PROPOSALS TO CHANGE LEASE ACCOUNTING: EVIDENCE FROM CANADA AND MALAYSIA

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Leasing transactions are significant in business activities and both national and international accounting regulations require leases to be classified as either operating or finance leases. The International Accounting Standards Board recently proposed for the present classification to be removed, and for both finance and operating leases to appear on the balance sheet.

This paper compares the opinions of 63 qualified accountants in Canada and 54 qualified accountants in Malaysia on the present regulations and the implications of the new standard. The responses from these countries support the substance-over-form model, but raise doubts on its applicability to leasing transactions. The majority of respondents agree on one method for accounting for leases, but support for the removal of finance and operating lease classifications is weaker. An analysis of the data reveals that those who believe the current information is of use are more likely to reject the proposed changes. This suggests that future research should be less concerned with whether users find the information relevant and should be directed towards the nature of user decisions and how the present information is utilised.

INTRODUCTION

Leasing transactions are a major part of business. Under existing national and international standards, lease agreements can be classified as either a finance lease (also referred to as a capital lease) or an operating lease. If it is the former, the asset will appear on the balance sheet of the lessee, as will the liability. If it is an operating lease, neither the asset nor the liability appears in the financial statements of the lessee, the only record being a periodic rental amount to the Income Statement.

There is evidence that indicates some companies classify leases as operating with the sole intention of avoiding showing the asset and liability on their balance sheet. This can enhance the perceived financial position of the company and users of financial statements may be misled in their interpretation of the company's financial position and performance.

To prevent these abuses, there have been several demands that accounting standards be amended. In March 2009 the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued a Discussion Paper (IASB, 2009) for comment. The Discussion Paper proposes substantial changes in accounting for leases. In particular, the paper proposes that the present classification into finance and operating leases is removed and the asset and liability are shown on the balance sheet. The current aim is to issue a new standard on leases in 2011.

As many countries have either adopted international accounting standards or are in the process of converging with them, any change in the standard will have a global impact. Canada has already stated its intention to adopt international accounting standards for all publicly accountable enterprises starting in 2011 (Canadian Accounting Standards Board, 2006). Malaysian standards have been based on international standards since 1978 and there is a road map setting out full convergence by 1 January 2012.

The introductory sections of this paper explain briefly the current requirements for accounting for leases internationally and in Canada and Malaysia. It also describes the main proposals in the IASB Discussion Paper. This section also incorporates a review of previous research on lease accounting.

The main part of the paper is an analysis and discussion of the opinions of 63 qualified accountants working in Canada and 54 qualified accountants working in Malaysia. These views were collected by self-completion questionnaires supported by face-to-face interviews with ten of the Canadian respondents and five of the Malaysian respondents. The concentration of the analysis and discussion is focused on three main issues related to the proposals: the concept of substance over form; the proposal to remove the present classification of leases: the perceived usefulness of the present information provided by lease accounting.

REVIEW OF REGULATIONS AND RESEARCH

The international standard

The international standard on Accounting for Leases (IASC, 1997) avoids setting out quantitative thresholds to distinguish between finance and operating leases and states that the classification of a lease depends on the substance of the transaction rather than the form. The standard describes situations that would normally lead to a lease being classified as a finance lease and include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

0n 19 July 2006, both the FASB and IASB added accounting for leases to their convergence agenda and at a joint meeting in April 2008, staff was instructed to develop a technical plan that would result in a new leasing standard by mid-2011 at the latest.

In a Discussion Paper (IASB, 2009), the IASB and FASB reached the tentative decision that in a simple lease the lessee obtains the right to use the leased item and that meets the definition of an asset. The related obligations to pay rentals meet the definition of a liability. It is proposed that there will be a new accounting model where the lessee recognises the 'right to use' an asset and a liability on the balance sheet. There will be no operating leases. The Discussion Paper also makes proposals on various components of a lease contract and methods of measurement.

