

Lease Accounting Disclosure Practice of Non Bank Financial Institutions (NBFIs) in Sri Lanka: A Lessor's Perspective

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Abstract

Non Bank Financial Institutions (NBFIs) have become prominent alongside with banking and finance sector. The major business of most NBFIs in Sri Lanka is leasing. Lease accounting is a form-driven standard. The Institute of Chartered Accountants of Sri Lanka (ICASL) introduced the revised accounting standard LKAS 17: Leases with effective from January 1, 2012. This research investigated the present state of accounting for lease in Sri Lanka as per the revised standard. An analytical review was done as per the standard and compliance with the stipulated disclosure requirements. All the Non Banking Financial Institutions which engage in leasing business and listed in the Colombo Stock Exchange were considered in this research. The methodology follows the content analysis which is consistent with Nasreen & Jahan (2007). The findings of this research indicate that the degree of correspondence between the standard as per LKAS: 17 and actual reporting by the leasing companies in Sri Lanka is considerably at a satisfactory level.

Keywords: LKAS: 17, Lease Accounting, Lessor, Disclosure Requirements, Non-Bank Financial Institutions.

Introduction

Non Bank Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of the economy and thus contribute to the economic development of the country as well as deepening of the country's financial system. Financial development in a country starts with the development of banking institutions (Goldsmith, 1969). Nasreen & Jahan (2007) stated that as the development process proceeds, NBFIs become prominent alongside the banking sector. They further stated that the issue of accounting for leases has had a bull's-eye on its back for decades. Lease accounting is a form-driven standard. Minor changes to the provisions of a lease contract will result in an accounting outcome that suits the parties to the transaction without affecting, in a significant way, the underlying economics. Thus awareness on lease accounting practices has been increasing among stakeholders due to substantial research findings (Nasreen & Jahan, 2007; Uddin, 2005)

The Institute of Chartered Accountants of Sri Lanka (ICASL) introduced the revised accounting standard LKAS 17: (Leases) in 2012. The standard is applicable for all leases entered on or after January 1, 2012: from this, it is understood that the statement will not affect past leases. However, for practical considerations, it will be advisable for companies to switch over to the new method in respect of all lease transactions, including those which are running.

Recently, most of the Sri Lankan Banking and Finance sector companies engage in lease financing, is trying to switch over to the new method in respect of all lease transactions, including those which are running as per the requirement of LKAS 17. Thus it is vital to investigate whether this information is disclosed in the financial statements of those companies. Nasreen & Jahan (2007) further emphasized that corporate disclosure through the financial reporting system has been a widely discussed and research issue for a very long time in the past. It also seems that with the passing of time the controversial issues in financial reporting would continue to draw attention from academics, research institutions and the profession. "Redefining Corporate Disclosure" observed the crisis in confidence over corporate financial reports and raises questions that go well beyond a company's financial sustainability (White, 2002).

The term leasing is understood in different ways in different countries and hence there is no one generally accepted definition for leasing. Podder (2004) defined that the practice of leasing

implies special consideration to legal questions, accounting methods and in many countries to taxation. However, the basic definition for leasing is an arrangement between lessor and lessee, where the lessee gets the right to use a specific asset for a stated period in exchange for a stated payment. Further paragraph 4 of LKAS: 17 defines lease as an agreement whereby the lessor conveys to the lessee in return for payment or series of payments on the right to use an asset for an agreed period of time. A lessee and a lessor should classify a lease at the inception of the lease as a finance lease or an operating lease.

A finance lease transfers in substance all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. While operating lease is a lease other than a finance lease. An operating lease is usually cancelable by the lessee prior to its expiration while lessor provides services, maintenance and insurance and the sum of all the lease payments by the lessee does not necessarily fully provide or the recovery of the asset's cost. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

According to LKAS: 17, the listed leasing companies of Sri Lanka are strictly required to disclose some information stated in paragraph 47 and 56 of LKAS: 17 for preparing the financial statements.

The prima facie objective of this paper is to identify the extent of fulfillment of these disclosure requirements in preparation of financial statements of listed Non Bank Financial Institutions in Sri Lanka with the introduction of the revised standard. However to achieve the main objective, the study covers number of sub objectives such as identify the nature of lease financing in Sri Lanka, describe the regulatory framework of lease accounting (for lessor) in Sri Lanka and suggest some policy measures for the improvement of financial reporting of lease accounting.

This study will not be intended to give an in-depth understanding on lease accounting practice rather it emphasized on reporting aspects of lease accounting practice by listed leasing companies in Sri Lanka. The underlying theme of the study was developed based on disclosure issues required under paragraph 47 and 56 of LKAS: 17: Leases. There are six main expanded disclosure requirements to be disclosed by the Lessor under the paragraph 47 - finance leases and other three main disclosure requirements to be disclosed under paragraph 56 - operating leases.

Population of this study included all the Non Banking Financial Institutions which engage in leasing business and listed in the Colombo Stock Exchange. The methodology follows the content analysis which is consistent with Nasreen & Jahan (2007). The first set of Annual Reports which have prepared and published as per the guidelines of revised standard were considered for data collection purposes.

