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# Accounting for Lease Liabilities and Right-of-Use Assets in Lessee Entities and Their Impact on Financial Reporting Indicators

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**Abstract:** This article examines the accounting treatment of lease liabilities and right-of-use (ROU) assets in lessee entities and analyzes their influence on key financial reporting indicators. The recognition of lease transactions has become an important area of modern financial accounting because leasing represents a significant source of financing for the acquisition and use of property, equipment, vehicles, production facilities, office premises, and other long-term assets. The application of contemporary lease accounting principles requires lessees to recognize both a right-of-use asset and a corresponding lease liability for most lease arrangements, thereby providing financial statement users with a more complete representation of an entity's contractual obligations and economic resources. The study focuses on the initial recognition, subsequent measurement, depreciation, impairment, remeasurement, and presentation of right-of-use assets and lease liabilities in the financial statements of lessee entities. Particular attention is paid to the relationship between lease accounting and such indicators as total assets, total liabilities, equity, operating expenses, finance costs, profit before tax, net profit, EBITDA, debt-to-equity ratio, return on assets, return on equity, and liquidity indicators. The research demonstrates that the recognition of ROU assets generally increases the reported asset base, while the recognition of lease liabilities increases the level of reported liabilities and may significantly affect financial leverage. At the same time, depreciation of the ROU asset and interest expense on the lease liability influence profit and expense structures differently from traditional operating lease accounting. The article emphasizes that appropriate recognition and measurement of lease transactions improve the transparency, comparability, and reliability of financial reporting. Effective lease accounting also enables management, investors, creditors, and other stakeholders to assess the entity's actual financial commitments and the economic consequences of leasing decisions more accurately. The study concludes that systematic accounting for ROU assets and lease liabilities is essential for ensuring faithful representation of an entity's financial position and for improving the analytical value of financial statements.

**Keywords:** Lease Accounting, Lease Liability, Right-of-Use Asset, Lessee, Financial Reporting, IFRS 16, Lease Transactions, Asset Recognition, Liability Recognition, Depreciation, Interest Expense, Financial Position, Financial Performance, Financial Ratios, Financial Leverage, EBITDA, Liquidity, Accounting Standards

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## 1. Introduction

In modern economic conditions, the development of leasing relations has become an important component of the financial and investment activities of business entities. Leasing enables organizations to obtain the right to use property and other long-term assets without making the full purchase price immediately, thereby supporting operational continuity, investment activity, and more efficient management of financial resources. For lessee entities, however, the economic substance of leasing transactions extends beyond the recognition of periodic lease payments. A lease generally creates both a right-of-use asset representing the lessee's right to use an underlying asset and a lease liability representing the obligation to make future lease payments. The appropriate recognition, measurement, presentation, and subsequent accounting of these elements therefore have a direct influence on the reliability and comparability of financial statements.

The accounting treatment of leases has undergone significant changes in response to the growing importance of transparent financial reporting and the need to reflect the economic substance of contractual arrangements. Under the modern approach to lease accounting, particularly the principles established by IFRS 16 Leases, most leases from the lessee's perspective are reflected on the statement of financial position. This approach reduces the possibility of significant lease-related obligations remaining outside the balance sheet and provides financial statement users with more complete information about an entity's resources and contractual commitments. As a result, accounting for lease liabilities and right-of-use assets has become an important area of financial accounting, especially for enterprises that extensively use buildings, equipment, vehicles, production facilities, warehouses, offices, and other long-term assets under lease agreements.[1]

The relevance of this issue is determined not only by the technical complexity of lease accounting but also by its influence on the principal financial indicators of an enterprise. The recognition of a right-of-use asset increases the amount of assets reported in the statement of financial position, while the recognition of a lease liability increases total liabilities. Consequently, the accounting treatment of leasing transactions can substantially affect the entity's financial position, capital structure, liquidity indicators, leverage ratios, asset turnover, profitability measures, and other analytical indicators. These changes are particularly important for investors, creditors, auditors, financial managers, and other stakeholders who rely on financial statements to evaluate an organization's financial stability and economic performance.[2]

The recognition of a lease liability also changes the timing and structure of expenses associated with leasing. Instead of recognizing the entire lease payment as a single operating expense in the same manner throughout the lease term, the lessee generally recognizes depreciation of the right-of-use asset and interest expense associated with the lease liability. This accounting model can influence reported operating profit, profit before tax, net profit, EBITDA, and other performance measures. The effect may vary depending on the duration of the lease, payment schedule, discount rate, initial direct costs, lease incentives, expected changes in payments, and the nature of the underlying asset. Therefore, an assessment of lease accounting requires not only an understanding of accounting standards but also an analysis of how individual lease arrangements influence financial reporting.

