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The limited role of international accounting standards and regulations on limiting Off-Balance Sheet Transactions: A literature review

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Abstract: The study aims to examine the changing roles of IFRS in limiting off-balance sheet financing. A combination of literature review and document analysis were applied as part of the procedures undertaken to answer the proposed research questions and arrive at the study conclusions. The study findings revealed that the adoption of IFRS 16 serves to enhance transparency which is instrumental in improving companies' decision-making capabilities. Additionally, the study also found that the application of IFRS 16 is necessary for eliminating the current dual accounting model for lessees, which distinguishes between off-balance sheet operating leases and finance leases. Furthermore, the study uncovers that off-balance-sheet financing items exist in several forms and magnitude yet only IFRS 9 and IFRS 16 address leases and contingent obligations and guarantees, thereby excluding other forms of off-balance-sheet financing items. Hence, the study findings infer that the combined use of IFRS, SFAS and other accounting standards is essential in limiting off-balance sheet financing issues. The study's practical implications demand that financial consultants and managers change the structuring of financial transactions to ensure that they do not comply with GAAP but also communicate the economic substance of transactions to users of financial statements.

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الدور المحدد للمعايير واللوائح المحاسبية الدولية في الحد من المعاملات خارج الميزانية العمومية: مراجعة الادبيات

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المستخلص

تهدف الدراسة إلى دراسة الأدوار المتغيرة للمعايير الدولية لإعداد التقارير المالية (IFRS) في الحد من التمويل خارج الميزانية العمومية. وقد طُبق مزيج من مراجعة الأدبيات وتحليل الوثائق كجزء من الإجراءات المتخذة للإجابة على أسئلة البحث المقترحة والتوصل إلى استنتاجات الدراسة. وقد كشفت نتائج الدراسة أن اعتماد المعيار الدولي لإعداد التقارير المالية رقم 16 يُعزز الشفافية، مما يُعدّ أساسيًا في تحسين قدرات الشركات على اتخاذ القرارات. بالإضافة إلى ذلك، وجدت الدراسة أيضًا أن تطبيق المعيار الدولي لإعداد التقارير المالية رقم 16 ضروري للتخلص من نموذج المحاسبة المزدوج الحالي للمستأجرين، والذي يُميز بين عقود الإيجار التشغيلية خارج الميزانية العمومية وعقود الإيجار التمويلية. علاوة على ذلك، كشفت الدراسة أن بنود التمويل خارج الميزانية العمومية موجودة بأشكال وأحجام متعددة، إلا أن المعيارين الدوليين لإعداد التقارير المالية رقم 9 و16 فقط يتناولان عقود الإيجار والالتزامات والضمانات الطارئة، مما يستبعد الأشكال الأخرى لبنود التمويل خارج الميزانية العمومية. وبالتالي، تستنتج نتائج الدراسة أن الاستخدام المشترك للمعايير الدولية لإعداد التقارير المالية (IFRS) ومعايير المحاسبة المالية (SFAS) وغيرها من المعايير المحاسبية أمر أساسي للحد من مشكلات التمويل خارج الميزانية العمومية. تتطلب التأثيرات العملية للدراسة أن يقوم المستشارون الماليون والمديرون بتغيير هيكل المعاملات المالية للتأكد من أنها لا تتوافق مع المبادئ المحاسبية المقبولة عمومًا ولكن أيضًا توصيل الجوهر الاقتصادي للمعاملات لمستخدمي البيانات المالية.

الكلمات المفتاحية: عقود الإيجار التمويلية، المبادئ المحاسبية المقبولة عمومًا، مجلس معايير المحاسبة الدولية، عقود الإيجار التشغيلية، بيان معايير المحاسبة المالية.

