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The Effect of IFRS16 Application on Financial Performance

Case Study – Air Arabia

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Abstract

The objective of this research was to analyze the effect of IFRS 16 application on the financial performance of Air Arabia. Aviation sector is one of the most affected sectors from IFRS16 application as they depend heavily on leased crafts and lease facilities with airports. IFRS 16 application results in the recognition of assets, liabilities, financing charges, not previously recognized under its predecessor IAS17. Consequently, financial statements and so relevant financial ratios which measure performance and creditworthiness are expected to be affected significantly. These changes have to be analyzed by companies as they have important implications for the different stakeholders including employees because of the effects on employee incentive contracts based basically on profitability ratios, investors and creditors because of the increased debt reflected on most ratios including debt, solvency ratios, and liquidity ratios.

Air Arabia financial statements for the quarter ended March 31, 2019 are analyzed and changes in relevant financial statements elements and related ratios are calculated and then compared with financial statements for the quarter ended September 30, 2018 and the expected effects from the literature. Analysis shows *increase* in revenues, gross profit, current assets, net income, current liabilities, total assets, total equity, cash from operations, and *decrease* in total liabilities, net change in cash, and earnings per share. For financial ratios, liquidity ratio, return on assets, return on equity, and current ratio, they increase while net profit growth ratio debt ratio and debt to equity ratio decrease. Results have to be interpreted carefully as the effect from IFRS16 application depends on the amount of operating lease and whether the company is a lessor or a lessee.

Key Words: IFRS16 – IAS17 – Finance Lease- Operating Lease- Financial Ratios- Aviation- Air Arabia.

1- Introduction

Since 1982, lease accounting according to (IAS) 17 requires both lessors and the lessees to differentiate between an operating lease and a finance lease (Segal, M., 2019, p.1, Branswijck, Longueville & Everaert 2011; IAS 17, 2001). According to IAS 17, operating lease commitment is only disclosed in the notes and at a non-discounted value and thereby not recognized as an asset under control, nor as the unavoidable related liability. This creates the phenomenon of off-balance sheet funding (Morales et al., 2018). Consequently, the disclosure in the financial statements does not provide a complete and comprehensive picture of leased assets and its associated liabilities (Thran, T., et al., 2019, p.8). In addition, the need for a solution to the current accounting treatment of operating leases was justified as a 2014 IASB survey revealed that 3.3 trillion dollars of liabilities were not disclosed when examining companies that report in accordance with IFRS or US GAAP. (Săcărin, 2017). In Egypt, the Egyptian finance lease market grew by 46 percent in 2018 to reach LE 41.7 billion, compared to LE 28.6 billion in 2017 and LE 6 billion in 2013. The volume of microfinance also jumped by 62 percent year-on-year to LE 11.5 billion in 2018 compared to LE 7.1 billion in 2017. This shows how important is the correct accounting treatment of leases for the whole economy.

IFRS 16 was issued by IASB in 2016 to overcome the problems of IAS 17 especially with regard to recognition of operating leases in the financial statements of the lessees that is expected to improve transparency and comparability of financial statements effective 1 January, 2019 (Yu, J., 2019, p.1, Gouveia, D., 2019, p.2). This is regarded as an improvement of the harmonization process, thereby, reducing information asymmetries and actually lowering cost of debt (Florou et al., 2015).

The important amendment of IFRS 16 considering all leases are be considered finance leases except short-term leases (IASB, 2016, Yu, J., 2019). IFRS 16 applicationnis expected to facilitate better capital allocation by enabling better credit and investment decision-making by both investors and companies. (IASB, 2016, p.5).

This is also confirmed by (Stancheva et. Al., 2019, p.5) who regards the transition process as a challenge for companies because of the importance of analyzing the effect on company’s financial performance when negotiating lease contracts (EY, 2016). The new accounting treatment under IFRS 16 have potential business impacts including debt convenants, share- based payments that might need to be renegotiated, dividend policy that might need to be revised, and lease negotiations.

