becoming obsolete or unused, thus promoting efficiency. Consequently, this arrangement ensures financial stability for both lessees and lessors. Due to these economic benefits, leasing practices are rapidly expanding in our economy, increasing the necessity for effective regulation and accurate accounting. This highlights the need to structure lease relationships systematically, drawing upon international best practices.

## Literature Review

Many scholars and researchers have extensively explored lease relationships and their economic significance. According to international researchers A. Dosambetova, N. Nurkasheva, and M. Zharylkasinoва (2018), systematizing lease arrangements based on international standards not only influences corporate financial statements but also necessitates comprehensive changes throughout a company's entire accounting policy and related leasing practices. Raoli E. (2021) highlighted through practical examples that leasing serves as a primary financial instrument within company operations. Elias Luhtaniemi (2023) noted that



applying international standards significantly enhances transparency in financial reporting, thus enabling investors and shareholders to make better-informed decisions. Xue Qingmei and Huang Zhizhong (2024) examined the impact of recognizing operating leases in financial reports, emphasizing improved asset and liability reporting and greater transparency. Additionally, Wang Han (2023) emphasized that accounting for leasing relationships under international standards benefits not only shareholders but also providers of financial resources. Local scholar Djumayeva G. (2024) argued that leasing and renting essentially represent the same transaction, suggesting the necessity for a unified definition within regulatory documents. Recognizing leasing as a primary source of investment financing in company activities, Matkuliyeva S. (2024) studied the accounting significance of sale-and-leaseback transactions for fixed assets. Qudbiyev N. (2024) explored real estate leasing in the private sector, highlighting its advantages for companies in terms of tax savings. However, the organizational foundations of lease accounting according to international standards remain inadequately addressed.

Considering these perspectives, enhancing leasing and its accounting practices holds significant importance for economic development. Industry experts acknowledge that in 2016, the International Accounting Standards Board (IASB) issued the new IFRS 16 standard, replacing the previous IAS 17. This new standard requires lessees to reflect all leasing-related transactions, previously unrecognized usage rights as assets, and corresponding lease liabilities at fair value in financial statements. Consequently, this significantly affects the accounting of leasing operations, enhancing transparency in capital adequacy and profitability metrics reported in annual financial statements. As a result, the relevance and reliability of financial information are notably improved.

### **Research Methodology**

To organize lease accounting according to International Financial Reporting Standards (IFRS), empirical research methods such as logical reasoning, data gathering and analysis, regression analysis, scientific literature review, and observation of company activities and economic operations were employed.

Implementing international standards in developing countries like ours is crucial since increased adoption of international practices simplifies integration into the global economy. According to statistics published by the State Statistics Committee of the Republic of Uzbekistan, lease contracts increased by 15% in 2023 compared to previous periods<sup>1</sup>. This growth demonstrates the rising importance of leasing operations in corporate activities within our economy, necessitating the adoption of internationally recognized accounting practices.

International Financial Reporting Standards (IFRS) aim to harmonize and standardize accounting practices globally. Among these, IFRS 16 "Leases," effective since January 1, 2019, provides comprehensive guidance for accounting and reporting lease transactions. Under IFRS 16<sup>2</sup>:

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<sup>1</sup> <https://stat.uz/uz/rasmiy-statistika/services-2>

<sup>2</sup> IFRS 16 "Lease". <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/>



- ❖ Lessees must recognize lease assets and lease liabilities on their balance sheets.
- ❖ For lessors, practical changes are minimal, with leases classified either as financial or operational leases. This approach increases companies' assets and liabilities on their balance sheets and improves EBITDA indicators.

According to IFRS 16, lease operations are classified based on duration: ➤ Short-term leases – agreements not exceeding 12 months. ➤ Long-term leases – associated with long-term obligations.

The aspects related to accounting for lease types are illustrated below (Table 1):

**Table 1. Classification of leases by duration<sup>3</sup>**

Lease Type	Recognition in Balance Sheet	Impact on Accounting
Short-term	Not recognized on the balance sheet	Recognized as an operating expense
Long-term	Recognized as an asset and liability	Accounted through depreciation and interest expense

The table above indicates that recognizing lease transactions according to international standards significantly impacts financial reporting indicators, leading to improved quality of financial information. Moreover, under IFRS 16, lease operations are categorized based on the value of leased assets into two types:

- Low-value asset leases
- High-value asset leases

The accounting approach for these two lease types according to IFRS 16 is detailed below (Table 2):

**Table 2. Classification of leases based on asset value<sup>4</sup>**

Lease Type	Recognition in Balance Sheet	Impact on Accounting
Low-value (Value ≤ USD 5,000)	Not recognized on the balance sheet	Accounted for as an operating expense
High-value (Value > USD 5,000)	Recognized as an asset and a liability	Accounted through depreciation and interest expense

According to international standards, leases involving low-value assets provide practical advantages for lessees. This approach offers greater convenience and efficiency for accountants.

