

Adopting the International Financial Reporting Standard IFRS 16 in the Iraqi Insurance Companies and its Impact on the Financial Statements: A Comparative Study

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Abstract

The study aims to adopt the International Financial Reporting Standard (IFRS16) for lease contracts in Iraqi insurance companies and its impact on their financial performance. The company's financial statements are in accordance with the requirements of applying the international standard IFRS16, relying on the analysis of the main financial performance indicators before and after making the amendments, and indicating the extent of the change in those indicators as a result of the amendment, as well as knowing the extent of the company's efficiency in using its available resources for the purpose of expansion and growth, and achieving financial sustainability, keeping abreast of developments, and achieving sustainable development goals, and knowing the sources of financing to obtain The assets, and the most prominent findings of the study is that the finance lease contract is an effective way to finance economic units for the purpose of obtaining their assets and expanding their business, in addition to that it provides many economic benefits to the various parties to the contract. There are two contracts, the first is the contract to purchase the asset from the supplier, and the second is the lease contract for the asset to the lessee, meaning that the financing lease contract depends on three parties, namely the supplier, the owner and finally the lessee. The international standard IFRS16 also clearly distinguishes between operating and financing leases, as it distinguishes between The basic and non-essential assets of the activity, the relative importance, the size of the amounts, and the length of the contract period, which are important conditions for considering the contract as a finance lease.

Keywords: *International Financial Reporting Standard IFRS16, finance lease contracts, Iraqi insurance companies.*

Introduction

Human has known and used leasing activities from a long time ago, but the development and spread of leasing activity in the modern era came as a result of the increasing size of economic units and the expansion of their business, and their increasing need for new and more flexible financing sources for the purpose of responding to their requirements aimed at expansion in light of the great developments the world is witnessing in the technology sectors. And production and marketing, and a rise in the cost of obtaining capital assets, so instead of the economic units borrowing money for the purpose of purchasing capital assets, they can rent them instead, as is the case in the sectors of industry, transportation

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and retail, and because of the spread and great development of lease contracts, the interest of organizations has increased. The accounting standards concerned with the issuance of accounting standards in this subject and issued a set of accounting standards related to how to recognize, measure and disclose lease contracts with the lessor and lessee, and the last of these standards was the International Financial Reporting Standard IFRS16, issued by the International Accounting Standards Board (IASB) in January 2016. Where this standard contributed to solving many of the problems that were facing the application of the previous standards, as the main objective of this standard is to reduce financing operations outside the budget for the lessee, and to improve the process of disclosing accounting information in economic units, and this standard also worked to distinguish significantly between operating leases and financing leases, and for the purpose of the importance of this subject for the Iraqi economic units and the lack of addressing the Iraqi economic environment for this type of subject despite its great importance, it was in itself a motive for the researchers to delve into this subject, and based on what has been mentioned, the researcher aimed to. Through the theoretical side of the study, the concept of financing lease contracts and the most important requirements for adopting the International Standard for Lease Contracts (IFRS16) in Iraqi insurance companies were clarified.

Research Methodology

The Research Problem

Leasing is one of the most popular financing methods in the modern business community. It is widely used by companies in various industries, as it enables them to obtain equipment and property and use them without resorting to buying them or borrowing to obtain them. Some companies may resort to renting assets because of the difficulties they face in obtaining funds, whether by increasing their capital or by Borrowing way.

Based on the above, the research problem can be identified through the following question:

Will the adoption of the IFRS 16 financial reporting standard change the way financial statements are presented?

Research objectives:

The research aims to achieve the following

1. Presentation and analysis of the IFRS 16 standard, lease contracts, mechanisms and requirements for the purpose of adopting the standard.
2. Presenting and analyzing the reality of accounting in Iraqi insurance companies, identifying problems and obstacles related to them, and preparing the necessary requirements for adopting the IFRS 16 standard for lease contracts.

The importance of research

The research derives its importance from the fact that the insurance sector is one of the most important and largest sectors in the world and because of its investments and impact on the global economy. However, this sector suffers from neglect and poor organization in the Iraqi environment, which led to its decline in a remarkable way, despite the fact that it provides great economic benefits to various other sectors as well as to society as a whole. One of the methods of advancing this sector is the adoption of international accounting and financial reporting standards in general and the adoption of the IFRS 16 standard for lease contracts in particular, and thus changing the exact procedures currently in place in line with the requirements of the standard for the purpose of adopting it through the establishment of a proposed audit program that contributes to access to accuracy and fairness of the financial statements.

The Research Hypothesis

The research is based on the main premise that "the adoption of the financial reporting standard IFRS16 will have an impact on the financial statements and the result of the activity of financial institutions applying the standard."

Previous studies

(Al-Aridi 2017)

The effect of applying IFRS16: Leases on the financial statements of Jordanian public shareholding companies

The most important results of the study are that they found differences with statistical evidence on the total assets and liabilities of Jordanian joint stock companies.

(Daham 2021)

Application of the international standard (IFRS16) for lease contracts in Iraqi economic units and their reflection on their financial performance

The most important conclusions reached by the study showed that the financial lease contract is an effective way to finance economic units for the purpose of obtaining their assets and expanding their business.

(YOU ,2017)

The Impact of IFRS16 Leases on Financial Statement of Airline Companies

The impact of the Financial Reporting Standard (IFRS16) Lease contracts on the financial statements of airlines

The most important findings of the study is that the adoption of the standard will increase the leverage ratio and profitability ratios in general.

(Diaz& Ramires2018)

The Impact of IFRS16 on key Financial Ratios :A new Methodological Approach

The most important findings of the study is that the application of the standard will significantly affect the balance sheets, debt ratios and solvency of listed European companies.

