



## Article

# The Differences Between The National Accounting System and International Standards of Lease Operations

Alisher Bakhadirov\*<sup>1</sup>

1. Applicant of Kimyo International University in Tashkent Assistant Professor, Department of Accounting and Audit, The Banking and Finance Academy of the Republic of Uzbekistan

\* Correspondence: [abakhadirov@mail.ru](mailto:abakhadirov@mail.ru)

**Abstract:** This article examines the significant differences between the national accounting standards of Uzbekistan and the International Financial Reporting Standards (IFRS 16) concerning the recognition and accounting of lease transactions. Using financial data from Uzagroleasing JSC and Uzbek Leasing International JSC for the period 2019-2024, the study highlights the discrepancies in lease classification, balance sheet recognition, and expense reporting. The paper proposes a conceptual model for harmonizing national standards with international requirements to improve financial transparency, risk assessment, and investment attractiveness. This article analyzes the main differences between the national accounting standards of the Republic of Uzbekistan and the International Financial Reporting Standards (IFRS), in particular, the IFRS 16 "Leases" standard in accounting for lease transactions. Lease relationships today play an important role in the financial activities of many enterprises and organizations. However, there are significant differences between national and international approaches to reflecting lease transactions in financial statements. The national system examines in detail the approaches to determining operating and financial leases, the criteria for their reflection in the balance sheet, their recognition as assets and liabilities, and the accounting for depreciation and interest expenses. In international standards, especially with the introduction of IFRS 16, most leases are recognized as finance leases for lessees, which aims to increase the transparency of financial statements and provide more truthful indicators for investors. The article also illustrates the practical significance of these differences, their tax implications, and their impact on a company's balance sheet, profit and loss statement, and cash flows using examples. As a result, the challenges and proposed solutions for businesses in the transition to international standards are discussed.

**Keywords:** Lease accounting, IFRS 16, national accounting standards, financial leasing, operating leasing, Uzbekistan, financial transparency, right-of-use asset, lease liabilities

**Citation:** Bakhadirov A. The Differences Between The National Accounting System and International Standards of Lease Operations. American Journal of Economics and Business Management 2025, 8(6), 2973-2981

Received: 10<sup>th</sup> Mar 2025

Revised: 16<sup>th</sup> Apr 2025

Accepted: 24<sup>th</sup> May 2025

Published: 23<sup>th</sup> Jun 2025



**Copyright:** © 2025 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license

(<https://creativecommons.org/licenses/by/4.0/>)

## 1. Introduction

In the context of a developing economy such as Uzbekistan, the accurate accounting of leasing transactions is critical for reflecting the true financial position of companies and attracting foreign investment. Leasing is widely used in various sectors, and the accounting treatment of leases significantly impacts financial statements, risk assessment, and investor decisions. However, the national accounting system in Uzbekistan currently exhibits significant differences from international standards, particularly IFRS 16, which governs lease accounting globally. This paper aims to identify and analyze these differences and propose ways to harmonize national practices with international requirements to enhance financial transparency and comparability. The rapid

development of the global economy, the expansion of international business relations and the need for international comparability of financial statements further strengthen the need for standardization of accounting. In particular, the accounting system for lease transactions has different approaches in different countries, which directly affects the transparency, reliability and comparability of financial statements. Leasing operations are currently one of the main activities of enterprises and organizations that carry out their economic activities by renting or leasing production facilities, office buildings, machinery and other assets. However, each country conducts these processes on the basis of its national accounting rules. Accounting in the Republic of Uzbekistan is carried out on the basis of national accounting standards approved by the Ministry of Finance of the Republic of Uzbekistan. These standards are mainly based on principles inherited from the times of the former Soviet Union and in some cases may not comply with modern international requirements. International Financial Reporting Standards (IFRS), in particular IFRS 16 "Leases", provide much improved methods for recognizing, measuring and presenting leased assets in the financial statements. In accordance with these standards, almost all lease agreements are reflected in financial statements as assets and liabilities. This leads to an increase in the volume of assets and liabilities on the balance sheet of enterprises, and allows you to get a more accurate picture of their financial condition. This article will cover in detail the main differences in accounting for lease transactions between the national accounting system and international accounting standards, how they are reflected in practice, their impact on financial statements, as well as the need and problems of a gradual transition to international standards in the experience of Uzbekistan. The relevance of the article is that for organizations operating in the international financial arena, the correct understanding of these differences and their implementation in practice are of strategic importance.

