

LEASE ACCOUNTING: AN INQUIRY INTO THE ORIGINS OF THE CAPITALIZATION MODEL

José Morales Díaz

Universidad Complutense de Madrid

Correo-e: jose.morales@ucm.es - ORCID iD: <https://orcid.org/0000-0001-7234-7212>

Miguel Ángel Villacorta Hernández

Universidad Complutense de Madrid

Correo-e: mianvi@emp.ucm.es - ORCID iD: <https://orcid.org/0000-0003-2515-2126>

Florentina Iulia Voicila

Universidad Complutense de Madrid

Correo-e: fvoicila@ucm.es - ORCID iD: <https://orcid.org/0000-0002-1698-1072>

Recibido: 10-10-19; Aceptado: 21-12-19.

Cómo citar este artículo/Citation:

Morales Díaz J., Villacorta Hernández M. A., Voicila F. I. (2019). Lease accounting: an inquiry into the origins of the Capitalization Model. *De Computis - Revista Española de Historia de la Contabilidad*, 16 (2), 160 - 187. doi: <http://dx.doi.org/10.26784/issn.1886-1881.v16i2.357>

Abstract: Both the IASB and the FASB have recently issued new lease accounting standards (IFRS 16/Topic 842) that have been applied by entities since the beginning of fiscal year 2019. The new standards introduce an important change in the lessee's accounting model, impacting entities' accounting ratios, systems, internal controls, etc. Lessees will have to apply a capitalization model for almost all lease operations. In other words, nearly all lease operations will be shown on the lessee's balance sheet, and there will be very few off-balance sheet leases.

The aim of this paper is to explain the evolution of lease accounting standards from the beginning of the 20th century up until the present day, i.e. to analyze how this accounting area has evolved driven both by one of the basic accounting principles: "substance over form" (nowadays universally admitted), and also by the "utility paradigm". While initially no leases were capitalized (following the legal form of the operations), subsequently (in the second stage) some of them did start to be capitalized ("finance leases") under the assumption that they were very similar to financed purchases. Nowadays (under IFRS 16/Topic 842 – the third stage) almost all leases are capitalized for comparability and other reasons.

This is the accounting area in which the "substance over form" principle has been most widely applied in modern accounting history. We fundamentally use historical information from primary sources (historical accounting standards, pronouncements of accounting standards issuers, historical research works, etc.) and we focus on US GAAP and IFRS standards.

JEL Classification: N70, M41.

Keywords: *IFRS 16, ASC Topic 842, Lease Accounting History.*

CONTABILIDAD DE CONTRATOS DE ARRENDAMIENTOS: UNA INVESTIVACIÓN ACERCA DE LOS ORIGENES DEL MODELO DE CAPITALIZACIÓN

Resumen: Tanto el IASB como el FASB han emitido recientemente nuevas normas contables (NIIF 16/Topic 842) que deben aplicarse por parte de las empresas desde el ejercicio fiscal 2019. Las nuevas normas introducen un cambio importante en el modelo contable de los arrendatarios que está impactando en las ratios contables, los sistemas, los controles internos, etc. Los arrendatarios tendrán que aplicar un modelo de capitalización a prácticamente todos los arrendamientos. En otras palabras, prácticamente todos los arrendamientos se incluirán en el balance del arrendatario y habrá pocos arrendamientos fuera de balance.

El objetivo del presente artículo es explicar la evolución de las normas contables de arrendamiento desde el inicio del siglo XX hasta la actualidad. Esto es, analizar cómo esta área contable ha ido evolucionando siguiendo uno de los principios contables básicos “sustancia sobre la forma” (hoy en día universalmente admitido) y siguiendo el “paradigma de la utilidad”. Inicialmente no se capitalizaba ningún tipo de arrendamiento (siguiendo la forma legal de las operaciones), posteriormente (en un segundo paso) algunos arrendamientos se capitalizaron (los arrendamientos financieros) asumiendo que eran muy similares a una compra financiada, y actualmente (bajo NIIF 16/Topic 842, en un tercer paso) se capitalizan prácticamente todos, argumentando la búsqueda de comparabilidad además de por otras razones.

Se trata del área contable en la que el principio de “sustancia sobre la forma” se ha aplicado de forma más amplia en la historia contable moderna. Hemos utilizado información histórica de fuentes primarias (normas contables históricas, pronunciamientos de los emisores de normas, trabajos de investigación históricos, etc.). Nos hemos enfocado en los contextos de US GAAP y en NIIF.

Clasificación JEL: N70, M41.

Palabras clave: NIIF 16, ASC Topic 842, historia de la contabilidad de los arrendamientos.

* **Acknowledgments:** We thank the anonymous reviewers for providing comments and suggestions, which helped strengthen the final paper. However, the views and opinions expressed in this article are those of the authors.

Copyright: (c) 2019 José Morales Díaz, Miguel Ángel Villacorta Hernández y Florentina Iulia Voicila. Este es un artículo de acceso abierto distribuido bajo los términos de la licencia Creative Commons Attribution (CC BY-NC-SA 4.0).

1. Introduction

Accounting standards applicable to lease operations have recently changed. Within the IFRS (International Financial Reporting Standards) context, IFRS 16 has replaced IAS (International Accounting Standard) 17 for reporting periods beginning on or after 1 January 2019. Under US GAAP¹, ASC² Topic 842 has replaced former Topic 840 with a similar initial application date.

For many companies, this represents the most crucial accounting change for many years, both from an accounting perspective and from a system/organizational

¹ US GAAP: United States Generally Accepted Accounting Principles. Nowadays basically accounting standards issued by the FASB (Financial Accounting Standards Board). See evolution of US standard issuers in the rest of the paper.

² ASC: Accounting Standards Codification.

perspective (Morales-Díaz and Zamora-Ramírez, 2018). Balance sheet ratios and metrics have witnessed fundamental changes. Leverage level has increased, EBITDA has also increased in general terms and ROA has decreased due to the increase in total assets (Morales-Díaz and Zamora-Ramírez, 2018b).

The main change is focused on the lessee accounting model (the lessor model remains mainly unchanged). Prior to IFRS 16/Topic 842, lessees had to classify all lease operations as either financial or operating leases. In the case of financial leases, the transaction was basically recognized as a financed purchase of the underlying asset (the capitalization model). In operational leases, only lease expense accrual was recognized. Under IFRS 16/Topic 842, there is no distinction between operational and financial leases, and a capitalization model is applied in all cases³ (with certain specific voluntary exceptions⁴).

The debate as to how a lessee should reflect their lease operations/payment obligations on the balance sheet and in the profit and loss account is not new (Barral, 2014, p.22). Lease accounting has been a matter of controversy since the beginning of the 20th century; we may cite Finney (1921) and the Harvard Business Review (1927) as historical examples of said controversy. Finney (1921) showed several models that were used at that time in the US (i.e. the 1920s, a period when there were no generally accepted accounting standards such as we know today). In general, at the beginning of the 20th century, the capitalization model was not usually applied, but the debate regarding the correct model to be used had started to become commonplace within the accounting community.

The main objective of our paper is to examine the evolution of lease accounting (for lessees) from the beginning of the 20th century until the present day in order to examine the development of lease accounting regulation (principally from the lessee's viewpoint). We will also analyze which forces or influences have ultimately led to the application of the capitalization model to practically all lease operations (from a lessee perspective). In this regard, we will determine whether the evolution of lease accounting is related to the "utility paradigm" (Tua, 1990) and to the needs of those who are assumed to be the primary users of financial information in the IASB⁵ / FASB⁶ Conceptual Framework (see, for example, Barlev and Haddad, 2007 or Bonaci and Tudor, 2011). Finally, we will analyze how the accounting principle known as "substance over form" has been generally applied in lease accounting since the beginnings of modern accounting regulation.

³ It should be noted that, under the new accounting standards, lessors still classify lease operations as either financial or operating and different accounting models are applied to each of them. In other words, under the new standards lessee and lessor principles are not symmetric. This is one of the controversies of the new standards.

Under Topic 842 also lessees (and not only lessors) must classify lease operations as either financial or operating, but not for applying or not the capitalization model (which is applied in all cases) but just for expense accrual purposes (under operating leases total expense recognition is linear). This is one of the many differences between IFRS 16 and ASC Topic 842.

⁴ Short-term leases (lease term equal to or lower than one year) and leases of low-value assets (around USD 5,000 when new). IFRS 16 paragraph 5 and BC100. Under ASC Topic 842 (paragraph 842-20-25-2), only the short-term leases exception applies and not the low-value assets exception. This is another one of the many differences between IFRS 16 and ASC Topic 842.

⁵ IASB: International Accounting Standards Board.

⁶ FASB: Financial Accounting Standards Board.

Currently, no similar studies exist in accounting literature specifically focused on lease accounting history. In recent years, lease accounting literature has been focused on analyzing the estimated effect of IFRS 16 / Topic 842 on companies' ratios. Authors use different methodologies in order to capitalize previous operating leases (generally the *constructive method* introduced by Imhoff et al. (1991, 1997)) and compare financial statements with and without said capitalization effect. They find that there is a significant effect on ratios such as leverage and profitability due to the new debt and new assets (right-of-use of the leased assets) that entities will have to recognize. The sectors most affected are retail, transport and hotels. Companies generally appear to maintain a higher debt level and lower profitability. The most recent studies are those by Singh (2012), Fitó et al. (2013), Wong and Joshi (2015), You (2017), Morales-Díaz and Zamora-Ramírez (2018b), Magli et al. (2018), Giner and Pardo (2018), Giner et al. (2018), Maali (2018), and Maglio et al. (2018).

Other studies focus on the evolution of the accounting regulation of a specific area and related influences. By way of example, García et al. (2018) revisits the history of accounting for goodwill in the United Kingdom, the United States, France and Japan. Jack and Georgiou (2011) carry out an examination of the history of attempts by regulators, practitioners and scholars to establish an appropriate accounting measurement basis for financial reporting from the mid-nineteenth century up until 2005 leading to an evaluation of the likelihood of fair value accounting (FVA) practices becoming fully institutionalized. However, there is no similar research for lease accounting.

