Financial Statements in Accordance with IFRS 16 for Leases in the Context of COVID 19

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Abstract: This article determines the effects of applying the new requirements of the International Financial Reporting Standard, IFRS 16 on leases, proposed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Council (FASB), Regarding the correct preparation of the explanatory notes of the complete set of the financial statements of the companies generated with the new amendments to the International Financial Reporting Standards (IFRS), in turn, the EBITDA indicator ('Earnings Before Interests') was analyzed. , Tax, Depreciation and Amortization') that shows the gross operating profit before deducting financial expenses. It is the gross operating result, before interest, taxes, depreciation and amortization, whose purpose is to evaluate the behavior and financial situation of companies and the key issues of the Audit report, the effects on a case of a company listed on the stock exchange and the review of 900 Spanish companies from 2019 to 2021, on the profitability indicator (EBITDA) demonstrating by a mixed study, that the guidelines of the regulators caused in the company accelerated processes for its implementation and understanding of the new dynamics that are required in a changing world in the presentation of financial statements . Among the results obtained, it is highlighted that the financial indicators of the companies suffered a lethal impact in the change of IFRS 16 for leases, due to the variations of the items of the financial situation and presentation in the disclosures the uniformity of the information with the previous periods, within the factors the increase in assets, increase in liabilities, and decrease in operating expenses stand out, influencing directly between the indicators that users take into account for their analysis. It is concluded that for the group of companies that did not undergo significant changes were those that had previously classified leases as financial, lease contracts previously classified as operating, if there were significant changes.

Keywords: IFRS 16, Leasing, Financial Statements, Notes.

JEL Classification: M40, M41, M48

1. INTRODUCTION

The financial information must be timely and accurate for its users, in a globalized context, the adequate financial and economic analysis of the companies, influences the correct presentation of the financial statements more in the interpretation of the figures in a qualitative way, Supported in the notes to the financial statements and financial indicators, which are appropriate to determine financial behavior, the International Accounting Standards Board
(IASB), has made an effort on multiple occasions to issue pronouncements on changes to IAS and in the issuance of IFRS, and the constant updates, resulting from the great problems of makeup of financial statements that have originated not only in the United States and Europe since 1999, all with the effort to create the minimum inviolable rules for the presentation of financial statements with high quality that generate confidence in the business market, determined for the preparers of the financial statements. Benavidez and Méndez (2010), the financial statements present the result of the exercise of the companies for the decision making of the users of the information, even more so for the financial auditors that in the review of these must have implemented the International Standards of Quality control and follow up on the system to be able to generate the reports of audit, which is regulated in article 263.1 of the Capital Companies Law RDL 1/2010, the objective of the report is the verification of the annual accounts, therefore it is the responsibility of the auditor to verify the accounting accounts and issue an opinion if the financial statements are reasonable, in accordance with the accounting regulatory frameworks, as defined by Calderón (2015), the audit allows organizations to have an independent opinion of the reasonableness of the figures contained in the financial statements.

The reviews must be exhaustive in the correct preparation of the financial statements and even more so in the explanatory notes, in his opinion, the accounting policies are prudent and rigorous where it is sought to obtain, that the assets and liabilities present the financial position and profitability in a reasonable manner and adherence to the going concern principle in all aspects of financial reporting. In terms of International Financial Reporting Standards since 2016, proposals for some amendments to the Standards, such as IFRS 16 for leases, which determines the initial and subsequent recognition, presentation and disclosure for lease contracts, this had its mandatory application among the member countries was determined for January 1, 2019.

In the literature review, there are studies on leases, by Lmhoff et. al (1991), in which he determined the importance of operating lease liabilities in commonly used risk and return scales, Beattie et. Al (1998), have sought a way to assess the impacts of decapitalized operating leases of more than 200 companies, White (2015), the balances of the annual amount of leases to 50 largest countries in the world in 2013 are 883,960 million dollars and this amount has been detected in other countries. among many others, the topic has been in research studies, currently the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), approved the lease accounting project, in Nailor and Lennard (2000), they provide a summary of the projects by the IASB and the FASB. Leasing activity in 2008 was $6.4 billion, while the assets and liabilities arising from the contracts are not shown on the lessees’ statement of financial position.