المقدمة

1. Introduction

Off-balance-sheet financing arrangements are allowable under Generally Accepted Accounting Principles (GAAP) in the USA and have been for more than three decades (Lander & Auger, 2008: 27 -28). Studies support such transactions opine that the motive behind such transactions is to enhance companies' borrowing capacity (Basheer, Hidthiir & Waemustafa, 2019; Zhang & Malikov, 2022) by improving the attractiveness of their financial ratio (Kim & Xie, 2022; Parnes, 2022). Another growing set of beliefs argues that off-balance-sheet transactions are essential for

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transferring risks from the parent company to subsidiaries (Kim & Xie, 2022; Parnes, 2022; Zhang & Malikov, 2022). Extending such arguments, Lin (2017: 36) noted that risk transfer lures investors who are reluctant to invest in high-risk parent companies. Amid such arguments, other suggestions portraying off-balance-sheet transactions as reducing volatility linked to huge risks to financial statements (Mills & Newberry, 2005: 252), smoothening financial figures (Kangarluei et al., 2012: 86) and enjoying tax benefits have long been academically suggested and documented (Ketz, 2003: Paterson, 2016). Hence, the motives and benefits of off-the-balance sheet transactions have been growing significantly over the past two decades. Ignoring the impact and implications of off-balance-sheet transactions in the business sector is inevitably difficult. Besides, contemporary business challenges and complexities have changed the nature and levels of business transactions conducted by large companies within and outside a country. This mirrors insights denoting that investments in the equity of other entities inevitably comprise off-balance-sheet transactions (Lander & Auger, 2008, 28-29). Paterson (2016, 10) notes transfers of financial assets as the main trigger of comprising off-balance-sheet transactions, especially during an economic or financial crisis. There is seemingly substantial evidence suggesting that off-balance-sheet transactions are a daily business norm that will continue to be observed from time to time as they are linked to contingent guarantees and obligations (Needles et al., 2013: 570), leases (Jensen et al., 2007) and social arrangements such as retirement arrangements (Weygandt et al., 2019: 10-15-10-19). Hence, it becomes an interesting inquiry to note that off-balance-sheet transactions are an instrumental component of social and economic activities that demands continuous examinations concerning their impact, implications and possible legal measures regulating their conduct.

In line with the above-mentioned insights, it is profoundly important to note that the major problem with off-balance-sheet transactions is they are not well scrutinised. With the rise in corporate scandals such as the Enron Saga involving the covering of debt of billions of dollars (Li, 2010: 37-40), the significance of reviewing off-balance-sheet transactions studies becomes of huge importance. Furthermore, one can be compelled to demand a further review of off-balance-sheet transaction concepts and financial standards when continued breakdowns in financial reporting, auditing processes and corporate governance systems are being observed worldwide (Haq et al., 2022; Kim & Xie, 2022; Zhao et al., 2021). Financial reporting, auditing processes and corporate governance systems problems are evident in the subsequent of Adelphia, WorldCom and other companies (Peursem et al., 2007: 2-10). Despite notable propositions by the Sarbanes-Oxley Act of 2002 advocating the Securities and Exchange Commission (SEC) to scrutinise corporations' off-balance-sheet transactions (Gorshunov, 2020: 73), a lack of transparency problems is still being observed. More so, some contemporary studies are of the opinion that lack of proper disclosure hides substantial risks that can cause businesses to bankrupt or destabilise economic sectors (James & Lirely, 2022; Linzy, 2022). More so, the changing nature and complexities surrounding the need by companies to obtain low-cost funding, manage risks and enhance liquidity (Abor et al., 2019; Gurjar et al., 2021; Mills & Newberry, 2005), contribute to the increase in off-balance sheet issues compromising the effectiveness of accounting standards.

In light of the established study problems, this study aims to review previous related studies with the main goal of uncovering and analysing the extent and effectiveness of the role of accounting standards in limiting off-balance sheet financing. The study also aims to;

- ❖ Determine whether there are other accounting standards adopted to regulate off-balance sheet issues. If so, then ascertain the extent to which they reinforce IFRS attempts to enhance transparency in the disclosure of financial information by limiting off-balance sheet financing issues.
- ❖ Identify problems that mirror similar difficulties in other areas and suggest methods of solving these and similar problems.