These effects are the focus of this paper as financial ratios affected by the changes in the financial statements elements are extensively used by investors, analysts and loan officers to evaluate the financial performance of the company (Branswijck et al., 2011). Egyptian Listed companies are required to disclose the accounting effects resulting from modified Egyptian Accounting Standard (EAS) No.48 for 2019 application for the period starting first of January, 2019 (EFSA, Circular 7, 2019, p.1).

(Segal, M., 2019, p.7, Thran, T., et al., 2019, p.12) mentioned that in an Effect Analysis performed by IASB in January 2016, examining 1500 companies worldwide, it was found that the transition from IAS 17 to IFRS 16 does not affect all sectors equally. The largest effects are to be found in the **aviation sector**. This is the motivation for choosing the Air Arabia- an aviation company for performing the empirical study and depending on the availability of financial statements when performing the research.

In this paper, financial ratios calculated are the return on assets and return on equity as measures of profitability, debt to assets and debt to equity as measures of leverage, current ratio as a measure of liquidity, net profit growth as a growth ratio, and earnings per share as a market value ratio. So, the main objective of this paper is to answer this question "*How the transition from IAS 17 to IFRS 16 affect the financial performance of Air Arabia*? Does transition from IAS 17 to IFRS 16 affect the different types of financial ratios equally? Or more financial ratios are affected than others?

The reminder of the paper proceeds as follows: literature review in section two, then a discussion of the effects of applying IFRS 16 on financial performance in section three, section four discusses the Aviation industry specific issues in the application of IFRS16, then the empirical study in section five.

2- Literature Review

(Ihab, 2019, pp. 39-40) evaluated the existing Egyptian and International lease standards in an attempt to recommend some changes to improve these standards. In his research, he analyzed the deficiencies in the EAS No. 20 equivalent to IAS 17. He also analyzed the deficiencies in IAS 17 and then evaluated the effectiveness of IFRS 16 in clarifying the economic substance of the lease contract and in limiting off balance sheet financing through operating lease contracts. He proposed some changes to deal with the deficiencies of IFRS 16 which are based on permitting lessees not to capitalize short term and low value lease contracts as this impairs comparability between financial statements of different companies. This is in addition to the fact that IFRS 16 doesn't specify what a low value lease contract is. He suggested that the first problem can be overcome by non-renewal of the 12 month or less lease contracts for the same asset or similar assets and if this happens, the financial statements have to be adjusted to reflect the changes to a finance lease contract in addition to the related required disclosures. For the second problem, the materiality standard is to be used in order to determine a low value lease contract as 1-3% of the value of assets of the lessee.

(Tamer, 2018) conducted a comparative study between IFRS16 and IAS17 and evaluated the effects of IFRS 16 application on improving the financial statements. In his paper, he discussed the accounting treatment of lease contracts under IAS 17, the problems of applying this standard and so the need for IFRS 16 application that leads to financial statements improvement as it helps in overcoming the problems of IAS17 and so improving accounting for lease contracts, improving the quantitative characteristics of accounting information, and making financial ratios more informative about the performance of companies.

In the same line of research, (Amal, 2017) evaluated the effects of developing the accounting treatment of the lease standards and guidelines (IFRS 16 and ASC topic 842) on improving the quality of the financial reports of lease companies in Egypt. The study concentrated on answering three main questions; the first is why there is a need for developing the accounting treatment of lease standards. The second is whether such a development improves the informational content of financial reports. The third question relates to determining the expected positive effects of IFRS16 on the quality of financial reports of lease companies in Egypt. Contrary to

(Ehab, 2019), Amal found the application of the new lease standards IFRS 16 useful in limiting inconsistency and supporting financial statements users in the recognition, measurement and disclosure of lease contracts which is positively reflected on the informational content, the quality and comparability of the financial reports.

