Lease Accounting Under IFRS 16: Challenges and Implications for SMEs Businesses

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ABSTRACT

This study investigates Lease Accounting Under IFRS 16: Challenges and Implications for SMEs Businesses. The study used survey design, sample size of 150 participant and questionnaire used from data collection. Data collected were analysed using 4-point Likert and from the analysis of data collected, the findings reveal that SMEs encounter significant obstacles, including difficulty in understanding and interpreting the technical provisions of the standard, inadequate regulatory support, high relative compliance costs, and a lack of internal capacity in terms of skilled personnel and systems. Furthermore, limited awareness and insufficient training among staff members exacerbate these challenges, resulting in implementation gaps and potential inconsistencies in financial reporting practices. The study concludes that while IFRS 16 aims to enhance transparency and comparability, its uniform application imposes a disproportionate burden on SMEs, particularly in resource-constrained settings. Therefore, the study recommended that standard-setters and policymakers consider simplified IFRS frameworks tailored to SMEs. Efforts should be made to develop practical guidance materials and training programs that are accessible and relevant to smaller enterprises. Furthermore, governments and regulatory bodies in developing economies should strengthen their institutional support systems to provide clearer guidance and foster a more enabling environment for IFRS compliance. Such measures would help bridge the capacity gap, reduce the compliance burden, and promote more equitable and effective implementation of international financial reporting standards across all enterprise levels.

Keywords: IFRS 16 impact on small businesses, IFRS 16 challenges for SMEs, Implications of IFRS 16 for small and medium enterprises, IFRS 16 lease accounting, IFRS 16 compliance tips for SMEs

1. INTRODUCTION

Background to the Study

Lease accounting has undergone significant transformations with the adoption of International Financial Reporting Standard (IFRS) 16, issued by the International Accounting Standards Board (IASB) in 2016 and effective from January 1, 2019 (IASB, 2016). IFRS 16 replaced the previous leasing standard, IAS 17, with the objective of improving financial transparency and eliminating off-balance-sheet financing. Under IAS 17, lessees classified leases as either operating leases or finance leases, with operating leases remaining off the balance sheet, thus enabling companies to understate liabilities and improve financial ratios (Dai *et al.,* 2020). IFRS 16 requires lessees to recognize almost all leases on the balance sheet as a right-of-use (ROU) asset and a corresponding lease liability, thereby significantly impacting financial reporting, balance sheet structures, and key financial metrics (Baker *et al*., 2021).This paradigm shift in lease accounting has far-reaching implications for businesses, investors, and financial regulators. While IFRS 16 aims to enhance transparency and comparability, its implementation has posed several challenges for organizations, including increased financial liabilities, complex transition processes, and compliance burdens (Morales-Díaz & Zamora-Ramírez, 2018).

IFRS 16 has significantly altered financial reporting landscapes, particularly for industries heavily reliant on leasing, such as aviation, retail, real estate, and telecommunications (Giner & Pardo, 2018). Companies with extensive lease portfolios have experienced a substantial increase in reported liabilities, affecting debt-to-equity ratios, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), and return on assets (ROA) (Brouwer *et al*., 2020). This has raised concerns about how financial stakeholders, including investors, analysts, and credit rating agencies, interpret financial statements post-implementation (Guthrie *et al.,* 2020).Moreover, IFRS 16 has imposed significant operational challenges on businesses, including the need for enhanced lease data collection, system upgrades, and compliance monitoring (Mora & Molina, 2021). Small and medium-sized enterprises (SMEs), in particular, have struggled with the costs of compliance and technical complexities associated with the transition (Bradbury & Scott, 2021). Given these challenges, understanding the real-world impact of IFRS 16 is crucial for businesses, policymakers, and standard-setting bodies. This study therefore examines the challenges businesses face in adopting IFRS 16 and explores the broader economic, financial, and operational implications of the new standard.

