CHAPTER 7

Conclusion and suggestions

1. Conclusion
2. Suggestions
Conclusion

1. The debt-equity ratio (D/E) is an important ratio of financial analysis to appraise the financial structure of a firm. The debt-equity (D/E) ratio of 2 out of 20 companies analyzed, is satisfactory. Rest of the 18 companies have less than the normal debt-equity ratio of 9:1, which is acceptable to the Reserve Bank of India. Therefore, the shareholders of these concerns are deprived of the benefits of trading on equity.

2. The proprietary ratio lays down main emphasis on the general financial strength of a business enterprise. Servin Investment & Leasing Ltd., Deegvijay Electronics & Leasing Ltd., Devki Leasing & Finance Ltd., Frontier Leasing & Finance Ltd., India Lease Development Ltd., Jagsonpal Finance & Leasing Ltd., MCC Investment & Leasing Company Ltd. and Pioneer Investcorp Ltd. show a good proprietary ratio of all the concerns at 31.86%. This leads one to conclude that although the companies have more dependence on outsiders' funds, yet this may be treated as a phenomenon of the industry since high debt-equity ratio is recommended for leasing concerns in general.

3. The relationship between the fixed assets and the shareholders' funds can be established with the help of ratio of fixed assets to proprietors' funds. This percentage of all the concerns is high. Again, this percentage may be considered as satisfactory since high debt-equity ratio is generally recommended for leasing companies.

4. The purpose of calculating the ratio of current assets to proprietors' funds is to show the extent of owners' funds. The current assets of all the concerns
understudy, except Bervin Investment & Leasing Ltd., Deegvijay Electronics & Leasing Ltd., Elcon Finlease & Industries Ltd., Gujarat Lease Financing Ltd. and Pioneer Investcorp Ltd. are heavily dependent on the outsiders' funds.

5. The purpose of cost-benefit analysis is to calculate the cost of raising funds and the benefits earned by employing funds at the calculated cost. The weighted average cost of capital of all the concerns ranges between 8.39% to 10.58%. The weighted average cost of capital has been lowest in case of Gujarat Lease Financing Ltd. and highest in case of Ashok Leyland Finance Ltd. The net profitability, arrived at by subtracting the cost of financing from profits on assets, is more than half companies is satisfactory except in the case of eight companies namely - Bervin Investment & Leasing Ltd., Birla Global Finance Ltd., Deegvijay Electronics & Leasing Ltd., Frontier Leasing & Finance Ltd., Gujarat Lease Financing Ltd., Jagonpal Finance & Leasing Ltd., MCC Investment & Leasing Company Ltd. and Pioneer Investcorp Ltd.

6. Regarding problems of financial structure, it is noticed that the concerns under study are facing the problem of resource crunch. The leasing companies are not getting full support from commercial banks and financial institutions due to their tight credit terms. They are also finding it difficult to raise money from the market due to their poor performance and influx of new issues etc. Another issue is of accounting, i.e., capitalization. The prevailing practice in India of not capitalizing a financial lease does not meet the essential requirement of presenting a 'true' picture, of a company.

7. As regards working capital management of the current ratio, 14 companies, having averages below the effective average, is not sound enough. Though in
many cases, it shows an improving trend yet it falls far below the effective average.

8. Similarly, Quick Ratio of 5 concerns out of 20 under study, is not satisfactory because their quick ratios are more than the effective average, namely Bervin Investment & Leasing Ltd., Devki Leasing & Finance Ltd., MCC Investment & Leasing Company Ltd., Deegvijay Electronics & Leasing Ltd. and Frontier Leasing & Finance Ltd. However, rest of the 15 concerns, namely Ashok Leyland Finance Ltd., Birla Global Finance Ltd., Cholamandalam Investment & Finance Company Ltd., Escorts Finance Ltd., First Leasing Company of India Ltd., Frontier Leasing & Finance Ltd., Gomti Finlease Ltd., Gujarat Lease Financing Ltd., India Lease Development Ltd., Jagsonpal Finance & Leasing Ltd., Jayabharat Credit Ltd., Manappuram General Finance & Leasing Ltd., Pioneer Investcorp Ltd., Sakthi Finance Ltd. and Tata Finance Ltd. have ratios lesser than the effective average, are satisfactory placed.

