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Article

Some Issues of Recognition and Reflection of Lease-Related Accounting Elements in Lessee Entities Based on International Financial Reporting Standards

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Abstract: The adoption of International Financial Reporting Standard 16 "Leases" introduced a fundamental transformation in lease accounting, substantially redefining the procedures for recognition and measurement of obligations in lessee entities. Prior to the introduction of this standard, operating lease obligations remained unrecognized on the balance sheet, significantly limiting the transparency and comparability of lessee financial statements. IFRS 16 has fundamentally improved this approach and mandated the recognition of a right-of-use asset and a corresponding lease liability for most lease arrangements, resulting in a more reliable and complete reflection of lessees' obligations in financial statements. This paper investigates certain unresolved issues in lessee accounting arising from the application of IFRS 16. The study focuses particularly on the classification of lease arrangements, as well as the initial recognition and measurement of right-of-use assets and lease liabilities. Employing a comparative and analytical methodology grounded in the provisions of IFRS 16 and related international financial reporting standards, the study finds that lease classification continues to exert a material influence on the financial position of lessee entities, while the recognition requirements though substantially improving transparency introduce considerable methodological complexity in practice. On this basis, the paper advances recommendations directed toward enhancing classification consistency and recognition accuracy, with direct practical implications for accounting harmonization in economies transitioning toward international financial reporting norms.

Keywords: Operating lease, finance lease, financial reporting, control, right-of-use asset, lease liability, lease payment, discount factor, lease term.

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1. Introduction

The globalization of financial markets and increasing demand for transparent financial reporting have become major drivers of accounting reform acceleration worldwide over recent decades. The most significant change in this process has been observed in lease accounting. The introduction of IFRS 16 "Leases" has fundamentally altered the requirements for recognition and measurement of lease-related accounting elements for lessee entities. This standard abolished the distinction between finance and operating leases for lessees and mandated the recognition of a right-of-use asset and a lease liability on the balance sheet for virtually all lease arrangements.[1]

However, the growing complexity of lease transactions, the widespread use of leasing as a financing instrument, and the diversity of contract types have revealed certain

gaps in practice. Gaps remain in the areas of accurately reflecting the economic substance of lease arrangements, maintaining consistency in classification, and faithfully presenting obligations on the balance sheet. For this reason, the present study is directed toward examining the theoretical and practical aspects of lease classification and the recognition of right-of-use assets and lease liabilities under international standards, and toward identifying directions for improvement.[2]

2. Research Methodology

In examining the specific aspects of lease recognition in accordance with international financial reporting standards, the study employed a combination of theoretical and empirical research methods. The theoretical component drew on logical reasoning, systematic collection of evidence and argumentation, and structured problem formulation, applied to the analysis of applicable regulatory and legislative instruments. The empirical component encompassed critical analysis of the relevant scientific and methodological literature, as well as direct observation of enterprise operations and economic activity.[3]

3. Literature Review

The reform of lease accounting ranks among the most consequential developments in international financial reporting, with IFRS 16 representing the single most decisive regulatory change in this domain. By abolishing the dual classification approach and mandating the direct recognition of lease-related elements in the statement of financial position, the standard fundamentally restructured the accounting framework applicable to lessee entities. This transformation gave rise to extensive scholarly discourse concerning both the theoretical foundations and the practical implications of recognition and measurement practices in lessee accounting.[4]

Among foreign scholars, Morales-Díaz and Zamora-Ramírez demonstrate that the application of IFRS 16 produces material changes in the key financial indicators of lessee entities, substantiating the significance of on-balance-sheet recognition of lease liabilities [5]. Imhoff, Lipe, and Wright establish that the non-recognition of lease liabilities leads to a misrepresentation of financial ratios and an underestimation of debt burden, thereby undermining the transparency and reliability of lessee financial statements [6]. Fitó, Moya, and Orgaz complement these findings by demonstrating that recognition-based approaches enhance comparability and yield a more accurate reflection of lessee financial performance, thus affirming the importance of consistent application of recognition criteria in achieving the objectives of IFRS 16 [7].

Among domestic scholars, N. Abdusalomova and F. Temirov note that under finance lease arrangements, the underlying asset is transferred to the lessee for a period not exceeding the standard useful life stipulated in the contract [8]. B. Madazimov specifically underscores the need to improve the accounting of leased fixed assets in lessee entities, proposing that conditions relating to improvements to the leased object be classified either as components of the lease or as separate supplementary agreements - a recommendation directly relevant to the subsequent measurement of leases and the accounting for lease modifications under international standards [9]. G. Axtamova advances an approach consistent with the recognition principles of IFRS 16, arguing that lease accounting must reflect not only the legal form of a transaction but also its economic substance [10].