## 2. Materials and Methods

The global accounting community has increasingly emphasized the importance of recognizing leases on the balance sheet to provide a more faithful representation of financial obligations and assets [1]. IFRS 16, issued by the International Accounting Standards Board (IASB), mandates that lessees recognize a right-of-use asset and a corresponding lease liability for almost all lease contracts, except for short-term and low-value leases[2]. In contrast, national accounting standards in Uzbekistan, including the Law "On Accounting" and National Accounting Standards (NAS), distinguish between financial and operational leases based on legal form rather than economic substance. Financial leases require recognition of leased assets and liabilities on the balance sheet, while operating leases are treated as off-balance-sheet items with lease payments recognized as expenses [3]. This study uses a qualitative and quantitative analysis of financial statements from Uzagroleasing JSC and Uzbek Leasing International JSC for 2019-2024 to evaluate the practical implications of these differing accounting treatments. The analysis focuses on balance sheet recognition, expense classification, and the impact on financial ratios such as Debt-to-Equity and Return on Assets [4]. This study used a comprehensive scientific and methodological approach to identify and analyze the differences between national and international approaches to lease accounting practices. The methodological basis of the study was international financial reporting standards (IFRS), in particular the IFRS 16 "Leases" standard, and the current accounting procedures of the Republic of Uzbekistan.

The study was conducted based on the following main methods:

Study and comparison of the presented regulatory framework - At this stage, national accounting standards approved by the Ministry of Finance of the Republic of Uzbekistan, as well as the main regulatory documents of international accounting, including IFRS 16, were studied. The requirements for the classification, recognition, measurement and presentation of lease transactions in reports were compared.

Analytical approach based on practical examples - The entries reflected in the financial statements of the lessor and the lessee, accounting entries (debit-credit) and the impact on the balance sheet according to national and international standards were analyzed based on examples. This clarified what accounting transactions are carried out in both systems.

Empirical analysis – Accounting practices related to leasing at Uzbek enterprises were studied. Problems that arose in the process of convergence with international standards at some enterprises, mechanisms for their solution and practical approaches were studied. For this purpose, financial statements of several private and public organizations were analyzed. Qualitative and quantitative analysis methods – While qualitative analysis revealed conceptual differences between approaches to leasing in national and international accounting systems, quantitative analysis explained the differences in the balance sheet presentation of leased objects, depreciation and interest expense accounting through figures. Study of expert opinions and advanced foreign experiences – The possibilities of implementing international approaches in national practice were assessed based on interviews with experienced specialists in the field of accounting, questionnaires and content analysis of scientific articles. The results obtained based on these methodological approaches served to draw sound scientific conclusions on the reflection of rent in financial statements, the level of transparency, and its impact on financial indicators. The study laid the foundation for the development of practical recommendations for adapting national accounting to international standards.

### 3. Result

A practical conceptual model developed to adapt the national accounting system to international financial reporting standards, in particular the requirements of IFRS 16, should be based on several main stages and principles. Practical experience shows that the financial statements of companies such as Uzagroleasing JSC and Uzbek Leasing International JSC for 2021-2024 do not reflect the full economic essence of leasing contracts, which negatively affects the quality of financial results and investment decisions[5].

The first stage of the practical conceptual model is to reclassify all leasing contracts according to their economic essence and recognize them in the balance sheet. For example, Uzagroleasing JSC reflected operating lease payments of 89.4 billion soums as expenses in its 2023 financial statements. If these payments had been recognized as a right-of-use asset and a corresponding liability in the balance sheet in accordance with the requirements of IFRS 16, the company's total assets and liabilities on the balance sheet would have increased by an average of 8-10 percent, which would have provided a more accurate indicator of the financial position. The second stage is the separation of depreciation and interest expenses. In international practice, payments under a leasing agreement are divided into two parts: depreciation of the right-of-use asset and interest expenses for the financial liability. Uzbek Leasing International JSC reflected operating lease payments of 22.7 billion soums as expenses in 2022 as expenses in total expenses, but their depreciation and interest parts were not shown separately. If these payments were shown separately, the company could more accurately analyze the composition of expenses in the profit and loss statement and correctly assess the impact on the level of profit. The third stage is the introduction of detailed disclosure of leasing information in the financial statements. This involves providing accurate information about the main terms of each leasing agreement, its term, the total amount payable, the interest rate and remaining obligations. The 2024 report of Uzagroleasing JSC does not indicate a schedule of future payments under operational leasing, which complicates the real assessment of financial risks for investors and creditors. Ensuring such transparency is considered a mandatory requirement in international practice.

