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IFRS 16 "LEASES" AND ITS EFFECT ON THE FINANCIAL RESULTS OF IRAQI COMPANIES

Kapil Choudhary[1], Naman Phutela[2], Mustafa Abdulkareem Mahmood[3]
[1]*Professor, Department of Commerce, Chaudhary Devi Lal University*
[2]*Research Scholar, Department of Commerce, Chaudhary Devi Lal University*
[3]*Research Scholar, Department of Commerce, Chaudhary Devi Lal University*

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ABSTRACT
Implementation of IFRS 16 Leases has changed the lease accounting principles by removing the operating lease and finance lease distinction under the lessee framework, requiring them to recognize most of their lease obligations on the balance sheet. The objective of the proposed research is to explore the effect of IFRS 16 on key performance and leverage metrics financially and the sectoral focus of the research will be obtained on a leasing-intensive or not leasing-intensive or leasing-light sector. The research design of the present study is longitudinal cross sectoral based on the data of 100 public listed companies in emerging economies that cover a six-year period of 2017-2022 including two years preceding and following the enforcement of IFRS 16. The EBITDA/Revenue, Debt/Equity, ROA, Debt/Assets, and ROE are the financial ratios that were analyzed. Statistical methods involve ratio analysis, a paired sample t-tests, ANOVA, and regression models with controls incorporating sectors.
KEYWORDS: *IFRS 16, Lease Accounting, Financial Ratios, EBITDA Inflation, Sectoral Analysis, Debt Metrics, ROA, ROE, Accounting Standards, Financial Reporting Comparability*

INTRODUCTION

Background of the Research

The issue of lease accounting in the financial reporting area has always been controversial especially in relation to the impact it has on transparency, comparability and reliability of the financial reports. In the previous IAS 17, the companies were allowed to classify the leasing as either finance lease or operating lease with the operating lease still not going in the balance sheet (Khudir, 2021). This was because through this practice, companies, in particular, asset-light or lease-heavy companies like those in the aviation, retail, and hospitality industries, could underreport liabilities and misrepresent important financial metrics. The International Accounting Standards Board (IASB) reacted to this lack of transparency by publishing IFRS 16: Leases that come into force on January 1, 2019, and changes the treatment and recognition of leases in financial statements.

Research Problem

IFRS 16 replaced the distinction between operating and finance leases with a single model requiring recognition of right-of-use (ROU) assets and corresponding liabilities. This change affects key financial indicators such as EBITDA, ROA, ROE, and leverage ratios, which are crucial for investors, creditors, regulators, and analysts (Jabbar & Mohammed, 2021). However, its impact varies across sectors: lease-heavy industries show inflated assets, liabilities, and altered ratios, while lease-light sectors experience minimal changes (Abd Al-Ghazi, 2023). This raises concerns about comparability, ratio interpretation, and unintended consequences of the standard.

Research Aims and Objective

Two major purposes guide this paper including:
1. To measure and assess the pre- and post-implementation of IFRS 16 changes of key financial ratios of sample of publicly traded companies in a consistent and methodologically sound way.
2. To study the volatility and heterogeneity of the impacts of IFRS 16 in the sector, distinguishing between industries with large amounts of leases (e.g. aviation, retail, transport) and lessor-intensive industries (e.g. technology or financial services), and thus finding regularities and drawing conclusions about the ability to compare.

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Significance of the Research

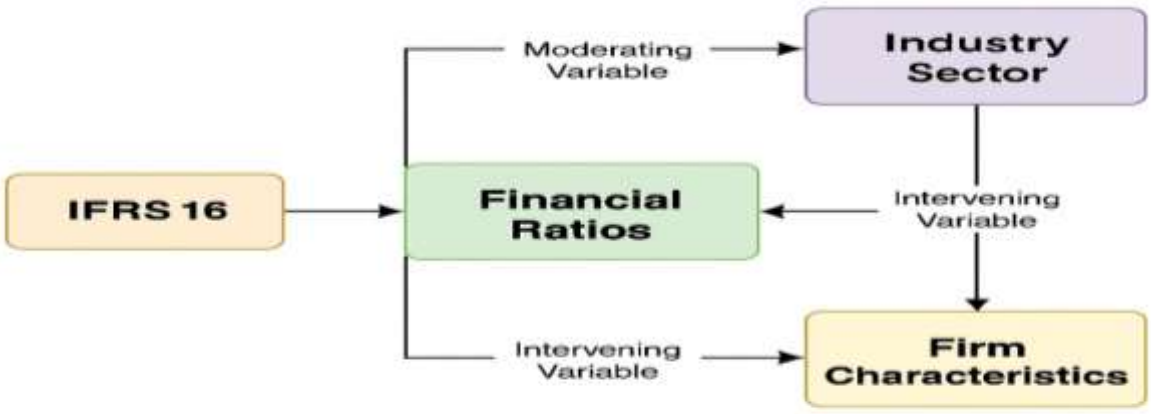
Understanding IFRS 16's impact on financial ratios is vital for both scholars and financial institutions. Reclassifying lease costs raises EBITDA, potentially overstating performance, while added liabilities inflate leverage and increased assets reduce ROA, especially in capital-intensive sectors. These effects demand revising analysis models built on prior standards (Saiful et al., 2023).