Further, this research highlights the present state of accounting for lease in Sri Lanka, an analytical review of disclosure requirement of LKAS: 17 and extent of compliance with the disclosure requirement from lessor's/ disclosure's point of view. The findings of this research indicate that the degree of correspondence between the standard as per LKAS: 17 and actual reporting by the leasing companies in Sri Lanka is at a satisfactory level.

Literature Review

Sri Lankan Leasing industry is in the growing stage and experiencing higher growth rate than the general economy of the country. Finance leases, hire purchases and other secured advances were the major sources of the increase in accommodations accounting for 43 per cent, 30 per cent and 15 per cent, respectively of total accommodations. Among the products, finance leasing, other secured loans and pawning indicated high growth rates of 90 percent, 58 per cent and 35 per cent, respectively (Annual Report, CBSL 2011).

This allows companies to record higher revenue over the medium term. Since the industry is highly fragmented and in a rising competitive environment, the margins are under pressure and the profitability may be affected. Thus lease accounting practice and its disclosure as per LKAS: 17 become more prominent in Sri Lankan leasing industry. Reviewing the extant literature implies that most of the researchers have identified the importance of the disclosure of lease accounting practice as per the standard in a variety of ways.

Jahur and Jamal (2002) found that the capitalization of leases with a required set of disclosure as per Bangladesh Accounting Standards (BAS) 17; leases should be made in order to presenting a true and vivid picture of financial and operational performance of the lessee. Companies are thereby to provide a correct picture to the parties interested in particular concern and to facilitate inter-firm comparison as well. In the emerging era of heightened interest of global investors in

the capital market of Bangladesh, it is impressive that financial statements correctly reflect the financial position of firms.

Uddin (2005) investigated the International Financial Reporting Standards/ International Accounting Standards (IFRS/IAS) vis-à-vis lease accounting and identified the absence of accounting standards for lease transactions was the main reason for deviation of actual practice of lease accounting from improved method advocated by BAS. His findings were consistent with Jahur et al., (2002).

Nasreen & Jahan (2007) further justified the findings of Jahur et al., (2002) and Uddin (2005). They investigated that degree of correspondence between the standard per Bangladesh Accounting Standards (BAS 17) and actual reporting by the leasing companies in Bangladesh. According to their findings leasing companies in Bangladesh have not yet aware of the importance of disclosing requirements and the practice of those companies might lead to fraudulent financial reporting and fail to enhance the reliability of the published information.

Lee (2003) pointed out that there are significant gaps in Federal Accounting Standard Advisory Board (FASAB) standards relating to lease accounting.

Sheriff & Rahman (2003) documented a comparison between the leasing (IAS 17) and the accounting standard for Ijarah (FAS 8) and found that there are major differences as to the nature of leasing and Ijarah. Further developments of their study examined the level of acceptability of the IAS among the Malaysian financial institutions and results showed a low level of acceptability indicating that the effort to harmonize the accounting practices on Islamic financing practices by financial institutions internationally may be a difficult task.

Tang (2008) investigated the accounting implications for lease classification, with a particular focus on International Accounting Standard Board (IASB) and Australian Accounting Standard Board (AASB) treatment on lease classification. However in-depth study on IAS 17 shows that 20 percent of its paragraphs were devoted to the classification of finance lease, which aims not at creating a bright line lease classification rule for the accounting practitioners.

Aruppala & Thilakarathne (2012) found that the compliance with lease accounting disclosure requirements by the listed leasing companies in Sri Lanka is not at a satisfactory level based on a

sample including 10 NBFIs listed in Colombo Stock Exchange. This research was done base on SLAS 19: Leases which was introduced with effect from 01st January 2006.

However in this research researchers further developed the findings of above study considering the population including all the NBFIs which engage in leasing business in Sri Lanka.

The above brief literature review clearly shows that there is a mismatch between the required lease accounting practice as per the standard and the Lessor's actual disclosure in most of the countries. This research gap was identified and used by the researchers to investigate this research issue in Sri Lankan context. Further, following the literature a descriptive analysis method was used to evaluate the relationship between standard and lease accounting practices.

Methodology

This chapter elaborates how this research has been done and how the evaluation schedules were formed. Further it explains about the method, issues of data collection, analysis and the population of this research. According to Gujarati (2003) the success of any analysis depends on the availability of appropriate data. As well this research also used a content analysis to find out the compliance of disclosure requirements as per LKAS: 17.

Population of the Study

To achieve the research objectives all the Non Bank Financial Institutions which are engaging in leasing business and are listed in Colombo Stock Exchange (CSE) was considered. There are 33 NBFIs listed under Bank Finance and Insurance sector on February 2013. Therefore this research covers almost 100% of the population. Following Nasreen & Jahan (2007) this study followed non statistical sampling according to convenience of the data collection.

Data and Methods

First set of Annual Reports published for the accounting period 2011/12 were mainly considered for data collection. During the analysis stage several interrelated procedures are performed to summarize and rearrange the data. Descriptive statistics is used to describe information about population and the sample. The collected data is presented in tables and charts to make in-depth understanding.

