

Does Transition to IFRS 16 Affect Companies Financial Performance: The Case of Baltic Listed Companies

The paper assesses the effect of transitioning to IFRS 16 on Baltic listed companies' financial performance. The results revealed that 74.63% of sample companies were affected with an average 8.68% increase in total assets and 13.03% increase in total liabilities. Return on assets and assets turnover ratios of the affected companies decreased by an average of 8.33%, the quick ratio and current ratio decreased by 7.84%, while the debt-to-equity ratio increased by 28.63%. The sectors most heavily impacted by transitioning to IFRS 16 were communication services and basic materials sectors.

Keywords: IFRS 16, lease accounting, right-of-use assets, lease liability, financial performance.

Straipsnyje vertinamas 16-ojo TFAS taikymo pradžios poveikis Baltijos šalių listinguojamų įmonių finansiniams rezultatams. Rezultatai atskleidė, kad buvo paveikta 74,63 % analizuotų įmonių, bendras jų turtas padidėjo vidutiniškai 8,68 %, o įsipareigojimai – 13,03 %. Nukentėjusių įmonių turto grąžos ir turto apyvartumo rodikliai sumažėjo vidutiniškai 8,33 %, bendrojo ir kritinio likvidumo rodikliai sumažėjo 7,84 %, o skolos ir nuosavybės santykis padidėjo 28,63 %. Perėjimas prie 16-ojo TFAS labiausiai paveikė ryšių paslaugų ir pagrindinių medžiagų sektorių finansinius rezultatus.

Raktiniai žodžiai: 16-asis TFAS, nuomos apskaita, naudojimo teise valdomas turtas, nuomos įsipareigojimai, finansiniai rezultatai.

Introduction

Leasing is one of highly popular and cost-effective financing options for businesses, offering multiple advantages such as improved cash flow management, potential collateral avoidance, and preserved funds for company development. However, pre-IFRS 16 lease accounting model was seen as restrictive since it classified leases as either operating or finance leases, with operating leases not

required to be capitalized and therefore not disclosed in by the lessee in its balance sheet. This inherent limitation raised concerns regarding the transparency and comprehensiveness of financial statements, as it resulted in the omission of valuable resources and significant debt from the accounting records (Duke et al., 2009; Giner et al., 2019; Maglio et al., 2018).

To address information imbalances and ensure accurate representation of

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lease transactions, the implementation of International Financial Reporting Standard (IFRS) 16 “Leases” took effect on January 1, 2019. A crucial modification introduced by this standard was the replacement of recognizing lease payments in as operating items with the requirement to treat all leases as finance leases and therefore recognize lease related assets and liabilities (IFRS, 2016). This transition from is expected to have a substantial influence on the financial statements of lessee companies as well as their financial performance measures. IFRS 16 holds significant relevance across various industries, impacting their financial reporting practices and lease management approaches. Industries heavily reliant on leasing, such as retail, transportation, and real estate, experience significant effects from the implementation of IFRS 16. These sectors often engage in extensive lease agreements for assets like storefronts, vehicles, and properties, making the standard’s requirements and changes particularly pertinent to their financial statements and decision-making processes. Furthermore, financial statement-based indicators and ratios are also affected. Review of empirical research revealed that transition to IFRS 16 have a significant influence on financial performance of companies, mainly due to increased assets and liabilities (Giner et al., 2019; Magli et al., 2018; Maglio et al., 2018; Morales-Díaz and Zamora-Ramírez, 2018; Xu et al., 2017). The effect of IFRS 16 on companies’ financial performance and key financial ratios such as leverage, liquidity ratios, EBITDA, ROA, and ROE been had examined in scientific research.

Research in the area of lease accounting and the impact of IFRS 16 in the Baltic states is relatively limited. There is a notable gap in scholarly studies examining the specific implications and challenges faced by companies in this region regarding the adoption and implementation of IFRS 16. Therefore research is needed to explore the effects of IFRS 16 on the financial reporting practices and financial performance of Baltic companies, providing valuable insights for both academia and practitioners in the region. **The research problem** addressed in this paper is if and how transition to the new accounting requirements, namely to IFRS 16, affect financial performance of companies and what are sector-specific differences arising from such transition.

The aim of this research is to explore how the transition to IFRS 16 affected financial performance of companies listed in Nasdaq OMX Baltic, including examining any sector-specific differences that may arise as a result of the transition.

Research methods. In this paper we firstly employed comparative literature analysis to gather relevant insights on the main IFRS 16 requirements and their effect on companies’ financial performance. Content analysis was utilized to examine the scope and financial implications of implementing IFRS 16 among Baltic listed companies. Calculation of ratios and their changes as well as comparative analysis were employed to summarize the research findings, followed by a critical comparative analysis during the discussion of the results.

The paper is structured in five main sections. The first sections represent literature analysis including an overview the new lease accounting requirements,

the reflection of IFRS 16 requirements on different sectors and the influence of changes in lease accounting on companies' financial performance. The second section of the paper focuses on the development of the research methodology. The third section presents the results including the number of unaffected companies, descriptive analysis of the changes in total assets and liabilities as well as assessment of their changes across the entire sample and different sectors. This section also presents analysis of the changes in companies financial performance indicators and their differences across the sectors. The discussion of the results is presented in the fourth section of the paper, where the findings of the study are interpreted and compared to the existing literature. Following the discussion of the results, the paper concludes in the final section of the paper.

Literature review

An overview of changes in lease accounting requirements. At the beginning of 2016, the International Accounting Standards Board issued a new standard for lease accounting: International Financial Reporting Standard (IFRS) 16, which came into force on January 1, 2019. It replaced the former lease accounting standard, IAS 17, which was seen as inadequate in meeting market requirements. IAS 17 classified leases as either operating or finance leases in both lessor and lessee accounts. However, in lessee accounts, operating leases did not require the recognition of lease assets or lease liabilities on the balance sheet. This lack of transparency drew significant

controversy in the financial markets, as it was argued that valuable resources and extensive debt were being hidden from stakeholders.