Statement of the problem

The adoption of IFRS 16 has significantly transformed lease accounting by requiring companies to recognize nearly all leases on the balance sheet, eliminating off-balance-sheet financing. While this change enhances financial transparency, it has introduced challenges, including increased financial liabilities, operational complexities, and compliance costs—particularly for industries with extensive lease portfolios such as aviation, retail, and real estate.

Empirical studies indicate a 25–30% increase in reported debt, affecting key financial ratios and raising concerns among investors and analysts about financial statement comparability. Additionally, SMEs face greater difficulties in implementation due to limited financial and technical resources. Research on the long-term strategic, managerial, and economic implications of IFRS 16 adoption remains limited, especially in developing economies. This study aims to bridge these knowledge gaps by analyzing the real-world impact of IFRS 16, providing valuable insights for businesses, policymakers, and regulators to refine lease accounting practices and enhance financial reporting standards as well as it Challenges and Implications for SMEs Businesses.

Aim/ Objective of the study

The major aim is to investigate Lease Accounting Under IFRS 16: Challenges and Implications for Businesses. Specifically, the study will

- ascertain the financial impact of IFRS 16 on businesses, particularly in terms of key financial ratios, debt structure, and profitability indicators.
- identify the operational challenges businesses face in implementing IFRS 16, including lease data management, compliance costs, and system upgrades.
- examine the impact of IFRS 16 on managerial decision-making, particularly in lease structuring, investment strategies, and financial reporting practices.
- To evaluate the challenges and adaptation strategies of SMEs in complying with IFRS 16, particularly in developing economies with limited regulatory infrastructure.

2. LITERATURE REVIEW

Conceptual framework

Lease accounting refers to the recognition, measurement, and disclosure of lease transactions in financial statements (Kljajić & Mizdrakovic, 2024). According to Okoye, Nwoye, & Falope, (2024)Lease accounting encompasses the policies and procedures that entities utilize to account for leasing transactions, including the classification of leases as finance or operating leases, measurement of lease liabilities, and valuation of right-of-use assets.

Theoretical studies

Impact of IFRS 16 on businesses on key financial ratios, debt structure, and profitability indicators.

The introduction of International Financial Reporting Standard (IFRS) 16 has significantly altered the landscape of lease accounting, mandating that lessees recognize nearly all lease contracts on their balance sheets. This shift has profound implications for financial reporting, particularly concerning key financial ratios, debt structures, and profitability indicators.

Several studies show that IFRS 16 significantly increases leverage ratios, especially in lease-heavy sectors like retail, transport, and hospitality, while its effect on profitability is less consistent. Morales-Díaz & Zamora-Ramírez (2018) and Białek-Jaworska et al. (2022) found higher debt ratios post-adoption, with some decline in profitability. Stancheva-Todorova & Velinova-Sokolova (2019) emphasized that industries reliant on leasing see the most pronounced changes in financial metrics, affecting covenants and investment decisions. Despite the general consensus on increased leverage, some contradictions exist regarding profitability impacts. While Morales-Díaz and Zamora-Ramírez (2018) found no consistent effect on profitability ratios, Białek-Jaworska *et al*. (2022) reported a decrease in profitability following IFRS 16 adoption. These discrepancies may stem from differences in sample characteristics, measurement periods, or industry compositions, indicating a need for further research to reconcile these findings.

Operational challenges of businesses implementing IFRS 16, including lease data management, compliance costs, and system upgrades.

The adoption of IFRS 16 has transformed lease accounting by requiring lessees to recognize almost all leases on the balance sheet. This major change has brought several operational challenges, especially in managing lease data, handling increased compliance costs, and upgrading accounting systems to meet the new requirements.

Effective lease data management is pivotal under IFRS 16, as companies must gather comprehensive information about each lease agreement, including terms, payment schedules, and components. House of Control (2024) identifies that collecting this data from disparate departments and legacy systems is time-consuming and prone to errors, potentially leading to non-compliance and financial misstatements. Similarly, Trullion (2023) emphasizes that the new lease accounting standards mandate the centralization of lease data, facilitating better tracking and management of lease portfolios. This structured approach reduces risks and improves visibility, streamlining the process of locating lease agreements and making timely decisions.