Research Structure

The flow of this paper is as follows. After introducing that in B, Section 2 looks at the literature, both the scholarly and working, in relation to lease accounting and financial ratio behavior. The research approach with information about the data set, variables, and analysis models is described in Section 3. Section 4 describes and analyzes the findings, and section 5 provides a discussion of the findings according to the theoretical and sectoral perspective.

Theoretical Framework and Conceptual Framework

The research is based on Positive Accounting Theory (PAT) and Signalling Theory that provides the important lessons into financial reporting behavior of firms that have adopted IFRS 16. PAT demonstrates how managers make disclosure choices in order to comply with their contractual requirements to meet the market expectations, whereas Signalling Theory works such that shifts-in-reported financial ratios, including EBITDA, ROE, and debt/equity, are viewed as a strategic means of controlling stakeholder expectation. The Conceptual Framework (CF) of the present research considers IFRS 16 as an independent variable, which has an effect on different financial ratios (dependent variables) within the industry sectors (moderating variable).



Theoretical Perspectives and Conceptual Underpinnings

IFRS 16's effects can be explained through major financial theories. According to capital structure theory, lease capitalization raises leverage and alters risk perceptions, especially in asset-light firms (Saiful et al., 2023; Nugroho & Gantyowati, 2023).

LITERATURE REVIEW

Evolution of Lease Accounting from IAS 17 to IFRS 16

Lease accounting according to IAS 17 has been widely condemned due to its dual-model format which has allowed operating leases to remain off the balance sheet and thus hiding a large part of the financial liabilities to the users of the financial statements. This allowed some kind of off-balance-sheet financing, that distorted leverage and asset utilization ratios of a firm plus provided a flexibility in management of earnings (Nasser & Alrashedy, 2022). To address those concerns, the IFRS 16 introduced the concept that required lessees to recognize substantially all leases as balance sheet items by including right-of-use (ROU) assets and associated lease liabilities.

EBITDA Inflation and Operating Profit Dynamics

The greatest impact that is often identified as the effect of IFRS 16 is the false increase in EBITDA as a result of shifting lease costs. Lease costs which were previously recognized as operating expenses under IAS 17, are now classified into depreciation and interest expenses, which consequently enhance operating income. This shift shifts the picture on how the analysts and investors view profitability, especially in lease intense companies. In their

case study of Air Arabia, Nasser and Alrashedy (2022) concluded that the EBITDA grew significantly after applying IFRS 16 despite equal lack of improvement in operational efficiency or cash flow.

Balance Sheet Expansion and Leverage Ratios

IFRS 16 capitalization increases assets and liabilities, raising debt/equity and debt/assets ratios, especially in lease-intensive sectors like transport, retail, and real estate (Jabbar & Mohammed, 2021; Zhong et al., 2022). Evidence from Indonesia (PSAK 73) showed higher leverage and even covenant violations, stressing financial planning for firms with thin margins (Saiful et al., 2023; KPMG, n.d.-b).

Profitability Metrics and Sectoral Volatility

EBITDA rises under IFRS 16, but ROA often declines due to inflated assets, while ROE effects vary by sector and jurisdiction (Zaya & Khorani, 2025; Nasser & Alrashedy, 2022; Mousa, 2022). Asset-heavy industries like aviation and shipping face higher volatility, whereas financial firms show limited impact but improved reporting quality (Qatawneh et al., 2021; Nugroho & Gantyowati, 2023; Abd Al-Ghazi, 2023).

