E3S Web of Conferences **449**, 01005 (2023) https://doi.org/10.1051/e3sconf/202344901005
PDSED 2023

Research the Impact of the IFRS 16 requirements on the company's financial performance

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Abstract. This study investigates the influence of IFRS 16 on the financial performance of firms, using X5 Retail Group as a case study. The authors discovered that the previous lease accounting model under IAS 17 Leases has led to inaccurate and non-transparent financial reporting, causing dissatisfaction among investors, analysts, and other users. The authors also discuss the primary drivers for the modification in the previous lease accounting model and the subsequent development of IFRS 16 Leases. It is worth noting that lease accounting under IFRS significantly impacts the final financial outcome and the positioning of the firm in the eyes of all stakeholders. Therefore, the relevance of this study arises from the fact that proper lease accounting organization under IFRS is a critical aspect of the primary managerial and financial duties.

1 Introduction

In modern economic conditions lease relations occupy a significant place. Commercial activity requires significant initial expenses, availability of starting capital, significant investments. Fast-growing competition requires the introduction of new methods and ways to expand production, to retain a share of the conquered market segment, as a consequence of which significant investments in production are needed. It is increasingly crucial that enterprises that compile and publish consolidated financial statements in Russia apply IFRS. Russian authorities have formally adopted IFRS and its Interpretations, according to the Order of the Ministry of Finance dated 25 November 2011 No 160. Accordingly, (IFRS) 16 "Leases," which requires lessees to display the majority of leases on their statement of financial position, is a regulation that supplements national law that governs how leasing transactions are reflected in domestic accounting and reporting.

One of the ways to attract resources is rent (leasing), which aims to attract the necessary equipment and mechanisms without significant investments and significant losses for the organization.

Accounting of lease relations in accordance with IFRS standards may be present practically in any organization which aims at leadership in its market and considers cross-

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border presence in cooperation with foreign partners (and often investors). It is the task of an accountant to systematize this information, to account for all transactions.

Therefore, the purpose of the article is to study the economic essence of lease relations, the methodology of accounting of property lease operations and the effect that new standard had on X5's financial statements.

The financial statements of lessees with "big-ticket" leases, including shops, banks, and media corporations, were significantly impacted by IFRS 16. Although IFRS 16 had many elements that were already recognizable to lessors, there were also a number of new requirements, ranging from the separation of lease and non-lease components to more radical accounting adjustments for more intricate agreements like sale-and-leaseback transactions and sub-leases.Many implementation problems have evolved into common application problems. Technical accounting issues include, for example, determining which transactions are lease-related or involve leases. Other difficulties are related to systems and procedures, such as acquiring the information needed to support ongoing decisions for applying IFRS 16 and to drive lease accounting.

2 Literature review

International Financial Reporting Standards (IFRS) 16 is a lease accounting standard that was introduced to provide greater transparency and comparability in financial reporting. The standard came into effect on 1 January 2019 and requires companies to recognise leases as assets and liabilities on their balance sheets. The impact of IFRS 16 on the financial performance of companies has been the subject of intense debate in the academic literature [1].

The adoption of IFRS 16 has led to significant changes in companies' financial reporting [2]. The implementation of IFRS 16 has resulted in a substantial increase in assets and liabilities reported on the balance sheet [3]. The study found that companies' reported assets increased by an average of 5% and liabilities by 9%. Similarly. the advent of IFRS 16 was found to have led to an increase in reported company debt [4]. The study also found that the new standard had a considerable impact on companies' financial ratios, such as the debt-to-equity ratio [5]. Implications of IFRS 16 on investment choices made by companies has been the subject of interest in the academic literature [6] found that the new lease accounting standard led to a reduction in the number of leases entered into by companies. The study also found that companies' investment in property, plant and equipment increased following the adoption of IFRS Likewise [7]. found that the new lease accounting standard led to a reduction in the number of leases and an increase in companies' investment in property.

Repercussions of IFRS 16 on companies' financial performance has also been the subject of intense academic debate in the research literature. found that the enactment of IFRS 16 had a negative impact on companies' net income and EBITDA. The study also found that the new standard had a significant impact on companies' liquidity ratios.[8] found that the IFRS 16 implementation has had a negative impact on companies' profitability and cash flow. The study also found that the new standard had a material impact on companies' debt levels.

