

LEASE REVENUE REPORTING ON THE SIDE OF LESSOR IN CONNECTION WITH TRANSFER OF RIGHT TO USE ASSETS (RTU) TO LESSEE

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Received: August 30, 2011

Abstract

SVOBODA, P.: *Lease revenue reporting on the side of lessor in connection with transfer of right to use assets (RTU) to lessee*. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 7, pp. 403–414

The paper analyzed some of the approaches whose application is eligible for the recording of lease contracts on the side of lessor so that this recording display as closely as possible the essence of the lease relationship and at the same time it would be symmetrical to the way of recording on the side of lessee resulting not from value of transferred physical assets but from the evaluated right to use this asset. Impacts of individual variants of approaches into the income statement and statement of financial position are analyzed. It turns out that apparently it is not possible to apply only one approach (as it is in the case of lessee), without gross distortion of the financial position of the lessor. Some of the options of derecognition approach truly shows the situation, especially in long-term leases and leases where the risks and rewards associated with the lease are transferred to the lessee, for the other leases it is recommended sometimes to use underecognition property from the assets of the lessor during the lease period, but rather report a liability to leave to lessee to use (performance obligations approach). Compared with the current method of recording an operating lease, this approach without taking into account the cost of maintenance leads to another course of reporting profits (rise in the early stages against the growth in the final stages), but also brings a more fundamental problem, and it is overvaluation of lessor's assets. In addition, it is possible to doubt about the correctness to report such liability as an unconditional liability. The approach is also not consistent with the IASB and the FASB project that is devoted to the recognition of revenues. The possible way, according to author's opinion, might be regulation of existing model of reporting operating lease or derecognition approach.

right to use, lessor, derecognition, performance obligation, revenue

Very often problem of users of financial statements is that the financial statements, which are distorted by unrecognized off-balance sheet financing, are presented to them. Issue of leases is one of the field in which the economic reality is often quite distorted. In recent years there has been growth in legitimate votes, that also lease, which is known as an operating lease, is a fact that deserves to be recorded as an asset in the statement of financial position of the lessee. Therefore IASB (International

Accounting Standards Board) and FASB (Financial Accounting Standards Board) have been working since 2009 on a joint project¹ that would lead to the creation of such methodological procedure which would display as accurately as possible the financial position and performance of the lessee. This methodology should also in the greatest possible extent prevent the possibilities of the lease contract to evaluate by two entities differently or participants in lease relationship intentionally structure their

¹ http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176154540204

contract so that in statement on financial position or profit loss statement would be achieved the desired effect of the reporting unit. This could be achieved by application of the concept of right to use. One of the results of the activity of IASB and FASB in this field was the release of Exposure Draft in 2009, which was offered for public discussion. Application of the concept of right to use (RTU) brings a number of discussed issues on the side of lessee, namely how to estimate the maximum probable rental period, how to deal with the needs of remeasurement of balance sheet items, which items recognized as assets and liabilities, and whether and how often remeasure these items (and with what impact), but at least there has been already relatively broad consensus of economic experts as regards the main principles. View of the lessor was from the very beginning at the periphery of these Boards, in their materials they only suggest two ways that can respect the fact that the right to use the asset is for some time transferred to the lessee.

MATERIALS AND METHODS

Material Leases – Preliminary views (2010) and Leases – Exposure Draft (2010) only indicate ways how can be expressed, on the side of lessor, the fact that the right to use the property was in connection with the lease contract transferred to the lessee for some time. There are two main ways – first approach is known as a derecognition approach (or receivable and residual) and the second as a method of performance obligation approach. However, these approaches can be applied in very different forms with different impacts on individual items of the statement of financial position and profit or loss. Probably a single methodology can not be even created that would accurately show the reality of all possible forms of lease contracts. It is therefore a matter of finding a solution within which it is possible to apply even more models, identified balance sheet items and also created revenues must correspond to definition of conceptual framework or simile standard and method of reporting must correctly express the essence of the lease relationship. This paper tries to find the main advantages and disadvantages of some possible methodological procedures in terms of their expected limitations. Evaluation of the impact of the recording of a model lease agreement according to the currently valid International Standards and according to some methodological procedures resulting from the above-mentioned approaches is realized. Analyzed contract could be, according to the existing international accounting standards, evaluated as an operating or capital lease.. Impact of the relevant method of reporting into the income statement and statement of financial position is assessed and there are conclusions which methodologies consider the author as best recording the reality in the frame of the various types of contracts. Very specific lease relationships,