Our work is focused on accounting standards in the US (US GAAP) and on IFRS. We will divide the historical research of our paper into five sections which correspond to the different historical pronouncements/standards that have been issued since the 1940s until the present day: lease accounting prior to accounting standards (Section 3), ARB 38 (issued by the CAP in 1949) (Section 4), Opinion No. 5 (issued by the APB in September 1964) (Section 5), SFAS 13/IAS 17 (issued by the FASB / IASC⁷ in 1976 / 1994) (Section 6), and ASC Topic 842 / IFRS 16 (issued by the FASB / IASB in 2016) (Section 7). In Section 2, and prior to the historical analysis, we introduce the "utility paradigm" and the "substance over form principle" as the general theoretical framework of our paper. As previously stated, we will analyze whether or not the evolution of lease accounting is indeed related to the "utility paradigm" and the "substance over form principle".

2. The "utility paradigm" and the "substance over form" principle

2.1 The "utility paradigm"

The "utility paradigm" currently determines a large portion of accounting research as well as the Conceptual Framework of the most important accounting standard issuers (including the IASB and the FASB). In other words, accounting regulation and accounting standards successive reforms are influenced by this paradigm.

⁷ IASC: International Accounting Standards Committee, predecessor of the current IASB.

It is, nowadays, generally acknowledged that the main objective of public financial statements issued by a company is to provide useful information to external users of said statements, especially to current and potential investors. As Tua (1990, p.19) points out, since the middle of the 20th century, a clear evolution has been observed regarding the focus of the purposes and objectives of financial statements. The objective of "profit measurement" has been replaced by (or at least complemented by) the aim of "providing useful information to the user" (the "utility paradigm").

This paradigm aligns the content of the financial statements (i.e. the information that the financial statements offer) to the needs of the users, assuming that main requirement is that the information is useful for decision making and that the main users are debt and equity current and potential investors. For Méndez and Ribeiro (2012, p.77), the evolution of accounting thought from the 1960s until today is essentially based on the "utility paradigm", hence the objectives for which accounting information is prepared are determined by its theoretical construction. In this context, the current general trend in accounting regulation is for financial statements to offer information to all potential users in general, but with one principal user in mind: investors (including stock market investors) (AICPA⁸, 1973, p.13) (Sorter and Gans, 1974, p.10) (FASB, 1980) (IASB, 1989) (ASB⁹, 1991) (SCFR, 1991).

Prior to the generalized acceptance of the utility paradigm, there were basically three main financial statement users: creditors, owners and tax authorities. At that time, the preference given to creditors over other potential financial statement users was logical, considering the financing products that prevailed. Almost all corporate financing came from bilateral debt instruments; therefore, accounting regulation placed greater importance on creditors' rights (as they were the main external users of financial statements). Nowadays, however, the proportion of financing obtained from stock investors has increased considerably (both from bonds and shares), therefore it no longer made sense to continue the issuing of accounting rules that consider the creditor as the main user. This evolution can be seen in the Conceptual Framework of the FASB which states that information should be useful to capital and other markets (FASB 1980, p.8), and in the G4+1¹⁰ regulation where "(...) capital market investors are considered as target users" (Street and Shaughnessy, 1998, p.131) (Beresford, 2000, p.17).

There are two reasons for considering capital investors to be the principal users: firstly, the importance of the capital market as a source of financing; and secondly, deficiencies in the creditors' protection model, which "(...) may have serious limitations when external users rely on the resulting financial statements for the purpose of making economic decisions" (Cairns, 2000, p.41).

Thus, since the mid-twentieth century, the objective of rendering accounts to owners and creditors has moved to rendering accounts to current and potential investors. In this sense, the criterion of utility for investors ("utility paradigm") is currently the starting point for preparing accounting standards and for establishing financial statements content and disclosures.

⁸ AICPA: American Institute of Certified Public Accountants.

⁹ ASB: Accounting Standard Board. Institutions that issues generally accepted accounting standards for the UK.

¹⁰ See G4+1 description in Section 7.

The first consequence of the “utility paradigm” is that the traditional criteria of verifiability and objectivity (while not completely lost) have given way to relevance as the fundamental priority of financial information issued by companies. Hence, an accounting model will be preferred if it contains information that is more relevant for financial statements users’ decision making.

On the other hand, the concept of “users of financial information” has evolved and expanded. A completely optimal accounting system (that is, optimal in absolute terms) in principle cannot exist. If different users of financial information were to be considered, it would be necessary to decide which user should be given priority. In other words, it would be possible to develop as many systems as user groups can be detected.

Many debates in relation to the “utility paradigm” have encouraged the use of empirical research in accounting. As Tua (1990, p.38) points out, by becoming utilitarian by nature, the final and definitive proof of the effectiveness of the financial information is its usefulness. This is a pragmatic concept for which the most appropriate - and possibly only - validation is the empirical testing. In spite of this, the fact that accounting (or, more specifically, accounting principles) remain a normative body should be taken into consideration. As such, in certain contexts, normative or logical deductive research could be considered as equally valid (or even complementary) to the empirical research (see Barth et al., 2001).

Indeed, when issuing accounting standards, issuers and regulators such as the IASB and the FASB rely on empirical research in certain cases, while in other cases they use theoretical research (which regulation better serves, in theory, to the needs of the financial statements users).

2.2 The “Substance over Form” Principle

The “substance over form” accounting principle entails that operations should be registered based on their economic substance instead of based on their legal form. Nowadays this principle inspires much of the IASB and FASB regulation on most areas (financial instruments, leases, revenue recognition, among other). In fact, in several accounting standard the principle is explicitly mentioned.

By way of example, according to paragraph 4.6 of the IASB’s 2010 Conceptual Framework¹¹, “in assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form. Thus, for example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. Hence, the finance lease gives rise to items that satisfy the definition of an asset and a liability and are recognized as such in the lessee’s balance sheet.”

¹¹ This paragraph is not included in current Conceptual Framework (revised in March 2018) as under current lease standard almost all leases are capitalized (see Section 7).

The first time in which the accounting concept of faithful representation was identified with giving priority to the economic substance of the operations over their legal form was in Rutterman's statement (1984, p.8), where "true and fair" are defined as clarity of representation and recognition of the economic substance over the mere legal form.

The priority of *substance over form* has been recognized throughout the Conceptual Framework proposals of the different international accounting bodies: AICPA (1973, p.10), FASB (1980, p.63), IASC (1989, p.35), AARF¹² (1990), ASB (1994) (1999, p.41), OECF¹³ (1996), AECA¹⁴ (1999, p.119) and NZSA¹⁵ (2012, p.22).

The ASB (1994, p.1) considers that it is basic, in accounting, to consider the substance of the operations over their legal form. For this purpose, the real effects of the transactions of the entity and their assets, liabilities, gains and losses should be faithfully represented in their financial statements. According to the IASC (1989, paragraph 35), in order for financial statements to contain reliable information, they must, among other things, faithfully reflect the economic essence of the events and transactions, and not merely their legal form.

Under current IASB and FASB conceptual framework (issued in 2018) one of the qualitative characteristics of useful financial information is faithful representation, which means representation of the substance of an economic phenomenon instead of representation of its legal form only.

One fundamental fact which made *substance over form* a priority was that several auditing firms chose this concept, assimilating the term "fair" with giving preference to the substance over the form (Parker and Nobes, 1991, p.349).

3. Lease accounting prior to accounting standards

During the first decades of the 20th century, companies used two different ways of acquiring fixed assets in cases where the company did not have the necessary funds for the purchase. The first method was to acquire the asset directly through a financed purchase (issuing a loan). The asset purchase and the loan issuance are two independent transactions. From an accounting perspective, the company recognized the property among the assets (as the asset is purchased) and a debt on the liability side (as a debt is issued). In the income statement, the company recognized annual depreciation (in relation to the asset) and financial expenses (in relation to the debt). The second method consisted of a technique known as "buy-build-sell-lease". This involved acquiring the use of the property for all (or almost all) of its useful life through a lease contract. In this case, the company only recognized a lease expense over the lease term, i.e. it did not recognize any asset or liability (apart from the expense accrual).

Cannon (1948) explained that a cancellation clause was usually incorporated in these lease contracts (a cancellation option in favor of the lessee). The cancellation option included the payment of a fee as to compensate the lessor for the majority of the remaining investment (the remaining nominal amount). Moreover, the lessee had the

¹² AARF: Australian Accounting Research Foundation.

¹³ OECF: *Ordre Des Experts Comptables*.

¹⁴ AECA: Asociación Española de Contabilidad y Administración de Empresas. A Spanish private institution that issues accounting standards and interpretations.

¹⁵ NZSA: New Zealand Society of Accountants.

option to purchase the owner's property at a price necessary to reimburse all the lessor's remaining investment. These clauses made more evident that the majority of risk and rewards inherent to the ownership of the asset was held by the lessee.

The "buy-build-sell-lease" technique started to expand evermore during the 1940s. Moody's manuals and other reports selected four large representative companies of the USA (Allied Stores Corporation; JC Penny Company; Safeway Stores, Inc.; and Montgomery Ward and Co. Inc.), and showed that more than 93% of their properties were acquired through the "buy-build-sell-lease" technique. This information was not disclosed in their financial statements (Cannon, 1948).

Another case occurred in 1946 when the New York Life Insurance Company acquired a large amount of buildings and land for the purpose of leasing them to the Continental Can Company for a period of ten years. The Continental Can Company followed the accepted accounting conventions and did not recognize such an operation on its balance sheet, and neither did it disclose such an agreement in the financial statements. At the time, this type of contract was also common among railway companies (Myers, 1948).

Under the "buy-build-sell-lease" technique, the substance of the transaction was the same as that of a financed purchase, but without the transaction being reflected on the balance sheet. The economic substance was identical since the underlying asset was controlled by the lessee throughout its complete useful life, and the payment structure was similar. However, the legal form was different, and therefore the accounting principles applied were also different. The "substance over form" principle was generally still not used in practice.

Certain authors began to argue that "substance over form" should be applied to these operations. For Myers (1948) it was preferable for financial statements to be prepared in such a way that the liabilities issued in relation to the acquisition of a new asset financed by new capital would be presented uniformly, regardless of the payment structure and the legal form of the operation. The significant accounting problem posed by the "buy-build-sell-lease" technique was that it did not allow analysts to determine the amounts of long-term non-cancellable leases since these payment commitments were not reflected on the balance sheet nor in the financial statements notes.

