ACTA UNIVERSITATIS AGRICULTURAE ET SILVICULTURAE MENDELIANAE BRUNENSIS

Volume LXI 97 Number 4, 2013

http://dx.doi.org/10.11118/actaun201361040881

THE EVALUATION OF NEW METHODOLOGICAL APPROACHES TO LEASE REPORTING ON THE SIDE OF LESSOR

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Received: April 11, 2013

Abstract

BOHUŠOVÁ HANA, SVOBODA PATRIK: *The evaluation of new methodological approaches to lease reporting on the side of lessor.* Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 2013, LXI, No. 4, pp. 881–891

Since 2002 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) has begun significantly cooperate in the development of standards based on the same principles. The cooperation is realised through a series of short term or long term projects. Revenue recognition and lease reporting projects represent priority areas of convergence. The development of methodological approaches for lease reporting on the side of lessee and lessor that would eliminate the main weaknesses of the current system of reporting based on the classification of lease contracts in connection with the lease term and the transfer of risks and benefits associated with the lease to the lessee should be the result of the convergence activity in the area of lease reporting. The evaluation of the impact of the newly proposed methodological approaches to lease reporting in the field of operating leases into the financial statements of lessor that will be affected by this change of methodology (financial position, comprehensive income statement) is the main aim of the paper. The impact into selected indicators of financial analysis with a focus on indicators, in whose construction are used items of statements that are significantly affected by the change of the methodological approach is evaluated as well.

lease, right of use, lessee, IFRS and US GAAP convergence

Over 100 countries have recently moved to IFRS reporting or decided to require the use of these standards. It is supposed that the use of IFRS enhances the comparability of financial statements, improves corporate transparency and increases the quality of financial reporting (Daske, Hail, Leuz, Verdi, 2008). On the other hand, there are US Generally Accepted Accounting Principles (US GAAP) which were the only reporting system, which was accepted by financial markets in the USA. Mládek (1998) had earlier considered them as the best candidate for a system that would represent a global system of financial reporting US GAAP, which is rigorous and is a goal to which should IAS/IFRS approach.

These two systems could be suitable to be a global system of financial reporting. Convergence of U.S. GAAP and IFRS is an important stepping stone on the journey to a global, high quality set of financial reporting standards development. The two most significant organizations in the field of financial reporting regulation setters in the world – The Financial Accounting Standard Board (FASB) in the USA and International Accounting Standards Board (IASB) which is responsible for IFRS development begun significantly cooperate in the development of common principles based standards in 2002.

The process of convergence of US GAAP and IFRS has been realised through a series of sub-projects aimed at short-term or long-term period. These are the projects where the unification of accounting rules was expected no later than at the end of 2008. Defined target has not been fulfilled and the supposed completion date was postponed to 2014. On the other hand, in July 2012, the SEC published its final report concerning evaluation of the implications of incorporating IFRS into the US financial reporting system. The report does not include a final policy decision as to whether IFRS should be incorporated into the US financial reporting system, or how such incorporation should occur. Based on this report and according to Mládek (2012) the term of convergence completion will not be met and the probability of IFRS and US GAAP convergence completion decreases. SEC is worried about a EU strong impact on the IFRS development process and in its report (SEC, 2012) is stayed: „An endorsement process may allow a jurisdiction to exert more influence over the standard-setting process because the threat of a potential rejection of a proposed accounting standard may influence the IASB decision on the scope of the accounting standard, how to account for a particular transaction, or the timing of the completion of an accounting standard-setting project“.

As the problem of convergence can be seen that a large part of the American public still perceives IFRS as "European" system that has the ambition to become as global. In response to the SEC report the IASB issued Report to the Trustees of the IFRS Foundation in October 2012 in which are emphasised benefits of transition to a global set of financial reporting standards. Despite the SEC reserved access to convergence, it continues.

In 2012 the IASB and FASB published a joint progress report. The IASB and FASB remain committed to completing the remaining three convergence projects-financial instruments, revenue recognition and leases. Currently, these projects represent priority areas of convergence. The online survey, conducted by PWC (2011) in February 2011 among 1 400 respondents (mostly finance executives and professionals), which concerned the importance of the individual projects that are the subject of convergence, clearly shows the convergence of leases as the most important (43% of respondents consider this area as the most important, 31% of respondents consider reporting of revenues as the most important area and financial instruments consider respondents as the third major area).

