

ALTERNATIVE ACCOUNTING FOR LEASES

Country A requires a company (the “lessee”) that contracts on a long-term, noncancelable basis to lease an asset from another party (the “lessor”) to capitalize it as an asset and a long-term liability if one of more of the following conditions are met:

1. The agreement specifies that ownership of the asset transfers to the lessee at the end of the lease term.
2. The agreement contains an option of the lessee to buy the leased asset at the end of the lease term for 30% or less of its fair value at that time.
3. The lease term is equal to 75% or more of the expected economic life of the asset.
4. The present value of the required lease payments is equal to or greater than 90% of the fair value of the asset when the lease agreement is signed.

Country B requires a company (the “lessee”) that contracts on a long-term, noncancelable basis to lease an asset from another party (the “lessor”) to capitalize it as an asset and a long-term liability if substantially all risks and rewards of ownership are transferred from the lessor to the lessee. Judgment is made based on a number of indicators, including less specific definitions of the criteria used by Country A.

REQUIRED:

In which country do you think the financial reporting for such leases is most likely to satisfy the needs of investor decision making? Why?