At a recent meeting (IASB 2010) the boards tentatively reconfirmed the right-of-use approach for lessees. That approach, as described in the Discussion Paper Leases: Preliminary Views proposes that a lessee should recognise for all leases:

- an asset representing its right to use the leased item for the lease term (the right-of-use asset)
- a liability for its obligation to pay rentals.

These proposals have now been issued in the form of an Exposure Draft (2009).

The Canadian standard

Canada is in the process of converging many of its standards with international standards before the transition in 2011. The Canadian Institute of Chartered Accountants states that there are no significant differences between the present Canadian standard in its Handbook and IAS 17 (CICA, 2007). A preliminary scrutiny would support this contention as the relevant section of the standard states that 'a lease that transfers substantially all of the benefits and risks of ownership to the lessee is in substance an acquisition of the asset' (CICA, 2008a).

However, the Handbook sets out three conditions that would indicate a finance lease and the second one states that 'the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75 percent or more) of the economic life of the property' (CICA, 2008). This reference to 75 per cent is not stated in the international standard, although it is in the United States standard (FASB, 1976) and it is claimed that in practice the quantitative thresholds included in the indicators are generally interpreted as 'bright lines'. (KPMG, 2007, p. 128). In other words, companies will apply the rule of the 75 per cent threshold instead of the principles-based approach as in the international standard.

The Malaysian standard

Malaysia can be regarded as a dual-system economy where Islamic finance is an essential aspect of the standard-setting process. Since 1978, Malaysian accounting standards have been based on international standards and the move to make them comprehensively identical has accelerated since 2006. The country has a road map to achieve full convergence by 1 January 2012.

Financial Reporting Standard 117 was issued with effect from 1 January 2006 and amendments were enacted with effect from 1 January 2010. The definitions used for leases are:

A *finance lease* is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An *operating lease* is a lease other than a finance lease.

The Malaysian standard is the same in its provisions as the International standard. Whether a lease is a finance or an operating lease depends on the substance of the transaction rather than the form of the contract and examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are presented.

Although the present standards of Canada and Malaysia are very similar, it is useful to review their beginnings and the current position. Choi and Bavishi (1983) in a survey of accounting regulations in specific countries observed that 'Contrary to what is normally presumed, fundamental differences in national accounting principles, as gleaned from the reporting practices of the world's leading industrial companies, are not that great. Major differences appear to revolve around such issues as consolidation and accounting for goodwill, deferred taxes, long-term leases, discretionary reserves, inflation and foreign exchange translation gains and losses. It is on these subjects that the IASC should concentrate its attention'. (p 68)

Their survey of various countries revealed that the majority, including Malaysia, were not capitalising leases but Canada was at that time. It is reasonable to assume that Canada's approach in this area was shaped by the rules-based approach in the US which was influential on Canadian standards (Baylin, MacDonald, and Richardson, 1996).

Previous research studies

The debate and discussions on the most appropriate method for accounting for leases and proposals for a new approach has been on the agenda for many years. In 1996, the G4+1 published a special report entitled *Accounting for Leases: A New Approach*. The report advocated a conceptual approach to lease accounting, whereby the distinction between finance leases and operating leases is removed. Lessees would recognise as assets and liabilities all material rights and obligations arising under lease contracts. (McGregor, 1996).

Despite this urging, little progress has been made to date. In most countries, under national standards, companies can structure agreements to avoid the quantitative thresholds and define the lease which best meets their purposes (McBarnet & Whelan, 1991). Criticisms on the ethicality of intentionally structuring lease contracts to avoid disclosing leased asset and liability amounts are voiced frequently and Frecka (2008) contends that the 'slippery slope' of rule-based accounting for synthetic leases and special purpose entities, led to the accounting debacles at Enron and other companies.

The perspective of lessors and the effect of requirements placed on them have been largely ignored by academic researchers. The more complex issues have been perceived as relating mainly to the lessees and the impact on their financial statements.

