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ACCOUNTING FOR FINANCIAL OBLIGATIONS RELATED TO LONG-TERM ASSET LEASING IN ENTERPRISES

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Abstract: This study examines the organization of accounting for financial obligations arising from long-term asset leasing in enterprises, with specific emphasis on compliance with International Financial Reporting Standards (IFRS). The research highlights the application of IFRS 16 'Leases' in comparison with previous approaches (IAS 17), identifies key challenges faced by enterprises in adopting the standard, and discusses implications for financial reporting, transparency, and decision-making.

Keywords: IFRS 16, long-term assets, lease obligations, financial reporting, accounting standards, transparency

Introduction

Leasing is an essential financial instrument enabling enterprises to acquire long-term assets without immediate large-scale capital investment. Historically, under IAS 17 'Leases', operating leases were often excluded from the balance sheet, leading to limited visibility of a company's true financial obligations. With the introduction of IFRS 16 (2019), enterprises are now required to recognize most leases as 'right-of-use assets' and corresponding 'lease liabilities'. This paper analyzes how financial obligations related to long-term asset leasing should be organized and presented in accordance with international standards.

Literature Review

The accounting treatment of long-term lease obligations has been widely debated in both international and local contexts. Earlier research on IAS 17 highlighted the shortcomings of the off-balance sheet approach [1][2]. The introduction of IFRS 16 has received significant attention [3][4]. Comparative studies conducted by Deloitte (2020) and KPMG (2021) show significant changes in financial ratios [5][6]. PwC (2020) noted that industries such as airlines, retail, and logistics are most affected [7]. In Uzbekistan, Sharqov (2018) and Islomov (2021) emphasize the need for harmonization with IFRS [8][9].

Methods

This study employs a comparative and conceptual research methodology, including literature review, comparative analysis of IAS 17 and IFRS 16, and case-based discussions. The methodology is qualitative, aiming to synthesize theoretical frameworks and international accounting standards with real-world enterprise practices.

Results

The transition from IAS 17 to IFRS 16 fundamentally changes the presentation of leases in the financial statements of enterprises. The results section provides a comparative analysis,

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quantitative examples, graphical illustrations, and sectoral implications.

Table 1
Comparative View of Lease Accounting under IAS 17 and IFRS 16

Criteria	**IAS 17 (Old Standard)**	**IFRS 16 (New Standard)**
Recognition of lease	Operating leases often off-balance sheet	All leases (except short-term/low-value) recognized
Assets recorded	None for operating leases	Right-of-use asset recognized
Liabilities recorded	None for operating leases	Lease liability recognized
Income statement impact	Single rental expense	Depreciation + Interest expense
Financial ratios	Leverage understated; EBITDA lower	Leverage higher; EBITDA higher
Transparency	Limited disclosure of obligations	Enhanced comparability and transparency

Quantitative Example

Consider an enterprise leasing industrial equipment for 5 years, with annual payments of 100 million UZS, and a discount rate of 10%. The present value of lease payments is approximately 379 million UZS. The right-of-use asset initially recognized is 379m UZS. Over the 5-year lease period, annual depreciation equals 75.8m UZS, and the first year interest expense is 37.9m UZS.

Table 2
Impact on Financial Statements (First Year)

Statement Section	IAS 17 (Operating Lease)	IFRS 16 (Finance Lease)
Balance Sheet	No asset/liability	Asset: 379m UZS; Liability: 379m UZS
Income Statement	Rental expense = 100m	Depreciation = 75.8m; Interest = 37.9m
EBITDA	Lower (–100m)	Higher (no rental expense deducted)
Leverage ratio (D/E)	Lower	Higher

Ratio Effects

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Under IFRS 16, enterprises generally report:
- Increase in total assets and liabilities → higher leverage.
- EBITDA improvement → due to elimination of rental expense.
- Net profit lower in early years → front-loading of interest expenses.

Sectoral Implications

Industries with heavy reliance on leasing, such as airlines, logistics, and retail chains, face substantial balance sheet expansion. Banks and creditors benefit from more accurate financial visibility, while SMEs face compliance burdens. Despite challenges, IFRS 16 adoption improves investor trust and financial comparability.

Discussion

The adoption of IFRS 16 represents a strategic shift in how enterprises manage and report lease obligations. Theoretically, it increases transparency and comparability. Practically, it raises EBITDA but worsens leverage ratios, influences lending conditions, and requires significant IT and professional training investments. In emerging economies such as Uzbekistan, challenges include lack of IT systems, insufficient discount rate benchmarks, and limited professional readiness. Nevertheless, alignment with IFRS 16 strengthens governance, attracts investment, and integrates enterprises into global markets.

Table 3

Positive vs Negative Impacts of IFRS 16

Positive Impacts	Negative Impacts
Increased transparency of financial obligations	Higher leverage ratios
Improved comparability across industries	Administrative burden
Higher investor confidence	Need for new systems
EBITDA improvement	Early-year profit reduction

Conclusion

Accounting for financial obligations related to long-term asset leasing has evolved significantly under IFRS 16. The standard ensures that lease-related liabilities are reflected in financial statements, improving transparency and comparability. Enterprises must invest in accounting systems, staff training, and strategic financial management to ensure successful implementation.

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