

Discussion on the Practical Application of the New Leasing Standards Based on the Lessee's Perspective

Yangming Cao

COSL-EXPRO Testing Services (Tianjin) Co., Ltd, Tianjin, 300074.

Abstract: The purpose of this article is to explore practical applications of the new lease accounting standard from the lessee's perspective. After introducing the background of the leasing standard and outlining the research purpose and significance, the current state of research on domestic and international leasing standards and the lessee's perspective is summarized. Next, the issues in applying the new lease standard from the lessee's perspective are analyzed, including the differences between the new standard and existing standards, its impact and challenges for lessees, and the effects on financial statements and coping strategies for companies. Subsequently, the subjectivity of lessee judgments in applying the new lease standard is discussed, including the importance, risks, and challenges of such subjective judgments, and how to make accurate and reasonable lessee judgments. Finally, a summary of the entire article is provided, and the future trends and directions of applying the new lease standard are discussed. This research provides useful references and suggestions for gaining a deeper understanding of practical applications of the new lease standard.

Keywords: Lessee's Perspective; New Leasing Standards; Practice

1. Introduction

The lease standard has always been a hot topic in the international financial and accounting field with far-reaching implications. In June 2019, the State Council issued "Enterprise Accounting Standard No. 21 – Leases" (hereinafter referred to as the new lease standard), which officially took effect on January 1, 2021. The new lease standard has introduced new provisions regarding the classification, measurement, and disclosure of lease contracts, with enhanced considerations from the lessee's perspective. However, the implementation of the new lease standard has also brought about many challenges and issues, particularly from the lessee's point of view, requiring solutions to numerous practical problems. Therefore, this article aims to analyze the lessee's perspective issues in the application of the new lease standard, explore the challenges in practical implementation, and propose corresponding strategies, providing references and assistance for the actual application in enterprises.

2. Current Status of Research on Domestic and International Leasing Standards and Lessee's Perspective

Currently, there has been significant progress made in the research on leasing standards and the lessee's perspective, both domestically and internationally. The following is a summary of the current research status: in the academic community, there have been extensive reviews of leasing standards conducted both domestically and internationally. These review studies cover the development background of leasing standards, important contents, and their application in actual accounting practices. Through a comprehensive analysis of the relevant research, a better understanding of the purpose of formulating leasing standards and their implementation implications can be achieved. In recent years, more scholars have started to focus on the lessee's perspective and explore the economic substance and accounting treatment issues faced by lessees in lease contracts.

These studies mainly focus on the recognition and measurement of lessees' rights and obligations, as well as the impact of lease payments. Through in-depth research on the lessee's perspective, a better understanding of the impact and challenges of the new leasing standards on lessees can be obtained. These studies, through methods such as questionnaire surveys, reveal the impact of the new leasing standards on businesses from a practical perspective and provide corresponding practical guidance. Future research can further strengthen in-depth studies on the lessee's perspective under the new leasing standards, propose more operational suggestions and solutions, and provide better support for the practical application of businesses.

3. Problem Analysis of the Application of the New Leasing Standards from the Lessee's Perspective

3.1 Differences between the New Leasing Standard Centered on Accrual Basis and the Previous Standard

Compared with the previous standard, the new leasing standards eliminate the classification of financial and operating leases by lessees, requiring lessees to recognize the corresponding right of use assets and lease liabilities for all leases (except for short-term leases and low value asset leases that choose simplified treatment) in the balance sheet, and recognize depreciation and interest expenses separately. This differs from the previous standard, which classifies lease contracts into two categories: operating leases and finance leases, and adopts different accounting methods. For instance, finance leases require recognition of fixed assets and long term accounts payables on the balance sheet, while operating leases do not require recognition on the balance sheet but rather as rental expenses on the income statement. These differing accounting treatments have varying impacts on lessees' financial indicators. This change will result in significant changes to lessees' balance sheets and income statements, affecting indicators such as total assets and liabilities, operating costs, and operating profit^[1].