2. **Literature review**:

Overview of Off-balance-sheet Financing Under IFRS: According to Mills and Newberry (2005, p252), off-balance sheet financing is a method of preventing liabilities or assets from appearing on the balance sheet. Off-balance-sheet financing can be structured through mechanisms such as securitization, where accounts receivables are transferred to a Special-Purpose Vehicle (SPV) or trust, converting them into liquid securities traded in secondary markets. This process allows the originating company to receive upfront cash while removing the receivables from its balance sheet, effectively leveraging the receivables without directly reflecting them as

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liabilities (Puuska, 2009). Additionally operating leases, which were previously classified as off-balance sheet financing under earlier accounting regulations but currently recorded on the balance sheet under current accounting standards (IFRS 16 and ASC 842). However, other broader structures of off-balance sheet financing have been academically sidelined by studies and examples such as retirement arrangements, transfers of financial assets and investments in the equity of other entities (Haq, Tripe & Seth, 2022; Zhao, Barua & Kim, 2021; Yücel & Adiloglu, 2016).

Nonetheless, it remains a major concern regarding the implications of off-balance financing as it is linked to systematic problems and there has been a lack of profound ideas regarding the future implications of off-balance financing. Notable issues surround the desirability of off-balance financing which many studies have attempted to clarify and still have not reached a consensus on (Kangarluei, Motavasel & Sharifi, 2012; Paterson, 2016; Zhang, & Malikov, 2022). In that regard, the importance of off-balance financing is questionable. Besides, supporting studies contend that off-balance financing is a methodological way of cleaning financial statements (Kangarluei, Motavasel & Sharifi, 2012; Mills & Newberry, 2005; Zhang & Malikov, 2022). This entails that the portrayed business image, financial position and status may fail to accurately depict the actual situation. Such can be evidenced by the Enron saga (Li, 2010: 39) and calls for concern. On a broader level, (Zhang and Malikov 2022: 3) emphasize the significance of off-balance sheet activities and argue that their exclusion from traditional analyses can lead to inaccurate conclusions about a bank’s financial and operational performance, highlighting that certain off-balance sheet items, despite their substantial impact, are not always disclosed in ways that fully reflect their importance. These views are a good base upon which scholars criticized the use of off-balance sheet financing as misleading to investors reading the company's balance sheet as they may consider the company attractive and yet it is not (Haq, Tripe & Seth, 2022; Kim & Xie, 2022; Zhao, Barua & Kim, 2021). In other words, items that do not have a stringent accounting policy on the disclosure and the amount of exposure can mislead investors into making irrational decisions. With the prevalence of off-balance sheet finance issues, the importance of safeguarding investors’ and other stakeholders' interests is of paramount importance. Hence, the introduction and effectiveness of IFRS tenants need to be weighed as to how effective it can assist in dealing with issues concerning off-balance sheet finance issues and items. Therefore, the next section explores the existing types of off-balance sheet financing, their effects on disclosure, other stakeholders and the accounting profession and the extent to which IFRS tenants deal with each of the respective forms of off-balance sheet finance.

Types of off-balance-sheet arrangements and their Implications

A. Leases: Leases in their distinct financing and operating forms are treated differently. For instance, IFRS recognizes economical leases similar to purchasing the underlying assets as a finance lease and is reported on a company's balance sheet (Yücel & Adiloglu, 2016: 121-122). Thus, other leases are classified as operating leases that are not reported on a company's balance sheet (Bielmann, 2016). In other words, operating leases are equally known as off-balance sheet leases. Studies have long highlighted shortcomings in the treatment of leases by prior accounting methods. For instance, Bielmann (2016) argues that previous lease accounting requirements were not capable of reporting several lease transactions on a lessee's balance sheet. Consequently, the reported effects on companies' financial leverage and reported assets have been substantial. Further, from a different angle of analysis, IFRS (2016) asserts that several analysts and investors were not capable of effectively comparing companies' borrowing to buy assets using leased assets without making proper adjustments. This is largely blamed on the unavailability of information about leases on the balance sheet (Bielmann, 2016; Mills & Newberry, 2005; Yücel & Adiloglu, 2016).

