

Application of new approaches in recognizing leases on the part of the lessee in the selected companies in the Czech Republic

PATRIK SVOBODA

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

Abstract: The paper aims to present the views of the selected Czech SMEs on the individual problems of lease reporting on the side of lessee as a reaction to the project of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), the concepts of which on reporting leases have been offered for the public discussion since the end of the year 2009. There are presented the author's views on the advantages and weaknesses of some of the proposed methods of reporting the lease contracts. These findings result from the performed comparisons of recording simplified specific lease contracts on operational lease from the business practice, reported according to the current IFRS methodology and the concept of the right of use, and from the comparison of views of specialists, in particular those published on the IASB and FASB websites. These views were further completed by the author with the partial results of the investigation made in 203 Czech SMEs dealing with the suitability of the future application of these principles to SMEs (Small and Medium-sized Entities). The survey was conducted among the selected Czech companies whose leaders knew the problems of reporting operational and financial leases under the IAS/IFRS and were willing to study the concepts presented by the IASB and the FASB and other materials relating to leases. The analyzed entities generally believe that the application of the right to use the concept will lead to a true and fair view on the side of the lessee but the application of this concept is associated with inappropriate costs. Most respondents believe that the asset and liability should be recognised in one aggregated amount and the decreasing of the obligation and the asset amortization should be assessed separately. The best solution in the case of changes in the estimates is to use the historic incremental borrowing rate.

Key words: lessee, true and fair view, right to use assets, lease liabilities

Reporting of lease contracts belongs to the areas, in which the approaches to reporting applied in national regulations of the individual countries and in international accounting standards may not be taken for comparable. While in most national regulations lease contracts are predominately viewed from the legal point, i.e. the subject matter of lease is recognised in the balance sheet of the lessor both for operating and finance lease and all substantial information is only available in the enclosures to the accounting statements, in the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and the United States Generally Accepted Accounting Principles (US GAAP), including IFRS for Small and Medium-sized Enterprises (SMEs), which many countries have already adopted as their system of reporting, lease contracts are divided into those under which substantial risks and rewards connected to the lease are transferred to the lessee and to other contracts.

In the first group, the subject matter of the lease is recognized in the assets of the lessee as the economic owner, in the second group, the asset is recognized in the balance sheet of the lessor and the lessee only includes the costs the rental paid in stages.

Apart from the individual national arrangements being inconsistent with the concept of the International Accounting Standards, economists often criticise the fact that economically similar transactions may be subjectively assessed differently by two reporting entities even though they respect the provisions of the International Accounting Standards and, therefore, information from the financial statement may provide a quite misleading information to the users limiting the spatial comparability of the financial statements. An intention of the reporting entity to classify a lease contract so that the assets and liabilities in the statement of financial position are intentionally overcapitalized or undervalued (with the intention

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to hide the obligations from the owners or creditors or to influence the trading income in the required direction) may not be excluded either. This is the reason why the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have been working for several years on a common project with the intention to create such a concept of lease recording that would eliminate the above-mentioned defects. The individual concepts have already been presented in a paper published in the journal *Agriculture Economics – Czech* (Svoboda 2010). At present, the concept of the disclosure based on the asset right-of-use has more supporters when at the moment of the lease inception, the lessee recognizes first the obligation to pay the individual rentals and on the other hand, it records an asset (the right-of-use of the asset for the term of the lease contract). When the payments are being made, the obligation is decreased and the relevant interest is charged, and the asset is amortised for the determined time. Because both the IASB and the FASB hold the opinion that the lease disclosure in SMEs and in big companies should be based on the same principles (full standards and standards for SME, which are currently applicable, do not practically vary), we may anticipate that if the current status is found unsatisfactory for recording of the leases, the relevant standards for SMEs will also have to change. The objective of this thesis is to formulate conclusions in the application of approaches to recognize leases on the part of the lessee in the selected companies in the Czech Republic.

