

# New approaches to the operative leasing accounting

## *Nové přístupy k vykazování operativního leasingu*

PATRIK SVOBODA

*Department of Accounting and Taxes, Faculty of Business and Economics,  
Mendel University in Brno, Czech Republic*

**Abstract:** In 2009, the IASB and FASB started a public discussion and commenced work on a project referring to the recording of leasing in financial statements of companies using the International Accounting Standards for reporting. Contrary to most national regulations, the current solution of the IAS and US GAAP require a 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 the manipulation of recording according to the requirements and intents of the recording entity. This contribution analyzes the advantages and disadvantages of some discussed procedures, in particular of those which could replace the 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 the current methods or the newly suggested methods during the existence of leasing. The impact is demonstrated on a specific example of business premises leased by an entity conducting business in agriculture. We also focus on different approaches of the IASB and FASB to some related issues, for example concerning the update of the applied incremental interest rates, the conditioned parts of rent and the guarantees for the residual value.

**Key words:** International Accounting Standards, leasing, contingent rent, minimum leasing payments, incremental borrowing rate, guaranteed residual value, concept of right to use, IASB, FASB

**Abstrakt:** IASB a FASB v roce 2009 zahájily veřejnou diskuzi a začaly pracovat na projektu týkající se vykazování pronájmů v účetních závěrkách podniků vykazujících dle mezinárodních účetních standardů. Stávající řešení IAS a US GAAP, na rozdíl od většiny národních úprav, vyžadují v účetní závěrce naprosto odlišně vykazovat operativní a finanční pronájem, přičemž jako hlavní kritérium pro jejich dělení považují hledisko převodu rizik a odměn z pronájmů. To je však dlouhodobě předmětem kritiky řady uživatelů účetních výkazů z toho důvodu, že ekonomicky velmi podobné až stejné transakce jsou zachyceny naprosto odlišným způsobem v návaznosti na to, jak pronájem vykazující subjekt subjektivně vyhodnotí. To může vést až k manipulaci s vykazováním dle potřeb a záměru vykazujícího subjektu. Příspěvek analyzuje výhody a nevýhody některých diskutovaných postupů, zejména těch, které by v budoucnu mohly nahradit stávající standardy (vykazování založené na využití konceptu práva užívání), přičemž je analyzován rozdílný dopad do výkazu o finanční pozici a průběhu výsledku hospodaření za použití v současnosti používaných metod nově prosazovaných metod v průběhu pronájmu. Dopad je demonstrován na konkrétním příkladu nájmu provozovny subjektem podnikajícím v zemědělství. Předmětem zájmu jsou také rozdílné pohledy IASB a FASB na některé související záležitosti, např. týkající se aktualizace použitých přírůstkových úrokových měr, podmíněných složek nájemného a záruk za zbytkovou hodnotu.

**Klíčová slova:** mezinárodní účetní standardy, pronájem, podmíněné nájemné, minimální leasingové platby, přírůstková výpůjční míra, zaručená zbytková hodnota, koncept práva užívání, IASB, FASB

It is typical for leasing problems that the manner of their catching-up in financial statements set up according to the national legal regulations and international accounting standards, including the

---

Supported by the Ministry of Education, Youth and Sports of the Czech Republic (Project No. MSM 6215648904/02).

standards for the SME, is based on different principles. In particular, with respect to the main groups of users of the respective financial statements, in national regulations, the legal approach to leasing contracts is emphasized, while the principle of the transfer of risks and rewards from the respective asset is used with international standards. Even this approach, however, contains some aspects of leasing recording that are repeatedly criticized. Therefore, the IASB and FASB started to develop a project which could lead to a major change in leasing recording in financial statements of both the lessee and the lessor and individual feasible recording methods were offered for public discussion. The main goal of the contribution is to analyze the impact of leasing recording according to these new approaches on assets and profit or loss compared with the recording according to the methodical approaches used currently in the Czech Republic. These days, the requirements on shortening of the product life cycle are increasing. Operative leasing is one of the instruments which can support the efforts of the company management to respond to the customers requirements flexibly. These problems are dealt by Hron et al. (2009). The total profit or loss of a company is also affected by the methodology of the VAT application on services. Nerudová and David (2008) deal with these problems, especially in case of subsidiaries. Miklovičová and Gurčík (2009) deal with the analysis of profit or loss and their components of the chosen Slovak companies. The value of these indicators can be significantly influenced by the way of recording of lease contracts by the lessee. There are presented in the contribution the results of the research MSM 6215648904/02 – “The main trends in the competitive environment in conditions of integration and globalization processes: Analysis of Czech tax and accounting systems, assessment of its impact on business behavior and international comparison of these systems in the selected EU countries”.