The newly developed IFRS 16 brought relevant and important updates to the market aiming to ensure that both lessees and lessors present material and comparable lease related information to the users of financial statements in a way that economic substance of the agreement is reflected in their financial statements (IFRS 16, 2017). The definition of a lease term itself did not fundamentally change. A lease is still defined as a contract or part of a contract that grants, in exchange for consideration, the right to use an asset for a specified period. In general, the accounting requirements for lessors under IFRS 16 did not differ significantly from those in IAS 17. In IFRS 16 lessors still classify leases as finance or operating leases based on similar principles to IAS 17. However, the implemented changes to lease accounting imposed significant changes in lessee accounting, as since 2019, all previously off-balance material agreements were transferred to financial assets (Radzevičienė, 2020; Silvana et al., 2020; Barone et al., 2014). As a result, all previous operating leases from 2019 are referred to as finance leases. In their balance sheets companies have to recognize and present right of use assets separately from the other assets and lease liabilities - separately from the other liabilities. Companies are also allowed to present lease related assets and liabilities together with other assets and liabilities if it is clearly indicated in which lines they are included. As for expenses, depreciation of right of use assets and interest expenses for lease liabilities

have to be calculated (and disclosed separately) instead of previously recognized lease expenses. Such changes have an immediate effect on lessees EBITDA and operating profit with a potential effect on the value of profit before taxes (IFRS, 2016). Moreover, transition to IFRS 16 also has an impact on companies' cash flow statements.

The accounting effect of this standard was expected to change the financial results and position of companies, affect various financial indicators such as EBITDA, solvency ratio and increase the assets as well as liabilities of all companies in the balance sheet accordingly (Radzevičienė, 2020).

Impact of IFRS 16 on different sectors.

The effect of the amendments to lease accounting on the companies' financial performance may also depend on the extent to which the assets are leased and the types of agreements in place. This is very much sector dependant. The impact of IFRS 16 requirements on specific sectors is to some extent discussed in previous literature. One of the most frequently distinguished sectors as the most sensitive to changes in leasing accounting is the retail industry (Altamuro et al. 2012; Durocher, 2008; Fitó, et al, 2013; Magli, et al, 2018; Morales-Díaz and Zamora-Ramírez, 2018; Mulford and Gram, 2007). This industry includes food retail, clothes retail, household goods stores, etc. Leasing plays an important role as most this kind of stores and business locations are leased. Other sectors, also frequently singled out by the authors, as more affected by changes in leasing, are hotels and transportation sectors (Fitó et al., 2013; Morales-Díaz and Zamora-Ramírez, 2018). Short-term home rentals are an

increasingly popular phenomenon. Especially such a leasing way was encouraged by the emerging platforms "Booking.com" and "Airbnb". The Airlines sector is singled out as the most sensitive to accounting changes of IFRS 16 in some research (IFRS, 2016; Veverková, 2019) as well. Many aircrafts are leased to avoid the need for large amounts of cash or to save. Another sector affected by the new requirement of IFRS 16 is the telecommunication sector (Magli et al., 2018). This sector leases not only land, buildings, equipment and vehicles. There are more agreements that are subject to leasing requirements. These include capacity contracts, wayleaves and access rights, satellite broadcasting contracts and IT outsourcing agreements.

The influence of changes in lease accounting on companies' financial performance. The majority of the previous research which questioned the impact of IFRS 16 on financial performance of companies concentrated on the assessment of the expected outcomes prior to IFRS 16 actually came in force in 2019 (see Table 1).

As presented in Table 1, several research studies have analysed the impact of IFRS 16 on key financial indicators. J. Morales-Díaz and C. Zamora-Ramírez (2018) examined 646 European companies and found that the application of IFRS 16 significantly increased assets and liabilities, as well as the leverage measure. However, profitability changes were identified as insignificant. F. Magli et al. (2018) focused on Italy and reported significant increases in the EBITDA/revenues ratio, EBITDA, debts, and the debt/equity ratio. They highlighted the potential impact of IFRS 16 on valuation models. W. Xu et al. (2017) analysed

Table 1. Previous research on the IFRS 16' influence on companies' financial performance

Authors	Variables	Method	Sample	Results
B. Giner, P. Merello and F. Pardo (2019)	Leverage, liability maturity, liquidity, ROA, ROE	Monte Carlo method	100 largest companies from STOXX All Europe 100 index	Leverage (+4,1%); liability maturity (-5,3%); liquidity (-12,3%); ROA (-6,2%); ROE (+4,2%). Shortened lease periods reduce the impact of leasing capitalization.
F. Magli, A. Nobolo and M. Ogliari (2018)	Future committed payments, debt/equity, EBITDA/revenues, financial indebtedness, total assets, annual operating lease payments, equity	Quantitative and qualitative analysis	384 entities listed in Italy	Retail and telecommunications sectors had significant use of operating leases. EBITDA/revenues (+1%), EBITDA (+14%), debts (+23%) debt/equity (+6%).
R. Maglio, V. Rapone, and A. Rey (2018)	ROA, ROE, EBITDA/TE, EBITDA/TA, leverage, debt/equity	Refined constructive capitalisation method and comparative analysis	40 non-financial Italian firms	Debt/equity (+38,89%), D/E in the consumer services (+179,34%), in the technology (+39,44%), leverage (+14,4%), EBITDA/TE (+7,05%), ROA (-7,2%), ROE (-1,3%), EBITDA/TA (-6,02%).
J. Morales-Díaz and C. Zamora-Ramírez (2018)	Assets, liabilities, leverage, lease intensity, ROA, coverage, interest expenses	Adjusted capitalisation method	646 quoted European companies	Assets (+9,96%), liabilities (+21,4%), leverage (+9,28%), ROA (+3,07%), coverage (-13,6%). The most affected sectors: retail, hotels, transportation sectors.
W. Xu, R. A. Davidson and C. S. Cheong (2017)	Assets, liabilities, interest-bearing debts, profit margin, ROE, ROA, ROC, assets turnover, interest cover, gearing	Improved constructive method based on Imhoff et al.	165 S&P/ASX200 companies	Assets (+4,2%), liabilities (+8,82%), interest-bearing debts (+22,22%), gearing (+41,87%), asset turnover (-8,85%), ROE (+0,62%), ROA (+8,42%), ROC (+9,74%), interest cover (-23,14%), profit margin (+11,53%).