MATERIAL AND METHODS

After the document created by the IASB “Lease – Preliminary Views” was presented, the expert public was asked to give their opinion on the individual areas of measurement and recording using this concept. Many companies or representatives of different associations made use of this opportunity. Some discussion contributions were continuously presented on the page <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm>. The main discussing entities, though, were leasing associations, banks and auditing companies or large multinational corporations as well companies, which hire large quantities of assets through operational lease. The opinions of companies that may be called SME are in absolute minority here and no Czech companies, associations, or companies doing business in agriculture have participated in the research. Therefore, the author of this paper

contacted several scores of Czech SMEs during 2010 (where there was a precondition that their representatives would be willing to get acquainted with the proposed concepts of the lease recognition) and asked them to provide their opinion with respect to the new concept of lease recognition by the lessee in the form of answering a questionnaire – the opinion on its advantages, disadvantages or weak points. The respondents were asked to consider the business system as a socio-economic subject according to the methodology of Tomšík and Svoboda (2010). Representatives of these companies were provided with the following documents: the applicable IFRS standard for SME including the statement of reasons in the Czech language, the above-mentioned document of the IASB (Lease – preliminary views), documents with the transfer of several types of lease contracts to the format complying with the above concept together with the impact analysis of recognition to the relevant item of the balance sheet and the profit and loss statement as well as several publications of the author regarding this issue. After that, the respondents were asked to fill in an on-line questionnaire. The focus on SMEs may be reasoned by the fact that we may anticipate that after a possible review of the lease recognizing in full standards, the pressure would be exerted to change the standard for SMEs in the same or similar way, so that the compatibility is kept between these groups of accounting units and an easy transfer between the mentioned systems of recognition is possible. After the opinions were gained, namely such entities were contacted that have already cooperated during solving of the research project of the faculty and the Czech Science Foundation projects, the entities whose data were or are used by the students for solving the bachelor or diploma theses and the entities which use the services of tax advisory and accounting companies the author has been working with. Out of them, namely such entities were selected that have an experience with the use and recognizing the finance and operational lease. The addressed persons were namely financial managers or accounting personnel of the selected companies. Out of the contacted companies, finally 203 entities provided their opinions, after the subsequent analysis, four entities were eliminated from the aggregate (the system evaluated these as randomly filled questionnaire without any evident information value), the questionnaire was created and distributed electronically through the LRS Research System. This system allowed the construction of closed, half-open and open questions and each respondent was allowed to add comments, observations and suggestions for each question. Analysis of the respondents’ opinions

helped to determine the main problem spots of this reporting method. The opinions of the respondents also suitably complete certain analysed Comment

Table 1. Predominant line of business

Predominant line of business	No. of respondents
Agricultural production including viniculture, game keeping, animal breeding	19
Wholesale and retail business	21
Constructions, plumbing	23
Travel agency	6
Production and sale of veterinary preparations	2
Creation of SW applications	2
Construction of road and engineering works	1
Production and lease of equipment for gastronomy	2
Lease of agricultural machines	8
Facility management	2
Interior studio, production of turnkey furniture	3
Installation and assembly of machines and equipment	9
Repairs and maintenance of machines	4
Production of construction materials	4
Construction of residential buildings	17
Painting and coating works	7
Cleaning works	4
Hotels, restaurants, short accommodation facilities	5
Servicing, repairs of motor vehicles	9
Trade with motor vehicles (namely new ones)	4
Import of used vehicles and their subsequent sale	11
Wholesale of agricultural machines	8
Publishing of periodicals and non periodicals	8
Production of signs and advertising plates	1
Production of food products	3
Production of food material for farm animals	2
Lumbering	8
Production of textiles and textile products	4
Production of paper from paper and pulp	2
Production and distribution of electricity	2
Production and distribution of heat energy	1
Treatment and distribution of drinking water	1

Source: own calculation

Letters. In many areas, Czech companies hold same opinions as the IASB respondents, while in other areas their opinions differ. In the present paper, the opinions of the author are contained regarding the individual variants of this concept.

RESULTS AND DISCUSSION

Regarding the structure of the questionnaire, first three questions of the questionnaire were identificational and referred to the predominant subject of activity, the reported turnover, the number of employees and the balance sheet total. The predominant activities of the entities the representatives of which completed the enclosed questionnaire are obvious from the Table 1.