(Jari,2018)

Meet the challenges of applying IFRS 16 and its impact on the quality of financial reporting for Iraqi economic units

The most important findings of the study is that There are a set of constraints in the Iraqi environment to apply the standards of leases are legal, professional and economic obstacles.

Săcărin, M. (2017)

IFRS 16 "Leases" – consequences on the financial statements and financial indicators,

The most important findings of the study is that At the lessee, this treatment will lead to changes of the information disclosed in the financial statements.

Liviu-Alexandru (2018)

The Advantages that IFRS 16 Brings to the Economic Environment

The most important findings of the study is that the new standard will require to a company to do more than simply converting the operational leasing with the new model of leases for showing the assets and liabilities..

VEVERKOVÁ (2019)

IFRS 16 AND ITS IMPACTS ON AVIATION INDUSTRY

The most important findings of the study is confirmed that lease capitalization under IFRS 16 will have a material impact on the reported numbers in the balance sheet and income statement and result in significant changes to return and leverage ratios.

(Hladika, Valenta, 2018)

ANALYSIS OF THE EFFECTS OF APPLYING THE NEW IFRS 16 LEASES ON THE FINANCIAL STATEMENTS

The most important findings of the study is The application of IFRS 16 will effect on financial ratios and performance metrics such as gearing, interest cover, current ratio

Sari & Tas, (2016).

THE EFFECT OF THE IFRS 16: CONSTRUCTIVE CAPITALIZATION OF OPERATING LEASES IN THE TURKISH RETAILING SECTOR

The most important findings of the study is the new standard will have a statistically significant effect on some of the financial ratios tested (debt/asset, debt/equity, return on assets (ROA) and return on equity (ROE)) for 2010 – 2013.

Stancheva-Todorova, E., & Velinova-Sokolova, N. (2019).

IFRS 16 Leases and Its Impact on Company's Financial Reporting, Financial Ratios and Performance Metrics

The most important findings of the study is The introduction of IFRS 16 will lead to an increase in leased assets and financial liabilities on the balance sheet of the lessee, while EBITDA of the lessee increases as well.

Saptono, P. B., & Khozen, I. (2021)

Income Tax and VAT Issues Concerning Lease after IFRS 16 Convergence in Indonesia

The most important findings of the study is that the tax authorities need to make tax policies that can provide legal certainty

Tumpach, Juhászová, Kubaščíková, & Krišková, (2021)

The Value Relevance of Operating Lease Liabilities: Economic Effects of IFRS 16

The most important findings of the study is these results could provide some comfort to managers in the most affected industries, as they suggest the change will not have a major impact on the stock exchange.

Fuad, & Fahlevi, (2022)

Early compliance with IFRS 16, earnings management, and corruption: evidence from Southeast Asia

The most important findings of the study is companies with lower governance mechanisms and looser institutional backgrounds are more likely to find that IFRS implementation may provide less room for management to maximize their short-term gain by manipulating earnings

Kadochnikova, A., & Gorodilov, M. (2020)

FEATURES AND MAIN PROBLEMS OF APPLICATION IFRS 16 "LEASES

The most important findings of the study is The greatest emphasis was placed on the choice of the correct discount rate: the consequences of choosing a self developed rate in the lease agreement and the rate of attracting additional borrowed funds were analyzed

Tănase, A. E., Calotă, T. O., & Oncioiu, F. R. (2018)

The Impact of IFRS 16 on the Companies' Key Performance Indicators: Limits, Advantages and Drawbacks

The most important findings of the study is future transactions may be influenced by IFRS 16 such as sale and leaseback, acquisitions and mergers, and lease vs. buying

Sbaih, & Alhusban (2022)

The Impact of IFRS 16 "Leases" on the Financial Performance on Jordanian Industrial Companies

The most important findings of the study is the application of IFRS 16 does not have a statistically significant effect on the tested financial ratios (return on assets (ROA) and return on equity (ROE)) for the period 2015–2020.

Susanti & Dewi (2021)

The Impact of IFRS 16 (PSAK 73) Implementation on Key Financial Ratios: An Evidence from Indonesia

The most important findings of the study show that the level of profitability (ROA), solvency, and efficiency in the use of assets experience a decline, but the liquidity ratio and profitability (ROE) increase.

Belesis & Kousounadis (2021)

Cumulative effect of IFRS 15 and IFRS 16 on maritime company financial statements: a hypothetical case

The most important findings of the study is : about ifrs16 a strong increase in leverage ratios, an increase in gross profits, and an enormous increase in balance sheet amounts.

Nasip & Sudarmaji (2018)

Managing Tax Dispute Due to IFRS-16 on the Retrofits Implementation in Indonesia

The most important findings of the study is the changes of IFRS-16 has no impact on the book keeping for the taxes" lease of both permanent different or the timing different, which have an impact on the corporate income tax

Lau, C. K. (2023)

The economic consequences of IFRS 16 adoption: the role of gearing restriction in debt covenants

This study finds that operating lease intensity fell between 2011 (immediately after the first exposure draft leading to IFRS 16) and 2018 (immediately prior to the effective date of IFRS 16). It also finds that gearing affects changes in operating lease intensity over 2011 and 2018, consistent with the debt covenant hypothesis

Alabood & Bataineh (2019)

The impact of IFRS 16 on airline companies: an exploratory study in the Middle East

The most important findings of the study is that the IFRS 16's adoption will bring many challenges for airline companies

The Theoretical Side

The Concept of the Lease

The lease contract is a means of organizing and linking between two parties (the lessor and the lessee) according to specific, specific and written conditions. . In the legal sense,

the contract “is the interdependence of two or more wills in the order of legal effects, whether these effects are the creation, transfer, modification or termination of an obligation” (Al-Hakim et al., 1986: 19). While the legal article (73) of the Iraqi Civil Code referred to the contract as “the connection of the offer issued by one of the two contracting parties to the acceptance of the other in a way that proves its effect on the contracted upon.” (Iraqi Civil Law, 1951: 251). The contract depends on several pillars, including three main pillars, and in the event that one of them is not fulfilled, the contract is considered null: (Bashir, 2006: 75).