Taken together, the contributions of both foreign and domestic researchers have materially advanced the understanding of lease accounting reform and the recognition of lease-related elements in lessee financial statements. However, a critical review of the existing literature reveals that the classification of lease arrangements in lessee entities, together with the recognition of right-of-use assets and lease liabilities, has not yet been

sufficiently examined as a unified and coherent subject of inquiry. The theoretical and methodological dimensions of how lessee entities classify lease arrangements and subsequently recognize and measure the corresponding asset and liability components remain inadequately investigated, particularly within the context of economies transitioning toward international financial reporting norms. These scholarly gaps constitute the primary scientific justification for undertaking the present research.[11]

4. Result and Discussion

Pursuant to Article 9 of Presidential Decree No. PQ-282 of the Republic of Uzbekistan dated 15 September 2025, a Roadmap for Harmonizing the Financial Accounting System with International Standards was approved as Annex 2 to that Decree, with Article 8 thereof establishing the tasks to be completed during 2026. Accordingly, the improvement of existing national accounting standards in line with the relevant international financial reporting standards constitutes a matter of pressing practical and scientific importance.

The study has established that National Accounting Standard No. 6 "Lease Accounting" defines a lease as an arrangement under which one party (the lessor) grants another party (the lessee) the right to temporarily possess and use, or to use, property for a consideration over an agreed period, whereas IFRS 16 "Leases" defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The common and distinctive features of these definitions are analyzed in detail in the table below (Table 1).[12]

Table 1. Analysis of lease definitions under NAS No. 6 and IFRS 16

Definition elements	NAS No. 6	IFRS 16
Contractual nature of the lease	It is noted that the lease is carried out pursuant to an arrangement	It is stipulated that a lease shall constitute a contract or part of a contract.
Lease object	Property	Asset (underlying asset)
Lease consideration	It is stipulated to be provided for consideration	It is stipulated to be provided for consideration
Transfer of ownership rights to the lessee	The possibility of transfer of ownership rights to the lessee is stipulated	Transfer of ownership rights to the lessee is not reflected in the definition
Transfer of use rights	Transfer of use rights to the lessee is stipulated	Transfer of use rights to the lessee is stipulated
Term	Use over an agreed period is stipulated	Use over a specified period is stipulated

As the table illustrates, the contractual nature of the lease relationship, the qualification of the lease object as property - that is, as an asset - the provision of the lease contract for consideration, the transfer of use rights to the lessee, and the grant of the lease object for a specified period constitute the common elements of the definitions provided.

On the basis of a comparative analysis of the lease definitions established in NAS No. 6 and IFRS 16, and a review of the requirements set forth in the relevant regulatory instruments, we propose that the national financial reporting standard define a lease as "a contract, or part of a contract, that conveys the right to use property for a period of time in exchange for consideration."

A comparative examination of the provisions governing lease classification under NAS No. 6 and IFRS 16 has revealed that the definitions of lease types established in the two standards contain significant divergences (Table 2).[13]

Table 2. Classification of Lease Types under NAS No. 6 and IFRS 16

Lease type	Definition under NAS No. 6	Definition under IFRS 16
Finance lease	Finance lease - lease relations arising from the transfer of the right to possess and use property (the object of a finance lease) under a contract for a period exceeding twelve months	A lease that transfers substantially all the risks and rewards incidental to ownership of the underlying asset
Operating lease	Operating lease - the transfer of property for temporary possession and use, or for use only, pursuant to a property lease contract that does not constitute a finance lease contract	A lease that does not transfer substantially all the risks and rewards incidental to ownership of the underlying asset

As the table above demonstrates, under the international standard the primary criterion for classifying a lease as either an operating or a finance lease is the degree to which the risks and rewards incidental to ownership of the lease object are transferred to the lessee. Specifically, the transfer of substantially all risks and rewards associated with the lease object to the lessee results in classification as a finance lease, whereas the retention of those risks and rewards by the lessor gives rise to classification as an operating lease.

Under NAS No. 6, by contrast, lease types are classified solely on the basis of duration. This approach may result in the incorrect classification of lease transactions, given that certain contracts are long-term in nature and an operating lease may extend for a period exceeding one year. In substance, the long-term or short-term duration of a lease term is neither a sufficient nor an appropriate indicator for its classification as a finance or operating lease.

In our view, in order to achieve harmonization with international financial reporting standards and to accurately reflect the substance of each lease type, it is appropriate to define lease types in the national financial reporting standard and other regulatory instruments as set out below (Table 3).[14]

Table 3. Proposals for the classification of lease types

Lease type	Proposed definitions
Finance lease	Finance lease - a lease under which substantially all the risks and rewards associated with the lease object are transferred to the lessee
Operating lease	Operating lease - a lease under which substantially all the risks and rewards associated with the lease object are retained by the lessor

We consider that the proposed definitions of finance and operating leases accurately reflect the substance of the respective lease type and serve as a general basis for the correct classification of leases across diverse situations in which the terms of lease contracts may differ from one another.