9. The profitable utilization of cash resources, may be determined by cash turnover ratio of the companies concerned. This ratio of all the concerns except Ashok Leyland Finance Ltd., Devki Leasing & Finance Ltd., Escorts Finance Ltd. and Gomti Finlease Ltd. shows that being on the lower side, it indicates that the concerns are not utilizing their cash resources in a profitable manner.

10. The ratio of sundry debtors to total sales is a measure to judge the efficiency of managing bills receivables. In this ratio only three companies, namely Frontier Leasing & Finance Ltd., Manappuram General Finance & Leasing Ltd. and MCC Investment & Leasing Company Ltd. has a satisfactory level of
debtor's since in their cases the bills receivables are blocked for a shorter period.

11. The inventory turnover ratio shows the efficiency of an enterprise in inventory management, where inventory means the stock on hire under hire-purchase agreement. In this ratio all the concerns depict a declining or an inconsistent trend. These trends indicate that the managements of these concerns are not controlling the stocks on hire effectively. Only three companies namely - Birla Global Finance Ltd., Elcon Finlease & Industries Ltd. and Gomti Finlease Ltd. have averages more than the effective average.

12. The percentage of net worth to total assets is an important investment decision to ascertain the relative contribution of fixed assets in total profitability of a concern. In this ratio the highest percentage is in the case of Frontier Leasing & Finance Ltd. whereas the lowest percentage is seen in Gujarat Lease Financing Ltd. 8 companies are above the effective average and 12 companies are below the average which indicates that the major part of the total assets are financed by outsiders' funds. The respective managements, in their own interest, should try to increase the net worth of their respective concerns.

13. Another important ratio necessary to analyze fixed capital, is the ratio of total debts to total assets. It provides information as to how much of total assets are financed by creditors.

14. The ratio of depreciation to sales, represents the percentage of the amount of annual depreciation charges to the sales revenue. This study shows that all the concerns, except Ashok Leyland Finance Ltd., Birla Global Finance Ltd., Devki Leasing & Finance Ltd., Escorts Finance Ltd., Frontier Leasing & Finance Ltd.,
Pioneer Investcorp Ltd., Sakthi Finance Ltd. and Tata Finance Ltd. are retaining sufficient funds by way of depreciation which is available for modernization and expansion programmes.

15. As far as, percentage of depreciation to gross block and depreciation to net block are concerned, 22% to 34% of capital assets is generally recovered by companies in the shape of depreciation.

16. As regards problems of investment, the first problem identified is that of inadequate liquidity. In the present study, it is found that the liquidity position of leasing industry is critical. This problem has been located with the help of net working capital, current ratio and quick ratio. This problem is a corollary of the main problem of resource crunch.

17. The second problem of investment pattern is that of depreciation anomalies. This shows that there is a wide divergence of practices followed by the leasing concerns in India. A lower rate of depreciation is charged in order to inflate the distributable profits. Another anomaly is that of conflicting legislation, since the rates of depreciation provided in the Companies Act, 1956 and Income - Tax Act, 1961, differ from each other.

18. Similarly, the third problem envisaged is that of procedural rigidity for import leasing. The findings indicate that the Government has laid down a lengthy and cumbersome procedure to comply with for leasing of equipment. Secondly, only a few selected lessors having a minimum amount of Rs. 1.5 crore as their paid-up capital and reserves are allowed to enter this market. This limitation is a great hindrance to the expansion and progress of the industry.
19. The fourth problem is that of investment pattern and investment allowance. Although, this provision has been withdrawn now, yet it was not allowed to leasing industry even when it was in vogue. The argument given for not allowing investment allowance to the leasing industry was that the industry did not use the assets for itself, but it is used by the lessee. Since the initial investment is made by leasing companies, investment allowance should also be allowed to these concerns. In the opinion of the researcher, since allowance is for investments made and not for using the assets, leasing companies should be allowed the benefit of this allowance.