A particularly important aspect is the measurement of the initial lease liability. At the commencement date, the liability is generally measured at the present value of lease payments that are not yet paid, using the interest rate implicit in the lease when that rate can be readily determined or, otherwise, the lessee's incremental borrowing rate. The determination of an appropriate discount rate can significantly influence the amount initially recognized. A higher discount rate generally results in a lower present value of future lease payments, whereas a lower discount rate produces a higher initial lease liability and corresponding right-of-use asset, subject to the applicable accounting requirements. Thus, management judgments concerning discount rates may have a material effect on reported financial position and subsequent financial indicators.[3]

The subsequent measurement of lease liabilities is also significant. As time passes, the carrying amount of the liability is adjusted for interest and lease payments, while the right-of-use asset is generally depreciated over the relevant period. This creates a systematic relationship between balance-sheet recognition and income-statement effects. The difference between the depreciation expense and interest expense components may result in a different pattern of expense recognition compared with a simple straight-line recognition of rental expenditure. Therefore, two entities with economically similar leasing arrangements may present different financial indicators if their lease terms, discount rates, payment structures, or accounting judgments differ.

Another important issue is the identification of whether a contract contains a lease. In practice, contracts may combine lease and non-lease components, such as maintenance, security, transportation, technical support, or other services. Determining whether a contract conveys the right to control the use of an identified asset for a specified period in exchange for consideration requires careful analysis of contractual terms and the economic substance of the arrangement. Incorrect classification at the initial stage may lead to errors in recognizing right-of-use assets and lease liabilities and consequently distort financial reporting indicators.[4]

The accounting treatment of short-term leases and leases of low-value assets also requires attention. Certain exemptions available to lessees can simplify accounting by allowing qualifying lease payments to be recognized as expenses rather than recognizing a right-of-use asset and lease liability. While such practical expedients reduce administrative costs, their application should be based on clearly defined criteria and consistently applied accounting policies. The choice and application of these exemptions can affect the amount of assets and liabilities presented in the financial statements and therefore influence the interpretation of the entity's financial position.

For enterprises operating in emerging markets, the issue of lease accounting is especially relevant because the transition toward international financial reporting practices requires the development of appropriate accounting policies, professional competencies, internal controls, and information systems. Entities must establish procedures for collecting contractual information, determining lease terms, identifying renewal and termination options, calculating discount rates, measuring lease liabilities, calculating depreciation, and accounting for lease modifications. The complexity of these procedures increases when an organization has numerous lease agreements with different payment schedules, currencies, contractual conditions, and renewal options.[5]

The implementation of lease accounting also creates new requirements for financial analysis. Traditional financial ratios based on financial statements prepared under previous accounting approaches may no longer be directly comparable with indicators calculated after the recognition of right-of-use assets and lease liabilities. For example, an increase in total assets and liabilities can influence the debt-to-assets ratio and debt-to-equity ratio. Similarly, the inclusion of right-of-use assets in the asset base can affect asset turnover. Changes in operating expenses, depreciation, and interest expenses can influence profitability indicators and the structure of operating results. Consequently, analysts need to understand the accounting origin of these changes before interpreting them as evidence of an improvement or deterioration in the entity's economic performance.

## 2. Materials and Methods

This study employs a comprehensive methodological approach to examine the accounting treatment of lease liabilities and right-of-use (ROU) assets in lessee entities and to assess their impact on financial reporting indicators. The methodological framework is based primarily on the principles of lease accounting established by IFRS 16 *Leases*, which requires lessees, with limited exceptions, to recognize a right-of-use asset and a corresponding lease liability at the commencement of a lease. The research focuses on the accounting recognition, initial measurement, subsequent measurement, depreciation, interest recognition, remeasurement, and derecognition of lease-related assets and liabilities, as well as their influence on the structure and analytical interpretation of financial statements.[6]

The research applies a combination of theoretical, comparative, analytical, and quantitative methods. The theoretical method is used to examine the economic substance of leasing transactions and to clarify the relationship between the contractual right to use an underlying asset and the financial obligation arising from future lease payments. Particular attention is given to distinguishing lease transactions from other forms of asset use and determining how the recognition of lease-related assets and liabilities changes the representation of an entity's financial position. The comparative method is applied to evaluate financial reporting outcomes under different accounting approaches, particularly by comparing situations in which lease obligations are recognized on the balance sheet with situations in which lease-related payments are treated primarily as period expenses.

