



" DETERMINATION OF THE FACTORS INFLUENCING THE GROWTH OF
FINANCE LEASES IN KENYA."

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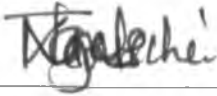
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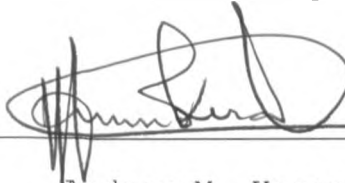
DECLARATIONS

This project is my original work and has not been submitted for a degree in any other university.

 20/11/97

Kenneth Tarus

This project has been submitted for examination with my approval as university supervisor

 21.11.97

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DEDICATION

To my parents Mr and Mrs Kiptarus Arap Ng'elechei.

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To my supervisor Mr. Andrew Kerandi, I extend my very sincere thanks for his guidance, suggestions, comments, criticisms and above all his constant encouragement throughout the period of this research project.

I am grateful to the University of Nairobi for funding me during the entire MBA programme. I also wish to thank my colleagues in the MBA class and the academic staff of the faculty of commerce who directly or indirectly contributed to the success of this project.

Many thanks are due to those people who in one way or another, have supported me particularly morally during those times when the programme was a near impossibility. I wish to single out Mr Kiniga, Kittur, Kory, Biwott, Mugure Lilian, Lamaon, Cosmas, Jeremiah and Naumy for demonstrating what a true friendship is.

I also wish to register my appreciation to my parents, more especially my loving mum, Pamela Taplilei and to my brother Philip for the untold things they have always done me. To those many others who have made contribution in one way or another, and I have not mentioned their names here, I register my appreciation and gratitude. Thank you all.

ABSTRACT

The primary objective of this study was to determine the factors that influence the growth of finance leases in Kenya. Data was collected using a questionnaire personally administered by the researcher which covered firms listed in the stock exchange.

The results show that the factors considered important in influencing the growth were that leases helps in conserving cashflows, assists in having a mixed financing strategy, safeguards against obsolescence and the fact that there is certainty of fixed payments.

Of course these results should be interpreted in consideration of the limitations of the study. In this regard, the findings of the study should be viewed as a guide to lease users.

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CHAPTER I

1.0 INTRODUCTION

1.1 Background

The manner in which the assets of a company have been financed is of great importance. Companies have a range of financing methods to use among which are leasing, retained earnings, hire- purchase, bank loans, factoring, debentures, share issues and overdrafts. Although it is essential to consider as many methods of financing as possible during asset acquisition, it is also worth noting that leasing has continued to play a major role in the financing decisions of most companies because of its characteristics such as the ease to obtain and fewer restrictions.

Virtually no industry does well in a recession like the leasing industry (Christmas,1981:217). Some companies have cancelled investment plans altogether, others have deferred them but an increasing number are realising how leasing can benefit them. Besides, leases are of great importance to young companies which do not have an established record or companies which cannot provide security for loan finance. These companies find it

difficult to obtain finance for new asset acquisitions (Drury;1990:179).

A lease has been variously defined as a contract between a lessor and a lessee for the hire of a specific asset (Gee;1991:274). Universally, two major types of leases have been accepted. The International Accounting standard 17 (IAS 17) states the two as financing and operating leases.

Gee (1991) defines a finance lease as a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee, whereas an operating lease as a lease other than a finance lease. Kenyan Accounting Standard No 8 (KAS8), which is an adoption of IAS 17 concurs with this definitions as well as the classifications. It (KAS8) provides that it is appropriate for the amount of assets used by the lessee that are subject of finance leases to be separately identified in the financial statements and presented by each major class of asset.

The aggregate amount of the related liabilities is shown either as the total of the minimum lease payments, with future finance charges being separately deducted, or as the net present value of the liabilities, disclosing

in summary form the interest rates used as the discounting factors. And that it is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.

A company which has large cash resources may be tempted to use them in acquiring fixed assets. This is fine so long as they are absolutely sure that there is no better purpose to which this cash resources could be put and they have taxable profits against which to offset capital allowances (Baldwin, 1981:620).

Nzomo (1984) notes that leasing has grown in importance as a device for financing the acquisition of productive facilities, and that when the lessee enters into a lease, he obtains an asset and assumes liability. He points out that this growth has applied to non-land assets as computer equipment and mobile plant or vehicles which has highlighted the unsatisfactory features of present accounting practice such as failure to assign a realistic value to the capital employed in business through recognising as assets only those things which are owned outright.