4. ARB 38

A key date in the evolution of accounting practices in the US was the creation of the SEC¹⁶ in July 1934. For many authors (Zeff, 2007 or Emerson et al., 2010 among others), the SEC had a decisive influence on the progressive application of an accounting model that we may call conservative (due to the widespread use of a cost model for measuring the balance sheet elements instead of applying a fair value model) (Morales-Díaz, 2017). As we will see, this conservatism (applied in many areas) was not so strictly applied in the case of lease accounting.

This "conservatism" is related to recognizing impairment losses and, at the same time not recognizing positive changes in fair value of balance sheet elements (Morales-Díaz, 2017). In lease accounting, the problem was not the model to be applied for the subsequent measurement of the elements, but whether to recognize assets and liabilities.

¹⁶ SEC: Securities and Exchange Commission.

Recognizing lease liabilities can be seen as more conservative than not recognizing them.

The interaction between the SEC, the AIA¹⁷ (currently the AICPA) and the AAA¹⁸ was behind the creation of US accounting standards starting from the beginning of the 1930s. Although the US Congress conferred the responsibility and authority to regulate the accounting of listed companies on the SEC, this body allowed the accounting profession to regulate itself. The first organization created in this sense was the CAP¹⁹. The CAP was the first private sector organization tasked with setting accounting standards in the United States, and was a committee run by the AIA. The CAP was the predecessor of the APB²⁰, itself a predecessor to the FASB.

The CAP issued the ARB²¹ (51 in total from 1939 to 1959). The ARB represented the considered opinion of at least two-thirds of the members regarding accounting procedure, reached by means of a formal vote held after examination of the subject matter in question by the committee and the research department. Except for those cases whose formal adoption by the institute's membership was requested and secured, the authority of the bulletins rested upon the general acceptability of opinions thus reached.

ARB 38²² (issued in 1949) was called "Disclosure of Long-Term Leases in Financial Statements of Lessees" (CAP, 1949). This document was the first lease accounting standard / pronouncement in the US. One of its main points was that it recommended the capitalization for certain leases that were, in substance, installment purchases. The CAP believed that "a lease agreement is sometimes, in substance, no more than an installment purchase of the property" and worried that companies using such leases often failed to show assets and related indebtedness on the balance sheet. The capitalization criteria were any of the following: (a) the existence of a bargain purchase option at the termination of the lease, (b) covenants that permitted the application of lease rentals to the purchase price, or (c) rental payments so high that a purchase plan was evident. No details were given in relation of the measurement of the lease asset and lease liability.

The document also insisted on the necessity of disclosing information about lease future payments. The CAP believed when rentals or other obligations under long-term leases were material disclosure should be made in financial statements or in the notes to them, i.e. the amounts of annual rentals to be paid under such leases with some indication of the periods for which they are payable, and any other outstanding obligation assumed or guaranteed made in in addition to that. This information should be provided not only in the year in which the transaction originates but also for as long after that as the amounts involved are material. Additionally, in the year in which the transaction originates, there should be a disclosure of the key details of any essential sale-and-lease transaction.

The CAP believed that the information concerning these long-term agreements (more specifically the information related to the liability) was relevant for users of financial

¹⁷ AIA: American Institute of Accountants.

¹⁸ AAA: American Accounting Association.

¹⁹ CAP: Committee on Accounting Procedures.

²⁰ APB: Accounting Principles Board.

²¹ ARB: Accounting Research Bulletins.

²² It was subsequently codified as Chapter 14 of ARB 43.

statements in their decision-making processes. In fact, the problem of how to adequately disclose this information has remained unsolved until now (Boyle et al., 2014).

Therefore, new standard accepted both possibilities in relation to long term leases: to capitalize them (recognize the operation as a financed purchase) or to disclosure information about future payments in the notes to the financial statements. In practice, very few companies capitalized lease operation. Some examples are: Allied Paper Corporation (consumer goods company), Continental Airlines, Inc. (airline company), Lenkurt Electric Co. (microwave and telecommunications company) and Mohasco Industries, Inc. (flooring manufacturer). This last company sold and leased back several assets in 1958. It recorded, as a liability, the aggregate of all future rental payments, net of tax effect (Kingston, 1962).

Other companies like the Fairbanks-Whitney Corporation showed the value of the possible asset and liability but it did not include it as part of the balance sheet. Continental Airlines, only included a note to the financial statements giving details about lease debt (46\$ million of debt in 1960) (Kingston, 1962).

It can be argued that the “utility paradigm” influenced this CAP pronouncement. The only objective for disclosing this information is to be useful for users of financial statements so that they can calculate an entity’s total “off-balance sheet” liabilities. Nevertheless, it should be noted that the CAP only referred to long-term leases or to leases in which the lessee would obtain the property at the end of the lease contract. At that time nobody considered the possibility of capitalizing operating / short term leases.

It can also be seen how the CAP started to consider the “substance over form” principle as one of the bases of lease accounting standards. For the CAP, a long-term lease, although under the legal form of a lease, was, in substance, a purchase of the underlying asset²³. Seventy years ago, the CAP anticipated an idea that is currently shared by all of the accounting community: “substance over form” (the economic substance of the operations should prevail over its legal form) (Barral, 2014 p.23). According to ARB 38, “the committee is of the opinion that the facts relating to all such leases should be carefully considered and that, where it is clearly evident that the transaction involved is in substance a purchase, then the “leased” property should be included among the assets of the lessee with suitable accounting for the corresponding liabilities and for the related charges in the income statement” (CAP, 1949, p.3).

On the other hand, the CAP chose not to apply ARB 38 to short-term leases, presumably because short term leases did not typically require lessees to assume the costs and obligations of ownership, although the CAP did not explicitly offer this rationale. The CAP explicitly rejected the rationale of not recording a leased asset and corresponding obligation simply because the lessee did not hold legal title to the property. Instead, the Committee expressed the opinion that where clear evidence suggested a lease was in substance a purchase, the entity should recognize a leased asset and corresponding liability (IASB, 2007, p.3).

ARB 38 did not reference any generally accepted definition of assets or liabilities in its arguments or conclusions, nor did it propose any such definitions (IASB, 2007, p.3).

²³ In other areas the “substance over form” principle was not yet applied at this time (see Morales-Díaz, 2017).

5. APB Opinion 5

In the 1960s, especially in the US and UK, company mergers were increasing. This led to a series of accounting scandals marked by the pressures of the mergers. Managers used “creative accounting” in order to show a better performance of the entity. This situation created a demand for more rigorous accounting standards, better control and more transparent information. In this context, those acquiring companies wanted to be sure that the information provided was fully truthful. Such pressures forced the different accounting institutions to develop the institutional bases for accounting regulation (Edwards, 1989 Chapter 19).

In 1959 the CAP was replaced by two separate organizations: The APB²⁴ and the ARD²⁵, with the aims of reducing the number of accounting practices allowed under GAAP, codifying GAAP, providing solutions to new problem, etc. The first step was to develop a theoretical accounting framework, followed by the adoption of a set of principles based upon said framework. In 1961, the first phase was completed with the issuance of document ARS²⁶ No. 1 (“The Basic Postulates of Accounting”) by the ARD, which included a series of postulates as the basis for accounting principles to be subsequently issued (Moonitz, 1961). In 1962, document ARS No. 3 (“A Tentative Set of Broad Accounting Principles for Business Enterprises”) was published. This document constitutes, for many authors, the birth of the modern era in accounting (Emerson et al., 2010) (Sprouse and Moonitz, 1962).

It should be noted that the ARS were not official pronouncements issued by the ARD, but rather were prepared by specific individuals. ARS No. 1 was prepared by Maurice Moonitz, head of accounting research at the APB, while ARS No. 3 was prepared by Maurice Moonitz and Robert T. Spouse.

ARS no. 4 (prepared by John H. Myers) was issued in 1962 (“Reporting of Leases in Financial Statements”). It took a realistic approach to determining whether a lease was, in substance, a purchase. John H. Myers, contended that since the issuance of ARB 38 (and its restatement in ARB 43) leases had grown in importance, disclosures were rarely meeting the requirements of ARB 43, financial analysts were seeking more information than that required by ARB 43, and presentation on the balance sheet of leases that were in substance purchases was almost non-existent.

ARS no. 4 argued that noncancellability of the lease contract creates legal property rights warranting capitalization. In other words, a lease contract can create elements that meet asset and liability definitions. Myers argued that a lease conveys rights to use property, even if those rights are not perfectly aligned with or even close to ownership rights. Consequently, the rights obtained through a lease could still be considered an asset, even if the lease term was for a relatively short duration. It is worth noting that this principle is the main argument for applying capitalization model for lease accounting under FASB Topic 842 and IFRS 16 (issued more than fifty years after ARS no. 4). In fact, Myers recommended that all leases be recognized on the balance sheet at the discounted present value of cash flows that were to be paid for by the property right.

²⁴ APB: Accounting Principles Board.

²⁵ ARD: Accounting Research Division.

²⁶ ARS: Accounting Research Study.

In September 1964, the APB issued its Opinion No. 5: “Reporting of Leases in Financial Statements of Lessee” (which replaced ARB 43, Chapter 14). The APB commissioned this document for two main reasons. The first reason was that the use of long-term leases as an alternative to financed purchases of assets had increased significantly since the 1950s. Companies started to see this product as very attractive for financing all kinds of underlying assets (from real estate to machinery, vehicles, etc.). At that time, these operations were already known as “off-balance sheet finance” i.e. the accounting community already recognized that there could be payment commitments not recognized as a liability on the balance sheet.

The second reason was that the accounting profession had begun to express different positions concerning the extent to which leased property (or the right of use over said property) and its related liability should be reflected as assets and liabilities on the balance sheet (application of the capitalization method). Different positions were also expressed in relation to the extent to which non-capitalized lease commitments should be disclosed in financial statements (Corcoran, 1968).