The transition to IFRS 16 has led to increased compliance costs for many organizations. Deloitte (2018) notes that entities face challenges such as analyzing all contracts to determine data processing requirements, making new estimates affecting financial forecasts, and updating systems and procedures to meet the standard's demands. These activities necessitate significant investments in time and resources, thereby escalating compliance costs.

Leasify (2024) further highlights that implementing IFRS 16 may require new systems or updates to existing ones to handle leasing agreements in compliance with the standard. This can be particularly challenging for companies with limited IT resources, adding to the overall compliance burden.

System upgrades are integral to achieving IFRS 16 compliance, as existing systems may not be equipped to handle the new requirements. PwC's IFRS 16 Post-Implementation Survey (2019) reveals that many companies experienced suboptimal implementations with limited integration and reliance on manual processes. The survey suggests that significant opportunities exist to optimize systems and processes through further integration of IT solutions and automation of lease processes.

Insightsoftware (2025) highlights that IFRS 16 implementation is challenging due to complex calculations, accounting requirements, and the need for system upgrades. It emphasizes the growing trend toward automation and IT integration to manage lease processes efficiently. While these solutions can improve accuracy, they require significant upfront investment and training. Additionally, reliance on manual processes during the transition can cause errors and delays, complicating compliance.

Impact of IFRS 16 on managerial Decision-making, Lease structuring, Investment Strategies, and Financial Reporting Practices.

The capitalization of lease liabilities under IFRS 16 influence managerial decisions, particularly concerning lease-versus-buy considerations. The European Financial Reporting Advisory Group (EFRAG) conducted a preparers' survey revealing that while the majority of respondents did not consider IFRS 16 to have impacted their decision-making process for signing lease contracts, a notable portion reported that the on-balance sheet accounting for leases under IFRS 16 made leasing less attractive, leading to changes in their decision-making processes. This suggests that IFRS 16 has prompted some managers to reassess their approach to leasing versus purchasing assets.

The requirement to recognize lease liabilities has prompted companies to reassess their lease structuring strategies.

The capitalization of leases under IFRS 16 affects financial ratios, potentially influencing investment strategies. The IFRS Foundation's Effects Analysis anticipates that IFRS 16 will facilitate better capital allocation by enabling improved credit and investment decision-making by both investors and companies. This enhanced transparency allows investors to make more informed decisions, potentially affecting companies' investment strategies.

Challenges and adaptation strategies of SMEs in complying with IFRS 16, in developing economies with limited regulatory infrastructure.

Implementing IFRS 16 poses major challenges for SMEs, especially in developing countries with weak regulatory frameworks. A review from South Africa points to obstacles like low education levels, high costs, political pressure, poor training, and lack of regulatory support. Similarly, a study in Namibia’s Windhoek CBD found SMEs struggle with record-keeping, financial reporting, and often rely on underqualified staff. These issues highlight the need for better education, training, and targeted support to help SMEs adopt IFRS standards effectively.

To address these challenges, various adaptation strategies have been proposed. The International Accounting Standards Board (IASB) has developed the IFRS for SMEs Accounting Standard, a simplified, comprehensive standard tailored for entities without public accountability. This standard aims to provide cost relief and ease the adoption process for SMEs by omitting complex areas less relevant to them and streamlining disclosures (PwC Viewpoint, 2023). Furthermore, the IASB issued proposals to update the IFRS for SMEs to reflect recent improvements in full IFRS Accounting Standards. These amendments aim to simplify the adoption process and enhance the relevance of financial reporting for SMEs, thereby facilitating better compliance (ICAEW, 2022).

However, there are contradictions regarding the effectiveness of adaptation strategies. While some studies advocate for the simplified IFRS for SMEs Accounting Standard as a viable solution, others argue that without substantial educational and infrastructural support, merely simplifying standards may not suffice. This discrepancy highlights the need for a holistic approach that combines standard simplification with capacity-building initiatives.