The number of employees amounted to minimum 3 and maximum 176, the average amounts to the value of 14. All entities fall into the SME category both according to the criteria of the Commission of the European Communities, the World Bank and the IFRS standard issued by the IASB (they are not subject to public interest and they present the general purpose financial statements only), the average net turnover amounted to CZK 1 245 000.

Another part of the research dealt with the establishment of the respondents' opinions regarding the leasing share in the analysed company, the suitability of the lease contracts reporting according to the Czech legislation and according to the standard for SME. Four questions in this part concerned the number of lease contracts, the character and volume (thousand CZK) of the leased assets and the estimated share in the company assets financing through this method (these questions were not compulsory because when this questionnaire was tested on the first group of entities, there was evident a certain reluctance to give an answer to this question – the entities considered the question of the assets financing as confidential). This question was answered by 23% of the respondents (46), the average percentage of financing through leasing in these companies amounted to 17% (measured the value of long-term assets in the acquisition price financed by finance lease) the value of assets in acquisition prices). The last question of this part asked whether the entity itself acts as a lessor.

The assessment of the questions showed that in the case of financial lease, which has been applied (or was applied in the last 5 years) by all examined entities, the lease of movable assets (cars, agricultural machinery, appliances, etc. – the share amounted to 99%) significantly predominates. Only 27 companies used operational lease. The reason given for not using

this form of lease was namely its affordability – the respondents considered operational lease quite expensive. Only three companies acted as a lessor also – this was the lease of equipment for gastronomy and the personal vehicles rental. *Other questions were directed at the respondents' opinions on the suitability of the individual concepts of lease reporting.* The first section of this part focussed on finding whether they consider it right *in the national regulations* to abandon the principle based on the legal view of the lease contract and to move to the principle applied in the standard for SME (the principle based on the transfer of risks and rewards) or another principle. The question whether, in the opinion of the respondents, this method of reporting would lead to a more faithful reflections of reality in contracts of finance lease (in comparison to the Czech legal regulation), was answered positively by 172 representatives of companies, which represents 86.4% of the respondents. Another question asked if the respondents consider the anticipated costs related to the possible transition to this method of reporting on the side of the lessee adequate to the contribution for the users of the accounting statements of the respective accounting unit. If not, the respondents were to state which costs they considered inadequate. Out of the questioned, 75.38% (150) answered negatively (the costs are not adequate to the benefits). Specifications of the type of expenses in question and the percentage of the answers in the group, which answered negatively, are stated in the following Table 2.

Next part of the questionnaire was dedicated to the opinions regarding the applicability of the concept based on the right-of-use in reporting of SME (own company) and its consequences. 78.4% (156) respondents answered positively the question whether the respondent deems that the application of the described right-of-use concept would lead to the elimination of subjectivism in reporting (the system will not allow to evaluate the same lease contract by two different users differently). On the other hand, though, twenty-nine respondents (14.57%) think that the proposed solution

will not eliminate subjectivism. 23 of them see the problem of subjectivism in contracts that have been made for an indefinite term, where the most probable term of the lease is estimated. The determination of the amount of rental is considered subjective for a longer period into the future (4 entities), one entity sees the most substantial problem in the contracts with contingent rental, that is the rental which was negotiated in connection with the development of a certain indicator (i.e. achieved sales, profit etc.).

Next question of the questionnaire asked: “If you agreed to the concept of the right-of-use in operating lease, would you agree to report this asset in one amount?” 62.31% of the survey participants (124) answered negatively to this question. One respondent chose the option “I cannot judge that – there are both advantages and disadvantages to both options”. Rather, the opinion prevails that it is necessary to determine the anticipated term of lease, to assess the right- to-use the asset and the obligation to pay rental and subsequently to adjust these values during the term of the lease. The tendency of the respondents to the assessment in one amount corresponds to the majority opinion known from the Comment Letters presented on the above-mentioned web sites of the IASB. It is obvious that the appraisal of certain individual items of the lease contract individually (i.e. options to prolongation) collides with the problems of the existence of the active market, sometimes the leased assets are of a rather specific nature and the measurement would not allow for the space comparability. Another argument why the measurement is preferred in one amount may be also the mutual linkage of the individual parts of the lease contract.