Studies like this present study are highly called for to address matters involving off-balance sheet financing as they have significant implications on other corporate activities and indicators such as profitability (Gurjar, Tripathi & Joshi, 2021), image (Abor et al., 2019) and corporate social responsibility (Segura & Zeng, 2020: 9-10). Besides, accounting for lease requirements introduced at least two decades ago is now incapable of dealing with contemporary changes in business financing methods, assets and liabilities (Haq, Tripe & Seth, 2022; Zhao, Barua & Kim, 2021). This aligns with (Yücel and Adiloglu's, 2016: 122) study findings denoting that changes in the accounting for leases are capable of releasing about US$3.3 trillion of lease commitments into balance sheets and significantly affect industrial companies such as retail, shipping and airlines. Moreover, (Wei, 2022: 17)

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asserts that the US Securities and Exchange Commission (SEC) public companies in the US recorded about US$1.25 trillion of off-balance sheet leases. This raised significant concerns about the lack of transparency of information about lease obligations. Specifically, leasing assets are compelled to recognize arising liabilities and assets as suggested by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), (IFRS, 2016).

Nonetheless, IFRS 16 removes classifications of leases as either operating leases or financing leases and commands that they are treated the same as finance leases through the application of IAS 17 (Yücel & Adiloglu, 2016: 121). As a result, all leases are to be capitalized by recognizing lease payments' net present value and disclosing them with either plant and equipment, property or assets, or right-to-use assets (lease assets). Subsequently, IFRS 16's new requirements pose two effects of increasing financial liabilities and lease assets resulting in changes in key financial metrics such as liquidity ratios linked to the company's liabilities and assets. By recommending the application of IAS 17, it is worth noting that IFRS 16 significantly changes a company's accounting approach to leases of low value like office furniture and computers, leases of 12 months or less (short-term leases). Besides, IFRS 16 requires companies to:

- ❖ Make a distinction between interest from financing or operating activities or cash paid from financing activities shown in the cashflow statement;
- ❖ Recognise the depreciation of interest on lease assets and lease assets in the income statement over the lease period; and
- ❖ Recognize lease liabilities and lease assets in the balance sheet previously recorded at the present value of unavoidable future lease payments.

In spite of different contentions regarding the above three IFRS 16 requirements imposed on companies, (Parnes, 2022) contends that changes to lease accounting do not affect companies' commitments or economic position to pay cash to lenders. But rather the IASB with regards to such changes and the cost of borrowing highlights that such changes are instrumental for improving companies' decision-making capabilities. Other studies corroborate such strategic changes citing that they encourage transparency, which contributes to improved decision-making (Haq, Tripe & Seth, 2022; Zhao et al., 2021). Besides Yücel and Adiloglu (2016) advocate for such changes stating that they are necessary for enhancing the benefits of using leases as a flexible and important source of financing. Bielmann (2016) opines that such changes posed by IFRS 16 were necessary due to shortfalls posed by IAS 17 limiting investors and other stakeholders' ability to obtain an accurate view of the company's lease liabilities and assets.

B. **Contingent obligations and guarantees:** According to (Needles et al. 2013: 447), contingent guarantees and obligations result in uncertainties as to whether a business will be obligated in the future to transfer other assets or cash and, if so, in what amounts. Surprisingly, the implications of contingent guarantees and obligations can be substantial as they tend to include default payments on loans guaranteed by the company, warranty payments for a company's defective products, and payments contingent upon the outcome of a court proceeding or lawsuit involving the company (Needles et al., 2013: 447-448). contingent guarantees and obligations are not addressed by IFRS but rather have been addressed by Statement of Financial Accounting Standards (SFAS) 5 which recommends companies to account for uncertainties, studies have limited the implications of off-balance-sheet arrangements to other determinants such as investment efficiency and voluntary support (Segura & Zeng, 2020: 13-16), and money and banking (Abor et al., 2019: 149-156).

The implications of contingent guarantees and obligations are observable in (Needles et al., 2013: 447) remark suggesting that accounting for uncertainties is instrumental; in determining whether the company is probably going to incur losses and if such losses are estimable. This mirrors SFAS No. 5's propositions on accounting for contingencies (Weygandt et al., 2019: 10-13). As a result, highly "probable" and estimable, loss amounts must be recognized on the balance sheet as per SFAS No. 5 guidelines (Desir and Pfeiffer, 2010: 4-8). Thus, liability is not recognised nor disclosed in the event that the loss has been considered "remote". Since loss amounts and probability are judgmental, SFAS No. 5 recommends that the "probability-weighted amount to be paid" be determined using a weighted index (Weygandt et al., 2019: 10-14).