This is in addition to a study conducted by (Mona, 2018) that discussed IFRS16 and its tax effects and (Dina, 2016) that evaluated the accounting treatment of lease contracts and their resulting problems within the light of accounting standards.

It is clear from the previous discussion that the previous studies conducted in Egypt in the last five years in relation to lease standards were centered around analyzing the problems with the previous lease standards whether the Egyptian EAS 20 or the international IAS 17 and the need to overcome such problems by the issuance of the new IFRS 16 and its corresponding EAS (49) that is expected to improve the informational content of financial reports, its quality, qualitative characteristics of accounting information, and making financial ratios and performance more informative. None of these studies discussed **empirically** how the financial performance would be affected, which ratios will improve and which ratios will deteriorate or the effect on financial performance. What is mentioned was that financial ratios are more reflective after the application of IFRS 16 (Tamer, 2018). This shows the gap in the literature in this area. This paper analyzes the effect of IFRS16 application on one of the most sectors affected **empirically** – Aviation, by examining the financial performance of Air Arabia company. All the previous studies since the issuance of IFRS 16 used the **field** study to evaluate the effects of IFRS 16 application. In this research, financial ratios are calculated from the financial statements issued for the quarter ended March 31, 2019, the most quarter affected from IFRS 16 application as it is the first period to issue the financial statements after its application and then compared to their counterparts for the period ended September 30, 2018.

The effect of applying IFRS 16 on financial performance.

IFRS 16 implementation is expected to affect key accounting metrics of lessees including: (PWC, 2016, P.5)

- Increase in lease liabilities.
- Decrease in net assets.
- Increase in Earnings before income tax, depreciation, and amortization.
- Return on Capital Employed used by many airlines to measure the amount of value generated.

Total assets and liabilities (whether current or long term) and equity will increase by the same amount, but the increased proportion of total liabilities is expected to be more than total assets, so the debt to asset ratio is expected to increase which can show the hidden risk of the company. Also, the current ratio is expected to decrease because of the increase in current liabilities. In the statement of comprehensive income, the depreciation expense of right of use assets will not be included in EBITDA and this affects financial ratios used in performance measurement such as earnings per share that is expected to decrease in the first years of the lease contract and increase in the last years of the lease contract (Tamer, 2018, p.50). In the cash flow statement, cash from operating activities is expected to decrease, and cash from financing activities is expected to increase accordingly, so total cash flows is not expected to change, but the composition of cash flows is expected to change (Yu, J., 2019, p.2).

(Thran, 2019, p.7) mentioned that after transition to IFRS 16, financial leverage ratios such as debt-to-equity or debt to-assets will change and most likely increase. Hence, if no adjustments of operating leases are made and if it is currently neglected or inaccurately accounted for, entities will face an enhanced risk of having their firm credit rating downgraded and, perhaps even more importantly, their cost of debt increased (Lim et al., 2017).

The following table summarizes the expected effect of IFRS 16 application on the financial performance of the company:

The Ratio	Type	How measured?	Expected Effect of IRFS 16
Current Ratio	Liquidity	Current assets / Current liabilities	-
Debt /Equity	Profitability	Debt/Equity	+
Leverage	Solvency in the long-term	Liabilities / Equity	+
Earnings per Share	Profitability	Profit or loss / Number of shares	- / +
Return on Equity	Profitability	Profit / Equity	- / +
Cash Flow from Operations	Profitability	Different methods	+
NCF	Profitability and liquidity	Difference between cash inflows and cash outflows	No Effect

Source: Summarised by (Stancheva, et al., 2019, P. 59) based on PWC study (2016a, pp.5-9)

From the previous discussion, the following research hypotheses could be derived:

Hypothesis (1):

Debt to asset ratio for AirArabia will increase as a result of applying IFRS16.

Hypothesis (2):

Debt to equity ratio for AirArabia will increase as a result of applying IFRS16.

Hypothesis (3):

Current ratio for AirArabia will decrease as a result of applying IFRS 16.

