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Accounting For Leases: A Comparison of APB Opinions and the Proposed FASB Statement

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In discussing the provisions of the proposed FASB Statement on accounting for leases and comparing it to APB Opinions the author provides a comprehensive guide to students in intermediate accounting, to candidates for the CPA Examination, and to accountants who need to refresh their knowledge of lease accounting.

The Financial Accounting Standards Board (FASB) has released an Exposure Draft of its proposed Statement, "Accounting for Leases." If and when issued, the Statement will supercede the Accounting Principles Board (APB) Opinions pertaining to leases which presently represent the codified generally accepted accounting principles (GAAP) for lease transactions. Thus, every company that engages in lease activities and issues financial statements in accordance with GAAP will be affected by the Statement.

Lease transactions are not a new method of acquiring the use of property. Leases have been in use since the time of the Romans.[1] Since World War II, however, the use of long-term leases as a financial tool of management has grown rapidly. It has been estimated that $11 billion in new equipment was leased in 1974 and that by the end of 1975 equipment on lease would total an estimated $100 billion.[2] This rapid growth has created major problems relating to appropriate methods of accounting and reporting for lease transactions. Although much research and study has been conducted on the subject of leases, inconsistency and inadequate disclosures still exist in practice.

To assess the effect of the proposed Statement in dealing with these deficiencies, this article will summarize the APB Opinions pertaining to leases and review the Exposure Draft with reference to similar provisions contained in the Opinions. To facilitate the reading of this article, three generalizations to keep in mind are: (1) agreements concerning natural resources such as oil, gas, timber and mineral rights are not covered by these releases, (2) leases are noncancelable except upon the occurrence of some remote contingency, and (3) leases are considered to have a material effect on financial statements. The reader will, of course, wish to obtain copies of the releases for in depth study.[3]

Background

The first recognition by the AI(CP)A of the growing importance of lease transactions was the release of Accounting Research Bulletin (ARB) No. 38, subsequently restated as Chapter 14, ARB No. 43. Two conclusions of these Bulletins were: (1) where rentals and obligations are material, disclosure should be made in the financial statements, and (2) where it is evident that the lease transaction involves a purchase, the property should be included in the balance sheet and the related charges should be included in the income statement.

Although lease transactions grew in numbers, capitalization of such assets did not increase proportionally. Disclosures in the financial statements increased, but no consistency in the reporting emerged. The AICPA sponsored a committee, chaired by John H. Myers, to study the problem. In its report, Accounting Research Study (ARS) No. 4, the committee took the position:

> ". . . to the extent then that leases give rise to property rights, those rights and related liabilities should be measured and incorporated in the balance sheet."[4]

ARS No. 4 emphasized property rights, whereas ARB No. 43 emphasized material equity.

The APB utilized the conclusions of these two releases in preparing the first Opinion (No. 5) pertaining to leases. In reaffirming the conclusion of Bulletin No. 43 and rejecting the position of the research study the Board stated:

> ". . . the distinction depends on the issue of whether or not the lease is in substance a purchase of the property

rather than on the issue of whether or not a property right exists."[5]

APB Opinion No. 5 concludes that leases of the lessee are either executory contracts which should be disclosed in footnotes to the financial statements, or installment purchases (in substance) which should be capitalized and included in the balance sheet. With this Opinion the material equity concept, which dominates lease accounting practice today, was established. The Opinion was criticized for being ambiguous. Capitalization of leases did not increase noticeably.

APB Opinion No. 7 pertains to leases from the lessor's point of view. Two predominant methods of accounting for leases, financing and operating, are defined. The financing method is comparable to that method used by financial institutions in accounting for level repayment plans. Transference of ownership risks and rewards is emphasized as a criterion to determine if the transaction is a financing lease. This is inconsistent with Opinion No. 5 which emphasizes the material equity concept. The question of whether a lease accounted for as a financing lease should be capitalized by the lessee was not considered a problem by the APB. Their conclusion was that the principal problem of the lessor is to allocate revenue and expense to accounting periods in such a manner that net income is fairly stated.

> "As to the lessee, however, capitalization of leases, other than those which are in substance installment purchases of property, may not be necessary in order to state net income fairly since the amount of the lease rentals may represent a proper charge to income."[6]

Therefore, under these two Opinions, it is possible for leased property not to appear as a capital asset on the balance sheet of either the lessee or the lessor.