Nonetheless, (Jensen et al.., 2007) disclose that this requires all known circumstances and facts to be considered before such weighted averages are determined. Therefore, to determine the "expected value", methods such as probability-weighted discounted cash flows should be applied when handling contingent guarantees and obligations. Thus, the "expected value"

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as illustrated in Table 1 must be SFAS No. 5 to become a guiding framework for dealing with contingent guarantees and obligations and applied. SFAS 5 on "accounting for contingencies" requires that these uncertainties be accounted for in one of three ways after an initial determination as to whether the occurrence of a loss is deemed "probable" and, if so, whether the amount of loss is estimable (Desir & Pfeiffer, 2010: 4-5).

TABLE (1): Recognisable liability value

Outcome	Probability (A) in percentages	Amount to be paid (B) in dollars	Probability-weighted amount to be paid (A X B) in dollars
3rd party defaults entirely	5	200 000	10 000
3rd party defaults on ¾ of the debt	10	150 000	15 000
3rd party does not default	85[a]	0	0
Total	100		25 000[b]

Notes: a Loss is probable-recognize no liability as per SFAS No. 5 guidelines; b Recognize liability of $25 000 as suggested by FIN No. 45: Source: Lander and Auger 2008: 34.

C. **Investments in the equity of other entities:** According to (prior Ketz's 2003: 55) examinations of existing accounting guidelines, equity securities (as opposed to debt securities) must be reported using either the "equity method" or the "consolidation. FASB highlights that companies directly or indirectly investing at least 51% in an entity assume significant control over the entity (Weygandt et al., 2019: 16-22). Subsequently, the subsidiary becomes the investee, and the investing company becomes a parent company. Under such cases, FASB, the parent company is required to present consolidated financial statements implying that both the subsidiary's expenses, revenue, liabilities and assets will be combined with the parent company's expenses, revenue, liabilities, liabilities and assets (Needles et al., 2013: 1271). The major issue was that several companies tried to avoid the 20% and 50% criteria by "not having an actual voting interest in a particular entity while still maintaining the "option" to convert the entity's debt obligations or the investing firm's small equity" (Ketz, 2003: 57). Such challenges are an inevitable outcome of off-balance sheet financing and are not addressed by existing IFRS guidelines. This, therefore, shows that IFRS

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has limited application and implications on off-balance sheet transactions. This calls for the combined use of other accounting standards such as SFAS 94.

D. **Transfer of financial assets:** Transfer of financial assets represents one major form of off-balance sheet financing not addressed under the IFRS umbrella. As such the application of other accounting standards is seen as a necessity. (Bučková, 2010: 8) claims that off-balance sheet assets frequently involve the transfer of assets to a special purpose entity dealt and complex. This compounds issues related to the full disclosure of information required by investors and other stakeholders to make informed decisions. Studies noted that the complexity of such arrangements is necessitated by the increased use of servicing obligations for underlying assets, guarantees, cash reserve accounts and derivatives (Haq, Tripe & Seth, 2022; Kim & Xie, 2022). However, such complexities are inevitable and necessary because of complex transactions as companies are attempting to achieve set targets and harness opportunities in financial markets. On a similar level, a growing body of literature suggests that this is essential for obtaining low-cost funding, managing risks and enhancing liquidity (Basheer, Hidthiir & Waemustafa, 2019; Gurjar, Tripathi & Joshi, 2021; Segura & Zeng, 2020).
On the contrary, issuing companies tend to retain an interest in the transferred assets thereby raising “continuing involvement” or “control” issues. This aligns with propositions denoting that such issues prompt the importance of determining whether consolidation of the SPE is necessary or not (Weygandt et al., 2019: 16-22). Attempts to address these issues recommend that the SPE’s activities and purpose be disclosed and regulated using the underlying legal rules supporting its creation (Parnes, 2022). Additionally, the FASB demand numerous disclosures to be made within the transferring firm’s financial statements regarding any qualifying SPEs companies are involved with (Needles et al., 2013: 187). This evidently shows the importance of other accounting standards in reinforcing the IFRS’ role and effectiveness in addressing off-balance sheet financing issues.