20. Gross-profit to sales ratio is an indicator of the extent of average mark-up on cost of goods. The gross profit to sales ratio of all the concerns except Birla Global Finance Ltd., Devki Leasing & Finance Ltd., Gujarat Lease Financing Ltd., Jagsonpal Finance & Leasing Ltd., Sakthi Finance Ltd. and Tata Finance Ltd. is satisfactory, as the effective average of gross-margins of leasing concerns is not satisfactory as a whole as it comes to 33% which may be considered unsatisfactory in the absence of any standard ratio to compare with.

21. As far as percentage of net profits to net sales is concerned, it is very low in case of all the concerns as the net profit margin was 33% which leads to erosion of net profit margins of all the concerns, irrespective of their gross-profit margins.

22. The percentage of net profit to net capital employed, is an indicator of financial position of a firm. The overall performance of all the concerns is unsatisfactory,
as the percentage of their net profits in comparison to net capital employed is negative, in comparison to the effective average which comes to -0.64%.

23. The percentage of net profits to total assets indicates productivity of assets. This percentage is very low but it can be called as the phenomenon of the leasing industry because the industry has more assets in comparison to those of other industries. The effective total average of the concerns understudy was 0.15%.

24. As regards dividend policy of the concerns, only five concerns, namely - Ashok Leyland Finance Ltd., Cholamandalam Investment & Finance Company Ltd., First Leasing Company of India Ltd., Jayabharat Credit Ltd., and Manappuram General Finance & Leasing are paying higher dividend which may be harmful for the leasing companies' future growth and viability and hamper their capability to absorb any diverse business shock. All other concerns are paying no dividend.

25. The first problem relating to the operational performance is identified as the theoretical and practical implications in the fixation of lease rentals. The problem arises in small or medium ticket leases where the lease rentals are of fixed nature. But there are certain causes which necessitate variations at different stages in lease rentals, such as, change in exchange rates, interest rates, etc. The conclusion is that it will be better for the leasing companies of the developing countries like India to combine the two elements, i.e., fixed charges and variable charges, because of the high variations in the cost factor.

26. The second problem identified is that of trade-tax. Leasing companies in India are facing the problem of double taxation and leasing companies are not
allowed to use 'C' forms. The Trade - Tax Act finally makes leasing correspondingly more expensive towards cost of assets acquired under leasing finance. The non-uniformity of various State Trade Tax Laws, is another irritant. The States are violating the provisions of the Constitution of India by levying tax on the lease of same equipment more than once in different stated.

27. As regards general problems, first problem identified is the lack of adequate legislation. Four major areas, namely - licensing requirements, sources and terms of funds, solvency and liquidity requirements and accounting regulations are identified where positive norms for leasing companies are required.

28. Lack of proper and integrated accounting standards is another general problem identified. There is no uniform accounting method to be followed by the lessors and the lessees. The first flaw is in reporting the lease income in the financial statements. Different leasing companies are adopting variety of methods and there is no consistency in the presentation of accounts or any control over them.

29. Another issue is related to the problems of audit of leasing concerns. It has been found in the study that there is no special provision in the Companies Act regarding auditor's duties, liabilities and types of audit to be carried out. A necessity has therefore been felt that audit of leasing companies needs proper examination with supporting documents, verification of lease contracts and purchase invoices etc. Therefore, a sample of audit for leasing companies is suggested in the study.

30. The last but not the least, is the problem of lack of expertise in the management. It is found that there are structural problems in the industry's
management. In addition to this, the majority of Boards of Directors of leasing companies are dominated by retired senior bank personnel, ex-managing directors and ex-managers of companies etc. It is further observed that the retired personalities treat their job as a retirement benefit and find little time or have very little say in the day-to-day affairs of the company. Therefore it is suggested that leasing companies should have financial analysts and chartered accountants, legal luminaries and other financial experts on their boards to see that proper day-to-day care of the working of the concerns does not suffer.