APB Opinion No. 27 was released because of questions arising from interpretations and applications of Opinion No. 7 in regard to leases of manufacturers or dealers. The criteria are set forth to determine when a lease should be considered a sale. Thus, manufacturers or dealers have three methods of accounting for leases — sale, financing and operating.

APB Opinion No. 31 was released in an effort to forestall the SEC Release of additional disclosure requirements until such time that the newly established FASB could prepare a Statement. The Board noted that there had been improvement in disclosures since the release of Opinion No. 5. However, users of financial statements had stated that the disclosures had not always provided all relevant information they deemed important. Therefore, disclosure requirements for operating leases of lessees were extended.

The additional disclosures required in Opinion No. 31 were not extensive enough to satisfy the SEC. In the amendment to Regulation S-X, ASR No. 147, the SEC increased the disclosure requirements, but stated that when the FASB developed improved standards of accounting for leases the Commission would reconsider its requirements.

FASB Exposure Draft Review

The FASB Exposure Draft of the proposed Statement "Accounting for Leases" will, if adopted, establish standards of accounting and reporting for both lessees and lessors. A lease is defined as:

> ". . . an agreement conveying the right to use property, plant or equipment for a stated period of time."[7]

Lessee Accounting

If a lease meets one of the following criteria it should be capitalized by the lessee:

1. The lease transfers title to the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.[8]
3. The lease term is for at least 75 percent of the economic life of the property.[9]
4. The estimated residual value[10] is less than 25 percent of the property's fair value at the inception of the lease.
5. The leased property is of special purpose to the lessee.

A capital lease should be recorded by recognizing an asset and corresponding obligation at the sum of: (1) the present value of the minimum lease payments (less expenses paid by the lessor), and (2) the present value of any bargain purchase price. The asset should be separately identified in the balance sheet. The related obligation should be classified as a current and/or noncurrent liability. Amortization should be recorded over the lease term in accordance with normal depreciation methods of the lessee. However, if title is transferred or if there is a bargain purchase option, amortization should be recorded over the economic life of the property.

Disclosures for capital leases should include:

1. Gross amount of assets and the amount of additional assets for the period reported in the aggregate and by major categories.
2. Total accumulated amortization.
3. Minimum future rentals as of the date of the latest balance sheet in the aggregate and for each of five succeeding fiscal years.[11]
4. Range of rates used to compute the present value of the future rentals and the weighted average of those rates.
5. Total minimum subleases due.
6. Total contingent rentals incurred.
7. A general description of leasing activities.

Leases not meeting one of the five criteria for capital leases should be considered operating leases. Rentals payments should be charged to expense. Parenthetical disclosure of the present value of the minimum rental commitments for leases whose terms are for more than one year should be made on both sides of the balance sheet. Additional disclosures should include:

1. General description of all leasing activities.
2. Present value of minimum future rentals in the aggregate and for each of five succeeding fiscal years — by major categories.
3. Amount of aggregate future minimum rentals due from subleases.
4. Range of rates used to compute the present value of the future rentals and the weighted average of those rates.

Lessor Accounting

Three classifications are specified for leases of lessors: (1) sales-type, (2) direct financing, and (3) operating. If a lease meets one of the criteria for a capital lease by the lessee, and if the collectibility of the payments from the lessee is reasonably assured with no important uncertainties surrounding future costs, the lease is a sales-type or direct financing lease to the lessor. When the lease gives rise to profit for the lessor, it is a sales-type lease.

To account for sales-type and direct financing leases, calculations of the following must be made: (1) minimum net rentals due over the lease term, (2) unearned income resulting from the transaction, and (3) cost of the lease property and its estimated residual value. In addition, the present value of minimum net rentals over the lease term must be computed for the sales-type lease.

Minimum rentals plus any bargain purchase option price should be recorded as a receivable, classified as to current or noncurrent, in the sales-type lease. The present value of the receivable (discounted at the lessee's incremental borrowing rate) should be included in sales for the period. The difference between the sales price and the receivable should be recorded as unearned income and a deduction from the receivable in the balance sheet. Amortization of the unearned income should be in

proportion to the remaining balance of the receivable. The cost of the property (less estimated residual value and initial direct costs) should be charged against operations. Estimated residual value should be classified in the balance sheet with property, plant and equipment.