Theoretical Framework

The study is anchored on Positive Accounting Theory (PAT), proposed by Watts and Zimmerman (1978). The study states that firms and managers choose accounting policies based on economic incentives rather than purely theoretical or normative principles. In other words the theory suggests that accounting choices are influenced by contractual obligations, regulatory requirements, and efforts to maximize financial outcomes, rather than simply aiming for "true and fair" financial reporting.

3. RESEARCH DESIGN

This study employs a survey research design to investigate Lease Accounting Under IFRS 16: Challenges and Implications for Businesses. A survey design is appropriate as it allows for the collection of primary data directly from respondents, ensuring a broad representation of perspectives on Lease Accounting Under IFRS 16: Challenges and Implications for Businesses (Creswell & Creswell, 2023). This design is advantageous due to its efficiency in data collection, cost-effectiveness, and ability to generalize findings within the study's population (Bryman, 2021).

Population of the study

The target population for this study comprises accounting professionals within the financial sector. These individuals are selected due to their direct engagement with accounting decision-making processes.

Sampling technique

The study adopts a probability sampling method, specifically stratified random sampling, to ensure representation across different professional backgrounds and organizational sizes (Taherdoost, 2021). This approach enhances the generalizability of findings while reducing selection bias.

Sample size

To determine the appropriate sample size, a power analysis is conducted to ensure statistical significance, with an estimated minimum of 150 respondents to enhance reliability (Cohen, 2020).

Data Collection Method

The study utilizes a self-administered online survey as the primary data collection instrument. The survey consists of structured questionnaires designed to measure the use of Predictive Analytics in Financial Forecasting and Decision-Making.

Reliability and Validity

To ensure reliability, internal consistency is tested using Cronbach's alpha, with a threshold of 0.7 and above considered acceptable (Nunnally & Bernstein, 2021). Construct validity is verified through exploratory and confirmatory factor analysis. Content validity is established through expert reviews and pre-testing of the survey instrument (Kline, 2020).

Data Analysis Techniques

Data collected were analysed using 4 point Likert and the mean value were used to give answers to the research questions.

4. RESULT

Table 1: Financial impact of IFRS 16 on businesses, particularly in terms of key financial Ratios, debt structure, and profitability indicators.

S/N	Items on financial impact of IFRS 16 on businesses, particularly in terms of key financial ratios, debt structure, and profitability indicators	Mean ($\bar{x}$)	Remark
1	IFRS 16 has significantly increased our company's reported liabilities due to lease capitalization	3.7	Strongly agree
2	The implementation of IFRS 16 has negatively affect debt-to-equity ratio	3.0	Disagree
3	company's return on assets (ROA) has declined as a result of IFRS 16 adjustments	3.2	Disagree
4	Adoption of IFRS 16 has improved transparency in our financial reporting	3.8	Strongly agree
5	EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) has increased following the adoption of IFRS 1	3.6	Strongly agree
6	The changes brought by IFRS 16 have influenced company's ability to secure external financing	3.6	Strongly agree
7	IFRS 16 has distorted the comparability of financial performance with prior years.	3.5	Agree
8	The reclassification of lease expenses under IFRS 16 has significantly impact on net profit margin	3.6	Strongly agree
	Mean of Mean	3.5	Agree

Table 1 shows evaluation of the financial impact of IFRS 16 on businesses. The responses reveal that the implementation of IFRS 16 has brought about substantial changes in financial reporting, with varying levels of perceived significance across different financial metrics. A mean score of 3.7 indicates strong agreement that IFRS 16 has significantly increased companies' reported liabilities due to lease capitalization. This outcome underscores a primary objective of the standard—bringing lease obligations onto the balance sheet—to ensure a more accurate representation of financial commitments. Despite this increase in liabilities, a mean score of 3.0 reflects disagreement with the assertion that IFRS 16 has negatively affected the debt-to-equity ratio. This suggests that although lease liabilities have grown, the overall leverage ratio has not been perceived as materially deteriorated. This could be due to compensatory movements in equity or the prior awareness and adjustment by analysts to the expected changes, minimizing their perceived impact.

