

Amortized Cost for Operating Lease Assets

Ross Jennings; Ana Marques

[+ Author & Article Information](#)

Accounting Horizons (2013) 27 (1): 51–74.

<https://doi.org/10.2308/acch-50278>

Views 

Share 

Tools 

Cite 

SYNOPSIS:

A proposed accounting standard issued jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) would require firms to recognize many more lease assets than are currently required and to amortize those assets on a straight-line basis. A number of respondents to the exposure draft argue that the “front-loading” of lease expense resulting from straight-line amortization would not reflect the economics of the lease assets. This study compares straight-line amortization with the most-often cited alternative, present value amortization. First, we illustrate by example that under stylized conditions, present value amortization provides information that more faithfully represents the future cash flows of lease assets than straight-line amortization. Second, for a large subset of firms that are more likely to conform to the stylized conditions in our example, we find that investors value those firms as though the lease assets are capitalized and amortized on a present value basis. Finally, we find that financial ratio comparability is substantially increased when operating leases are constructively capitalized and amortized using straight-line amortization, and further increased when using present value amortization. Taken together, these results provide no evidence for favoring straight-line amortization over present value amortization as the default method for amortizing capitalized operating leases.

Data Availability: Data used in this paper are publicly available.

Keywords: [leasing](#), [straight-line amortization](#), [present value amortization](#), [value-relevance](#)

You do not currently have access to this content.

Sign in

Don't already have an account? [Register](#)

[Skip to main content](#)

Member Login

Log in

Pay-Per-View Access
\$25.00

AAA Members: Please log in for free access to content. Note, Teaching Notes are a full member benefit and are not available to student members.

 **Buy This Article**



[View Metrics](#)

Citing Articles Via

Web Of Science (6)

Google Scholar

CrossRef (12)

Email Alerts

Article Activity Alert

Publish Ahead of Print Alert

New Issue Alert

[Skip to Main Content](#)

[Information for Authors](#)

[Authorship Policy](#)

[Plagiarism Policy](#)

[Data Integrity Policy](#)

[Citing Corrected Articles Policy](#)

[Minimizing Overlapping Decision Rights Policy](#)

[Prior Publication Policy](#)