One area of research has been the extent to which leases are being used as a form of off-balance sheet finance and the impact on lessees' financial statements and financial ratios if they were required to capitalise all leases (Ashton, 1985; Imhoff, Lipe and Wright, 1991, 1993; Bennet and Bradbury, 2003). The findings appear to be consistent in several countries and indicate that leverage ratios would be significantly increased by capitalising leases, other performance ratios would be also affected but not so significantly and certain industries such as airlines, retailers, hotels, and vehicle distributors would be most impacted. In a recent Canadian study the above findings were confirmed (Durocher, 2008). The results indicate that capitalising operating leases would lead to the recognition of important additional assets and liabilities on the balance sheet. It would therefore significantly increase the debt-to-asset ratio. These results were noted across all industry segments in the sample. Income statement effects were generally less material. Significant impacts on return on assets, return on equity, and/or earnings per share were noted in only three industry segments: merchandising and lodging, oil and gas, and financial services.

One can argue that the findings of the above studies are not surprising. If you incorporate items on the balance sheet that were previously omitted you will obtain different accounting ratios. This result, in itself, does not provide justification for including items on the balance sheet. The justification lies either in conceptual reasoning or in practice whether the users of the information require such information and are better informed for receiving it. There is also the consideration as to whether the benefits exceed the costs involved in making the changes.

In addition to the impact on the financial statements, other studies have explored users' opinions on lease accounting. Breton and Taffler (1995) conducted a study with 63 UK stockbroker analysts in which not one of the analysts adjusted amounts or ratios for operating leases. Gopalakrishnan and Parkash (1996) surveyed CFOs of all Fortune 500 firms (borrowers), 400 chief credit officers of banks (lenders), and to private placement department heads of 100 insurance firms (lenders). Lenders believed all items (e.g., capital leases, deferred tax liabilities, pension obligations, operating leases, etc.) to be more like liabilities than did borrowers.

However, in respect of operating leases, borrowers and lenders had very different views on whether these were liabilities. Studies by Jones and Widjaja (1998) and Berry and Robertson (2006) both concluded that increasing importance was being placed by bankers on cash flow information. A recent UK study analyses and compares the distinct views of preparers and users. Beattie, Goodacre and Thomson (2006) sent questionnaires to 415 finance directors of firms that were included in the UK quoted industrials (preparers), 400 financial analysts from a London-based associate members list (users), and 72 fund managers listed in CA Magazine (users). Respondents were asked to indicate the extent to which they agreed with a number of statements regarding lease information. Some of the main findings of the study were that both users and preparers considered that companies abused the standard to achieve off-balance sheet finance and that the present information is of little value to users. Users were more likely than preparers for all leases to appear on the balance sheet and preparers were more likely to consider that the costs of any changes would outweigh the benefits. The response rates to this study were not high and the strength of the finding open to various interpretations. These issues are discussed later in this current paper.

A recent Canadian study by Durocher and Fortin (2009) investigated private business bankers' preferences on the issue of capitalising all non-cancellable lease contracts, including operating leases, as suggested by the G4+1. The study found that while bankers use both capital and operating lease information, they give significantly more consideration to the former when analysing private business loan requests. Accordingly, operating lease information receives less attention than capital lease information in the credit-granting decision process. The authors conclude that 'the capitalisation of operating leases would improve bankers' ability to evaluate long-term finance commitments of lessees and, as a result, bankers would increase their estimates of the risks involved in providing finance to them' (Durocher and Fortin, 2009, p. 39). The authors observe, however, that for private business Canada has decided to develop a distinct set of GAAP. This may not necessarily incorporate all the requirements of IFRSs.