Source: L. Žilaitytė (2021).

companies from different sectors and observed increases in total assets, liabilities, interest-bearing debts, and the gearing ratio. They also found increases in profitability measures such as ROE, ROA, and ROC. B. Giner et al. (2019) used a Monte Carlo method and found that IFRS 16 would result in an increase in the leverage ratio, while liability maturity and liquidity would decrease. They also observed changes in profitability ratios, with ROA decreasing and ROE increasing. R. Maglio et al. (2018)

examined Italian firms and reported significant increases in the debt/equity ratio, particularly in the consumer services sector. The leverage ratio also increased, while profitability ratios, such as ROA and ROE, decreased.

Comparatively, the studies consistently show that the application of IFRS 16 has a significant impact on the balance sheet, leverage ratios, and profitability measures. Increases in assets and liabilities are also observed across studies. The impact on profitability measures varies,

with some studies reporting insignificant changes and others showing both increases and decreases. The magnitude of the effect differs among sectors, with retail, telecommunication, and consumer services sectors experiencing significant changes. These findings suggest that IFRS 16 has notable implications for financial reporting and analysis, potentially influencing valuation models and financial decision-making.

Research methodology

Literature analysis revealed that there is no consensus on the significance of the effect of IFRS 16 “Leases” on the financial performance of companies. IFRS 16 shall enlarge amount of assets, liabilities, result in accounting for the new interest and depreciation expenses (instead of operating lease expenses) and subsequently impact the majority of commonly used financial performance indicators.

In our research we focused on the situation of companies listed in Nasdaq OMX Baltic aiming to identify what (if any) new items were accounted for in their financial statements in 2019 when IFRS 16 came in force (if compared to 2018) and whether those changes had a significant effect on companies’ financial performance indicators. This researched focused on the scope of changes on the lessee side, as the new standard did not have a significant impact on the lessor accounting, yet the effect on the lessee financials was expected to be significant. Transition from one accounting standard to another restates and re-values the affected balance sheet and income statement items, therefore allows calculating the effect of the changes in

accounting regulation by evaluating the change in comparative numbers. Another issue is to decide whether the change is significant – i.e. how big the change shall be to assume that it reflects on the decision of the stakeholders. As no previous research revealed the numerical indicators of significance in similar situations, we adopted an approach used by auditors that a change of 1% and more in total value of the respective group (i.e. total assets or liabilities) shall be treated as being significant. Analysis was executed in two steps.

The first step assessed if and how much the values of assets and liabilities changed after the IFRS 16 adoption and whether these changes were significant. The key three questions addressed in this step were: Did the value of companies’ total assets and liabilities change and if yes, did it increase or decrease? Was this change significant? Was the scope of changes dependant on the sector? F. Magli et al. (2018), J. Morales-Díaz and C. Zamora-Ramírez (2018); W. Xu et al. (2017) also emphasized the importance to firstly assess the change of assets and liabilities values, as eventually it will reflect on the majority of the widely used financial indicators, such as ROA, current ratio, debt to equity and others. Although lease capitalization method was the most commonly applied research method in the reviewed previous research, it actually relies on extensive assumptions and complex formulas to calculate predicted values of companies’ financials. As this study was after IFRS 16 based financial statements were published for the year 2019 and the actual data was already available, we opted to use the content analysis and quantitative data analysis. Where available, the data was

collected from balance sheets and income statements of the sample companies. If unavailable, the data was taken from the notes to the financial statements. However, if IFRS 16 related data was not available either in financial statements, or in the notes, it was assumed that a particular company is not a lessee and therefore is not impacted by the IFRS 16.

Results obtained from quantitative data analysis were used to calculate the scope if IFRS 16 related changes, which was considered to be significant if the change was greater than 1 percent of the total assets or liabilities before IFRS 16 was applied. The scopes of the right-of-use asset and liabilities changes were calculated formulas (1) and (2). Calculated scopes enabled classification of the companies according to the strength of the IFRS 16 related impact. It also allowed to compare the results between different sectors.

$$\begin{aligned} \text{The scope of right of use asset change} = \\ = \frac{\text{Right of use asset}}{\text{Total Asset}} \times 100\% \end{aligned} \quad (1)$$

$$\begin{aligned} \text{The scope of lease liabilities change} = \\ = \frac{\text{Long term and short term lease liabilities}}{\text{Total Liabilities}} \times 100\% \end{aligned} \quad (2)$$

As the previous literature found that the sector to which the company belongs is an important factor explaining the impact of IFRS 16, the calculated scopes were further analysed by the sectors in which the Baltic listed companies operate. According to J. Altamuro et al. (2012), S. Durocher (2008), M. A. Fitó et al. (2013), F. Magli et al. (2018), J. Morales-Díaz and C. Zamora-Ramírez (2018), C. Mulford and M. Gram (2007), the retail, hotel, transport, airlines and telecommunication sectors should be the most affected by the changes in lease regulation.

The second step aimed to assess the financial performance of listed Baltic companies before and after transition to IFRS 16 and evaluate the scope of changes. In this step we used the data collected from companies' financial statements and based on the previous lease accounting related research (Giner et al., 2019; Magli et al., 2018; Maglio et al., 2018; Morales-Díaz and Zamora-Ramírez, 2018; Xu et al., 2017) selected profitability, turnover and solvency financial ratios (Table 2) to conduct comparative

Table 2. Financial performance indicators for which IFRS 16 effect was assessed

Indicator	Formula	Data used
Return on Assets (ROA)	$ROA = \frac{GP}{TA} \times 100\%$	GP – Gross Profit TA – Total Assets
Asset Turnover (AT)	$AT = \frac{NS}{TA}$	NS – Net Sales TA – Total Assets
Current Ratio (CR)	$CR = \frac{CA}{CL}$	CA – Current Assets CL – Current Liabilities
Quick Ratio (QR)	$QR = \frac{CA - I}{CL}$	CA – Current Assets I – Inventories CL – Current Liabilities
Debt to Equity (DE)	$DE = \frac{D}{E}$	D – Debt E – Equity

analysis and to evaluate the scope of changes. Similar to the assessment of changes in assets and liabilities values, with the ratios we took the same position that a more than 1 percent change in the assessed ratios (due to the transition to IFRS 16) is treated as being significant.

As the comparison of the indicators between the companies in their net size does not show the real impact, the changes in the indicators will be calculated using the formula 3 (Morales-Díaz and Zamora-Ramírez, 2018).

$$C = \frac{R'_1 - R_1}{R_1} \quad (3)$$

where:

R_1 - is the financial ratio level after transition to IFRS 16 for a company 1.