A further problem identified in the course of the comparative analysis of national and international standard provisions is that the procedure established under NAS No. 6 for accounting for operating lease transactions by the lessee differs substantially from the rules set out in IFRS 16 and is in need of improvement. Under the provisions of NAS No. 6, only assets acquired under a finance lease contract are recognized on the lessee's balance sheet. In the case of an operating lease contract, no right-of-use asset is recognized on the

balance sheet; instead, information relating to the leased object is recorded in off-balance-sheet accounts.

The principal differences between the provisions of the two standards discussed above are set out in the table below (Table 4).

Table 4. Recognition of lease-related accounting elements under NAS No. 6 and IFRS 16

Financial statement elements	Accounting for Operating Leases	
	NAS No. 6	**IFRS 16**
At the commencement date of the lease term		
Right-of-use asset	Not recognized	Recognized
Measurement procedure	-	The sum of the present value of future lease payments, any initial direct costs incurred in connection with establishing the lease, and any lease payments made at or before the commencement date.
Lease liability	Not recognized	Recognized
Measurement procedure	-	The present value of future lease payments
Lease-related expenses during the lease term		
Depreciation of the right-of-use asset	Not recognized	Recognized
Measurement procedure	-	In the manner of depreciation charged on property, plant and equipment
Interest expense on the lease liability	Not recognized	Recognized
Measurement procedure	-	Calculated on the opening balance of the lease liability at the rate stipulated in the lease contract or, where absent, at the rate at which the lessee could borrow funds
The amount of lease payments due for the reporting period	Charged to the expenses of the entity	Reduces the carrying amount of the lease liability

As the table above demonstrates, NAS No. 6 does not provide any mechanism for the recognition of a right-of-use asset and a lease liability by the lessee entity at the commencement date of an operating lease. Under NAS No. 6, in the case of an operating lease, the lessee records the lease amount for the reporting month as an expense on the basis of the invoice presented by the lessor at the end of each month. This approach gives rise to violations of several foundational conceptual principles governing the preparation of financial statements.

Pursuant to paragraph 5.6 of the Conceptual Framework for Financial Reporting adopted by the International Accounting Standards Board (hereinafter - the Conceptual Framework), the financial statement elements comprising assets, liabilities, equity, income, and expenses shall be recognized only when they satisfy the definitions established in that document.

In accordance with paragraph 4.3 of the Conceptual Framework, an asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits for the entity. Rights with the potential to produce economic benefits are further divided into rights that correspond to an obligation of another party and rights that do not correspond to an obligation of another party. The right of an operating lessee to use the leased object for a specified period falls within the category of rights over physical objects, which belongs to the group of rights that do not correspond to an obligation of another party. Accordingly, the right to use the leased object acquired pursuant to a contract in an operating lease satisfies the first criterion established in the Conceptual Framework for classifying such a right as an economic resource.

The further basis for classifying the right to use the leased object in an operating lease as an economic resource is that such right possesses the potential to produce economic benefits. In accordance with paragraph 4.16(v) of the Conceptual Framework, an economic resource may produce economic benefits by generating cash inflows or by preventing cash outflows (Figure 1).[15]

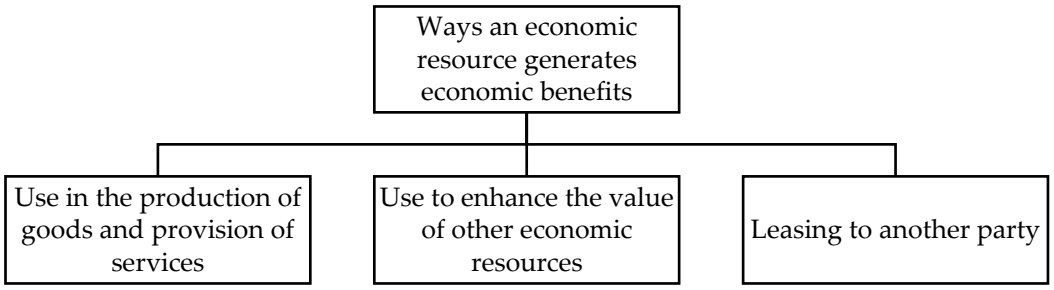


Figure 1. Ways in Which an Economic Resource Generates Economic Benefits

The object acquired under an operating lease participates in the entity's processes of production of goods and provision of services and, together with other economic resources, contributes to the generation of cash inflows for the entity. Accordingly, the right to use the physical object acquired under an operating lease possesses the potential to produce economic benefits for the entity and may therefore be classified as an economic resource.