The application of IFRS 16 has proven to be a challenging process for many companies. It was found that the new standard's fulfilment has had a profound influence on companies' internal control systems. The study also found that the full rollout of IFRS 16 has had a major impact on companies' budgeting and forecasting processes. Similarly, [9] found that the implementation of IFRS 16 has had a significant impact on companies' IT systems. The study also found that the introduction of the new standard has had a significant impact on companies' financial reporting processes.

2 Materials and methods

The following general scientific methods were used in this paper to achieve the objective: study of regulatory and scientific documentation, analysis and synthesis, quantitative and qualitative analysis.

All leases, which refer to the transfer of an asset for a charge over a certain length of time, are subject to IFRS 16. Copyright licensing contracts, as well as agreements relating to the exploitation and utilization of natural resources, are not included in leases under IFRS 16.

For the empirical analysis, we used the data from Annual Report as well as Consolidated Financial Statements of X5 Retail Group Company. This company was chosen due to a number of primary factors. Firstly, being one of the greatest (and biggest) companies in Russia (which is also public) X5 Retail Group seems to be one of the most transparent companies in Russia which makes the search and analysis of information about the financial statements of the company the most reliable, and, accordingly, the conclusions obtained as a result of this process the most credible.

Secondly, the vast diversification of X5 Retail Group operations makes it perfect player in lease transactions market that allows us not only to look at the company in the role of lease but also as a lessor, which make the analysis in the paper more complete, allowing for certain conclusions to be drawn regarding the rental relationship for both the seller and the buyer.

To delve deeper, as part of the paper in order to evaluate the influence of imposing the new IFRS 16 standard, it is necessary to evaluate the methodology of tests of financial items pre-IFRS 16 (IAS 17) and after introduction of such standard. In this case, prior to the implementation of IFRS 16, the Management Board of the selected X5 Retail Group used a measure of sales and adjusted profits before interest, tax, depreciation, amortization, and impairment to evaluate the performance of the operational segments (EBITDA pre-IFRS 16) and, on the other side, they report official three main forms of financial statements according to actual IFRS standards (with following the IFRS 16, rather than IAS 17).

This fact gives us the great opportunity to analyze the differences that leases (switching from reporting lease as operating to reporting as capital one) have on financial statements, and obviously on decision-making process.

Finally in assessing the state of X5 Retail Group before and after the introduction of the IFRS 16 standard a number of peculiar financial statements was chosen. To start, from the statement of profit and loss of the company the financial indicators were chosen the ones that most precisely show the efficiency, amount of generated cash (from main activities i.e from sales) and margin of the business. That being said, the amount of revenue, cost of goods sold (COGS), gross profit (and its margin), operating expenses, operating profit and EBITDA (which states for earning before interest, tax, depreciation and amortization), and net income (including expenses incurred in connection with the payment of the tax).

From the standpoint of Consolidated cash flow statement of X5 Retail Group, three main cash flow generating items were analysed: cash flow from operating activities, cash flow from financing activities and cash flow from investing activities.

As for the statement of financial position, Unfortunately, the company does not publish this comparison of statement of financial position, which complicates the analysis of these indicators, nevertheless we can say with certainty that in case of finance lease asset is capitalized in non-current Asset (right-of-use asset). On the Liabilities & Equity side it is recognized as Debt and must be repaid over time. While in case of operating lease no debt or asset is recognized, therefore both sides will be lower.

3 Results and Discussion

To better understand and analyze the topic at hand, let's begin by defining leases. Since all leases (not including limited exceptions) will be recorded "on the statement of financial position," the key consideration is whether the contract meets the definition of a lease under IFRS 16: an agreement, or a portion of an agreement, that grants the right to utilize a resource (the underlying resource) for a predetermined amount of time in exchange for payment.

Coming to the types (in terms of recognition) of lease, IFRS 16 separates leases into two types: financial and operating. To start, in comparing these two types of leases it is vital to consider the key differences between the old standard IAS 17, applicable until 2019 year and new IFRS 16. Thus, the approach of IAS 17 was to distinguish between two types of leases. Leases that transfer substantially all the risks and rewards of ownership of an asset were classified as finance leases. All other leases were classified as operating leases.

The IAS 17 lease classification was arbitrary, and lessee financial statement preparers had a clear incentive to "argue" that leases should be classified as operating leases rather than finance leases to enable the exclusion of leased assets and liabilities from the financial statements [10].

On the other hand, with very few exceptions, IFRS 16 eliminates the distinction (or, if to be precise – eliminates the freedom of use of operating lease) between operating leases and finance leases in lessees' financial statements. Lessees recognize the right-of-use asset and the associated liability at the beginning of the lease term; we will discuss this matter further in the paper.

