

The Impact of IFRS 16 Lease Capitalisation on Financial Statement and Key Ratios: Evidence from CSE Listed Companies in Sri Lanka

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Abstract

The exploit of leasing as a form of asset financing has been growing worldwide during the last two decades. The International Accounting Standard Board published IFRS 16 leases in January 2016 with an effective date of 1 January 2019. The new standard eliminates the lessee's distinction between operating and Finance lease, it will have a substantial impact for companies have previously kept the largest proportion of their financing off balance sheet.

The purpose of the study is to examine the impact of lease capitalisation on key financial ratios of listed companies in Sri Lanka. The method applied for the research is the constructive capitalisation approach which is based on the disclosed operating lease commitments in financial statement-year ended 31st March 2019. For the investigation purpose, we have selected the Colombo Stock Exchange (CSE) listed 215 Companies representing twenty Global Industry Classification Standard (GICS) industry groups. The results of the study will diminish the impact of this important change in lease accounting and significantly encouraged, improving and analyzing the information to all stakeholders when making economic decisions.

Key words: *Lease Capitalisation, Financial Statement, Key Ratios, IFRS 16, Colombo Stock Exchange.*