MATERIAL AND METHODS

The paper is focused on the convergence of IAS/IFRS and US GAAP in the area of leases. The current methodological approaches to leases reporting are subject of serious criticism because of the possibility of handling with lease transactions with an intension to achieve the desired image of the accounting entity.

At the theoretical level the methodology is based on comparison of current approach (according to IFRS and US GAAP principles) for recognition, recording and reporting of leases (especially on the side of lessor) and the exposure draft of the standard – Lease issued in August 2010. It is the first result of joint efforts of the IASB and FASB in the leases project. The main differences between current approach and the exposure draft treatments are identified.

Evaluation of the impact of implementation of the newly proposed methodological approaches for leases reporting especially in the field of operating leases (replacement of off-balance reporting of leased property by reporting on the basis of transfer of the right to use) into the financial statements (statement of financial position, comprehensive income statement) is the main aim of the paper. The impact into selected indicators of financial analysis is evaluated. The evaluation is focused on indicators, in whose construction items that are significantly affected by the change of the methodological approach are used. The impact of the new methodological approach to values of indicators and to the values of ratio indicators (profitability ratio, liquidity ratio, indebtedness ratio) are evaluated. The following ratios are used:

Return on assets

$$\text{ROA} = \frac{\textit{Net income}}{\textit{Total assets}}$$

Return on equity

$$\text{ROE} = \frac{\textit{Net Income}}{\textit{shareholder's equity}}$$

Debt ratio – total indebtedness

$$\text{ROE} = \frac{\textit{Total debt}}{\textit{Total assets}} \times 100$$

Liquidity ratios

Theoretical background

In the area of leases, the result of the convergence activity should be concentrated to the development of methodological approaches for lease contracts reporting on the both sides (lessee and lessor) that would eliminate the main weakness of the current reporting system based on the classification of lease contracts as operating and financial. Based on discussions concerning the lease reporting the Exposure draft (ED) of lease standard was developed. This ED is built on the presumption that every lease contract with the term over one year represents transfer of right to use leased asset. Due to two methodological approaches with particular variants on the side of lessor were presented in the ED it is supposed that the re-exposure draft will be published. It should specify conditions for application of each approach. The progress in the lease project was summarised in the joint progress report issued in April 2012. During 2011 and 2012 the IASB and FASB considered the comments received on the ED. In July 2011 the boards decided that, although they had not completed all of their deliberations, they had sufficient information to be able to conclude that they should re-expose the leases proposals. The boards have addressed many of the issues raised by respondents to the exposure draft. Based on analysis of comment letters, the issue whether all leases should be accounted for in the same way seems to be the most significant issue. In January 2013 Boards announced that the re-exposure draft will be published in mid-2013.

Current approach to lease reporting under IFRS

There is the IAS 17 Leases in IAS/IFRS and Topic 840 – Leases related to reporting lease after the US GAAP codification. It includes mainly SFAS 13, SFAS 17, SFAS 23, SFAS 26 and SFAS 145. A lease is defined by IAS 17 as an agreement whereby the lessor conveys to the lease in return for a payment or series of payments the right to use an asset for agreed period of time. Lease is classified as financial if it transfers substantially all risks and rewards incidental to ownership of an asset to the lessee. For classification of lease as a financial lease is irrelevant whether after the end of the lease there will be transfer of ownership to the lessee. Otherwise it is recorded as an operating lease.

Lease relation in the case of a financial lease is similar to the acquisition of the relevant asset financed by the loan, and it consequently results in the way of its reporting in accordance with IAS 17. At the commencement of the lease the object of the lease is recognised in assets and liabilities of the lessee at the lower of the fair value of leased asset and the present value of the minimum lease payments. According to the IAS 17 minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. Implicit interest rate, if it is possible to determine it, is used as discount rate for discounting of payments. This interest rate is internal rate of return on the side of lessor.

According to the IAS 17 lessor shall recognize assets held under a finance lease in the statement of financial position as a receivable at an amount equal to the net investment in the lease in case of financial lease. According to IAS 17 net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease. Gross investment in the lease is the sum of the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value accruing to the lessor.

In case of operating lease lessor presents assets which are subject to operating lease in statement of financial position. Income from operating lease is reported in income on a straight-line basis over the lease term, unless another systematic basis is more representative.