With respect to the question on the anticipated demanding character of the application, some 6% of the respondents deem that the application of these principles would be roughly equally demanding for the reporting entity compared to the reporting performed according to the valid IFRS for SME, 58% of the respondents deem that the reporting would be more demanding and only 36% of the respondents

Table 2. Responses regarding the appropriateness of expenses in relation to the transition to the reporting based on the principle of risks and rewards transfer

Type of expense	% of answers
Expenses to change information system (adjustment of accounting and reporting method)	88.00
Familiarization (training) of accounting personnel with the new accounting recording	78.67
Expenses to establish the fair value of the leased assets in lessors offering the lease of the relevant assets	30.67
More time of the accountants dedicated to the lease reporting or more expensive outsourced accounting services (more demanding accounting solution in comparison to the existing status, the need to reassess the estimate, etc.)	32.00

Source: own calculation

deem that the application of these principles is easier in comparison to the existing method used in the “small” standards.

Next question of the survey asked: “Try to characterize the contracts (if the use of the concept on the basis of the right-of-use is compulsory for your accounting unit), which, in your opinion, should be excluded from this concept. Try to give reasons for your opinion”. The key answers are stated in Table 3.

Clear arguments were presented in the answers of the respondents for excluding very short-term leases from the scope of this concept because the expenses to use this method would markedly exceed the benefits. On the other hand, we can understand the arguments that we should try not to exclude any lease contracts from this scope. Otherwise, there would be a danger that the lessees would intentionally formulate the contracts so as (if they wanted to) to avoid the obligation of this reporting, which is something the authors of the standards wanted to eliminate. The so-called “non-core assets“, i.e. the assets that are not key for business of the reporting entity, were not mentioned in the survey contrary to the opinions of the respondents presented in certain Comment Letters. Also the Hong Kong Association of Banks (2010) cannot see the need to approach all lease contracts identically. The reason is that the lease of real property (which usually has a longer lease term, a higher rent, more frequently the negotiated contingent rent, sale and leaseback transactions, etc.) and the lease of movables differ significantly. According to Bosco (2010), the equipment leases are a minor part of the operational lease market in the U.S. About 81% of equipment leases by dollar volume are less than \$5 million, primarily being leases

of computers (22%), cars/trucks (16%) office equipment (12%), and medical equipment (7%) with short terms, leased mostly to small and medium sized companies. The costs of using of these new principles would be inadequate. That is why it is recommended to apply the proposed model only to significant contracts. The Hong Kong Association of Banks (2010) considers, that the right-of-use concept should be applied only on the core assets (assets without which a business cannot carry on its main activity). Bandlerová and Maryšová (2003) deal with the structure of leased assets in agriculture in Slovakia, Doll (2005) deals with the same problem in Germany.

The next question is concerned with the initial measurement of the obligation arising under the lease contract (in case of measurement in one amount). The absolute majority (95.99%) of the respondents prefer the measurement based on the anticipated cash flows. Only the minority tends to the use of fair value, the application of which could lead to a better space comparability. In practice, on the other hand, the establishment of this value is practically impossible to perform in the majority of contracts. We may anticipate that in most cases in practice the fair value of an obligation would not differ significantly from the discounted value of cash flow. Regarding the discounting of the obligation to the present value, most entities (85.42%) would use the incremental borrowing rate of the lessee, 13.56% of the respondents are inclined to use the implicit interest rate of the lessor, and approximately one per cent of the respondents would not allow for the time factor in the accounting. The inclination to the lessee’s incremental borrowing rate is usually justi-

Table 3. Responses regarding the need to exclude contracts from the of right-of-use concept