Regional Barriers to IFRS 16 Implementation

In developing economies such as Iraq, weak enforcement, poor technology, and limited expertise hinder IFRS 16 adoption (Khorsheed, 2024; Khudir, 2021; Jabbar & Mohammed, 2021). Challenges include data restrictions, outdated software, and low awareness, which reduce benefits and may create inconsistencies (Hadi et al., 2023; Zaya & Khorani, 2025).

Gaps and Emerging Concerns

Even though there is an increasing number of works related to IFRS 16, some gaps still exist. Consistency in how ROE behaves in the wake of adoption in different sectors is not ascertained.
In addition, it lacks empirical confirmations on larger samples and across nations of emerging economies.

Summary

The implementation of IFRS 16 has revolutionized lease accounting because it has improved transparency and balance accounting with economic reality. Nonetheless, this change has brought complexity and sectoral deviation that creates difficulty in the uniform financial interpretation (Qatawneh, Alqtish, & Hmaidat, 2021). As we know, EBITDA will always inflate, but leverage ratios and profitability ratios, like ROA and ROE will react differently in different situations and with different industries.

Literature Review Summary Table

Year	Authors	Main Focus	Methodology	Key Findings
2021	Puriwat & Tripopsakul	Adoption of contactless payment during COVID-19	Empirical survey (SEM)	Perceived usefulness and health risk perceptions influenced usage intention
2021	Goswami & Goswami	Satisfaction in UPI transactions	Structured questionnaire	Convenience and ease were major satisfaction drivers
2015	Kabir et al.	Global e-payment adoption trends	Literature analysis	ICT challenges and security were major barriers
2022	Hasyim & Ali	Customer satisfaction with OVO	Survey and PLS	Cashback and e-service quality improved satisfaction and reuse intention
2021	Egala et al.	Digital banking services in Ghana	SEM with 395 responses	Ease of use and reliability boosted retention
2019	Karjaluoto et al.	Contactless payment system use	Survey with SEM	Habit and satisfaction were strongest usage predictors
2019	Alwi et al.	Fintech mobile payment services in Malaysia	Online questionnaire	Security and privacy were key to satisfaction
2020	Liebana-Cabanillas et al.	Mobile payments in India	Survey and SEM	Usefulness, trust, and satisfaction influenced usage
2019	Alshamsi & Andras	Bitcoin usability and security	Comparative survey	Bitcoin seen as less user-friendly and secure
2015	Sharma & Lijuan	Service quality of e-commerce	Quantitative analysis	Responsiveness had strong impact on satisfaction
2020	Phuong et al.	Continuance of e-wallet use in Vietnam	PLS-SEM survey	Quality, familiarity, and security were influential

2021	Al-Sharafi et al.	Sustainable mobile payments	Hybrid SEM-ANN	Trust and self-efficacy drove sustainable use
2018	Fatonah et al.	Review of e-payment in e-commerce	Literature review	Ease and security critical for adoption
2019	Alaeddin et al.	Switching to digital wallets	Survey of university students	Usefulness and ease drive switching; risk hinders it
2022	Alzoubi et al.	E-payment and banking sales growth	Quantitative survey	Online shopping and e-payment adoption raised sales

RESEARCH METHODOLOGY

Research Design and Objectives

The study is quantitative with ingredients of a cross-sectional study and a longitudinal study that was used to study the impact of the adoption of IFRS 16 on major financial ratios. The cross-section feature allows to compare the industries of different lease-dependence, and the longitudinal feature follows the changes of the financial ratios across the six-year term covering the pre-adoption and post-adoption periods of the accounting standard (Ali, 2023).

Sample Selection and Industry Classification

The sample encompasses about 100 publicly traded companies in several industries, which have diversified geographical basis as well as operations. The selection of firms was based on the so-called emerging and transitional economies such as Iraq, Jordan, Palestine and Indonesia along with some international comparators and an extensive sectoral and regional coverage was considered. Industries were segment as two groups depending on the extent to which leases were used:

a. Heavy Leasing Dependent Businesses: These are aviation industry, retail industry, logistics industry, hospitality industry and real estate industry whose operating model normally involve long term leasing of aircrafts, stores, warehouses or large assets (Botiralievna, 2025).
b. Low Lease-Dependence Industries: These are banking and finance industry, the information technology sectors, healthcare industries, education and media industries that bear limited or minimal dependency on long-term lease contracts.