Moreover, the APB noted that no consistent pattern had emerged with respect to lease disclosures and relatively few instances of capitalization of leased property and recognition of the related obligation had occurred (IASB, 2007 p.5). The APB concluded from these observations that “the criteria for determining when a lease is in substance a purchase require clarification” (paragraph 3 of APB Opinion 5).

APB Opinion No. 5 modified the criteria for capitalizing leases (recognizing them on the lessee’s balance sheet), although the initial objective was to clarify Chapter 14 in ARB 43, not to change it (Wolk, et al. 2017, p.486). The document established that lease operations should be capitalized if certain conditions were met (so that the operation was, in substance, considered to be a purchase), and if the operation (either individually or as a group for similar types of property) was considered to be “material”. According to paragraph 5 of APB Opinion 5, “the nature of some lease agreements is such that an asset and a related liability should be shown in the balance sheet, and that it is important to distinguish this type of lease from other leases. The Board believes, however, that the distinction depends on the issue of whether or not the lease is in substance a purchase of the property rather than on the issue of whether or not a property right exists”. In other words, the APB preferred a “purchase model” over a “property rights model” recommended in ARS 4 (and more aligned with IFRS 16 / Topic 842).

The conditions to capitalize were similar to some of the indicators included in subsequent SFAS 13 and IAS 17, which classified leases as financial. According to Opinion No. 5, the presence of either one of two conditions usually established that a lease was to be considered as a purchase in substance (and the capitalization model was to be applied). The first condition was that the initial term was materially less than the useful life of the property, and the lessee had the option to renew the lease for the remaining useful life of the property at substantially less than the fair rental value. The second condition was that the lessee had the right, during the lease or at its expiry, to acquire the property at a price which at the inception of the lease appeared to be substantially less than the probable fair value of the property at the time or times of permitted acquisition by the lessee.

If the lease was not capitalized, the entity needed to disclose “sufficient information regarding material, non-cancellable leases which are not recorded as assets and liabilities to enable the reader to assess the effect of lease commitments upon the financial position and results of operations, both present and prospective, of the lessee. Consequently, the financial statements or accompanying notes should disclose the minimum annual rentals under such leases and the period over which the outlays will be made”.

An examination of the 1966 edition of *Accounting Trends and Techniques* – a publication of the AICPA based upon the reporting practices of 600 publicly-held companies in the US as disclosed in their 1965 annual reports – revealed relatively few instances in which lease agreements between nonrelated parties had resulted in the inclusion of the leased assets and related obligations on balance sheets (Corcoran, 1968). Therefore, although the basis for the pre-ASC 842/IFRS 16 model was already stabilized, it took some time for entities apply it in practice. For Wolk, et al. (2017, p.486) “APB Opinion No. 5 caused little change in the number of leases that were capitalized, even though it intended the opposite effect”.

It can be seen how the “substance over form” principle continued to inspire accounting regulators in this area. The APB was of the opinion that at least some leases should be capitalized i.e. should be recorded as a financed purchase of the leased asset (although the legal form was different). Moreover, the “utility paradigm” was also an important driver since the APB was aiming to ensure that the users of financial statements were able to estimate the possible lease liability even if it was not disclosed in the financial statements.

In 1966, the APB issued its Opinion No.7 in relation to the accounting model to be applied by the lessor (“Accounting for Leases in Financial Statements of Lessors”). As in Opinion no.5, Opinion no.7 adopted a “purchase model” of lease accounting. The APB described “two predominant methods in general use for allocating rental revenue and expenses over the accounting periods covered by a lease”: the “financing” and the “operating” methods (precedents of current finance and operating lease). For the APB, “although the lease typically establishes a schedule of rent to be received by the lessor, the treatment of this rent as revenue in the period of receipt does not necessarily result in a fair measurement of the lessor's periodic income during the term of the lease”.

In 1972, APB issued its Opinion No.27 also in relation to lessor accounting (“Accounting for Lease Transactions by Manufacturer or Dealer Lessors”). In this Opinion, it established the criteria under which it is considered that the lessor has transferred to the lessee risk and rewards (inherent to the ownership of the underlying asset). This is the basis for classifying the lease transactions as operating or finance lease.

In 1973, APB issued its Opinion No.31 (“Disclosure of Lease Commitments by Lessees”). This new opinion established more extensive and more uniform disclosure of rental commitments for non-capitalized leases. Opinion no.31 required disclosure of minimum rental commitments for “(a) each of the five succeeding fiscal years, (b) each of the next three five-year periods, and (c) the remainder as a single amount” (paragraph 9 of APB Opinion 31). It also also required disclosures in relation to the basis for

calculating rental payments, terms of renewal or purchase options and the nature and amounts of guarantees and obligations.

6. SFAS 13 / IAS 17 model

Georgiou and Jack (2011) highlight how, in the early 1970s, three fundamental events occurred in the history of accounting: the replacement in 1973 of the APB with the FASB; the creation in 1970 of the ASSC²⁷ in the UK (which subsequently underwent reform and changed its name to the Accounting Standards Committee in 1976, currently ASB); and the creation in 1973 of the IASC (predecessor of current IASB).

In 1976 the FASB issued the accounting standard that regulated lease accounting until 2018 (for over 40 years): the SFAS²⁸ 13 “Accounting for Leases” (later ASC Topic 840). The IASC issued a similar standard (International Accounting Standard – IAS 17).

One of the reasons for improving lease accounting principles was the financial bankruptcies in companies with important “off-balance sheet” (unreported) commitments (basically due to lease operations). One example is Court Line Group in the UK (1974)²⁹ (Rutherford, 2007). Financial statements users were not fully aware of companies’ total liabilities and could not anticipate cases like Court Line Group. In this sense, there was a growing interest in regulating lease accounting. Another reason was that, as stated before, a lease contract can give rise to elements that meet asset and liability definition under accounting conceptual frameworks³⁰.

SFAS 13 was issued by the FASB in November 1976 after releasing the Discussion Memorandum in July 1974, Exposure Draft in August 1975 and revised Exposure Draft in July 1976. The IASC issued IAS 17 (“Accounting for Leases”) in 1982, after the issuance of Exposure Draft (E19) in October 1980. This was later replaced by an improved standard (also IAS 17) in 1997. Limited amendments were made in 2000. In December 2003 the IASB issued a revised IAS 17.

SFAS 13 and IAS 17 rely primarily on the “purchase model” (rather than on the “property rights model”). Nevertheless, many board members supported the “property rights model”. For example, according to paragraph 62 of 1976 Exposure Draft, some members “hold the view that, regardless of whether substantially all the risks and rewards of ownership are transferred, a lease, in transferring for its term the right of possession and use of property, gives rise to the acquisition of an asset and the incurrance of an obligation by the lessee which should be reflected in his financial statements. Those members nonetheless agree with this Statement because, to them, (i) it clarifies and improves the guidelines for implementing the conceptual basis currently underlying accounting for leases and (ii) it represents an advance in extending the recognition of the essential nature of leases”.

²⁷ ASSC: Accounting Standards Steering Committee.

²⁸ SFAS: Statement of Financial Accounting Standard.

²⁹ This company held an amount of 40 million pounds of non-cancellable lease obligations which were not reflected among its liabilities, while its equity amounted to GBP 18 million.

³⁰ See, for example, SFAS 13 basis for conclusions.

SFAS 13 and IAS 17 were based on classifying lease operations into two categories: financial leases and operating leases (both for leases and lessors, the model was symmetric in this sense). The standards included several indicators in order to help entities to determine the appropriate classification. SFAS 13 specified that if a lease satisfied one of the following requirements, it was to be considered as a financial lease by the lessee:

a) the property was transferred to the lessee at the end of the lease term. The "lease term" should be understood in a broad sense since it incorporated the entire negotiated period, including those periods during which the contract was not renewed whenever there were penalties; periods covered by renewal options; or periods during which renovations occurred.

b) the lease contract included a purchase option at a reduced price ("bargain purchase option"). This possibility allowed the lessee to purchase the property for a price sufficiently lower than the expected fair value of the property at the time the option became exercisable.

c) the term of the lease was equal to 75%³¹ or more of the estimated economic life of the property that was leased. If at the beginning of the rent, the property was in the final 25% of its economic life, including the previous years of use, this criterion was not to be used to qualify the lease.

d) the existing value of the minimum payments to be paid at the beginning of the lease, excluding execution costs such as insurance, maintenance, and taxes, was equal to or greater than 90%³² of the price at which the property could be sold in a transaction between nonrelated parties. However, if at the beginning of the lease term, the estimated economic life of the leased property was in its final 25%, this criterion could not be used.

A financial lease is, in essence, a financed purchase of the underlying asset. Substantially all risks and rewards inherent to the ownership of the asset are held by the lessee (and not by the lessor who is the legal owner of the asset). Therefore, in the financial lease the lessee recognizes the leased asset as well as a debt (concerning future lease payments). If a lease cannot be considered financial, then it is operational. This regulation allowed for the determination of the type of lease to be based on how the transaction affected both the lessor and the lessee. Under these standards, the FASB and IASB used the principle of "substance over form" to reflect the economic background of the transaction.

In operating leases, the lessee only recognizes a lease expense and discloses future mandatory lease payments ("minimum lease payments")³³.

Even while recognizing some leases as purchases of the underlying asset, the IAS 17 and SFAS 13 models were nonetheless criticized by academics (Reither, 1998), practitioners (AICPA, 1994), and users (Beattie et al. 2006), who argued that entities were still not recognizing all lease obligations and assets on their balance sheets,

³¹ IAS 17 does not include this figure; rather it refers to "the major part of the economic life".

³² IAS 17 does not include this figure; rather it refers to "substantially all of the fair value".

³³ This information has been the based for estimating Topic 842 / IFRS 16 impact. It was also an information that could be used for estimating off-balance sheet commitments.

leading to a lack of comparability. If the operation is classified as operating lease, it is not recognized on the balance sheet at all (except for accrued lease rent payable) ("off-balance sheet" leases).

The fact that many leases are recognized as an "off-balance sheet" operation implies difficulties when comparing financial statements and financial ratios among companies in relation to metrics like total debt level. If a company decides to buy a specific good (financing the purchase by issuing a loan) and a second company chooses to lease the same asset, in economic substance both operations may be very similar. Nevertheless, under current accounting standards, the first operation is recognized as a financed purchase and the second may not be recognized at all if it is considered to be an operating lease (apart from lease expense and the accrued lease payable).