1- Consent: In each of the contracts, the wills of the contracting parties must unite in the direction towards the goal for which it was established, and these wills coincide.

2- The object: it is the purpose or subject for which the contract was established, and it must exist or be possible.

3- The reason: the reason in the contract is mixed with the object, and the reason for the obligations revolves around the desire to achieve the goal for which it was established.

From the accounting point of view, the lease contract was defined as “a contract that authorizes the use of the right of the asset (the subject matter of the contract) for a period of time in exchange for compensation” (Abu Nassar and Humaidat, 2018). While the Financial Accounting Standards Board (FASB) defined it in Standard (13) as an agreement contract that grants the right to use property, equipment, or equipment (land or depreciable assets or both) for a specified period of time, noting that service agreements are not included in the agreements that The lease transaction is treated as well as agreements that do not transfer the right to use assets and machinery from the lessor to the lessee. In contrast, agreements that transfer the right to use from the lessor to the lessee are treated as a lease contract (FASB, 1980, SFAS 13:Par.1). As for the International Accounting Standards Board (IASB), it issued the standard (AIS 17) in 1982, and it was amended in 1997, and its last amendment came in 2003, where the lease contract was defined as: “an agreement whereby the lessor transfers to the lessee the right to use the asset for an agreed period of time in exchange for a payment.” or batch chain”; The finance lease contract was defined as “a contract that transfers substantially all the risks and benefits related to the ownership of the asset, and the right of ownership may or may not be transferred. In the end, the operating lease contract “is a lease contract other than the finance lease contract,” (IFRSs, 2010: Part A. 460).

Ijarah Concept:

In Islamic accounting standards, the lease contract is called lease and "this term is derived linguistically from the lease, its effect is called leased and the tenant is hired, and the legitimate sources have provided many different definitions verbally, but they are consistent in content and meaning and that the appropriate definition for the purposes of this research indicates, but the lease is a contract on a permissible benefit from a known or described in the dhimma for a period of information or the work of a known mosquito."

Types of lease contracts

Lease contracts are divided into two main types

1- An operating lease contract

2- A capital lease contract

The capital lease contract consists of two contracts

A- A finance lease contract

B- A sale lease contract

As for the operational lease contract, it can be defined as ((It is a lease contract that does not substantially transfer nearly all the risks and benefits of ownership of the asset subject of the contract to the lessee, and depends on the essence of the process and not the form of the contract (Abu Nassar and Hamidat, 2018) .

As for the capital lease contract, the Saudi Organization for Certified Public Accountants defined it as ((contracts that result in a substantial transfer of the benefits and risks of ownership related to the asset subject of the contract to the lessee)) (Saudi Organization for Certified Public Accountants, 2001:14).

Through the aforementioned definition, we find that the most important characteristic of the capital lease contract is the substantial transfer of the benefits and risks related to the asset subject of the lease.

A finance lease is also known as an agreement in which the lessor transfers to the lessee in exchange for a payment or a series of payments the right to use the asset for a certain period of time (IFRS, 2010,)

Sales lease contract: It is the agreement of a person (natural or legal) with another party to lease a specific asset for a specified fee, provided that the lessee owns the asset after fulfilling a certain number of installments, and that the transfer of ownership from the seller to the buyer is based on the time of sale and not the date of payment of the sale price. (Al Maamouri, 2006) .

Advantages and disadvantages of lease contracts

The reason behind the growth and development of lease contracts is due to a set of advantages that push the units to move towards them, which can be presented in general and then presented from the point of view of both the leased contract and the lessee, as (Fahmy and others) see that the advantages are as follows: (Fahmy and others, 1997 :12-14)

- 1- Advancement of the national economy by achieving economic development because of the full financing achieved by rent (ie 100%) by operating assets whose production represents the achievement of development.
- 2- Speed in the implementation of projects, as the financial leasing achieves the financing of capital assets and thus increases the number of workers in the project.
- 3- Reducing the burden on cash outflows, as the (external) financing lease contributes to the fact that the outgoing payments will be limited to rental payments, and this is of course the opposite of the case of buying the asset by importing it, since all the value of the capital asset will be transferred abroad.

As for the tenant's point of view, the most important of these advantages for the rented companies are as follows: (Kieso et al, 2013: 1272)

- 1) 100% full financing is allowed to obtain the required assets, while if the lessee purchases the asset in installments instead of renting, he will pay part of the value of the asset in cash, for example 20%, as if he will obtain partial financing only with the remaining 80%, while the lease is 100% financing, and this is reflected in Providing important cash, which is required, especially in small and developing economic units.
- 2 - Protection from obsolescence, where the lessee can replace the assets used by him with assets that are more efficient and quality in production and within short periods of time, and this leads to avoiding the risks of obsolescence of the assets, and also, in most cases, the lessee transfers the risks of obsolescence and scrapping the assets to the lessor.
- 3- Flexibility, as lease contracts are lighter than other debt contracts in terms of conditions, and experienced lessors can adapt the agreement to suit the special conditions of the tenants, for example, "scheduling lease payments in proportion to the cash

revenues generated by the leased asset so that these payments are paid when productivity begins.” located.

