PERCEPTIONS OF ACCOUNTING PROFESSIONALS TOWARDS LEASES (IFRS - 16) – EVIDENCE FROM HYDERABAD

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Abstract : The main purpose of this paper is to examine the perceptions of auditors and accounting professionals on leases (IFRS -16). This study has applied objectives and methodology of this research is an exploratory – survey research. While the International Accounting Standard board (IASB) has retained IAS 17's finance lease / Operating lease distinction for lessors, the distinction is no longer relevant for lessees. All lease contracts, including renting contracts, will we recognised on the balance Sheet of the lessees, with some exceptions in limited circumstances. The standard will have broad implications for many stakeholders and metrics, including finance departments, property teams, banking covenants, remunerations schemes, and regulatory compliance.

IFRS 16 will replace IAS 17 for reporting periods beginning on or after 1st January 2019 with a retrospective application by default. The current paper reports on an exploratory research of professional of two different sub – groups of responds there are chartered accountants and professional accountants about issues relevant adopting IFRS 16 Leases. The primary data was collected from respondents ofHyderabad through the use of a structured questionnaire and analysed using means scores, standard deviation,and Pearson Chi- Square analysis by using SPSS(Statistical Package for Social Sciences).*Finally, conclude that there is a significant impact of IFRS 16 on financial statements (Income statement & Balance sheet) of the companies..*

Key words: IFRS -16, IAS 17 Vs. IFRS 16, IFRS 16 Impact.

I. INTRODUCTION

Leasing is a vital and widely used financing solution. It allows companies to access and use property and equipment without incurring big cash outflows at the start. It also facilitates the flexibility and enables lessees to address the issue of obsolescence and residual value risk. In fact, sometimes, leasing is the only way to obtain the use of a physical asset that is not available for purchase. The IASB issued IFRS16 leases on January 13; 2016.This is set out the principles for the recognition measurement, presentation, and disclosure of leases for both practices to a contract i.e., the customer (lessee) and the supplier (lessor). IFRS 16 is effective from 1st January 2019.A Company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 revenue from contracts with customers. IASB project to improve the financial reporting leases. IFRS 16 replace the previous standard, IAS 17 leases, and related Interpretations.(Source: www.ifrs.org.in)

Lease: It is an agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

Lessees:

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and if lease payment is made over time also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases/finance leases as is required by IAS 17 and, instead introduces a single lessee accounting model.

Lessors:

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 27.Accordingly; a lessor continues to classify its leases as operating leases/Finance lease and to account for those two types of lease differently.

THE NEED FOR AND IMPORTANCE OF THE STUDY

Leasing is an imperative and extensively used financing solution. It enables enterprises to right to use the property and equipment without improvingbig cash outflows at the start. It similarlyoffers elasticity and enables lessees to address the issue of undesirability and residual value peril. In fact, sometimes, leasing is the only way to obtain the use of a physical asset that is not available for purchase.

Under the previous standard rules i.e., IAS 17, lessees account for lease transactions either as operating or as finance leases, depending on complex rules and tests which, in practice, use 'bright-lines' resulting in all or nothing being recognised on balance sheet for sometimes economically similar lease transactions. The impact on a lessee's financial reporting, asset financing, IT, systems, processes,and controls is expected to be substantial. Many companies lease a vast number of big-ticket items, including cars, offices, power plants, retail stores, cell towers,and aircraft.

Research Gap

Though there were no studies on impact of IFRS 16implementation on forthcoming financial statements of the MNCs. ***There was no study which focused on airline, shipping companies because this IFRS 16 much more effect on the above companies.*****Hence, this research topic has been taken up.**

OBJECTIVES OF THE STUDY

The main objective of the study is to analyse the impact of IFRS 16 towards implementation on Financial Performance. However, in order to give direction to the study, the following specific objectives are set forth.

The specific objectives of the study are:

1. To study the overview of IFRS 16.
2. To examine the differences between IAS 17 & IFRS 16
3. To analyse the perceptions of accounting professionals towards leases IFRS -16.

HYPOTHESES OF THE STUDY

Based on the objectives of the study, the following hypotheses of the study are framed.

(i) There is no impact of implementation of IFRS 16 on income statement of the companies.

(ii) There is no impact of implementation of IFRS 16 on balance sheet of the companies.