The specific exceptions to this recognition principle allowing to use an operating lease procedure is when the underlying asset is of low value or for short-term leases (i.e., leases with a lease term of 12 months or less). It is necessary to mention that IFRS 16 is written in the context of accounting for leases of a single asset.

This means that the exemption from recognizing leases of a low-value asset, applies even when a single lease lease is for 1,000 low-value computers. As for the lessor, the lessor accounting guidance remains largely unchanged from IAS 17. Lessors still account for leases as either operating leases or finance lease, depending on whether the lease transfers substantially all of the risks and rewards associated with owning the underlying asset to the lessee. Thus, the nature of the transaction determines the classification of leases as financial or operational, and it relies on the amount to which the risks and economic rewards connected with holding the leased property are passed from the lessor to the lessee.

Assuming that IFRS 16 requires finance leases to be recognized as assets and liabilities in the statement of financial position at the commencement date at an amount equal to the fair value of the asset or, if lower, the present value of the minimum lease payments, it is appropriate to start including lease disclosures in the entity's financial statements. At the beginning of the lease, the asset and liability are assessed at their respective fair market values [11].

The interest rate specified in the lease agreement is the discount factor used in calculating present value. As payments are made to the lessor over time, the asset will gradually depreciate and the lease debt will decrease. It is essential to be aware that under IFRS the lessee's payments are divided into two components: a reduction of the unpaid finance lease liability and finance charges (interest).

Under an operating lease, the lessee does not recognize the leased property received under an operating lease on its statement of financial position. Lease payment obligations are recorded on the statement of financial position only for current settlements. The amounts of lease payments are shown as current expenses as lease payments are due.

The leased property obtained under an operational lease is not recorded on the statement of financial position of the lessee under an operating lease. Only current settlements of lease payment commitments are shown on the statement of financial position. As lease payments are due, the amounts of the lease payments are displayed as current costs.

Our research is practically derived from X5 Group (or X5 Retail Group, also abbreviated as X5) - a Russian retail company that operates the Pyaterochka, Perekrestok, Chizhik, Karusel grocery chains, as well as Vprok.ru Perekrestok, 5Post, Plenty of Salmon and the Food.ru media platform.

The company is organised under a franchise system. The franchisor is X5 Retail Group - the rights holder, which transfers its intellectual property to an unlimited number of people with or without the right to further transfer, stipulating all the conditions in a special agreement. X5 Retail Group is headquartered in Nederland, Amsterdam, with a corporate centre in Moscow.

Based on X5's financial statements, the key financial elements reflecting the company's financial position and efficiency are considered.

Table 1. Statement of Profit and Loss (under IFRS), mln. rub.

Year	2021	2020	2019	2018
Revenue	2 204 819	1 978 026	1 734 347	1 532 537
Cost of Sales	-1 643 502	-1 483 406	-1 301 868	-1 162 817
Gross Profit	561 317	494 620	432 479	369 720
SG&A	-467 468	-406 389	-356 890	-323 358
Other revenues	-154	17 737	14 024	12 293
Impairment of financial assets	23 877	-251	-215	-501
Operating Profit	117 572	105 717	89 398	58 154
Finance costs	-57 229	-56 636	-56 903	-18 667
Foreign exchange loss/gain	399	-3 391	2 203	-447
Pre-tax Income	60 742	45 670	34 698	39 040
Income tax expense	-18 004	-17 326	-15 191	-10 398
Net income	42 738	28 344	19 507	28 642

Source: Consolidated Statement of
Comprehensive Income for the year of X5 Retail Group [12]

Thus, based on the table above (table 1, p. 6) annual revenue for 2021-2018 increased by 672 282 mln rubles (by 44%), to 2 204 819 mln rubles. At the same time, operating profit over the same period increased by 59 418 mln rub (102% increase) that shows us that company increased its operating margin over the time.

Importantly, the study will explore the proportion of the company's total assets and liabilities that belong to capital lease commitments (as well as right-of-use assets) in 2020 and 2021 (the last two years) in order to achieve confirmed outcomes.