Nyaga (1987) also found that lease financing has been expanding in Kenya and that it has continued to play a crucial role in the investment decisions of companies.

Further a preliminary survey was carried out for twenty companies listed on the Nairobi Stock Exchange (See Appendix I) and it showed the following :-

	1990 (Base)	1991 Percentage	1992 Percentage	1993 (%)	1994
Leasing		(2)	5	8	15
Loans		(7)	(3)	5	3
Bank overdraft		3	2	(3)	5

However, since the introduction of KAS8, the extent of growth of leasing has not been established. Even more important, the factors that have led to this significant growth have not been ascertained.

1.2 Statement of the problem

Lease financing is a form of liability which can distort financial statements if not properly accounted for. Infact it was very popular because of its off-

balance sheet characteristics but with the introduction of KAS8, it was hoped that it would decline (Nzomo, 1984:3).

However there is evidence that it has been growing in importance as a device for financing the acquisition of productive facilities (Nzomo,1984: Nyaga, 1987), and as shown by the preliminary survey data figures above.

The data shows that the use of lease financing increased by 108% between the period 1990-1994 compared to a 46% increase in the usage of loan over the same period. This therefore implies that there are other factors which influence its use as a form of financing. The introduction of KAS8 which is too general, descriptive and does not give a concrete criteria on how to apply it in practice has complicated the accounting for the same.

This study therefore seeks to establish the factors that have led to the growth of finance leases and in the process ascertain the compliance with KAS8. It will also be important to identify the nature of assets commonly leased and why (reasons).

1.3 Objective of the study

The objective of the study is to determine the factors that have influenced the growth of finance lease by companies quoted on the Nairobi stock exchange and to ascertain the problems in their use.

1.5 Importance of the study.

The study will be of value to the following:-

- i) The investors who, by being aware of these factors will be in a position to make more rational decisions.
- ii) To the creditors it will be useful in assessment of the company's risks in terms of default.
- iii) To offer recommendations on accounting for leases especially how accounting for finance leases can be made much easier.
- iv) To the academicians, this will add to the existing body of knowledge.

1.6 Scope of the study.

This part gives an overview of the project. Chapter I considers the background, the problem statement, objectives, and the importance of the study. Chapter II will be the literature review which shows the state of the knowledge and extend of research. Chapter III will provide the research design whereas chapter IV will deal with data analysis and findings. The conclusions and recommendations will be contained in chapter V.

CHAPTER II

2.0 LITERATURE REVIEW.

2.1 TYPES OF LEASES

According to the Kenyan Accounting Standard 8 (KAS8) Leases can be classified into two major categories, financing and operating Leases. This classification is consistent with the one given by International Accounting Standard 17 (IAS 17). Although the definitions of this two types are universally accepted, their distinction still remains a major problem.

Clark (1978) in his part defined a financial lease " as a contract involving payment over an obligatory period of specified sums sufficient in total to amortize the capital outlay of the lessor and give some profit". To distinguish it, he defined an operating lease as "any other type of a lease" - that is to say, where the asset is not wholly amortised during the non-cancellable period , if any, of the lease and where the lessor does not rely for his profit on the rentals in the non-cancellable period.

According to Bower (1973), a financial lease normally includes a primary "non-cancellable" period

during which the lessee is obliged to make lease payments. In the U.K. five years is a typical primary period length. However, for short life or high risk assets, three year leases are common, while for longer life assets leases upto 15 years have been written. The majority of lease agreements stipulate that fixed payments be made periodically (quarterly or annually), but schedules involving unequal payments are not unknown.

The Financial Accounting Standards Board in the United States in their statement of Financial Accounting Standards No. 13 (SFAS 13) classifies leases on the philosophy that a lease which transfers substantially all the benefits and risks of ownership to the lessee should be capitalised.

Leases may also be seen as either direct financing lease or sales-type lease. Direct financing leases are those type of leases written by financial institutions and not by manufacturers or distributors (Jensen 1979: 44). Lessors will usually purchase equipment for the lessee's exclusive use and charge rental under the lease contract sufficient to yield a satisfactory return on their investment. The lessors investment at any point in time equals the minimum lease payments, plus any

unguaranteed residual value, minus the unearned finance income. Costs associated with arranging the specific lease transaction are to be expensed as incurred, and a portion of the unearned income equal to their costs is to be recognised in the same period as the expense. If rentals include any amount for items such as maintenance or insurance, this portion is to be excluded from the minimum lease payment in calculating the lessor's investment.