In an early work Glass & Hopkins (1984) used descriptive research methods for gathering data and describe events and then organizes, tabulates, depicts, and describes the data collection. It is the transformation of the raw data into a form that will make them easy to understand and interpret. Describing responses or observations is typically the first form of analysis. The calculation of averages, frequency distribution and percentage distribution is the most common form of summarizing data. The major advantage of using descriptive statistic for this research is the easiness to work with, interpret, and discuss the findings in a summary form. Also it formed a good basis for the detailed data analysis.

Since this is a qualitative research, use of regression analysis, correlation calculation and the hypothesis testing would not be much appropriate. Therefore analysis of this research is more opinion based than statistical methods. On the other hand, this research is simply report the percentage summary of the compliance of disclosure requirement according to LKAS: 17.

Therefore, following steps were followed to build up the methodology of this research.

Step One

Researchers first tested and commented compliance of disclosure requirements as per paragraph 47: Finance Lease and paragraph 56: Operating Lease of LKAS: 17. At this stage the compliance of each requirement of every selected company is separately identified. A special check list was used for this purpose (Annexure: 1).

Step Two

Then a special evaluation schedule was prepared to analyze the findings. This schedule indicates the total number of compliances of each company and total number of companies complied with a particular requirement. This schedule was used by the researchers to measure the percentage of compliance of each requirement (Annexure: 2).

Step Three

For the third step a separate checklist was prepared to evaluate the results of compliances. In this stage researchers identified the percentage value of compliance and non compliance of each requirement under both finance and operating leases (Annexure: 3).

Step Four

Finally all companies were scored against an assigned value (if complied then score 1 otherwise score 0). Then analyzed the score values obtained by each company and calculated the deviation from standardize score value and finally calculated the percentage of deviation of each company. This deviation shows the non compliance of disclosure requirement according to LKAS: 17 by each selected company. The average percentage value of deviations indicates the average percentage of non compliances of the sample which gives an overall idea about the population of this research (Annexure: 4).

Analysis and Interpretation

Table 01; Special Evaluation Schedule of compliance for requirements under paragraph 47 of LKAS 17 (Appendix 01) presents the findings for paragraphs 47: Finance Leases. As per the findings maximum disclosure percentage by a company is 83.33% by disclosing four requirements out of all six requirements. Also the minimum level of compliance is 50.00% including one third of the sample and except one company which compliance with only one requirement as per the standard.

When considering the operating leases as per paragraph 56, compliance with the disclosure requirements by Sri Lankan leasing companies are not at a satisfactory level. Table 02; Special Evaluation Schedule of compliance for requirements under paragraph 56 of LKAS 17 (Appendix 02) shows that maximum level of compliance is 66.67% by not disclosing one requirement out of all three requirements. Majority of the companies have disclosed the requirement one as per the standard. On the other hand there are four companies out of all 33 companies which have not complied even with a single requirement where compliance percentage is zero.

The degree of compliance with the disclosure requirements by the companies as per the paragraphs 47 and 56 of LKAS 17 are discussed according to specific item in detail in the following tables.

Table 03: Checklist as per paragraph 47 of LKAS 17

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>% of Compliance</i>	<i>% of Non Compliance</i>
47(a)	<i>A reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period & the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods: not later than one year; later than one year and not later than five years; later than five years.</i>	97	03
47(b)	<i>Unearned finance income.</i>	100	00
47(c)	<i>The unguaranteed residual values accruing to the benefit of the lessor.</i>	73	27
47(d)	<i>The accumulated allowance for uncollectible minimum lease payments receivable.</i>	91	09
47(e)	<i>Contingent rents recognized as income in the period.</i>	0	100
47(f)	<i>A general description of the lessor's material leasing arrangements.</i>	18	82

Table 04: Checklist as per paragraph 56 of LKAS 17

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>% of Compliance</i>	<i>% of Non Compliance</i>
56(a)	<i>The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods: not later than one year; later than one year and not later than five years; later than five years.</i>	88	22
56(b)	<i>Total contingent rents recognized as income in the period.</i>	00	100
56(c)	<i>A general description of the lessor's leasing arrangements.</i>	15	75

Following section discusses the analysis of results under different requirements required as per LKAS 17 - Leases.

Requirement 1: Reconciliation between the gross investment and the present value of minimum lease payment

Differences in the amount of gross investment and the present value of minimum lease payment arises when the lessor include any amount for unguaranteed residual value in the gross investment. All the companies except one company have been made disclosure about the reconciliation requirement per paragraph 47: Finance Lease disclosure requirements. Therefore percentage of compliance is at 97%. However out of all 33 companies four (04) companies (22%) not compliance with the disclosure requirement (a) of paragraph 56: Operating Leases.

Other companies have been disclosed the future minimum lease payments under non cancelable operating leases in the aggregate and for the separate periods. Even though reconciliation between the gross investment and the present value of minimum lease payment is disclosed some of the companies were unable to do the classification as prescribed by the standard.

Requirement 2: Unearned Finance Income

According to the definition of LKAS 17 paragraph 04: unearned finance income is the difference between: (a) the gross investment in the lease; and (b) the net investment in the lease. According to the study, all the companies have disclosed this information. Therefore the percentage of compliance is at 100%.