The object of the research is the accounting system of lessee entities that enter into lease agreements for property, equipment, vehicles, machinery, buildings, office premises, and other identifiable assets. The study considers the complete accounting cycle of a lease transaction, beginning with the identification and classification of a lease and continuing through recognition, measurement, subsequent accounting, presentation, and disclosure. The unit of analysis is an individual lease agreement and its effect on the relevant financial statement items. This approach makes it possible to connect the contractual conditions of a lease with specific accounting entries and subsequently with changes in the entity's financial reporting indicators.[7]

The methodology includes an assessment of the principal parameters of lease agreements, including the commencement date, lease term, fixed and variable lease payments, discount rate, payment frequency, renewal and termination options, residual value guarantees, and the existence of purchase options. These parameters are used to determine the initial amount of the lease liability and the corresponding right-of-use asset. Where the interest rate implicit in the lease cannot be readily determined, an appropriate incremental borrowing rate is considered in the measurement process. The present value approach is applied to future lease payments in order to determine the amount of the initial lease liability. This enables the research to demonstrate how the timing and structure of contractual payments affect the carrying amount of the recognized liability.

For analytical purposes, the initial measurement of the lease liability is examined as the present value of qualifying future lease payments. The right-of-use asset is subsequently analyzed by considering the initial lease liability together with relevant initial direct costs, lease payments made at or before commencement, and applicable restoration or dismantling obligations, while accounting for lease incentives received. This methodological approach allows the research to establish the economic relationship between the asset recognized by the lessee and the corresponding financial obligation.[8]

The subsequent measurement stage focuses on the systematic reduction of the lease liability as lease payments are made and the recognition of finance costs associated with the outstanding liability. The right-of-use asset is analyzed through depreciation and, where applicable, impairment adjustments. The study therefore distinguishes between depreciation expense associated with the ROU asset and interest expense associated with the lease liability. This distinction is important for evaluating the effect of lease accounting on profit or loss, operating expenses, finance costs, earnings before interest and taxes, and net profit.

A separate analytical component is devoted to the effect of lease accounting on the statement of financial position. The research evaluates changes in total assets, non-current assets, current and non-current liabilities, total liabilities, and equity resulting from the recognition and subsequent measurement of ROU assets and lease liabilities. The analysis assumes that recognition of a significant lease transaction generally increases both assets and liabilities at the commencement date. The subsequent depreciation of the ROU asset and interest-related increase in the lease liability are then examined to determine how the balance sheet evolves throughout the lease term.

## 3. Results

The results of the study demonstrate that the recognition and accounting treatment of lease liabilities and right-of-use (ROU) assets significantly influence the financial position, financial performance, and key reporting indicators of lessee entities. The application of the ROU model changes the traditional approach to lease accounting because many lease transactions that previously remained outside the statement of financial position are now reflected through the simultaneous recognition of an asset and a corresponding lease liability. As a result, the accounting treatment of leases becomes more closely connected with the principles of transparency, comparability, and faithful representation of an entity's economic resources and obligations.[9]

The analysis shows that at the commencement of a lease, the lessee generally recognizes a right-of-use asset together with a lease liability. The ROU asset represents the lessee's economic right to use the underlying asset for a specified period, while the lease liability represents the obligation to make lease payments over the lease term. This accounting model provides a more comprehensive representation of the economic substance of leasing transactions because the financial statements reflect both the resource controlled by the lessee and the related financing obligation.

The Table 1. initial measurement of the lease liability has a direct effect on the amount of the recognized ROU asset. The liability is generally measured on the basis of the present value of future lease payments, discounted using an appropriate interest rate. Consequently, factors such as the length of the lease term, the amount and timing of lease payments, expected changes in payments, residual value guarantees, purchase options, and the applicable discount rate can materially affect the amount initially recognized in the financial statements. A longer lease term or higher contractual payments normally results in a larger lease liability and, consequently, a higher initial carrying amount of the ROU asset.[10]