The financial analysis of IFRS 16 and its impact on manufacturing companies indicates that it requires the recognition of additional assets and liabilities in the statement of financial position. This effect is especially significant for companies that attract capital through leasing. For

<sup>3</sup> Developed by the author based on IFRS 16

<sup>4</sup> Developed by the author based on IFRS 16



instance, large enterprises operating in aviation, automotive, and logistics sectors must recognize lease payments as financial liabilities.

Examining the differences between the requirements of this international standard and the existing practices in our national economy allows for a deeper understanding of the areas that require revision and improvement. To that end, a comparative analysis of IFRS 16 and NAS 6 has been conducted, with the key differences below (Table 3):

**3-jadval. Analysis of IFRS 16 and NAS 6<sup>5</sup>**

Issue	IFRS 16	NAS 6 (National Accounting Standard)
Definition of a lease according to standards	A contract, or part of a contract, that conveys the right to use an identified asset (tangible or intangible) for a period of time in exchange for consideration.	A lease is defined as a time-bound right to possess and use property, land, or other natural resources required by the lessee to conduct business or other independent activities under a lease agreement <sup>6</sup> .
Lease and its separate components	Requires separate recognition if distinct components are identified within the lease agreement.	No specific guidance provided.
Types of leases	Does not distinguish between operating and finance leases.	Leases are classified as either operating or finance leases.
Accounting for sale and leaseback transactions	Provides clear guidance on sale and leaseback arrangements.	No specific guidance available.
Variability of lease payments	If payments are linked to an index or rate, changes affect the lease liability.	Lease liabilities are not affected by indices or variable rates.
Short-term leases (lessee)	Lease term $\leq$ 12 months (if there is no purchase option).	Not defined.
Low-value assets (lessee)	Assets valued at $\leq$ USD 5,000 are excluded from balance sheet recognition.	Not

From the above analysis, it can be concluded that there are significant differences between international practice and national legislation in the organization of lease accounting. The accounting of lease-related elements under international standards fundamentally differs from

<sup>5</sup> Developed by the author based on IFRS 16

<sup>6</sup> NAS 6 "Lease Accounting" was approved and registered by the Ministry of Justice of the Republic of Uzbekistan on April 24, 2009, under registration number 1946.

traditional methods. Establishing an accounting system in accordance with international standards ensures greater transparency, quality, and reliability in the presentation of financial reporting indicators.

As a result of accounting for lease arrangements under international standards, the following changes occur in the lessee's financial statements (see Table 4):

**Table 4. Analysis of Lease Accounting in the Lessee's Financial Statements<sup>7</sup>**

Accounting for the Lessee		
Report Type	IFRS 16 Requirements	NAS 6 Requirements
Statement of Financial Position	Recognition of a right-of-use asset and a corresponding lease liability for lease transactions.	Under the national standard, no asset or liability is recognized for operating leases. For finance leases, the leased asset and its liability are reported.
Statement of Profit or Loss	A single approach is applied: depreciation of the right-of-use asset and interest expense on the lease liability are recognized.	For operating leases, payments are recorded as expenses in the relevant periods. For finance leases, depreciation of the leased asset and interest expense are recognized.
Statement of Cash Flows	The principal portion of lease payments is classified under financing activities, while interest payments are shown under either operating or financing activities. Payments for low-value and short-term leases are included under operating activities.	For finance leases, the classification of principal and interest payments is similar to IFRS. Operating lease payments are reported solely under operating activities.

Harmonizing these differences and implementing international best practices in local operations can lead to increased investment inflows into our economy. This is because higher quality and more reliable financial reporting—aligned with globally accepted standards—serves as a critical factor in the decision-making process of international investors.

To evaluate the impact of recognizing lease arrangements in accordance with international financial reporting standards, we conducted a regression analysis based on the disclosed financial indicators. This analysis examines how the adoption of international standards for lease accounting affects the financial stability and leverage levels of companies. The relationship is modeled using the following conditional equation:

$$\text{Financial Leverage} = \beta_0 + \beta_1 + \beta_2 + \beta_3 + \varepsilon$$

Where:

- $\beta_0$  is the constant term of the regression equation, representing the financial leverage when all other variables are zero.
- $\beta_1$  represents lease liabilities.

<sup>7</sup> Developed by the author based on IFRS 16



- $\beta_2$  denotes firm size.
- $\beta_3$  refers to interest rates.
- $\varepsilon$  is the error term, capturing variations due to unobserved or random factors not included in the model.

For the purpose of this research, financial data from 150 companies operating in the international market between 2020 and 2024 were collected—both before and after the implementation of IFRS 16. The data was sourced from the Bloomberg and Thomson Reuters Eikon databases (Table 5).

**Table 5. Lease Liability Indicators by Industry Sector <sup>8</sup>**

Industry Sector	Number of Companies	Average Asset Value (million USD)	Average Lease Liabilities (million USD)
Manufacturing	50	1 250	320
Transportation	50	980	450
Trade	50	860	210

Using this data, a regression analysis on lease liabilities has been conducted (Table 6).