The fourth stage is the application of simplified approaches for short-term and low-value leasing contracts. According to international standards, if the leasing term is less

than 12 months or the value of the object is low, such contracts are recognized as expenses. This approach avoids unnecessary complexity in accounting and increases the economic efficiency of calculations.

The fifth and final stage is to consolidate the principle of “precedence of economic substance” into the national accounting policy. According to this principle, all contracts, regardless of their legal form, are evaluated and reflected on the basis of their economic content. This allows for a realistic reflection of the financial condition of companies, increasing investment attractiveness and optimizing financial management.

Analysis of the financial data reveals that Uzagroleasing JSC’s long-term financial liabilities under financial leases fluctuated between 950.6 billion and 1,623.5 billion soums during 2019-2024, reflecting partial recognition of financial leases on the balance sheet. However, operating leases remain off-balance-sheet, with payments recorded as expenses, thus understating total liabilities.

Similarly, Uzbek Leasing International JSC reported long-term liabilities of 215.7 billion soums in 2023, while operating lease payments of approximately 25.4 billion soums were excluded from the balance sheet. This omission results in an incomplete picture of the company’s financial health.

If operating leases were recognized as right-of-use assets and liabilities per IFRS 16, total assets and liabilities would increase by approximately 8-10%, providing a more accurate assessment of financial position and risk.

#### 4. Discussion

The national accounting system’s reliance on legal form to classify leases leads to significant underreporting of liabilities and assets. For example, operating leases, which often have the economic characteristics of financial leases, are excluded from the balance sheet, with lease payments recorded solely as expenses. This practice obscures the true financial obligations of companies, as evidenced by Uzagroleasing JSC’s financial statements, where operating lease payments increased from 82.1 billion soums in 2021 to 91.2 billion soums in 2024 but were not capitalized as assets or liabilities[6]. In the Table 1. below presents key lease-related financial indicators for Uzagroleasing JSC and Uzbek Leasing International JSC over the period 2019–2024, illustrating differences in recognition of long-term financial liabilities and operating lease expenses:

**Table 1.** Financial indicators for Uzagroleasing JSC and Uzbek Leasing International JSC

Year	Uzagroleasing JSC Long-term Financial Liabilities (billion UZS)	Uzagroleasing JSC Operating Lease Expenses (billion UZS)	Uzbek Leasing International JSC Long-term Financial Liabilities (billion UZS)	Uzbek Leasing International JSC Operating Lease Expenses (billion UZS)
2019	1,084.3	Data unavailable	Data unavailable	Data unavailable
2020	1,555.1	Data unavailable	Data unavailable	Data unavailable
2021	1,623.5	82.1	Data unavailable	Data unavailable
2022	1,242.3	85.8	215.7	22.7

Year	Uzagroleasing JSC Long-term Financial Liabilities (billion UZS)	Uzagroleasing JSC Operating Lease Expenses (billion UZS)	Uzbek Leasing International JSC Long-term Financial Liabilities (billion UZS)	Uzbek Leasing International JSC Operating Lease Expenses (billion UZS)
2023	1,017.3	89.4	Data unavailable	25.4
2024	950.6	91.2	Data unavailable	Data unavailable

As shown, Uzagroleasing JSC recognizes long-term financial liabilities on the balance sheet while recording operating lease payments solely as expenses. Uzbek Leasing International JSC reports long-term financial liabilities but excludes operating lease obligations from the balance sheet. This practice leads to incomplete representation of the companies' financial positions and understates financial risks[7].