such as very short-term leases and operational leases of real estate are not the subject of the author's interest.

RESULTS

Currently applicable international accounting standards divide the lease into operating and financial in response to whether there is a transfer of significant risks and rewards associated with ownership of an asset to the lessee. If this transfer does not occur, lease is classified as operating leases. In this case lessor report the property in the statement of financial position and in relation to the physical nature of assets in accordance with standards IAS 16 – Property, plant and equipment, IAS 38 – Intangible assets, IAS 40 – Investment property or IAS 41 – Agriculture. Revenues from operating leases (excluding revenues from services provided at the same time, such as insurance or maintenance recorded into revenues according to moment when incurred) are reported evenly in income statement of lessor over the lease contract, if there is no other method that would show the reality more accurately. This may constitute a situation where the agreed payments are rising year on year due to rising inflation. Lessor may also try to find another systematic basis for recording of organizing loss of benefits that asset brings such revenues depending on the performance of leased assets if the volume of output is detectable during the lease by the lessor. The lessor may spend certain costs in connection with the leased asset, which can be divided into several groups:

- initial direct costs in the beginning of the lease,
- costs incurred in connection with the provision of services or concessions to lessee in order to motivate the customer to conclude contract,
- costs repeatedly incurred on the asset by the lessor during the lease period (repairs, maintenance, etc.).

Initial direct costs incurred by the lessor are included in the initial measurement of the leased asset and are reported as an cost over the lease term – it is necessary to record them under accrual principle – first accounting value of assets is increased by them and subsequently they are recorded under accrual principle. The second group of costs, ie various forms of incentives to lessees, is recorded under accrual principle and is recorded in terms of accounting as a reduction in revenues for the entire lease period. The third group of costs (maintenance, repair, etc.) is charged into lessor's costs for the period in which those costs were actually incurred. The lessor also report depreciation of leased assets into the costs and depreciation policy should be consistent with the depreciation of other similar assets.

In the case of lease evaluated as a finance lease, lessor does not recognizes asset in the statement of financial position, because he transferred significant risks and rewards to the lessee. This

procedure can be compared to a provision of loan or a loan to purchase the asset, therefore it is necessary to separate in the accounting value of "loans" and interest resulting from the loan. Lessor acknowledges asset arising from finance leases as receivable, in an amount equal to the net investment in the lease. This amount is based on gross investment in the lease, which is the sum of the all minimum lease payments over the lease term increased by eventual unguaranteed residual value of assets. The current International Accounting Standards differ lease provided by the manufacturer or dealer of the leased assets from lease provided by banks or by leasing companies. For the lessor, who is not directly the manufacturer or dealer, the value of the investment will increase by directly attributable, than the incremental costs - such as commissions to sellers for conclusion of contract or fees related to conclusion of contracts. Net investment in lease represents the gross investment in the lease discounted by the implicit interest rate, which is that rate when the present value of minimum lease payments eventually increased by expected residual value (unless there is not sale of the property to lessee) is equal to the fair value of leased asset increased by initial direct costs of lessor. Total (unrealized) interest income of lessor is difference between gross and net investment in the lease. At the beginning of the lease there is derecognition of leased assets from the property of lessor in correlation with accounting receivable from finance leases - which is initially measured at fair value of the assets passed to the lease eventually increased by the initial cost for the conclusion of the contract on the side of the lessor, and with the accounting of unearned interest income. This receivable is subsequently reduced by collected lease payments, at the same time there is dissolution of unearned interest income and its inclusion into financial incomes of the lessor. For the allocation of unrealized income the lessor should use the interest rate that will guarantee a fixed required profitability of its outstanding net investment. The size of the interest received in each lease period is set as the current amount of outstanding net investment multiplied by this interest rate.