Sales-type leases on the contrary arise where instead of selling a product, the Manufacturer or dealer leases it to the end-user. Such leases are similar to direct financing leases except that the lessors must also account for the profit on his or her "sale" of the product (Jensen 1979: 45). Finance income on this type of lease is recognised in exactly the same way as for a direct financing lease- that is on either a tax - oriented or non-tax oriented basis.

The net investment on the lease is disclosed separately in the financial statement and consists of : the minimum lease payments, plus the unguaranteed residual value, if any, minus the unearned finance income.

In clarification of "substantially all the benefits and risks of ownership" SFAS sets out certain questions to consider whether the lease will be treated as a capital, sales - type or direct financing lease:

i) Is there a reasonable degree of certainty that the lessee will obtain title to the leased property during or at the end of the lease term?. This would occur when a lessee has an option to purchase the leased asset for an amount which, at the inception of the lease, is significantly below, any reasonable estimate of the assets' fair market value on the option date. Of course, estimation of future fair market values will be difficult.

Does the lease term cover a major portion of the "economic life of the leased property"? SFAS 13 suggests that 75% is a "major portion". Here again it will be difficult to estimate the economic life of certain kinds of assets.

(ii) Is the present value of the minimum lease payments greater than a significant portion of the assets fair market value at inception of the lease? SFAS 13 provides a guideline that 90% of the fair value would be considered "significant". The discount rate used by the

lessor will be the "interest rate implicit in the lease", while the discount rate used by the lessee will be the "lower of the lessee's rate for incremental borrowing and interest rate implicit in the lease if known".

It should be noted that the calculation of interest rate implicit in the lease includes consideration for the unguaranteed residual value (portion of the residual value of the leased asset the realisation of which by the lessor is not assured) to the lessor, if any and that the minimum lease payments exclude insurance, maintenance charges and any provincial sales taxes. Clearly, the determination of the appropriate rate to use will usually be a highly subjective process and strict application of the 90% guideline must be done with caution.

Another aspect of the classification system (Jensen 1979: 46) is that a lessee can be said to have substantially all of the benefits and risks of ownership even though the lease contract contains no purchase option or other arrangements under which the lessee can acquire title; the title to the leased asset is rightly considered to be insignificant in determining the substance of the contract. Thus, for accounting purposes, the substance of the lease contract must be

examined, not its classification from the legal or tax points of view.

SFAS 13 defines a finance lease as a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. It also specifies that title to ownership may or may not eventually be transferred. It defines an operating lease as a lease other than a finance lease. This classification is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee. A lease depends on the substance of the transaction rather than the form of the contract. This classification is in conformity with international accounting standard 17.

Weston and Brigham (1978) defines a finance lease as a lease where the lessor has to be paid almost all or all of the purchase price of the asset involved plus financing and other costs, within the lease period.

As stated earlier, an important feature of a finance lease is that it is non-cancellable and according to International Accounting Standards Committee (IAS. 17, Para 2,) a non-cancellable lease is a lease that is cancellable only:-

- (a) upon the occurrence of some remote contingency
- (b) with the permission of the lessor.
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor, or, upon payment by the lessee of an additional amount such that at inception, continuation of the lease is reasonably certain.

Gee (1992) defines an operating lease as "a lease other than a finance lease". Bierman (1972) says that an operating lease is one which the intention to purchase the property is not present at the time of the lease agreement. In this case, the lessor services and maintains the asset and these costs are usually built into the lease payments

ACCOUNTING TREATMENT :

There is no statutory requirement to disclose the amount of assets leased or the obligation for future rentals payable. Nzomo, (1985) states that lessees may, however, disclose that information voluntarily. The majority of lessees treat finance and operating leases in a similar way by merely writing off the rental payments

against income and do not show the asset or the obligation in the balance sheet. However, this usually depends on the type of lease and is mostly based on the substance and economic reality over the legal form of the transaction.

(a) The Lessee's Accounting :

Since finance lease are very similar to hire purchase agreements, they should be treated in a similar manner in the accounting records of the lessee. All transactions are presented with their substance and economic reality and not merely with legal form. The facts relating to all leases should therefore be carefully considered and where it is clearly evident that the transaction is in substance a purchase, the "leased" property should be included among the assets of the lessee with suitable accounting for the corresponding liabilities and for the related charge in the income statement. The practice of most enterprises which acquire assets under hire purchase agreement is to capitalise them in the balance sheet even though the assets are not owned (Nzomo, 1992) .