**Table 6. Results of the Regression Analysis <sup>9</sup>**

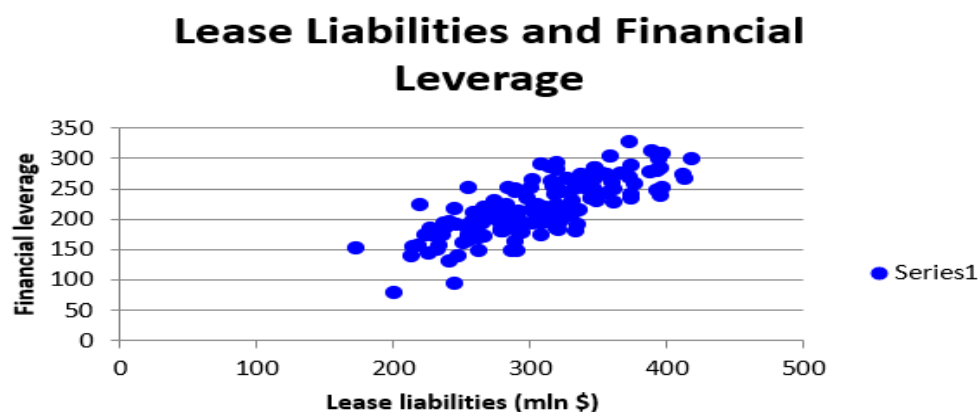
Variables	Coefficient	Standard Error	t-Statistic	P-Value
Lease Liabilities ( $X_1$ )	0.72	0.04	18.00	0.000***
Asset Size ( $X_2$ )	0.43	0.06	7.17	0.000***
Interest Rates ( $X_3$ )	0.15	0.03	5.00	0.005***

As shown in Table 6, a one-unit increase in lease liabilities results in a 0.72-unit increase in financial leverage. This relationship is statistically significant ( $p = 0.000$ ). Additionally, the sensitivity of financial leverage to asset size ( $X_2$ ) is also significant: a one-unit increase in asset size leads to a 0.43-unit increase in financial leverage. The third variable, interest rates, has the least impact, with a 0.15-unit increase in financial leverage per unit increase in interest rates. Taking these findings into account, it can be concluded that lease liabilities are a key factor in assessing the financial risk of companies.

<sup>8</sup> Developed by the author

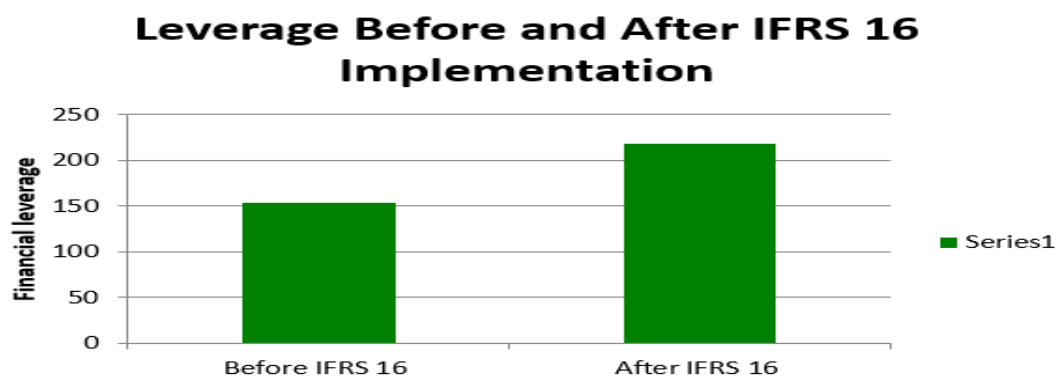
<sup>9</sup> Developed by the author





**Figure 1. Relationship Between Lease Liabilities and Financial Leverage<sup>10</sup>**

Based on the graph presented in Figure 1, it can be concluded that the recognition of lease liabilities under lease arrangements leads to an increase in companies' financial leverage. This suggests that the accurate reflection of lease obligations in financial reports allows decision-makers to assess a company's financial position with greater transparency and reliability.



**Figure 2. Financial Leverage Indicators Before and After the Implementation of IFRS 16<sup>11</sup>**

Based on Figure 2, it is evident that the implementation of IFRS 16 has led to significant changes in companies' financial leverage reported in financial statements. Prior to the adoption of the standard, companies tended to underreport their lease liabilities, meaning such obligations were not accurately reflected in their financial disclosures. With the enforcement of the new standard, users of financial statements are now better able to assess a company's financial position more transparently.

In fact, following the recognition of lease liabilities, the average financial leverage across companies increased by approximately 40%. These findings indicate that implementing lease accounting under international standards has brought about substantial improvements in financial leverage indicators, representing a positive shift for users of financial information.

<sup>10</sup> Developed by the author

<sup>11</sup> Developed by the author



## Conclusion

The adoption of IFRS 16 in Uzbekistan is a significant step forward for the country's economic development. Applying international experience and aligning current legislation with global standards will contribute to improving the legal framework and ensuring stable economic growth. However, the implementation of IFRS 16 requires harmonization between national accounting practices and international standards.

Moreover, this standard not only affects lease accounting but also has implications for companies' accounting policies and management systems. Meeting the new requirements involves additional efforts and adjustments to existing regulations. Therefore, it is essential for the country to accelerate this transition by training professionals with international qualifications and eliminating discrepancies between national and international standards.

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