From the lessor's point of view, the important benefits that the lease brings to the lessor are represented in the following: (Kieso et al, 2013: 1284).

1- Interest income, which attracts financial leasing companies as it provides a competitive interest margin.(Hamdan, et al.,2018)

2- Tax benefits: The leasing process often provides many economic units with the benefit of tax benefits, as it provides them with the opportunity to transfer these benefits to another party in exchange for a low rental rate on the leased assets. It can be clarified that the lessor benefits from tax benefits when he is the owner of the leased assets, so he deducts their depreciation from the net taxable income (operational contract) and achieves a better use of the tax savings than what can be achieved by the user of the asset, that is, the lessee. A portion of the tax benefits is transferred to the lessee in the form of reduced rental payments.

3- High residual values, when the leased asset is redeemed, it may have residual values resulting in very huge profits.

Given these advantages there must be some significant disadvantages of renting otherwise everybody will rent and no one will own any of the assets being used which obviously does not describe the truth. The disadvantages of rent, which may be parallel to the benefits previously presented, can be presented as follows: (Amal and Anfal, 2019: 32)

1- The high cost of the installment (rent payment), which includes part of the invested capital and the profit margin.

2- Bearing a set of costs, such as maintenance costs, as well as any hidden defects that were present in the original subject matter of the contract, and therefore continuing to pay installments for an asset that was not up to expectations (and this is a result of poor decision-making by the lessee).

3- The legal ownership of the asset belongs to the lessor, and accordingly the lessee cannot improve the productivity of the asset during the contract period, unlike the lessor who can control that because it is owned by him.

Quality of accounting standards

The quality of accounting standards is related to the production of useful information for decision-making, and therefore the quality of accounting standards is its ability to produce reliable and reliable financial information in decision-making, and standards should allow consistent application of them to degrees that enable comparison of accounting information from year to year and from unit to unite The US Securities Trading Commission has identified a set of conditions is the existence of a good organization of the standards issuing body associated with high technical organs and committees Level, availability of human and technical resources, and the foundations on which standards are prepared and issued ,Information and disclosures should be prepared and disclosed in a manner consistent with accounting and financial quality standards.

International Financial Reporting Standard IFRS16

The (IFRS) is considered one of the latest and most important standards, which deals with the requirements for recognition, measurement, presentation and disclosure related to lease contracts for tenants and lessors.

This standard came as a result of a joint work between the International Accounting Standards Board (IASB) and the American Accounting Standards Board (FASB). Capitalizing all lease contracts that exceed 12 months as assets and recognizing corresponding liabilities for them (except for contracts of low value).

This standard was not introduced except as a result of obstacles faced by the previous standard (IAS17), where the Accounting Standards Board (IASB) considered that the distinction that occurs between financing operating leases is no longer appropriate from an accounting point of view, especially since the percentage of lease contracts registered outside the balance sheet was estimated at about 85%, i.e. Up to \$ 3.3 trillion (for example, but not limited to, airlines are able to maintain a large part of their aircraft fleet off the balance sheet by leasing these aircraft under operational lease contracts), hence the need to find a new accounting model that allows reading It is better and improves the comparability of the financial statements, as well as ending the controversy in accounting thought about concealing the financial statements for operating lease contracts and concealing the obligations related to those contracts.

This criterion replaces both

- International Accounting Standard (IAS17)
- Interpretation No. (IFRIC 4) "Arrangements Involving Leasing"
- Interpretation No. (SIC-15) "Operating Lease Contracts - Incentives -"
- Interpretation No. (SIC-27) "Evaluation of the essence of the process that includes the legal form of the lease contract"

The implementation of this standard will start from 1/1/2019, with early application permitted.

The relationship between the requirements of international financial reporting standards and the quality of accounting profits

The financial reporting aims at providing the appropriate and reliable financial information about the company to its beneficiaries for the purpose of making appropriate and timely decisions, (mohammed,yaqoob,et al.,2021) Economic decision makers are often the users of financial statements that rely on the accounting information provided by the financial statements in order to support them in making a difference in the decision. The most important financial data is the net income index of the added value of the institution, which is reflected in the value of its shares and many decision makers. This is due to its impact on performance evaluation by a large number of users. Also, due to the great influence on economic decisions, many parties have taken care of the quality of profits, so there is no specific way to measure them, and there is no specific definition of the quality of accounting profits. (Hamid, Anmar, Al-Taie, Bushra, Al-Mashhadani, Bushra, 2019)

The impact of the Financial Reporting Standard (IFRS16) "lease contracts" on the financial statements

After reviewing Standard 16 Lease Contracts and its impact on lease contracts and their types, and setting up a single measurement model unlike what was in effect in the previous standard (IAS17), which greatly reduced the issue of personal estimations, as well as the large movement of companies between operational and financing contracts to serve the facility (significant impact On the financial ratios, which will be discussed later) in order to reach more appropriate information and honestly reflect the financial statements by ending the obligations that are outside the budget in a large way, and certainly these changes will greatly affect the financial statements and what must be displayed within each list .

The impact of (IFRS16) standard on the statement of financial position

On the tenant's side

Since the use of all lease contracts is almost one transaction ((short lease and low value contracts)) the lease is the capitalization of the lease contracts and showing the asset used

on the side of the asset on the side of the non-current assets (the right of the leased asset)
the account is within the assets item of the leased asset

On the liabilities side, the (lease arrangement) account appears within the current liabilities with regard to the number to be paid in the future according to the lease contract.

