

Accounting journal of advanced accounting theory essay

[Business](#), [Company](#)



The article in the Business Week suggests that the change in accounting policy now requires the firms to show the lease as assets or as liabilities in the balance sheet. This rule change has been proposed by the International Accounting Standards Board in collaboration with the FASB. This is aimed to improve a company's transparency towards assets and the risks to which it is exposed in a leasing transaction. Currently, leases are not reported in a balance sheet which shows lack of transparency. The new standard aims at optimizing the company's reporting and helps the investors gain an idea about the risks associated with leasing. The standard requires the company to report lease with a period of more than 12 months.

Stakeholders have wide variety of leases spread over a long period of time. Capital leases are recognized in a balance sheet in terms of assets or liabilities while most of the operating leases go unreported. The Board aims to bring about clarity in terms of the risk of the lessor's exposure towards credit risk and asset risk. If the leases are not reported, they do not give a faithful representation of the condition of the business. Due to this criticism, the Board has proposed changes in the current way of reporting and requires the company's to report their lease transactions in a faithful manner. The proposal was open for all until Sept 2013. This could also lead to businesses restructuring their long term debt in a different manner. Reporting of lease will provide clarity to the readers as well as clearly reflect the amount of credit risk exposure on the company. Lease is a substantial part of the business and it is extremely important that it is recorded in an appropriate manner so as to produce true and faithful financial statements.

Bibliography

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