**Suggestions**

On the basis of the above stated observations and findings, some suggestions are being made here in order to enable the companies to improve their efficiency and working. This should, interalia, be also suggestive to the management to minimize the gap between theory and practice so that the corporate management may get a respectable footing. Thus, in this section, after viewing the overall position of leasing companies in India, following suggestions are made for their consideration:

1. For effective cash management and to utilize cash resources profitably, leasing companies should concentrate on the technique of cash planning and control such as 'cash forecasting', 'concentration banking' and 'lock-box' system etc. to quicken the pace of inflows.
2. An analysis of balance-sheet of several leasing companies in India reveals that most of the company directors contribute the minimum subscription, enough to satisfy the Companies Act, 1956. This situation cannot be allowed to continue indefinitely. The minimum may be substantially increased early which may be either in the form of equity / preferential capital or by the way of long term fixed deposits in the company. This will go a long way to protect the interest of the directors in particular, the leasing companies in general and the investor - share - holder.

3. To improve the bills receivables management, solid steps are required to be taken for efficient collections from delinquent accounts. For this purpose, the concerns should maintain proper records and information system and devise ways to collect the receivables in time so that the defaulters may be minimized and eliminated in course of time.

4. There are a number of credit guarantee schemes which are in vogue and provide cover to the commercial joint stock companies, banks and financial institutions, against loans and advances sanctioned to small and medium scale industries. It is suggested that similar facilities be extended to the existing leasing companies, or 'credit insurance' cover may be provided, (as in the case of Japan) for the existing leasing companies in India. In this connection, it is suggested that a separate corporation may be promoted for this purpose or the scope of General Insurance may be extended in this regard.

5. The Government should also make applicable uniform Trade Tax Act, in all the states of the country regarding leasing industry in order to bring a uniformity in the working of companies in this industry. The leasing concerns should also be
allowed to use 'C' form and the states should be restrained from imposing double tax on leased assets.

6. The problem of unhealthy competition can be solved if the leasing companies make themselves specialized in different fields / areas, e.g. domestic leasing, equipment leasing, automobile leasing etc.

7. The leasing concerns should appoint financial analysis and legal luminaries, Chartered Accountants etc. on their board rather than 'ornamental' personalities or retired executives, so that proper attention and care of the infant industry could be taken.

8. The financial character of leasing concerns demands special duties and liabilities of the auditors of leasing companies. Therefore, there is a need for enacting provisions in this regard in the Companies Act, 1956.

9. Almost all leasing companies in India deal with public money. To safeguard the interest of investors and leasing companies, it is suggested that no leasing company should be allowed to do any business with any company or organization in which the directors of the leasing company are interested either directly or indirectly. These kinds of restrictions, on the part of leasing companies are a must which may go a long way to put them on the right track.

10. The long - term assets should be financed with long - term funds. Short - term funds should not be invested in fixed assets.

11. The low level of net profits of leasing concerns, gives an indication that their non - operating expenses are mounting. So, the executives should try to minimize the non - operative expenses.
12. Appropriate financial policies should be arrived at with the consensus of lenders, management and financial executives. The financial policies will enable the concerns to meet challenges with success and weed off likely obstacles coming in their way.

13. As human resource is a valuable asset to an organization, the concerns should promote a spontaneous and purposive involvement of their personnel with a sense of accountability and dedication to company's activity in order to achieve the socio-economic objectives of the country.

14. The Institute of Chartered Accountants of India should lay down standards regarding liquidity ratio, debt-equity ratio, proportions of assets, showing of assets and liabilities and income and expenditure in financial statements for arriving at distributable profits, etc and thus remove all ambiguities regarding the above. In the absence of such standards the balance-sheets and profit and loss account statements of leasing companies may not provide a true and fair picture of their financial health.