Type of contract	Share of respondents %)	Reasoning
Rental of real estate	6.03 (12)	Not specified
Short-term lease (without detailed specification)	9.54 (19)	Not specified
Short-term lease (ca. to 3–6 months)	33.67 (67)	Complex accounting solution compared to the benefits, inclusion in the balance sheet assets is not necessary for the decision of the credit providing entities or other user of the financial statements
Sale and leaseback	5.53 (11)	Different character of this transaction
All lease contracts	2.01 (4)	Not specified
None	5.53 (11)	Solution would make no sense
Contracts, in which the lease term and amount are not clearly specified	15.57 (31)	Appraisal of assets and obligation is very subjective
Leases, in which intangible long-term assets are leased (software etc.)	4.02 (8)	This is an area where it is difficult to distinguish whether we talk about a lease or a received service

Source: own calculation

fied by problems with determination of the implicit interest rate (the lesser usually does not provide this rate or the information necessary to its calculation (fair value of the asset, direct costs of the lessor in the relation to the contracts making, etc.). It is obvious that this value would be influenced by the amount of the determined unguaranteed residual value after the termination of the operation lease, which the lessee may only measure with substantial difficulties without the assistance of the leasing company.

Next question concerned the measurement appraisal of the right-of-use assets. 95.47% respondents are inclined to use the historical cost, which would approximately correspond to the value to pay the obligations, two entities failed to answer this question. Only 3.52% respondents would insist on the necessity to use the fair value of this right despite the difficulty of the practical determination of this value. Regarding the subsequent treatment of the identified obligation and property, the IASB and FASB pressed up for two possible approaches to the subsequent treatment of the assets and the obligation since the beginning. The first approach would distinguish leases into those, which in fact represent the purchase of assets – for those, the use of the currently applicable method of financial lease reporting in accordance with the international standards is anticipated, and to operational lease. For this lease type, the asset and obligation are considered highly interconnected quantities, which should, therefore, be always recognized *in the same value*. Under the operational lease, the asset and obligation are recognized in the value of the discounted rentals paid for the term of the lease at the beginning of the lease term using the incremental borrowing rate of the lessee. The obligation and the right-of-use as interconnected quantities are recognized for the whole period in the same value. This original proposal of the IASB basically results in such a method of recording in which the right-of-use and the obligation are decreased using the incremental borrowing rate of the lessee. The obligation and the right-to-use are being depreciated by the same amount. The interest, unlike the payments of rental, is not charged to the financial costs, the costs (it corresponds to the whole paid amount of the rental) thus show a steady course during the whole term of lease. Indirectly we can derive from the IASB's proposal that the depreciation of the asset and obligation in the same amount would affect the profit and loss statement in the same amount. In accordance with the IAS 1 philosophy, this should be a gain (decrease of an obligation) and losses (reduction of an asset). For me personally, the disadvantages of this approach are the following:

- Although this method will eliminate the problem with the off- balance sheet financing for operational lease it will not eliminate the problems with the subjective classification of the lease (the problem of operational versus financial lease).
 - The approach leads to the depreciation of the obligation under lease by a progressive method – the adequate depreciation of the right-of-use also corresponds to this. Economically, though, it is very difficult to justify why the right-to use asset should be reduced more at the end of the lease. A similar opinion emerged also in the performed survey in the form of notes by two respondents. I think that in comparison to the progressive depreciation, some entities could find the even the progress of costs connected to the long-term asset (right-of-use) rather beneficial, which would arise rather from the degressive depreciation of property in combination with the usually growing costs of maintenance of the property during the term of the lease contract.
 - This solution is not consistent with the treatment of other obligations.
 - This solution does not lead to recognising of interest, which, namely for the long-term contracts, does not have to be deemed correct. It is obvious that if the lessee wanted to pay the whole rental in advance, the lesser would usually set an amount of rental under the use of some interest rate.
- On the other hand, the advantage of this approach may be seen in simplicity. Namely in cases when a change occurs in the assessment of the anticipated term of lease, the adjustment of the obligation and the right-to-use will be performed by the same amount and there will be no need of any further calculations, adjustments etc. *Majority of the entities* (92.13%) tends to apply the second approach, which separates the decrease of the obligation value from the asset amortization. The recognised obligation is decreased by the individual payments with the parallel recording of interest as finance cost (under the use of some of the interest rates) the asset is then amortised from the same value, usually in the straight-line for the term of the lease or economic life, should this be shorter. On the other hand, this approach may lead to certain problems which might occur namely during changes in the estimate of the lease term or other parameters of the contract.