Duke et al. (2009) indicate that companies enjoyed the benefits of operating leases for decades since both leased assets and liabilities could effectively be kept off the balance sheet with only footnote disclosures of future lease obligations. Many authors find that companies (lessees) structure lease transactions in order to be able to maintain lease commitments off-balance sheet, i.e. in order to be able to consider the leases as operating (see, for example, initial research by Abdel-Khalik (1981) in relation to the SFAS13 model, and also Duke et al. 2009; Beatty et al. 2010; Bryan et al. 2010; Dechow et al. 2011; Cornaggia et al. 2011). Cornaggia et al. (2011) find that, as a proportion of total debt, operating leases used as fixed-cost financing for US corporations increased by 745% from 1980 to 2007, and capital (on-balance sheet) leases fell by half.

In fact, sale and leaseback transactions were widely used as an "off balance-sheet" finance product. Entities obtained liquidity and could derecognize the leased asset instead of recognizing a debt arguing that the lease back was operating. Grönlund et al. (2008) determined that between 1998 and 2004 there were at least 180 such operations in European real state companies in England, Sweden, France, Finland, Switzerland, Italy, Germany, Ireland, Norway, Belgium, Denmark, and Spain.

In 2007, the Spanish bank Santander raised more than 4,300 million euros through a series of sale and lease transactions, including the sale of its headquarters in Madrid, which generated capital gains of about 1,700 million euros. The Prisa Group (Spanish media group) sold and leased back several buildings in Madrid and Barcelona. Telefónica (Spanish telecommunications group) sold and leased back five properties to private investors for 65 million euros, distributed between Madrid, San Sebastián, Bilbao and Valencia (Funds Society, 2015).

Cornaggia, et al. (2013) also explain that the current debt ratios are significantly negatively related to operating lease or off-balance sheet leasing. This explanation further clarifies the advantages behind the use of operating leases. Empirical evidence also supports the fact that in certain cases, off-balance lease liabilities (i.e. liabilities that would arise if operating leases disclosed in the footnotes of the financial statements were capitalized) are considered by market participants. According to Sakai (2010), the market appears not to react to lease capitalization, but Lindsey (2006) shows that operating lease liabilities are considered by investors to be real liabilities from an economic point of view, and that market participants price them differently than financial leases. These commitments have the same risk impact on valuation models as

financial leases (Dhaliwal, at el. 2011). For credit investors, operating leases not disclosed on the balance sheet are incorporated into debt ratings and bond yields (Lim et al. 2003; Sengupta and Wang, 2011).

Finally, Giner and Pardo (2017), find that firms closer to breaching their covenants are also more inclined to choose operating leases as a financing product. This is because, as these transactions do not lead to a higher debt, they do not affect leverage ratios.

Considering this situation (the lack of comparability and the growth of the off-balance sheet lease financing), some important standard issuers started to think about a step further in relation to ASC Topic 840 / IAS 17 model: capitalizing not only financial leases but also most operating leases (only in relation to lessee not to lessor). In other words, applying a “property rights model”

As an example of local application of SFAS 13 / IAS 17 model with some important differences, we can mention Spanish GAAP previous to 2008 (in the context of the Royal Decree 1642/1990). Under this regulation, some leases were capitalized by the lessee and the lessor: those legally called “financial leases” and in which there is a high probability that the lessee would exercise the purchase option. The asset recognized by the lessee was an intangible asset, regardless of the nature of the underlying asset.

7. ASC Topic 842 / IFRS 16 model

7.1 Change in lease standards

The first document prepared by several accounting issuers together (G4+1, including the former IASC and the FASB) proposing the possibility of capitalizing operating leases (i.e. proposing changes to the existing model) was issued as early as 1996³⁴ (McGregor, 1996). The G4+1 proposal was a different from previous model in the sense that it proposed to break the “all or nothing” principle that prevailed. “All or nothing” in the sense that if a lease is considered financial it is capitalised in its entirety and if it is considered operating it is not capitalised at all. For Nailor y Lennard (2000, p.3), the new approach would replace the financial and operating lease classification by a model that, in G4+1 opinion, would better reflect the differences between the economic resources controlled by leases and lessors and the obligations incurred by the lessors in the different type of lease contracts.

When a lease contract is entered into, for the one hand the majority of risk and rewards inherent to the lease property have been transferred to the lessee (at least in relation to part of the useful life), and for the other hand the lessee has an obligation to pay future cash flows. This leads to the recognition of an asset (in relation to the lease property) and a liability (in relation to future payments). This recognition is both related to the “utility paradigm” and to the “substance over form” principle. The aim of the capitalisation model is to reflect, on the statement of financial position, all items that meet asset or liability definition (which is useful for financial statements users) independently of its legal form (“substance over form”). As stated before, it can be seen as a step ahead of Topic 840 / IAS 17 model.

³⁴ The document was signed by McGregor (1996), executive director of Australian Institute of Chartered Accountants.

In fact, and focusing on the “utility paradigm”, applying Topic 840 / IAS 17 made several financial statement users to adjust financial statements ratios in order to reflect non-recognised lease assets and liabilities. For example, rating agencies generally increase entities debt level in order to include operating lease future payments using the “factor method”. This method is widely used by rating agencies such as Moody’s (2015). It basically consists of multiplying current lease expense by a certain multiple, which differs according to sector. The result is an estimation of the present value of the total future minimum lease payments.

It can be seen how lease was more widely used in anglo-saxon countries as an alternative to buying the underlying asset. In fact G4+1 was formed by Australia, Canada, US, New Zealand and the UK. For this reason, it was normal that the lease accounting reform was firstly proposed in these countries (Barral et al., 2014, p.213).

The process for reforming lease standards accelerated in 2005 when the SEC recommended that a new accounting guidance for leases should be reconsidered (SEC, 2005). For the SEC, even Topic 840 / IAS 17 model had been an improvement in relation to previous accounting treatment, it still did not show in the balance sheet that both parties have interest in the underlying asset. The new accounting guidance should incorporate all lease commitments on the statement of financial position.

During IASB meetings held in 2006 (March and April), the possibility of including leases on the agenda was discussed. Finally, an IASB-FASB joint project was approved in July 2006. From then on, the IASB and the FASB began to work together on a new lease accounting standard (lease accounting joint project). Over the course of the project, the Boards concluded (in line with previous studies) that while it may be argued under operating leases that when entering into a lease contract, the lessee immediately obtains an asset (the right of use of the leased good) and a liability (the obligation to pay future lease rental), in most cases, these assets and liabilities are not recognized on the balance sheet.

In March 2007, the IASB staff presented a paper identifying the rights and obligations arising on the lessor's and lessee's side in a simple non-cancellable lease arrangement (the example). The definitions of assets and liabilities in the Conceptual Framework project were applied to the identified rights and obligations. The Board unanimously agreed that the following rights and obligations in the example meet both the current and proposed definitions of assets and liabilities (for the lessee): right to use the machinery (the asset in the example) during the lease term and obligation to make specified payments over the lease term. Nevertheless, according to the IASB, the right to return of machinery at the end of the lease do not represent a liability for the lessee (Deloitte, 2007).

The IASB discussed four possible models: right-of-use model, the whole asset model, the executory contract model and the model included in IAS 17 (a hybrid model). In the right-of-use model the lessee recognizes as an asset its right to use the machinery during the lease term and a liability for the rentals payable under the lease. In the whole asset model the lessee recognizes the leased item in full as an asset, i.e. both the right to the economic benefits during the lease term and the possession of the asset at the end of the lease term. In the executory contract model all leases are treated as executory contracts.

The Board saw no merits in further developing the whole asset model and the executory contract model and decided to focus on the right of use model (Deloitte, 2007).

In this context, both boards (IASB and FASB)³⁵ began to develop a new accounting model for leases in which lessors would reflect most of their lease obligations on the balance sheet (i.e. after being implemented by companies, very few off-balance sheet lease operations would remain). The first proposal for the new model (i.e. the first draft standard) was issued by the IASB in 2010, and subsequently a revised draft was issued in 2013. The FASB also issued a first draft in 2010 and a revised draft in 2013, since it was a joint project. Before issuing the Exposure Drafts, they published a Discussion Paper in 2009 ("Leases. Preliminary Views").

Throughout the process, many voices were raised against the proposed changes to the lease accounting model, especially among preparers of financial statement as can be seen from the response letters to the exposure drafts³⁶ (Barone et al., 2014; Molina and Mora, 2015). In fact, the IASB itself acknowledged (in the documents accompanying the issuance of IFRS 16) that "some preparers questioned the benefit of reporting all leases on the balance sheet". Several media made reference to the fact that in 2010, several Spanish companies (including Santander, BBVA, Inditex, Telefónica, Iberia, Repsol, NH Hoteles and El Corte Inglés) lobbied the IASB in order to try to prevent changes to the IAS 17 model. They were even supported by the Spanish Ministry of Economy, and partially by the European Commission (Expansión 2016; Fitó, et al. 2013). These companies argued that in the context of a global economic crisis, an increase of balance sheet debt would make ratings decline; increase cost; and impact investment levels. They also claimed that there was a difference between a loan (that must be mandatorily paid in order to eliminate the commitment) and many other leases in which an entity is able to freely leave the contract at any time (without paying any fee or with just a penalty fee in some cases).

Despite these arguments, the boards finally concluded that the benefits of the new model for investors and for users of financial information were more significant than the costs. In fact, approximately half of the letters received in response to the EDs supported the project based on the reasoning of higher quality information (Fitó, et al. 2013). The IASB issued the final standard (IFRS 16) in January 2016, while the FASB published its standard in February 2016 (ASU³⁷ No. 2016-02, Leases (Topic 842)), both of which included an extended period before mandatory first application (2019 under IFRS 16, and 2019 or 2020 under USGAAP depending on whether the company is a Public Business Entity or not), in order to allow both preparers and users of financial statements to adapt to the new model. The IASB and FASB new lease standards are very similar (the general model is equivalent), but some differences do remain.