RESEARCH METHODOLOGY

The study is based on both primary and secondary data. The primary information was collected by serving a structured questionnaire to the respondents and direct interview method. The secondary data were collected from 1. Published reports 2.Websites such as www.Ifrs.org.in. and www.pwc.ocm.

Sample Selection

The sample of 51 per cent of accounting professionals such as senior most accountants, chartered accountants, Fellow chartered accountants (FCA) of ICAI, PWC(PricewaterCoopers), KPMG and Deloitte, andothersrespectively; for the study was taken. **Approximately 86 top level executives**. Stratified random sampling was used to select accounting executives from various departments of the above companies.

The study used appropriate statistical tools such as percentages, standard deviation, coefficient of variation, Chi – Square test.

STATISTICAL TOOLS

A) DISCRIPTIVE STATISTICS

(i) Standard Deviation

The concept of Standard Deviation was first introduced by **Karl Pearson** in 1983. Standard Deviation is powerful method/tool of the measures of dispersion. It is also called as **Root Mean Square Deviation**.

Standard Deviation is denoted by small **Greek letter σ (read as Sigma).** *"Standard Deviation is the square root of the arithmetic average of the squares of the deviations measured from mean".* It is a measure of dispersion. It tells us how spread out the data is from the mean (Average).

(ii) Co-efficient of Variance (C.V)

The standard deviation is an absolute measure of dispersion. The relative measure is known as the co efficient of variation. *It is developed* ***by Karl Pearson.*** *Co efficient of variation is denoted by C.V* .and is obtained as follows.

C.V= Standard Deviation/ Arithmetic Mean* 100

It is used in such problems where we want to compare the variability of two are more than two variables in the series of the data. A group which has more variability as compare to the other or has more co-efficient of variation, consistency would be less and vice versa.

Higher C.V. ⟶ **Lower Consistency, reliability, Uniformity**

Lower C.V. ⟶ **Higher Consistency, reliability, Uniformity**

Chi-Square Test

The chi-square test is an important test amongst the several tests of significance. It is one of the simplest and most widely used non-parametric statistical tests. It is a statistical measure used in the context of sampling analysis to (i) test the goodness of fit; (ii) test the significance of association between two attributes; and (iii) test the homogeneity or the significance of population variance.

Chi-Square = $(O- E)^2/ E$,

Reject: X2 > Table value & Accept: X2 ≤ Table value

Where, O = observed values and E = expected values.

Chi-Square has an approximate Chi-Square distribution and critical values of Chi-Square are obtained from the table of Chi-Square distribution.

Overview of IFRS 16

The International Accounting Standards Board (IASB) has issued IFRS 16 Leases (IFRS 16 or the new standard), which needs lessees to identify assets and liabilities for maximum leases. For lessors, there is slight variation to the existing accounting in IAS 17 Leases. The IASB issued this standard as part of a combined project with the Financial Accounting Standards Board (FASB) USA. The FASB has not yet issued its novel standard, but it is also likely to need lessees to identifymaximum leases on their financial position statements/ balance sheets. Though the IASB and FASB prepareddissimilarresolutions during debates, and variances between the two standards will exist.On 1st January 2019 onwards this standard will be effective. (Source: www.kpmg.org.in)

Why IFRS 16

The main reason is that under IAS 17, lessees were still able to hide certain liabilities resulting from leases and simply not present them on the face of the financial statements. I'm talking about operating leases, especially those with non-cancellable terms. Under the new standard, lessees will need to show all the leases right in their statement of financial position instead of hiding them in the notes to the financial statements.(Source: www.iasplus.com)

Lease

A contract is or contains a lease if it ***conveys the right to control the use of an identified asset for a period of time in exchange for consideration.*** (IFRS16, par.9).

This new standard will ominously modification the accounting for lessees' leases and could have far-reaching implications for a company's finances and operations.(www.pwc.com)

Objective of IFRS 16

The objective of this standard is to facilitate the principles for recognition, measurement,and disclosure in relation to financial lease and operating lease transactions in the financial statements of lessees and lessors.

Scope of IFRS 16

The scope of IFRS 16 is normally allied to IAS 17 and contains all contracts that convey the right to use an asset for a period of time in exchange for consideration.

This standard ought to be applied in accounting for all leases other than the following lease agreements.

(a) lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights; and (b) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and (c) lease agreements to use lands.(Source:www2.deloitte.com)

IFRS 16 permits ***two exemptions*** (IFRS 16, par. 5 and following):

1.Leases with the ***lease term of 12 months or less with no purchase option*** (applied to the whole class of assets)

2.Leases where ***underlying asset has a low value when new*** (applied on one-by-one basis).

