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IFRS 16 LEASES AND ITS IMPACT ON COMPANY'S FINANCIAL REPORTING, PERFORMANCE METRICS, AND FINANCIAL RATIOS

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Abstract: The new leasing standard, IFRS 16, was published by the International Accounting Standards Board in January 2016 and replaces the IAS 17 lease for reporting periods beginning on or after January 1, 2019. The financial lease distribution / operating lease is no longer relevant to the lessee but is intended for the lessee. The impact of IFRS 16 depends on the relative amount of the firm's existing lease arrangements and varies across industries. In this paper, we discuss the impact of IFRS 16 on financial reporting, financial ratios, and key performance indicators. These effects are evident in the case of groceries, as retailers will be most affected by changes in rental demand. Implementation of new accounting rules will result in an increase in leasing assets (property rights) and financial liabilities in the balance sheet of tenants with previous out-of-balance sheet leases and their EBITDA increased considerably. To be more specific, we have divided the analysis of the impact on the profit or loss of the company in the case of "individual leasing" and "leasing portfolio." In both cases, there will be a decline in the stock compared to the previous 17 IAS rules. The expected impact on pre-tax profits will be negligible for many companies because of portfolio portfolios. Operating profitability will increase as a result of the reclassification of rental costs into depreciation, amortization, depreciation and financing costs. Mediation with balance sheet leasing will face significant changes in key financial indicators such as leverage ratios, return on invested capital and multiple valuations. Their leverage will increase significantly and interest coverage will decrease. The impact on the firm's obligation to implement IFRS 16 is also discussed.

Keywords: IFRS 16 application, effects, company's financial statements, financial ratios, performance metrics

INTRODUCTION

There are many archaeological influences that clearly show that the lease was well known and practiced by ancient civilizations for almost 2000 years. But it was first used in 1877 when the "BELL" Telephone Company. Decided not to sell but to rent her phone as a specific financing tool for asset acquisition, it has evolved over the centuries to its current mix and improve its use to build and establish business relationships. Companies can use big-ticket items without much cash flow at the beginning of the rental period. Another benefit is the flexibility it offers tenants, which enables them to reduce the risk of aging of the property and the residual value. In some cases, leasing is the only possible solution for businesses to access and use assets that are not available for market purchases (PWC, 2016b). The according to current requirements, operating leases, which are sometimes economically similar to finance leases, are not credited to the reporting entity's accounts, thus misleading shareholders and investors about their financial position, results and cash flow. In

2005, the US Securities and Exchange Commission announced that the balance sheet leasing of Indian publicly traded companies was approximately $ 1.25 trillion (IASB 2016). Lack of transparency on leasing obligations is a catalyst for a joint project initiated in 2008 by the International Accounting Standards Board (IASB) and the Indian Financial Accounting Standards Board (FASB). Both bench markers have tried to address stakeholders' concerns about the significant impact of the regulations on reported assets and financial leverage, but unfortunately, at some point, the board diverted from the lessee's accounting model. In the ASC 842 (Lease Standards) issued by the FASB in February 2016, the double model was retained. Despite concerted efforts and long-term collaboration, the new IFRS 16 leasing standards published by IISB in January 2016 required the implementation of a single model (PWC, 2016b). The new standard replaces the IAS 17 lease for the reporting period beginning on or after January 1, 2019, but maybe implemented before that date in certain cases. One particular feature of IFRS 16 is the introduction of tenant asymmetric models and smaller accounting. A notable aspect of the new rules relates to a variety of financial leases / operating transactions that are no longer relevant to tenants but are intended for tenants. Recommended changes for later are not noticeable, and it may take little effort to correct the changes (Deloitte, 2016). Due to changing patterns of customer needs and behavior, their business models and rental products may change. In this context, it makes sense to raise the level of awareness of the company, especially the tenants, about how the new accounting rules will affect financial statements, financial ratios and operating indicators. This brings up other important issues regarding the costs of implementing IFRS 16, timely and effective communication with new IT stakeholders in response to the complexity of new rules, new monitoring procedures Related to possible taxes. Etc. The business environment will also change with the new standard program due to changes in the contract and lease patterns and leasing incentives. (EY, 2016a)