International Financial Reporting Standards, in particular IFRS 16, have adopted a completely new approach, which takes into account not the legal form of the contract, but the economic substance. As a result, almost all leasing contracts, with some exceptions (for example, short-term or low-value leases), are recognized in the balance sheet as a right-of-use asset and a corresponding liability. This ensures that the financial statements fully reflect the true financial position. Analysis of the reports of companies such as Uzagroleasing JSC and Uzbek Leasing International JSC shows that in national practice, many leasing contracts are recognized as operating leases, and financial liabilities under them are not reflected in the balance sheet. As of the end of 2023, Uzagroleasing JSC reflected 1,017.3 billion soums of long-term financial liabilities in the balance sheet, which mainly arose from financial leasing contracts. However, operating lease payments are only expressed as an expense, which can be somewhat misleading in assessing the financial position[8].

In general, the main difference between national and international standards is that the national approach relies on the form of the contract and classification criteria, while the international approach takes the economic content of the contract as the main criterion. As a result, the accounting system based on international standards serves to increase the financial transparency of the company, to provide more reliable information for investors and creditors, while the national system tends to show positive financial results in some cases[9].

When identifying differences between the national accounting system and international financial reporting standards (IFRS 16), the main criteria are the recognition of leasing transactions on the balance sheet, the accounting for depreciation and interest expenses, as well as the impact on financial results. In national standards, only financial leasing transactions are recognized as assets and liabilities, while operating lease payments are recognized as direct expenses. In international practice, in accordance with the requirements of IFRS 16, all leasing contracts are reflected in the balance sheet as right-of-use assets and liabilities. The financial statements of Uzagroleasing JSC and Uzbek Leasing International JSC for 2019-2024 clearly show how these differences are reflected in practice. In particular, the annual dynamics of long-term liabilities under financial leasing was clearly observed: long-term liabilities of Uzagroleasing JSC, which amounted to 1,084.3 billion soums in 2019, decreased to 1,555.1 billion soums in 2020, 1,623.5 billion soums in 2021, 1,242.3 billion soums in 2022, 1,017.3 billion soums in 2023, and 950.6 billion soums



at the end of 2024. These figures represent the volume of liabilities reflected in the balance sheet under the company's financial leasing agreements[10].

No long-term liabilities under operational leasing were reflected in the balance sheet, and payments were included in operating expenses. For example, in 2022, the operating expenses of Uzagroleasing JSC amounted to 85.8 billion soums, in 2023 to 89.4 billion soums, and by the end of 2024 to 91.2 billion soums. Leasing payments accounted for the main share[11].

Differences in leasing accounting between the national accounting system and international financial reporting standards (IFRS 16) have a significant impact not only theoretically, but also practically. The fact that operating leasing contracts are not reflected in the balance sheet in the current national accounting system creates an incorrect picture when assessing the financial condition of the company. This is because leasing payments are recognized only as expenses, and long-term liabilities and assets in use are not reflected in the financial condition indicators. For example, according to the financial statements of Uzagroleasing JSC for 2023, the company's long-term financial liabilities amounted to 1,017.3 billion soums. However, payments made under operating leasing contracts amounted to 89.4 billion soums, and these expenses were reflected in the balance sheet not as liabilities, but as operating expenses. If these payments were included in the balance sheet in accordance with international standards, the company's total liabilities would have increased significantly and the level of financial risk would have been more accurately reflected[12].

A similar situation was observed in Uzbek Leasing International JSC. According to the results of 2022, the company's long-term liabilities recognized in the balance sheet amounted to 215.7 billion soums, but the liabilities for operating lease payments were not reflected in the financial statements. This reduced the overall perception of the company's financial risks and increased uncertainty for investors.

In practice, the differences between national and international standards have a significant impact on the financial performance of companies. In particular, the underrepresentation of total liabilities in the balance sheet artificially lowers the debt burden indicators (Debt/Equity Ratio), while the return on assets (ROA) and return on equity (ROE) have higher than real indicators. This, in turn, can have a negative impact on investment decisions, credit ratings and the evaluation system of regulatory authorities[13].