Hypothesis (4):

The final effect on debt to equity, earnings per share, return on equity in addition to the other ratios depends on the effect on profit or loss.

3- IFRS 16 and Aviation Specific Industry Issues

Five Top main issues that arise with the application of IFRS 16 for Airlines - because of the specific nature of the Airlines sector- are introduced by KPMG, 2018, p.2). The first is the increase in lease debt, the second is related to aircraft leases, the third is related to the sale of aircrafts and leaseback transactions, the fourth is related to airport terminal contracts, and the fifth is related to aircraft parts pools. These five issues can be discussed as follows.

1. Additional debt on the Statement of Financial Position.

As discussed before, IFRS 16 application increases total liabilities. For liabilities denominated in another currency, specific types of risks including liquidity risks and foreign exchange risks will arise because of increasing the liabilities denominated in non-functional currency translated at the date of preparation of financial statements. The proposed solution is through hedging or derivatives. The researcher believes this is a common problem for ALL sectors applying IFRS16 not only Aviation where there is a significant part of the lease liability denominated in non-functional foreign currency and translated at the date of financial statements preparation.

2. Aircraft sale and leaseback transactions Potential impact

It is argued that IFRS 16 application will significantly affect the behavior of Airlines in making the aircraft lease decision of a newly purchased one and more importantly to lease it back in an operating lease -resulting in one-off gains under previous IAS17. Opposite viewpoints arise between opponents and proponents on whether the previous IAS17 "one-off" gains was ignored by financial statement users. Again, hedge designations are very effective at transition.

3. Aircraft leases

Assessment of lease term and lease life maintenance cost accounting are the two main issues to be considered with regard to aircraft leases. For the lease term, reality shows that some airlines take the minimum lease term while others prefer the maximum possible period of time -extension options. (IAWG, p5, 2019). For maintenance, lessors lessees are required to perform maintenance obligations when returning aircrafts (IATA, 2019, p.12).

4. Airport terminal contracts

Lease contracts between Aviation and Airports for using their infrastructure assets are seldom accounted for as leases under IAS 17 but they are under IFRS 16 as usage-based contracts. The airline's home center is classified as lease and recognized or disclosed on the statement of financial position as variable lease payments. Also, for outstations and stores/hangars, IFRS 16 application will result in a high volume of facility agreements to be recorded on the statement of financial position. However, gates, baggage areas, and check in counters are less likely to be considered leases.

5. Aircraft parts pools

For shared aircraft parts which are subject to contracts with service providers of these parts which are partly stored on the sites of airlines, they are accounted for as leases and this doesn't change after IFRS16 because of the control rights held by suppliers (IATA, 2019, p. 35).

5- **Empirical Study**

To study the effect of IFRS 16 application on financial performance, interim financial statements for the period ended March 31, 2019 (after IFRS 16 application) for Air Arabia is used and compared with interim consolidated financial statements for the quarter ended September 30, 2018 (Before IFRS 16 application) which includes the financial position and performance of the company. Below is a brief about Air Arabia.

Air Arabia[1]

Legal Status and Principal Activities

Air Arabia was incorporated on June 19, 2007 as a Joint Stock Public Company. It operates in the UAE listed on the Dubai Financial Market. Air Arabia – Egypt is a joint venture of Air Arabia that Air Arabia the parent company owns 40% of it on 2019.

Summary of significant accoutnign policies

Changing the accounting policy has the following effects on the statement of financial position:

Right of Use Assets	Increasng net carrying value by AED 9.57 million.
Net investments in lease	Increase by AED 73.89 millions.
Finance lease liabilities	Increase by AED 85.69 millions
Accumulated losses	Increase by AED 2.23 million

The accounting treatment after IFRS 16 application is shown below:

1- For the Right –of- use assets

They are recognised at cost and any accumulated depreciation and impairment losses are subtracted. The cost of right –of- use assets is the amount of liabilities recognized with the lease, direct costs incurred at the beginning, and lease payments made at or before the start date. Straight line depreciation is used to depreciate Righ –of- use assets. They are classified as property and equipment at the carrying amount in the statement of financial position of the company.