Next question of the research focussed on the use of fair value after the initial recognition of the asset and obligation. 5.25% of the respondents hold the opinion that it is suitable subsequently to measure the obligation in the course of the contract to the fair value. If the opponents of this approach stated argu-

Table 4. Responses of Czech SMEs with respect to subsequent measurement of asset to fair value

Opinion	Number of respondents (%)
In no case to allow the subsequent measurement of asset (right-of-use)	19 (9.55%)
Subsequent measurement should copy the solution adopted for the recognition of long-term assets (constructions, buildings, intangible assets) – e.g. small standards or the US GAAP do not allow this, the full IFRS allow this, adequate solution should be adopted	71 (35.68%)
To allow the subsequent measurement only if fair value may be established reliably	49 (24.62%)
To allow as an alternative method of recognition, without further conditions	19 (9.55%)
To allow as an alternative method of recognition but to require this method for all lease contract of this asset	29 (14.57%)
To allow as an alternative method of recognition but to require this method for all lease contract of similar assets as well as similar owned assets	12 (6.03%)
To allow/tolerate subsequent measurement for certain contracts only – state for which ones	0

Source: own calculation

ments against this approach, they mentioned namely the lack of information (the value of the obligation and market interest rate) and the inconsistency in the treatment of other obligations. With respect to the possibility of a subsequent measurement, the respondents expressed the following opinions (Table 4).

Sedláček and Valouch (2009) state that the model of the fair value revaluation eliminates the shortcomings of historical costs (of purchase price) and allows including of the existing fixed assets in the calculation of the allowed revenues and the present value of its investment opportunities. The model brings the accounting near to actually existing market conditions and eliminates the underestimation of business assets and depreciations. Herrmann et al. (2006) say that fair values, when they can be reliably measured, enhance the comparability of information. Historical cost measures can hinder the comparability both by failing to identify the similarities between similar items and by failing to distinguish the differences between different items.

If you accept the revaluation to fair value, does this have to be a value of the active market (Table 5)?

Next question asked if the incremental borrowing rate should be re-evaluated (Table 6).

There is no prevailing opinion among the respondents with respect to the issue of the conditional rental and guarantees for the residual value. The opinion that the entity should depart from the most probable

Table 5. Opinions regarding the determining the fair value method

Opinion	Number of respondents
Yes	78 (39.19%)
No	121 (60.81%)

Source: own calculation

variant (or the highest variant which is more likely to occur than not to occur) slightly prevails (possibly thanks to its simplicity) (Table 7).

Based on the previously asked questions and the practical application of transferring the specific lease contracts, other issues emerged which were, therefore, included in the research – i.e. how to act if, as of the date of balance or another date, the disclosing entity re-evaluates its original estimate of the term of lease or the value of the conditional rental or guarantees for the residual value. It is obvious that in this case, achieving of the faithful representation requires reacting to this situation when the amendment of the values of assets and obligations comes into question or the option to capture the change in the nominal accounts. Discussions of the IASB and FASB led to the option to apply three variants how to account for the changes in the anticipated term of lease (prolongation or shortening of the lease term):

- the prospective approach – a new incremental borrowing rate of the lessee is calculated on the basis of the anticipated future cash flows (upon the change of the lease term, the accounting value of the obligation is not adjusted but the incremental borrowing rate) – only 2 (1%) respondents supported the use of this approach,
- the approach when the value of the obligation is updated to the current value of the future cash flows but under using the original interest rate (absolute majority of the respondents – 187, which represents 93.97% of the respondents supports this approach),
- the retrospective approach – in which a new effective interest rate is computed based on the original carrying amount, the actual cash flows to date and the remaining estimated cash flows. The new effective

Table 6. Opinions regarding the re-estimation of borrowing interest rate

Opinion	Number of respondents
No	142 (71.36%)
Yes, always when a change in estimate of cash flow occurs	7 (3.52%)
Yes, as of the date of balance	5 (2.51%)
Yes, but only in such cases when rental or conditional rental is set by reference to some referential interest rate	45 (22.61%)

Source: own calculation

tive interest rate is then used to adjust the carrying amount to the present value of the revised estimated cash flows, discounted at the new effective interest rate. – 10 respondents (5.025%) preferred this procedure.