However for many years² there have been objections from many economists that the current approach to reporting of leases based on the approach to the transfer of risks and rewards related to the lease may negatively affect decision of the users of financial statements, because economically very similar transactions can be evaluated in very different manner when using the current methodology. Inherently similar agreements can be evaluated by reporting entity as operating or financial lease with a completely different impact on the financial statements,

and even intentionally to distort the situation of reporting units, particularly on the side of lessee, in relation to whether the reporting entity wants to overestimate or underestimate assets and liabilities and indicators of financial analysis designed from them. The motive may be, for example trying to hide liabilities from the owners or creditors or to influence the profit in desired direction. Therefore there is justified question, whether also conclusion of contract which is known as a contract on operating lease does not lead on the side of lessee to the need to report an identifiable asset and liability in the balance sheet. Description itself of the lease contract (notes to the statements) can not be in this sense regarded as providing sufficient information for users of financial statements for their economic decisions. For this reason, the IASB and the FASB have been working since 2009 on a common project, committed to this issue and whose result is the release of Exposure Draft Leases. This material was offered for public discussion. There is relatively broad consensus at least on the main points (initial measurement of the assets and liabilities in the same amount, methods used for their measurement) that leads to the possible application of the model, which would quite significantly reduce off-balance sheet accounting. Some economists say that it is not necessary to create such models because UK and U.S. investors account for off-balancesheet leases in their risk assessment (Finnerty, Fitzsimmons, and Oliver (1980), Imhoff, Lipe and Wright (1993), Ely (1995) and Beattie, Goodacre, and Thomson (2000)). Other authors made studies that find that off-balance-sheet lease obligations can distort the fundamental analysis of companies, especially when financial ratios are involved (Altman, Haldeman and Narayanan, 1977; Elam, 1975), Munter and Ratcliffe (1983), Wilkins and Zimmer (1983), and Breton and Taffler (1995). All the lease contracts, including those which do not include transfer of significant risks and rewards associated with the lease would be included in the assets of the lessee, on the one hand in the form of right to use property during lease period, on the other hand, in the form of an liability to pay the lease. Of course in this field there is a number of questions concerning the measurement of these assets and liabilities arising from the contract - such as a suitable way of economic expression from uncertainty about the actual lease term, or amounts, which will be actually paid to lessor during the lease. On the other hand, maybe even deeper problems arise on the side of lessor when creating a model that respects the principle of transfer of right to use. IASB and FASB propose basically two main approaches to the reporting of leases by the lessor:

- I. approach, where part of the subject of lease (physical asset) is transferred for a specified

2 Bosco (2011) mentions the year 1994, when the G4 came with a proposal to capitalize operating leases

period of time to lessee (derecognition approach or receivable and residual approach),

- II. approach, under which physical asset is separated from the right to use this property, where the right to physical asset as such is not **taken away** from the lessor (**performance obligation approach**).

Ad I) The essence of this approach is that the lessor in practically exchange all assets or its part for the right to collection a rent (receivable) during the lease. In addition, the lessor reserves (if there is not the purchase of the subject by the lessee) right to leased property after termination of the lease relationship. The approach leads to the derecognition of leased property from assets of lessor (because the lessor sold the right to use the property during the lease contract, he has no longer this right and therefore he should derecognise it from his assets) and to the creation of receivable as a financial asset and the expected residual value of asset after the end of the lease – as non-financial asset. From balance sheet perspective, this approach is comparable to the above introduced method of treatment with lease contracts leading to the sale of assets according to current US GAAP and finance leases under IAS 16. The essential difference is that the lessor can derecognised also only a part of the asset and use this value for the evaluation of receivable on the collection of rent.