For a right to be recognized as an asset, it must not only be classified as an economic resource but must also be controlled by the entity. That is, control constitutes an essential element of both the definition of an asset and the criteria for its recognition. The fact that an economic resource is controlled by the entity is evidenced by the existence of several capabilities within the entity in relation to that resource (Figure 2).

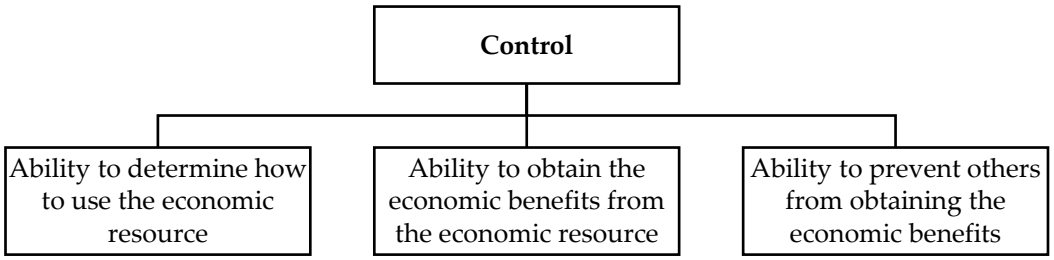


Figure 2. Indicators confirming the existence of control over an economic resource

In an operating lease, the lessee independently determines the manner of use of the leased asset within the general constraints set out in the lease contract. For instance, how a building leased as a production facility is to be utilized during the lease term, the number of shifts in which production processes are to be organized, the arrangement of

equipment within the premises, and the types of products to be manufactured are all determined independently by the lessee.

Furthermore, even where an object is held under an operating lease, the lessee retains the ability to prevent others from using the leased object. In the event of unlawful use of the leased object by third parties, the lessee may seek to protect its rights and interests through legal proceedings.

By way of general conclusion, given that the right to use an asset under an operating lease contract may be classified as an economic resource, and that the lessee has the capacity to exercise control over the leased object throughout the lease term, it may be recognized that a right-of-use asset satisfies the definition of an asset as established in the Conceptual Framework. It therefore follows that the lessee must recognize a right-of-use asset in respect of an object held under an operating lease as an asset in its accounting records.

Correspondingly, the recognition of this asset gives rise to an outflow of economic resources from the lessee entity during the lease term. It is well established that an operating lease contract specifies the lease payments to be made over the lease term. The lessee ordinarily settles such payments in cash, and cash itself constitutes an economic resource. Accordingly, the entity bears an obligation to transfer an economic resource to another party. This obligation arises from the fact that the lease contract is concluded prior to the commencement of the lease term; consequently, the conclusion of the lease contract qualifies as a past event as at the lease commencement date. As a result, at the commencement date of an operating lease, an obligation to transfer an economic resource to another party - arising from past events - is already in existence. It therefore follows that, at the commencement date of the lease term, the operating lessee must recognize a lease liability simultaneously with the right-of-use asset.

5. Conclusions and Recommendations

Summarizing the findings of the research conducted, we conclude that, in order to harmonize the national accounting standard with international financial reporting standards, it is necessary to unify the mechanism for the recognition and accounting of right-of-use assets and lease liabilities in lessee entities, irrespective of whether the lease is classified as a finance or an operating lease.

To this end, we propose that the following provisions be incorporated into the new national financial reporting standard on lease accounting:

"Irrespective of the type of lease, the lessee shall recognize a right-of-use asset and a lease liability at the commencement date of the lease term";

"The initial measurement of the lease liability shall be determined as the present value of future lease payments, discounted at the rate stipulated in the lease contract or, where no such rate is stipulated, at the rate at which the lessee could borrow funds";

"The initial cost of the right-of-use asset shall comprise the following:

the initial measurement of the lease liability;

any lease payments made at or before the commencement date of the lease term under the lease contract;

any initial direct costs directly attributable to establishing the lease;

and costs associated with dismantling and removing the underlying asset, restoring the site on which it is located, and restoring the underlying asset to the condition required by the lease contract at the end of the lease term."

In our view, the proposals developed in the course of this research will, in the current environment in which national financial reporting standards are being developed pursuant to Presidential Decree No. PQ-282 of the Republic of Uzbekistan dated 15

September 2025, contribute to further alignment of the newly adopted standards with international financial reporting standards and to ensuring that financial reporting information prepared under national standards is more relevant and more faithfully presented. This will in turn make a meaningful contribution to establishing a reliable information environment for investors at a time when consistent measures are being taken to improve the investment climate in Uzbekistan.

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