For direct financing leases, the receivable is the sum of the minimum net rentals plus any bargain purchase price. The receivable should be classified as current and/or noncurrent in the balance sheet. Unearned income is the difference between the receivable and the cost of the property. It should be treated as a reduction of the receivable in the balance sheet and amortized to income over the term of the lease. Estimated residual value should be classified in the balance sheet with property, plant and equipment.

Disclosures for sales-type and direct financing leases should include:

1. General description of leasing activities.
2. Aggregate minimum rentals receivable reduced separately for executory expenses, allowance for uncollectible rentals and unearned income.
3. Minimum rentals receivable for each of five succeeding fiscal years and by major categories.
4. Estimated residual values by major categories.
5. Total contingent rentals included in net income.

Leases not meeting the criteria for sales-type or direct financing leases should be classified as operating leases by the lessor. The cost of the property for the operating lease should be classified in the balance sheet with property, plant and equipment, reduced by its corresponding accumulated depreciation. Depreciation methods should follow the lessor's normal policies. Rent should be reported as income as it is earned, and expenses of the lease should be charged to operations. Disclosures should include:

1. General description of leasing activity.
2. Aggregate minimum future rentals.
3. Minimum future rentals for each of five succeeding fiscal periods.
4. Total contingent rentals included in income.
5. Cost of the property for operating leases by major categories.

Participation By Third Parties

Sale or assignment of a sales-type or direct financing lease should not negate the original accounting treatment. Sale or assignment of an operating lease should be accounted for as a loan with proceeds recorded as an obligation. Rental payments by the lessee should be recorded as revenue with offsetting debits to interest expense and the principal obligation.

Leases Between Related Parties

Classification should be in accordance with the criteria above for lessee and lessor. Accounting should be the same as for those leases between unrelated parties, but modified in recognition of the accounting principles that apply to transactions between related parties. Additional disclosures should include the nature and extent of the lease transactions. Opinion No. 10 is restated in that the accounts of a subsidiary whose principal activity is leasing to a parent or affiliated company should be consolidated rather than accounted for by the equity method.

Leases Involving Real Estate

Leases involving real estate are divided into two categories: those involving land only and those involving land and buildings. Any equipment that might be involved with a real estate lease should be considered separately in applying the criteria for classification.

If the lease involves land only, it should be capitalized if title to the property transfers to the lessee at the end of the lease term or the lease contains a bargain purchase option. Otherwise, the lease should be treated as an operating lease. If both criteria of the lessor (see above) are met, the lease should be accounted for as a sales-type or direct financing lease, whichever is appropriate. Otherwise, the lease should be treated as an operating lease. Normally, land should not be amortized.

If the lease involves land and buildings and the use of the land is the dominant asset,[12] the land and buildings should be separated before applying the criteria for classification. If title to the property will be transferred or a bargain purchase option is included in the lease, the land and buildings should be separately capitalized and the building amortized over its economic life. If the lease meets the criteria of the lessor, the transaction should be recorded as a sales-type or direct financing lease, whichever is appropriate. Otherwise, the lease is an operating lease.

If the land is the dominant asset but title to the property will not be transferred and there is no bargain purchase option, the lessee should record the land as an operating lease. If the building meets one of the lessee's criteria for a capital lease, it should be capitalized and amortized over the term of the lease. The lessor should record the land as an operating lease. If the building meets the lessor's criteria for a sales-type or direct financing lease, it should be recorded as such. Otherwise, it is recorded as an operating lease.

If the land is not the dominant asset, the land and building should be considered as a single unit in applying the criteria of lessee and lessor. If the lease transfers title or contains a bargain purchase option, the lessee should capitalize the land and buildings separately. If the lease meets the lessor's criteria, the transaction should be recorded as a sales-type or direct financing lease. Otherwise, it is recorded as an operating lease. If the lease is (1) equal to 75 percent of the economic life of the property, or (2) has an estimated residual value of less than 25 percent of the property's fair market value at the inception of the lease, or (3) is of special purpose to the lessee, land and buildings should be capitalized as a unit by the lessee and amortized over the term of the lease. If the lease then meets the criteria of the lessor, it should be recorded as a sales-type or direct financing lease. Otherwise, it is recorded as an operating lease.

Sale-Leaseback

If the sale-leaseback[13] meets the criteria for a capital lease by the lessee, it should be capitalized. Any profit on the sale should be deferred and amortized over the life of the lease term. The deferred profit should be a deduction from the asset in the balance sheet.