**Table 1.** "O'ZBEKENERGOTA'MIR" JSC Performance Indicators

| Indicators | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Non-current assets | 4 763 556 | 18 841 696 | 52 788 065 | 140 029 174 | 279 333 630 |
| Total assets | 43 168 732 | 183 075 173 | 453 657 731 | 973 633 225 | 3 069 950 470 |
| Right-of-use asset | 23 547 651 | 30 611 946 | 42 856 725 | 64 285 087 | 102 856 140 |
| Share of non-current assets | 494,3% | 162,5% | 81,2% | 45,9% | 36,8% |
| Share of total assets | 54,5% | 16,7% | 9,4% | 6,6% | 3,4% |

| Indicators | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Current assets | 38 405 166 | 164 233 477 | 400 869 666 | 833 604 051 | 2 790 616 840 |
| Inventories | 6 237 126 | 8 393 020 | 98 655 049 | 208 815 731 | 427 212 123 |
| Cash and cash equivalents | 954 058 | 28 037 111 | 13 022 363 | 25 674 265 | 338 424 377 |
| Total debt | - | - | - | 33 322 579 | 83 500 000 |
| Equity | 28 301 021 | 65 209 156 | 74 800 759 | 174 236 889 | 272 561 740 |
| Net sales revenue | 65 844 367 | 306 921 572 | 561 593 870 | 1 300 180 760 | 2 296 373 488 |

| | | | | | |
|---|---|---|---|---|---|
| Operating profit | 8 391 860 | 35 390 980 | 64 027 363 | 126 844 041 | 109 614 248 |

**First Scientific Novelty:** Based on transformation calculations, the impact of non-recognition of operating lease assets and liabilities in the national accounting balance sheet on financial ratios has been assessed, and it has been scientifically substantiated that the off-balance-sheet recognition of lease relationships reduces the reliability and transparency of financial reporting.

**Second Scientific Novelty:** An improved chart of accounts system has been proposed based on the introduction of the following working accounts to harmonize the national chart of accounts with international accounting standards: **0300 – "Right-of-Use Assets and Their Depreciation," 7910 – "Long-Term Portion of Lease Liabilities," and 6850 – "Current Portion of Lease Liabilities."**

The results further indicate that the subsequent accounting treatment of ROU assets and lease liabilities produces two separate but interconnected effects on financial performance. The ROU asset is generally depreciated over the applicable period, while the lease liability generates interest expense as the obligation is unwound over time. Therefore, total lease-related expense is not necessarily recognized in the same pattern as the contractual cash payments. In the early stages of a lease, the interest component of the lease liability may be relatively high, while the carrying amount of the liability decreases as payments are made. This creates a distinctive expense recognition pattern that can affect reported profit, operating performance, and profitability ratios.

A particularly important result concerns the effect of lease accounting on the statement of financial position. Recognition of ROU assets increases total assets, while recognition of lease liabilities increases total liabilities. Therefore, the balance sheet structure of a lessee can change substantially even when there is no immediate change in the underlying economic activities of the entity. This is especially relevant for enterprises that extensively use leased buildings, vehicles, machinery, equipment, warehouses, retail premises, or other productive assets.

The increase in recognized liabilities can lead to a higher debt-to-assets or debt-to-equity ratio. For entities with significant lease commitments, this effect may be substantial. The recognition of lease liabilities makes previously less visible financing obligations more apparent to investors, creditors, management, and other users of financial statements. Although the recognition itself does not necessarily indicate deterioration in the entity's financial condition, it can change the interpretation of leverage and financial risk. Consequently, analysts should distinguish between an actual increase in economic indebtedness and the accounting recognition of obligations that previously had limited balance-sheet visibility.[11]

The recognition of ROU assets also affects asset-based indicators. Total assets increase because the entity recognizes an economic resource associated with the right to use the leased property or equipment. However, the asset is subsequently reduced through depreciation and, where applicable, impairment. The resulting carrying amount therefore changes throughout the lease period. This dynamic has implications for return on assets (ROA), asset turnover, and other indicators calculated using total assets. In particular, an increase in the asset base without a proportional increase in operating income can reduce the reported ROA during certain periods.

In the currently effective National Accounting Standard No. 21, titled "Chart of Accounts for Business Entities and Instructions on Its Application," specific accounts are provided for the lessee to record assets and liabilities related to lease transactions Table 2.