Where leasing provides a material source of finance, the failure to capitalise rights and obligations results in an understatement of the capital employed in the business and of the extent of its borrowing.

Financial Leases

(Jensen 1979) states a financial lease is accounted for in two parts as :

(i) The acquisition of an asset - It states that the recorded asset value is the present value of the minimum lease payment, discounted at the lower of the interest rate implicit in the lease (The discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments from the lessors standpoint and unguaranteed residual value to be equal to the fair value of the leased asset receivable by the lessor) or the lessor's rate for incremental borrowing (90% of the fair value of the leased asset).

An asset or liability should therefore be recorded at amounts equal at the inception of the lease to the fair value of the leased property net, if any, of grants and tax credits receivable by the lessor or, if lower, at the present value of the minimum lease payments.

The asset value would then be depreciated over the term of the lease on a basis consistent with similar fixed assets; if title to the asset transfers automatically to the lessee then the asset should be depreciated over its economic life. This treatment is similar to that adopted by KAS 8, which states that asset will be depreciated during the expected period of use if there is reasonable certainty that the lessee will obtain ownership by end of the lease term.

The acquisition of an obligation similar to a loan. The present value of the minimum lease payment is recorded as the 'principal', which is then amortised by splitting the minimum lease payments into principal and interest in the same way loan repayments are made. The lessee should use the fair value of the leased property at the inception of the lease as the initial value of the lease obligation and a discount rate which equates the minimum lease payments to the implicit rate.

Where floating rate leases are involved, there may be a problem in determining the minimum lease payments where there is no "floor" on the interest rate used to calculate the payments. In this case, the lessee should probably use the fair value of the asset (less any

residual value assumed by the lessor) as the initial amount of the lease obligation. There are two points to note when disclosing financial leases in the financial statements (IAS NO. 17), that the :-

- a) Leased assets are shown separately from other assets. Both gross amounts and accumulated depreciation of such assets are to be disclosed.
- b) Obligations related to leased assets are shown separately from other obligations. Particulars of the leases should also be shown. The interest component of the lease payments should be shown separately or as part of interest on long-term debt.

Operating Leases:-

Lease rentals are to be charged to expense as incurred i.e. they are treated as periodic expenses. In U.K. future minimum lease payments should be disclosed - both in total and for each of the five succeeding years. Additional disclosure of such items as the type of property leased, remaining term, and renewal options may

also be desirable.

(b) The Lessor's Accounting:-

In their accounting process, lessors use a diversity of practices. Some treat finance leases as fixed assets while others treat them as receivable and a number of methods are used to recognize the income over the lease term. (Nzomo, 1992)

A finance lease should be recorded by the lessor as a receivable at the amount of the net investment in the lease which is close to the practice adopted in dealing with hire-purchase transactions. Initial direct costs incurred by the lessor in arranging the lease should be apportioned over period of the lease on a systematic and rational basis. The lessor therefore treats the lease rentals as repayments of principal and finance income to reimburse and reward him for his investment and services.

Financial Leases:-

Lessors will recognize their income from a lease (finance income) so as to show a constant rate of return on their investment (Jensen 1979: 44). This rate will be the "interest rate implicit in the lease" and income will be recognized using the actuarial method. The lessor's

investment at any point in time equals the minimum lease payments, plus any unguaranteed residual value, minus the unearned finance income.

Costs associated with arranging the specific lease transaction are to be expensed as incurred, and a portion of the unearned income equal to these costs is to be recognized in the same period as the expense (IAS 17) . Some lessors price the lease by taking the before-tax cashflows resulting from the lease although others price them by explicitly taking the after-tax cashflows resulting from the lease.

Operating Leases:-

Lessors account for and disclose operating leases in the same way lessees do. Initial direct costs are amortised over the lease term in proportion to the recognition of rental income. The lessor must disclose separately both the cost of property held for leasing purposes and the amount of related depreciation.

A finance lease can therefore be akin to the acquisition of an asset. Nzomo (1985) states that a firm or a company wishing to utilise the service of an asset may be offered the choice of a finance lease or a hire-

purchase agreement especially when the lease arrangement involves a special type of a finance lease referred to as "strict finance lease". In addition to the fact that a strict finance lease is non-cancellable "it is fully amortised, for example, the lessor contracts for rental payments equal to the full price of the leased asset". (Copeland and Weston, 1983). This special feature of a strict finance lease makes it similar to a secured long-term loan and not a "true" lease.