If the sale-leaseback is an operating lease and the sales price is greater than the cost of the property to the seller-lessee, a fair rental[14] for the lease term should be determined. If the fair rental is equal to or greater than the lease payments, the seller-lessee should recognize as income at the time of the sale the excess of the sales price over the cost of the property. If the fair rental is less than the lease payments, the difference should be recorded as an obligation. If this obligation exceeds the excess of sales price over the cost, the obligation should be recognized as income. A proportional share of the rental payment should reduce the obligation, with the remainder of the payment charged to rental expense.

If the lease is an operating lease to the lessee and the cost of the asset is greater than the selling price, a loss should be recognized at the time of the sale.

If the lease meets the criteria for a direct financing lease, the purchaser-lessor should record the lease as a purchase and a direct financing lease. Otherwise, the lease should be recorded as a purchase and operating lease.

Leveraged Leases

A leveraged lease is one that has *all* of

the following characteristics:

1. It meets the definition of a sales-type or direct financing lease.
2. At least three parties are involved in the transaction.
3. Financing is in the form of non-recourse debt and provides the lessor with substantial leverage.
4. The lessor's net investment declines during the early years of the lease and rises during the later years.

Leases meeting these criteria should be recorded by the lessor at net of the non-recourse debt. The net of the following accounts should represent the initial and continuing investment in the property: (1) rentals receivable (net of the rental applicable to principal and interest on the debt), (2) investment tax credit, to be realized, (3) estimated residual value of the property, and (4) unearned and deferred income. Deferred taxes should be classified in accordance with Opinion No. 11 and should not be an offset to the investment in the balance sheet. However, the investment less the deferred taxes represents the net investment to be used in calculating the implicit rate of return to use in computing the portion of net income that should be recognized in each of the "positive" years.

Recognized net income should be composed of three parts: (1) pre-tax lease income (loss), (2) investment tax credit, and (3) tax effect of the pretax income recognized. In each year the difference between the net cash flow and income recognized should increase or decrease the net investment balance. Both pretax income and investment tax credit should be proportionally allocated from the unearned and deferred income included in the initial net investment. Any tax effect arising from pretax accounting income and taxable income should be charged or credited to deferred taxes. If projected receipts are less than the initial investment, the loss should be recognized at the inception of the lease.

Annual review of the residual value and other assumptions should be made. If the review results in revisions which would reduce net income, the implicit rate of return and allocation of income should be recalculated and net investment accounts adjusted with the reduction in net investment recognized as a loss. An upward adjustment of the assumptions should not be made.

The lessor's income statement or notes thereto should present separately: (1) pretax income from leveraged leases, (2) tax effect of pretax income, and (3) amount of the investment tax credit recognized in the period. Footnotes to the financial statements should disclose: (1) all components of net investment balances, and (2) net investment and residual values by major categories.

Transition

Retroactive treatment of existing leases is encouraged but not required. If applied retroactively, prior-period statements should be restated. If not applied to existing lease commitments, additional disclosures are required for both lessee and lessor.

Comparisons

Many of the criteria set forth in the APB Opinions relating to leases are included in the criteria of the proposed Statement. A few examples will be given. A lease is equivalent to a sale in Opinion No. 27, paragraph 4, if ". . . the lease transfers title to the property to the lessee by the end of its fixed, noncancelable term." Opinion No. 5, paragraph 10, states that a lease is a purchase when ". . . the lessee has the right . . . to acquire the property at a price which . . . appears to be substantially less than the probable fair value of the property." Opinion No. 5, paragraph 11, states that the lease is a purchase when "The property was acquired by the lessor to meet the special needs of the lessee . . ."

Although a specified percentage is not given, reference is made to the economic life of the lease in Opinion No. 5, paragraph 11. A lease is a purchase when "The term of the lease corresponds substantially to the estimated useful life of the property." In Opinion No. 27, paragraph 4, a lease is a sale where "The fixed, noncancelable term of the lease is substantially equal to the remaining economic life[15] of the property."

The lessor's criteria in the Exposure Draft is in APB Opinion No. 27, paragraph 4:

"(a) collectability of the payments required from the lessee is reasonably assured, (b) no important uncertainties, . . . surround the amount of costs yet to be incurred under the lease."