R'_1 - is the financial ratio level before transition to IFRS 16 for a company 1.

C - is the comparability index (change) of the impact of transition to IFRS 16 for a company 1.

Profitability ratio, namely ROA was selected based on B. Giner et al. (2019), R. Maglio et al. (2018), W. Xu et al. (2017). Previous literature shows that there is no consensus on whether the application of IFRS 16 has a negative or positive effect on profitability. The asset turnover ratio was expected to decrease as well. By using improved constructive method based on Imhoff et al. and checking for differences in financial reports, value relevance and key ratios, W. Xu et al. (2017) noticed that turnover ratio was decreased by nearly 9% because of transition to IFRS 16. However, few authors have studied the impact on turnover ratios, so the impact on them is not clear. Solvency indicators, namely current ratio, quick ratio and debt to equity ratio, were

selected based on the studies of the authors F. Magli et al. (2018), R. Maglio et al. (2018), J. Morales-Díaz and C. Zamora-Ramírez (2018). Previous literature shows that the application of IFRS 16 unequivocally increases the amount of assets and liabilities and also worsens solvency ratios. Therefore in our research the negative effect on the solvency ratios was expected.

Results of the analysis were further explored to identify if the effect of transition to IFRS 16 differs depending on the sector to which the company belongs. For the sector analysis to control the scope of presented results the aggregate average changes of the assessed ratios across the sectors will be presented.

Data sample. Similar to our previous research (Žilaitytė, 2021), the initial date sample included 89 companies listed in Nasdaq OMX Baltic. A total of 22 companies were eliminated from the sample at the initial stage – 18 companies which prepare their financial statements according to the local standards, and 4 companies which financial year ends on other dates than a calendar year-end (thus comparative analysis is not possible). The remaining 67 companies constituted the final research sample.

Previous research conducted by J. Altamuro et al. (2012), S. Durocher (2008), M. A. Fitó et al. (2013), F. Magli et al. (2018), T. W. Merrill (2020), J. Morales-Díaz and C. Zamora-Ramírez (2018), C. Mulford and M. Gram (2007), and A. Veverková (2019) have identified several factors that influence the extent of the impact of transitioning to IFRS 16. These factors include company size, sector of operation, and demand for leased assets. Notably, the consumer cyclical, transportation,

Table 3. Sectoral distribution among sample companies

Sector	Number of companies (N-67)	Percentage of the total sample
Energy	4	5.97%
Consumer Cyclical	11	16.42%
Real Estate	10	14.93%
Consumer Defensive	6	8.96%
Financial Services	15	22.39%
Communication Services	2	2.99%
Basic Materials	2	2.99%
Utilities	6	8.96%
Industrials	8	11.94%
Healthcare	2	2.99%
Technology	1	1.49%
TOTAL	67	100%

airlines, and telecommunications sectors were expected to experience the most significant effects of the transition. In line with this understanding, the present study aims to evaluate the impact of IFRS 16 on the Baltic listed companies, focusing on the sectors classified according to the Morningstar Stock Sector Structure (Morningstar, 2011). Refer to Table 3 for further details on the sectors included in the analysis.

Limitations. Due to the small data sample, the available data sample too small for constructing an econometric model for the research. Therefore, the study relied on an assumption that deemed a significance level of 1% both for assets and liabilities.

Upon analyzing the Nasdaq Baltic listed companies, it was found that all companies adopted the modified retrospective method when transitioning from IAS 17 to IFRS 16. Under this method, the changes were not retrospectively applied, i.e. the cumulative effect of the IFRS 16 was accounted in retained

earnings at the date of transition, while the comparative information remained unchanged. However, this method restricted us from calculation of certain profitability ratios (such as EBITDA, GPM, and ROE).

Results

Identification of the affected companies. The initial step of the analysis involved analysis of sample companies' financial statements and collection of the research data as described in the methodology to identify whether a company had recognised any lease related assets or liabilities – i.e., whether it was affected by IFRS 16 at all. The results of analysis indicated that 17 (or 25.37%) of 67 sample companies in their financial statements did not disclose any new or specifically IFRS 16 related lease information. Such companies were considered as being unaffected by the changes of leases standard. As presented in Figure 1, most of the unaffected companies (52.9%) belong to

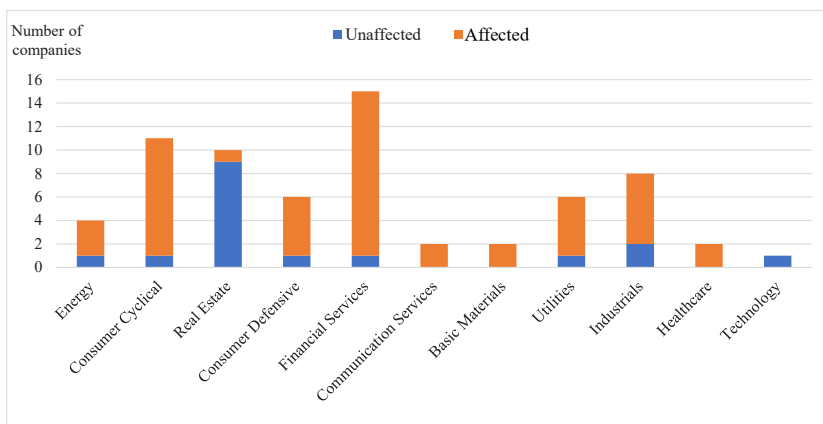


Fig. 1. Distribution of companies, affected or unaffected by IFRS 16 across the sectors (N-67)

real estate sector. Such companies usually do not have significant assets being rented out (a company rather acts as a lessor). Further in the study only the affected companies making the sample of 50 companies will be analysed.

Overview of the values recognized in 2019 in relationship to IFRS 16. Table 4 presents the minimum, maximum, median and average recognized initial values of right-of-use assets, lease liabilities, depreciation of assets under right-of-use and interests of lease liabilities.