Pwc (2009) in a study carried out by the firm of more than 3,000 companies, the interest debt declared in the 2008 financial statements would increase by 58 percent after adjusting the leases. Within the project, solutions were proposed to resolve the gaps in accounting standards and fiscal aspects, Huang (2009), Weidner (2000). The modifications approved in IFRS 19 Leasing, impacted the way to recognize both the financial assets and liabilities of which is related to the cash flows in the companies, Angulo, (2014) in the studies carried out observed that one of the aspects that The most novelties introduced in the accounting of the companies was precisely that of the leases. Branswijck et. To (2011), defines that the most representative change is the elimination of the distinction between operating and project finance leases made by the IASB and the FASB. The elimination of operating lease accounting has many lessees concerned about the negative impact on their financial statements in their financial statements (IASB and FASB, 2013). With reference to financial indicators Chambers et al. (2015) determined that the results of the indebtedness ratios increase, in terms of the accounting recognition of active and passive leases, due to the benefits of depreciation, taxes and interest on EBITDA. Companies listed on the Spanish market or on the international stock market are required to present intermediate information on the financial statements, the financial information reporting measures as established by Directive 2004/109/CE, RD/1362 of 2007, where the regulation of the information to be issued and published by listed companies is found. However, the notes of the financial statements are part of the joint component of the financial statements of the organizations, they represent the information of the criteria, bases of preparation, accounting policies, it is a breakdown of the items of the balance sheets that will be references, in their presentation. Likewise, the explanation or additional reported information that is required to be reported both quantitatively and qualitatively, said requirements are contemplated in each of the IFRS that require that it be reported in the disclosures of the financial statements. RD/1362 of 2007, where the regulation of the information to be issued and published by listed companies is found. However, the notes of the financial statements are part of the joint component of the financial statements of the organizations, they represent...
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The mixed research methodology sought to analyze compliance with the disclosure of the IFRS 16 requirements in the notes to the financial statements in a company listed on the stock market and the review of a total of 900 companies with the highest ranking in the indicator. ebitda in Spain, to determine the impact on the performance of the sectors. The case study of the company Ladicar SA (Pseudonym) is expanded. The analysis of the review was carried out by consulting the financial statements of the company and the auditors' reports carried out through a descriptive qualitative review with the observation of the key audit issues and the affectation of the Ebitda indicator of the reports for the periods 2019 to 2021. In particular, the notes of the financial statements of the company Ladicar SA,

The review of the notes focused on the requirements of IFRS, establishes that the bases for the preparation of financial statements and accounting policies, presentation of relevant information, must be reported.

Information to disclose about accounting policies: the measurement bases for the preparation of the financial statements, other policies that are relevant, all significant risks and rewards inherent in the ownership of financial assets and, for the lessor, the assets subject to lease are transferred; and the contractual relations of the lease contracts.

IFRS 16 Leases contemplates the information to be disclosed: The international standards in this point establish that the depreciation balances of assets for rights of use of the underlying assets, the liabilities for interest for lease, the expenses that are related to the short-term lease, income and outputs, and lastly, the book value of the right-of-use assets at the end of the reporting period.

2. DEVELOPMENT

Said company acts as the corresponding tenant to carry out its main activity, in its entirety it has more than 7,000 lease contracts. The percentage representation by lease in the following countries:

Table 1 presents the information contained in the notes to the financial statements, with respect to the percentage of lease contracts for the year 2021 and 2020, of the case study.