So your preferred biggest influence in education, education, education, and education in the sequence (liabilities), which will greatly change some financial ratios, for example, but not limited to (financial leverage ratio)

On the lessor's side

The lessor who displayed the lessor in the statement of financial position according to the budget displays that asset and presents it

The impact of (IFRS16) standard on the income statement

On the tenant's side

The standard will affect rental-related expenses, which were previously classified as operating expenses only, as for the standard, it has been replaced by

- The depreciation expense is the principal of the leased right of use
- Interest expense on the lease commitment

The depreciation expense will be constant over the years of the contract ((if the straight-line method is used)) as for the interest expense, it will be greater in the first years, then it will gradually decrease during the contract period

On the lessor's side

Not much changed from the previous standard (IAS17)

For financing lease contracts, Sale profits or losses, Interest income earned on the net investment in the contract, Income generated from variable rental flows that are not included in the net investment in the lease, As for operating leases, Rental income as well as rental income related to variable lease payments that are not linked to the price index or the wage index

The impact of (IFRS16) on the statement of cash flows

In terms of the amounts of cash transferred, there is no change, that is, the total cash flows will remain the same, but it will witness an increase in financing outflows with a decrease in operating cash outflows, because the standard capitalized all lease contracts that were classified as operating contracts, and therefore they are outside the budget obligations

The impact of the standard (IFRS16) "lease contracts" on financial indicators

The effect of IFRS on financial ratios is driven by fundamental differences in the application of fair value accounting under IFRS , After the impact of the lease contracts standard on the financial statements has been clarified from an increase in assets and liabilities, as well as changes in the income statement and cash outflows (financing and operational), it is necessary that they will affect one way or another on the establishment, which will be affected in one way or another by the changes that occurred in the financial statements Because of the impact of the Financial Reporting Standard (IFRS16) "Leases, Due to the great importance that insurance companies attach to the analysis of their financial performance on these financial ratios .

Leverage (Abdi, 2010, 29) (cpa canada, 2016:8)

It is one of the indicators that measure the extent to which the economic unit relies on external borrowing operations compared to property rights, as well as the ability of the economic unit to pay long-term debts. Road

Debt to Equity Ratio = Total Debt (Liabilities) / Equity

Interest cap (IFRS Foundation, 2016:8) (CPA Canada, 2016:8)

This ratio represents the unit's ability to pay interest on loans from the profits achieved. It can be calculated by dividing the net income before interest, depreciation, taxes, and amortization (EBITDA) by the interest paid annually. The high of this ratio indicates the ability of the economic unit to pay the interests of the loans committed to it and is calculated according to through the following equation:

Interest cover ratio = EBITDA / annual interest expense

Operating income EBIT

It is one of the indicators of profitability and depends on the different income methods. Investment income and the effects of interest and taxes are not included in its calculation EBITDA, which is one of the indicators of profitability, is earnings before interest, taxes, depreciation, and amortization

Return on assets (ROA) (Gadoiu, 2014; 87)

This indicator measures the contribution of assets to achieving profits for the economic unit, and this means that it measures the net profits for each unit that has been invested in a specific asset.

ROA = net income / total assets

Fixed asset turnover (CPA Canada, 2016:8)

This ratio is used to measure the efficiency of the economic unit in using its fixed assets for the purpose of generating revenue. When the ratio increases, it indicates more efficiency for the unit in managing its assets. It can be calculated by: Fixed assets turnover rate = revenue / total fixed assets

Hanged from the previous standard (IAS17, for financing lease contracts

Turnover Ratio (CPA Canada, 2016:8)

It is one of the indicators of liquidity, and the trading ratio is a measure of the ability of the economic unit to meet short-term obligations. In the event of a high ratio, it means that the unit has a good margin of safety and can be calculated by the following equation: Trading ratio = current assets / current liabilities

Quality of accounting standards

The quality of accounting standards is related to the production of useful information for decision-making, and therefore the quality of accounting standards is represented in its ability to produce reliable and reliable financial information in decision-making, and the standards should allow for consistent application of degrees that enable comparison of accounting information from year to year and from One unit to another, and the US Securities Exchange Commission has identified a set of conditions, which is the existence of a good organization for the standards issuance body, with which high-level technical bodies and committees are linked, and the availability of human and technical resources, and the foundations on which standards are prepared and issued . (Al-Ani, Safaa, Makt, Alaa, 2019)

Practical side: Iraqi insurance company

In this section, a comparison will be made between the financial statements before and after the adoption of the IFRS16 standard and what will result from this adoption of

changes in the way these statements are presented, as well as the change in the results, and the comparison and analysis of those results and the extent of their impact on the ratios and financial influences being derived from those statements because of the importance of these ratios to users of financial statements, which is the main purpose for which a standard for lease contracts was introduced, which is IFRS16. The Iraqi State Insurance Company will be the research sample of what the insurance sector has an important aspect in the Iraqi economy.

About the Iraqi General Insurance Company

The company was established on 10/14/1959 based on Commercial Companies Law No. (31) for the year 1957 in Baghdad as a private company in the name of (Iraqi Insurance Company) practicing all types of insurance and reinsurance (Khudhur, Mohammed,2022), The company's nominal and paid-up capital is two billion Iraqi dinars (2000000000), in addition to the total assets that exceed 94 billion Iraqi dinars, Based on Article (43) of the Public Companies Law No. 22 of 1997, it was decided to issue the internal system, which is Resolution No. (2) Of 1998 regarding the internal system of the Iraqi General Insurance Company.