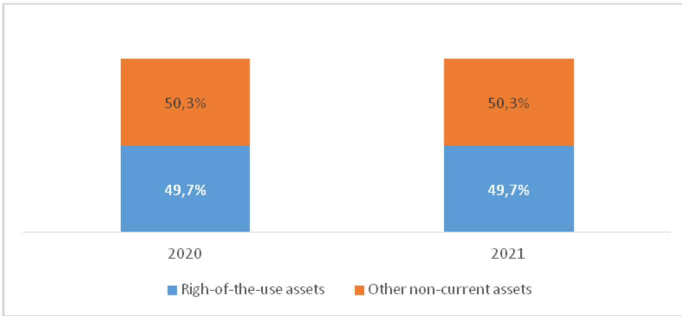

Fig. 1. The share of right-of the-use assets in non-current assets [14, 15]

Thus, according to the company's statement of financial position right-of-use assets of the X5 was equal to 480,511 mln rub and 502,325 mln rub at the end of 2020 and 2021 year respectively. If we will look at this items in relative terms (figure 1, p. 6), then it can be seen that it growth at the same rate as overall non-current assets, therefore constantly taking up 49.7%. As far as lease liabilities (both short-term and long-term) are concerned, according to X5' statement of financial position, they both increased from 2020 to 2021 year. Thus, long-term liabilities increased from 480,059 to 507,099 mln rub, while short-term ones rose from 68,442 to 70,264 mln rub.

X5 owns a number of premises in different regions of Russia, but an even larger number of buildings the company tends to rent, which makes this organization one of the largest tenants in the country. For example, one of the largest divisions of the company, Pyaterochka, according to Pyaterochka CEO Olga Naumova, the chain currently owns less than 15% of the premises, and in the future may completely abandon the owned space, selling it in order to then take a long-term lease (under the sale-leaseback scheme) [13].

	RIGHT-OF-USE ASSETS (LAND AND BUILDINGS)	LEASE LIABILITIES
At 1 January 2021	480,511	(548,501)
Additions	96,964	(96,555)
Acquisition of businesses (Note 7)	3,928	(3,928)
Depreciation expense	(74,601)	–
Impairment charge	(1,596)	–
Reversal of impairment	966	–
Derecognition (decrease in the scope of the lease and terminations of lease agreements)	(3,847)	6,787
Interest accrued	–	(40,572)
Payments	–	105,182
Effect of changes in foreign exchange rates	–	224
At 31 December 2021	502,325	(577,363)

Fig. 2. Change in X5 Retail Group's right-of-the use assets and lease liabilities over the 2021 year [14, 15]
Source: Consolidated Statement of Comprehensive Income for the year of X5 Retail Group

The vast majority of the company's leases relate to capital leases, which changes over the past year 2021 are reflected in the figure above. Thus, X5 increased the number of leased assets by slightly more than 100,880 million rubles, and accordingly the company's debt increased by a comparable amount. The company recorded depreciation expenses of around 75,000 mln rubles together with 40,500 mln rubles of accrued interest and 105,000 mln rubles of paid-in payments. As for operating leases, according to the consolidated financial statements X5 short-term expenses for the year ended 31 December 2021 amounted to 97 mln rub (in comparison with 15 mln rub in the period 31 December 2020). For the fiscal year ended December 31, 2021, the expenditure for variable lease payments that was excluded from the calculation of lease liabilities totaled 14,444 million rubles (31 December 2020: 11,271 mln rub). Adjustable lease payments are mostly correlated with retail sales. In addition to reducing the fixed cost base, variable payment periods are frequently employed. For the fiscal year that concluded on December 31, 2021, there was a total cash outflow for leases of 119,238 million rubles (2020: 108,737 mln rub).

	IFRS 16			Pre-IFRS 16		
RUB mln	FY 2021	FY 2020	change, y-o-y, %	FY 2021	FY 2020	change, y-o-y, %
Revenue	**2,204,819**	**1,978,026**	**11.5**	**2,204,819**	**1,978,026**	**11.5**
incl. net retail sales[4]	2,194,477	1,973,346	11.2	2,194,477	1,973,346	11.2
Pyaterochka (incl. express delivery)	1,793,676	1,597,174	12.3	1,793,676	1,597,174	12.3
Perekrestok (incl. Vprok.ru Perekrestok and express delivery)	365,119	320,459	13.9	365,119	320,459	13.9
Karusel	31,742	55,662	(43.0)	31,742	55,662	(43.0)
Chizhik	2,940	50	59x	2,940	50	59x
Mnogo Lososya	999	-	n/a	999	-	n/a
Gross profit	**561,317**	**494,620**	**13.5**	**553,363**	**487,223**	**13.6**
Gross profit margin, %	25.5	25.0	45 b.p.	25.1	24.6	47 b.p.
Adj. EBITDA[5]	**271,023**	**244,501**	**10.8**	**164,197**	**146,016**	**12.5**
Adj. EBITDA margin, %	12.3	12.4	(7) b.p.	7.4	7.4	7 b.p.
EBITDA	**267,850**	**243,622**	**9.9**	**161,024**	**145,137**	**10.9**
EBITDA margin, %	12.1	12.3	(17) b.p.	7.3	7.3	(3) b.p.
Operating profit	**117,572**	**105,717**	**11.2**	**84,359**	**76,785**	**9.9**
Operating profit margin, %	5.3	5.3	(1) b.p.	3.8	3.9	(6) b.p.
Net profit	**42,738**	**28,344**	**50.8**	**48,513**	**39,180**	**23.8**
Net profit margin, %	1.9	1.4	51 b.p.	2.2	2.0	22 b.p.