**Table 2.** Chart of Accounts for Business Entities and Instructions on Its Application

| Account number | Account Name | Purpose of use |
|---|---|---|
| 0310 | Fixed assets under finance lease | To summarize information regarding the existence, receipt, and disposal of fixed assets acquired under a financial lease agreement |
| 0299 | Accumulated depreciation of fixed assets under finance lease | To record information regarding depreciation accrued on fixed assets acquired under a financial lease agreement and the derecognition of accumulated depreciation amounts |
| 7910 | Finance lease payable | To record information regarding the recognition, reclassification to current liabilities, and settlement of the long-term portion of lease obligations payable to the lessor under a financial lease agreement |
| 6950 | Long-term liabilities — current portion | To record information regarding the recognition and settlement of the current portion of lease obligations payable to the lessor under a financial lease agreement |
| 6920 | Accrued interest | To record interest obligations accrued on financial lease liabilities and their settlement |
| 6910 | Operating lease payable | To record information regarding the recognition and settlement of lease obligations based on invoices provided by the lessor at the end of each month |

Umuman olganda, amaldagi hisobvaraqlar tizimi ijara munosabatlarini huquqiy shakl nuqtai nazaridan aks ettirishga asoslangan boʻlib, ijara operatsiyalarining iqtisodiy mazmunini toʻliq ochib bermaydi.

The study also identifies an important impact on equity-related indicators. Although the initial recognition of an ROU asset and lease liability does not normally produce an immediate equal reduction in equity, subsequent depreciation and interest expenses affect retained earnings through profit or loss. Consequently, lease accounting can influence equity indirectly over time. Changes in equity, together with changes in total liabilities, can alter the debt-to-equity ratio and other measures of financial stability.[12]

The Table 3. impact on liquidity indicators requires particularly careful interpretation. Lease liabilities may contain both current and non-current components. Recognition of the current portion can increase current liabilities and therefore influence the current ratio and quick ratio. At the same time, the recognition of an ROU asset does not normally provide the same type of liquidity as cash or short-term receivables. Therefore, an entity may report higher total assets while simultaneously experiencing pressure on conventional liquidity ratios. This demonstrates why users of financial statements should not interpret changes in total assets alone as evidence of improved financial flexibility.

**Table 3.** Impact of Lease Liabilities and Right-of-Use Assets on Financial Reporting Indicators[13]

| Financial Reporting Indicator | Without Lease Recognition | With Lease Liability and ROU Asset Recognition | Main Impact |
|---|---|---|---|
| **Total Assets** | Lower | Higher | Increases due to recognition of the right-of-use asset |
| **Total Liabilities** | Lower | Higher | Increases due to recognition of the lease liability |
| **Right-of-Use (ROU) Assets** | Not recognized | Recognized | Increases non-current assets |
| **Lease Liabilities** | Not recognized | Recognized | Increases financial obligations |
| **Equity** | Relatively higher | May decrease initially | Depends on the timing and measurement of lease expenses |
| **Operating Expenses** | Lease/rent expense is generally recognized | Depreciation and interest components are recognized | Changes the structure of expenses |
| **EBITDA** | Lower | Generally higher | Lease expense is replaced by depreciation and interest components |
| **Depreciation Expense** | Lower | Higher | ROU asset is depreciated over the relevant period |
| **Interest Expense** | Lower or absent | Higher | Interest is recognized on the lease liability |
| **Profit Before Tax** | Depends on lease-payment pattern | Depends on depreciation and interest pattern | May differ between periods |
| **Cash Flow from Operating Activities** | Lease payments generally affect operating cash flows | Principal and interest classification may alter cash-flow presentation | Changes cash-flow structure |
| **Debt-to-Assets Ratio** | Lower | Higher | Increased liabilities affect financial leverage |

Another significant result concerns cash-flow reporting. Lease accounting separates the accounting recognition of the lease from the actual movement of cash. The recognition of the ROU asset and lease liability at lease commencement is generally a non-cash accounting event. Actual lease payments occur subsequently and may be classified between operating and financing activities depending on the nature of the payment and applicable accounting requirements. This Table 4. distinction is important because an entity’s reported profit, balance-sheet position, and cash-flow indicators may respond differently to the same lease transaction.[14]

