

# The Role of International Financial Reporting Standard IFRS16 in Improving the quality of accounting information of Syrian Banks Listed in the Damascus Stock Exchange - A Field Study-

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## ***Abstract:***

The topic of accounting information quality has garnered significant attention in financial and accounting research due to its crucial role in decision-making processes within organizations. High-quality accounting information enhances transparency, reliability, and comparability, which are essential for stakeholders. Given the increasing global adoption of International Financial Reporting Standards (IFRS), IFRS 16 has emerged as a key standard influencing financial reporting practices, particularly in lease accounting.

This research examines the role of IFRS 16 in improving the quality of accounting information, focusing on its impact on financial reporting transparency and comparability among organizations. The topic of this research aligns with both the descriptive approach and the analytical method. The research population consists of employees in financial and accounting departments, as well as external auditors dealing with the banking sector in Syria. Data were collected through structured questionnaires and interviews to assess perceptions regarding the implementation of IFRS 16 and its influence on financial reporting quality.

The statistical analysis results indicated a significant improvement in financial statement comparability and reliability following the adoption of IFRS 16. The study also revealed that while IFRS 16 enhances transparency in lease-related financial disclosures, its implementation poses initial financial and operational challenges for firms. Moreover, the findings suggest that the standard contributes to a more accurate representation of a company's financial position by shifting lease obligations onto the balance sheet, reducing off-balance-sheet financing practices.

This research underscores the importance of IFRS 16 in strengthening accounting information quality and highlights the need for organizations to adapt their financial reporting strategies to comply with evolving international standards. The study provides valuable insights for policymakers, financial managers, and accountants in optimizing financial reporting practices under IFRS 16.

**Keywords:** International Financial Reporting Standard 16, Quality, Accounting information, Relevance and Comparability.

## GENERAL FRAMEWORK OF THE STUDY

### 1. INTRODUCTION:

Various sectors have witnessed rapid technological developments, which led to the emergence of high-value assets that are difficult for most companies to own. In line with these developments, companies had to find another financing method that helps to benefit from these assets without the need to purchase them. Therefore, most companies resort to leasing as it is associated with relatively low risk compared to other forms of financing.<sup>1</sup>

Leases are a key source of funding for businesses<sup>2</sup> and there has been much controversy over how leases should be reported in financial statements<sup>3</sup>.

In response to critiques of the International Accounting Standards (IAS) 17, the current International Financial Reporting Standard (IFRS) 16 was published. Under IFRS 16, finance and operating leases are no longer separated. Previously, operating leases were classified as expenses, whereas financial leases influenced assets and liabilities in the statement of financial position. Presently, except for short- and low-value leases, firms are required to recognize all lease arrangements in their financial statements<sup>4</sup>, putting an end to any attempt to hide liabilities resulting from operating leases, and enhancing comparability and transparency of the financial statements of various businesses<sup>5</sup>.

This study investigates the impact of IFRS 16 on the quality of accounting information in the context of banks listed in the Damascus Stock Exchange operating in Syria. It explores the influence of IFRS 16 on financial statement transparency, reliability, and the qualitative characteristics of accounting information, including relevance, comparability, and understandability, to determine how these factors improve the quality of financial reporting.

### 2. PROBLEM OF THE STUDY:

The IFRS 16 standard has brought about significant changes in how lease contracts are presented in financial statements, transitioning from an 'off-balance-sheet' model to a more comprehensive model that requires the recognition of assets and liabilities associated with these contracts. However, companies have faced challenges in applying the standard, such as the complexity of financial disclosures and compliance costs. The problem of this study is reflected through the following questions:

- How effective is IFRS 16 in improving the quality of accounting information?
- How does the application of the standard affect the transparency and reliability of financial statements?
- What challenges do companies face in implementing the standard, and what impact do these challenges have on the quality of financial reporting?
- How does IFRS16 contribute to enhancing qualitative characteristics of accounting information (such as relevance and comparability)?