Research design

For the present project, an opportunity arose to survey qualified accountants in Canada and Malaysia. In Canada, a major organisation providing accountants to companies on temporary and permanent contracts agreed to permit accountants who had recently attended a training course on IFRSs to participate voluntarily in the survey. A total of 128 self-completion questionnaires were distributed and the sample was instructed to only complete the questionnaire if they were knowledgeable with accounting for leases and the current discussions taking place at the international level. A total of 63 questionnaires were completed; a response rate of 49.2 per cent. In Malaysia, a large accounting firm agreed that their staff could participate if they so wished. A total of 96 questionnaires were distributed and 54 were completed giving a response rate of 56.3 per cent.

The questionnaire did not use the usual 5 point scale with a 'Neutral' rating but used a four-point scale with no 'Neutral'. The argument for this was that respondents were qualified accountants, claiming knowledge of lease accounting and thus should be able to adopt an 'informed' decision. One would anticipate that as part of their normal work as professional accountants they would have to form independent opinions. However, the use of a 4 point scale can be challenged and any subsequent analysis is restricted.

In addition to the questionnaires, in depth, individual interviews were conducted with ten respondents in Canada and five in Malaysia and group discussions also held. The interviews were unstructured but expanded and clarified themes from the questionnaire. The results of these interviews are used in this paper to expand and discuss the questionnaire responses.

It is emphasised that these were Samples of Opportunity (SoO) and it was not possible to obtain samples with comparable characteristics. Given this caveat and the size of the samples, no attempt is made to generalise from the findings. Instead the underlying characteristics of the samples and the context of the environment are used to probe deeper the similarities and differences in their opinions.

The findings are also used to discuss previous researches and to comment on the proposals in the IASB's Discussion Paper.

The first table gives the number of years respondents have worked as qualified accountants.

TABLE 1
SAMPLES ANALYSED BY AGE

	Canada		Malaysia	
	No	**Percent**	**No**	**Percent**
1 – 5 years	0	0	36	66.7
6 – 10 years	12	19.0	15	25.9
11 – 15 years	6	9.5	1	1.8
16 – 20 years	13	20.6	1	1.8
21 years plus	32	50.8	1	1.8
TOTAL	**63**	**100.0**	**54**	**100.0**

In conducting surveys on technical issues, it is difficult to assess satisfactorily the knowledge of the participants. In this survey, reliance was placed on the fact that only professionally-qualified accountants participated and that they were instructed to complete the questionnaire if they considered themselves knowledgeable.

Although knowledge can be gained in several ways, such as the level of the work taken and the nature of the work, the passage of time and experience gained is also a possible measure. The above table reveals that the Malaysian accountants had much shorter work experience than the Canadian accountants and the possible effect of this will be discussed in the next section.

ANALYSIS AND DISCUSSION

In this section we concentrate on three main areas relevant to accounting for leases:
(1) The importance of the concept of substance over form
(2) The use of one method of accounting for leases and removing the finance/operating classification
(3) The usefulness of the current information on leases

The opinions of the Canadian and Malaysian accountants are compared and the findings discussed in the context of other research studies and the current proposals of the IASB.

Substance over form

In the Conceptual Framework (IASC 1989), it states that economic transactions and events should be 'accounted for and presented in accordance with their substance and economic reality and not with their legal form' (p 20). There are alternative approaches in accounting for transactions and in Table 2 we give the responses from our samples specific to the leasing standard.

Table 2 shows the percentage levels of agreement to the question: 'On which of the following models should a new accounting standard be based'.

TABLE 2
TYPE OF MODEL

Model type	Canada percent	Malaysia percent
Economic substance model	90.5	68.5
Legal form model	9.5	25.9
Taxation/incentives model	0	5.6
Total	**100.0**	**100.0**

Although 90 per cent of Canadian accountants gave support to the substance model, in Malaysia the level of agreement was under 70 per cent. Even with those who expressed agreement with substance over form there was some reluctance as expressed in the following quotes:

Although I believe in substance over form I do not know that the change to the standard will give the information that the IASB wants. At the end of the day many of the transactions are extremely complex and why should the auditor have to try to second guess what the two parties are doing. What the companies say is reality is reality and I just want the reassurance of a legal agreement to explain that it is what they think it is. (Canadian accountant with over 21 years' experience)