The lessor's lease reporting according to US GAAP is similar to IAS 17. The primary standard for lease accounting is Statement of Financial Accounting Standards No. 13 (FAS 13), it is known as topic 840 in the Accounting Standards Codification. According this regulation, under an operating lease, the lessor records lease revenue and a corresponding cash or lease receivable. The asset is reported by lessor as an owned asset, and the lessor records depreciation expense over the useful life of the asset.

Under a capital (financial) lease, the lessor credits owned assets and debits a lease receivable account for the present value of the lease (an asset, which is broken out between current and long-term, the latter being the present value of rents due more than 12 months in the future). With each payment, cash is debited, the receivable is credited, and unearned (interest) income is credited.

The current approach to reporting leases is a subject of sharp criticism from many economists and users of financial statements (Duke, Hsieh, Su (2009), Abdel-Khalik, Rashad (1981), Weil (2004), Forsyth, Witmer, Dugan (2005). The object of criticism is mainly the fact that the current approach to reporting leases may affect the investment and financial decision-making since very economically similar transactions can be, when using the current methodology, reported and evaluated in very different ways especially on the side of lessee.

Convergence IFRS and US GAAP in the area of leases

Based on the number of inconsistencies associated with the application of the existing rules for the reporting of leases under schemes IFRS and U.S. GAAP, the IASB and FASB began to work in 2006 on a joint project with the aim to develop a common standard for lease reporting. It would be based on principles that would fairly show the substance of the lease transaction. In March 2009 IASB and FASB published the discussion paper Leases – Preliminary Views and they invited professionals to take a stand to this material. Based on comment letters to the discussion paper the Exposure draft – Leases was issued in August 2010.

The unification of leases recording irrespective of lease form in case of long-term leases is the main aim of convergence process. It should help to prevent from manipulation with lease contracts reporting for desired results. The unification of approaches in ED is based on the principle of the transfer of rights to use under which at the time of commencement of the lease the asset is recognised (the right to use the property) and liability (obligation to pay lease instalments) for the lease term. The fair value model or a model based on cash flows for their initial measurement can be generally used. Boards inclined to the application of model based on cash flows, mainly because of easier application (it is not required regular updating of fair value). The proposed model is linked to the need to determine the appropriate interest rate for discounting the expected lease payments. It is possible likewise in the case of the model used so far for the reporting of financial lease - a model of total assets to use the implicit interest rate (which is associated with the risk of its difficult finding by lessee) or incremental interest rate.

The ED proposes two accounting models for lessors – the performance obligation approach and the derecognition approach. According to Deloitte (2010) the two models are intended to follow the business model of a lessor. A lessor whose business model is primarily generating returns from the active management of the underlying assets (i.e., asset risk is the primary risk) would apply the performance obligation approach (e.g., a lessor that leases an asset to multiple parties over the asset's useful life or that sells the asset at the end of the lease term). Conversely, lessors whose business model is to lease an asset to a single party over the asset's life such that credit risk is the primary risk would apply the derecognition approach (e.g., manufacturer/dealer lessors that use leases as an alternative means of realising value from the goods they would otherwise sell).

1) Performance obligation approach.

Under this approach, the lessor has a performance obligation to permit use of the underlying asset during the lease term. At the commencement of the lease, a lessor recognises a lease liability equal to the present value of expected lease payments including initial direct costs incurred by lessor using the rate charged by the lessor. The initial measurement of the lease receivable at the date of inception of the lease is based on the longest possible lease term that is more likely than not to occur determined using an expected outcome approach. The lease payment receivable would be measured subsequently at amortised cost using the effective interest method. The liability would be amortised on the basis of the pattern of use of the underlying asset by the lessee (e.g., hours of use or units produced) or on a straight-line basis if the pattern of use cannot be determined reliably. A lessor does not derecognise the underlying asset.

In this case, the subject of lease is considered as an economic resource. The lessor gives the lessee the right to use this economic resource. In this approach, it is considered that the lessor does not completely lose control of the subject of the lease contract, and therefore there is no reason to derecognize this item of assets. Asset remains recognised in the statement of financial position of the lessor and continues its depreciation over its useful life.