³⁵ Since 2002 the IASB and the FASB (together, the boards) started to work together in the standards convergence. In several occasions, G20 leaders have encouraged the boards to make efforts on standards convergence. In 2009 the boards issued a statement reaffirming commitment to convergence. Nowadays all new standard are joint projects. Nevertheless, not in all cases new issued standards are completely equivalent (for example, IFRS 16 and Topic 842 have several differences).

³⁶ There were 760 letters responding to 2010 ED and 640 letters responding to 2013 ED, issued by companies, other standards issuers, governments, professional bodies, academics, individuals, etc.

³⁷ ASU: Accounting Standards Update.

New standards are leading to the capitalization of the majority of current operating leases. Companies will have to discount future lease payments, and recognize an asset (right of use) as well as a lease liability.

7.2 New accounting model for lessees

Under IFRS 16, when an entity enters into a lease contract (as a lessee), it recognizes a right-of-use (asset) and a debt (lease liability). The lease liability is initially recognized as the present value of future lease payments during the lease term. Right-of-use is initially recognized as an amount equal to the liability plus other concepts such as the lessee's initial direct costs; prepayments made to the lessor; estimated costs of restoration, removal and dismantling; and less any lease incentives received from the lessor.

For the subsequent measurement of lease liability, entities should accrue interest using the discount rate determined at lease commencement (provided that a reassessment and a change in the discount rate has not occurred), and reduce lease liability by payments made. Right-of-use is subsequently amortized following IAS 16 principles and impaired following IAS 36. The revaluation / fair value model included in IAS 16 and IAS 40 can also be applied in certain cases for the subsequent measurement of the right-of-use. According to IFRS 16.34, if a lessee applies the fair value model in IAS 40 to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the IAS 40 definition of investment property. If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the IAS 16 revaluation model, a lessee may elect to apply that revaluation model to all right-of-use assets that relate to that class of property, plant and equipment (IFRS 16.35).

In certain cases, lease liability should be re-measured during lease life. The difference between previous liability and new liability is recognized against the right-of-use (unless the carrying amount of the right-of-use is reduced to zero and there is a further reduction in the measurement of the lease liability, in which case any remaining amount is recognized in the profit and loss account, see IFRS 16.39).

The liability is re-measured by discounting new estimated cash flows using the initial discount rate if a change occurs in the amounts expected to be payable under a residual value guarantee, or if there is a change in future lease payments resulting from a change in an index or in a rate used to determine those payments, including for example, a change to reflect shifts in market rental rates following a market rent review (see IFRS 16.42).

The liability is re-measured by discounting new estimated cash flows using a revised discount rate if a change occurs in the lease term, or if there is a change in the assessment of an option to purchase the underlying asset (see IFRS 16.40).

There are a number of differences between the IFRS 16 and Topic 842 models. Under IFRS 16, there is a single accounting model for all capitalized leases (as seen above). Under Topic 842, there are two accounting models depending on whether the lease is an operating lease or a finance lease. In the case of an operating lease, expense recognition is made on a linear basis while for a finance lease, expense recognition is made as in IFRS 16. Another relevant difference is that under US GAAP, the voluntary exception for low-value assets does not apply.

Entities are currently applying this new model and disclosing the impact. Molina (2019) made a first study in relation to IFRS 16 impact on Spanish Ibex 35 non-financial companies (using information disclosed in the notes to 31/12/2018 and 30/06/2019 financial statements). He found that, in average, liabilities increase by 9.38% (and assets increase by 5.32%). The most impacted companies are Melia (hotels) (liabilities increase by 59.74%) and IAG (airlines) (liabilities increase by 24.37%). In relation to Inditex (retail), liabilities increase by 95.69%, nevertheless, this is group with a very low pre-IFRS 16 leverage level.

8. Final Remarks

Lease accounting (from the lessee perspective) underwent a clear evolution from the beginning of the 20th century until now. This evolution can be related to the application of the “substance over form” principle, the influence of the “utility parading” on accounting regulation and also the asset and liability definitions included in the Conceptual Frameworks.

Initially, all lease operations were accounted for in the same way, i.e. as an expense accrual. No lease operations were reflected on the balance sheet (no lease operations were capitalised in the lessee statement of financial position). In other words, the legal form of the transaction influenced its accounting treatment. A company could acquire a certain asset through a financed purchase and a different company could enter into a lease operation over the same asset. Both operations may be similar in nature (controlling the use of an asset in exchange of cash flows), nevertheless the accounting treatment was different. The first company had what is known as “off-balance sheet finance” operation. It did not show all its financial commitment on the balance sheet.

Accounting regulators, in part influenced by several accounting scandals, started to consider certain lease operations as a financed purchase of the underlying asset. In this regard, some lease operations started to be capitalized (recognized on the balance sheet). The first standard to include a capitalization model was issued in the US in 1949. It was issued by the CAP (ARB 38) and only incorporated long-term lease contracts or those whereby the property was acquired at the end of the contract on the balance sheet. In 1964, the APB issued Opinion 5, a regulation that allowed for the capitalization of leases when certain specific conditions were met.

Subsequently, with the appearance of the FASB in the US, a new accounting regulation for leases was issued: SFAS 13 (1976), adopted in 1994 by the IASB. This regulation distinguished between operating leases, which were not capitalized and financial leases, which were capitalized and incorporated into the balance sheet. These regulations extended lease operations to be capitalized by the companies.

Finally, a new regulation (IFRS 16 under the IFRS context and ASC Topic 842 under US GAAP) has been adopted by companies in 2019. Under these new standards, almost all lease operations are capitalized. The objective is to reflect all payment obligations on the balance sheet so that financial statement users have complete information about a company’s liabilities. Entities are currently implementing this new accounting standard that is impacting on ratios like ROA (Return on Assets), EDITDA or leverage.

The new model has also limitations. For example, the accounting model applicable by lessor and lessees is not symmetrical. It could happen that the same asset is recognised in the lessor balance sheet (if for the lessor de lease is considered operating) and in the lessee balance sheet (in application of the capitalization model). This problem can be seen in IFRS 16 basis for conclusion. In the “Dissenting Opinion” part it is said that: “Mr Zhang agrees with the right-of-use lessee accounting model and believes that it should be applied symmetrically to lessor accounting. Mr Zhang is of the view that a lessor should recognise a lease receivable and a residual asset for all leases for which a lessee recognises a lease liability and a right-of-use asset. He believes that it is conceptually inconsistent to require a single accounting model for lessees while retaining a dual accounting model for lessors”.

A step further, still not contemplated by the accounting standard issuers is the regulation of the lease operations that are, in essence, a purchase of the underlying asset by the lessee. According to IFRS 16 basis for conclusion (paragraphs BC138 to BC140), “the IASB considered whether to include requirements in IFRS 16 to distinguish a lease from the sale or purchase of an asset. The IFRS Interpretations Committee had received questions about whether particular contracts that do not transfer legal title of land should be considered to be a lease or a purchase of the land. The IASB decided not to provide requirements in IFRS 16 to distinguish a lease from a sale or purchase of an asset. There was little support from stakeholders for including such requirements. In addition, the IASB observed that:

- (a) the accounting for leases that are similar to the sale or purchase of the underlying asset would be similar to that for sales and purchases applying the respective requirements of IFRS 15 and IAS 16; and
- (b) accounting for a transaction depends on the substance of that transaction and not its legal form. Consequently, if a contract grants rights that represent the in-substance purchase of an item of property, plant and equipment, those rights meet the definition of property, plant and equipment in IAS 16 and would be accounted for applying that Standard, regardless of whether legal title transfers. If the contract grants rights that do not represent the in-substance purchase of an item of property, plant and equipment but that meet the definition of a lease, the contract would be accounted for applying IFRS 16”.

It could be argued that accounting for leases is similar, but not identical to the sale or purchase of the underlying asset. For example, under IFRS 16 / Topic 842 lease accounting capitalization model, certain variable payments are excluded³⁸. These payments would be considered as part the financial liability is this liability would be measured under the financial instruments standards. Moreover, the presentation in the balance sheet is not identical (the line may not be the same).

In this context a possible evolution in the context the “utility paradigm” and “substance over form” principle is to distinguish cases the contract is a lease from the cases in which the contract is a purchase of the underlying asset by the lessee. For example, if

³⁸ Variable payments that do not depend on an index or a rate. See IFRS 16 paragraphs 27 and 28 and Topic 842 paragraph 842-10-30-5.

the lessee will, in all possible scenarios, obtain the legal title of the asset at the end of the lease could be a purchase “in essence”.

