



CHANGES IN THE NATIONAL LEASE ACCOUNTING SYSTEM IN CONNECTION WITH THE TRANSITION TO INTERNATIONAL STANDARDS

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Abstract

This article addresses the challenges of accounting for leases and lease payments under the widely accepted IFRS 16 "Leases." Controversial situations are examined and proposals for their resolution are provided. The author describes the specifics of applying the new international standard and its differences from the previous standard. The article also describes the changes made to the relevant national accounting standards.

Keywords: Lease, leased asset, lease agreement, lessor, lessee, present value, financial reporting, operating lease, finance lease.

Introduction

Lease accounting is the process of tracking and recording all financial transactions related to the lease of real estate or equipment. This accounting includes recording lease payments, calculating depreciation on leased assets, accounting for lease liabilities, and other related financial processes.

Lease accounting is a complex process, especially in the context of the transition to international standards. Different countries may have different accounting rules governing lease accounting, which further complicates the process. Therefore, we will examine this type of accounting using international standards and identify changes in lease accounting related to the transition to international accounting standards.

The International Financial Reporting Standard IFRS 16 "Leases," which was adopted based on the revised International Financial Reporting Standard (IAS) 17 "Leases," defined a uniform lease accounting methodology. The primary objective of the



standard was to introduce a uniform accounting model for lessees and to improve the transparency of financial disclosures by recognizing and reflecting lease liabilities and right-of-use assets in the lessee's statement of financial position. Compared to IAS 17 "Leases" [hereinafter referred to as IAS 17], the recognition criterion is the existence of the right to use an identified asset for a specified purpose and intended use, as well as the right to obtain substantially all the economic benefits from the use of the identified asset. In this case, the accounting for the lessor remains largely unchanged from IAS 17."

IFRS 16 "Leases" formulates the objective of the standard as follows:

- This Standard establishes principles for the recognition, measurement, presentation, and disclosure of leases. The objective of the Standard is to ensure that lessees and lessors provide appropriate disclosures that fairly reflect these transactions. This information provides the basis for users of financial statements to evaluate the impact of leases on the entity's financial position, financial performance, and cash flows.
- In applying this Standard, an entity shall consider the terms of the contracts and all relevant facts and circumstances. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

So, what is the difference between IFRS 16 and IAS 17? What are the advantages of Standard 16 "Leases"?

Before the adoption of IAS 17 "Leases" [2], neither information about the leased asset nor evidence of lease liabilities was included on the balance sheet of entities. After the entry into force of this Standard, the accounting treatment of lease transactions in entities was changed. The key change is that the acquisition of an asset is accounted for as if it were acquired with borrowed funds. Henceforth, when considering the accounting for long-term leases, lease accounting is conducted in parallel with long-term debt.

Specific application considerations for certain key aspects specified in International Financial Reporting Standard (IFRS) 16 "Leases":

First, one of the key features of a lease agreement is the existence of an "identified asset." This is typically achieved by separately identifying the asset within the agreement or within a component thereof. For an asset to be "identified," the lessor must not have the right to substitute an alternative, i.e., similar, asset for the entire useful life of the asset.



Each agreement concluded in the course of business is concluded on specific terms. This means that in some cases, the agreements between the lessor and lessee may differ. In particular, the question of who is responsible for maintaining the asset to keep it in working order is a separate issue. A contract may provide for a right or obligation to replace an asset if it requires repair. The fact that the lessor has the right or obligation to replace an asset if it requires repair does not prevent the asset from being considered "identified."

Obviously, the question of an identified asset can be interpreted differently by experts in this field. In our opinion, the question of obtaining the right to use an identified asset has another aspect, as the question of whether the lessor has the right to replace it or assumes the obligation to replace it is only one aspect of the issue. The other aspect relates to the lessee. The lessee reflects the leased asset, that is, the fixed asset, in its own accounting, i.e., according to the recognition principle, recognizes it at the inception of the lease. So, if the lessor has the right or obligation to replace the asset, how does the lessee account for the replaced asset in its financial statements? In what cases is replacement possible? These issues are closely related to the concept of an "identified asset." In certain cases, the terms of replacement require clear specification in the lease agreement. It's important that the terms of the exchange, in addition to defining the lessor's obligations regarding the asset's condition, also establish the obligations the lessee must comply with during the asset's use period. In our opinion, a condition caused by the lessee should not be grounds for asset exchange. As a result of the exchange, there's a high probability that other factors will change without changing the asset's name. For example, factors such as cost and service life may differ from those of the previous asset. Naturally, such a situation requires capitalization of the leased asset as a result of the replacement and the write-off of the leased asset reflected on the balance sheet. This is why we would like to emphasize that the concept of "identified asset" is included in the international standard for a reason. This means that waiving the right to replace is only possible on an exceptional basis, as discussed above, with specific conditions specified for both parties.

Secondly, under the new standard, the customer has the right to direct the use of the identified asset. This can be explained as follows:

- The customer has the right to determine how and for what purposes the asset will be used throughout the period of use;



- The relevant usage decisions, i.e., agreements, are predetermined. In this case, the lessee has the right to use the asset throughout the period of use, and the lessor has no right to change the usage instructions.

This raises additional questions: is it sufficient for the lease agreement to state that the customer has the right to direct the use of the asset, or should the agreement clearly state the purpose for which the asset will be used? We believe that it is sufficient for the standard to state in the lease agreement that the customer has the right to direct the use of the asset. Otherwise, the rights of economic entities to trade secrets are violated.

Another feature of the application of the International Financial Reporting Standard IFRS 16 "Leases" is the direct recognition of the leased asset and lease liabilities.[3] As is well known, International Accounting Standard (IAS) 17 classified leases as operating and finance leases. IFRS 16 eliminates the distinction between operating and finance leases in the financial statements of lessees. Lessees recognize a right-of-use asset and an associated liability at the inception of the lease term.

IFRS 16 requires the right-of-use asset and the lease liability to be initially measured at the carrying amount of the lease payments outstanding at that date. The discount rate used to determine the present value must be consistent with the interest rate specified in the lease agreement. This requirement is consistent with the accounting treatment for finance leases set out in IAS 17.

This article examines only a few lease accounting issues. Practice, however, is faced with new, increasingly changing situations involving the interests of various parties. This process will deepen and become more complex, leading to the development of increasingly new regulations and corresponding accounting rules.

The implementation of accounting reform in our country to bring the national financial accounting system closer to international standards is becoming one of the most important driving forces in the development of the national economy.

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