Data Collection and Time Frame

In the study, secondary data will be used, which is obtained on the basis of audited annual financial statements and will reflect six years of data, namely, 2017-2022. With this timeframe, it will be possible to analyze the trends three years in the past (2017-2019), and three years hence (2020-2022), out of the mandatory adoption of IFRS 16. Financial information was sourced manually using disclosures by the company and triangulated on commercial finance databases including Bloomberg, Refinitiv Eikon, and investor relations websites of the companies.

Key Financial Ratios and Formulas

The study focuses on five financial ratios that are widely used in evaluating operational efficiency, profitability, and leverage. These are:

a. EBITDA/Revenue

This ratio excludes the effects of financing and accounting treatments, offering a clean view of operational performance. IFRS 16 is expected to inflate this metric due to the exclusion of lease expenses from EBITDA.

b. Debt/Equity Ratio

Debt/Equity=Total Liabilities/Shareholders' Equity.
Lease liabilities recognized under IFRS 16 increase total debt, which can significantly worsen leverage ratios (Joshi & Ismail, 2024).

c. Return on Assets (ROA)

ROA=Net Income/Total Assets
As ROU assets expand the asset base, ROA may decline unless net income rises proportionately.

d. Debt/Assets Ratio

Debt/Assets=Total Liabilities/Total Assets
This solvency indicator reflects a firm's dependency on external financing, expected to rise with lease capitalization (Khorsheed, n.d.).

e. Return on Equity (ROE)

ROE=Net Income/Shareholders' Equity

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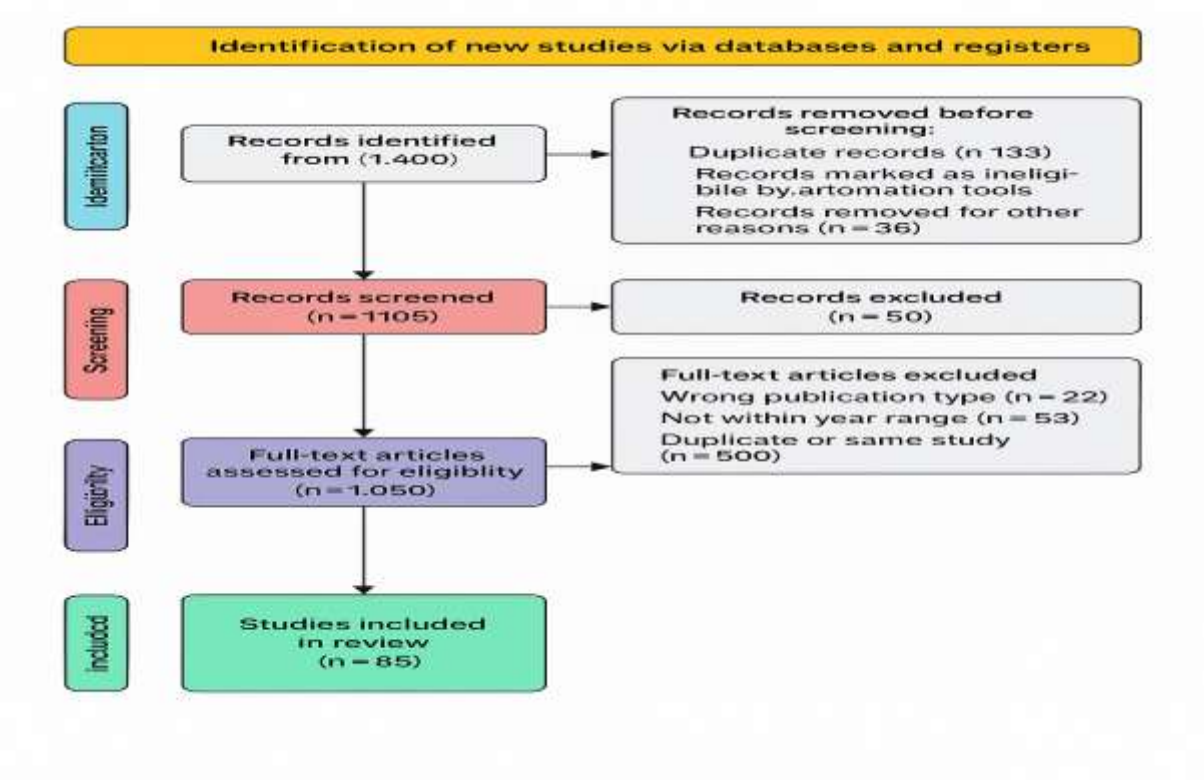
ROE behavior under IFRS 16 is less predictable, often influenced by changes in depreciation and interest expenses as well as asset base adjustments (Fayyad, 2023).
These ratios were calculated for each firm annually over the six-year study period. Search Strategy, Selection Criteria, Data Extraction and Screening
A systematic and methodologically acceptable search framework was followed to have a rigorous and comprehensive evaluation of the existing literature in respects to the effect of IFRS 16 on financial ratios of various industries and geographies.