REFERENCES

- AARF, 1990. *Definition of the reporting entity*, Statements of accounting concepts (SAC), n° 1, AARF, Caulfield.
- Abdel-Khalik, A. R., 1981. “The economic effects on lessees of FASB statement no. 13, accounting for leases”. Stamford, Conn: Financial Accounting Standards Board of the Financial Accounting Foundation.
- AECA, 1999. “Marco conceptual para la información financiera”. Serie principios contables. AECA. Madrid. Retrieved from: <https://www.aeca.es/old/pub/documentos/pc1r.htm>
- AICPA, 1973. “Report of the study group on the objectives of financial statement (Trueblood Reporting)”. New York, NY (US). AICPA. Retrieved from: <https://files.eric.ed.gov/fulltext/ED089583.pdf>
- AICPA. Special Committee on Financial Reporting, 1994. “Improving Business Reporting - A Customer Focus: Meeting the Information Needs of Investors and Creditors: Comprehensive Report of the Special Committee on Financial Reporting, American Institute of Certified Public Accountants”. 1–140, New York, NY (US). AICPA.
- ASB, 1994. “Financial Reporting Standard n° 5 (FRS 5): Reporting the substance of transaction”, ASB. London (UK). ASB. London (UK). ISBN 1 85712 026 4. Retrieved from: <https://www.frc.org.uk/getattachment/84522b9d-18ae-4989-a0c2-7384546ec5ed/FRS-5-Reporting-the-Substance-of-Transactions-April-1994.pdf>
- ASB, 1999. “Statement of Principles for Financial Reporting”. ASB. London (UK). ISBN 1 85712 090 6. Retrieved from: <https://www.frc.org.uk/getattachment/31cb1973-82a6-439b-bf44-8fffad5b20da/Statement-of-Principles-for-Financial-Reporting-1999.pdf>
- Barlev, B. and Haddad, J.R. 2007. “Harmonization, Comparability and Fair Value Accounting”. *Journal of Accounting, Auditing and Finance*, 22 (3): 493 - 509. <https://doi.org/10.1177/0148558X0702200307>
- Barone, E., Birt, J., and Moya, S. 2014. “Lease Accounting: A Review of Recent Literature”. *Accounting in Europe*, 11(1): 35–54. <https://doi.org/10.1080/17449480.2014.903630>
- Barral Rivada, A. 2014. “El posicionamiento de los preparadores en la reforma de la Norma Internacional de Contabilidad sobre Arrendamientos”. Servicio de Publicaciones de la Universidad de Córdoba. Córdoba. Spain.
- Barral Rivada, A., Cordobés Madueño, M., and Ramírez Sobrino, J., 2014. “Los arrendamientos operativos: impacto de su reconocimiento en los estados financieros y en la política de financiación de las compañías españolas y del Reino Unido”. *Revista de Contabilidad*, 17(2), 212–223. <https://doi.org/10.1016/j.rcsar.2014.08.001>
- Barth, M., Beaver, W. and Landsman, W. 2001. “The Relevance of the Value Relevance Literature for Financial Accounting Standard Setting: Another View”. *Journal of Accounting and Economics*, 31: 77 – 104. [https://doi.org/10.1016/S0165-4101\(01\)00019-2](https://doi.org/10.1016/S0165-4101(01)00019-2)
- Beattie, V., Goodacre, A. and Thomson, S.J., 2006. “International lease-accounting reform and economic consequences: The views of U.K. users and preparers”. *The International Journal of Accounting* 41 (1): 75-103. <https://doi.org/10.1016/j.intacc.2005.12.003>
- Beatty, A., Liao, S., and Weber, J., 2010. “Financial reporting quality, private information, monitoring, and the lease versus buy decision”. *The Accounting Review*, 85(4): 1215–1238. <https://doi.org/10.2308/accr.2010.85.4.1215>

- Beresford, D.R. 2000. "G4+1: A Newcomer on the International Scene", *CPA Journal (march)*: 17-21.
- Bonaci, C.G. and Tudor, A.T., 2011. "Fair Value Empirical Studies: An Overview on Accounting Research Literature". *Annales Universitatis Apulensis Series Oeconomica*, 13 (2): 197 - 206. Retrieved from: http://www.eia.feaa.ugal.ro/images/eia/2015_2/Ighian.pdf
- Boyle, D.M., Carpenter B.W., and Mahoney, D.P., 2014. "Lease Accounting: Lease Provisions of the Proposed Accounting Standards Update". *Management Accounting Quarterly* 15 (2): 14-20. Retrieved from: https://elearning.scranton.edu/sites/scr/files/MAQ_Winter_2014_Lease_Accounting.pdf
- Bryan, B. S. H., Lilien, S., and Martin, D. R., 2010. "The financial statement effects of capitalizing operating leases". *CPA Journal*, 80 (8): 36–41. Retrieved from <http://0-search.proquest.com.cisne.sim.ucm.es/docview/749930439?accountid=14514>
- Cairns, D. 2000. "The Conceptual Framework - The International Experience". *SSRN Electronic Journal*. <http://dx.doi.org/10.2139/ssrn.2379002>
- Cannon, A. M. 1948. "Danger signals to accountants in "net-lease" financing". *Journal of Accountancy* (Pre-1986), 85 (4): 312. Retrieved from: <http://0-search.proquest.com.cisne.sim.ucm.es/docview/198236094?accountid=14514>
- CAP, 1949. "Accounting Research Bulletins No. 39. Disclosure of Long-Term Leases in Financial Statements of Lessees". Retrieved from: <http://clio.lib.olemiss.edu/cdm/ref/collection/deloitte/id/9597>
- Casado, R., 2016. "Una nueva norma contable subirá la deuda del Ibex en 40.000 millones". *Expansión*. 13/01/2016. Madrid. Pg. 3.
- Cornaggia, K. R., Franzen, L., and Simin, T. T., 2011. "Manipulating the balance sheet? Implications of off-balance-sheet lease financing". *SSRN Electronic Journal. (July)*. <http://dx.doi.org/10.2139/ssrn.1659366>
- Cornaggia, K. J., Franzen, L. A., and Simin, T. T. 2013. "Bringing leased assets onto the balance sheet". *Journal of Corporate Finance*, 22: 345–360. <https://doi.org/10.1016/j.jcorpfin.2013.06.007>
- Corcoran, E.T., 1968. "Reporting of Leases". *Financial Analysts Journal*. 24 (1): 29-35. Retrieved from: <https://www.jstor.org/stable/4470275>
- Dechow, P. M., Ge, W., Larson, C. R., and Sloan, R. G., 2011. "Predicting material accounting misstatements". *Contemporary Accounting Research*, 28(1): 17–82. <https://doi.org/10.1111/j.1911-3846.2010.01041.x>
- Dhaliwal, D., Lee, H. S., and Neamtiu, M., 2011. "The impact of operating leases on firm financial and operating risk". *Journal of Accounting, Auditing & Finance*, 26(2): 151–197. <https://doi.org/10.1177/0148558X11401210>.
- Deloitte, 2007. "IASB Board Meeting 20-22 March 2007. Preliminary and Unofficial Notes Taken by Deloitte Observers". Retrieved from: https://www.iasplus.com/en/meeting-notes/iasb/2007/agenda_0703
- Duke, J. C., Hsieh, S. J., and Su, Y., 2009. "Operating and synthetic leases: Exploiting financial benefits in the post-Enron era". *Advances in Accounting*, 25(1): 28–39. <https://doi.org/10.1016/j.adiac.2009.03.001>
- Edwards, J. R., 1989. "A History of Financial Accounting". Routledge Library Editions: Accounting. New York (US).
- Emerson, D., Karim, K. and Rutledge, R., 2010. "Fair Value Accounting: A Historical Review of The Most Controversial Accounting Issue in Decades". *Journal of Business & Economics Research*, 8 (4): 77 - 86. <https://doi.org/10.19030/jber.v8i4.705>
- FASB, 1980. "Concepts Statement n° 2: Qualitative Characteristics of Accounting Information". FASB. Norwalk, Connecticut (US). Retrieved from: https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220132570&acceptedDisclaimer=true

FASB, 1985. "Concepts Statement nº 6: Elements of Financial Statements". FASB. Stamford, Connecticut (US). Retrieved from: https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220132802&acceptedDisclaimer=true

FASB (Financial Accounting Standard Board). 1996. Statement of Financial Accounting Standards nº 125, "Transfers and servicing of financial assets and extinguishments of liabilities", June, Stanford, Connecticut.

Finney, H. A., 1921. "Turnover, Reserve for sinking fund, Lease and purchase contract, Relation of cash discount to interest, Corporate reorganization and consolidation, Instalment contracts, Stock assessments, Stockholders' gift to corporation, Unrealized profit and depreciation". *Journal of Accountancy* (November): 372-387.

Fitó, M. A., Moya, S., and Orgaz, N., 2013. "Considering the effects of operating lease capitalization on key financial ratios". *Spanish Journal of Finance and Accounting*, 42(159): 341-369. <https://doi.org/10.1080/02102412.2013.10779750>

Funds Society, 2015. "Las operaciones de 'sale & leaseback' retoman su protagonismo en España". Retrieved from: <https://www.fundssociety.com/es/noticias/alternativos/las-operaciones-de-sale-leaseback-retoman-su-protagonismo-en-espana>

García, C., Katsuo, Y. and van Mourik, C., 2018. "Goodwill accounting standards in the United Kingdom, the United States, France, and Japan". *Accounting History* 23 (3): 314-337. <https://doi.org/10.1177/1032373217748672>

Georgiou, O and Jack, L., 2011. "In pursuit of legitimacy: A history behind fair value accounting". *The British Accounting Review*, 43 (4): 311-323. <https://doi.org/10.1016/j.bar.2011.08.001>

Giner, B., Merello, P. and Pardo, F., 2018. "Assessing the Impact of Operating Lease Capitalization with Dynamic Monte Carlo Simulation". *Journal of Business Research*, 101: 836-845. <https://doi.org/10.1016/j.jbusres.2018.11.049>

Giner, B. and Pardo, F., 2017. "Operating lease decision and the impact of capitalization in a bank-oriented country". *Applied Economics*, 49 (19): 1886 - 1900. <https://doi.org/10.1080/00036846.2016.1229416>.

Giner, B and Pardo, F., 2018. "The Value Relevance of Operating Lease Liabilities: Economic Effects of IFRS 16". *Australian Accounting Review*, 28 (4): 496-511. <https://doi.org/10.1111/auar.12233>

Goodacre, A. 2003. "Assessing the potential impact of lease accounting reform: a review of the empirical evidence". *Journal of Property Research*, 20 (1): 49-66. <https://doi.org/10.1080/0959991032000051962>

Grönlund, T., Louko, A., and Vaihekoski, M., 2008. "Corporate real estate sale and leaseback effect: Empirical evidence from Europe". *European Financial Management*, 14 (4): 820-843. <https://doi.org/10.1111/j.1468-036X.2007.00417.x>

Grossman, A. M., & Grossman, S. D., 2010. "Capitalizing Lease Payments". *CPA Journal*, 80 (5): 6-11. Retrieved from: http://www.thealtagroup.com/files/2010_Capitalization_cpa_journal510.pdf

Harvard Business Review, 1927. "Case studies in business: Leasing versus instalment sales in the marketing of manufacturers' equipment". *Harvard Business Review* (October): 89-95.