Requirement 3: Unguaranteed Residual Value

Unguaranteed Residual Value is the portion of residual value of the leased asset, the realization of which by the lessor is not assured or guaranteed solely by a party related to the lessor. This is another important issue to be disclosed by the leasing companies in their financial statement according to paragraph 47(c) of LKAS 17. This information has been disclosed by 24 companies (73%) of the population. Remaining nine companies were unable to disclose the unguaranteed residual value as required.

Requirement 4: Accumulated allowance for uncollectible minimum lease payment receivable

There may have some possibility that some of the lessee companies would not pay annual rent. But it cannot be estimated before the end of the year. For this reason, Lessor Companies need to provide provision for uncollectible minimum lease payment receivable. 91% of the companies have made this provision as per the standard while only three (3) companies were not. This shows that majority of the lease financing companies is well experienced on this matter. Absence of any calculation is unable in this research to justify the appropriateness of the amount disclosed.

Requirement 5: Contingent Rent

Contingent rent is that portion of lease payment that is not fixed in the amount but is based on a factor other than just the passage of time (e.g. percentage of sale, amount of usage, price indices, market rate of interest). No information is disclosed about contingent rent in the financial statement by all the companies. As per the observations acquired through interviews we found that practice on contingent rent is adding the contingent rent income to the interest income not to disclose separately as contingent rent. Also it can be analyzed that companies may consider this as a less important requirement comparatively with other disclosure requirements. It is understood that the importance of each disclosure requirement is differ from one to other. Thus majority of the companies tend to disclose the most important selected requirements not much considering disclosing all the stipulated requirements.

Requirement 6: A general description of the lessor's material lease arrangements

Two terms “general description” and “materiality” are vague in this requirement. Neither any definition nor the scopes of these terms are mentioned in the standard. In fact the level of “materiality” is very difficult to standardize. Thus the chance is open for leasing companies to escape this provision arguing that they didn't enter any “material” lease agreement. It is clearly shown by the findings of this research where only six companies (18%) have disclosed the information on leasing arrangements which are material to the company in terms of monetary volume as per this section. However companies otherwise must disclose that they didn't enter any material leasing arrangement. The reasonable basis of materiality should also be disclosed. Majority of companies have not been disclosed this type of information at their Annual Report. However most of the companies have recognized leasing and hire purchase separately under segment reporting which disclosed the important business segments of those companies. Researchers can interpret that segment reporting is also can be considered as showing the materiality as a whole of that business segment. However segment reporting was not considered for this research.

Score Board for the compliances as per requirements of paragraph 47 and paragraph 56 of LKAS 17 are shown at Table 05: (Appendix 03) and Table 06: (Appendix 04) which present the score obtained by each company against an assigned value (if complied then score 1 otherwise score

0). And the deviation from standardize score value and the scores obtained is presented as a percentage. This deviation shows the non compliance of disclosure requirement according to LKAS 17 by each selected company. The average percentage value of deviations indicates the average percentage of non compliances of the population. As per the results there is a 36.86% deviation of the compliance as per the requirements of paragraph 47 of LKAS 17 Finance Leases. It says that the average compliance percentage is at 63.14% which is at a satisfactory level as per the methodology followed by the researchers.

When considering operating leases there is a considerable deviation of 65.66% as per the paragraph 56 of LKAS 17 where only 34.34% of the companies were complied with the requirements. Therefore compliance with the standard is at a lower level comparing with the finance leases.

Score Board for the compliances as per total requirements of LKAS 17 is shown at Table 07: (Appendix 05). Findings present the scores obtained by each company for all nine (9) requirements as per paragraphs 47 and 56 of LKAS 17. Among all the companies Commercial Leasing and Finance PLC, Mercantile Investments and Finance PLC, Orient Finance PLC, People's Leasing Company PLC and Vallibel Finance PLC have got the highest scores. These companies have disclosed 77.78% of the total information that is prescribed by LKAS 17. Besides, the minimum level of compliance percentage is at 11.11% by the Capital Alliance Finance PLC.

Accordingly more than 50% of the companies have been complied with an average level (50%) of requirements. Only five requirements have been disclosed by all companies at a percentage above 70% out of nine requirements. Rest of the requirements are failed to address adequately by those companies. Further this research identified that some of the companies have not been disclosed the amount of contingent rent recognized as income in the period. Also less number of companies have been disclosed enough information on the materiality of the leasing arrangements or the reasonable basis of the materiality in their Annual Report.

Conclusions and Implications

This research consists with all the NBFIs registered in the Colombo Stock Exchange under the category of finance and insurance and 33 companies were considered for this research. Thus the conclusion given in this research is highly reliable.

This research finds that, though LKAS 17 has been adopted by ICASL for leases effective from 1st January, 2012, level of disclosure in annual report by the companies is at a satisfactory level. The compliance is at 53.54% level which is above the 50% while deviating 46.46% of compliances as per the requirements of LKAS 17 leases. Compliance percentage for finance lease is at 63.14% which is comparatively at a high satisfactory level. We find that Sri Lankan Leasing Companies have tend to aware of the importance of disclosing the requirements as per LKAS 17 leases with the introduction of the revised accounting standard. The practice of these companies may lead to genuine financial reporting and lead to enhance the reliability of the published information.