Applying international financial reporting standards for accounting for shares in the Iraqi General Insurance Company:

In general, equity instruments acquired by companies are accounted for at fair value, whether through income (profits and losses) or through other comprehensive income. In the case of the Iraqi General Insurance Company, we measure the shares owned by it at fair value through other comprehensive income, according to the closing prices of the shares as at the end of the year / 2018 issued by the trading bulletin of the Iraqi Stock Exchange for the following reasons:

- 1- The business model of the enterprise is to hold shares for the purpose of obtaining cash flows.
- 2- The possibility of selling the shares and not keeping them at any time the entity desires to do so.
- 3- The process of buying and selling shares is not considered the normal activity of the company, and therefore its measurement through income (profits and losses) is not appropriate. (Yaqub, Fayhaa, Hajim, Ehab, 2020)

Preparing the company's financial statements according to the international standard IFRS16

Financial statements are one of the most important basic means through which financial information can be provided to external parties.(almashhadany , Al-Haidari,2023:256),

1- General budget list

The following table shows the general budget according to the requirements of the international standard in comparison with the general budget of the Iraqi General Insurance Company for the year 2019, as it was done:(Ibrahim, al-haidayi,2022)

A- Define the added accounts in accordance with the IFRS16 standard in bold color for the purpose of distinguishing them from the basic accounts

B- Treating depreciation in the direct way (that is, the right to use the asset was fixed at the net value reduced by the amount of depreciation for the year 2019) for the purpose of showing it at the book value in line with the unified accounting system in force.

Iraqi General Insurance Company

General Budget as at 31/12/2019

Table (1)

<u>After IFRS16</u>	<u>Before IFRS16</u>	<u>Assets</u>
21129634185	21129634185	The money
55159238619	55159238619	Investments
8876666296	8876666296	Debtors
28500827	28500827	findings fixed (After downloading the extinction)
512784312	*****	Right to use assets (After downloading the extinction)
<u>85706824239</u>	<u>85194039927</u>	Total Assets
		Liabilities
		<u>Current liabilities</u>
		Creditors
20874987664	20874987664	
263600000	*****	Commitment to lease contracts
21138587664	2087498766	Total Current Liabilities
		<u>Fixed liabilities</u>
2000000000	2000000000	Paid-up capital
17883483500	17911754089	Reserves
44407298174	44407298174	Technical precautions
277454901	*****	Commitment to lease contracts
<u>64568236575</u>	<u>64319052263</u>	Total fixed liabilities
<u>85706824239</u>	<u>85194039927</u>	Total liabilities

(Prepared by the researchers)

The amount of (28,270,589) dinars was reduced from a reserve account, which is an alternative in the difference between a group of amounts in the net use of the asset for the net lease contracts after they were reduced by the values of depreciation and the payment made from the lease contracts and interest, respectively, due to not calculating the retained profits within the accounts. Therefore, the matter makes it work to update the unified accounting system in the future by updating the adjustment of the protested profits, by reducing the differences resulting in it, which makes it more consistent and compatible with international standards. Resumption of lease contracts, which represents the payment that you will pay during the year. As for lease contracts in long-term liabilities, they are due to collect the end-of-term balance for the rented and paid-for buildings at the beginning of the year (9 buildings) + the end-of-term balance for the paid building at the end of the year (263258472 + 14196429)

The following figure shows the effect of the change in assets and liabilities after the table

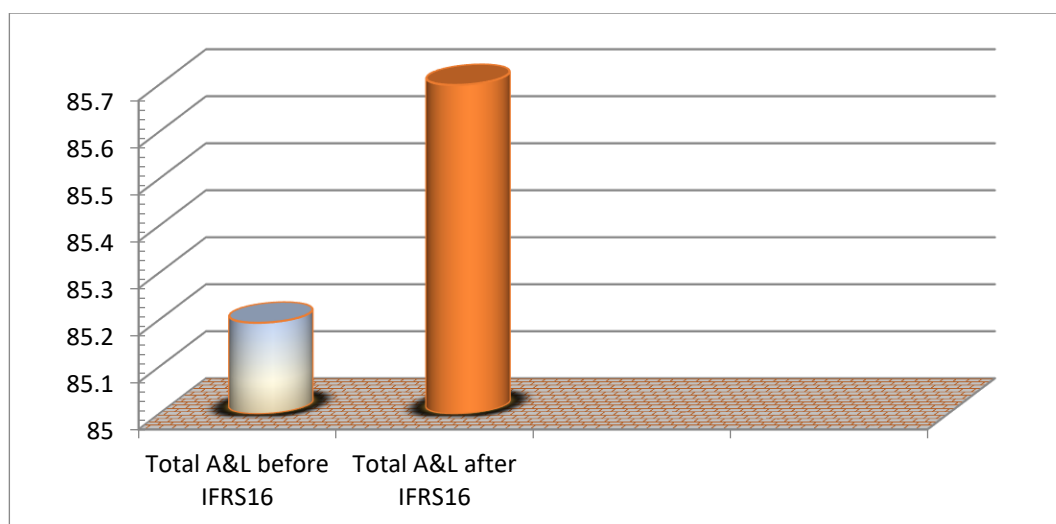


Figure (1) Change in assets and liabilities after the application of IFRS16 “Leases”

*Prepared by the researchers

We note from the above figure that there is an increase in assets and liabilities after applying the standard, as before its application it was (85,194,039,927) dinars, and after application it became (85,706,824,239) dinars, and the reason for this is the addition of the right to use and the commitment to lease contracts for rented buildings.