3. Findings and Discussions

The provided numerical evidence denotes that off-balance-sheet transactions are significantly huge in an amount reaching as high as trillions of dollars excluding other transactions whose implications are reflected in off-balance-sheet transactions. Attempts by this study to highlight the grey areas, shortcomings, difficulties and several issues linked to off-balance-sheet transactions. Hence, this study practically calls for company directors to enact measures capable of enhancing financial reporting transparency and comprehension. This study's findings mirror observations and suggestions that have long existed and are raised as concerns by prior studies (Lander & Auger, 2008; Morrison, 1993). However, other arguments denote that the Enron saga imploded and festered off-balance-sheet reporting issues and was not an issue that eventually evaporated (Li, 2010: 38 - 39). This implies that off-balance-sheet concerns, issues and implications triggered by the Enron saga are a quack whose aftershocks triggered individuals and companies to notice and enact decisive, quick and solid responses. Again, the study's practical implications call for governments and accounting bodies to take bold steps and make critical decisions that either limit or promote the disclosure of off-balance-sheet transactions.

Meanwhile, the existence of several distinct off-balance items complicates efforts to promote transparency. This mirrors a related analysis made by Basheer, (Hidthiir and Waemustafa 2019: 421-427) denoting that the changing nature and complexities surrounding the need by companies to obtain low-cost funding, manage risks and enhance liquidity, increases off-balance sheet issues compromising the effectiveness of accounting standards like IFRS. On the other hand, both IFRS and SFAS are designed to handle specific and limited types of off-balance sheet issues with IFRS only dealing with leases, contingencies and guarantees. In comparison, SFAS addresses contingent obligations and guarantees, investment in the equity of others and transfer of assets items that are pivotal in enhancing transparency in the disclosure of financial transactions. Though IFRS 9 and IFRS 10 deal with leases and contingencies and obligations, respectively, applying a single standard creates a avoid that limits attempt aimed at enhancing transparency. This concurs with (Weygandt et al., 2019: 11-7–11-13) suggestions advocating for improved transparency in disclosing financial transactions such as off-balance sheet items citing that it is instrumental for enhancing investors' ability to make informed decisions.

Challenges faced by companies due to regulatory changes in accounting standards

The adoption of IFRS together with other accounting standards imposes hidden and direct costs on companies. Studies evidently document that efforts by regulators to enhance transparency through increased disclosure following the adoption of accounting standards are costly (Basheer, Hidthiir & Waemustafa, 2019; Weygandt et al., 2019). (Gorshunov et al. 2020: 73) used evidence collected from the Sarbanes-Oxley Act of 2002 citing that its enactment has subjected several companies to huge compliance costs. On a parallel level, Jensen et al. (2007) critique regulators' initiatives to enforce the adoption of IFRS and other accounting standards contending that they are associated with severe difficulties in implementation. Hence, applying IFRS to ease off-balance issues poses challenges to companies and causes them to incur undesired costs.

Implications of off-balance-sheet transactions on standard setters

Apart from companies, investors and individuals suffering from the eroded confidence and collapse of an institution, other groups such as standard setters are bound to be affected as well. Hence, concerns regarding the transparency of financial reporting demanding further examinations are justifiable, as abundant forms of risks are not disclosed in the balance sheet. Besides, this is congruent to (Lander and Auger's 2008: 252) observations contending that the SEC observed that existing accounting standards are faulty. Along similar lines, (Gopalakrishnan 2006) discloses that 75-90% of conducted lease accounting tests are too confined to rules, which promote dishonesty. Lander and Auger (2008, pp. 35 – 37) criticised such rules citing that there are more conducive to international principles-based standards. Further examinations by Parnes' (2022) contemporary study about the principles-based standards show that attempts to promote transparency and comparability cause them to be rule-based standards.