With respect to the fact that the vast majority of the respondents preferred the second of the possible approaches, below we only mention the problems related to this approach. The problem I see is mainly if in case of shortening or prolongation of the lease contract it is suitable to amend the obligation and the right-of-use the asset by the same amount or in some other manner. What is interesting is the opinion of the respondents regarding the disclosing of cases when there is an option to prolong a lease contract after a fixed period for another agreed period or to purchase (the asset) for a market or a prearranged price (or the entity may choose from two options). Only 5.53% respondents deem it suitable to divide the period for creation of the asset into two parts (before and after the contract prolongation – first only the obligation and asset would be identified for the period until the contract prolongation and only at the moment of prolongation a new obligation and a new asset – the right-of-use asset would be identified). Thus, there is an obvious tendency to identify the asset and obligation for the whole anticipated term of lease – either for the time that is considered the most probable (70.35% respondents), or for the time determined as a weighted average of the lease probable variants (24.12%) of those questioned. 89.44% of the respondents further think that both cases (the right to prolong the contract and the right to

purchase the property) should be treated in the same manner. In the remaining respondents who refuse the inclusion of the purchase price in the asset measurement as the correct solution, it is possibly the fear of the assets overvaluation that shows. On the other hand, we should realise that the preferred method of disclosing for the anticipated period brings in itself the risk that the precondition determined at the time of the contract making does not have to fulfilled in practise. Then, in the case of the undesirable impact in the current trading income, for example in case when the disclosing entity counted on the contract prolongation and this intention failed to materialize for whatever reason, in this case both the asset and liability may be considered over-evaluated for the term of the contract and at the time when it is found, the contract would not be prolonged and a correction has to be made. In case the asset is amortised differently (usually in straight line), then the liability is reduced and a one-time increase of the economic benefit (profit) occurs.

A very important question is how the right-of-use of the lessee's asset should be reflected in the balance sheet (statement of financial position). Three options are available:

- (1) to recognize the right-of-use the asset in the same part of the balance sheet in which a purchased asset would be recorded (i.e. machine as a tangible asset – movable assets etc.). This method is based on the prerequisite that an asset may bring the same economic benefit through its substance no matter if it has been purchased or leased. In the statement of financial position, it is possible,

Table 7. Shift of respondents to the method of measurement of the conditional part of rental

Opinion	Number of respondents
It is suitable to depart from the assessed probabilities of the individual balances (sales etc.)	97 (48.74%)
It is suitable to depart from the most probable variant	49 (24.62%)
It is suitable to depart from the highest variant with a higher probability of occurring than not occurring	53 (26.63%)
To select another method – describe which	0

Source: own calculation

for the sake of a clear arrangement, to separate the assets purchased or of own creation from the leased assets (a separate line may be used). This method would not bring complications in the form of the necessity to differentiate what is the form of lease, which is the case of the third option. Nevertheless, it is necessary to differentiate for the users of the accounting statements, which assets are the short-term leased and which have been purchased, either in the form of a separate line or through a comment in the enclosure to the financial statements;

- (2) to take the right-of-use as an intangible asset also in case that the leased asset is of tangible nature. The advantage of this approach is that it simply separates the assets leased from the assets purchased, on the other hand, it tells nothing to the user of the financial statement about the nature of the leased assets;
- (3) with respect to the fact that financial lease with the subsequent purchase of the leased asset has a different substance for the lessee in comparison to the operational lease, the third approach leads to the division of contracts into those that, with the highest probability, will not lead to the purchase of the leased asset – in those, the right-of-use the asset is disclosed as intangible asset – and to those, regarding which the transfer of the title will probably occur – in which the tangible or intangible form of the leased asset is substantial. The disadvantage of this approach is clear from the above-described disadvantages; furthermore,

it abandons the original intent of the concept that was the simplicity and the impossibility to recognize differently the economically similar contracts.