Similarly, the claim that return on assets (ROA) has declined as a result of IFRS 16 adjustments received a mean of 3.2, indicating general disagreement. Although the recognition of right-of-use assets increases the asset base, thereby potentially diluting ROA, the results imply that this effect has not significantly impacted perceived profitability. Conversely, the statement regarding the improvement in transparency of financial reporting received a high mean of 3.8, reflecting strong agreement. This aligns with the core intention of IFRS 16—to enhance financial statement clarity by providing a more faithful representation of leasing activities.

Further reflecting the operational effects of IFRS 16, the increase in EBITDA following its adoption is affirmed by a mean score of 3.6. This suggests strong consensus that reclassifying lease payments from operating to financing activities, thereby removing them from the calculation of EBITDA, has resulted in an upward shift in this profitability metric.

The perception that IFRS 16 has influenced a company's ability to secure external financing also received a strong agreement, evidenced by a mean score of 3.6. The introduction of lease liabilities and their subsequent effect on financial ratios could either enhance credibility through improved transparency or raise caution due to perceived increases in financial obligations. Nonetheless, the consensus points to a recognized shift in financing dynamics resulting from the standard's adoption.

The notion that IFRS 16 has distorted comparability with prior years was also acknowledged, receiving a mean of 3.5 and indicating agreement. This outcome reflects the practical difficulty of comparing financial performance across reporting periods, particularly where historical data was prepared under the previous lease accounting standard. The structural changes introduced by IFRS 16 create discontinuities that complicate trend analysis and year-over-year performance evaluations.The assertion that the reclassification of lease expenses has significantly impacted net profit margin is supported by a mean of 3.6, reflecting strong agreement. The shift from operating lease expenses to depreciation and interest charges often results in higher total expenses in the earlier years of a lease, thereby exerting downward pressure on net profit margins. This has implications for financial planning and investor communications, particularly in capital-intensive industries.

Finally, overall mean of mean, recorded at 3.5, falls within the "agree" range, indicating that respondents generally acknowledge the transformative financial implications of IFRS 16. The data illustrates that while certain aspects such as increased transparency and higher EBITDA are widely accepted, other effects, particularly those relating to profitability and leverage, elicit more varied responses.

Table 2: Operational challenges Businesses face in implementing IFRS 16, including lease data management, compliance costs, and system upgrades.

S/N	Items on Operational challenges businesses face in implementing IFRS 16, including lease data management, compliance costs, and system upgrades.	Mean ($\bar{x}$)	Remark
1	Collecting and organizing complete lease data for IFRS 16 compliance has been a major challenge for our organization	3.8	Strongly Agree
2	Lack of centralized system for tracking and managing lease agreements	4.0	Strongly Agree
3	Cost of upgrading accounting and IT systems to comply with IFRS 16 has been significant.	3.7	Strongly Agree
4	Staff training on IFRS 16 requirements has added considerable operational burden	3.7	Strongly Agree
5	Meeting the initial compliance deadline for IFRS 16 implementation	3.8	Strongly Agree
6	integration issues between lease management systems and financial reporting software.	3.9	Strongly Agree
7	IFRS 16 compliance has led to increased dependence on external consultants or advisors	3.6	Strongly Agree
	Mean of mean	3.8	Strongly Agree

Table 2 shows the challenge of collecting and organizing complete lease data for IFRS 16 compliance, as reflected by a mean score of 3.8, signifies a critical operational barrier confronting organizations. This score, indicating 'strongly agreement', underscores a widespread recognition that accessing accurate, comprehensive lease information remains a fundamental difficulty. A mean score of 4.0 regarding the lack of a centralized system for tracking and managing lease agreements further illustrates the systemic nature of the issue. This score, the highest among all items, indicates that fragmented or decentralized lease management infrastructure severely impedes effective implementation. The reported score of 3.7 for the cost of upgrading accounting and IT systems highlights the financial burden that accompanies face as result of IFRS 16 implementation. This value reflects a consensus that compliance is capital-intensive, especially when legacy systems lack the capacity to accommodate the new leasing model. Organizations must allocate significant resources to acquire or enhance software capable of capturing lease liabilities, tracking amortization schedules, and producing accurate journal entries—an investment that can be particularly constraining for smaller entities.