## MATERIAL AND METHODS

The goal of this contribution is to present partial results of the analysis of approaches to leasing recording, proposed predominantly by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), whose solved concepts were offered for public discussion, and of the opinions of the expert public. The contribution also analyzes the strengths and weaknesses of the proposed solutions. We focus on the manner of recording by the lessee only. In the contribution, we used materials provided for public discussion by the Financial

Accounting Standards Board and the International Accounting Standards Board within the solution of their projects, as well as the available opinions of the expert public, the valid international accounting standards used by the public interest entities and accounting standards for the SME issued by the IASB. We compared the provisions of the regulations, in particular regarding leasing, which, according to their principles, are mostly defined as operative leasing. The current status of recording is compared with the principles of some newly proposed concepts, in particular we focused on the concept based on recording of the right to use. We used a specific example of a lease of premises by an agricultural entity and with the application of the new methods, we compared the status of some significant items of the statement of financial position and profit and loss statement in the years during which the leasing continued. We assessed the expected impact of the methods on the selected items of the lessee's report on the statement of financial position and profit or loss.

## RESULTS AND DISCUSSION

The IAS (International Accounting Standard) 17 and section 20 of the standard for the SME, as the IASB products, and on the other hand, the standards developed by the FASB, in particular the FASB13, divide leasing into operative leasing and financial leasing. Leasing is classified as financial if all significant risks and rewards connected with the asset ownership are transferred (Mládek 2008). Otherwise, we speak about operative leasing. As examples of *risks*, the standards mention the unused capacities of assets and the connected costs, technological obsolescence of assets or the uncertain stability of income depending on economic conditions. As an example of *rewards*, we may give profit from the growth of the assets value or profit from the sale of assets or expectation of profit operation during the service life of assets.

For the leasing classification, the form of the contract is more important than its content. We may provide the following examples of situations which may lead separately or in combination to the classification of leasing as financial leasing:

- after the lease termination, the lessor will transfer the ownership right to the lessee,
- the lessee has an opportunity to buy the asset for the price, which is supposed to be significantly lower than the fair value of the asset at the time that the right may be exercised and at the time that the lease is made, so it is certain enough that the option will be used,

- the lease period includes a significant part of the asset economic life, even though the ownership will not be transferred,
- at the lease commencement, the current value of minimum leasing payments amounts to at least the value of the leased asset,
- the leased asset is of such a special nature that solely the particular lessee may use it without major modifications.

The following criteria may help to decide whether a leasing contract refers to financial leasing:

- The lessee may terminate the leasing contract and any related loss incurred by the lessor will be borne by the lessee,
- Any loss or profit resulting from the movement of the fair value of the residual value of the leased asset will belong to the lessee (for example in the form of a discount from the rent, amounting to a bigger part of the proceeds from the asset sale at the end of leasing),
- The lessee is entitled to continue the lease for another period, for the rent which will be considerably lower than the market rent.

Such examples and indicators, however, cannot be understood as guiding. If it is apparent from other characteristics that the leasing does not transfer all significant risks and rewards arising out of ownership; the leasing will always be regarded as operative. It may be the case in which the asset ownership is transferred for a variable sum amounting to the fair value of the asset at the end of the leasing or if the conditioned rent is determined and as a consequence, all significant risks and rewards are not transferred to the lessee. Such classification of leasing is always done at the leasing commencement. If consequently the lessee and the lessor agree on the changes which will lead to a different leasing classification, and if such changes are effective from the leasing commencement, the entire leasing must be reclassified.