Ad II) Lease Agreement creates a new right and new liability. In this case the leased property is seen as an economic resource and lessor gives to lessee the right to use it. The lessor does not lose control of the hired property during lease contract and therefore there is no reason to derecognition of this item from assets. This item remains in the statement of financial position of the lessor and the lessor continues in its depreciation over its economic life. Lessor only agrees to allow lessee to use this subject during the duration of lease contract. The lessor is bound by the content of the lease contract even if in the market there are a change in price, availability of assets in question or other factors. That is the reason for the understanding the liability as identifiable as it meets the definition of a liability (it leads to an outflow of economic benefits to lessee, this outflow was a result of past events and is reliably measurable). The essence of this approach is the assumption that the lessor creates a new right separable from ownership of the relevant asset (the right to use property) and this corresponds to the creation of a new, recognized liability. The lessor does not derecognise the subject of lease from its assets during the duration of lease contract, he only creates a liability to let the lessee to use property measured at present value of expected rent for lease period. Subsequently, during the period when the rent is paid, debt is reduced and interest income is calculated into profit or loss, the liability is subsequently amortized into revenues, evenly unless there is found preferable systematic base.

The impact of individual models of recording can be demonstrated on the example of a lease

agreement under which the lessor transfer on January in the year 1 to use the property (machine), whose book value is 600 975 monetary units (m.u.) and whose fair value at the time of conclusion of contract is 650 000 m.u. Usable time of proeprty is 9 years, the lessor assumes equal use of property. Rental period is 7 years and at the end of December of each year, the rent is paid in amount of 91 927 m.u. In the contract there is not guarantee for the residual value nor contingent rental, it is not possible to extend lease contract nor terminate prematurely (without penalty) or purchase the subject of lease.

The first option is to apply **derecognition approach** leading to the derecognition of assets, creation of receivable on rent and residual value of asset, eventually of profit or loss from the transaction. As the benefit of this approach can be possible consider consistency with the understanding of the right to use as assets and by its reporting on the side of lessee, who has associated economic benefits with it during the lease term under its control. This approach is based on the assumption that the benefits from the right to use property are separable from the physical asset itself, and thus there is no obligation of the lessor to allow the lessee the use of the subject of lease, the right to use the property is sold to lessee for a determined period. The lessor, on the other hand, has no right to use the property during the lease period, he has retained this right only for the period after the end of the lease. The question is whether the resulting receivable can be considered as an asset, as defined in the conceptual framework of IAS / IFRS and CON6 (author of US GAAP). The basic attributes of an asset is that it was created as a result of past events, and there is expectation of the flow of economic benefits to the entity. From the moment when the lessor gave the subject of lease to use to lessee, the right to collect a rent (receivable) becomes unconditional. Under normal conditions the lessee may avoid this liability only in the case when the lessor breaches the conditions of the lease contract. Right to collect payments is under the control of the lessee (it is legally enforceable), created from past events (delivery of leased assets) and it leads to future economic benefit, which is under the control of the lessor. The only problem is the reliability of the measurement of this receivable in the case of some complex lease contracts. Another asset that is created on the side of lessor, is the expected residual value of an asset after the termination of lease. Right of lessor to economic benefit from leased assets for the period after the end of the lease does not result from the closed lease contract, such right existed in the period before the conclusion of lease contract, however it is necessary to report it separately in assets after the conclusion of lease contract. The right to use this property has resulted from the very act of legal ownership or from contractual relationship, if the lessor itself has leased the subject of lease. The lessor continues to control assets after the termination of leasing contract, he never gave

which would be in this model derecognized from the assets into operating costs (cost of sold right to use property), it can be determined as the ratio of fair value of the right to collect rent (present value of lease payments) to fair value of the leased assets at the date of conclusion of lease contract multiply by book value of leased assets. This reflects the fact that the lessor made or purchased property at a lower value than the usual selling price in the market. The remaining value derecognized from assets would be presented by residual value of property. The receivable for in future collected rent is measured in the amount of sum of expected lease payments discounted by implicate interest rate of lessor (plus the other direct costs incurred by the lessor) and would be recognized in correlation with the operating income (revenues from the sale of use of rights). Furthermore, the receivable would be dissolved by the above-mentioned manner.