The reason for this phenomenon may be due to the proper monitoring by the regulatory bodies and development of the awareness of companies pertaining to disclosures. It can be inferred from this fact that stakeholders of leasing companies want detail disclosures of important information of lease transactions from the annual report. So the companies should give attention to essential elements when preparing annual reports.

However findings of this research and the conclusion given by the researchers were not addressed the concerns of auditor's report in the annual reports of sample companies. Independent auditors' responsibility is to express an opinion on financial statements based on their audit in accordance with Sri Lanka Auditing Standards (SLAuS). Further they provide a reasonable assurance on the financial statements prepared by the company management is free from misstatements. This research was not considered auditing procedures of companies but specifically considered the disclosure requirements of LKAS 17: Leases.

It is a duty of regulatory bodies to ensure standard practice by providing different mechanism for entering a provision of penalty and encourage best practice. Furthermore, the meaning of different terms of LKAS 17 should be clearly understood by both user and preparer (accountant) of the corporate report. The main problem with corporate disclosure may be that most of the

users are inexperienced and they lack accounting education and experience. However currently in Sri Lankan context, the knowledge of stakeholders on corporate disclosure is developing with the use of information and communication technologies. Therefore most of the stakeholders are willing to have enough information in all aspects of the business and the industry.

However the conclusion given by this research is subject to certain limitations. Even though researchers have given equal weight for all the disclosure requirements it may not be fully accurate with the practice due to different degrees of importance of each requirement. However for analysis purpose researchers had to follow the used methodology. Thus the conclusions are considered as tentative. Moreover the study is based on Sri Lankan annual reports only. Hence the conclusion arrived at should not be generalized globally. As a way forward, longitudinal study based on total population including intercompany comparison is needed to highlight trends in disclosures by the leasing companies in Sri Lanka. As well this research can further develop by evaluating the compliance with directions issued by Central Bank of Sri Lanka (CBSL) as it is a mandatory requirement for finance and leasing companies.

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ANNEXURE: I

Check list to test compliance of disclosure requirement according to LKAS 17 - Leases

Name of the company:

Disclosure requirement of lessor for Finance Lease

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>Comment</i>
47(a)	<p><i>A reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period & the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:</i></p> <p><i>not later than one year;</i></p> <p><i>later than one year and not later than five years;</i></p> <p><i>later than five years.</i></p>	
47(b)	<p><i>Unearned finance income.</i></p>	
47(c)	<p><i>The unguaranteed residual values accruing to the benefit of the lessor.</i></p>	
47(d)	<p><i>The accumulated allowance for uncollectible minimum lease payments receivable.</i></p>	
47(e)	<p><i>Contingent rents recognized as income in the period.</i></p>	
47(f)	<p><i>A general description of the lessor's material leasing arrangements.</i></p>	

Check list to test compliance of disclosure requirement according to LKAS 17 - Leases

Name of the company:

Disclosure requirement of lessor for Operating Lease

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>Comment</i>
56(a)	<p><i>The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:</i></p> <p><i>not later than one year;</i></p> <p><i>later than one year and not later than five years;</i></p> <p><i>later than five years.</i></p>	
56(b)	<i>Total contingent rents recognized as income in the period.</i>	
56(c)	<i>A general description of the lessor's leasing arrangements.</i>	

ANNEXURE: II

Special Evaluation Schedule

Company Name	Compliance with the Requirements under paragraph 47 of SLAS 19						Total Number of Compliances	Compliance as a %
	R 1	R 2	R 3	R 4	R 5	R 6		
1 LB Finance PLC								
2 Lanka ORIX Leasing Company PLC								
3 The Finance Company PLC								
4 People's Leasing								

	Finance PLC
5	SMB Leasing PLC
6	Singer Finance (Lanka) PLC
7	Nations Lanka Finance PLC
8	Central Finance Company PLC
9	Arpico Finance Company PLC
10	Alliance Finance Company PLC
	Total number of companies
	Compliance as a %

ANNEXURE: III

Table showing the results of checklist as per paragraph 47 LKAS 17

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>%</i>	<i>of</i>	<i>%</i>	<i>of non</i>
		<i>compliance</i>		<i>compliance</i>	
47(a)	<i>A reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period & the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:</i>				

not later than one year;

later than one year and not later than five years;

later than five years.

47(b) *Unearned finance income.*

47(c) *The unguaranteed residual values accruing to the benefit of the lessor.*

47(d) *The accumulated allowance for uncollectible minimum lease payments receivable.*

47(e) *Contingent rents recognized as income in the period.*

47(f) *A general description of the lessor's material leasing arrangements.*

Table showing the results of checklist as per paragraph 56 of LKAS 17

<i>Paragraph</i>	<i>Disclosure Required</i>	<i>%</i>	<i>of</i>	<i>%</i>	<i>of</i>	<i>non</i>
		<i>compliance</i>		<i>compliance</i>		<i>compliance</i>

56(a) *The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:*

not later than one year;

later than one year and not later than five years;

later than five years.