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>America</td>
<td>twenty%</td>
<td>twenty%</td>
</tr>
<tr>
<td>Other countries</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

source 1. Notes to the financial statements of Ladicar SA

Percentage of leases by geographical area, the company at the main headquarters in Spain for 2020 and 2021 with 60%, the rest of Europe 10% in the respective two years, America 20% and Asia and the rest of the world 10%, contractual lease agreements are very dynamic in the administrative management of the company, which originates registrations, cancellations and contractual modifications. In general, lease contracts do not contain restrictions or agreements with lessors other than those that generally regulate this type of contract. The renegotiations caused by
the Covid-19, have allowed the company to have higher income in the 2020 and 2021 accounting years, the quantitative results are above 2013 million euros for the year 2021 and 317 million euros in 2020. euro,

As of January 1, 2021, the companies underwent changes in the accounting principles in the International Financial Reporting Standards IFRS, during the year 2021 the following regulations have entered into force for their application in the European Union of mandatory compliance: Modifications to IFRS 9 Financial Instruments, IAS 1 Presentation of Financial Statements, IAS 39 Financial Instruments, IFRS 7 Financial Instruments, IFRS 4 Insurance Contracts and IFRS 16 Leases and IFRS 16 Rent Improvements. This last modification extends until June 30, 2022 the time limit in the treatment of income improvements obtained due to Covid-19. Mandatory application, retroactively to January 1, 2021,

A point of reflection that must be made with lease commitments IAS 17 required disclosure of information on lease commitments and lease liabilities, and did not require their accounting recognition of assets and liabilities for right of use, IFRS 16 requires that In the different periods considered, the non-cancellable period versus the lease term, and the itemized commitments, these effects developed in the application and presentation in the financial statements plus the explanation in the explanatory notes had a positive impact for the users of the information. , the minimum payments of the company Ladicar SA for lease that amounted to 4,954 million euros as of January 31, 2019, are reduced by 325 million euros due to the effect of the financial discount and increased by 2,272 million euros mainly due to the incorporation of the periods that are reasonably estimated to be additional to the mandatory period, the company reported the effect of the leases in a conciliatory way for the right of underlying asset of use of the contracts with which it counts.

The result of the implementation of the standard in the company in the result of the year was as follows:

**Table 2. Results of the implementation of IFRS 16 on leases**

<table>
<thead>
<tr>
<th>(Figures in millions of Euros)</th>
<th>01/31/2019</th>
<th>IFRS 16 transition</th>
<th>01/2/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSET</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NON-CURRENT ASSETS</td>
<td>12,100</td>
<td>-299</td>
<td>11,801</td>
</tr>
<tr>
<td>Rights of leased premises</td>
<td>570</td>
<td>-570</td>
<td>0</td>
</tr>
<tr>
<td>right of use</td>
<td></td>
<td>9,649</td>
<td>9,649</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>400</td>
<td>-14</td>
<td>386</td>
</tr>
<tr>
<td>goodwill</td>
<td>300</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>Inmobilized material</td>
<td>9000</td>
<td></td>
<td>9000</td>
</tr>
<tr>
<td>investment properties</td>
<td>30</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Financial investments</td>
<td>220</td>
<td></td>
<td>220</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>600</td>
<td>-60</td>
<td>540</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>980</td>
<td>335</td>
<td>1315</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td>10345</td>
<td>-60</td>
<td>10285</td>
</tr>
<tr>
<td>Stock</td>
<td>3000</td>
<td></td>
<td>3000</td>
</tr>
<tr>
<td>debtors</td>
<td>200</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Current income tax assets</td>
<td>100</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Other current assets</td>
<td>146</td>
<td>-60</td>
<td>86</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>10</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Temporary financial investments</td>
<td>1889</td>
<td></td>
<td>1889</td>
</tr>
<tr>
<td>cash and equivalents</td>
<td>5000</td>
<td></td>
<td>5000</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>22,445</td>
<td>-359</td>
<td>22,086</td>
</tr>
</tbody>
</table>
(Figures in millions of Euros) | 01/31/2019 | IFRS 16 transition | 01/2/2019
---|---|---|---
**PASSIVE**
NON-CURRENT LIABILITIES | 2696 | 6892 | 9588
Provisions | 340 | | 340
Other long-term liabilities | 2000 | -600 | 1400
Long-term lease liability | 7500 | 7500 | 
Financial debt | 6 | | 6
Deferred tax liabilities | 350 | -8 | 342
**CURRENT LIABILITIES** | 216,099 | 1792 | 2008,099
Short-term lease liability | 1800 | | 1800
other financial liabilities | fifty | | fifty
Current income tax liabilities | 160 | | 160
creditors | 6,099 | -8 | -1,901
**FULL, PASSIVE** | 2,912 | 8,684 | 11,596