Possible accounting recording in accordance with introduced principles is shown in Fig. 1.

Analogously, it would be possible to use the net method, ie the balance sheet items would be recognized in the same way in a single economic operation in correlation with the reported net profit from the sale with subsequent regulation of receivable.

Some economists do not recommend derecognised value of the residual value after the termination of lease in operation from assets (expected residual value at the date of anticipated termination of the lease would remain recorded on the account of property or equipment). But I think that for users of financial statements it is a relatively important information that should be reported separately from owned assets in the statement of financial position, and therefore in accounting it is appropriate its recording in this separate account.

Following values of the balance sheet and income statement items would be reported in the model example in the individual years (brutto model on the side of manufacturer is applied).

Decision of lessor – ie whether he has sufficient arguments to influence profit immediately at the beginning of the lease (by difference between revenues and costs from the sale of right to use property) has the most important influence on the course of profit, as show Tab. I and II. and Fig. 4. Otherwise, the profit from lease is declining throughout the entire lease period and it would not differ too much from the current recording of the financial lease, for the existing operating lease would be usually uniform all the time.

On the other hand, if the principle of **performance obligation** approach would be applied, there would not be derecognition of property from the assets of the lessor, there would be only recognized a liability to leave to use the property to lessee. Possible accounting treatment of performance obligation approach is shown in Fig. III.

Following values of the balance sheet and income statement items would be reported in the model example in individual years.

This approach is advisable only for those contracts where the risks (eg regarding the residual value after the lease) and rewards associated with the lease are not transferred to the lessee. The approach definitely leads to an increase in assets of the lessor, both in comparison with the contracts, which, according to the applicable regulation were recorded as operating leases, and lease finance (Fig. 5). The course of profit is then shown in Fig. 4. Performance obligation approach moves profits more into the early stages of lease (except of the last year of lease contract), which may not be perceived positively by the lessor, compared with the existing reporting of operating leases. There is shown increase of revenues during the first three years of lease contracts in case of lease contracts of varying length in the Fig. 3. A serious problem for discussion is whether the residual asset at the beginning of the lease report in the discounted value and gradually increase it by the relevant interest (financial revenue of the period).

I: Assets, liabilities, costs and revenues in years of lease (derecognition approach)

Year	0	1	2	3	4	5	6	7
Cost on sale RTU	442 506							
Equipment	0	0	0	0	0	0	0	271 588
Interest income		38 288	33 997	29 363	24 358	18 952	13 114	6 809
Revenues from sale of RTU and other revenues from ordinary activities	478 604							113 119
Residual value	158 469	158 469	158 469	158 469	158 469	158 469	158 469	0
Profit or loss	36 098	38 288	33 997	29 363	24 358	18 952	13 114	119 928
Profit or loss (after taxation)	23 464	24 887	22 098	19 086	15 833	12 319	8 524	77 954
Receivable	478 604	424 965	367 036	304 472	236 904	163 929	85 117	0
Net assets	637 073	583 435	525 505	462 942	395 373	322 399	243 586	384 707
ROA	3.7	4.3	4.2	4.1	4.0	3.8	3.5	20.26

Source: own calculation

II: Assets, liabilities, costs and revenues in years of lease – current operative lease (OL) and finance lease (FL) reporting