56(b) *Total contingent rents recognized as income in the period.*

56(c) A general description of the lessor's leasing arrangements.

ANNEXURE: IV

Score Board

			<i>Deviation</i>	<i>from</i>		
	<i>Name of the Company</i>	<i>Standardized</i>	<i>Score</i>	<i>Standardized Score</i>	<i>%</i>	<i>of</i>
		<i>Score</i>	<i>Obtained</i>		<i>Deviation</i>	
1	<i>LB Finance PLC</i>	9				
2	<i>Lanka ORIX Leasing Company PLC</i>	9				
3	<i>The Finance Company PLC</i>	9				
4	<i>People's Leasing Finance PLC</i>	9				
5	<i>SMB Leasing PLC</i>	9				
6	<i>Singer Finance (Lanka) PLC</i>	9				
7	<i>Nations Lanka Finance PLC</i>	9				
8	<i>Central Finance Company PLC</i>	9				
9	<i>Arpico Finance Company PLC</i>	9				

APPENDICES

Appendix: 01

Table 01: Special Evaluation Schedule of compliance for requirements under paragraph 47 of LKAS 17

	Company Name	Compliance with the Requirements under paragraph 47 of SLAS 19						Total Number of Compliances	Compliance as a %
		R 1	R 2	R 3	R 4	R 5	R 6		
1	Abance Finance PLC	✓	✓	✓	✓			4	66.67
2	Alliance Finance Company PLC	✓	✓	✓	✓			4	66.67
3	AMW Capital leasing PLC	✓	✓	✓	✓			4	66.67
4	Arpico Finance Company PLC	✓	✓	✓	✓			4	66.67
5	Asia Assets Finance PLC	✓	✓	✓	✓			4	66.67
6	Associated Motor Finance Company PLC	✓	✓	✓	✓			4	66.67
7	Capital Alliance Finance PLC		✓					1	16.67
8	Central Finance Company PLC	✓	✓	✓				3	50.00
9	Chilaw Finance PLC	✓	✓		✓			3	50.00
10	Citizens Development Business Finance PLC	✓	✓		✓			3	50.00
11	Commercial Credit and Finance PLC	✓	✓	✓	✓			4	66.67
12	Commercial Leasing and Finance PLC	✓	✓	✓	✓		✓	5	83.33
13	Lanka Orix Finance PLC	✓	✓		✓			3	50.00
14	LB Finance PLC	✓	✓	✓	✓			4	66.67
15	Lanka ORIX Leasing Company PLC	✓	✓	✓	✓		✓	5	83.33
16	Mercantile Investments and Finance PLC	✓	✓	✓	✓		✓	5	83.33
17	Merchant Bank of Sri Lanka PLC	✓	✓	✓	✓			4	66.67
18	Multi Finance PLC	✓	✓	✓	✓			4	66.67
19	Nanda Investments and Finance PLC	✓	✓		✓			3	50.00
20	Nation Lanka Finance PLC	✓	✓		✓			3	50.00
21	Orient Finance PLC	✓	✓	✓	✓		✓	5	83.33
22	People's Finance PLC	✓	✓	✓	✓			4	66.67
23	People's Leasing Company PLC	✓	✓	✓	✓		✓	5	83.33
24	People's Merchant Finance PLC	✓	✓	✓	✓			4	66.67
25	Senkadagala Finance PLC	✓	✓	✓	✓			4	66.67

26	Singer Finance (Lanka) PLC	✓	✓	✓	✓			4	66.67
27	Sinhaputhra Finance PLC	✓	✓		✓			3	50.00
28	SMB Leasing PLC	✓	✓		✓			3	50.00
29	Softlogic Finance PLC	✓	✓		✓			3	50.00
30	Swarnamahal Financial Services PLC	✓	✓	✓	✓			4	66.67
31	The Finance Company PLC	✓	✓	✓				3	50
32	The Finance and Investments PLC	✓	✓	✓	✓			4	66.67
33	Vallibel Finance PLC	✓	✓	✓	✓		✓	5	83.33
	Total number of companies	32	33	24	30	00	06		
	Compliance as a %	97	100	73	91	00	18		

Appendix: 02

Table 02: Special Evaluation Schedule of compliance for requirements under paragraph 56 of LKAS 17

	Company Name	Compliance with the Requirements under paragraph 56 of SLAS 19			Total Number of Compliances	Compliance as a %
		R 1	R 2	R 3		
1	Abance Finance PLC	✓			1	33.33
2	Alliance Finance Company PLC	✓			1	33.33
3	AMW Capital leasing PLC	✓			1	33.33
4	Arpico Finance Company PLC				0	0
5	Asia Assets Finance PLC	✓			1	33.33
6	Associated Motor Finance Company PLC	✓			1	33.33
7	Capital Alliance Finance PLC				0	0
8	Central Finance Company PLC	✓			1	33.33
9	Chilaw Finance PLC	✓			1	33.33
10	Citizens Development Business Finance PLC	✓			1	33.33
11	Commercial Credit and Finance PLC	✓			1	33.33
12	Commercial Leasing and Finance PLC	✓		✓	2	66.67
13	Lanka Orix Finance PLC	✓			1	33.33
14	LB Finance PLC	✓			1	33.33
15	Lanka Orix Leasing Company PLC	✓			1	33.33
16	Mercantile Investments and Finance PLC	✓		✓	2	66.67
17	Merchant Bank of Sri Lanka PLC	✓			1	33.33
18	Multi Finance PLC	✓			1	33.33
19	Nanda Investments and Finance PLC	✓			1	33.33
20	Nation Lanka Finance PLC	✓			1	33.33
21	Orient Finance PLC	✓		✓	2	66.67