Hopwood, G., 1990. "Ambiguity, knowledge and territorial claims: some observations on the doctrine of substance over form: A review essay". *The British Accounting Review*, 22 (1): 79-87. [https://doi.org/10.1016/0890-8389\(90\)90118-2](https://doi.org/10.1016/0890-8389(90)90118-2)

IASB, 2007. "Information for Observers. Joint International Working Group on Leasing 15 February 2007, London". Retrieved from: <http://docplayer.net/21529549-Information-for-observers-joint-international-working-group-on-leasing-15-february-2007-london.html>

- IASB, 2016. "Investor Perspectives - A New Lease of Life". Retrieved from: <https://isca.org.sg/tkc/fr/current-issues/financial-reporting-headlines/financial-reporting-headlines/2016/january/investor-perspectives-a-new-lease-of-life/>
- IASC, 1989. "Conceptual Framework for the Preparation and Presentation of Financial Statements". IASC. Retrieved from: http://www.actuaries.org/CTTEES_INSACC/Documents/Rio_Item_7c_Rio_Discussion.pdf
- Imhoff, E.A., Lipe, R.C. and Wright, D.W., 1991. "Operating Leases: Impact of Constructive Capitalization". *Accounting Horizons*, 5 (1): 51-63.
- Imhoff, E.A., Lipe, R.C. and Wright, D.W., 1997. "Operating leases: Income effects of constructive capitalization". *Accounting Horizons*, 11 (2): 12-32.
- Jack, L. and Georgiou, O., 2011. "In pursuit of legitimacy: a history behind fair value accounting", *The British Accounting Review*. 43 (1): 311-323. <https://doi.org/10.1016/j.bar.2011.08.001>
- Kingston, R. C., 1962. "Reporting of Leases in Financial Statements, Accounting Research Study No. 4". *The New York Certified Public Accountant*, 4: 582-584.
- Lim, C. S., Mann, C. S., and Mihov, T. V., 2003. "Market evaluation of off-balance sheet financing: You can run but you can't hide". *EFMA 2004 Basel Meetings Paper* <http://dx.doi.org/10.2139/ssrn>.
- Lindsey, B. P. 2006. "A value relevance examination of the current leasing standards". *University of North Carolina at Chapel Hill*. Retrieved from: <https://cdr.lib.unc.edu/indexablecontent/uuid:80d2bc28-6c50-44cc-875b-af77f7d68734>
- Maali, B., 2018. "The Effect of Applying the New IFRS 16 "Leases" on Financial Statements: An Empirical Analysis on the Airline Industry in the Middle East". *Organisational Studies and Innovation Review*, Vol. 4 (1), pg. 1-9.
- Magli, F., Nobolo, A. and Ogliari, M., 2018. "The Effects on Financial Leverage and Performance: The IFRS 16". *International Business Research*, Vol. 11 (8), pg. 76-89. Retrieved from: <http://www.ccsenet.org/journal/index.php/ibr/article/view/76003>
- Maglio, R., Rapone, V., Rey, A., 2018. "Capitalisation of Operating Lease and its Impact on Firm's Financial Ratios: Evidence from Italian Listed Companies". *Corporate Ownership & Control* Vol. 15 (3-1), pg. 152-162. <https://doi.org/10.22495/cocv15i3c1p1>
- Myers, J. H., 1948. "Presentation of Long-Term Lease Liabilities in the Balance Sheet". *The Accounting Review* 23 (3): 289 - 295. Retrieved from: https://www.jstor.org/stable/240541?seq=1#metadata_info_tab_contents
- McGregor, W. 1996. Financial accounting series. Special Report. Accounting for leases: A new approach. Norwalk: FASB.
- McGregor, W. 1999. "An insider's view of the current state and future direction of international accounting standard setting". *Accounting Horizons*, 13 (2): 159-168. <https://doi.org/10.2308/acch.1999.13.2.159>
- Méndez, M.T. and Ribeiro, D., 2012. "Aspectos Históricos del Pensamiento Contable: de los Inicios al Paradigma de la Utilidad". *Nuevas Corrientes de Pensamiento Económico*, 865: 71-78. Retrieved from: <http://www.revistasice.com/index.php/ICE/article/view/1494>
- Molina, H., 2019. "Las novedades para los arrendatarios que trae la NIIF 16. Arrendamientos y una primera aproximación a cómo se ha efectuado la transición en los grupos consolidados del IBEX 35". *AECA Revista especial XX Congreso Internacional AECA*. Retrieved from: https://aeca.es/wp-content/uploads/2019/10/r127_hmolina.pdf
- Molina, H., and Mora, A., 2015. "Cambios conceptuales en la contabilidad de los arrendamientos: Retos normativos y académicos". *Revista de Contabilidad*, 18(1): 99-113. <https://doi.org/10.1016/j.rcsar.2015.01.001>

- Moody's, 2015. "Moody's Report: Financial statement adjustments in the analysis of non-financial corporations". Moody's Investors Service. https://moodys.alacra.com/moodys-credit-research/Financial-Statement-Adjustments-in-the-Analysis-of-Non-Financial-Corporations-PBC_1055214
- Moonitz, M., 1961. "Basic Postulates of Accounting. Accounting Research Study No. 01". Guides, Handbooks and Manuals, 141. ARS – AICPA. Retrieved from: https://egrove.olemiss.edu/aicpa_guides/141
- Morais, A. I. 2011. Accounting for leases: A literature review. Bamberg: EUFIN. Retrieved from: <https://docplayer.net/11984094-Accounting-for-leases-a-review-ana-isabel-morais.html>
- Morales-Díaz, J. 2017. "El valor razonable en la contabilidad de los instrumentos financieros. Análisis desde una perspectiva histórica". *De Computis*, 14 (26): 90–154. <http://dx.doi.org/10.26784/issn.1886-1881.v14i26.299>
- Morales-Díaz, J. and Zamora-Ramírez, C. 2018. "IFRS 16 (leases) implementation: Impact of entities' decisions on financial statements". *AESTIMATIO, The IEB International Journal of Finance*, 17: 60-97. DOI:10.5605/IEB.17.4.
- Morales-Díaz, J. and Zamora-Ramírez, C. 2018b. "The Impact of IFRS 16 on Key Financial Ratios: A New Methodological Approach". *Accounting in Europe*, 15 (1): 105-133. <https://doi.org/10.1080/17449480.2018.1433307>.
- Nailor, H. and Lennard, A., 2000. "Leases: Implementation of a New Approach". FASB, Norwalk.
- NZSA, 2012. "Conceptual Framework for Financial Reporting", NZSA, ISBN 978-1-927174-70-8. Retrieved from: <https://www.xrb.govt.nz/dmsdocument/1501>
- OECE, 1996. "Cadre Conceptuel de la comptabilité", Comité Professionnel de Doctrine Comptable, *Revue Française de comptabilité*, 278: 17-51.
- Parker, R.H. and Nobes, C.W., 1991. "True and Fair: U.K. Auditors View", *Accounting and Business Research*, 21(84): 394-361.
- Reither, C. L. 1998. "What are the best and the worst accounting standards?" *Accounting Horizons*, 12(3): 283–292.
- Roch, B. W. 2006. Revisiting the lease versus purchase decision, 1–9. Retrieved from: http://www.dunnsonline.com/wp-content/uploads/2016/03/idc_lease_vs_purchase_April_2005.pdf
- Rutherford, B. A., 2007. "Financial Reporting in the UK. A History of the Accounting Standards Committee, 1969-1990". Routledge Historical Perspectives in Accounting. DOI: 10.4324/9780203934135.
- Rutterman, P. 1984. "The EEC Accounting Directives and their Effects". University College Cardiff Press. UK.
- Sakai, E. 2010. "The market reaction to the finance lease capitalization from the viewpoint of risk assessment". Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1594748
- SEC (Securities and Exchange Commission). 2005. "Report and recommendations pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 on arrangements with off-balance sheet implications, special purpose entities, and transparency of filings by issuers". Retrieved from: <http://www.sec.gov/news/studies/soxoffbalancerpt.pdf>
- Singh, A., 2012. "Proposed Lease Accounting Changes: Implications for the Restaurant and Retail Industries". *Journal of Hospitality & Tourism Research*, Vol. 36(3), pg. 335–365. <https://doi.org/10.1177/1096348010388659>
- Sorter, G.H. and Gans, M.S. 1974. "Opportunities and implications of the report on objectives of financial statements", *Journal of Accounting Research*, Studies on Financial Accounting Objectives (Supplement): 1-11.

SCFR (Special Committee on Financial Reporting), 1991. "Improving business reporting. A customer focus", *The Jenkins Report*, SFCR, US.

Sprouse, R. T. and M. Moonitz, 1962. "A Tentative Set of Broad Accounting Principles for Business Enterprises". AICPA. New York (US).

Street, D. and Shaughnessy, K., 1998. "The evolution of the G4+1 and its impact on the international harmonization of accounting standards", *Journal of International Accounting, Auditing and Taxation*, 7:2, 131-161.

Tua, J., 1990. "Algunas Implicaciones del Paradigma de la Utilidad en la Disciplina Contable". *Contaduría Universidad de Antioquía*, 16: 16 - 48.

Wolk, H.I., Dodd, J.L. and Rozycki, J.J., 2017. "Accounting Theory. Conceptual Issues in a Political and Economic Environment". SAGE Publications.

Wong, K., and Joshi, M., 2015. "The Impact of Lease Capitalisation on Financial Statements and Key Ratios: Evidence from Australia". *Australasian Accounting, Business and Finance Journal*, 9 (3): 27-44. <http://dx.doi.org/10.14453/aabfj.v9i3.3>

You, J., 2017. "The Effect of the New Standard IFRS 16 "Leases" on Statement of Financial Position and Key Indicators". Dissertation Submitted to Auckland University. Available at: <http://aut.researchgateway.ac.nz/bitstream/handle/10292/10930/YouJ.pdf?sequence=4&isAllowed=y>

Zeff, S. A., 2007. "The Sec Rules Historical Cost Accounting: 1934 to the 1970s". *Accounting and Business Research*, 37: 49-62. <https://doi.org/10.1080/00014788.2007.9730085>.

José Morales Díaz

Universidad Complutense de Madrid

jose.morales@ucm.es - ORCID iD: <https://orcid.org/0000-0001-7234-7212>

Miguel Ángel Villacorta Hernández

Universidad Complutense de Madrid

mianvi@emp.ucm.es - ORCID iD: <https://orcid.org/0000-0003-2515-2126>

Florentina Iulia Voicila

Universidad Complutense de Madrid

fvoicila@ucm.es - ORCID iD: <https://orcid.org/0000-0002-1698-1072>