15. The analysis and review of selected leasing companies in India reveals that there is no uniformity and consistency in the accounting treatment of certain assets. Some leasing companies show their leased assets and rentals under fixed assets and others under current assets. So, it is suggested that a clear-cut policy regarding current assets should be laid down.
Annexure I

QUESTIONNAIRE

1. Name of the Company
2. Whether Public Ltd. or Pvt. Ltd.
3. Year in which incorporated
4. (i) Place of Head Office of the Company
    (ii) Place of Regd. Office of the Company
5. Total Assets of the Company
6. Year of first issue of equity share to the public
7. The holding company of the concern:
   (Give the following particulars)

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<th>S. No.</th>
<th>Name of the company</th>
<th>Major activities of the Co.</th>
<th>No. of Shares held</th>
<th>No. of Preference shares held</th>
<th>No. of Deb. held</th>
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8. The Subsidiary Companies of the Concern:

(Give the following particulars)

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<th>S. No.</th>
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<th>Major activities of the Co.</th>
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9. Whether the concern has various branches / sub-units / Agencies etc. at various places. If yes, please give the details.

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<th>Name of the Unit</th>
<th>Place</th>
<th>Nature of Activities</th>
<th>Management controlled by</th>
<th>Any other information</th>
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FINANCIAL INFORMATIONS

1. What is the authorized capital of the concern in shares and amount
   (a) Is the total authorized capital issued Yes/No

   If no, how much capital issued & paid

   (b) Is there any plan in near future to issue further the equity, preference &
       debentures etc.

2. What is the way of collecting funds Prospectus/Private

3. What is the mode of collecting funds:
   i) Shares
   ii) Debentures
   iii) Loans
   iv) Any other (Pl. Specify)

4. Whether the company has issued any preference shares, if yes, please give
   the following information:
   i) No. of shares & amount
   ii) Year of issue
   iii) Nature of shares com./Non Com & Conv./Non Conv.
   iv) Rate of dividend paid
   v) Period stipulated for written off

5. Whether the company has raised the equity capital through under-writers, if
   yes, please give the details of the shares issued through under-writers.
6. How much of the money is paid yearly as interest,

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7. Do you think that any change in the present capital structure would be more advantageous to the concern. If yes, what would be the proposed capital structure and arguments in that favour in brief for such proposed capital structure.

8. Is the present rate of interest, dividend on preference shares paid by the concern high? If yes, what should be the normal rate of interest and dividend?
9. (a) Has the company issued any bonus shares? If yes, give the following particulars

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<th>Year</th>
<th>No. of shares</th>
<th>Value per share</th>
<th>Basis for issue</th>
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(b) Give reasons for issuing the bonus shares:

(i) Under capitalization : 

(ii) High Profits : 

(iii) Shortage of Cash : 

(iv) Any other, pl. specify : 

10. Is the company facing any problem relating to Shortage of funds?  

If 'yes' then please specify the nature of problems faced by the company?

11. Suggestions for improving the problem of resource crunch

12. What is the market value of shares of the company,

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INVESTMENT INFORMATIONS

1. Mode of leasing & amount leased so far
   (i) Commercial Vehicles
   (ii) Passenger Cars
   (iii) Two-wheelers, consumer durables etc.
   (iv) Plant & Machinery, generators etc.
   (v) Construction Equipments
   (vi) Medical Equipments, Office Automation Equipments
   (vii) Bills Discounting, Portfolios Investments, Factoring, Guarantee etc.
   (viii) Real Estate

2. Which of the above mode leased more and why?

3. How risk of loss is covered?

4. Which criteria or method is followed by the company for fixing the rental value of the leased assets?

5. How the company receives the payment of the rental money from the lessee company?

6. How much of the money spent by the company for collecting the rental money?

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7. What is way of adjusting the accounts that have not paid the rental money?
8. Problem relating to accounting for depreciation. Please tell according to the five point scale Strongly Agree, Agree, Uncertain, Disagree & Strongly Disagree.

(i) Depreciation should be changed by the lessor, because:
   a) The lessor is owner of the asset.
   b) The lessor may be faced with the situation of having the assets on his books with a substantial value which do not earn anything except a nominal rent.
   c) The depreciation is allowed to him as a permissible deduction.

(ii) Depreciation should be charged by the lessee, because:
   a) The accounting standards favours that the depreciation should be charged by the lessee.
   b) The Govt. exchequer does not lose anything in the form of income-tax.
   c) The asset actually is used by the lessee.

9. Problem relating to rigid procedure of import leasing.
   i) The Government has laid down a lengthy and cumbersome procedure to comply with leasing of imported goods.
   ii) A few selected lessors are permitted to do import leasing business.