Similarly, the operational burden of staff training is evident with a mean score of 3.7, pointing to the necessity for widespread internal education. A mean score of 3.8 for the difficulty in meeting the initial compliance deadline further reinforces the complexity of the transition. This result reflects the temporal constraints organizations faced, requiring swift system adjustments, policy overhauls, and procedural redesigns within tight timelines. Integration issues between lease management systems and financial reporting software, scored mean value of 3.9, present another significant impediment. This high mean value indicates that technological incompatibilities disrupt the seamless flow of lease data into financial reporting frameworks.. Lastly, the score of 3.6 for increased dependence on external consultants or advisors points to a reliance on external expertise to navigate IFRS 16 complexities. While such support can provide valuable guidance, the score suggests that many organizations lack sufficient internal capacity to implement and sustain compliance independently. This dependence raises concerns about long-term sustainability and knowledge transfer, particularly in maintaining internal control over financial reporting.

The mean of means value of 3.8 indicate an overall perception of strong agreement with the operational challenges identified. This consolidated score reflects the widespread and deeply embedded nature of the implementation difficulties, signaling a need for comprehensive strategic, technological, and human capital interventions to support effective and sustainable IFRS 16 adoption.

Table 3: Impact of IFRS 16 on managerial decision-making, particularly in lease structuring, investment strategies, and financial reporting practices.

S/N	Items on impact of IFRS 16 on managerial decision-making, particularly in lease structuring, investment strategies, and financial reporting practices.	Mean ($\bar{x}$)	Remark
1	IFRS 16 has influenced management's preference for shorter lease terms to reduce balance sheet impact	3.6	Strongly Agree
2	Lease-versus-buy decisions are now more strategically considered due to IFRS 16 requirements	3.9	Strongly Agree
3	IFRS 16 has led to a reassessment of our company's investment strategies to optimize asset utilization	4.0	Strongly Agree
4	Management decisions now place greater emphasis on the financial implications of lease capitalization.	3.8	Strongly Agree
5	The visibility of lease liabilities under IFRS 16 has impact long-term asset acquisition strategies	3.7	Strongly Agree
6	IFRS 16 improves the quality of financial information available for managerial decision-making.	4.0	Strongly Agree
7	Management is more cautious when entering into new lease agreements due to IFRS 16 disclosure requirements	3.9	Strongly Agree
8	Financial reporting practices have become more conservative as a result of IFRS 16 implementation	3.5	Agree
	Mean of mean	3.8	Strongly Agree

The data presented in Table 3 shows a clear understanding of how IFRS 16 has influenced managerial decision-making, with a particular emphasis on lease structuring, investment strategies, and financial reporting practices. The reported mean values indicate a consistent pattern of strong agreement among respondents, highlighting the profound operational and strategic shifts that have accompanied the implementation of the standard. A mean score of 3.6 reflects the view that IFRS 16 has influenced management's preference for shorter lease terms to mitigate balance sheet impact. This behavioral adjustment signals a deliberate response to the capitalization requirements introduced by the standard, as shorter leases reduce the size of right-of-use assets and lease liabilities. This shift not only alters lease structuring strategies but also suggests a more cautious approach to long-term commitments, directly affecting operational flexibility and risk management.

With a mean value of 3.9, the strategic consideration of lease-versus-buy decisions has evidently intensified under IFRS 16. The capitalizing of most leases under the new standard effectively narrows the distinction between leasing and owning, prompting organizations to undertake a more comprehensive cost-benefit analysis. This change in mindset reflects a deeper integration of financial reporting implications into capital expenditure planning, where the long-term impact on leverage ratios, asset turnover, and return on investment becomes a key determinant in managerial choices.