The lessor agrees to allow lessee only option to use this object for lease. The lessor has an obligation to keep the lease contract contents even though the market conditions change (changes in the fair value of assets, the availability of the assets and other factors). The substance of this approach is the assumption that the lessor creates a new right separable from the asset (the right to use the property) and the right corresponds to the recognition of a new commitment. The lessor therefore keeps the subject of lease of its assets during the lease term and only recognizes an obligation to let the property to use by lessee. Analogously to lessee's reporting it is proposed to measure obligation in the present value of the expected lease payments. Subsequently, during the lease term the lease receivable is systematically reduced and interest income is recognised in profit of the period. The lease obligation is amortised during the lease term as an income on straight-line basis, if there is no more suitable basis.

A lessor presents the underlying asset, lease receivable, and lease liability on a gross basis in the statement of financial position, with a total of these items as a net lease asset or net lease liability.

A lessor presents in profit or loss the interest income on the lease receivable, lease income resulting from the satisfaction of the performance obligation and depreciation expense separately.

2) Derecognition approach

The obligation to deliver the asset to the lessee is considered as the performance obligation and it is satisfied at lease commencement. A lessor recognises an asset for the right to receive lease payments. A lessor removes (derecognises) a portion of the carrying amount of the underlying asset from its statement of financial position and reclassifies as a residual asset the portion of the carrying amount of the underlying asset that represents the lessor's rights in the underlying asset that it did not transfer.

The lease receivable is measured at the present value of the lease payments discounted using the rate the lessor charges the lessee plus any initial direct costs incurred by the lessor.

The portion of the underlying asset derecognised according to ED is calculated at the date of inception of the lease as follows:

$$\frac{\text{(Fair value of the right to receive lease payments} \times \times \text{Carrying amount of the underlying asset)}}{\text{Fair value of the underlying asset}}$$

The remaining portion of the underlying asset that is not derecognised is reclassified as the residual asset. The lessor measures the lease receivable at amortised cost using the effective interest method. The residual asset is not remeasured unless there is a change in lease term or the asset is impaired.

Under the derecognition approach it is supposed that it is possible to separate benefits of right to use asset from physical substance of asset. There is not any lessor obligation to allow the use of asset to lessee. The right to use during the lease term is sold to lessee and on the other hand, lessor has not any right to use the assets during the lease term, the lessor has this right only after the lease term. It is taken into the question whether it is possible to consider items arise after derecognition as assets according to Conceptual Framework.

There arise only the above-mentioned assets (residual value of the leased asset and the asset in a form of lease receivable), the receivable is subsequently amortised over the lease term with individual payments for the use. The implicit interest rate of lessor is used for its amortization.

Revenue is presented as interest only. The question of recognition of the lessor profit could be treated as an issue for discussion. It is obvious that for contracts where significant risks and rewards are transferred to the lessee and any expected residual value is not very high (no manufacturer or seller) the way of profit recognition is similar to the current approach in case of lease companies or banks (depending on the value of the residual assets).

In general, there are two variants of this approach – gross or net. According to the **gross approach**, it is necessary to determine the amount that is removed from assets as an operating cost (such as cost of right to use property sold to the lessee). At the date of lease commencement, a lessor recognises lease income representing the present value of the lease payments and lease expense representing the cost of the portion of the asset derecognised. These amounts are classified as revenue and cost of sales if generated in the course of the lessor's ordinary activities.

It is important that the data reported in the financial statements provide relevant information for users of financial statements decision making, and there are distinguished between ordinary and extraordinary activities of the entity. This approach is suitable for manufacturers and dealers that utilise lease as an alternative way to sell their products. They present income and expenses in gross way as revenue and cost of sales. Moreover, a lessor presents interest income on its leased assets separately from other interest income.

According to this approach, reported revenue would again meet the conditions of the conceptual framework - as regards the increase in economic benefits, which occurred for the year and which resulted in an increase or increase the usefulness (appreciation) of the assets or reducing liabilities, which resulted in increases in equity other than investment owners.

Only profit or loss is recognised under the **net approach**. It means that property which is a subject of lease is derecognised of financial position statement and the receivable arises, the difference between value of the subject of lease and value of receivable is recognised as profit or loss in income statement. In authors opinion, similarly to Deloitte's (2010) approach, this method could fairly represent the situation only in case of leasing companies. It is appropriate to report net profit or loss from lease operations in the case of leasing companies. According to Deloitte (2010) lessor presents the lease receivable separately from other financial assets. The residual assets are presented separately within property, plant and equipment. The presentation in profit or loss gross or net is in a single line item, on the basis of the lessor's business model. If a lessor's business model is to use lease arrangements for the purposes of providing finance, then the lessor presents income and expense net.