As shown in Table 4, although the amounts are presented in thousands of euros, the difference between the

minimum and maximum recognized assets under right-of-use and lease liabilities is large (648 772 and 632 260 thousand euros respectively). There is also a large difference between the highest and lowest values in the context of depreciation and interest (94 242 and 397 thousand euros respectively). The turnover and capital of companies have a significant impact on this, therefore further calculations are made not in net terms, but by applying formulas describing relative sizes. In addition, it can be argued that when comparing the recognized amounts of assets under right-of-use with the amounts of lease liabilities, they

Table 4. Values of IFRS 16 related items recognized in 2019 financial statements of Baltic listed companies

(in thousands euros)	Min. value (N-50)	Max. value (N-50)	Median (N-50)	Average (N-50)
Initial recognition of asset under right-of-use	13	648 785	2 411	30 119
Initial recognition of lease liabilities	13	632 273	2 209	29 129
Depreciation of right-of-use assets 2019	7	94 249	620	5 498
Interest of lease liabilities of 2019	2	2 337	74	399

differ since lease liabilities are recognized as smaller. This is shown by the lower liabilities maximum value and average value (lower by 16 512 and 990 thousand euros, respectively). Moreover, it can be stated that the largest values of the sample increase the averages of the results quite significantly, because the median, which shows the average value of the numbers row when the numbers are arranged in ascending / descending order, the average of assets under right-of-use decreases by 92% and lease liabilities by 92.4%.

The scope of changes in total assets and liabilities. In this stage of the research the scopes of the changes in total assets and liabilities were calculated using formulas (1) and (2). The scope calculations for the assets are presented in the Table 5. Our calculations revealed that after implementation of IFRS 16 requirements and recognition of right-of-use assets, total assets of Baltic listed companies on average increased by 8.68%. Looking into individual companies, top three increases in the total value

of assets included 79.10% increase for *Storent*, 67.92% – for *Baltica* and 42.22% for *Klaipėdos nafta*.

For the better interpretation of the obtained results, the effect of IFRS 16 is ranged in to 4 groups according to the scope of the effect. The first group, “Insignificant change”, includes companies that have not been significantly affected by the change in lease requirements. The second group, “Change below average”, includes significantly affected companies whose initial assets under right-of-use accounted for between 1% and 8.68% of total assets. The third group, “Change above average”, includes companies that were significantly affected by the change in IFRS 16 requirements, and its rank ranges from average value to 40%. The of assets under right-of-use is equal 8.68%. The median value is equal 1.62% and is 7.06 percentage points lower than average what shows that the highest values raised the average of the sample. And the last, the fourth group, named “Extremely high change,” shows companies that were significantly affected by changes in IFRS

Table 5. The scope of changes in total assets of Baltic listed companies after transition to IFRS 16

The assessed effect	The scope	Number of companies (N-50)	Percentage of companies
Average increase in the total value of assets	8.68%		
Median value	1.62%		
Companies with an insignificant change in total assets value	< 1%	19	38%
Companies with a significant change in total assets value, of those with:	> 1%	39	62%
<i>Extremely high change</i>	> 40%	4	8%
<i>Above average change</i>	8.68% – 40%	5	10%
<i>Below average change</i>	1% – 8.68%	22	44%

Table 6. The scope of changes in total liabilities of Baltic listed companies after transition to IFRS 16

The assessed effect	The scope	Number of companies (N-50)	Percentage of companies
Average increase in the total value of liabilities	13.03%	-	-
Median value	2.75%	-	-
Companies with an insignificant change in total liabilities value	< 1%	19	38%
Companies with a significant change in total liabilities value, of those with:	> 1%	39	62%
<i>Extremely high change</i>	> 40%	8	16%
<i>Change above average</i>	13.03% – 40%	5	10%
<i>Change below average</i>	1% – 13.03%	18	36%

16 requirements and recognized assets under right-of-use of even more than 40% of total assets. This is an extremely sensitive companies to transition to the lease standard.

Analysing the effect of the transition to IFRS 16 on lease liabilities, the results are slightly different if compared to those of assets. The significance of the

impact of the transition to IFRS 16 for companies' liabilities is presented in Table 6. In regard to individual companies, top three increases in the total value of liabilities included 76.94% increase for *Baltica*, 64.77% increase for *Apranga* and 59.25% – for *Klaipėdos nafta*.

Firstly, can be seen that the median change in liabilities is greater by

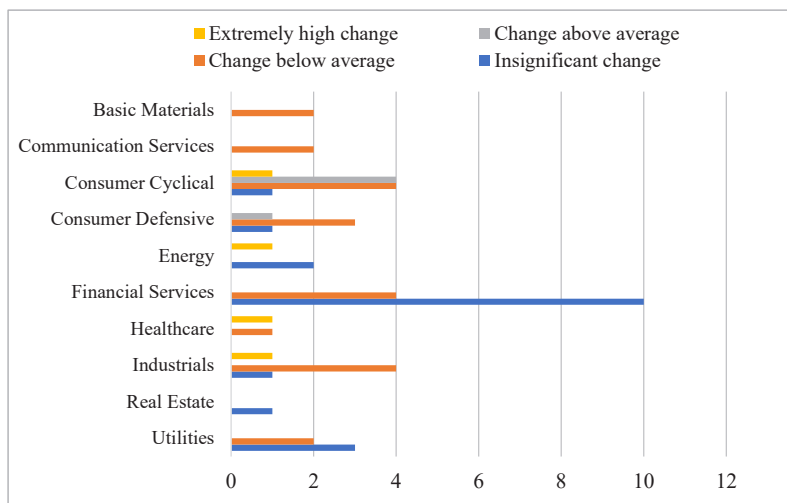


Fig. 2. The effect of changes in total assets across the sectors

1.13 percentage points than the median change in assets. This is because from a liability perspective, there are more companies with a larger change in lease liabilities than in assets. From the perspective of lease liabilities, the number of completely insignificantly affected companies were the same compared to the results of companies unaffected from the perspective of assets (19/50). The number of companies whose liabilities were significantly affected by the transition to IFRS 16 requirements was 62% of all companies or 31 out of 50. However, due to the recognition of lease liabilities, a total of 8 companies (16% of the total sample) had to report sharply higher (more than 40%) total liabilities.

Further analysis according to area of operations allowed identifying the most affected sectors. Figure 2 shows that the companies which assets were the most affected (more than 40%) belong to the industrials, consumer cyclical, healthcare and energy sectors. In contrary, the majority (10 out of 14 or 71.43%) of companies

working in the financial services sector were not subject to lease requirements changes.

