

**The Format Effects of Operating Lease Disclosures on the Quality of Decision-
Making by Non-Professional Investors**

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Synopsis

The recent proposal by the Group of Four Plus One to modify the accounting treatment of operating leases has attracted considerable comment. However, a review of the publicly available submissions to this proposal reveals that no one has addressed the issue in terms of the primary objective of general purpose financial reports, that is, to provide decision useful information to non-professional investors.

This thesis seeks to redress this gap by providing some evidence of the ability of non-professional investors to evaluate operating leases as they are presented according to current accounting standards and alternative presentation formats.

The thesis reports the results of an experiment carried out on surrogates for non-professional investors. The main finding is that the vast majority of subjects were unable to evaluate operating lease information when it was disclosed in the notes, rather than reported in the body of the Statement of Financial Position. Subjects consistently relied on reported figures and seemed unable to incorporate information presented in the notes to the financial reports, even when the links between the notes and the reported figures were made more obvious than is currently the case.

The finding has a number of implications. It would appear that the existing accounting treatment of operating leases is the source of a structural information asymmetry, as a substantial proportion of users were unable to evaluate information relating to operating leases. This information asymmetry should be removed for reasons of economic efficiency. The recent withdrawal by non-professional investors from equity markets shows that non-professional investors will react strongly if they start to

doubt the ability of general-purpose financial reports to provide them with decision useful information.

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