RESULTS

The following example is used to compare the significant financial statement items effect under the performance obligation approach derecognition approach and current operating lease treatments. The example also illustrates the accounting entries under (1) current operating lease guidance, (2) the performance obligation approach and (3) the derecognition approach.

An equipment is offered to customer as a lease option. The lease term is non-cancellable for five years with no renewal options or residual value guarantees. The annual payment is C.U. 15.000. The equipment's normal price (fair value) is C.U.70.000, and it's cost is C.U. 50.000. The lease term is 60 months. It is not supposed transfer the property to the lessee after the end of the lease term. The estimated value at the end of the lease term is CU11.540 (corresponds to the net book value and depreciation on straight-line basis and useful life 6.5 years). The discount rate the lessor is charging the lessee is 8 per-cent (PV of minimum lease payments 59 891.5).

Current approach to operating lease reporting

When using the existing methodology can the lessor recognize lease as operating lease. During the lease term the lessor records following operations (Tab. I).

Selected items of financial statement during the lease term under the current approach to operating lease reporting are subject to Tab. II.

Performance Obligation

When using a performance obligation approach the lessor records following operations during the lease term (Tab. III).

Selected items of financial statement during the lease term under a performance obligation approach are subject to Tab. IV.

I: *Possible approach to recording under current methodology (operating lease)*

Transaction	Account	Debit	Credit
Initial balance	Leased asset (PP&E)	50.000	
Annual PP&E depreciation	Depreciation costs	7.692	
	Accumulated depreciation		7.692
Annual lease instalments	Cash	15.000	
	Lease revenue		15.000

Source: own processing

II: *Selected items of financial statement during the lease term under a current approach (operating lease)*

Item/year	0	1	2	3	4	5
Depreciation		7.692	7.692	7.692	7.692	7.692
Lease revenue		15.000	15.000	15.000	15.000	15.00015.000
Profit or loss		7.308	7.308	7.308	7.308	7.308
Assets (gross)	50.000	50.000	50.000	50.000	50.000	50.000
Accumulated depreciation		7.692	15.384	23.076	30.768	38.460
Assets (net)	50.000	42.308	34.616	26.924	19.232	11.540
Lease liability		x	x	x	x	X
Assets net - liabilities	50.000	42.308	34.616	26.924	19.232	11.540

Source: own processing

III: *Possible approach to recording under performance obligation principle*

Transaction	Account	Debit	Credit
Initial balance	Leased asset (PP&E)	50.000	
Annual PP&E depreciation	Depreciation costs	7.692	
	Accumulated depreciation		7.692
Provision of PP&E to lessee – lease commencement	Lease receivable	59.891	
	Lease liability (commitment to let asset to use to lessee)		59.891
Collection of lease instalments	Cash	15.000	
	Interest revenue		4.791
	Lease receivable		10.209
Annual amortization of lessor commitment	Lease liability (commitment to let asset to use to lessee)	11.978	
	Lease revenue		11.978

Source: own processing

IV: *Selected items of financial statement during the lease term under a performance obligation approach*

Item/year	0	1	2	3	4	5
Depreciation		7.692	7.692	7.692	7.692	7.692
Interest income	0	4 791	3 975	3 093	2 140	1 111
Revenue of liability amortization		11.978	11.978	11.978	11.978	11.978
Profit or loss		9.077	8.261	7.379	6.426	5.397
PP&E	50.000	50.000	50.000	50.000	50.000	50.000
Accumulated depreciation		7.692	15.384	23.076	30.768	38.460
PP&E net	50.000	42.308	34.616	26.924	19.232	11.540
Lease receivable	59.891	49.682	38.656	26.749	13.889	0
Total net assets	109.891	91.990	73.272	53.673	33.121	11.540
Lease liability	59.891	47.913	35.934	23.956	11.978	0
Assets net - liability	50.000	44.077	37.338	29.717	21.143	11.540