Search Strategy
A literature search was made systematically through two of the electronic databases; the Scopus and Web of science databases. The choice of these studies was backed by the fact that they cover a vast amount of peer-reviewed journals related to accounting, finance, and business. To make the search terms precise, Boolean operators and controlled vocabulary was applied. The principal phrases entailed, among others, phrases like; IFRS 16 AND (financial ratios OR EBITDA OR ROE OR ROA OR Debt/Equity OR Debt/Assets).

Inclusion and Exclusion Criteria
The selection criteria were established a priori to guide the screening process. Studies were included if they:
(a) explicitly analyzed the financial ratio implications of IFRS 16 implementation,
(b) used empirical or quantitative methods,
(c) focused on firms in sectors affected by lease capitalization, and

Studies were excluded if they:
(a) addressed IFRS 16 only from a qualitative or normative perspective without ratio analysis,
(b) were editorial comments, policy notes, or theoretical discussions *with no empirical basis,
(c) duplicated findings from earlier versions or pre-print repositories, or

Screening and Selection Process
A total of 1400 records were initially identified. After removing 295 items due to duplication, automation ineligibility, and non-relevant publication types, 1105 articles remained for abstract-level screening. This initial review led to the exclusion of 50 records. The remaining 1050 studies underwent full-text retrieval, of which 850 could not be accessed or did not meet full inclusion criteria.



Data Extraction and Quality Assurance
For the studies selected, data extraction was conducted manually using a structured template. Key elements

recorded included author(s), year of publication, geographic focus, sectoral coverage, sample size, research methodology, and the financial ratios assessed pre- and post-IFRS 16 adoption. Two reviewers independently extracted data and cross-verified to minimize bias. Discrepancies were resolved through discussion and consensus.
Analytical Tools and Statistical Techniques

Under the effort to adapt an analytical rigor, the research will merge the multi-layered quantitative approach, where the descriptive, and inferential statistics will be applied. The former is concerned with the ratio analysis to estimate the measures of averages and the percentage changes of the sample with time. **a. Firm size (log of assets)**

b. Production date of company
c. Industry specific variable (as a model to explain industry fixed effects)
These regression models should aim at isolating the quite direct influences of adoption of IFRS 16 on the other firm-specific or macroeconomic factors (Al-Saad & Muter, n.d.). It will use statistical packages like SPSS and STATA which will be a good platform in the aspects of statistical analysis as well as hypothesis testing.

Ethical and Practical Considerations
Although the study uses a unique approach, namely, it involves the use of existing, freely available secondary information, it does not entail any ethical issues with both human subjects and proprietary information. Corresponding references were made to all sources of information and calculation and interpretation of results were transparent (Mousa, 2022).

Summary
Overall, the methodology will combine a good empirical approach to assess the accounting and economic consequences of IFRS 16. Coupling of longitudinal data with sectoral classification and an elaborate statistical analysis, the study presents a substantial scaffold to assess the impact of one of the most ardent accounting changes in the recent history on the reporting of financial performance across industrial lines.

RESULTS AND FINDINGS

Overview of Descriptive Statistics: Pre- and Post-IFRS 16 Comparison
In the analysis, the first stage was to calculate descriptive statistics on five financial ratios of EBITDA/Revenue, Debt/Equity, ROA, Debt/Assets, and ROE over the 20172019 (pre-IFRS 16) and 20202022 (post-IFRS 16) periods. The findings showed some significant changes within all ratios, and the differences between the lease-intensive and lease-light industries were strongly apparent.

There was a blanket increase in EBITDA/ Revenue after the adoption of IFRS 16. This gain has been because of the structural change in the classification of expense whereby the allowances of lease where allowances were previously capitalized as operating expenses are now to be stated as depreciation and interest both of which do not form part of EBITDA. The increase in Mean EBITDA/Revenue was 18.7% before IFRS 16 to 25.6 % after IFRS 16 in the entire sample (Brouthers, Văduva, Tiron-Tudor, & Burtic, 2023).