Optional Exemptions

Lease term <1 year

Underlying asset of low value when new

- Lease payments on a straight line basis

Classification of leases as per IFRS 16

Unlike lessees, ***lessors need to classify the lease first***, before they start accounting.

There are 2 types of leases defined in IFRS 16:

1.A ***finance lease*** is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

2.An ***operating lease*** is a lease other than a finance lease.

IFRS 16 (IFRS 16, para. 63) outlines examples of ***situations that would normally lead to a lease being classified as a finance lease*** (and they are almost carbon copy from older IAS 17).(www.ifrsbox.com)

Differences between IAS 17 and IFRS 16

Based on the survey method and direct interview method the researcher observed the following major difference from the respondents. These differences have shown in the table format for easy to understand.

Table No: 1

Differences between IAS 17 and IFRS 16

Differences	***IAS 17***	***IFRS 16***
1.FinancialLease(Major Changes)	The previousversion of IAS 17(Lease)was criticized because it did not required lessees to recognize assets and liabilities arising from Operating lease. Certain criteria to be met to recognizea lease as finance lease; such as substantially transfer of risks and rewards.	IFRS 16 introduced a ***single lessee accountingmodel*** and requires a lessee to recognize assets (right –of –use) and liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low valve.
2.Operating lease	Lease is recognizing as operating lease if the recognition criteria for finance lease is not met.	**For Lessee:** There's concept of operating lease,however,lessees may choose to EXPENSE out item of low valve and lease with a term of less than the 12 months. **For Lessor:** Lease is recognizing as operating lease it the recognition criteria for finance lease is not met.
3.Sale and Lease back (Major Changes)	Lessor and lessees account for sale and lease back transactions as	For lessor and lessee accounting for sale and lease back depends

	fiancé lease or operating lease and account for them as prescribed.	whether transfer as sale or not a sale.
4.Classification of Leases	Under IAS 17, lessees needed to classify the lease as either finance or operating. If the lease was classified as operating, then the lessees did show neither asset nor liability in their balance sheets – just the lease payments as an expense in profit or loss. But, some operating leases were non-cancellable, and therefore, they represented a liability (and an asset) for the lessees.	Under IFRS 16 lessees (those who take an asset under lease) ***do not need to classify the lease*** at its inception and determine whether it's finance or operating.
5.Income StatementImpact	Under the IAS 17 Operating Lease costs are recorded as a single straight –Line cost in the Income Statement.	Whereas as per IFRS 16 the new model, all lessee will considered finance lease and will have a depreciation and interest charge to the income statement.
6.Balance sheet Impact	Under the current model (IAS 17) operating leases are treated as off – balance sheet arrangements.	Under IFRS 16 a new model was implemented by IASB i.e., all leases are recognizes in the balance sheet as a financial lease. Companies Balance Sheets will significantly grow, and key financial ratios will change, such as Return on assets.

Perceptions of accounting professionals towards lease IFRS -16.

The Perceptions of accounting professionals towards lease IFRS -16 is completely based on primary data; this data was collected through questionnaire from accounting professional of ICAI, PWC, KPMG, and Deloitte and others. In this questionnaire various issues such as challenges, and suggestions pertaining to implementation/adoption of IFRS 16 in India covered by the researcher.
The questionnaire also contains the questions to find out the core domain /area of impact on the financial statements such as (1) Impact on Income Statement, (2) impact on Balance Sheet, (3) Impact on financial rations other functional areas. The additional source of primary information was through an interview conducted with chartered accountants who gave their valuable comments and suggestions towards successful adoption of IFRS 16 for upcoming financial statements. These comments or suggestions were included at appropriate contexts.
The researcher analysed the primary data through various statistical tools i.e., percentages, descriptive statistics, and Chi- Square test using Statistical Package for Social Sciences (SPSS).