To eliminate these shortcomings, it is necessary to harmonize national accounting standards with international requirements. First, it is necessary to introduce a requirement to recognize the right-of-use asset and liability in the balance sheet for all leasing contracts. Secondly, it is necessary to increase the transparency and accuracy of financial statements by separately showing depreciation and interest expenses. The third important direction is to integrate a classification system based on the economic substance of leasing contracts into the national accounting policy[14].

Based on the above real data, it can be concluded that eliminating differences between national and international standards will not only increase the accuracy of reports, but also strengthen financial discipline and transparency in the economy.

A thorough analysis of the existing practice of reflecting leasing transactions in the national accounting system reveals a number of systemic shortcomings. An analysis based on the financial statements of Uzagroleasing JSC and Uzbek Leasing International JSC for 2021-2024 shows that the requirements of international standards are not fully observed in accounting for leasing contracts in the national system. Firstly, the division of leasing contracts into operational and financial types in national standards is based on the criterion of legal form. This leads to the fact that many operational leasing contracts, despite their economic substance, are reflected only as expenses. For example, in 2021, Uzagroleasing JSC recognized operational leasing payments of 82.1 billion soums as expenses within total

operating expenses. In 2022, this figure amounted to 85.8 billion soums, in 2023 - 89.4 billion soums, and in 2024 - 91.2 billion soums. These amounts are not reflected in the balance sheet as right-of-use assets and related liabilities. As a result, the company's total assets and liabilities are understated.

Secondly, the lack of separate recognition of depreciation and interest expenses is also a significant shortcoming. Although depreciation and interest expenses are clearly separated under financial leasing agreements, this practice does not exist in operational leasing. According to the financial statements of Uzagroleasing JSC for 2022, depreciation expenses of 15.2 billion soums were calculated for financial leasing assets, and in 2023 this figure reached 16.9 billion soums. Operational leasing payments were absorbed into general expenses during this period and did not reflect real asset depreciation.

Thirdly, the incomplete reflection of financial risks is also one of the serious problems in national practice. Since liabilities under operational leasing agreements remain off-balance sheet, debt burden (Debt-to-Equity ratio) indicators are artificially understated. For example, although long-term financial liabilities on the balance sheet of Uzbek Leasing International JSC amounted to 215.7 billion soums in 2023, approximately 25.4 billion soums of operating lease payments were not reflected in the reports. If these liabilities were reflected in the balance sheet, the company's debt burden would have increased, which would have more accurately reflected real financial stability.

According to the results of the analysis, the shortcomings in the national accounting system lead to a low level of financial transparency, inaccurate information provided to investors and creditors, and insufficient representation of long-term risks. This, in turn, reduces competitiveness in the global financial market and limits the ability to attract foreign investment[15].

Elements of a conceptual approach formed on the basis of advanced practices in organizing leasing accounting based on international standards are of great importance. International financial reporting standards, in particular the requirements of IFRS 16, prioritize the economic content of lease agreements over the legal form and, accordingly, require the recognition of the right to use the lease agreement and related obligations in the balance sheet. This approach allows for a true reflection of the company's financial situation.

The first conceptual element is the introduction of the requirement to consider all leasing contracts as financial instruments and to recognize them on the balance sheet. In international practice, even short-term and low-value contracts, despite the relevant simplifications, are reflected in the financial statements as an asset and liability as a basic rule. This ensures full transparency of leasing transactions and the real scope of financial risks. The second important element is the separation of leasing payments into two parts: asset depreciation and financial expense (interest expense). This approach requires the reduction of the value of the asset used under the leasing contract in the form of annual depreciation and the calculation of interest expense for the remaining part of the liability. This method, unlike the indicators in the form of total expenses, which are currently provided by companies such as Uzagroleasing JSC and Uzbek Leasing International JSC, reveals the exact composition of expenses. For example, if in 2023 Uzagroleasing JSC reported operating lease payments of 89.4 billion soums only as an expense, in international practice these payments would be allocated as asset depreciation and interest expenses.

The third conceptual approach is to determine the economic substance of the contract as the main criterion in classifying leasing agreements. Regardless of the legal form specified in the agreement, if the user receives the main economic benefit from the leasing object, this agreement is considered a financial lease and, accordingly, assets and liabilities are reflected in the balance sheet. This approach provides a realistic representation of the company's financial position and expands the possibilities of assessing investment risks.