The corporation does not have any real substance — it is a legal person. Why can the corporation be based on legal form but we cannot do the transactions it carries out on the same basis? I want to know what are the legal commitments the company has to the transaction (Malaysian accountant with under 5 years' experience)

Does the IASB think that many of the users understand the differences between substance over form and legal form. I suspect that many of them do not know, but they do understand the difference between an operating lease and a finance lease. They just want full disclosure of the companies' commitments under them. (Malaysian accountant with 6-10 years' experience)

The last quote captures some of the reservations expressed by respondents in the Beattie survey to the statement 'the UK standard SSAP 21 was inconsistent with the substance over form principle in FRS 5'. Of the 41 users returning the questionnaire, nine did not express any opinion. With the remaining 32 respondents, the mean response rate was 3.72 with the scale as follows:

1 = Strongly disagree, 2 Disagree, 3 neutral, 4 = agree, 5 = strongly agree.

The study conducted t-tests and the difference from 3 neutral is statistically significant. However, the mean response of 3.72 with nine not replying to this particular question and a somewhat low response rate, it can be argued that the findings do not reflect wide-spread enthusiastic support. The picture was the same with preparers. Of the 91 useable responses, nine stated 'Do not know' and the mean response dropped to 3.53.

Although the concept of 'substance over form' has been ingrained into the thinking of most accountants, it may be more valuable in the abstract than in its application to leases. A significant proportion of analysts in the Beattie et al. (2006) survey did not respond to the questionnaire because they claimed that were unfamiliar with accounting for leases.

The IASB (2009) have addressed the 'substance over form' issue by identifying that the lessee has the 'right to use' an asset and this should be recognised on the balance sheet. However, this raises some problems concerning the substance of the transaction that have not been addressed. First, the users may conclude that, as the asset is on the balance sheet, the company has the right to dispose of it at any time to raise funds. This is likely not to be the case. Secondly, the right to use an asset will not be subject to the same impairment test under IAS 36 as other assets on the balance sheet. This is inconsistent and confusing.

Finance/operating lease classification

The survey asked two questions which were similar in their nature but served to confirm that the respondents understood the issue being discussed. One question, drawn from a similar one in the Beattie et al. (2006) survey, sought the level of agreement to the statement 'One accounting method should be applied to all transactions'. The results are shown in Table 3.

TABLE 3
ONE METHOD FOR LEASE ACCOUNTING

Level of agreement	Canada percent	Malaysia percent
Strongly agree	19.0	3.7
Agree	46.0	53.7
Disagree	33.3	35.2
Strongly disagree	1.6	7.4
Total	**100.0**	**100.0**

Although the majority in both countries agreed with one method, it was not an overwhelming affirmation. These results are not dissimilar to the Beattie survey which asked the level of agreement to the statement 'One accounting method should be applicable to all leasing transactions'. Using the same sale as explained previously, the mean response was 3.72 for users but only 3.32 for preparers. Comparable results were obtained by Durocher and Fortin (2009) and the authors concluded that 'Banks are in favour of using one accounting method for all lease transactions' (p 27)

Although in the Beattie et al. (2006) and the Durocher and Fortin (2009) studies, t-tests established a significant difference from the mean of 3, the question arises whether there is sufficient evidence on which to base a major change in an accounting standard. Also the reasons for the support of one method may be due to reasons different than may be expected. Durocher and Fortin (2009) concluded that bankers pay more attention to amounts recognised in the balance sheet than those disclosed in the notes. It may, therefore, be the ease of access and interpretation of certain information that motivates the agreement for one method and disclosure on the balance sheet, although it could be argued that the notes are more informative. One comment from our interviewees supported the possibility that simplification of the requirements was a motivation for accepting change.

One interviewee said:

One method makes it much easier for us doing the job but

I am not certain that it is better than what we now do. I think you are going to lose some information and users will make assumptions on a poor understanding of what the balance sheet will actually be showing. (Canadian accountant, 16–20 years' experience).