Year	0	1	2	3	4	5	6	7	FL	OL	FL	OL	FL	OL	FL	OL	FL	OL
Current costs - depreciation	-	66 775	-	66 775	-	66 775	-	66 775	-	66 775	-	66 775	-	66 775	-	66 775	-	66 775
Cost on sale	442 506	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenues - rent	-	91 927	-	91 927	-	91 927	-	91 927	-	91 927	-	91 927	-	91 927	-	91 927	-	91 927
Revenue from sale of assets	478 604	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income			50 966		47 689		44 150		40 328		36 200		31 742		26 927			
Profit or loss	36 098	25 152	50 966	25 152	47 689	25 152	44 150	25 152	40 328	25 152	36 200	25 152	31 742	25 152	26 927	25 152		
Profit or loss (after taxation)	23 464	16 349	33 128	16 349	30 998	16 349	28 697	16 349	26 213	16 349	23 530	16 349	20 632	16 349	17 503	16 349		
Residual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	271 588	-	-
Long term assets brutto	-	600 975	-	600 975	-	600 975	-	600 975	-	600 975	-	600 975	-	600 975	-	600 975	-	600 975
Accumulated depreciation	-	66 775	-	133 550	-	200 325	-	267 100	-	333 875	-	400 650	-	467 425	-	534 200	-	
Receivable	637 073	-	596 112	-	551 874	-	504 098	-	452 499	-	396 772	-	336 588	-	0	-	-	-
Assets netto	637 073	600 975	596 112	534 200	551 874	467 425	504 098	400 650	452 499	333 875	396 772	267 100	336 588	200 325	271 588	133 550		
ROA		2.7		3.1		3.1		4.1		4.9		6.1		12.2				

Source: own calculation

Where:

FL = Financial lease

OL = Operating lease

Asset (according to its physical nature – equipment...)		Income on rent (revenue)	
Opening balance (historical costs)			4)
Accumulated depreciation or amortization		Depreciation costs	
	3)	3)	
Liability (let the lessee use the subject of lease)		Receivable on lease	
4)	1)	1)	2)
Interest Revenue		Cash	
	2)	2)	

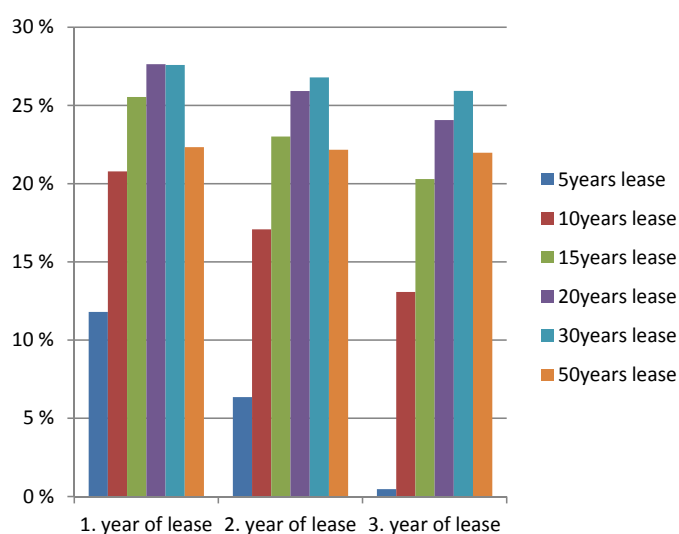
2: *Performance obligation approach – possible accounting treatment*

- 1) recognition of receivable for rent and expression of liability to leave the right of use property to lessee,
- 2) collection of rent, receivable reduction using the implicit interest rate of the lessor and the recording of interest as financial revenue,
- 3) recording the depreciation of property during the lease contract (according to a depreciation schedule)
- 4) depreciation of liability.