Fig. 3. The highlights of statement of Profit and Loss of X5 Retail Group [14]
Source: Consolidated Statement of Comprehensive Income for the year of X5 Retail Group

Figure 3 illustrates the main financial statements for the year 2021 with the legacy IAS 17 (pre-IAS 16) and post-IAS 16. Having reviewed and benchmarked the data presented, it is clearly apparent that the amount of revenue the company was able to earn for the year - has not changed. Indeed, the lessor accounting requirements in IFRS 16 are largely unchanged from IFRS 17. A lease that transfers substantially all the risks and rewards inherent in owning the underlying asset is a finance lease. All other leases are operating leases. Therefore, there is no upward or downward adjustment to revenue - the majority of lease revenue is still recognised as an operating lease.

Therefore, X5 Group revenue remained at approximately 2,205 million rubles.

Nevertheless, already starting with Gross Profit, we can see that the company's revenues differ by about 8 billion rubles. As a result, the beginning of application of the new standard, marks an increase in GP margin of the company has risen, though operational activity has not changed.

IFRS 16 requirements can impact Gross Profit as they change the way lease payments are accounted for in financial statements.

Under the old standard, IAS 17, operating lease payments were not reflected on the balance sheet and were expensed in the income statement (in profitability). Therefore, Gross

Profit was calculated based on sales revenue, without taking into account operating lease payments.

However, with the introduction of IFRS 16, most operating leases must be recognized on the balance sheet as a right-of-use asset and a corresponding lease liability, which changes the accounting treatment for lease payments. Since lease payments will no longer be expensed in the income statement (in profitability), they will be recognized as a reduction of the lease liability (part of the payment towards the principal amount of the liability) and as interest on the lease liability (part of the payment towards the interest). Thus, Gross Profit may increase as lease payments will no longer be recognized as expenses and reduce revenue. In this particulate case, this can be explained by increased costs in COGS company due to the specifics of reflecting the increased operating leases. Fs it was mentioned above, operating lease is a contract that allows for the use of an asset but does not convey rights of ownership of the asset – a rental agreement, and operating lease rental expense is a charge to the IS and included in COGS or SG&A as appropriate. Significantly, this means that operating lease rent expense is a deduction from Gross Profit. Even stronger changes can be seen in SGA, where comparable expenses decreased by about 96,000 million rubbles, mainly due to the same 90,000 million rubbles decrease (for the same reason - most operating leases became reported as finance leases, which reduced SGA to a certain extent, and lease payments are recognised as a decrease in depreciation of leased assets and, accordingly, an increase in operating profit). As a result, group EBITDA, an important metric that investors often look at, increased significantly (as did EBITDA margin), from about RUB 161,000 million (7.3% margin) to RUB 268,000 million (12.1% margin). An uninformed investor may conclude incorrectly that the group has become more efficient and more profitable at some point, which of course is wrong and creates a number of problems for misleading.

	IFRS 16			Pre-IFRS 16		
RUB mln	FY 2021	FY 2020	change, y-o-y %	FY 2021	FY 2020	change, y-o-y %
Operating profit	**117,572**	**105,717**	**11.2**	**84,359**	**76,785**	**9.9**
Net finance costs	(57,229)	(56,636)	1.0	(16,569)	(16,627)	(0.3)
Share of loss of associates	-	(20)	n/m	-	(20)	n/m
Net FX result	399	(3,391)	n/m	175	(913)	n/m
Profit before tax	**60,742**	**45,670**	**33.0**	**67,965**	**59,225**	**14.8**
Income tax expense	(18,004)	(17,326)	3.9	(19,452)	(20,045)	(3.0)
Net profit	**42,738**	**28,344**	**50.8**	**48,513**	**39,180**	**23.8**
Net profit margin, %	1.9	1.4	51 b.p.	2.2	2.0	22 b.p.