22	People's Finance PLC				0	00
23	People's Leasing Company PLC	✓		✓	2	66.67
24	People's Merchant Finance PLC	✓			1	33.33
25	Senkadagala Finance PLC	✓			1	33.33
26	Singer Finance (Lanka) PLC	✓			1	33.33
27	Sinhaputhra Finance PLC	✓			1	33.33
28	SMB Leasing PLC				0	00
29	Softlogic Finance PLC	✓			1	33.33
30	Swarnamahal Financial Services PLC	✓			1	33.33
31	The Finance Company PLC	✓			1	33.33
32	The Finance and Investments PLC	✓			1	33.33
33	Vallibel Finance PLC	✓		✓	2	66.67
	Total number of companies	29	00	05		
	Compliance as a %	88	00	15		

Appendix: 03

Table 05: Score Board for the compliances as per requirements of paragraph 47 of LKAS 17

	<i>Name of the Company</i>	<i>Standardized Score</i>	<i>Score Obtained</i>	<i>Deviation from Standardized Score</i>	<i>% of Deviation</i>
1	<i>Abance Finance PLC</i>	6	4	2	33.33
2	<i>Alliance Finance Company PLC</i>	6	4	2	33.33
3	<i>AMW Capital leasing PLC</i>	6	4	2	33.33
4	<i>Arpico Finance Company PLC</i>	6	4	2	33.33
5	<i>Asia Assets Finance PLC</i>	6	4	2	33.33
6	<i>Associated Motor Finance Company PLC</i>	6	4	2	33.33

7	<i>Capital Alliance Finance PLC</i>	6	1	5	83.33
8	<i>Central Finance Company PLC</i>	6	3	3	50.00
9	<i>Chilaw Finance PLC</i>	6	3	3	50.00
10	<i>Citizens Development Business Finance PLC</i>	6	3	3	50.00
11	<i>Commercial Credit and Finance PLC</i>	6	4	2	33.33
12	<i>Commercial Leasing and Finance PLC</i>	6	5	1	16.67
13	<i>Lanka Orix Finance PLC</i>	6	3	3	50.00
14	<i>LB Finance PLC</i>	6	4	2	33.33
15	<i>Lanka ORIX Leasing Company PLC</i>	6	5	1	16.67
16	<i>Mercantile Investments and Finance PLC</i>	6	5	1	16.67
17	<i>Merchant Bank of Sri Lanka PLC</i>	6	4	2	33.33
18	<i>Multi Finance PLC</i>	6	4	2	33.33
19	<i>Nanda Investments and Finance PLC</i>	6	3	3	50.00
20	<i>Nation Lanka Finance PLC</i>	6	3	3	50.00
21	<i>Orient Finance PLC</i>	6	5	1	16.67
22	<i>People's Finance PLC</i>	6	4	2	33.33

23	<i>People's Leasing Company PLC</i>	6	5	1	16.67
24	<i>People's Merchant Finance PLC</i>	6	4	2	33.33
25	<i>Senkadagala Finance PLC</i>	6	4	2	33.33
26	<i>Singer Finance (Lanka) PLC</i>	6	4	2	33.33
27	<i>Sinhaputhra Finance PLC</i>	6	3	3	50.00
28	<i>SMB Leasing PLC</i>	6	3	3	50.00
29	<i>Softlogic Finance PLC</i>	6	3	3	50.00
30	<i>Swarnamahahal Financial Services PLC</i>	6	4	2	33.33
31	<i>The Finance Company PLC</i>	6	3	3	50.00
32	<i>The Finance and Investments PLC</i>	6	4	2	33.33
33	<i>Vallibel Finance PLC</i>	6	5	1	16.67
	<i>Average Result</i>	6	3.78	2.22	36.86

Appendix: 04**Table 06: Score Board for the compliances as per requirements of paragraph 56 of LKAS 17**

	<i>Name of the Company</i>	<i>Standardized Score</i>	<i>Score Obtained</i>	<i>Deviation from Standardized Score</i>	<i>% of Deviation</i>
1	<i>Abance Finance PLC</i>	3	1	2	66.67
2	<i>Alliance Finance Company PLC</i>	3	1	2	66.67
3	<i>AMW Capital leasing PLC</i>	3	1	2	66.67
4	<i>Arpico Finance Company PLC</i>	3	0	3	100
5	<i>Asia Assets Finance PLC</i>	3	1	2	66.67
6	<i>Associated Motor Finance Company PLC</i>	3	1	2	66.67
7	<i>Capital Alliance Finance PLC</i>	3	0	3	100
8	<i>Central Finance Company PLC</i>	3	1	2	66.67
9	<i>Chilaw Finance PLC</i>	3	1	2	66.67
10	<i>Citizens Development Business Finance PLC</i>	3	1	2	66.67
11	<i>Commercial Credit and Finance PLC</i>	3	1	2	66.67
12	<i>Commercial Leasing and Finance PLC</i>	3	2	1	33.33