The material equity concept is not a criterion in the proposed Statement. The FASB stated they had rejected the concept as too limiting. However, they felt two criteria — title of the property transfers to the lessee and property is special-purpose to the lessee — have inherent in them the acquiring of a material equity in the property by the lessee.[16]

Provisions for accounting and reporting for leases in the proposed Statement are essentially the same as in the APB Opinions. One exception is the parenthetical presentation in the balance sheet of the lessee of operating leases. (Footnote disclosure is required in the Opinions.) The disclosure of minimum future rentals, including five succeeding fiscal years[17] as required for operating leases of the lessee in Opinion No. 31, has been extended to all leases of both lessee and lessor. The FASB felt projections of more than five years could be misleading to users of the financial statements.

For a sales-type lease, the receivable is recorded at present value; direct financing and leveraged leases are not discounted. The residual value of property in both sales-type and direct financing leases is to be included in the balance sheet. Such treatment resolves an inconsistency between (1) Opinion No. 7 whereby the lessor is permitted to recognize the residual value in accounting for a financing lease, and (2) Opinion No. 27 where recognition of the residual value is not permitted if the lease is equivalent to a sale.

In the proposed Statement, any loss in a sale-leaseback transaction should be recognized in full at the time of the transaction. Opinion No. 5, paragraph 21, requires the loss to be amortized over the lease term.

Real estate transactions and leveraged leases have special sections in the proposed FASB Statement. In keeping with the effort to have consistency in lease accounting, the same criteria applied to other leases have been extended to these sections. The section pertaining to leveraged leases presents a unique, special standard intended to recognize the economic nature of the leveraged lease and its growing importance in lease transactions. No distinction is made between leveraged leases and two-party transactions in the APB Opinions. This section of the proposed Statement is the most controversial and will, in all probability, be revised before the Statement is issued.

Summary

Accounting for lease transactions is a subject that has been studied over a long period of time by AICPA, APB, and FASB. Numerous pronouncements have been issued, but inconsistency exists in present standards and practices for lease accounting. One main thrust of the proposed FASB Statement "Accounting for Leases" is to bring consistency to accounting and reporting for long term leases.

In the *AICPA Objectives of Financial Statements,* one objective is that financial statements should provide information useful for making economic decisions. The consistent use of the criteria for classifications of leases accompanied by

(Continued on pg. 23)

age distribution of the readership and geographical concentration.

Newspapers certainly offer a very wide range of advertising opportunities from the very inexpensive classified ad to clip-out coupons to full-page display ads.

The Yellow Pages

"Let your fingers do the walking" is the slogan of the Yellow Pages, and if their advertisers become as well known as the medium itself this has to be one terrific way to advertise. There can be no doubt, however, that the Yellow Pages are used extensively by the buying public — whether it is a plumbing emergency in the middle of the night, the selection of a Pizza carry-out that will deliver, the supplier of an unusual item or finding an attorney, accountant, dentist or doctor. To many professionals, this is, in fact, the only permissible individual advertising.

Special Events

In the way of local exposure, the programs printed in connection with special events, such as sports competitions, theatre and other cultural events, State and County fairs, etc., should not be overlooked. Some of these books are made up as a "Souvenir" program and are referred to many times after the event has passed. Also, there always will be breaks and intermissions (and sometimes dull spots in the show or exhibition) during which people leaf through the program and at least glance at the ads.

The fact that the promoters of these events solicit advertising quite aggressively may have created questions in the minds of many people as to whether they are really advertising or just footing the bill for the printing of the programs. But the fact remains that many people do read the ads.

Direct Mail

It has been said many times, and with a good deal of justification, that a small business operation's best source of new business is its established clientele. Many small business managers feel that regular mailings to the customer list are advertising dollars well spent. This appears to be true even for those businesses that have a relatively long repeat cycle, such as furniture and major appliance stores. After all, they have smaller accessory items and "compagnion" appliances.

Aside from using the customer list, mass mailing advertising may be directed to selected sections of a city or other geographical area in the vicinity of the business. Such a mailing could take the form of a printed letter or a newspaper-style flyer. Postage rate increases in the recent past may be reason for second thoughts on the cost — result ratio of this type of advertising; but from the looks of most consumers' mail boxes, it is far from being abandoned.