The income statement list in 12/31/2019

Table (2) Comparison between the profit and loss accounts according to the accounting system with the amended profit and loss account according to the standard

After IFRS16	Before	<u>Revenue from the current activity</u>
72364515957	72364515957	Revenues from insurance operations
<u>3320459543</u>	<u>3320459543</u>	Investment Income
75684975500	75684975500	
		<u>Came down: Expenses of the current activity</u>
58795664342	58795664342	Insurance Operations Expenses
587104029	345703608	extinctions
5696606900	5696606900	Administrative expenses
58870168	*****	Interest on leases
65138245439	64837974850	
10546730061	10847000650	Surplus of current operations
566457868	566457868	Transfer revenue: add other
		come down :Transfer and other expenses
1126281054	1126281054	Transfer expenses
<u>240414125</u>	<u>240414125</u>	Other expenses
9746492750	10046763339	Overflow
97464928	100467633	Social protection share 1%
9649027822	9946295706	The profit is distributed according to Article (11) of Companies Law No. 22 of 1997

From the above table, we notice that there is a difference in the current operations surplus between the real and adjusted profit and loss account according to the requirements of the IFRS16 standard. The decrease is considered normal, because the financing lease contracts generate financial burdens at the beginning of the contract period and then begin to gradually decrease throughout the contract period due to the decrease in the commitment of the lease contract and thus the decrease in the interest on the lease contracts.

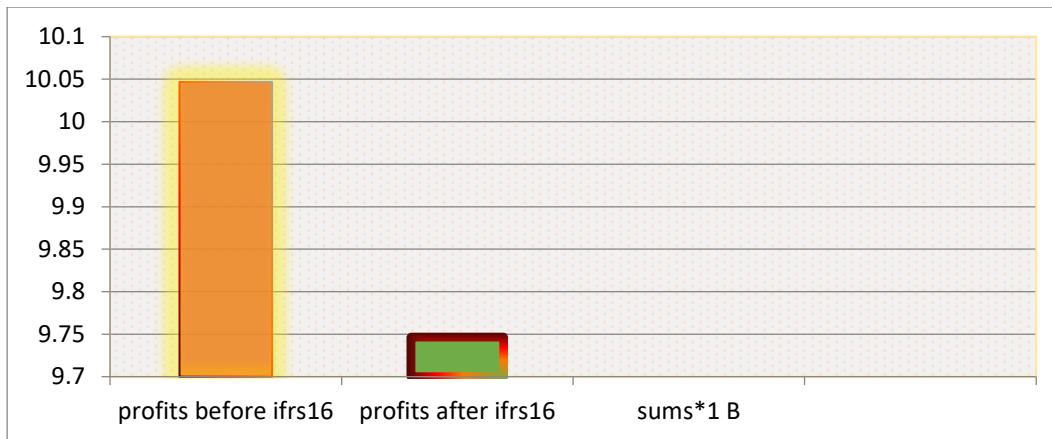


Figure (2) shows the difference between the profit and loss account surplus before applying the standard and after applying the IFRS 16 standard.

*(prepared by the researchers)

The cash flow statement list in 12/31/2019

Table (3) shows the method of showing the payments and benefits of the lease contract for the rented premises, according to the unified accounting system for banks and insurance companies in force by the Iraqi General Insurance Company

Cash flow statement according to a standard IFRS 16	Statement of cash flows according to the accounting system	Account Name	Accounting Directory
***** *****	***** *****	<u>Cash flows from operating activities</u> Cash Flow Received Get off: Paid cash Net flow of operating activities	
***** *****	***** *****	<u>cash flows from investing activities</u> received cash flow Get off: cash payments Net flow from investment activities	
***** 2421046 269578954	***** ***** *****	<u>Cash flows from financing activities</u> Cash Flow Received Get off Cash payments Interest on leases Commitment to lease contracts <u>Net cash flow from financing activities</u> <u>Net cash flow from the three activities</u>	 361 2419

It is noted from the above table that the interest on lease contracts recorded at an amount of (2421046) belongs to the branch that pays its rent at the end of the year. And the paid lease commitment represents the sum of the sum of the rental amount of the 9 buildings that is paid at the beginning of the year + the amortization of the lease contract obligation of the branch that is paid at the end of the year (263600000 + 5978954)

The reflection of amending the financial statements in accordance with the IFRS16 standard on the financial performance indicators of the Iraqi General Insurance Company

The changes that occurred in the financial statement statements (balance sheet, profit and loss account, cash flow statement) had a significant impact on the main financial indicators of the Iraqi General Insurance Company. Which in turn works to improve financial reporting represented by the quality of accounting information, which in turn will affect the decisions of users of those lists. This can be summarized as the main purpose of the emergence of the “lease contracts” standard.

Table (4) the reflection of the adoption of the standard on financial performance indicators compared with financial performance indicators according to the accounting system currently in force

Difference Analysis	According to the reflection of the standard IFRS16	According to the company's system	Calculation method	Financial Index
Increased financial lever , which is consistent with the expected impact of adopting the standard IFRS16	83706824239 ÷ 2000000000 42 =	83194039927 ÷ 2000000000 41.5 =	Liabilities ÷ Capital	financial lever
Although the lease contracts are long-term, the amount of the obligation that will be paid in the following year falls within the item of current liabilities, so we will find that there is a slight decrease that represents the amount of the obligation	77706300481 ÷ 21138587664 3.67=	77706300481 ÷ 20874987664 3.72 =	Current findings ÷ Current liabilities	Liquidity ratio
Low percentage due to recognition of the right to use the asset, which complies with IFRS16	75684975500 ÷ 8000523758 9.46 =	75684975500 ÷ 7487739446 10.1 =	Revenue ÷ Total fixed assets	Turnover of fixed assets
High EBIT, which is in line with the standard, because the depreciation that will be recorded is less than the operating lease expense that was present	10546730061 263600000 + 58870168+ (1596780490) 9272419739=	10847000650 (1596780490) 9250220160=	Profit before interest and taxes	EBIT
High EBITDA for the same reason above	9746492750 263600000+ 58870168+ 587104029+ (118184054+1596780490) 8941102403 =	10046763339 + 345703608 (118184054+1596780490) 8677502403 =	Profit before interest, taxes, Depereation and amortization	EBITDA
The appearance of the interest cover due to the existence of the interest calculation on leases, which complies with the IFRS16 standard	8941102403 ÷ 58870168 151.8=	8677502403 ÷ Interest expense	EBITDA ÷ Interest expense	Cover of interest
Increasing the debt-to-asset ratio when adopting the IFRS16 standard, which means that the company has increased its dependence on debt in financing its assets,	21416042565 ÷ 85706824239 0.25=	2087498766 ÷ 85194039927 0.02 =	Total Debt ÷ Total Debt	Debt-to-Asset Ratio

