TITLE

EQUIPMENT LEASING
ACCOUNTING PROBLEMS AND PROSPECTS IN NIGERIA

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ABSTRACT

The thrust of this study is the examination of the accounting aspects of equipment leasing, including the issue of capital allowances and tax implications, the mode of reporting having regard to the concepts of substance over form and true and fair view, its problems and prospects here in Nigeria.

The concept and practice of equipment leasing were examined. To this end, an appraisal was made of the thoughts that have been expressed by some scholars and practitioners in the field both within and without Nigeria. They include inter alia, principal actors in the lease industry, its role in the economy, lease evaluation decisions, and the accounting and taxation implications.

Certain issues that are closely associated with leasing have been discussed in Chapter Three. Like some of the framework of equipment leasing, including the provisions of the IAS 17 and NASB's ED.10 for lease accounting and reporting, and the minimum information disclosure requirements, of both the lessor and the lessee, on financial statements.

The methodology for collecting data, for analysis and hypotheses testing, including questionnaires and personal interviews of selected individuals from targeted organisations. These data were presented in tabular form, analyzed, and hypotheses tested in Chaper Five. Based on the findings some suggestions have been made in Chapter Six.

The following were found. The current awareness and increase in the tempo of activities in the lease industry is one of the consequences of the

Federal Government's Structural Adjustment Programme, SAP. There would be a decrease in the level of leasing activities and consequently, an increase in corporate liquidity problems if the lessor is denied the benefit of claiming for the capital allowances on leased assets. This is becuase one of the major attraction to leasing is the issue of capital allowances. The controversy and conflict, especially between ELAN and NASB, on who claims capital allowances in a lease finance/capital lease arrangement is as a result of the similarities between lease and hire-purchase transactions. There is no specific law, decree in Nigeria regulating leasing activities. The emphasis only on the economic realities of a transaction with little or no regard to the legal implications, affects the true and fair view of the information reported by a business concern. There is a problem of complying with the requirements of the Inspectorate Department of the Federal Ministry of Industries before the issuance of Certificate of Acceptance in respect to acquisition of assets of a capital expenditure nature. The erratic nature of the monetary and fiscal policies in this country is also, one of the problems afflicting the lease industry. Equipment leasing, ceteris paribus, has good prospects in Nigeria. As evidenced by the astronomical jump in the total leased assets at cost, in the industry from ₦116.4 in 1986 to ₦1.2 billion in 1989, a 963.7% up within three years. Also some of the recent policies of the Federal Government are good boosts to leasing. Especially, with the drive to arrest the rural-urban drift by the provision of basic infrastructures to make life more meaningful; the encouragement to small and medium scale industries through the National Economic Reconstruction Fund, NERFUND, and the

Small and Medium Scale Industries Loan Scheme, SML; and the Federal Urban Mass Transit Programme, FUMTP. It was based on the foregoing that some suggestions have been offered.

Blind compliance to the provisions of the international accounting standard, especially IAS 17 without consideration of the peculiar Nigeria envrionment should be discouraged. Capital allowances on leased assets should be granted to the lessor. It is only where the purchase option has been given to the lessee in the lease plan that he can claim. The Federal Government should enact leasing law, decree to regulate activities in the industry. Amendments should be made to CITA 1979 to differentiate between finance and operating leases. An amendment also should be made to the provisions of the Industrial Inspectorate Decree 53 of 1970 in order to make compliance less rigorous and delay for the issuance of Certificate of Acceptance reduced.

Finally, leasing should not be stifled by irrational and unnecessary financial and legal provisions and regulations. It should be seen as a business or trade. The right atmosphere should, therefore, be created for this fine and alternative means of project funding to enable it survive, grow and develop in Nigeria.