Most (75.37% of the respondents) supported the first option. 14.58% of the respondents preferred the second procedure. In several of these entities, an opinion was expressed that the approach would lead to the over-valuation of intangible assets and the users of the accounting statements might not accept it positively. Bohušová and Svoboda (2010) deal with certain problems of the intangible assets recognition and measurement. The third variant attracted the least amount of supporters (10.05%); this method is considered quite unclear.

Finally, the respondents were asked to characterize from their point of view the main problems and difficulties of the presented concept or, if need be, to suggest how to eliminate these problems.

The most significant problems in relation to the concept mentioned by the respondents are captured in the Table 8.

DISCUSSION AND CONCLUSION

Based on the research, we may conclude that the current solution of lease disclosing used in the standard for the SMEs as well as the concept of the right-of-use in any of its forms will lead to providing much more precise information for the individual users of the accounting statements in comparison with the current legal regulation. On the other hand, some 75% of the

Table 8. Problems that may occur in the application of the right-of-use concept

Problem	Proposed solution
It is difficult to estimate the amount of market lease in the years to come and thus reliably to measure an asset and obligation namely in the initial stages of leases. Thus, the balance sheet items may be distorted in the initial stages.	–
It is difficult to estimate the development of the energies or services prices re-invoiced in the rental.	Proceed from history – time line etc.
Namely in operative lease contracts for indefinite term or for definite term with the option to renew it, is difficult to determine how long, and for what rental the lease will be operated (it is impossible to foresee financial problems of the disclosing entity or of the lesser, change of the production programme due to request of the customer etc.)	It is possible to proceed from the most expected term and amount or to use knowledge of the probability theory. If, though, the probability theory is used – evaluation of lease agreed for a fixed term of 8 years and lease agreed for 4 years with an option to prolong it by the same period will differ, which might not be considered logical.*
If there exists an option to purchase the leased asset after the term of the lease, it is difficult at the beginning of the lease to assess if the option will be really exercised.	Subjective assessment for inclusion in measurement or use of the probability theory

*For this reason, it is possibly more suitable to depart from the most anticipated variant. On the other side, we may also understand the opinion that the uncertainty whether the lease would be prolonged should be taken into consideration in the assets and obligations measurement.

Source: own calculation

respondents do not think that the costs connected to it would be adequate to the benefits. An absolute majority of the respondents even deem this method of recording more demanding in comparison to the approach used currently in the international standards. It is thus at least controversial whether the original intent of the project, which was, apart from the faithful reflection of the situation, to ease the lease contracts disclosing without the need to assess certain criteria, is completed. In my opinion, this problem becomes even more apparent on the part of the lessor, where most probably one of the models cannot be applied. The research showed that the majority of the respondents tend to such a method of lease contracts recording that would not distinguish between the lessees with respect to whether it is probable that there would be a transfer of the title to the lessee. This method of disclosing also may bring about a problem with the assessment of the most probable term of lease and with the recording of the situation when the reality differs from this estimate. It is obvious that it will be very difficult to find a generally acceptable solution of disclosing lease on the lessee's part. The proposed methods lead to an undoubtedly more faithful reflection of assets and liabilities of the disclosing entity, with the operational lease these changes will lead to the change of the course of the trading income in the individual years and to the change in the structure of expenses. On the other side – namely for more complex contracts where payments are not settled beforehand – the continuous re-evaluation represents quite a time consuming solution, which was also confirmed by the research conducted among the Czech SMEs. One of the objectives of the research was to find out if the transfer to this concept would be so burdening for the particular SME that the entity would rather avoid acquiring assets through leasing. 90.96% (181) of the respondents answered negatively to the question whether the decision-making on the form of financing would be influenced by the methodology of recording. That is, they would definitely decide for this form of assets financing if some economic benefit are linked to this, compared to the other option, i.e. to debt purchase (e.g. tax savings resulting from a faster use of tax expenses in comparison to the tax depreciation of the purchased property etc.), regardless of the demanding character of the accounting solution. The research also showed that approximately one half

of the entities consider the application of different concepts of lease recording for the individual sizes of companies a significant problem preventing the space comparability of the accounting statements.

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Contact address:

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