### **Financial leasings with the lessee – the current possible solution**

At the time that the leasing commences, i.e. the date from which the lessee may use the subject of the leasing, the leasing is recognized in the lessee's assets and liabilities first. For the valuation of assets and liabilities, the *lower* of the sums will be used:

- the fair value of the leased asset, which is the sum for which the asset may be exchanged or a liability paid between informed and willing parties in the unrelated transaction. At leasing commencement,

this value normally amounts to the leasing acquisition price,

- the current value of minimum leasing payments (payments during the term of leasing which the lessee undertook to pay, increased by other sums for the lessee, which the lessee or a party connected with the lessee undertook to pay. To discount such payments, the implicit leasing rate will be applied as the discount rate, if it may be determined. This interest rate represents the lessor's internal rate of return (IRR). This rate corresponds to the rate where the gross investment in leasing (the sum of the minimum leasing payments and unguaranteed residual values) equals to the sum of the fair value of the leased asset and the lessor's initial direct costs. If it cannot be determined, the lessee's incremental interest rate may be applied. The incremental borrowing interest rate is determined as the interest rate which either was paid by the lessee for a similar leasing or would be paid if the lessee borrowed money for the purchase of assets for the same period with a similar security – it is normally established on the basis of a binding offer of the bank or financial institution. The rate takes into account the current state in the credit market and the solvency of the borrowing company. The asset assessment also includes the initial direct costs spent by the lessee, for example costs for signing the leasing contract. Practically the same approach is required in the section 20 of the standard for the SME, although it was proposed in the original Exposure Draft of this section of the standard (probably in order to simplify the calculations for the recording by the lessee) that the lessee would record leasing always in the fair value of the leased asset. However, it was consequently criticized, because it could lead to useless costs incurred by the lessee and therefore the solution was modified in the manner as given above, i.e. the valuation using the lower of the said sums.

Then, at the time that leasing payments are executed, the individual instalment are always divided into two parts, in the payment of the principal (reduction of the obligation arising out of the leasing) and interest (financial cost accounted into the profit and loss statement). Financial costs are allocated in the individual periods during the leasing term so that a constant interest rate would be ensured for the balance of the obligation. The interest amount is determined in every period as a multiple of the effective interest rate, which is constant for the entire leasing term, and the current amount of the unpaid remaining obligation. Thus, the value of the interest goes down during the

leasing term; on the other hand, the sum reducing the obligation under leasing goes up in every period. If an advance for installments was paid at the leasing commencement, the obligation would decrease (without billing the interest).

### Operative leasing – the current solution

As regards operative leasing, i.e. every leasing which does not meet the criteria for the classification as financial leasing, assets are recorded by lessors in their assets according to the nature of the leased asset. Revenues from operative leasing (except for the revenues from services, such as insurance or maintenance) are recorded in the lessor's profit and loss statement evenly for the term of the leasing contract, but only if there is not another method which would reflect the reality more truly (for example agreed installments grow year by year due to increasing inflation). The lessor will include leasing payments into costs (except for the costs for services, such as insurance or maintenance) evenly, except for the cases where there is another representative method which would reflect the course of the lessee's benefits more truly, or for cases where payments depend on the achieved inflation rate.

### Requirements for changes in recording

At the present time, it is demanded more and more often that financial leasing as well as operative leasing be recorded in the lessee's assets, which is consistent with the view of Sedláček (2010), that the main objective of accounting is giving the relevant information useful for economic decisions. A proper reporting of assets affects also the calculation of indicators of financial health, which is dealt by Tomšík (2004). The reason is the adherence to the philosophy of international standards, i.e. to show all assets which bring economic profit to the company, irrespective of their legal ownership, into the report on the financial situation. The fact of whether they are recorded in assets by the lessee or by the lessor is very important with respect to the information requirements of the users of financial statements, because these sums may be very significant. According to some estimates, property amounting to USD 1.24 trillion is leased in the form of operative leasing all over the world. If it is accepted that an asset will be caught up in the lessee's assets, the issue of whether the asset is to be recorded by the lessee as an intangible asset (right to use), or as an asset according to its nature (tangible

or intangible), or whether it should be recorded in another manner still has to be solved.

