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Operating lease finance in the UK retail sector

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Abstract

The paper documents the importance of leasing in the UK retail sector and estimates the potential balance sheet impact of new accounting proposals to bring all leases onto lessees' balance sheets. Off-balance sheet operating leases are shown to be a major source of finance, and far more important (3.3 times higher) than on-balance sheet long-term debt; by contrast, finance leases are immaterial. Operating leased assets, the major part of which is ‘land and buildings' (98%), represent a significant proportion (28%) of reported total assets. Capitalization of operating leases would have a major impact on nine key performance ratios and would alter the ranking of companies markedly. The findings suggest that operating leases need careful consideration is estimating retailers’ financial risk, in comparing cross-national performance and in research studies of capital structure decisions.

Keywords:

Leasing operating leases off-balance sheet finance financial ratios lease accounting

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