When faced with the more searching question on the removal of the lease classification, the levels of agreement weakened in both countries as shown in Table 4. The statement was 'The distinction between finance and operating leases should be removed' .

TABLE 4
REMOVE DISTINCTION BETWEEN FINANCE AND OPERATING LEASES

Level of agreement	Canada percent	Malaysia percent
Strongly agree	15.9	3.7
Agree	36.5	38.9
Disagree	39.7	50.0
Strongly disagree	7.9	7.4
Total	**100.0**	**100.0**

In Canada there is a reduced majority in the numbers agreeing compared to the 'one method' statement and in Malaysia, 57 per cent disagree with the removal of the classification. The argument put forward in the interviews was that there is, in reality, a distinction between operating and finance leases. Interviewees had difficulty in determining whether the distinction was one of substance or legality but in their minds it existed. As one Canadian interviewee said: *They may well want to call it a 'right to use' but that is only another term for 'operating lease' . Why do they not just say that all operating leases have to go on the balance sheet and be called as such. If over time the information is not regarded as valuable, then it will just wither away.* (Canadian accountant with 6–10 years' experience)

The Malaysian opinion was more resistant to the move and said: *They are spending too much time arguing about the hypotheticals. If we just say this is a legal contract for an operating lease and then disclose the information that would resolve the matter. I cannot see any students passing their exams if we are going to have to learn such rubbish.* (Malaysian accountant, 16–20 years' experience)

The Boards gave their reasons for rejecting the present hybrid model as follows:
(a) When a lease is classified as an operating lease, the lessee fails to recognise the identified assets and liabilities. Even short-term leases convey to the lessee a right to use the leased item and a corresponding obligation to pay for that right.

(b) The two-model approach means that economically similar transactions can be accounted for very differently.

(c) The dividing line between finance and operating leases is difficult to define in a principled way. (IASB 2009, p 121)

In prolonged discussions with a group of interviewees, two points were raised and debated. First, the premise that finance and operating leases are 'economically' similar. The interviewees' argument was that the decisions made by the company and the interpretations placed by users on finance and operating leases were often very different to finance leases and the proposals obscured those difference. The comment was also made that if the dividing line is difficult, as claimed by the Boards, 'to define in a principled way' then we should apply 'bright line rules'.

The use of information

Of course, the argument for the proposed standard is the perceived abuse (some of the interviewees claimed that non-compliance was a less derogatory term) with the existing standard and the value that is provided to the users. The Observers Papers (IASB 2007) submitted to the Board reviewed the research studies and commented that:

'Some may argue that the prior two studies no longer generalise today because business has become much more familiar with leases and lease accounting information than it was 20 years ago. In fact, guidance throughout Standard & Poor's Corporate Ratings Criteria (2002) suggests that credit analysts typically adjust leverage and other debt analyses for the amount of operating leases. So, it is possible that today's credit analysts are not misled by the capital and operating lease distinction (again assuming that there is no fundamental economic difference between capital and operating leases that would merit the different reporting treatments that exist today): Standard & Poor's (2002), *Corporate Ratings Criteria,* New York, available at http://www.standardpoor.com.

It would seem that the Board accepts that analysts may well adjust for the differences between finance and operating leases. There may also be other reasons for the lack of interest. Breton and Taffler (1995), in their study with 63 UK stockbroker analysts, found not one of the analysts adjusted amounts or ratios for operating leases. However, as explained by the authors, analysts have strong incentives to forecast reported earnings, which would naturally treat operating leases as operating leases. Moreover, if firms are 'window dressing', the analyst will likely be trying to forecast window-dressed earnings. So, although stockbroker analysts may seem to be misled by the capital-operating lease reporting difference, it is likely because they don't have much incentive to adjust for that difference.