The International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB) published a joint discussion material in which they presented their preliminary opinions on leasing accounting and thus started the public discussion on this topic. This large discussion led to the opinion that any and all leasings should be recorded in the lessee's statement of financial position, because (with certain limitations) it always fulfils the definition of assets (it is the result of past events which is able to produce economic benefits and the accounting entity is able to control it). Similarly, the lessee's obligation expressing the duty to pay rent installments (as an outflow of economic benefit) should be recorded in the statement of financial position. As far as the lessee's recording of leasing is concerned, three model groups should be discussed. The chief effort of the said institutions is to eliminate the subjective view of the recording party and to ensure the true recording of assets and liabilities in the financial statement. In a simplified fashion, the models may be described as follows:

**(1) Concept of whole asset.** With this concept, the value of the leased asset is caught up by the lessee in assets in its total value (tangible or intangible leased asset according to its nature), on the other hand, the lessee records liabilities on account of leasing payments as well as any obligation by reason of the asset return after the leasing termination.

The main reasons for the rejection of this approach are:

- the entity leasing its assets is economically in a completely different situation than an entity purchasing assets. Entities leasing assets for a short time have a far bigger flexibility in the options of how to reduce their capital base than an entity purchasing such assets. The concept of whole assets would not reflect such a fact. The supporters of this approach argue that this approach should not be applied to very short leasings. But to define the contracts to which the approach should or should not be applied could be difficult, and thus the concept would not eliminate the major problem, i.e. the subjective assessment by the recording unit,
- the approach undoubtedly **overvalues** the lessee's **assets**. The assets shown by the lessee (in the full value of a physical asset) also contain the part of the profit which does not belong to the lessee, because after the leasing termination, it will devolve upon the user,
- on the other hand, the approach **overvalues** the lessee's **liabilities**, because a liability is recognized

in the amount of the lessee's obligation to return the physical asset after the leasing termination. As the lessee does not have any right to the asset after the leasing termination, no economic benefit outflows from the entity at the time that the leased asset is returned.

**(2) Concept of executory contract** – this approach deals with all leasing contracts in the same way. It is based on the fact that the lessee's right to use the subject of leasing is conditioned by the obligation to pay leasing payments. Similarly, the lessee's obligation to pay liabilities depends on the lessor's permission to use the subject of leasing for the term of the leasing contract. According to this approach, the lessee does not account assets or liabilities for the term of the contract; such data, including the information on the effected payments, are only available in the annex to the financial statements. Such approach is currently used in international standards for operative leasing recording. One of the main reasons for rejection of this approach is mainly the fact that the approach does not reflect the lessee's identifiable assets and liabilities directly, i.e. the lessee's right to use the subject of lease and the obligation to pay rent, and therefore it is not suitable for the financial leasing recording.

**(3) Concept of right to use** – the lessee accounts the right to use assets among assets and simultaneously accounts the liabilities on the grounds of leasing payments. We may say that the concept meets the requirements as stated above the best – i.e. to record any leasing contract in the lessee's assets and liabilities. According to the concept, both financial and operative leasing should be recorded in the report on the lessee's financial situation, and the right to use assets would be caught up in the assets and the obligation to pay rent installments in the liabilities. It remains a question for discussion to determine how to value the said items, under what items of the respective reports the said facts should appear, and whether the items should be recorded as one aggregate sum or gradually, i.e. recording every right and obligation under the leasing contract separately.

As regards the primary valuation of **the liability**, two main approaches are discussed:

- Valuation at the fair value. The main advantage of this approach is that it reflects current conditions in the markets and thus brings users more relevant information than other techniques. Moreover, the method is easier to compare in space, because it abstracts from the factors that are specific for the respective entity. The approach is also consistent with the approaches to the valuation of other financial instruments.

- Valuation using cash-flow techniques. This method counts on the fact that it is not always possible to determine the fair value of the obligation to pay liabilities. The interest rates that are known from the current practice of financial leasing recording are discussed most frequently, namely the leasing implicit interest rate and the incremental borrowing rate.

**The right to use assets** represents a non-financial asset. According to the international standards, most non-financial assets are valued at the historical acquisition price first. In a leasing contract, the costs of the right to use an asset normally correspond to the fair value of the obligation to pay rent. In most situations, the current value of leasing payments discounted, using the lessee's incremental borrowing rate, amounts approximately to the fair value of the obligation to pay rent. The main advantage of this method is considered to be the fact that it is less costly and easier for applications than the use of the fair value.