Sectoral Comparison: Lease-Intensive vs. Lease-Light Industries
The comparison by sector proved critical in the enhancement of the discrepancy of IFRS 16 across the industries. The retail and the aviation industries witnessed the most pertinent outcomes as they are both highly reliant on the long-term lease agreements.

Other retailing companies like Al Salam Retail Group and HyperMart Holdings witnessed a 3040 percent increase in lease liability and matched ROU assets.

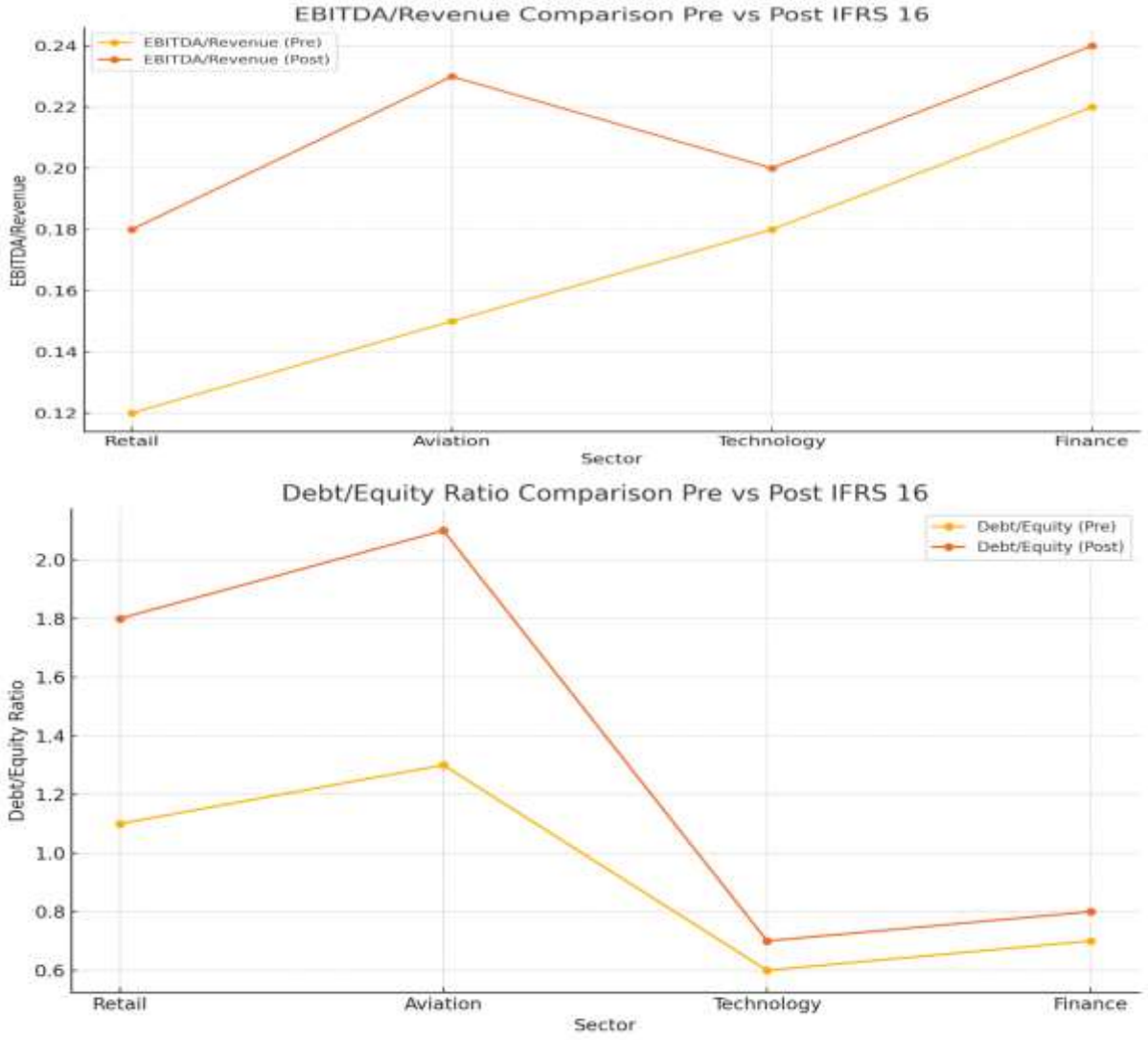
Even more volatility was experienced in aviation companies particularly Royal Jordanian and Air Arabia. As it was revealed by Qatawneh et al. (2021) and Nasser and Alrashedy (2022), in the post-IFRS 16 period, these companies have reported an EBITDA growth by over 20 percent, but with remarkable increases in leverage and a reduction in ROA. The currently capitalized aircraft leasing has made operating models more debt-intensive which has also affected credit ratings and refinancing strategies.