2- Lease Liabilities

Lease liabilities are measured at the present value of lease payments using the incremental borrowing rate at the beginning of lease. Then, by time, the amount of lease liabilities is increased to reflect interest and decreased for the amount of payments. In addition, the carrying amount of lease liabilities is modified for any changes in term, payments. They are classified as other liabilities in the statement of financial position of the company.

[1] From the company website and interim statements for the Quarter Ended March 31, 2019.

3- Interest income on net investments in leases

Finance lease method is used to account for finance lease. For unearned interest income, it is depreciated over the lease term.

Finance Lease Liabilities

They are shown below:

	March 31, 2019 “000”	September 30, 2018 “000”
As at January 1,	3721329	3881770
Adjustment, January, 2019 (after IFRS 16 application)	85692*	-
Lease liabilities for the period / year	30481	417285
Payments made during the period/year	(150221)	(577726)
	3687281	3721329

This means that lease liabilities increase by (85692/3721329 * 100 =) 2.3% because of IFRS 16 application.

	Current		Non-current	
	March 31, 2019 AED “000”	September 30, 2018 AED “000”	March 31, 2019 AED “000”	September 30, 2018 AED “000”
Lease Liabilities	477510	461001	3209771	3260328

- Operating Lease

  a- Where the group is a lessee:

	March 31, 2019 AED (in thousands)	March 31, 2018 AED (in thousands)
Lease payments	-	3795
Lease commitments:	March 31, 2019 AED “000”	March 31, 2018

		AED "000"
In one year Between 2 and 5 years Above 5 years	- - -	15178 60713 2994
	-	78885

b- The group is a lessor:

As at March 31, 2019, the Group has leased out 12 aircrafts (as at September 30, 2018) as shown below:

	March 31, 2019 AED "000"	September 30, 2018 AED "000"
In one year 2 to 5 years More than 5 years	145632 290975 -	148201 329487 2983
	436607	480671

The carrying amounts of the leased aircraft shown below:

	March 31, 2019 (thousands)	September 30, 2018 (thousands)
NBV	1262182	1138016
Acc. Dep.	700669	647090
Depreciation Expense	25825	95253

From the financial statements of Air Arabia, the following elements, ratios and effects are presented, calculated and summarized.

1- Effect on Income Statement Elements:

Period Ending:	Mar 31, 2019	Sept 30, 2018	Effect
Total Revenue	1029333	877288	17.33125% increase
Gross Profit	208933	153145	36.42822% increase
Net Income	127904	109910	16.37158% increase

2- Effect on the Elements of the Statement of Financial Position:

Period Ending:	**Mar 31, 2019**	**Sept 30, 2018**	**Effect**
Total Assets	11590.49	11417.57	1.51449% increase
Total Liabilities	6683.68	6904.24	3.35518% decrease
Total Equity	4906.81	4513.33	8.769696% increase

3- Effect on Cash Flow Statement Elements

Period Ending:	**Mar 31, 2019**	**Sept 30, 2018**	**Effect**
Cash From Operating Activities	205605	190783	7.769036 increase
Cash From Investing Activities	-46989	49142	195.619 decrease
Cash From Financing Activities	-149249	-185679	19.6199 decrease
Net Change in Cash	9367	54201	82.718 decrease

4- Effect on financial Ratios

	Under IAS17	**Under IFRS 16**	**Effect**
1- Liquidity Ratios[2]			