TABLE NO: 6.1

Profile of Respondents

	Variable	**Frequency**	**Percentage**
Gender	male	71	83
	female	15	17
	Total	**86**	**100**
Qualifications	B. Com, C.A.	48	56
	B.Com, C.A, C.S	25	29
	B.Com, C.A, M.Com,	13	15
	B.Com, C.A, M.Com, M.B.A, Ph.D.	0	0
	Total	**86**	**100**
Experience	0-5 Years	26	30
	6-15 Years	42	49
	16- 25 Years	14	16
	26 Above	4	5
	Total	**86**	**100**

PRIMARY DATA ANALYSIS

1. Why has the IASB Developed a new leases standard? The reason for IFRS 16?

The majority respondents (92%) saythat the main reason is that under IAS 17, lessees were still able to hide certain liabilities resulting from leases and simply not present them on the face of the financial statements. IASB talking about operating leases, especially those with non-cancellable terms. Under the new standard, lessees will need to show all the leases right in their statement of financial position instead of hiding them in the notes to the financial statements **(Or)** ***eliminate off-balance sheet financing****(2) under IAS 17, lessees needed to classify the lease as either finance or operating. If the lease was classified as operating, and then the lessees did show neither asset nor liability in their balance sheets – just the lease payments as an expense in profit or loss.* But, respondents told that some operating leases were non-cancellable, and therefore, they represented a liability (and an asset) for the lessees.

2. Are there any significant benefits accrued after adoption of IFRS **Table No: 1**

VARIABLE	YES	NO	TOTAL
MALE	59	12	71
FEMAL	8	7	15
TOTAL	67(78)	19(22)	86(100)

Source: Primary data

The Table 1 indicates that 78 % majority respondents have mentioned that many benefits accrued to companies who have adopted IFRS 16. The benefits cited by them to market into investors.

(a) Better transparency there is more inside of liability is lost by leases. For example, financial crises quit if retail companies went under bank craft their Balance sheet veryclean they have debts on the Balance sheet and the same time they have huge leases liabilities which here not visible in the future there will be visible. (b) There will be much better comparability between companies. For example, new airline companies that /own most of the aircraft and finance assets loans. And another hand there are airlines that least most of the fit. In practice, they might have similar financing obligations but the current practice company gets owes to applying has a very lot of debt on the Balance sheet. Where has the airline's debt leases the most of the aircraft has a clean Balance Sheet.

3. Does IFRS 16 apply to service contracts?

Table No: 2

VARIABLE	YES	NO	TOTAL
MALE	8	63	71
FEMAL	7	8	15
TOTAL	15(17.44)	71(82.56)	86(100)

Source: Primary data

From the above table, it is concluded that 82.56% of the respondents mentioned that IFRS 16 does not apply to services contracts. Because IFRS 16 does not change the accounting for service. It is required to be applied only to leases or lease components of a contract.

3. Are there any exemptions of IFRS 16? :

Table No: 3

VARIABLE	NO OF RESPONDENTS	PERCENTAGE
YES	77	89
NO	09	11
TOTAL	86	100

Source: Survey results

From the above table, it is concluded that 89% of the majority respondents mentioned that there are certain exceptions of IFRS 16 such as; IFRS 16 does not require a company to recognize assets and liabilities for (a)short term leases i.e., leases of 12 months or less (b) leases of low- value assets (ex: a lease of personal computers.)

4. Does IFRS 16 –Effects on the Income Statement?

Table No: 4

VARIABLE	YES	NO	TOTAL
MALE	59	12	71
FEMAL	3	12	15
TOTAL	62(73)	24(27)	86(100)

Source: Survey results

The Table 3 indicates that 73% of the respondents accepted with the statement of "Does IFRS 16 –Effects on the Income Statement". They cited the following effects that IFRS 16 will have on companies' income statement. (i) Recognition of the expense related to leases for both an individual lease and a portfolio leases; (ii) Presentation of the expense related to leases.

5. Does IFRS 16 –Effects on the Balance Sheet?

Table No: 4

VARIABLE	YES	NO	TOTAL
MALE	67	4	71
FEMAL	9	6	15
TOTAL	76(88)	10(12)	86(100)

Source: Primary data

The above table reveals that 88% of the respondents perceptions is that IFRS 16 effects on the company balance sheet because the IASB consider the effect that it will have on companies Balance Sheet

a) Lease Assets
b) Financial Liabilities
c) Equity

Effects on Assets & Liabilities

IFRS 16 requires a company to report on the Balance sheet lease assets and lease Liabilities for all leases other than (short term leases) and leases of low value of assets) for companies with material off-balance sheet leases, the IASB expects the most significant effect of IFRS 16 to be an increase in lease assets and lease liabilities.

The newly recognised lease asset the right of use asset is a non-current, Non-financial assets and the lease Liabilities is a part of current Non-financial liabilities, depending on the timing of lease payments.