Fig. 4. Non-operating gains and losses of X5 Retail Group [15]
Source: Consolidated Statement of Comprehensive Income for the year of X5 Retail Group

At the same time, we can notice that the differences in operating profit (as well as margins) are less noticeable due to the increased D&A in the case of IFRS 16. In line with that, net finance costs (which include interest on finance leases) under IFRS 16 are significantly higher (Figure 4, p. 9) than under IAS 17 - higher by about 50 bln rubles. This can be explained mainly by the fact that at the mass transfer of assets to capital leases interest expenses appear, while at operating leases they are present only above the EBITDA items. Interestingly, when we switched to the new standard, the cumulative net income X5 dropped, as we wrote about previously. Again, this is due to the company's use of straight-line depreciation and Interest expense is equal to the lease liability at the beginning of the period multiplied by the interest rate implicit in the lease, which makes recognition for earlier payments under capital leases larger, and thus reduces taxable income (as well as the amount of taxes paid), which the company actively uses (the amount of recognized taxes decreased during the transition to the new standard by 1.5 billion rubles).

	IFRS 16			Pre-IFRS 16		
RUB mln	Q4 2021	Q4 2020	change, y-o-y, %	Q4 2021	Q4 2020	change, y-o-y, %
Net cash from operating activities before changes in working capital	66,274	57,957	14.4	39,628	32,859	20.6
Change in working capital	31,415	5,163	508.5	31,582	4,621	583.4
Net interest and income tax paid	(24,444)	(27,063)	(9.7)	(13,632)	(17,126)	(20.4)
Net cash flows generated from operating activities	73,245	36,057	103.1	57,578	20,354	182.9
Adj. net cash used in investing activities[9]	(25,615)	(25,612)	0.0	(25,797)	(25,612)	0.7
Short-term financial investments	(50,000)	-	n/m	(50,000)	-	n/m
Net cash generated from/(used in) financing activities	15,540	(2,114)	n/m	31,389	13,589	131.0
Effect of exchange rate changes on cash and cash equivalents	(5)	5	n/m	(5)	5	n/m
Net increase in cash and cash equivalents	**13,165**	**8,336**	**57.9**	**13,165**	**8,336**	**57.9**

Fig. 5. Consolidated cash flow statement highlights.

Moving on to the statement of Consolidated cash flow statement of X5 Retail Group (Figure 5), let us also pay attention to the main differences in a number of indicators. Thus, Net cash flows generated from operating activities in case of IFRS 16 are by about 16 billion rubles higher, which is explained by increased depreciation, which is a non-cash item and therefore is not deductible. In contrast, comparing the Net cash generated from/(used in) financing activities, it is clear that in the case of application of IAS 17, this figure is higher by about the same 16 billion rubles. As we can see, the final amount of cash in any of the standards is not different.

4 Conclusion

As a result of the analysis, it was seen the influence of the IFRS 16, which came into force in 2019 and its impact on the activities of the company. Thus, according to the current standard, the company is required to reflect almost any lease as a financial lease, except for some cases (when the lease amount is relatively small or when the lease is short-term - for up to 12 months).

Through, we've been given the chance to examine how the three primary financial statements produced by the IFRS standards are developing in this article using the example of X5 Retail Group. Regarding IFRS 16 operating profit (and especially EBITDA) and the corresponding margin tends to be higher as a result of lower expenses in SGA, while net income usually turns out to be lower due to in the light of company's use of straight-line depreciation and Interest expense is equal to the lease liability at the beginning of the period multiplied by the interest rate implicit in the lease, which makes recognition for earlier payments under capital leases larger, and thus reduces taxable income (as well as the amount of taxes paid), which the company actively uses.

Moreover, as for the cash flow statement is became clear that net cash flows generated from operating activities in case of IFRS 16 are usually higher, which is explained by increased depreciation, which is a non-cash item and therefore is not deductible. In contrast, comparing the Net cash generated from/(used in) financing activities, it is clear that in the case of application of IAS 17, this figure is higher by about the difference in CFO. As we can see, the final amount of cash in any of the standards is not different.

Finally, in case of the Statement of Financial position, we can say with certainty that in case of finance lease asset is capitalized in non-current Asset (right-of-use asset). On the Liabilities & Equity side it is recognized as Debt and must be repaid over time. While in case of operating lease no debt or asset is recognized, therefore both sides will be lower.

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