Source: own processing

The lessor presents leased asset in his financial position statement, in addition the lessor presents the present value of lease payments as a receivable and the same amount is presented a liability. This approach leads to a significant increase in total assets compared to the current approach, if there is no offsetting assets in their physical nature and liabilities arising from the obligation to permit use of the underlying asset during the lease term. It is, however, in the opinion of the authors, the false artificial increase of total balance due to the duplicate reporting of property which is the subject of the lease in the financial position statement of lessor. This property is reported in conformity with physical nature of property or equipment and in a form of the lease receivable again. This method is not in accord with faithful representation of reality. This approach leads to decrease of the ROA, due to a recognized asset in the form of PP&E, of which does not arise any economic benefit for lessor. This

V: *Possible approach to recording under derecognition principle – gross approach*

Transaction	Account	Debit	Credit
Initial balance	Leased asset (PP&E)	50.000	
Asset derecognition and recognition of a new asset in residual value of derecognised asset and cost of right to use sold (lease commencement)	Leased asset (PP&E)		50.000
	Residual value	7.221	
	Cost of right to use sold	42.779	
Recognition of receivable in present value of lease payments and concurrently the income from right to use sold arises (lease commencement)	Receivable	59.891	
	Income from right to use sold		59.891
Collection of lease payments. Receivable is decreased when the implicit interest rate is used, concurrently the interest income arises.	Cash	15.000	
	Receivable		10.209
	Interest income		4. 791

Source: own processing

VI: *Selected items of financial statement during the lease term under a derecognition approach – gross variant*

Item/year	0	1	2	3	4	5
Cost of PP&E sold	42.779					
Interst income	0	5.369	4.598	3.766	2.868	1.897
Revenue of PP&E sale	59.891					
Profit or loss	17.112	5.369	4.598	3.766	2.868	1.897
Residual value of PP&E	7.221	7.799	8.423	9.096	9.824	10.610
Receivable	59.891	49.682	38.656	26.749	13.889	0
Net assets	67.112	57.481	47.079	35.845	23.713	10.610

Source: own processing

is the same reason for decrease of the Total Assets Turnover. Application of this approach leads to increase of debt ratios. Due to different reporting of the total interest income during the lease period in comparison the current approach there is an improvement of all indicators based on profit in the initial periods of lease terms. They are deteriorated during the lease term.

Possible way to operation lease recording under a derecognition principle – gross approach is subject to table V. The impact of applying the derecognition approach to the values of selected financial ratios of lessor in comparison to the current approach is subject to Tab. VI.

Selected items of financial statement during the lease term under a derecognition approach – gross variant are subject to Tab. VI.

Application of the gross variant of derecognition approach does not change total assets in comparison to the current approach. Despite the fact that for all the lease term, the profit is recorded in the same amount, its course is different in comparison to the current approach. A higher income from the lease is recognised in the early stages of the lease contract. Due to this fact, the return on assets is higher compared to the current approach to operating lease reporting at the beginning of the lease term. There is a decreasing trend of return on assets during the lease term. The current ratio is again higher in the initial stages of the lease. This approach is intended primarily for use in contracts concluded by manufacturers and retailers. The course of profit or loss is significantly different compared to the existing approach to recognition and reporting of operating leases. At the lease commencement the total profit corresponding to profit of retailer is recognized instantly.

Decreasing interest income is recognised during the lease contract. This is a significant difference compared with the current approach to operating lease in case of manufacturers and resellers. A significant increase in profitability in the first year is the consequence. Costs ratio compared to the current methodology increases significantly in the first year as well.

A possible way to reporting net approach under the derecognition approach is shown in the Tab. VII.

Selected items of financial statement during the lease term under a derecognition approach –net variant are subject to Tab. VIII.