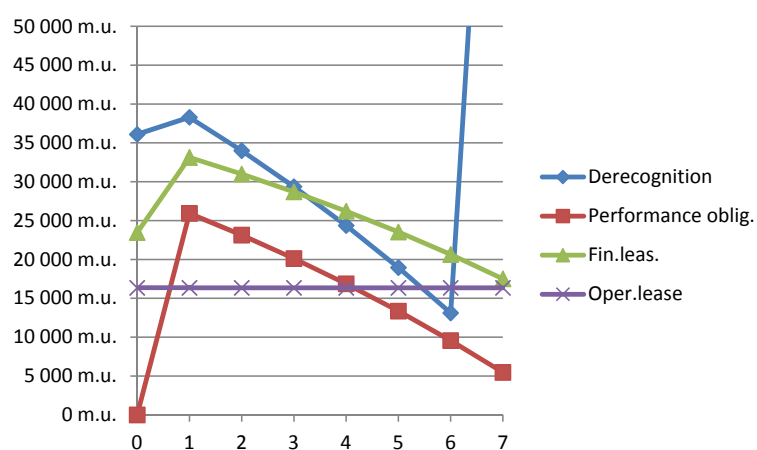
III: *Assets, liabilities, costs and revenues in the years of lease (performance obligation approach)*

Year	0	1	2	3	4	5	6	7
Depreciation		66 775	66 775	66 775	66 775	66 775	66 775	66 775
Interest revenue		38 288	33 997	29 363	24 358	18 952	13 114	6 809
Revenue from depreciation of liability		68 372	68 372	68 372	68 372	68 372	68 372	68 372
Profit or loss	0	39 885	35 594	30 960	25 955	20 549	14 711	8 406
Profit after taxation	0	25 925	23 136	20 124	16 871	13 357	9 562	5 464
Assets	600 975	600 975	600 975	600 975	600 975	600 975	600 975	600 975
Accumulated depreciation		66 775	133 550	200 325	267 100	333 875	400 650	467 425
Assets less depreciation	600 975	534 200	467 425	400 650	333 875	267 100	200 325	133 550
Liability	478 604	410 232	341 860	273 488	205 116	136 744	68 372	0
Receivable on lease	478 604	424 965	367 035	304 471	236 902	163 927	85 114	0
Net assets	600 975	548 933	492 600	431 633	365 661	294 283	217 067	133 550
Assets not reduced by liability	1 079 579	959 165	834 460	705 121	570 777	431 027	285 439	133 550

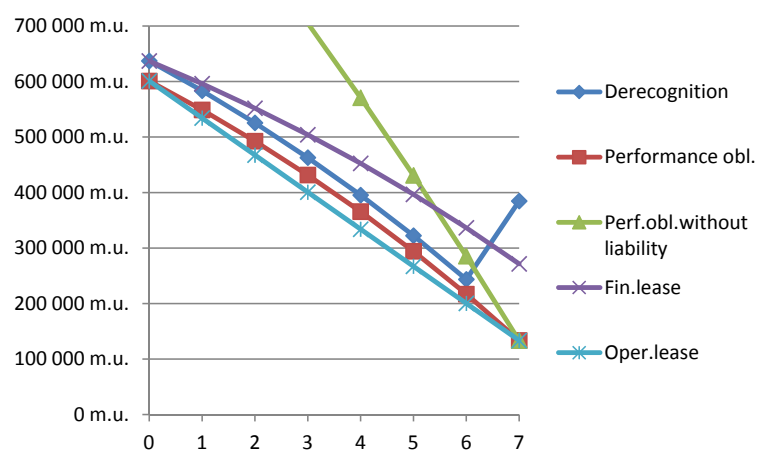
Source: own calculation



3: Increase of revenues during the first three years of leasing if performance obligation method is used (compared to current operative lease reporting)
Source: own calculation



4: Race of profit or loss
Source: own calculation



5: Race of net assets
Source: own calculation

There are presented rates of profit or loss during individual years of lease contract using analysed methods of lease reporting in Fig. 4 and 5.