3.2 Impacts and Challenges of the New Standard from the Lessee's Perspective

From the tenant's perspective, the new leasing standard has brought about various impacts and challenges. Firstly, the new standard affects the balance sheet, income statement, and cash flow statement. Tenants are required to recognize right of use assets and lease liabilities on their balance sheets and include interest and depreciation expenses. This may cause changes in the tenant's debt level and have an impact on financial indicators such as the debt ratio and financial leverage. In addition, adjustments also need to be made to the income statement and cash flow statement, which will affect financial performance evaluation and profit analysis. Secondly, the implementation of the new standard requires tenants to collect relevant data and adjust information systems to meet the requirements of the standard. This may require additional manpower and resources, as well as improvements in internal controls and audit processes in accordance with the new standard. Furthermore, the new leasing standard presents more detailed and complex requirements for lease contracts. Tenants need to conduct a more comprehensive evaluation and interpretation of lease contract terms to ensure proper accounting treatment. This may lead to challenges in contract management and corporate governance and require communication and negotiation with vendors. Tenants need to work closely with professional organizations and auditors to ensure compliance with the standard's requirements and accurate disclosure of relevant information. Finally, after the implementation of the new leasing standard, tenants need to reconsider their business decisions. For example, tenants may need to reassess the economic benefits of lease contracts and potential impacts of various lease schemes. This may require adjustments to existing business models and operating plans to meet the requirements of the new standard^[2].

3.3 Impact on Financial Statements of Companies and Strategies for Response

The implementation of the new leasing standards has had a significant impact on the financial statements of companies, necessitating lessees to adopt appropriate strategies in response. The following are key aspects of these strategies: Firstly, lessees need to reassess and scrutinize their lease contracts. They should carefully examine contractual terms, understanding lease duration, payment methods, and any associated costs. By conducting a comprehensive evaluation of lease contracts, they can accurately identify and record right of use assets, lease liabilities, as well as corresponding interest and depreciation expenses. Secondly, data collection and adjustments to information systems are required. Lessees should gather relevant data pertaining to lease contracts, including rental payments, lease duration, and lease terms. Thirdly, strengthening internal

controls and auditing processes is crucial for lessees. In order to comply with the requirements of the new leasing standards, they should enhance internal controls to ensure proper identification and recording of lease contracts. Additionally, improving auditing processes and collaborating closely with auditors is necessary to ensure the accuracy and compliance of financial statements. In light of the changes brought about by the new leasing standards, they should ensure that their finance team and other relevant staff members are aware of and understand the accounting principles and regulations related to these standards. Through training and education, they can better adapt to and address the new requirements^[3].

4. Treatment of Lessee's Subjective Judgment in the Application of the New Lease Standard

In the process of applying the new leasing standard, lessees are faced with numerous subjective judgments. Here are some approaches to handling subjective judgments: Firstly, lessees need to determine the primary economic purpose of the lease contract. Under the new leasing standard, the determination of whether a contract contains a lease is crucial and requires subjective judgment based on the contractual terms and actual circumstances. In certain situations, a contract may include multiple components, such as leasing and services, and lessees need to make judgments based on the relative weight of each component. Secondly, when determining the amounts of right of use assets and lease liabilities, lessees need to make subjective estimates. For example, in determining the lease term, if there are provisions in the contract regarding lease term and renewal options, lessees need to determine an appropriate term based on the actual circumstances and business needs. Moreover, in estimating lease payments, lessees need to consider factors such as rental adjustments, claim settlements, and purchase options. When a contract is modified or terminated, lessees need to assess the impact of such changes and adjust the financial statements accordingly based on the actual circumstances^[4]. This may involve remeasurement of assets and liabilities, as well as recognition of corresponding income or expenses. In handling these subjective judgments, lessees should strive to comply with the provisions of the standard and conduct evaluations using reasonable methods and assumptions. Lessees should collaborate closely with auditors and professional organizations to ensure the reasonableness and accuracy of their approaches. Additionally, lessees should document and disclose the process and assumptions behind their subjective judgments to provide transparency and facilitate audit review^[5].

5. Conclusion

In summary, it is imperative for lessees to address and resolve the operational challenges stemming from the perspective of the new leasing standards. Lessees ought to recognize the significance of these issues and take appropriate measures to tackle them. By enhancing contract scrutiny and assessment, data collection and information system adjustments, internal control and audit process improvements, as well as staff training and education, lessees can effectively address these concerns and ensure the accuracy and compliance of their financial statements.

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Author Introduction: Cao Yangming (1993), Male, Han ethnicity, Jilin City, Jilin Province, graduate student, accountant, research direction: accounting practice.