### 3. MODEL OF STUDY:

#### Independent variable

-International Financial Reporting Standard IFRS16.

#### Dependent variables:

- Quality of accounting information

<sup>1</sup> De Laurentis, G., Mattei, J.: "Lessors' recovery risk management capability". *Manag. Finan.* 2009.

<sup>2</sup> Morales-Díaz, J., Zamora-Ramírez, C., "The Impact of IFRS 16 on key financial ratios: A New methodological approach". *Accounting in Europe*, 15(1), 2018, pp. 105–133.

<sup>3</sup> Lau, C. K., "The economic consequences of IFRS 16 adoption: the role of gearing restrictions in debt covenants". *Journal of Applied Accounting Research*, (ahead-of-print). 2022.

<sup>4</sup> Van Kints, R. R., & Spoor, L. L., "Leases on balance, a level playing field?", *Advances in accounting*, 44, PP.(3-9).

<sup>5</sup> Delgado-Vaquero, D., Morales-Díaz, J., & Zamora-Ramírez, C., "IFRS 16 Incremental Borrowing Rate: Comparability Issues and a Methodology Proposal for Loss Given Default Adjustment". *Accounting in Europe*, 19(2), 2022, pp. 287-310.

- Financial statement transparency
- Reliability and relevance of information
- Relevance and comparability
- Financial disclosure quality
- Financial decision-making by users

#### 4. OBJECTIVES OF THE STUDY:

This study aims to examine the role of IFRS 16 in improving the quality of accounting information and analyzing its impact on the transparency and reliability of financial statements. It also evaluates how the implementation of IFRS 16 contributes to enhancing the qualitative characteristics of accounting information and explores the challenges faced by companies in applying IFRS 16 and their impact on the quality of financial reporting.

In addition to Providing recommendations to improve the implementation process of IFRS 16 and increase awareness about its impact on the quality of financial reports.

#### 5. IMPORTANCE OF THE STUDY:

The importance of this study lies in highlighting the role of International Financial Reporting Standard IFRS 16 in improving the quality of accounting information by providing more transparent and accurate treatment of lease contracts in financial statements. The study also focuses on the standard's impact on enhancing the reliability and relevance of financial reports, thereby contributing to better decision-making by various stakeholders. Furthermore, the significance of the study is reflected in analyzing how IFRS 16 addresses challenges related to lease contracts, such as misleading financial statements due to incomplete disclosures. The study reveals the direct effect of implementing this standard on enhancing the qualitative characteristics of accounting information, making it a topic of considerable importance for companies, investors, and regulatory entities.

#### 6. HYPOTHESES OF THE STUDY:

Based on the theoretical frameworks and previous empirical findings, the following hypotheses were proposed:

##### Main hypothesis:

-There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying the IFRS 16 standard on improving the quality of accounting information.

##### The following sub-hypotheses are derived from the main hypothesis:

**PH1:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the improvement of financial statement transparency through the full recognition of lease contracts.

**PH2:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of reliability and relevance of information provided to stakeholders.

**PH3:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of qualitative characteristics of accounting information such as relevance and comparability.

**PH4:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects financial disclosure quality in financial statements.

**PH5:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 improving financial decision-making by users based on more accurate financial reports.

#### 7. METHODOLOGY OF THE STUDY:

There are several methodologies used in scientific research, and each methodology is applied based on the phenomenon being studied. It is possible to use more than one methodology to study the same phenomenon. The topic of this research (the role of the International Financial Reporting Standard IFRS 16 in improving the quality of accounting information) aligns with both the descriptive approach and the analytical method, which are considered the most suitable for this research. The aim is to provide data and facts regarding the research problem to interpret and understand its implications. This will be achieved through collecting data related to the research problem to build the theoretical framework for the study. The study

used SPSS 26 program to extract the results.