In my opinion in the above introduced performance obligation approach can be find more disadvantages than advantages:

- Approach can not be considered as consistent with reporting on the side of lessee.
- Opinion that the asset remains under the control of the lessor is in breach of the lessee's view, when there is expressed assumption that it is he who controls benefit from the right to use for property. Although in this approach there is separation of possession of asset from the right to use this property, but it is questionable whether the lessor has actual control of the asset if lessee controls the right to use the property (it is possible to control such property?). The question is whether an asset in its physical form ceased to meet the definition of an asset from conceptual framework over the lease period on the side of lessor.
- There is likely overestimation of assets because receivable on rent from leased asset and the asset itself embody the same future economic benefit (in this method reported assets in the balance sheet exceed those achieved cash flow from lease). If we consider an indicator of net assets as the difference between the value of assets and related debts, this disadvantage is partially suppressed, on the other hand, most indicators of activity and other ratios do not assume this correction,
- the question is whether the liability to let the lessee to use the property during the lease period has not been met at the moment of transfer of the subject to lessee. If a risk of non-fulfillment of this commitment is taken to be so large that it prevents the derecognition of property from assets, it should not logically exist a receivable in asset on the side of lessor (item would remain conditional – dependent on the fulfillment of liability),

- approach is not consistent with another project of the IASB and the FASB focused on the reporting of revenues³,
- transactions, when at one moment there is creation of asset and also liability are very often perceived as operation artificially increasing the assets.

CONCLUSION

Since the IASB and the FASB focused its efforts on creating a model that would faithfully display by the only procedure the essence of the lease relationship regardless of nature of the lease primary only on the side of lessee, it will be very difficult to create easy applicable "mirror" methodology on the side of lessor. It turns out that apparently it will not be possible continue without division of leases, for example in relation to duration, specifics of subject of the lease relationship or whether there is a transfer of significant risks and rewards to the lessee associated with the lease. This means that it would not be possible totally avoid the problems of intentional structuring of lease contracts with the intent to affect profit or total balance sheet. On the other hand, the fact is that these tendencies always appeared on the side of lessee rather than on the side of the lessor. In the case that the course of reported revenues will vary significantly over time, these efforts can not be a priori excluded on the side of lessor, it will also depend on the relationship of reported revenues to income taxes. Therefore IASB and FASB will have a task to create criteria for leases division, which will be easily understood by users and on the other hand, it will not be easy to circumvent. In addition to this problems there are symmetrical problems on the side of lessor as on the side of lessee, ie how to deal with the estimation of expected lease period (in this case accounting entity should be more carefully due to the principle of prudence in the area of revenues), including contingent rental or guarantees for residual value into the balance sheet items etc.

SUMMARY

In 2009 IASB and FASB started a public discussion and commenced work on a project referring to recording of leasing in financial statements of companies using International Accounting Standards for reporting. Contrary to most national regulations, the current solutions of IAS and US GAAP require completely different recording of operative and financial leasing in financial statements, and consider the transfer of risks and leasing rewards as the main criteria for their division. Such an approach, however, has been repeatedly criticized by many users of financial statements, because transactions that are very similar or even identical economically are caught up in a completely different manner depending on whether the recording entity evaluates the leasing subjectively. It may even lead to manipulation of recording according to requirements and intents of the recording entity. This contribution analyzes advantages and disadvantages of some discussed procedures, in

3 http://www.fasb.org/revenue_recognition.shtml

particular of those which could replace current standards in the future (recording based on the use of the concept of right to use), and various effects on the report on the financial situation and profit or loss development when using current methods or newly suggested methods during the existence of leasing. The subject of interest rests in reporting on the side of a lessor only. A model lease contract which could be assessed as operative as well as finance lease was analysed. There were presented impacts into the income statement and statement of financial position when using derecognition approach and performance obligation approach. Author holds the view that will be very difficult to create an easy applicable "mirror" methodology to the RTU (right to use assets by lease) on the side of lessor. It turns out that apparently it will not be possible continue without division of leases, for example in relation to duration, specifics of subject of the lease relationship or whether there is a transfer of significant risks and rewards to the lessee associated with the lease.

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