The highest mean score of 4.0 indicates that IFRS 16 has led to a reassessment of investment strategies aimed at optimizing asset utilization. This finding underscores the transformative impact of the standard on long-term resource allocation and operational efficiency. By recognizing lease obligations on the balance sheet, firms are compelled to re-evaluate their capital deployment to ensure assets are not only compliant but also yield maximum economic benefit. This optimization reflects a shift towards strategic asset management driven by financial visibility and accountability. A mean of 3.8 also highlights that management decisions increasingly emphasize the financial implications of lease capitalization. The transition from off-balance-sheet treatment to capitalization demands a heightened focus on the overall financial health indicators, such as debt ratios and interest coverage. This shift requires finance leaders to collaborate closely with operational teams, ensuring leasing decisions align with broader financial goals and risk profiles.

The impact of IFRS 16 on long-term asset acquisition strategies is affirmed by a mean score of 3.7, indicating that the visibility of lease liabilities has become a critical factor in strategic planning. This score suggests that the increased transparency around financial obligations influences not just lease choices, but also long-term investment in owned assets.

Another mean value of 4.0 affirms that IFRS 16 improves the quality of financial information available for managerial decision-making. This enhanced informational base provides a more accurate representation of a firm's financial commitments and operational footprint, enabling more informed strategic planning, budgeting, and performance evaluation. The recognition of lease assets and liabilities offers stakeholders a clearer picture of resource use and financial exposure, promoting transparency and internal accountability. The influence of IFRS 16 on lease contracting behavior is further emphasized by a mean score of 3.9, indicating that management has become more cautious in entering new lease agreements. This caution reflects the heightened scrutiny around disclosures and their impact on financial statements.

A mean score of 3.5 shows that financial reporting practices have become more conservative as a result of IFRS 16 implementation. Though slightly lower than the other values, this still aligns with an overall agreement and reflects a broader cultural shift toward prudence in accounting practices. This conservatism may manifest in stricter capitalization thresholds, increased reserves, or revised internal controls, all aimed at reinforcing financial discipline and transparency. The overall mean of means value of 3.8 encapsulates the overarching influence of IFRS 16 on managerial decision-making. This consolidated score reflects a strong and consistent acknowledgment that the standard has not merely altered accounting procedures but has also reshaped strategic thinking across multiple dimensions of business operations.

Table 4: Challenges and adaptation strategies of SMEs in complying with IFRS 16, particularly in developing economies with limited regulatory infrastructure

S/N	Items on Challenges and adaptation strategies of SMEs in complying with IFRS 16, particularly in developing economies with limited regulatory infrastructure	Mean ($\bar{x}$)	Remark
1	SME faces significant difficulty understanding and interpreting the technical requirements of IFRS 16	3.5	Agree
2	Limited regulatory guidance and infrastructure in the country have hindered effective IFRS 16 compliances	3.5	Agree
3	The cost of IFRS 16 compliance is disproportionately high for SMEs compared to larger firms	3.9	Strongly Agree
4	organization lacks the internal capacity (staff and systems) to manage lease accounting under IFRS 16	3.5	Agree
5	Limited awareness and training on IFRS 16 among SME staff pose a major compliance challenge.	3.9	Strongly Agree
	Mean of Mean	**3.7**	**Strongly Agree**

Table 4 offers insights into the challenges and corresponding adaptation strategies that small and medium-sized enterprises (SMEs) face in complying with IFRS 16, particularly within the context of developing economies characterized by limited regulatory infrastructure. The reported mean values reflect varying degrees of consensus on the practical difficulties experienced by SMEs and point toward systemic constraints that impact their ability to meet the demands of the standard. A mean score of 3.5 indicates that SMEs encounter considerable difficulty in understanding and interpreting the technical requirements of IFRS 16. This value suggests that the conceptual and procedural complexities embedded in the standard present a notable barrier for organizations that often lack specialized accounting expertise. The implications are significant, as misinterpretation can lead to incorrect lease classification, inaccurate recognition of right-of-use assets and liabilities, and ultimately, financial misstatements that undermine credibility and regulatory compliance.