The Observers Paper continues the argument of the value of information to users mainly by reference to the Beattie et al. (2006) study. In doing so, no mention is made of the response rate, indeed the impression is given that the numbers of respondents were much larger than they actually were. Neither does the Observer Paper discuss the somewhat limited strength of agreement to some of the questions. The Beattie *et al* (2006) study is well conducted and valuable, but the Observers Paper does the research a disservice by the way it presents the results and weakens its own arguments for the changes in accounting for leases.

In this present study, the level of agreement was sought to the statement 'The current standard does not provide information that is of use to the users of the financial statements'. The results are shown in Table 5.

TABLE 5
CURRENT INFORMATION IS NOT OF USE

Level of agreement	Canada percent	Malaysia percent
Strongly agree	19.0	1.9
Agree	49.2	48.1
Disagree	30.2	50.0
Strongly disagree	1.6	0
Total	**100.0**	**100.0**

Although the majority in Canada agree with the statement, the support is evenly divided in Malaysia. The implication in some of the literature that there is a strong demand for change can be challenged. In addition to the finding from the research studies, there is also the dilemma that the surveys, by posing specific questions, raises the prominence and importance of the subject matter in the mind of the respondents to a level that was not previously present. This phenomenon of course may act in either direction, but if we place the question of the usefulness of lease accounting in a wider context including the many sources of financial information used in various forms of decision making, our conclusions may differ.

The importance and usefulness of lease information must therefore be placed in a context. For example, with bankers: 'In an actual loan request setting, the effect of this particular information would be considered in the context of the overall knowledge the banker possesses about the borrower' (Durocher and Forting, 2009, p 38).

The potential loss of useful information and the difficulties in removing the present lease classification is addressed by the Observer Paper (IASB 2007, 18–19) and are as follows:

(a) some constituents have expressed concern that the scope of IFRIC 4 and EITF 01-8 result in some arrangements being classified inappropriately as leases. Those concerns will not be addressed.

(b) similar contracts with similar characteristics may not be accounted for consistently. For example, some executory contracts, service contracts, maintenance contracts and lease contracts share similar characteristics but have different accounting.

(c) requiring lessees to recognise assets and liabilities arising in all lease contracts may lead to arrangements being structured so that the contract is considered a contract for services rather than a contract conveying a right of use. This will result in greater pressure being placed on the existing guidance on scope.

(d) additional guidance on how to distinguish payments for services from payments for the right to use an asset may be required. There is an existing requirement to distinguish payments for services from lease payments. However, if the lease is classified as an operating lease in accordance with existing standards, the lessee recognises in profit or loss both the payment for services and the lease payment, normally on a straight-line basis. Requiring capitalisation of the lease payments may reveal that the existing guidance on how to distinguish the payments is inadequate.

It appears that the right-to-use concept brings a train of unanswered questions with it.

Dimensions of usefulness

The data in this study is fragmentary and the following findings should be treated with caution but the results provide some insight into the opinions on the usefulness of lease information and the relationship to the proposed changes. To conduct 2 by 2 chi-squared tests, the data was collapsed to provide dichotomous cells of "Agree: and Disagree". The following table presents the differences between Canadian accountants' agreement with the application of one method and the use of information.

TABLE 6
ONE METHOD AND USE OF INFORMATION (CANADA)

Current information of no use	**One accounting method**		**Total**
	Agree (No.)	**Disagree (no.)**	
Agree	33	10	43
disagree	8	12	20
	41	22	63

Pearson Chi-Square 0.004

Those agreeing that the current information is of no use were much more likely to agree that one method of accounting should be used. Those disagreeing with the use of one accounting method were more likely to disagree that current information is of no use.

Seeking confirmation of this finding, the following table examines the perceived usefulness of information and the removal of the classification for the Canadian respondents.