source 2. Notes to the financial statements of Ladicar SA

The demonstrable effects in Table 2 are determined in the presentation in the statement of financial position in the accounts of assets for use and liabilities. The International Accounting Standards Board issued rental concessions in March 2021 in accordance with the proven impact on companies by covid-19, amending IFRS 16 on leasing, the amendment allowed lessees, as a practical convenience, not to assess whether private rental concessions that occur as a direct consequence of the pandemic. The comparative analysis from 2018 to 2021 of the notes to the financial statements against the disclosures of IFRS 19 on leases, shows compliance with the requirements to be reported for each of the sections,

Table 3 presents the information contained in the notes to the financial statements, with respect to IFRS 16 on leases.

<table>
<thead>
<tr>
<th>Year 2018</th>
<th>Year 2019</th>
<th>year 2020</th>
<th>year 2021</th>
</tr>
</thead>
</table>
Ladicar SA reports in the Notes to the financial statements the application of the IFRS 16 regulation in 2019, informing the users of the information that the regulation generates changes in the presentation of the accounts of the financial statements, but without impacts on the flow of cash on the projected profit in financial planning. It reports the dynamics of the presentation of lease contracts in the balance sheet as assets and liabilities depending on the fixed rental expenses in the income statement, which will be replaced by amortization and financial expenses.

No aspect of COVID 19-IFRS 16 Leases

The company's local leases contain variable rent payment contractual conditions that are linked to the operation of the business. The withdrawals that occurred in the 2019 financial year correspond to the application of IFRS 16 with the new requirements

COVID 19-IFRS 16 Leases

The company received more than 89 million euros for net profit, on the impact of IFRS 19

source 3. Notes to the financial statements of the company Ladicar SA

the amount recognized in 2020 and 2021 for this fact has been and 317 and 203 million euros.
2.1 Ebitda financial indicator

In accounting year 2019, the company, with the implementation of the new changes to IFRS 16, used the retrospective method, modifying the presentation of financial information. This change in their way of analyzing it did not impact cash flow in any way, however, the comparison of the income statements for the comparative year 2018 and 2019 suffered an affectation, for which this affectation is a call that they have made Entrepreneurs when comparing several companies in the sector that some are not comparable the lines of the financial statements for their financial analysis, which leads to the realization of a detailed analysis for each company or economic group. In the year 2020, with the operating result (EBITDA), the results were maintained, they are not a high growth, Said situation was reported by the company in fiscal year 2020, in fiscal year 2021 the indicator obtained a growth of 58%. The EBITDA, as can be seen, improves since with IFRS 16 for leasing, an operating expense for leasing is replaced by a depreciation expense on assets with right of use and a financial cost.

2.2 Audit

Some Audit procedures applied by the Big four audit firms in the procedures for the review of IFRS 16 leasing in listed companies were the following, which were taken from the key issues of the auditor's report:

1. Evaluation of the estimates of the leases, rates and discount as their recognition of the accounting accounts of the balance.
2. Verification of the reasonableness of the leasing figures.
3. Verification of income obtained as a result of the renegotiations of lease contracts with the covid-19 pandemic,
4. Evaluation of compliance with the financial statements report.