Give-Aways

All manufacturers of advertising specialties claim outstanding appeal and effectiveness for their particular line of give-aways. High on the list are match books, of which it is said that the message on the cover is read several times before the usefulness of the matchbook is gone. Pens and pencils also enjoy great popularity, as do rain bonnets, mirrors, fingernail files, rulers, calendars, paper weights, fly swatters, litter bags plus an infinite number of small items that are assumed to be useful and appreciated by the recipient.

Packaging

Certainly not to be omitted from this review of advertising possibilities is the continuous exposure provided by good packaging. One of the most aggravating things that can happen to anybody is to have the bag or container fall apart between the time one leaves the store and reaches the car across the parking lot. On the other hand, a reusable wrapper, bag or carrying container is often appreciated and long remembered.

Attractive wrapping not only impresses the customer but also a number of other people who observe the purchaser during the trip from the store to the car and again from the car to the door of the home or apartment. A display ad or an emblem that is readily associated with the seller is seen from the time the purchaser leaves the premises of the business to — conceivably — the time it may end up sitting on the curb awaiting the garbage pick-up.

Obviously, the choice of media is limited only by the budget. Naturally, the amount set aside for advertising would depend on how established the business is, whether times are good or bad and how well the salesperson of the advertising agency presents the need for and the benefits of the proposed advertising program. However, under normal circumstances, a small business would probably not want to commit more than 5% of gross sales to the total advertising effort. Depending on the profit margin of the particular type of enterprise, this may be too much or it may not be enough. Nothing will ever take the place of the astute judgment of the experienced manager or owner in making decisions on the advertising budget.

Accounting for Leases *(Continued from pg. 5,*

the expanded disclosures required in the proposed Statement should be helpful to users to assess the significance of lease transactions in relation to the financial condition and operations of a company. The information disclosed should enable the user of the financial statements to predict, compare and evaluate companies within an industry, and to make informed economic decisions.

Although the leveraged lease section of the proposed Statement is controversial, the foresight of the FASB in establishing standards for an emerging type of leasing problem is commendable.

Notes

[1]Happy Pierce, "Leasing and the Lessee," *Management Accounting*, December, 1975, p. 33.

[2]*New York Times*, August 29, 1975, p. 8.

[3]APB Opinions in this article were summarized from *Accounting Professional Standards*, Volume III, published for the AICPA by Commerce Clearing House, Inc., Chicago, Illinois, September 1, 1975. The FASB proposed Statement "Accounting for Leases" was reviewed from the *Exposure Draft* published by FASB, High Ridge Park, Stamford, Connecticut 06905, August 26, 1975.

[4]*Accounting Professional Standards*, op. cit., AC § 5351.4, p. 9642.

[5]*Ibid.*, AC § 5351.5, p. 9643.

[6]*Ibid.*, AC § 4051.18, p. 8427.

[7]*Exposure Draft*, op. cit., para. 1, p. 1.

[8]*Ibid.*, para. 4, p. 2, as defined in the Statement, a bargain purchase option is a provision that allows the lessee, at its option, to purchase the leased property for a price that, at the inception of the lease, is expected to be substantially less than the fair value of the property at the date the option becomes exercisable.

[9]*Ibid.*, para. 4, p. 2. Economic life is defined in the Statement as the estimated remaining useful life of the leased property for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

[10]*Ibid.*, para. 4, p. 2. Estimated residual value is defined as the estimated fair value of the leased property at the end of the lease term.

[11]*Accounting Professional Standards, op. cit.*, AC § 5352.09, p. 9664. Minimum rental commitments should be disclosed in the aggregate for: (a) each of five succeeding fiscal years, (b) each of the next three five-year periods, and (c) the remainder as a single amount.

[12]*Exposure Draft, op. cit.*, para. 23, p. 12. The primary purpose of the lease is to obtain the use of the land.

[13]*Ibid.*, para. 29, p. 14. A sale-leaseback is the sale of property by the owner, and a lease of the property from the purchaser back to the original owner.

[14]*Ibid.*, see footnote 7, p. 14 and footnote 4, p. 2. Fair rental is the going rate for rental of equivalent property not involved in a sale-leaseback.

[15]*Accounting Professional Standards, op. cit.*, footnote 1, p. 8441. In this opinion economic life refers to the period during which the property is generally expected to be used for the purpose for which it was designed.

[16]*Exposure Draft, op. cit.*, para. 63, p. 29.

[17]See footnote 11 above.