Aim of the paper and used methodology

In light of the new leasing regulations and the impact that has been hotly debated on accounting and corporate reporting, this document aims to discuss and illustrate the impact of IFRS 16 on financial statements, financial ratios and key measures of tenants. Some conclusions regarding the entity's contract will be made based on the changed requirements and their impact on the information generated and provided by financial institution tenants for monitoring purposes. The methods used in this document include the study and analysis of new rental needs and their future impact on the business.

Accounting by leasers

Laser accounting treatments remain unchanged compared to these hiring guidelines. They will continue to classify leases as financial or operating leases and report them in a manner similar to this guidance. There are several areas of variation regarding the definition of leasing, sales guidance, and sub-leasing operations, as well as some disclosure requirements. Maintaining an existing accounting model for this alignment

causes a lack of consistency and symmetry with the new tenant's accounting model.

Impact on Company Financial Statements

There are different activities within the organization that will require a change, reorganization or renewal as a result of the implementation of new lease standards. Many divisions within the company will be involved, and their combined efforts will be needed to overcome the negative effects of IFRS 16.

Lease accounting

1. IFRS 16 introduces a single accounting model for tenants that require tenants to recognize all property and liabilities for the lesser. This replaces the double leasing accounting model at IAS 17.
2. At a high level, the IFRS 16 accounting model of the lessor leases in a similar way to financing IAS 17 leases for each tenant that is not covered by the exemptions the lessee required to receive the Know your usage rights. The property represents its right to use the property, the lease, and the rental debt, representing its obligation to pay the rent.

The initial measurement of lease term

When measuring property use for leases and leases, the unit will determine the lease term. IFRS 16 defines a lease term as an irrevocable period in which the lessee is entitled to use the underlying property, together with two:

(i) Periods covered by the option to extend the lease if it is certain that the lessee is exercising the lease. Options;

(ii) The period covered by the option to terminate the lease if the lessee is sure not to use the option.

Although these requirements are similar to AI. E. IT 17 However, IFRS 16 provides more guidance on how to make these estimates (see paragraphs B34-B41).

IFRS 16 requires that assets for use rights and leasing obligations are initially measured at the present value of future inevitable future lease payments. The following payments are included in the initial measurement of fair use and lease obligations:

- fixed payments (including major payments)
- payments Lease payments, variables that are based on indexes or rates (for example, payments relating to a consumer price index or market rent)
- expected The expected amount will be paid by the lessee with the remainder guarantee

IFRS 16 requires that the lease obligation be lowered using the interest rate contained in the lease or, in the case of

default, a simple increase in the tenant's interest rate. The interest rate hike is defined as the interest rate that a tenant has to pay to borrow for a similar period of time, and with the security of the funds needed to acquire a property similar to the right to use the property in a similar economic environment.

In the central government, businesses are funded either by the supply from the Treasury directly (department) or through grants (agents and ALBS) from the parent division. While the Treasury accepts external loans as a requirement to meet the public sector budgetary requirements, there is very little that a central government institution can borrow from outside on its own.

To address this, it interprets IFRS 16 to assume that when an entity cannot easily determine a percentage of their hiring, instead use the Ministry of Finance's discount rate, which is announced in the PES file, such as Your additional interest, the exit rate, will be a single discount rate, depending on the type of underlying asset to reflect Features of cash on hand. To reflect on the fact that there is a circumstance that a central government entity can borrow externally if one entity shows that another discount rate accurately reflects their interest rate, it uses that interest rate.

Public Translations: Where companies cannot easily determine interest rates on rent, they are required to use the Ministry of Finance's discount rate announced in the PES as their additional interest rate. Unless the entity can demonstrate that another discount rate may justify their rising interest rate more accurately. In this case, they use this rate as their additional interest rate.