Only profit or loss is recognized under the net approach. It means that property or equipment which is a subject of lease is derecognized from financial position statement and the receivable arises, the difference between value of the subject of lease and value of receivable is recognized as a profit or loss in income statement. In authors opinion, similarly to Deloitte's (2010) approach, this method could fairly represent the situation only in case of leasing companies. According to Deloitte (2010) a lessor presents the lease receivable separately from other financial assets. The residual assets are

VII: *A possible way to reporting net approach under the derecognition approach*

Transaction	Account	Debit	Credit
Initial balance	Leased asset (PP&E)	50.000	
Derecognition of asset, residual value, lease payment receivable and profit or loss arise	Leased asset (PP&E)		50.000
	Residual value	7.221	
	Profit or loss from right to use sold		17.112
	Receivable	59.891	
Collection of lease payments. Receivable is decreased when the implicit interest rate is used, concurrently the interest income arises.	Cash	1. 000	
	Receivable		10.209
	Interest income		4. 791

Source: own processing

VIII: *Selected items of financial statement during the lease term under a derecognition approach – gross variant*

Item/year	0	1	2	3	4	5
Interest income	0	5 369	4 598	3 766	2 868	1 897
Revenue of PP&E sale	17 112	5 369	4 598	3 766	2 868	1 897
Profit or loss	7 221	7 799	8 423	9 096	9 824	10 610
Residual value of PP&E	17 112					
Receivable	59 891	49 682	38 656	26 749	13 889	0
Net assets	67 112	57 481	47 079	35 845	23 713	10 610

Source: own processing

IX: *Impact of applying a performance obligation and a derecognition approach to the values of selected financial ratios of lessor in comparison to the current approach*

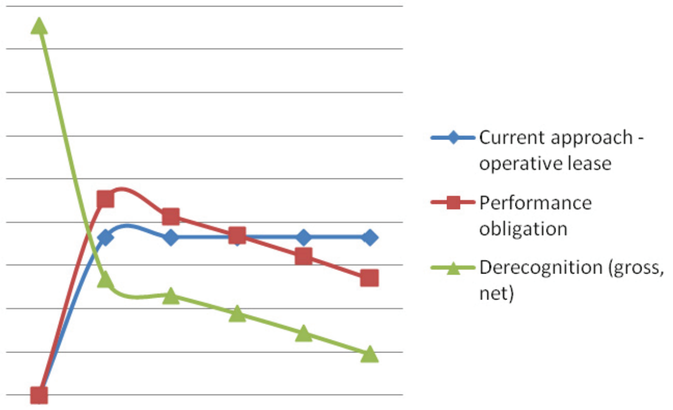
Ratio	Performance obligation	Derecognition
ROA	Decrease	Increase, deterioration during the lease term
Total assets turnover	Decrease	
Current ratio	Improving in comparison to current approach. Ratio slightly decreases during the lease term.	Increase, deterioration during the lease term
Debt equity	Increased indebtedness	Increase, decrease during the lease term due to recognition of lease liability
Interest coverage	Improving, deterioration during the lease term	Increase in the lease commencement due to profit or loss reporting, deterioration during the lease term
Cost profitability		Gross approach: the cost profitability increases due to recognition of profit of retailer or manufacturer who is a lessor of the asset in the first year of lease term. In subsequent years, it is a downward trend due to declining interest income. The net approach will result in lower values of costs compared with gross approach. The increase is significantly higher in the first year.

Source: own processing

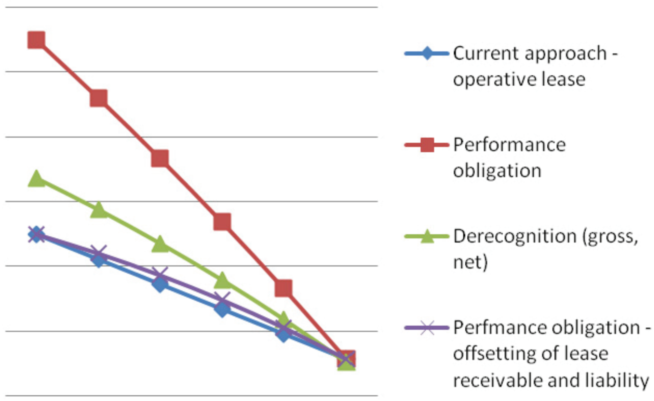
presented separately within property, plant and equipment. The presentation in profit or loss as gross or net is in a single line item, on the basis of the lessor's business model. If a lessor's business model is to use lease arrangements for the purposes of providing finance, then the lessor presents income and expense in a net way.

The impact of applying a derecognition approach to the values of selected financial ratios of lessor in comparison to the current approach is subject to Tab. IX.