TABLE 7
USE OF INFORMATION AND REMOVAL OF CLASSIFICATION (CANADA)

Classification should be removed	Current information is of no use		Total
	Agree	disagree	
Agree	26	7	33
disagree	17	13	30
	43	20	63

Pearson Chi-Square 0.060

Once again we find that those who disagree with the statement that the information is of no use are more likely to disagree with the removal of the classification. Caution must be exercised in interpreting these results but it would be illuminating to ascertain the reasons that some respondents do not find the information of use. The final table shows the comparison with the usefulness of the information and the removal of the data for the Malaysian respondents.

TABLE 8
USE OF INFORMATION AND REMOVAL OF CLASSIFICATION (MALAYSIA)

Classification should be removed	Current information is of no use		Total
	Agree	disagree	
Agree	15	8	23
disagree	12	19	31
	27	27	54

Pearson Chi-Square 0.054

The above findings indicate that respondents' opinions on proposed changes depend on their perceptions of the usefulness of information, and therefore further aspects on the use of the current information need to be explored.

As mentioned previously, by concentrating on a particular characteristic, ie. usefulness of lease accounting information, it may provoke a response that is unrepresentative of 'general' attitudes or can be misinterpreted because of the lack of contextual positioning. The obvious questions to be asked are 'Why do you use the information', 'How do you use the information', 'When do you use the information'.

CONCLUSIONS

The issue of the appropriate method of accounting for leases has been discussed for several years. It is widely believed that current international and national standards are abused particularly in classifying leases as 'operating' , thus removing the asset and the liability from the balance sheet. Currently, the IASB and FASB have a project on leases which is expected to provide a new standard in 2011.

The present Discussion Paper released in March 2009, proposes that the present classification of leases would be removed and all material leases would appear on the balance sheet. This would have a substantial impact on the financial statements of countries that have converged with international accounting standards or are in the process of doing so.

This paper contributes to the debate on accounting for leases by analysing and discussing the responses of 63 qualified accountants working in Canada and 54 in Malaysia. All of these respondents claimed to be familiar with the current standards and knowledgeable on the current discussions taking place at the international level.

The evidence from previous research and the present study suggests that there is a possible demand for the present method of accounting for leases to be changed and that the classification into finance and operating leases removed with all leases appearing as assets and liabilities on the balance sheet. It would be exaggerating to claim that the demand for change is overwhelming and there is a danger that the responses are being interpreted on the basis of our previous convictions. The present study suggests that those who find the current information of use are less likely to agree with the proposed changes. Indeed, the Observer Paper of the IASB (2007) admits that analysts are making the adjustments where necessary and misrepresent the generalisations that can be made from one particular study.

Given these findings, it is pertinent to ask why the FASB and IASB have invested such a substantial amount of time and effort into his particular topic. It would seem more sensible to pursue the Conceptual Framework project more aggressively and try to obtain a theoretical basis for any change.

The present project is undertaken jointly by the FASB and IASB as part of their convergence strategy. The US standard is frequently referred to as an example of the rules-based approach to accounting and the International standard as the principles-based approach. With the Securities and Exchange Commission publicly declaring that it will make a final decision on convergence by 2011, there may be more of a political need to achieve some form of agreement on accounting for leases that can be released, as promised by 2011.

The results from the current study should be treated with some caution. The sample is self-selected and therefore generalisations should be made with great care and the number of respondents is such that it is difficult to conduct rigorous inferential statistical analysis. The findings of the study both confirm parts of the previous researches and also put forward new interpretations and arguments on the results which suggest possible attitudes for future research. Certainly, there are other countries and various groups of users which have remained neglected. This paper has also raised questions where the present findings appear ambiguous or incomplete. The IASB's Discussion Paper also sets out a sequence of questions which highlight potential research areas.

It may well be that the use of survey methodology now has little more to offer to our knowledge. This opens the possibility for methodologies such as protocol analysis, grounded theory and repertory grid techniques. These are all time demanding but may well provide greater illumination on the complexities of the phenomenon than we now possess. It may also be that joint projects conducted with philosophers and political scientists can move the current debate from a purely technical accounting approach to a wider realisation of the process, role and function of accounting in society.

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