

**THE IMPACT OF IFRS 16  
IMPLEMENTATION ON KEY FINANCIAL  
RATIOS: AN EVIDENCE FROM  
PAKISTAN COMPANY: PAKISTAN  
INTERNATIONAL AIRLINES**

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A Project submitted to Department of Management Studies, Bahria Business School, Bahria University – Karachi Campus, in partial fulfillment of the requirement for BS A&F Degree



**BS (ACCOUNTING & FINANCE)**

**SPRING-2023**

**Bahria University Karachi Campus**

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I hereby certify that the above candidate's final year project (FYP) has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this FYP using HEC prescribed software and found similarity index at Page # that is within the permissible limit set by the HEC for the BS (A&F) FYP. I have also found the FYP in a format recognized by the Department of Management Sciences.

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#### Supervisor Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
1	3/5/23	Supervisor Cubicle	General overview of reporting standards	
2	15/5/23	Supervisor Cubicle	Discussion regarding IFRS16	
3	21/6/23	Supervisor Cubicle	Formating literature review and discussion	
4	29/6/23	Supervisor Cubicle	Prior researches on this topic	

Progress Satisfactory

Progress Unsatisfactory

Remarks: Upto the mark work + satisfactory performance of all students.

Signature of Supervisor:

Date: 1/7/2023

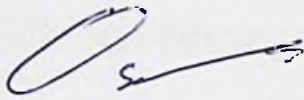
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Note: Students must attach 1<sup>st</sup> & 2<sup>nd</sup> half progress report at the end of FYP spiral copies.

## Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this project has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

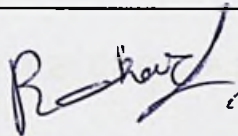
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## ACKNOWLEDGEMENT

Our time at BAHRIA University Karachi Campus has been an incredible and enlightening period of study, and we feel fortunate to have had the opportunity to undertake this Final Year Project, which serves as a testament to the knowledge we have gained throughout our bachelor's degree program. In light of our achievement, we would like to express our gratitude to all the individuals who have contributed, directly or indirectly, to the realization of our final-year project.

First and foremost, we extend our sincere appreciation to the Almighty God for the abundant blessings we have received. Additionally, we are deeply thankful to our exceptional supervisor, Ms. Javeria Naveed, whose unwavering guidance and support were crucial to the resounding success of this project. Lastly, we would like to take this moment to express our profound gratitude to the esteemed faculty members of the Accounting and Finance Department at BUKC, as well as to our FYP Coordinator, Ms. Fazeelat Masood, and our colleagues, who have aided us in finding the right path and provided unwavering support and encouragement throughout this project.



## ABSTRACT

The controversial history of lease accounting stems from its use as a method of financing that is "off-balance-sheet." Public demand for increased transparency in financial reporting has led to heightened interest in lease accounting within the accounting profession. Despite longstanding concerns, lease accounting remained unchanged for over 30 years until the introduction of IFRS number 16. Prior to this, lease accounting provisions were governed by International Accounting Standard (IAS) number 17, which allowed for 2 types of lease accounting method: operating and finance leases. However, disagreements still exist regarding how operational leases should be handled in the lessees' financial accounts. (Ali, S. (2021). Lease accounting can be split into two categories: operating lease accounting and finance lease accounting. The former only records lease expenses on the income statement, whereas the latter reports depreciation and finance charges on the income statement in lease commitments and assets added to the statement of financial position. Operating lease accounting is known as "off-balance-sheet", while finance lease accounting is called "on-balance-sheet". The lack of leased asset and liability information on the financial position statement can make it difficult for stakeholders to compare lessees and have a full view of the lessee's financial situation. (AL Hussain, R. F.2019)

The IFRS (International Financial Reporting Standards) 16 was instituted to address criticisms of the IAS 17 and rectify the omission of many lease transactions from balance sheets, which previously made it challenging to estimate off-balance-sheet amounts.

Prepare for a fundamental change in lease recording and financial reporting with the introduction of IFRS 16. Operating leases lasting over one year will now be capitalized, eliminating the previously used "off-balance-sheet" accounting treatment. For businesses with significant operating leases, this change will lead to a noticeable increase in assets and liabilities and a decline in equity, which could have an effect on financial ratios. A company's financial situation and performance over time can be determined using financial ratios, which are an effective tool. (Cumming, C. J. (2019).

Numerous global studies have focused on analyzing the effect of IFRS 16 on the financial sector. In Turkey, a specific study investigated how the implementation of IFRS 16 influenced financial ratios such as debt, asset and equity, ROA, and ROE. The study specifically examined retail companies listed on the Istanbul Stock Exchange and found significant statistical effects

on their ratios due to the new accounting standard. Another Finnish study evaluated the 2015 fiscal year's financial statements and numerous financial standards, such as the capitalization ratio, current ratio, and Earnings before interest, taxes, depreciation and amortization. The analysis showed that the top three Finnish construction companies, YIT Corporation, Lemminkäinen Corporation, and SRV Group Plc, all experienced worsening gearing and current ratios as a result of the adoption of IFRS 16. (Fuad, F., et al, 2022)

Pakistan has recently implemented IFRS 16. This change has been in effect since January 1st, 2019. This study analyzes how this new adoption of impacts the key financial ratios as well as financial statement of public companies in Pakistan, particularly those who rely heavily on operating leases. The research specifically focuses on airline operators, who often use lease finance for their aircraft fleets. This study is particularly relevant since 2019 marks the beginning of IFRS 16 implementation for all public companies in Pakistan.

In short, IFRS 16 was created to address the issue of off-balance-sheet leasing transactions that IAS 17's statement of financial condition did not include. This made it challenging for users to assess the liabilities and assets of leasing companies and estimate the amount off-balance sheet. Following its implementation, companies with significant operating leases can expect its financial ratios would be significantly impacted by a rise in liabilities, assets, and a decline in equity. The goal of this study was to determine how IFRS 16 might affect Pakistan International Airlines' (PIA), an airline firm that financed its aircraft through leases, financial statements, and key ratios. The implementation of IFRS 16 will affect all public firms in Pakistan starting in 2019, hence this research is quite pertinent.