Looking into the change of the total accounted liabilities, the results are rather similar (Figure 3). The most affected industries were consumer cyclical, industrials, healthcare.

In general, the analysis by the sectors proved that the area of operations is relevant while assessing the IFRS 16 effect. Both from total assets and total liabilities perspective the most affected were basic materials (100%), communication services (100%), consumer cyclical (90% from assets and 80% from liabilities perspective), industrials (85.7% from asset and 83.3% from liability perspective) and consumer defensive (80%) sectors.

The effect of IFRS 16 on companies' financial ratios. In this step of the research chosen financial ratios were calculated and analysed according to its average values, medians and the amount of significantly / insignificantly affected companies. In order to assess effect of

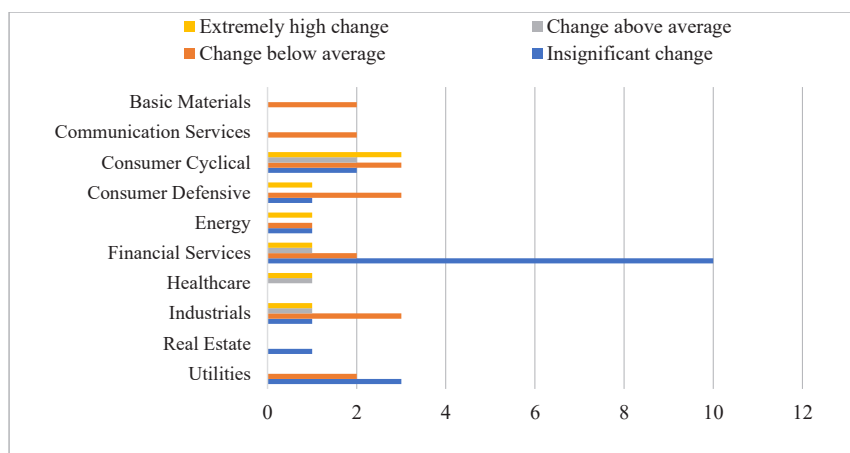


Fig. 3. The effect of changes in total liabilities across the sectors

IFRS 16 on the changes in financial indicators of Baltic listed companies, firstly ratios for 2019 excluding IFRS 16 effect and ten for 2019 including IFRS 16 requirements were calculated. As described in the methodology, in order to be able to compare the results, their change was calculated using formula (3). For better comparison, to present the results we maintained the same data ranking structure (grouping

into insignificant changes, changes less than the average of the sample, changes greater than the average and extremely high changes) as presented in Table 7.

The average change of ROA and asset turnover ratios was -8.33% while median equalled to -1.89%. It is important to note changes of those two indicators were negative (in all sampled companies, which shows that the transition to IFRS

Table 7. Changes in financial ratios across Baltic listed companies after transitioning to IFRS 16

The range of the change	Percentage of range	Number of companies (N=50)	Percentage of companies
ROA and Asset Turnover ratios*			
Average value	-8.33%	-	-
Median value	-1.89%	-	-
Insignificant change	< 1%	19	38%
Significant change, of those:	> 1%	39	62%
<i>Below average change</i>	1% – 8.33%	22	44%
<i>Above average change</i>	8.33% – 40%	4	8%
<i>Extremely high change</i>	> 40%	5	10%
Current ratio and Quick ratio*			
Average value	-7.84%	-	-
Median value	-1.20%	-	-
Insignificant change	< 1%	24	48%
Significant change, of those:	> 1%	26	52%
<i>Change below average</i>	1% – 7.84%	14	28%
<i>Change above average</i>	7.84% – 40%	10	20%
<i>Extremely high change</i>	> 40%	2	4%
Debt to Equity ratio			
Average value	28.63%	-	-
Median value	2.7%	-	-
Insignificant change	< 1%	18	36%
Significant change, of those:	> 1%	32	64%
<i>Change below average</i>	1% – 28.63%	21	42%
<i>Change above average</i>	28.63% – 40%	0	0%
<i>Extremely high change</i>	> 40%	11	22%

* The results were grouped for the purpose of presentation as their numerical values were exactly the same.

16 reduce profitability and asset turnover of Baltic listed companies. Moreover for 62% of sample companies, the decrease in ROA and asset turnover ratios were significant and 10% of analysed companies had a particularly strong (greater than 40%) decrease in both indicators. In regards to solvency ratios, the average changes in quick, current ratios and debt to equity ratio differ, however the first two indicators demonstrate on average 7.84% decrease, while debt to equity ratio – in contrary, 28.63% increase after implementation of IFRS 16 requirements. Also, 52% of the companies in terms of current and quick ratios and 64% of companies from the debt-to-equity ratio outlook were significantly affected by the transition to IFRS 16. As many as 22% of analysed companies were extremely significantly affected by the changes in IFRS 16 requirements from debt-to-equity perspective. The data of Baltic Listed companies proves that the new lease accounting requirements had a

significant effect on the capital structure of companies.

The effect on companies' financial ratios across the sectors. The aggregated sector level data on the changes in financial ratios is presented in the Table 8, whereas column 2 shows financial ratios of how many companies in the sector were significantly affected by IFRS 16 requirements and the remaining three columns indicate average change of the assessed financial ratios.

The results indicate that the most affected sectors were communication services (with 100% of significantly affected companies), healthcare (100%) and basic materials (83%) sectors.