At the present time, such a model of the catching-up of leasing contracts is discussed most, where at the leasing commencement the lessee will catch up the right to use the assets in its **assets** and, on the contrary, he/she will record the obligation in **liabilities**, both items in the amount of the present value of the minimum leasing payments, and the lessee's incremental borrowing rate will be used for discounting of both items. Then the asset will be depreciated, either for the shorter term of the term of the leasing contract, or that of the economic service life, or – if the asset is to be purchased after the leasing termination – for the economic service life. The obligation, recorded at the present value of leasing payments first, will then be decreased simultaneously by the effected payments, and the respective year is included in the lessee's costs; the lessee's incremental borrowing rate is used again. Some arguments for the use of the lessor's implicit interest rate appeared as well, the value, however, is often difficult to establish for the lessee, moreover, its use will definitely reduce the comparability of financial statements in space. The IASB and FASB approaches, however, differ as to whether the incremental borrowing rate may be revaluated, which the FASB does not admit. The IASB allows to change the rate depending on changes in market conditions, nevertheless, the current form of the draft does not solve whether it must be done as of every closing day or only in the case that a change in cash flows is expected. We have to mention that the permitted revaluation of the rate is fully in conformity with the

philosophy of the standards, for example with the IAS 37 – Provision, the contingent liabilities and the contingent assets. But if a change in the expected cash flows (payments) occurs in connection with the leasing contract as of the closing day, the carrying amount of the obligation must always be adjusted to the current value of the expected cash flows (by the original incremental rate with respect to the FASB, by the lessee's updated incremental borrowing rate according to the IASB). For the term of the leasing, the lessee must always cope with some uncertainty – it is not sure whether the leasing will be extended, there is a risk that the leasing may be terminated; it is uncertain, or it is not clear with respect to financial leasing, whether the option to purchase will be used, etc. Thus the lessee must assume the obligation to pay rent for the *determined estimated leasing term* at the leasing commencement, and will determine the period according to the IASB and FASB suggestions by the estimation of the most probable variant of the leasing duration. Besides that, the methodology using the average period and the expected probabilities of the individual situations (for example, according to the probability of the contract extension for another  $x$  years) was discussed as well. To suggest the most probable variant, the recording entity must not take into account the intentions and reality of the previous contracts, etc. as of every

closing day, the recording entity must evaluate all circumstances leading to a change of the leasing term and possibly adjust the recorded obligation to pay rent and carrying amount of the recorded right by the determined period. Thus as of the closing day, the method of consequent adjustments ("catch-up approach") must be followed, which is a completely new element in leasing recording. If the estimated cash flows change in connection with leasing, the carrying amount of the obligation must be adjusted, which is to be adjusted to the current value of the updated estimated cash flows, discounted by the effective interest rate. As of the date of the financial statement, the lessee must evaluate the probability of leasing extension, whether the option to purchase will be used, and the lessee must also evaluate the conditioned parts of the rent and the guarantees provided for the residual value, which could lead to a change in the estimated cash flows.

The contingent rent represents such a part of leasing payments which is agreed variably on the basis of the contract. It may be determined, for example with respect to leasing of the business premises, as the percentage of the achieved benefit (for example from revenues or profit), or depending on the market interest rate. While according to the current principle of leasing accounting, these items are fully derived from the value of the minimum leasing payments,

Table 1. Calculation of the valuation of the right to use and liability from leasing according to the IASB and FASB draft