[2] https://www.investing.com/equities/air-arabia-balance-sheet

Current Ratio	1.13	1.15	2.37% increase
2- Leverage			
Debt Ratio (%)	59.83737001%	56.96696051%	2.87% decrease
Total Debt to Equity (%)	148.9876784	132.3795883	16.6081% decrease
3- Growth ration:			
Net Profit Growth (%)	12.52838293%	12.42591076%	-0.10% decrease
4- Profitability Ratios:			
Return on Equity	-24.76951608%	2.564367316%	0.167515 % increase
Return on Assets	-9.791312863%	1.1035252%	0.140886 % increase
5- Market Value Ratio			
Earnings per share	0.03	0.02	33.33 % decrease
Dividend Per Share(AED)	0.1 (10 fils per share).	Zero	NA
Weighted average no of shares	4666700000		

The previous effects can be summarized in the following table:

Period Ending:	**31-Mar-19 IFRS 16**	**30-Sept-18 IAS 17**	**Effect / Change**
Total Revenue	1029333	877288	17.33125
Gross Profit	208933	153145	36.42822
Net Income	127904	109910	16.37158
Total Assets	11590492	11417574	1.51449
Total Liabilities	6602751	6831976	-3.35518
Total Equity	4987741	4585598	8.769696
CA	2693753	2465946	9.238118
CL	2333233	2186593	6.706323
C/R	1.154515216	1.1277572	2.372675
Net Profit growth	12.42591076	12.52838293	-0.10247
Debt Ratio	56.96696051	59.83737001	-2.87041
Debt to Equity	132.3795883	148.9876784	-16.6081
Return on equity	2.564367316	2.396852057	0.167515
Return on assets	1.1035252	0.962638823	0.140886

From the previous table, total revenue increased by 17% after IFRS 16 application with an approximate increase in net income which is 16.37%. The increase in gross profit was far greater which increased by 36.43%.

Total assets increase by 1.5% compared to 0.78% in a study performed to analyze the expected effect of IFRS 16 application on the Airlines industry in the Middle East including Air Arabia. The Middle East study used calculated financial statements numbers following (Imhoff et al., 1993) capitalization approach without using actual numbers after actual application of IFRS 16 by Air Arabia. The study was performed for the biggest six Airlines companies in the Middle East. (Bassam, 2018, p.7), total liabilities decrease by 3.36%, (contrary to expectations) compared to 1.39% increase according to (Bassam, 2018). As explained before, analyzing the effect of first time IFRS16 aaplication on the beginning balance of the lease liabilties results in an increase of lease liabilities by 2.3% (85692/3721329 * 100) as a result of first time IFRS16 application. So, the increase in liabilities 2.3% is higher than the increase in assets 1.5% which is consistent with previous literature.

Total equity increased by 8.77%, current assets increased by 9% and current liabilities increased by 6.7%, current ratio increased by 2.37%, net profit growth decreased by 0.1% from 12.528% to 12.425%, debt ratio decreased from 59.84% to 56.97% i.e., -2.87% compared to an increase from 56.14% to 56.48% i.e., 0.34% according to (Bassam, 2018), debt to equity ratio decreased from 148.99% to 132.38%, return on equity increased from 2.4% to 2.6%, i.e., 0.2% compared to a decrease from 9.27% to 9.18% ie., 0.09% according to (Bassam, 2018) and return on assets decreased from 0.96% to 1.1% i.e., 0.14 compared to a decrease from 4.07% to 4.00% i.e., 0.07% according to (Bassam, 2018).

From the previous results, the **first** hypothesis that the debt to asset ratio for Air Arabia will increase as a result of applying IFRS16 is **rejected** as the debt to asset ratio decreased by 2.87%, the **second** hypothesis that the debt to equity ratio for Air Arabia will increase as a result of applying IFRS16 is also **rejected** as the debt to equity ratio decreased by 0.2%. The **third** hypothesis that the current ratio for Air Arabia will decrease as a result of applying IFRS 16 is also **rejected** as the current ratio increased by 2.4%. For the **fourth** hypotheses, the debt to equity ratio decreased, the return on equity **increased**, return on assets increased, and the earnings per share decreased.