From the individual ratios perspective, due to application of IFRS 16 requirements on lease accounting, on average, the biggest change in ratios was identified in healthcare (ROA, AT affected by 30.4%, CR, QR by 18.84%, DE – 105.36%), energy (ROA, AT affected by 16.63%, CR, QR by 21.52%, DE – 96.38%) and consumer cyclical (ROA, AT affected

Table 8. Average strength of the impact of the transition to IFRS 16 on different sectors and ratios

Sector (N-50)	Average number of companies with > 1% effect	ROA, AT	CR, QR	DE
Basic Materials	83%	-4.36 %	-4.6%	8.15%
Communication Services	100%	-4.54%	-6.68%	12.61%
Consumer Cyclical	80%	-17.28%	-12.92%	57.32%
Consumer Defensive	73%	-4.98%	-2.33%	14.83%
Energy	44%	-16.63%	-21.52%	96.38%
Financial Services	31%	-1.6%	-4.91%	10.9%
Healthcare	100%	-30.4%	-18.84%	105.36%
Industrials	78%	-10.45%	-8.96%	13.68%
Real Estate	0%	-0.27%	-0.46%	0.47%
Utilities	40%	-0.99%	-0.67%	1.54%

by 17.28%, CR, QR by 12.92%, DE – 57.32%) sectors. The smallest change can be seen in real estate (ROA, AT affected by 0.27%, CR, QR by 0.46%, DE – 0.47%) and utilities sectors (ROA, AT affected by 0.99%, CR, QR by 0.67%, DE – 1.54%). The fact that the effect of transition to lease standard affects all analysed sectors proportionately similar, could be seen as evidence that the magnitude of the impact of the changes in the new standard depends on the sector in which the company operates.

Discussion

The results of the analysis reveal that the implementation of IFRS 16 had a significant impact on Baltic listed companies. More than half of the analysed companies' assets and liabilities (62%) were affected by 8.68% and 13.03% respectively, with the most significant impact seen in the basic materials, communication services, consumer cyclical, and industrials sectors. This suggests that the effect of IFRS 16 varied depending on the sector in which a company operates. Such findings align with previous research conducted by J. Morales-Díaz and C. Zamora-Ramírez (2018) and W. Xu et al. (2017) who reported an expected increase in asset ranging from 4.2% to 9.96% and in liabilities, ranging from +8.82% to +21.4%) after the adoption of IFRS 16.

In terms of financial ratios, the analysis reveals a decrease in the average return on assets and asset turnover ratios by 8.33%. This indicates that the transition to IFRS 16 had a negative effect on the efficiency of asset utilization and

overall profitability of the companies in the sample. Furthermore, the current and quick solvency ratios decreased by an average of 7.84%, indicating a decrease in short-term liquidity and the ability to meet immediate financial obligations. Additionally, the debt-to-equity ratio increased by 28.63%, suggesting an increase in the level of debt relative to equity for the companies analysed. These findings regarding the changes in financial ratios align with previous research conducted by other scholars (Giner et al., 2019; Magli et al., 2018; Maglio et al., 2018; Morales-Díaz and Zamora-Ramírez, 2018; Xu et al., 2017) which have reported similar changes in financial ratios following the adoption of IFRS 16. Specifically, the changes in ROA, debt-to-equity, and asset turnover ratios observed in this analysis are in line with the results reported by previous researchers, who found average changes in ROA ranging from -7.2% to +8.42%, asset turnover ratio changes of -8.85%, and debt-to-equity ratio ranging from +4.1% to +38.89%.

When examining the impact across sectors, it is evident that the communication services and healthcare sectors were the most significantly affected, with all companies in these sectors experiencing a statistically significant impact from the transition to IFRS 16. The consumer cyclical sector closely followed, with 80% of companies significantly affected. The basic materials sector also exhibited a high level of impact, with 83% of companies experiencing significant changes. In comparison, previous studies, conducted by F. Magli et al. (2018); R. Maglio et al. (2018); J. Morales-Díaz and C. Zamora-Ramírez (2018) also identified the

consumer cyclical and telecommunications sectors as being significantly affected by the transition to IFRS 16. However, our research did not provide with the evidence in regards to real estate sector which was indicated as significantly affected in previous research.

The differences between the results obtained in this research and those of previous studies could be attributed to various factors, including the different methods employed and the composition of the samples. While this research utilized factual data, which is expected to provide more accurate and reliable results, it is important to acknowledge that the sample size used in this study might have been smaller compared to the research conducted by previous authors. Furthermore, regional or country-specific variations in lease practices, accounting practices, or industry dynamics might also contribute to the disparities in results. The real estate sector, for instance, could exhibit unique lease arrangements and structures that differ from other sectors, leading to differing impacts of the accounting change.

Overall, the findings highlight the sector-dependent nature of the effect of IFRS 16 on Baltic listed companies. The analysis demonstrates that the implementation of the standard had significant implications for both assets and liabilities across the entire sample, with the basic materials and communication services sectors being particularly affected. Furthermore, the financial ratios of return on assets, asset turnover, current and quick solvency, and debt to equity underwent notable changes, further emphasizing the impact of IFRS 16 on the financial performance and stability of Baltic listed companies.

Based on results received, sector, to which companies belong, had an effect to analysed financial ratios. Most companies which indicators were significantly affected operated in communication services, healthcare and basic materials sectors (respectively 100%, 100% and 83% of companies being affected).

Conclusions

Leasing is a significant financing source used by many companies. The changes introduced by IFRS 16 potentially increase the value of right-of-use assets, lease liabilities, and EBITDA, while also influencing financial performance indicators such as return on assets, asset turnover, quick and current ratios, as well as the debt-to-equity ratio. Notably, while previous research has explored the impact of IFRS 16 in various European and other countries, there is a lack of analysis available on the Baltic States.

The study employed content analysis and comparative analysis methods to examine the impact of IFRS 16 on the financial performance of the Baltic listed companies. The sample consisted of 64 companies listed on the Nasdaq OMX Baltic exchange. It examined changes in the values of right-of-use assets and lease liabilities, calculation of financial ratios and their changes following the adoption of IFRS 16 and assessed the data for the entire sample and sectors to which the sampled companies belonged.

The results revealed that 25.37% of the sample companies were unaffected by the transition to IFRS 16 and therefore were excluded from further analysis. As for the 50 affected companies – the impact of the transition to IFRS 16 varied

among companies and sectors. Across the entire sample, the value of total assets on average increased by 8.68% and value of total liabilities – increased by 13.03%. Moreover, 8% of the affected companies experienced extreme increase in total assets and 16% of them - in total liabilities (i.e., had an increase exceeding 40%) When considering the impact by sector, the transition was the most widespread in communication services and healthcare sectors whereas all companies were significantly affected.

Significant changes were also observed in companies' financial ratios. On average, the return on assets and asset turnover ratios decreased by 8.33%, the quick ratio and current ratio decreased by 7.84%, while the debt-to-equity ratio increased by 28.63%. The sectors most heavily impacted in terms of their ratios were communication services (100% of the companies were affected), healthcare (100%), and basic materials (83%). As much as 22% of sample companies experienced an increase in debt-to-equity ratio of over 40%, which could have significant implications for their capital structure and ability to secure additional funding.