Estimated revenues in the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> years of leasing	60–80 mil CZK	80–100 mil CZK	100–120 mil CZK
Probability of reaching determined range of revenues, situation 1st year	<b>60%</b>	20%	20%
Probability of reaching determined range of revenues, situation 2nd year	<b>50%</b>	30%	20%
Probability of reaching determined range of revenues, situation 3rd year	10%	25%	<b>65%</b>
Fixed sum of rent p.a.		10 mil CZK	
Payment for 3-year leasing – not discounted		30 mil CZK	
Variable part of rent calculated according to IASB draft	$((70 \times 0.6 + 90 \times 0.2 + 110 \times 0.2) \times 0.02) / 1.05 + ((70 \times 0.5 + 90 \times 0.3 + 110 \times 0.2) \times 0.02) / 1.05^2 + ((70 \times 0.1 + 90 \times 0.25 + 110 \times 0.65) \times 0.02) / 1.05^3 = 4.8307$ mil CZK		
Variable part of rent according to FASB draft	$(70 \times 0.02) / 1.05 + (70 \times 0.02) / 1.05^2 + (110 \times 0.02) / 1.05^3 = 1.33 + 1.2698 + 1.9004 = 4.5$ mil CZK		
Valuation of asset and liability according to IASB draft	$10 / 1.05 + 10 / 1.05^2 + 10 / 1.05^3 + 4.8307 = 32.0631$ mil CZK		
Valuation of asset and liability according to FASB draft	$10 / 1.05 + 10 / 1.05^2 + 10 / 1.05^3 + 4.5 = 31.7324$ mil CZK		

Source: Own calculation

therefore, they are not accounted into assets and liabilities and are caught up as operating costs for the period in which they were incurred.

The IASB and FASB stipulate that these items should be included in the valuation of the obligation to pay rent, but they differ in the manner of recording. While according to the IASB, it should be the amount of the weighed average of the estimated contingent payments according to the expected probabilities of such expenses, the FASB promotes the use of the most probable variant. The FASB justifies such approach by saying that it will be less complex for the elaborator of the financial statement and clearer for the users of financial statements. The approach to dealing with the changes of the estimate of the items is also different. The IASB states that it is an item which should be regarded as an adjustment of the carrying amount of the right to use assets. We may say that this approach is compatible with the approaches used in the IAS, for example in the IFRIC1. On the contrary, the FASB demands that the change be recorded in the result (the FASB believes that the changes should not affect the amount of the asset valuation), which does not have to be considered as a system solution.

For a better understanding of the differences between the current approach or international accounting standards to the problems of operative leasing and considered approaches, we can demonstrate a case of leasing of business premises (retail unit) for the period of 3 years. The contract may be extended for another three years. It seems realistic that the leasing contract will be extended twice. The lessor requests fixed rent payments, 10 mil CZK per year, and variable payment amounting to 2% of the achieved sales revenues. Payments are effected always at the

end of the year; the lessee's incremental borrowing rate is 5%.

The recording according to current methodology of operative leasing accounting can be seen in Table 1.

The same procedure, because the impact on cash flows is similar, is used in the case of the so-called guaranteed residual value, which represents the minimum value that must be returned to the lessor. If the asset does not reach the value at the time that it is returned, the lessee must pay the respective difference.

Possible accounting and catch-up of leasing according to the suggested methodology are illustrated in the Figure 1.

- (1) The expression of the right to use in assets and liabilities from leasing (one) in the amount of the discounted payments by the incremental borrowing rate.
- (2) Payment of a part of the obligation and inclusion of the interest rate in financial costs (use of the incremental borrowing rate). Then the catch-up as stated above was applied.

It is obvious that in consequence of the use of new methods, recording of *operative leasing* would lead to a higher level of assets and liabilities than if the currently used methodology of catch-up was used, where assets and liabilities are not affected by operative leasing at all. Simultaneously, a more realistic business income will be recorded in comparison with the current principle of the even breakdown of rent into operating costs during the entire leasing term. With the use of the suggested methodology, the costs would catch up the depreciation of assets and financial costs (interest) with which the amount