The review made it possible to identify the 800 key audit issues in the opinions delivered, of which the relevance given to the firms, the analysis of IFRS 16 on leases, mathematical calculations of leases, recognition in financial statements and disclosures are highlighted. The reports in the section on key audit issues in the words most used by all, aspects such as: IFRS, recognition, contracts, valuation, risks, taxes, impairment, models, reasonableness, 100% of the reports are with opinion, not modified.

23 Financial indicator EBITDA by Sector

From the analysis developed of the EBITDA in the 900 companies selected for the study, it is observed that for the year 2019 and 2020 the variation of 499 companies increased by 55.44% and of a 401 company decreased by 44.56%, the trend of the indicator was maintained in the following way as detailed in the following table.

<table>
<thead>
<tr>
<th>Ebitda Margin Classification</th>
<th>Quantity Company</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>between 0-25%</td>
<td>291</td>
<td>32.11%</td>
</tr>
<tr>
<td>between 25-50%</td>
<td>111</td>
<td>12.33%</td>
</tr>
<tr>
<td>between 50-75%</td>
<td>115</td>
<td>12.78%</td>
</tr>
<tr>
<td>between 75-100%</td>
<td>263</td>
<td>29.22%</td>
</tr>
<tr>
<td>Greater than 100</td>
<td>120</td>
<td>13.33%</td>
</tr>
</tbody>
</table>

Source 4. Own elaboration from the financial information of Ladicar SA

In the analysis that the clothing/textiles and food retail businesses have to make a great effort in sales to obtain a reasonable EBITDA with a downward trend; while companies from other sectors with lower sales levels (50%) than those from the aforementioned sectors, present equal or higher EBITDA. For the year 2020, 44.56% of the listed companies decreased in their business profitability, it could be the effect of the pandemic, a decrease in income, among other factors of the IFRS for leasing.
On average, more than 50% percent of the companies increased EBITDA, for the year 2020, since leasing expenses and business dynamics that originated with COVID-19 are excluded, comparing the results, with the considerations of financial information regulators confirm what was expected from IFRS 16 in terms of the increase in the indicator.

3. CONCLUSIONS

With the application of the new guidelines of the international regulators of financial information, it is determined with the results of the investigation that the financial statements will be presented reasonably in the listed companies and are comparative between the different companies in the global market with the new guidelines of IAS 1, and its presentation in the disclosures of the financial statements for decision-making, seeks to reflect a reasonable image of the figures reported, the correct application of the requirements to be disclosed in IFRS 16 is determined, causing the information that it is uniform compared to previous years and even more its understanding for the users of the information, the updates originated more detailed explanation in the notes of the financial statements for the directors and users of the information, to understand the new dynamics, from which the audit firms faced the challenges in the review of the changes caused by the Covid-19, caused that the key audit issues and responses to accounting standards were provided in the auditor's report, the results are in accordance with the information received by the IASB (2020), in its recommendations by investors seeking more that a data in the financial statements, that the information of the subtotals in the income statement need to be able to be compared with different companies, companies should offer more information grouped in such a way that it offers better elements for financial analysis, the results of investment comments, makes the IASB strengthen the requirements for presenting financial information and disclosures, these compliance were observed in the IFRS 16 lease updates in the presentation of the financial statements, as observed in the review of this work.

The new requirements of the IFRS, modified the accounting treatment of leasing, in which the organizations did not have the resources for this item in the cash flow, which were contracted with consulting firms, for the training and implementation of the new guidelines in order to avoid errors in financial calculations; the financial indicators of the companies suffered a lethal impact in the change of the IFRS 16 of leasing, due to the variations of the items of the financial situation and presentation in the disclosures the uniformity of the information with the previous periods, within the factors are highlights the increase in assets, increase in liabilities, and decrease in operating expenses.

4. REFERENCES


DOI: https://doi.org/10.15379/ijmst.v10i1.2683

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