Our findings are in alignment with the previous research but also has some limitations to consider. our sample size consisted of 64 companies listed in Nasdaq OMX Baltic (50 of which were affected), which may not fully represent the entire population of Baltic companies. Additionally, our analysis focused on the immediate effects of the transition to IFRS 16, and a longitudinal study could provide a more comprehensive understanding of the long-term implications. Furthermore, we primarily examined the financial performance of companies without delving into the qualitative aspects of the transition.

In the future, investigating the potential differences in the effects of IFRS 16 across different Baltic countries could provide valuable insights into the regional variations and unique challenges faced by companies operating within different legal and economic frameworks. Also, while our research identified the sectors most affected by the transition to IFRS 16, further research could delve deeper into understanding the specific mechanisms and dynamics behind these effects.

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**AR 16-OJO TFAS PRITAIKYMAS PAVEIKĖ ĮMONIŲ FINANSINIUS REZULTATUS:
BALTIJOS ŠALIŲ LISTINGUOJAMŲ ĮMONIŲ ATVEJIS****S a n t r a u k a**

Straipsnyje vertinamas 16-ojo TFAS pritaikymo poveikis Baltijos šalių listinguojamų įmonių finansiniams rezultatams. Nuoma – svarbus finansavimo šaltinis, kada turto savininkas suteikia kitai šaliai teisę naudoti tą turtą mainais už reguliarius mokėjimus. Nuo 2019 m. sausio 1 d. įsigaliojęs naujas nuomos apskaitos standartas, 16-asis TFAS, nuomininkui reikšmingai pakeitė nuomos apskaitą. Įsigaliojusių pakeitimų poveikis skiriasi pagal sektorių, kuriame įmonė veikia, ir lemia naudojimo teise valdomo turto bei nuomos įsipareigojimų pripažinimą bei EBITDA padidėjimą. Standarto reikalavimai taip pat turi poveikį įmonių finansiniams rodikliams, tokiems kaip turto grąža, turto apyvartumas, bendrasis ir kritinis likvidumas, skolos ir nuosavybės santykis.

Tyrime taikyti turinio analizės ir lyginamosios analizės metodai, siekiant ištirti 16-ojo TFAS įtaką Baltijos šalių finansiniams rezultatams. Imtį sudarė 64 Nasdaq OMX Baltijos biržoje kotiruojamos bendrovės. Tyrimas buvo atliktas dviem etapais. Pirmajame etape buvo vertinamas perėjimo prie 16-ojo TFAS poveikis identifikuojant naudojimo teise valdomą turtą ir nuomos įsipareigojimus bei jų santykinį svorį bendroje turto ir įsipareigojimų struktūroje. Antrajame etape apskaičiuoti finansiniai rodikliai ir išanalizuoti jų pokyčiai, priėmus 16-ąjį TFAS. Abiejuose tyrimo etapuose buvo vertinami visos imties ir sektorių, kuriems priklausė analizuojamos įmonės, duomenys.

Rezultatai atskleidė, kad perėjimas prie 16-ojo TFAS turėjo poveikį 74,63 % tyrimo imties įmonių, kurios buvo įtrauktos į tolesnę analizę. Susisteminus tolesnėje analizėje naudotus 50 paveiktų įmonių duomenis paaiškėjo, kad perėjimo prie 16-ojo TFAS poveikis įvairiose įmonėse ir sektoriuose skiriasi. Dėl naujojo standarto įmonių bendras turtas vidutiniškai padidėjo 8,68 %, o bendri įsipareigojimai išaugo vidutiniškai 13,03 %. Be

to, 8 % šių įmonių (4 įmonės) bendras turtas labai reikšmingai (daugiau kaip 40 %) padidėjo, o 16 % (8 įmonės) – padidėjo bendri įsipareigojimai. Vertinant poveikį pagal sektorius, labiausiai buvo paveikti pagrindinių medžiagų, ryšių paslaugų, plataus vartojimo ir pramonės sektoriai.

Visose įmonėse, kurios buvo paveiktos 16-ojo TFAS reikalavimų, pastebėti reikšmingi pelningumo, mokumo ir apyvartumo rodiklių pokyčiai. Vidutiniškai turto grąžos ir turto apyvartumo rodikliai sumažėjo 8,33 %, bendrojo ir kritinio likvidumo rodikliai sumažėjo 7,84 %, o skolos ir nuosavybės santykis padidėjo 28,63 %. Šiuo aspektu labiausiai paveikti ryšių paslaugų (pokyčiai stebėti 100 % sektoriaus įmonių), sveikatos priežiūros (100 %) ir pagrindinių medžiagų (83 %) sektoriai.

Atlikto tyrimo rezultatai patvirtina ankstesnių tyrimų rezultatus ir rodo panašias 16-ojo TFAS poveikio tendencijas Baltijos šalių biržose listinguojamoms bendrovėms. Mūsų tyrimas suteikia vertingų įžvalgų apie 16-ojo TFAS poveikį Baltijos šalių biržose listinguojamoms įtrauktoms bendrovėms, bet reikia atsižvelgti į kai kuriuos jo apribojimus. Pirma, mūsų imties dydį sudarė 64 Nasdaq OMX Baltic listinguojamos biržinės bendrovės (iš kurių 50 buvo paveikta), kurios gali neatspindėti visų Baltijos šalių įmonių. Mūsų analizė sutelkė dėmesį į tiesioginius 16-ojo TFAS pritaikymo padarinius, tad tolesni tyrimai galėtų padėti išsamiu supracuoti ilgalaikes pasekmes. Ateityje galimų 16-ojo TFAS poveikio skirtumų įvairiose Baltijos šalyse tyrimas galėtų suteikti vertingų įžvalgų apie regioninius skirtumus ir unikalius iššūkius, su kuriais susiduria įmonės, veikiančios skirtingose teisinėse ir ekonominėse sistemose. Be to, mūsų tyrime buvo nustatyti sektoriai, kuriuos labiausiai paveikė perėjimas prie 16-ojo TFAS, o tolesni tyrimai galėtų gilintis į konkrečių šio poveikio mechanizmų ir dinamikos supratimą.