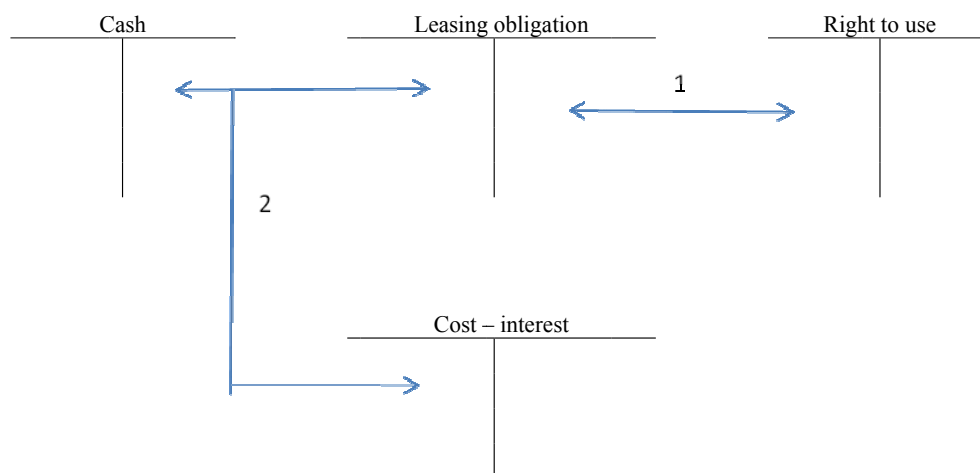


Figure 1. Possible catch-up of leasing contracts with the lessee, using the concept "right to use"

Source: Own data

Table 2. Comparison of indicators according to the Czech legislature and the IASB proposal (in CZK)

Indicator	According to the Czech accounting legislature	According to the IASB proposal
Assets	0 (only off-balance)	Residual value of assets (right to use) 277 510 CZK
Liabilities	10 000 CZK	319 513 CZK
Profit or loss	Operating costs: 110 000 CZK Financial costs: 0	Operating costs: ammortization of right 55 502 CZK Financial costs: interest: 13 499 CZK

Source: Own calculations

would be gradually decreased, thus the total costs would show a degressive trend.

There are presented in the Table 2 the chosen indicators after the first year recording of operative leasing. Leasing was launched in February, it is expected that the lessee will use this form of leasing for three years. The expected timelife of the asset is 5 years. The lessee has to pay rent every month in the amount CZK 10 000.

## CONCLUSION

The problems of leasing are very complex and it is very difficult to find a generally acceptable accounting solution of the problems. In particular, with respect to accounting entities which are subject to public interest, it is being demanded that in view of the space comparability, operative leasing should be caught up with the lessee in the report on financial situation, both regarding assets and liabilities. One of the possible solutions is analyzed in the contribution. Numerous elaborators of financial statements, however, are rightly afraid that the solution is rather complex and would mean an inadequate stress as regards the achieved benefits for their accounting entities. The problem would be even more evident with small accounting entities if the standards for the SME were modified. Such entities are often against a mere change over to the principle based on the transfer of risk and rewards connected with leasing. Another big problem lies in very short-term leasing contracts and the so-called open contracts which are

not of a leasing nature. A significant area for solution is also the accounting by the lessor, in particular with respect to the conformity with the standards focused on the catch-up of revenues.

## REFERENCES

- Hron J., Macák T., Huml J. (2009): Design of diversification classifier for agricultural entrepreneurs activities. *Agricultural Economics – Czech*, 55: 565–570.
- Miklovičová J., Gurčík L. (2009): The profit and added value creation and development analysis of agricultural companies in selected regions in Slovakia. *Agricultural Economics – Czech*, 55: 392–399.
- Mládek R. (2008): Světové účetnictví IFRS, US GAAP (World Accounting IFRS, US GAAP). Linde, Praha; ISBN 80-7201-519-2.
- Nerudová D., David P. (2008): VAT in the frame of providing management services to the subsidiary in the selected EU member states. *Agricultural Economics – Czech*, 54: 333–342.
- Sedláček J. (2010): The methods of valuation in agricultural accounting. *Agricultural Economics – Czech*, 56: 59–66.
- Tomšík P. (2004): Approaches to diagnostics of agricultural and food-processing subject. *Agricultural Economics – Czech*, 50: 552–558.
- Public consultations on future standard on leasing accounting (<http://www.iasb.org/News/Press+Releases/IASB+and+FASB+launch+public+consultation+on+a+future+standard+on+lease+accounting.htm>) (accessed 2010-03-28).

Arrived on 23<sup>rd</sup> April 2010

## Contact address:

Patrik Svoboda, Mendel University in Brno. Zemědělská 1, 613 00 Brno, Czech Republic  
e-mail: patrik.svoboda@mendelu.cz