Accounting for Leases: Operating or Capital – Does It Really Matter?

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Synopsis
A top accounting student was struggling with the concept of capital leases versus operating leases. After looking at the financial statements and notes to the financial statements of two airline companies, she realized that operating leases result in large commitments by companies that are not reported as liabilities on the balance sheet. The student decided to restate the financial information as if all lease commitments were reported as liabilities.

Learning Outcomes
Students will be able to:
1. Interpret financial statements and financial statement disclosures.
2. Link accounting theory/concepts with the resulting financial accounting standards, and those standards with the resulting financial statements and financial statement disclosures.
3. Recognize the objective of financial reporting -- that financial statements "tell a story" -- and demonstrate how a particular accounting standard can affect the telling.
5. Investigate International Financial Reporting Standards (IFRS) regarding lease accounting and construct financial statements according to differing lease accounting rules:
   - Within the available classifications under United States Generally Accepted Accounting Principles (U.S. GAAP) - operating vs. capital
   - Between U.S. GAAP and IFRS.

Application
This case is appropriate for undergraduate and graduate courses in Intermediate Financial Accounting, International Accounting, Financial Statement Analysis.

Key Words
Lease accounting, financial statement analysis, international financial reporting standards

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