which is consistent with the standard, which puts long-term leases in one box with long-term borrowing, which is one of the most important sources of financing for economic units.				
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After reviewing the above table, it is clear that the criterion reflects positively on the financial performance of the economic unit on the one hand. It also clarifies basic and important matters for the readers of the financial statements by providing appropriate information that helps in making decisions. Increasing the financial leverage from 41.5 to 42 shows the fact of the company's indebtedness more accurately. As for the decrease in the fixed assets turnover ratio from 10.1 to 9.46, it is an indication of the management's lack of efficiency in using the production capacity available to it to generate profits, and such a ratio may not be recognized under the budget based on the unified accounting system, which is higher, and this indicates the accuracy of the IFRS16 standard in indicating the amount of management efficiency, and we also notice a rise in EBIT and EBITDA, respectively, as it reached after adoption (9272419739, 8941102403) after it was according to the unified accounting system for banks and insurance companies (9250220160, 8677502403), and the reason for this is due to the IFRS 16 standard showing the true picture of revenues Unit by disclosing all the terms of the lease contract and excluding rental expenses outside the budget, as the amount (263,600,000) mentioned in the table represents the amount of the annual rent if it were an operating lease.

At the end of the research, the researchers believe that the reflection of the adoption of the IFRS16 standard on the financial statements had a great impact and led to a fundamental change in the presentation of these statements, which led to a change in the ratios and financial influences, through which the research hypothesis was achieved, where some financial influences increased and others decreased as a result of this adoption, which complies with the requirements of international standards in general and the financial reporting standard in particular IFRS 16. Before the application of the standard, the rent was considered a full operating expense and throughout the lease period, but after its application, the present value of the rental payments is measured according to the current value factor based on the duration of the lease and the interest rate on borrowing and multiplied by the annual rental payment, which is called the right to use the asset and the corresponding obligation called the obligation of the lease contract and after it is divided into the rental interest expense that It is extracted from the product of the lease contract obligation in percentage and annually and is included in the income statement statement as well as the amortization of the lease contract obligation, which is equal to the difference between the annual rent payment and the interest of the lease obligation and the length of the lease period, while the right to use the asset is extinguished by calculating the existing extinction of the lessee and the length of the contract period.

Conclusions and recommendations

Conclusions

- 1- The financial lease contract is an effective way to finance economic units for the purpose of obtaining their assets and expanding their business, in addition to that it provides many economic benefits to the various parties to the contract.
- 2- The international standard IFRS16 clearly distinguished between operating and financing leases, as it distinguished between the basic and non-essential assets of the activity, the relative importance, the size of the amounts, and the length of the contract period, which are important conditions for considering the contract as a financing lease.

3- One of the basics for the purpose of high-quality financial disclosure and reporting is the correctness and clarity of the accounting information contained in the financial statements of the economic unit, which includes the information required by the international rental standard IFRS16, because of its significant role in enhancing the quality of the financial reporting and disclosure process, which naturally indicates the quality of the information. Accordingly, it is necessary to recognize the finance lease contract as an asset and liability in the lessee's balance sheet and the need to disclose the accounting treatments for the finance lease contract, and for the lessee to bear the value of the asset's depreciation.

4- The proposed amendment to the financial statements in accordance with the requirements of the International Rental Standard IFRS 16, when applied to the study sample (the Iraqi insurance company), contributed to improving the ratios and indicators of the financial performance of the company, which proves that the IFRS 16 standard has a positive impact on the financial performance of the economic units applied to it.

5- The unified accounting system applied in the Iraqi economic units has great flexibility, in terms of the processes of creating new accounts and adding new directory numbers commensurate with the accounts created, which naturally facilitates the adoption of the application of the international standard IFRS16 in the Iraqi economic units, and in accordance with the unified accounting system.

Recommendations

1- The need to implement financing lease contracts in Iraqi economic units, presenting the right to use the leased asset within the assets and contract obligations within the liabilities in the balance sheet, within separate items or even within the same items that would have been presented if they were owned, in addition to adopting the application of the standard IFRS16 for financial lease contracts gives users of financial statements a more comprehensive view and the possibility of comparison between economic units operating in the same field

2- Making updates in the unified accounting system applied in the Iraqi economic units, in order to accommodate the changes resulting from the requirements of adopting the international standard for rent IFRS16 and other international accounting standards, in addition to developing and training accountants to realize and keep up with the changes that will occur in the unified accounting system as a result of adopting accounting standards international.

3- Work on defining the Iraqi economic units' administrations in the form of finance lease contracts and push them to deal with them and work on expanding the circle of economic units dealing with them, because of its great economic benefits for the lessor and lessee alike.

4- The need for caution on the part of economic units when using leasing as a means to finance their operations, as evidence indicates that value is added through the effective use of the leased asset and not just ownership, as there is a close relationship between leasing and financial performance.

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