Implications of off-balance-sheet transactions investors and companies

There is overwhelming evidence suggesting that off-balance financing hinders investors' ability to make informed decisions (Abor et al., 2019; Gurjar, Tripathi & Joshi, 2021). Following Basheer, (Hidthiir and Waemustafa, 2019: 420-424) findings, it is asserted that financial statements can be cleaned to look clean and yet in actual factor have inherent issues. Such problems are what (Abor et al., 2019) regard as clouding investors' judgements and causing them to make irrational decisions due to a lack of transparency. Subsequently, this study has shown that companies are also affected by reduced integrity, corporate image and reputation. The resultant effects of such consequences are reflected by adverse changes in profitability

(Gurjar, Tripathi & Joshi, 2021), image (Abor et al., 2019) and corporate social responsibility (Segura & Zeng, 2020: 9-10). However, other studies opine that off-balance financing is important for assisting companies in raising funding (Haq, Tripe & Seth, 2022; Kim & Xie, 2022). Other supporting studies such as (Zhang and Malikov, 2022: 3-7) highlight the benefits of managing liquidity and reducing risks. But the overall gain or loss triggered by off-balance sheet financing is of huge significance. In that regard, there is significant evidence contending that it hinders transparency (Parnes, 2022; Zhang & Malikov, 2022) and decision-making (Kim & Xie, 2022; Zhao, Barua & Kim, 2021), which are linked to an investor and corporate performance (Haq, Tripe & Seth, 2022).

4. Conclusion

There is a limit to what IFRS regulates in terms of off-balance-sheet financing items and this creates huge voids capable of portraying a wrong image about the company and can mislead investors into making irrational decisions. Similarly, SFAS caters for contingent obligations, investment in the equity of other entities and the transfer of financial assets. Hence, applying a single standard inevitably leaves a gap regarding each standard's effective ability to limit off-balance sheet financing issues. of paramount importance is the idea that the application of IFRS 16 is necessary for eliminating the current dual accounting model for lessees, which distinguishes between off-balance sheet operating leases and finance leases. However, it remains vital to note that off-balance sheet financing is essential to some extent and poses challenges to transparency and decision-making capabilities in companies. Meanwhile, the changing nature and complexities surrounding the need by companies to obtain low-cost funding, manage risks and enhance liquidity (Jensen et al., 2007; Needles et al., 2013; Weygandt et al., 2019), increase off-balance sheet issues compromising the effectiveness of accounting standards like IFRS. Hence, the adoption of other IFRS serves to enhance transparency and decision-making.

Theoretical, practical and policy implications

The study's theoretical implications point to the importance of understanding the significance and transparency of disclosing financial transactions in decision-making. Hence, points out that no single accounting standard like IFRS can deal with disclosure issues and calls for the combined use of two or more standards like SFAS to reinforce their effectiveness in promoting the disclosure of information. The study's practical implications demand that financial consultants and managers change the structuring of financial transactions to ensure that they do not comply with GAAP but also communicate the economic substance of transactions to users of financial statements. On a legal level, accounting standards such as IFRS 16 need to be constantly revised following the rising nature and complexities surrounding the need by companies to obtain low-cost funding, manage risks and enhance liquidity.

Recommendations

In light of the established findings, company managers are encouraged to comply with the designated accounting standards like IFRS and SFAS and follow the GAAP guidelines so as to enhance transparency in disclosing financial information. Investors, on the other hand, must use other sources of information to validate the disclosed information and ensure that all the vital balance sheet items are disclosed and any off-balance sheet item does not hinder their effective capacity to make informed decisions. Other general recommendations include;

- Developing a uniform company-specific and industry-specific disclosure framework to simplify comparison amongst companies and location of vital information.
- Make sure that companies clearly disclose the economic objective for the accounting treatments they adopted.
- Adopting a set of international accounting standards matching the increased and diverse forms of financial innovation and developments, complexities and issues experienced in the business environment.

Limitations and suggestions for future studies

The study is restricted to studying the role of IFRS in regulating off-balance sheet financing issues using related empirical studies. As such, it lacks depth in testing possible connections or hypotheses. However, it was observed during the study that other accounting standards like SFAS also play a vital role in regulating off-balance sheet financing issues. This demands that either a comparative analysis of the roles of IFRS, SFAS and other accounting standards in regulating off-balance sheet financing issues be made. Most importantly, broader and novel ideas can be established when such focus is narrowed to a particular field such as the banking sector which has been riddled with a lack of transparency issues.

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