## 8. STUDY POPULATION AND SAMPLE:

The research population consists of employees in financial and accounting departments, as well as external auditors dealing with the banks listed in the Damascus Stock Exchange. In terms of the sample, the researcher was able to obtain a random sample consisting of 88 analyzable questionnaires.

## 9. LIMITS OF THE STUDY:

- Spatial limits: The Syrian Arab Republic - Syrian banks listed in the Damascus Stock Exchange.
- Time limits: This study was conducted during the year 2024.

## 10. HYPOTHESIS TESTING:

In interpreting the main and subsidiary hypotheses, the following emerged:

- **Main hypothesis:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying the IFRS 16 standard on improving the quality of accounting information

Table NO. (20) shows that the average contribution of the application of IFRS 16 to the quality of accounting information is 3.64, with a significance level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying the IFRS 16 standard on improving the quality of accounting information)

### - Sub-hypotheses:

**PH1:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the improvement of financial statement transparency through the full recognition of lease contracts.

Table NO. (15) shows that the average contribution of the application of IFRS 16 to improving the transparency of financial statements is 3.89, with a significant level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the improvement of financial statement transparency through the full recognition of lease contracts.).

**PH2:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of reliability and relevance of information provided to stakeholders.

Table NO. (16) shows that the average contribution of the application of IFRS 16 to improving the reliability of information is 3.56, with a significance level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (there is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of reliability and relevance of information provided to stakeholders.).

**PH3:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of qualitative characteristics of accounting information such as relevance and comparability.

Table NO. (17) shows that the average contribution of the application of IFRS 16 to enhancing the qualitative characteristics is 3.83, with a significance level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (there is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects the enhancement of qualitative characteristics of accounting information such as relevance and comparability.).

**PH4:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects financial disclosure quality in financial statements.

Table NO. (18) shows that the average contribution of the application of IFRS 16 to the quality of disclosure is 3.72, with a significance level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (there is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 affects financial disclosure quality in financial statements.).

**PH5:** There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 improving financial decision-making by users based on more accurate financial reports.

Table NO. (19) shows that the average contribution of the application of IFRS 16 to improving financial decision-making is 3.43, with a significance level of  $SIG = 0.000$ , which is less than 0.05. Therefore, we accept the hypothesis (there is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating that the application of IFRS 16 improving financial decision-making by users based on more accurate financial reports.).

## CONCLUSIONS AND RECOMMENDATIONS

### **First- CONCLUSIONS:**

- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on improving the quality of accounting information, , this is consistent with previous study (Sheikh ,2022)
- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on improving the transparency of financial statements through the full recognition of lease contracts, this is consistent with previous study (Dabbagh and Hassiani,2019).
- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on enhancing the reliability and relevance of the information provided to stakeholders, this is consistent with previous study (Maimoun and Bashonda,2017)
- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on enhancing the qualitative characteristics of accounting information, such as relevance and comparability, this is consistent with previous study (Ozturk and Sercemeli, 2016)
- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on the quality of financial disclosure in the financial statements, this is consistent with previous study (Awad, 2017).
- There is a statistically significant relationship at the significance level ( $\alpha < 0.05$ ) indicating the impact of applying IFRS 16 on improving financial decision-making by users based on more accurate financial reports, this is consistent with previous study (Mahmoud,2018)

### **Second- RECOMMENDATIONS:**

The researcher recommends the following:

- The necessity of directing banks in Syria to apply International Financial Reporting Standard No. 16 to achieve disclosure on lease contracts and understand the extent of invested assets and liabilities.
- The issuance of a special guide by the Association of Certified Accountants in Syria regarding lease contracts to align with relevant International Financial Reporting Standards.
- Encouraging researchers to explore the collection of international accounting standards and financial reporting standards that are not implemented in Syria in general, and International Financial Reporting Standard (IFRS 16) in particular.
- Establishing training and development courses for accountants to understand the use of International Financial Reporting Standard (IFRS 16) and its role in enhancing disclosure and the accurate measurement of lease contracts.

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