10. Problem relating to capitalization of assets.
   (i) Capitalization should be made by lessee, because

1. The lessee is the user of the annual lease payments.
2. To differentiate the financial statement of lessor company & the lessee company.

3. The capitalization should be made to comply with the accounting policy of 'substance over form'

(ii) What is the present position of the capitalization of asset?
   a) It is not obligatory to capitalize
   b) It is obligatory to capitalize
   c) It is the willingness of the company to capitalize or not.

(iii) What is your opinion regarding the capitalization of the lease payments?

11. Any other problem faced by your company. Please specify.

12. Suggestions related to above mentioned problem.
OPERATIONAL INFORMATION

1. What was the amount of total lease rentals for the last five years?

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2. What was the amount of total actual lease rental collected for the last five years?

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3. (a) What is the total amount of total net profits distributed as dividends to shareholders?

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(b) What method is followed by the concern to pay dividends?

i) Stable rate of dividend

ii) Fixed percentage of the earning

iii) Fresh consideration every year

iv) Combination of the above

v) Any other method

c) Whether the dividend is paid regularly? Yes/No
4. If the concern has not paid the dividend in any year, please tick the reason mentioned below:-
   
   i) Due to losses.
   
   ii) Due to use of internal finances.
   
   iii) Not huge profits.

5. (a) Has the concern incurred losses in recent years?  
   (b) If yes, what are the causes of loses?
   (c) What steps have been taken to off-set the losses?

6. Problems relating to inadequate tax benefits and additional tax burdens, answer on a five point scale
   
   (i) The tax benefits such as the ones arising out of depreciation investment deposit scheme are not conducive to the growth & promotion of leasing companies.
   
   (ii) The depreciation rate should be according to the Income Tax Act, 1961, rather than Indian companies Act, 1956.
   
   (iii) The tax benefits which leasing companies enjoy in developed countries should also be provided to the Indian leasing companies.

7. What is your suggestion for improving the position of the problems of income-tax and Trade-tax?

8. Suggestions for removing the problem.
GENERAL INFORMATIONS

In this section you have to answer all the questions on the five point scale.

1. Accounting Standard Setting:
   i) Accounting standards are desirable & impose no significant burden on companies.
   ii) Accounting standards should be set by the Council of the Institute of Chartered Accountants of India.
   iii) Accounting standards should be set by an independent Board outside the control of ICAI with representatives from accountancy profession, business, stock exchanges and academicians.
   iv) Accounting standards should be set by a Govt. body like Company Law Board.
   v) Compliance with accounting standards should, by law, be made compulsory on the part of companies.
   vi) Compliance with accounting standards should not be compulsory.
   vii) If compliance with accounting standards is not made compulsory, non-compliance will be preferred by companies.

2. Alternative Policies for Lease Accounting:
   i) Lease Accounting is a suitable topic for an accounting regulation in India.
   ii) The capitalized value of both Operating and Finance Lease should be shown in the lessee’s balance-sheet.
   iii) The capitalized value of Finance Lease only should be shown in the lessee’s balance-sheet.
iv) Disclosure in a note to the accounts of lease commitments, and the value of leased assets without capitalization in the lessee's balance-sheet should be made.

v) Disclosure in a note to the accounts of the amount and timing of future cash flow commitments for all leases should be made.

vi) Lease commitments analyzed by type of assets should be disclosed.

vii) A transition period, during which disclosure is required, without insisting on capitalization, is desirable.

3. Effects on Management Decision Making

i) Existing lease contracts will be renegotiated.

ii) New lease contracts will be structured in a way which does not require capitalization.

iii) There will be additional administrative burden on companies.

iv) There will be a reduction in discretionary expenses in order to compensate for increased expenses through lease capitalization.

v) Lease will become less attractive as source of finance.

vi) The volume of lease finance will remain unaffected.

vii) Share investments will not be undertaken.

viii) New assets will be purchased or constructed rather than leased.

ix) There will be an increase in the issue of shares.

x) Retained earnings will increase.

4. Views regarding Prospects of Leasing Industry