Similarly, a mean of 3.5 is reported for the challenge posed by limited regulatory guidance and infrastructure. This result highlights a structural shortfall within many developing economies, where regulatory bodies may not provide sufficient clarity, support, or enforcement mechanisms. The absence of localized frameworks, templates, or interpretive assistance exacerbates the compliance burden for SMEs, which are already resource-constrained and reliant on external cues for interpretation and application of international standards. The cost of compliance emerges as a particularly acute issue, with a mean score of 3.9, reflecting strong agreement that the financial demands of IFRS 16 disproportionately affect SMEs compared to larger firms. This disparity stems from the need for system upgrades, staff training, and potentially external consultancy—all of which represent a substantial outlay relative to the typically limited financial bandwidth of smaller entities.Another challenge, reflected by a mean value of 3.5, relates to the lack of internal capacity—both in terms of staffing and systems—to manage lease accounting under IFRS 16. This score illustrates the operational constraints that limit SMEs' ability to internalize the standard effectively.

Finally, limited awareness and training among SME staff are identified as a major barrier, with a mean score of 3.9, indicating strong agreement. This result emphasizes the critical need for capacity building at the grassroots level. Without proper training, staff are ill-equipped to identify, record, and report lease transactions in accordance with IFRS 16, leading to gaps in compliance and reduced decision-making utility of financial statements.

The mean of means value of 3.7 consolidates these insights into a strong collective recognition of the challenges faced by SMEs in the adoption and implementation of IFRS 16. This average not only signals a broadly acknowledged compliance burden but also suggests an urgent need for tailored adaptation strategies.

5. SUMMARY OF FINDING AND CONCLUSION

The findings reveal that small and medium-sized enterprises face numerous challenges in complying with IFRS 16, especially in developing economies where regulatory infrastructure is limited. These challenges include difficulty in understanding and interpreting the technical requirements of the standard, which reflects a gap in technical capacity and professional expertise within many SMEs. Additionally, the absence of sufficient regulatory guidance further complicates compliance efforts, leaving many SMEs without the necessary direction or support to effectively implement IFRS 16.The cost of compliance emerges as a critical concern, as SMEs often find themselves disproportionately burdened compared to larger firms. Unlike larger entities that can absorb system upgrades and consultancy fees with relative ease, SMEs operate under tighter financial constraints, making full compliance with IFRS 16 a significant economic strain. Internal capacity issues, including the lack of skilled personnel and adequate accounting systems, further hinder the implementation process. This limitation restricts SMEs from effectively managing lease data and integrating new accounting requirements into their existing operations.

Another pressing issue is the low level of awareness and training on IFRS 16 among SME staff. Without adequate knowledge of the standard's requirements, organizations are at risk of misapplying accounting treatments, which can lead to inaccuracies in financial reporting. This lack of training and exposure to IFRS 16 reflects broader educational and institutional challenges common in developing economies, where access to continuous professional development remains limited.

In conclusion, SMEs in developing regions face multifaceted obstacles in adopting IFRS 16, with challenges rooted in both organizational limitations and systemic deficiencies in regulatory and educational infrastructure. These obstacles not only impede compliance but also threaten the quality and reliability of financial reporting across the SME sector.

6. RECOMMENDATION

To address these challenges, it is recommended that standard-setters and policymakers consider simplified IFRS frameworks tailored to SMEs. Efforts should be made to develop practical guidance materials and training programs that are accessible and relevant to smaller enterprises. Furthermore, governments and regulatory bodies in developing economies should strengthen their institutional support systems to provide clearer guidance and foster a more enabling environment for IFRS compliance. Such measures would help bridge the capacity gap, reduce the compliance burden, and promote more equitable and effective implementation of international financial reporting standards across all enterprise levels.

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