Table 5:ImpactofIFRS-16 on implementation financial performance in Indian companies (N=86)

Averages, Standard Deviations,and Coefficient of variations for Likert scale questions:

Q.NO.	Factors	(SA) (5)	(A) (4)	(DA) (3)	(SDA) (2)	(UD) (1)	Total	Mean	SD	CV
10	The biggest change: lessee's accounting for leases	13	73	0	0	0	86	2.632	0.90	0.341
11	IFRS 16 apply to service contracts	7	8	9	62	0	86	2.512	0.89	0.354
12	IFRS 16 impact on the Balance sheet	45	29	5	7	0	86	2.996	0.798	0.266
13	IFRS 16 impact on the Income Statement	41	33	3	9	0	86	2.679	0.699	0.260

Source: Primary data

Four questions were distributed to assess the impact of IFRS16 implementation in Indian companies. The mean response of the four questions was more than 2.512 and the standard deviation was also less than 0.36, which indicates that the respondents' perceptions were close to one another and there is not much deviation among the respondents response. Finally, it is revealed that on an average the respondents agreed that the implementation of IFRS16 has impact on financial statements of Indian companies.

HYPOTHESIS TESTING (CHI -SQUARE TEST)

Ho1: There is no impact of implementation of IFRS 16 on income statement of the companies.

Table No: 6

Observed Frequency

VARIABLE	YES	NO	TOTAL
MALE	59	12	71
FEMAL	3	12	15
TOTAL	62	24	86

Source: Primary data

Table No: 7

Expected Frequency

VARIABLE	YES	NO	TOTAL
MALE	51	20	71
FEMAL	11	4	15
TOTAL	62	24	86

Source: Primary data

Table No: 8

Showing calculation of $\chi 2$ – value

O	E	O-E	(O-E)2	(O-E)2/E
59	51	8	64	1.2549
3	11	-8	64	5.8181
12	20	-8	64	3.2000
12	4	8	64	16.000
$\chi 2$				**26.273**

Source: MS.Excel 2009

Calculated value of Chi-Square = 26.273

Degree of Freedom = (r-1) (c-1) = (2-1)(2-1) = 1*1 =
Table value of χ2 for dof = 1 @ 5% level of significance = 3.84

Result: Calculated value of **χ2 (26.273)** is greater than the table value of **χ2 (3.84),Hence H_0 is rejected and concluded that there is a significantimapct of IFRS 16 on Income Statement**.

Ho2: There is no impact of implementation of IFRS 16 on balance sheet of the companies

Table No: 9

Observed Frequency

VARIABLE	YES	NO	TOTAL
MALE	67	4	71
FEMAL	9	6	15
TOTAL	76	10	86

Source: Primary dat

Table No: 10

Expected Frequency

VARIABLE	YES	NO	TOTAL
MALE	63	8	71
FEMAL	13	2	15
TOTAL	76	10	86

Source: Primary data

Table No: 11

Showing calculation of χ2 – value

O	E	O-E	(O-E)2	(O-E)2/E
67	63	4	16	0.2539
9	13	4	16	1.2307
4	8	4	16	2.0000
6	2	4	16	8.000
		χ2		**11.4846**

Source: MS.Excel 2009

Calculated value of Chi-Square = 11.4846
Degree of Freedom = (r-1) (c-1) = (2-1)(2-1) = 1*1 =
Table value of χ2 for dof = 1 @ 5% level of significance = 3.84

Result: Calculated value of **χ2 (11.4846)** is greater than the table value of **χ2 (3.84),Hence H_0 is rejected and concluded that there is a significantimapct of IFRS 16 on Balance Sheet of the comapnies**.

CONCLUSIONS & SUGGESTIONS:

Based on the descriptive statistics and Chi –Square test analysis it is concluded that there is an impact of IFRS 16 Implementation on the financial performance of companies. To Give training to staff or arrange some dedicated staff for the convergence process of IFRS 16. So that planning and implementation both will get a start soon and ends with proper care and on time. The Accounting professionals perspectivesuggested that each airline would have to analyse their operating costs, and determine whether they should d get a better ROI from leasing or from buying - or even if they have the cash flow to buy and maintain a fleet in the first place. In simplistic terms, IFRS 16 brings everything (or almost) onto the balance sheet. It's a means of transparency and a way for investors to analyse the health of the company. It's not a law but it is a sign of best practice for companies.

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