The impact on industries

Although almost all industries use leasing as a means of acquiring the types of assets and the number of assets they rent, as well as the terms and structure of these leases vary greatly. For example, car rental services companies and company offices. Utility companies rent power plants. Retail stores, retailers, retailers; Telecommunications companies lease fiber optic cables and cell towers. And airlines hire all kinds of aircraft with different features, statutes, rules, regulations, pricing, risk and economy. As a result, different consequences can occur for different industries when implementing new leasing standards. PwC conducted a global leasing capital survey to assess the impact of new leasing standards on reported, leverage, liquidity and EBITDA ratios for examples of more than 3,000 IFRS listed entities in certain industries and countries (excluding the US). The study shows the minimal impact of taking advantage of existing balance sheet leases based on the commitment shown in the entity's financial statements in 2014. This study did not include any transitional relief available when implementing the new standard. The average increase in debt and EBITDA for some of the affected industries can be summarized as follows. Here are some examples of the industry:

Table 1: The impact on industries

Industry	The median increase in debt	The median increase in EBITDA
All companies	22	13
Retailers	98	41
Airlines	47	33
Professional services	42	15
Health care	36	24
Wholesale	28	17
Transport & logistics	24	20
Entertainment	23	15
Telecommunication	21	8
Source: PwC global lease capitalization study		

The Government Accounts of IFRS

The implementation of IFRS 16 presents some challenges to the WGA. Inequality between lessors and less accounting will make elimination more difficult for government rents. Similarly, changing the classification of loans can make elimination more difficult for government leases. The data collection and account preparation process will require changes to address this. A simplified example of how intra-governmental eliminations will work under IFRS

IFRS 16 data collection will be embedded in the WGA data collection process, and organizations need to understand which leases they have with other authorities in the WGA (from tenants and tenants). This data will be collected and stored in a separate account code that identifies and deletes inter-governmental transactions. Disclosures in the WGA will require more detailed information in the change year to allow financial statement users to understand the implications of IFRS 16 implementation. Post-disclosure disclosures will require further judgment and potential information to achieve disclosure purposes of IFRS 16.

It is necessary to collect additional data as part of the change process, especially to support adjustments to the opening of the balance and to show that IFRS 16 is actually implemented in the WGA. Finally, in the fiscal year 2019-2020, some entities along the WGA border will implement IFRS 16 and others apply IAS 17. WGA data will be collected based on IAS 17, so departments implementing IFRS 16 must be able to develop their interim adjustments for WGA purposes.

Effects on the entity's financial ratios, key performance indicators and covenants

The adoption of IFRS 16 should not, in principle, undermine the fundamental assessment because the contents of the lease do not change the economic and monetary viability of the business. However, we expect that IFRS 16 will affect the evaluation results, IFRS 16 lease and its impact on financial

statements, financial ratios and operating indicators of the company.

Effects on entity's financial ratios and indicators

Other important key financial indicators have been redefined: ROE (Return on equity), ROCE (Return on capital employed), current ratio, assets turnover, net income, ICR (interest cover ratio). The new requirements remove the financial statements of almost all balance sheets for tenants and identify commonly used financial indicators such as device ratios and EBITDA. This will increase comparisons, but it may also affect your agreement, credit rating, borrowing costs and your stakeholder perceptions of you.

This standard addresses various organizational arrangements, such as tax preparation, protection plan, supply arrangement, financing, and agreement. Therefore, the date of the initial filing is the first day of the annual reporting period in which the tenant first applies the requirements of the new leasehold standard (PWC, 2016). Table 2 reproduces the IASB impact analysis for January 2016, defining the expected performance of applying IFRS 16 to the metrics commonly used when analyzing the financial statements of companies leasing balance sheet leases. The table shows mixed effects on key financial indicators (for example, some indicators will improve after IFRS 16 and others will not) (IASB 2016).