Finally, the fourth important conceptual element is the disclosure of detailed information about leasing operations in financial statements. In international practice, detailed information about the main terms of leasing agreements, payment obligations, leasing term, interest rates and the residual value of the leasing object is provided in the annex to the reports. This approach provides users with a clear and complete picture of the company's financial risks and obligations.

On this basis, the integration of elements of this conceptual approach, developed on the basis of international experience, into the national accounting system will significantly increase the accuracy, transparency and compliance with international financial reporting standards of leasing accounting.

## 5. Conclusion

An in-depth study of the differences between the national accounting system and the International Financial Reporting Standards (IFRS) in accounting for lease transactions made it possible to identify inconsistencies in the approaches and requirements existing in accounting practice. The analysis shows that national accounting standards place more emphasis on the legal form of the lease than on the economic substance of the lease. That is, the differences between financial leases and operating leases are not sufficiently clarified, which leads to inaccuracies in financial statements and confusion in tax calculations. According to International Financial Reporting Standards, in particular, based on the IFRS 16 - "Leases" standard, the financial results of the lease are fully reflected in the lessee's balance sheet. Through this approach, all leases are equated with financial leases and recognized as assets and liabilities. This serves to more realistically reflect the company's financial position, increase transparency, and provide investors with complete and accurate information. The limited reflection of lease information in financial statements in the national system creates problems in integration with international financial practice. These shortcomings are especially noticeable when attracting foreign investment, obtaining credit ratings, and working with transnational corporations, reducing the comparability and reliability of financial information.

Through an accounting system that is in line with international standards:

1. The financial results of the lease are fully and fairly reflected;
2. The transparency of accounting data increases;
3. Financial statements successfully pass international audits;
4. National accounting practice is harmonized with world experience.

In this regard, one of the urgent tasks is to revise the lease accounting system in order to bring the accounting of the Republic of Uzbekistan closer to international standards, in particular, to gradually introduce the IFRS 16 standard. This will serve as an important factor in further improving the business environment in our republic, creating a favorable information space for foreign investors, and achieving integration with the global financial system.

## REFERENCES

- [1] Ministry of Finance of the Republic of Uzbekistan, National Accounting Standards Collection, Tashkent, 2022.
- [2] Sh. Kadyrov, International Accounting Standards, Tashkent: Economics-Finance, 2020.
- [3] N. Jorayev, Accounting for Lease and Lease Transactions, Tashkent: Economics, 2021.
- [4] IFRS Foundation, IFRS 16 – Lease Accounting Standard, Translation: Accounting and Audit Center under the Ministry of Finance, Tashkent, 2019.
- [5] M. K. Abdurakhmonov, Theoretical foundations of accounting, Tashkent: Yangi Asr Avlodi, 2023.
- [6] A. Gulyamov, Fundamentals of Financial Reporting and International Standards, Tashkent: Science and Technology, 2018.
- [7] M. Sattorova, Accounting for Lease and Lease, Bukhara: BSU Publishing House, 2020.



- 
- [8] Decree of the President of the Republic of Uzbekistan No. PF-4611, "On Measures to Reform the Accounting and Audit System", June 24, 2019.
  - [9] I. Tursunov, Financial Accounting (Practical Guide), Tashkent: Economist, 2021.
  - [10] State Statistics Committee of the Republic of Uzbekistan, Official Statistical Collection of Financial Statements, Tashkent, 2023.
  - [11] S. Karimov, Problems of Transition to International Financial Reporting Standards, Samarkand: SamDU Publishing House, 2019.
  - [12] R. Jo'rayev, Modern Approaches in the Accounting and Audit System, Andijan: AndMI, 2020.
  - [13] Center for Accounting and Audit Methodology under the Ministry of Finance, Methodological Guidelines for Accounting for Lease Transactions, Tashkent, 2021.
  - [14] Z. Mahmudova, The Impact of International Accounting Standards on Leasing Transactions, Journal of Economic Research, No. 2, 2022.
  - [15] A. Salimova, Legal and Financial Characteristics of Leases at an Enterprise aspects, Tashkent: Adolat, 2020.