**Table 4.** "O'ZBEKENERGOTA'MIR" JSC Performance Indicators

| Indicators | Formula | 2021 | | | 2022 | | | 2023 | | | 2024 | | | 2025 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Current status | Proposed status | Difference (+;-) | Current status | Proposed status | Difference (+;-) | Current status | Proposed status | Difference (+;-) | Current status | Proposed status | Difference (+;-) | Current status | Proposed status | Difference (+;-) |
| Current liquidity | Current assets / Current liabilities | 2,58 | 2,08 | 0,50 | 1,36 | 1,26 | 0,09 | 1,06 | 1,02 | 0,04 | 1,04 | 1,01 | 0,03 | 0,97 | 0,96 | 0,01 |
| Quick liquidity | (Current assets – Inventories – Prepayments) / Current liabilities | 2,16 | 1,74 | 0,42 | 1,29 | 1,20 | 0,09 | 0,80 | 0,77 | 0,03 | 0,78 | 0,76 | 0,02 | 0,82 | 0,81 | 0,01 |
| Net liquidity | Cash / Current liabilities | 0,06 | 0,05 | 0,01 | 0,23 | 0,22 | 0,02 | 0,03 | 0,03 | 0,00 | 0,03 | 0,03 | 0,00 | 0,12 | 0,12 | 0,00 |
| Financial leverage | Total debt / Equity | - | 0,53 | -0,53 | - | 1,85 | -1,85 | - | 0,62 | -0,62 | 0,19 | 0,59 | -0,40 | 0,31 | 0,71 | -0,41 |
| Return on invested capital | Operating profit / Invested capital | 0,30 | 0,19 | 0,10 | 0,54 | 0,36 | 0,18 | 0,86 | 0,53 | 0,33 | 0,61 | 0,46 | 0,15 | 0,31 | 0,23 | 0,07 |
| Invested capital turnover | Net sales / Invested capital | 2,33 | 1,27 | 1,06 | 4,71 | 0,36 | 4,35 | 7,51 | 4,64 | 2,86 | 6,26 | 4,70 | 1,57 | 6,45 | 4,92 | 1,53 |
| Equity coverage | Equity / Total assets | 0,66 | 0,42 | 0,23 | 0,36 | 0,31 | 0,05 | 0,16 | 0,15 | 0,01 | 0,18 | 0,05 | 0,12 | 0,09 | 0,09 | 0,00 |

## 4. Discussion

The results demonstrate that the effect of lease accounting becomes particularly visible when comparing enterprises with different business models. Companies operating asset-intensive businesses and relying heavily on leased premises, vehicles, production equipment, or specialized machinery may recognize substantial ROU assets and lease liabilities. In contrast, enterprises with limited lease commitments may experience only a minor effect on their financial statements. Thus, the materiality of lease accounting depends considerably on the scale, duration, and structure of an entity's leasing activities.

The analysis also reveals that the discount rate is one of the most important measurement variables. Since future lease payments are converted into present value, changes in the discount rate can significantly affect the initial lease liability. A lower discount rate generally produces a higher present value of future payments, whereas a higher discount rate produces a lower present value. Therefore, professional judgment in determining the appropriate discount rate can influence the reported amounts of both lease liabilities and ROU assets.[15]

## 5. Conclusion

The study of accounting for lease liabilities and right-of-use assets in lessee entities demonstrates that lease transactions represent an important component of modern financial reporting and have a direct influence on the financial position, financial performance, and key analytical indicators of an organization. The transition from a predominantly off-balance-sheet approach to the recognition of lease-related assets and liabilities has significantly changed the accounting treatment of leasing operations. Under the right-of-use model, a lessee is required to recognize the economic resources obtained through the lease arrangement together with the corresponding obligation to make future lease payments. As a result, leasing transactions are reflected more comprehensively in the financial statements and provide users with a more transparent representation of the entity's actual financial commitments. The recognition of a right-of-use asset allows the lessee to reflect the economic benefits associated with the use of an underlying asset during the lease term. At the same time, the recognition of a lease liability provides information about the present obligation arising from future lease payments. This accounting approach improves the completeness of financial information because it makes significant leasing commitments visible in the statement of financial position. Consequently, investors, creditors, management, auditors, and other users of financial statements can obtain a more realistic understanding of the organization's asset structure and financing obligations. The research also establishes that the initial recognition and subsequent measurement of right-of-use assets and lease liabilities have a substantial impact on the main components of financial statements. At the commencement of a lease, the recognition of a right-of-use asset generally increases total assets, while recognition of the corresponding lease liability increases total liabilities. Therefore, the transaction may significantly change the entity's debt structure and financial leverage even though no traditional borrowing transaction has occurred in the form of a bank loan. This is particularly important for organizations that use leasing extensively as a means of financing property, equipment, vehicles, production facilities, or other long-term resources. Subsequent accounting treatment also affects financial performance. The depreciation or amortization of the right-of-use asset and the interest expense associated with the lease liability influence the amount and timing of expenses recognized in the income statement. In many lease arrangements, the total expense pattern differs from a simple straight-line recognition of rental payments.

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