As clear, the results are very approximate for all the comparable items, except for the effect on total liabilities that decrease contrary to expectation and contrary to most studies. This clarifies the differences in the expected effect for somes ratios and financial statement elements, and performance

6. Results, Recommendations, and Future Research

A- Results

1- The **first** hypothesis that the debt to asset ratio for Air Arabia will increase as a result of applying IFRS16 is **rejected** as the debt to asset ratio decreased by 2.87%.
2- The **second** hypothesis that the debt to equity ratio for Air Arabia will increase as a result of applying IFRS16 is also **rejected** as the debt to equity ratio decreased by 0.2%.
3- The **third** hypothesis that the current ratio for Air Arabia will decrease as a result of applying IFRS 16 is **rejected** as the current ratio increased by 2.4%.
4- With the rejection of these research hypotheses, we should be careful in our interpretation as the effect of first time adoption of IFRS16 – and not the change in total liabilities- on the beginning balance of lease liabilities was a higher increase in liabilities than in assets.
5- The **fourth** hypothesis, the debt to equity ratio decreased, the return on equity **increased**, return on assets increased, and the earnings per share decreased.
6- With the application of IFRS16, Air Arabia total revenue, net income, and gross profit increased by 17%, 16.37%, and 36.43% respectively.
7- With the application of IFRS16, total assets <u>increased</u> by 1.5%, total liabilities <u>decreased</u> by 3.36%, contrary to expectations while total equity <u>increased</u> by 8.77%.
8- With the application of IFRS16, current assets increased by 9%, current liabilities increased by 6.7%, and current ratio increased by 2.37%.

9- With the application of IFRS16, net profit growth ratio decreased by 0.1% from 12.528% to 12.425%.

10- With the application of IFRS16, debt ratio decreased by -2.87% from 59.84% to 56.97% and debt to equity ratio decreased by 16.61% from 148.99% to 132.38%.

B- **Recommendations**:

1- Management of listed companies companies in different sectors has to analyze the different effects lease contracts as they are most likely subject to cerain financial and operational convenants including compliance with various regulations, restrections on unapproved subleasing, insurance coverage and maintenance of total debt to equity ratio.

2- Management of listed companies has to analyze the effects of the new lease contracts on their financial performance that are of interest to investors and creditors. IFRS 16 application is a challenge for companies because of the need to consider the impact on company's financial statements and performance metrics as they negotiate lease contracts.

3- Management of listed companies might need to be renegotiate share based payments, and revise dividend policy with the application of the new IFRS16.

4- Management of listed companies has to take care when making lease negotiations as market behavior might change towards shorter lease tenures to minimize lease iabilities.

5- For the Aviation sector companies and other listed companies having significant amount of liabilities denominated in another currency, specific types of risks including liquidity risks and foreign exchange risks will arise because of increase in liabilities denominated in non-functional currency translated at the date of preparation of financial statements. Management of these companies have to be prepared through hedging or derivatives.

6- For the aviation sector, lease terms of lease contracts have to be determined carefully as this affects the value of assets, liabilities, and all other related elements and ratios of the Airline.

7- Airlines as Lessees should take into account the contractual terms of the lease agreements and the requirements of IFRS 16 in accounting for major maintenance events in relation to a leased aircraft and choose the proper approach which may be the components approach, the provision approach or a combination of both, taking into consideration that the components approach is the most used approach.

8- Managements of aviation sector companies have to take care that contracts at airports need to be evaluated to determine if they contain one or more assets that meet the criteria in IFRS 16 for a lease and should be accounted for separately from the other elements of the contract. For lease elements where the payments are fully variable it is unlikely to result in any asset or liability being recognized for those payments, without even disclosure in accordance with IFRS 16.

C- Future Research:

More research can be done to analyze the effect of IFRS 16 application on other sectors including Retailers and others argued to be significantly affected from IFRS16 application. The tax effect of applying IFRS 16 because of its effect on income in addition to the role of the auditor when auditing the financial statements of companies applying IFRS16 because of its new requirements could be studied and analyzed.

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