13	<i>Lanka Orix Finance PLC</i>	3	1	2	66.67
14	<i>LB Finance PLC</i>	3	1	2	66.67
15	<i>Lanka ORIX Leasing Company PLC</i>	3	1	2	66.67
16	<i>Mercantile Investments and Finance PLC</i>	3	2	1	33.33
17	<i>Merchant Bank of Sri Lanka PLC</i>	3	1	2	66.67
18	<i>Multi Finance PLC</i>	3	1	2	66.67
19	<i>Nanda Investments and Finance PLC</i>	3	1	2	66.67
20	<i>Nation Lanka Finance PLC</i>	3	1	2	66.67
21	<i>Orient Finance PLC</i>	3	2	1	33.33
22	<i>People's Finance PLC</i>	3	0	3	100
23	<i>People's Leasing Company PLC</i>	3	2	1	33.33
24	<i>People's Merchant Finance PLC</i>	3	1	2	66.67
25	<i>Senkadagala Finance PLC</i>	3	1	2	66.67
26	<i>Singer Finance (Lanka) PLC</i>	3	1	2	66.67
27	<i>Sinhaputhra Finance PLC</i>	3	1	2	66.67
28	<i>SMB Leasing PLC</i>	3	0	3	100

29	<i>Softlogic Finance PLC</i>	3	1	2	66.67
30	<i>Swarnamahar Financial Services PLC</i>	3	1	2	66.67
31	<i>The Finance Company PLC</i>	3	1	2	66.67
32	<i>The Finance and Investments PLC</i>	3	1	2	66.67
33	<i>Vallibel Finance PLC</i>	3	2	1	33.33
	<i>Average Result</i>	3	1.03	1.97	65.66

Appendix: 05

Table 07: Score Board for the compliances as per requirements of paragraph 47 Finance Lease and 56 Operating Lease of LKAS 17

	<i>Name of the Company</i>	<i>Standard ized Score</i>	<i>Score Obtained</i>	<i>Deviation from Standardized Score</i>	<i>% of Deviation</i>
1	<i>Abance Finance PLC</i>	9	5	4	44.44
2	<i>Alliance Finance Company PLC</i>	9	5	4	44.44
3	<i>AMW Capital leasing PLC</i>	9	5	4	44.44
4	<i>Arpico Finance Company PLC</i>	9	4	5	55.56

5	<i>Asia Assets Finance PLC</i>	9	5	4	44.44
6	<i>Associated Motor Finance Company PLC</i>	9	5	4	44.44
7	<i>Capital Alliance Finance PLC</i>	9	1	8	88.89
8	<i>Central Finance Company PLC</i>	9	4	5	55.56
9	<i>Chilaw Finance PLC</i>	9	4	5	55.56
10	<i>Citizens Development Business Finance PLC</i>	9	4	5	55.56
11	<i>Commercial Credit and Finance PLC</i>	9	5	4	44.44
12	<i>Commercial Leasing and Finance PLC</i>	9	7	2	22.22
13	<i>Lanka Orix Finance PLC</i>	9	4	5	55.56
14	<i>LB Finance PLC</i>	9	5	4	44.44
15	<i>Lanka ORIX Leasing Company PLC</i>	9	6	3	33.33
16	<i>Mercantile Investments and Finance PLC</i>	9	7	2	22.22
17	<i>Merchant Bank of Sri Lanka PLC</i>	9	5	4	44.44
18	<i>Multi Finance PLC</i>	9	5	4	44.44
19	<i>Nanda Investments and Finance PLC</i>	9	4	5	55.56

20	<i>Nation Lanka Finance PLC</i>	9	4	5	55.56
21	<i>Orient Finance PLC</i>	9	7	2	22.22
22	<i>People's Finance PLC</i>	9	4	5	55.56
23	<i>People's Leasing Company PLC</i>	9	7	2	22.22
24	<i>People's Merchant Finance PLC</i>	9	5	4	44.44
25	<i>Senkadagala Finance PLC</i>	9	5	4	44.44
26	<i>Singer Finance (Lanka) PLC</i>	9	5	4	44.44
27	<i>Sinhaputhra Finance PLC</i>	9	4	5	55.56
28	<i>SMB Leasing PLC</i>	9	3	6	66.67
29	<i>Softlogic Finance PLC</i>	9	4	5	55.56
30	<i>Swarnamahal Financial Services PLC</i>	9	5	4	44.44
31	<i>The Finance Company PLC</i>	9	4	5	55.56
32	<i>The Finance and Investments PLC</i>	9	5	4	44.44
33	<i>Vallibel Finance PLC</i>	9	7	2	22.22
	<i>Average Result</i>	9	4.82	4.18	46.46