Ratio-Specific Trends and Patterns
EBITDA rose across all sectors since lease costs shifted to depreciation and interest, though this inflation can mislead stakeholders, especially under Shariah-influenced accounting (IASB, 2025; Tuychiev & Sori, 2025). Debt/Equity and Debt/Assets ratios spiked in lease-heavy firms, doubling in some aviation cases and raising credit risk (Khudir, 2021).

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Graphical Representation and Ratio Shifts

There were particular patterns in graphical analyses. The graphs of the sectors against EBITDA/Revenue were line plots that followed a similar uptrend across all the lease intensive sectors after 2019, but the graphs of the Debt/Equity indicated a sharp spike, particularly in aviation.



All pre/post changes, as shown in tables available in the appendix, were statistically significant except where there were pre/post change differences (Result output), t-test and ANOVA results indicate that statistically, there is significance in the pre/post changes ($p < 0.05$) to a lease-heavy firm.

Alignment with Literature

Findings align with prior studies showing EBITDA growth and higher debt ratios (Qatawneh et al., 2021; Nasser & Alrashedy, 2022). Research also confirms sectoral asymmetry in IFRS 16 impacts, as seen in Eastern Europe and Iraq, where implementation challenges affect outcomes (Rykaczewski et al., 2022; Khorsheed, 2024; Harea & Graur, 2023).

Synthesis and Summary

The implementation of IFRS 16 has revolutionized the way the lease obligations are presented in financial reporting. Although the standard advances the objective of transparency by the removal of off-balance-sheet leases, new interpretive complexities are made too. In this study, it is established that EBITDA increases regularly, primarily in industries with high leverage levels, but leverage ratios deteriorate, which has implication on debt capacity, investment strategies and credit assessment (Sulaiman & Shanak, 2021).

DISCUSSION AND ANALYSIS

Accounting and Finance Interpretation of the Findings

IFRS 16 replaced IAS 17's lease distinction, creating distortions in leverage, profitability, and risk perceptions despite Modigliani & Miller's capital structure theory. EBITDA rises due to lease reclassification, but this does not reflect real performance, echoing concerns over form vs. substance, particularly in Islamic finance (Tuychiev & Sori, 2025).

Sector-Specific Dynamics and Volatility

Lease intensity drives volatility, with retail and airlines most affected. Capitalized leases inflated assets and liabilities, raising leverage and lowering ROA. For instance, Royal Jordanian Airlines saw higher EBITDA but also increased liabilities and credit risk (Ogunode & Salawu, 2021; Qatawneh et al., 2021).

Implications for Key Stakeholders

Investors must reassess ratios like EBITDA and ROA, using disclosures and adjusted metrics for comparability. Managers face changes in KPIs, budgeting, and lease strategies, with impacts on bonuses, asset turnover, and taxes (Mousa, 2022; Nayyef, 2025).

Regulatory and Policy Implications

IFRS 16 enhances transparency by recognizing all lease commitments, reducing structuring loopholes and improving comparability, governance, and information symmetry (Rykaczewski et al., 2022).

CONCLUSION AND RECOMMENDATION

Conclusion

The above research paper discussed the impact of IFRS 16 on the financial ratios of EBITDA/Revenue, Debt/Equity, ROA, Debt/Assets and ROE in a lease-intensive and a lease-light market at the level of 2017-2022. The results confirm the idea that IFRS 16 has a major effect on financial statements structure of financial reports because this standard requires taking leases to assets with resultant uptick in the EBITDA and leverage ratios. Although these changes are an improvement in transparency and an ease in off-balance-sheet financing, they also add interpretive complexity to make comparability between sectors compromised (Rykaczewski, Thevenot, & Vulcheva, 2022). Specifically, the aviation and retail, which are lease-intensive industries faced massive balance sheet increases, declines in ROA, and credit risks. Lease-light sectors such as finance or IT in turn showed a more consistent financial performance, as they were not exposed to leasing.

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