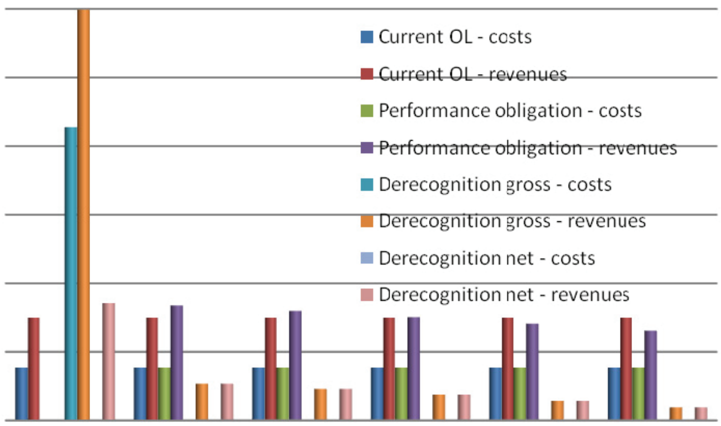
From Fig. 1 is evident the course of profit during the lease term by using individual methodological approaches to operating lease reporting. The graph shows that in the application of the derecognition approach and the performance obligation approach in comparison with the current approach is seen front loading of profit. This is due to the decreasing amount of lease receivable and thus gradually decreasing interest income. This front loading is more significant, when the lease term is longer. In the case of the derecognition approach the deemed



1: *Course of profit during the lease term under particular approaches*



2: *Course of total assets during the lease term under particular approaches*



3: *Course of costs and revenues during the lease term under particular approaches*

profit from the sale is recognised at the moment of the lease commencement.

As shown in Fig. 2, the used methodological approaches lead to a significant difference in total assets. The highest value of total assets is reported when using the performance obligation approach. It is based on the concurrent recognition of the leased assets and lease receivables together with the commitment to let to use the property to lessee. Overvaluation of assets can be considered at the performance obligation approach as a problem. There is a question whether the reporting of both items of assets is in line with the Conceptual Framework of IFRS. According to the authors' opinion one of these items at the moment of lease commencement is not in accordance with the characteristics for recognition of assets any more (it does not generate future economic benefits). Disadvantage of duplicate recognition could be eliminated by offsetting liability and any of this two kinds of assets, but this is not common practice in reporting under IFRS yet.

The Fig. 3 shows values of costs and revenues using different approaches to operating lease reporting. Significant differences occur mainly at the lease commencement. The graph also shows that the cost profitability ratio is significantly affected by the approach to operating lease reporting at the lease commencement. It is significant at the gross and net variant of the derecognition approach.

CONCLUSION

Development of methodical approach for leases reporting, which would all lease contracts dealt in a similar way is the aim of IASB and FASB. Prevention of the possibilities of classification of identical lease contracts in various ways in order to achieve desired effect is the main reason. Conservation of the approach that has been applied in different treatments for different types of lease would not avoid a manipulation of lease contracts to achieve desired effect. On the other hand, these tendencies always appear on the lessee's side rather than the lessor's side.

The aim of this paper was to evaluate the impact of implementation of the newly proposed methodological approach for lease reporting in the field of operating leases into the financial statements of lessor. Based on result of the evaluation, it is clear that they will be affected by this change of methodology (balance sheet, income statement). Unification of methodological approach for the reporting of leased assets regardless of the form of lease (operational and financial) represents a major change from the current rules. This approach eliminates the need for classifying leases according to defined criteria. The only proposed exception is the short-term leases, for short-term criterion is considered to be the limit of one year. Permit of exceptions from the established concept is always associated to a risk of handling with transactions in order to achieve the intended impact on financial reporting.

There is evaluated the impact into selected indicators of financial analysis of lessor. Authors focus on indicators, in whose construction are used items of statements that are significantly affected by the change of the methodological approach in the paper. The results of analyses show that the new methodology for lease reporting may influence indicators of the financial position and performance of companies that are used for external users for their financial decision making. Some of changes could be considered as positive (for example true and fair view of lease obligation and the right to use property), but some of them may have negative impacts on the reporting entity financial position and level of performance (for example in case of applying for loans or grants). Significant judgement will be required as there are no bright lines for determining the appropriate model to use.

Acknowledgement

The results introduced in this paper are a part of research project supported by Czech Science Foundation via grant No. GAP403/11/0849 with the title US GAAP and IAS/IFRS convergence with respect to the adjustment of methodical procedures of the financial analysis.

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