KAS 8 states that in the financial statements of the lessee, transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. While the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. If such lease transactions are not reflected in the lessees balance sheet, the economic resources and the level of

obligations of an enterprise are understated, thereby distorting financial position of the company. It is therefore appropriate that a finance lease be recorded in the lessee's balance sheet both as an asset and as an obligation to pay future rentals.

In the lessors financial statements, the standard states that a finance lease transfers substantially all the risks and rewards incident to ownership, and thus the lease rentals receivable are treated by the lessor as repayments of principal and finance income to reimburse and reward him for his investment and services.

A lessor aims to allocate finance income over the lease term on a systematic and rational basis. The income allocation is usually based on a pattern reflecting a constant periodic return on the lessors net investment outstanding in respect of the finance lease. Under an operating lease, the risks and rewards incident to ownership of an asset remain with the lessor.

Therefore, the asset is treated by the lessor as a depreciable asset and rentals receivable are included in income over the lease term. Rental income is normally recognized on a straight line basis over the lease term

even if the receipts are not on such a basis unless another systematic basis is more representative of the time pattern of the earning process contained in the lease. However, costs including depreciation, incurred in earning the rental income are charged to income.

An operating lease may be cancelled at the option of the lessee (Copeland and Weston, 1983), this means that the lessee can cancel the lease and return the asset before the expiration of the basic agreement. A study carried out by Schall (1974) highlights that its generally incorrect to separate the decision to acquire the asset from the decision regarding the method of financing.

SALE AND LEASEBACK.

This is where a firm sells an asset to another and then executes an agreement to lease it back for a certain period under specific terms. If the lease agreement provides for an option to purchase back the asset, then lessee can do so and acquire the ownership of the asset again. This has "opposite" effect because a payment made by the lessor is a receipt to the lessee hence the lessor becomes the legal owner of the asset and

is entitled to realise any residual value at the end of the lease term. The Purchase price can be determined by among other things the relationship between the economic life of the asset, the lease period, and the periodic lease payments.

Weston and Brigham (1978) states that if the sale and leaseback arrangements give rise to a finance lease, then the payments are sufficient to return the full purchase price. The international Accounting committee (IAS.17) recognises that the sale and leaseback arrangement can give rise to an operating lease as well as a finance lease. If the lease agreement provides for an option to purchase the asset at the end of the end of the lease term, then the lessee can do so and acquire the ownership of the asset at once.

Direct acquisition - This involves acquisition of an asset the user company did not own previously. A company may lease an asset from the manufacturer or arrange for the leasing company to buy a particular asset from the manufacturer. Van Horne (1983) states that -:

since 1963 commercial banks have been allowed to engage in direct leasing..... independent leasing

company finance purchase of a wide variety of equipment. In doing so they frequently borrow from banks,..... special purpose leasing companies confine their operation to certain types of assets..... In recent formed partnerships for the purpose of purchasing equipment and leasing it to companies

Gee (1985) Categorises the major lessors as finance houses which provide finance under lease contracts so as to enable a single customer to acquire the use of an asset for the greater part of its useful life, companies which operate businesses involving renting out of asset and companies which are manufacturers or dealer lessors who use leasing to market their products. Van Horne classifies them as manufacturers, finance companies, Banks, Independent leasing companies, special purpose leasing companies and partnerships.

Leveraged leases - is used where the lessor borrows a substantial portion of the purchase price of the asset and the other portion is financed by equity. This type of leasing changes the position of the lessor, who executes the acquisition of the asset and finances it partially

with equity hence becomes an equity participant. This equity can either be supplied directly by the lessor or indirectly by third parties. The greater part of the purchase price of the asset is provided by the lender who holds a first mortgage on the asset. The lease payments are assigned to the lender or a trustee and sometimes the lessee guarantees the debt. The difference between the interest, the principal and the lease payment is kept by the equity holder. The lender provides a "non-recourse loan because its effect is to indemnify the lessor in the event of default" (Copeland and Weston, 1983). The effect of a sale and leaseback to the lessee includes -

- a) Loss of legal ownership of the asset and the owner consequently becomes a renter.
- b) obligation to pay some agreed periodic payments over the lease period.
- c) The lessee receives the purchase price.

The lessee retains the economic use of the asset during the lease period but some lose the residual value of the asset.

2.2 IMPORTANCE OF LEASING TO BUSINESS TODAY.

Most Authors have pointed out that both lessee and lessor must benefit from a leasing agreement if they are acting rationally. Leasing becomes potentially advantageous in situations when the lessee and lessor are not in identical tax paying positions. In particular, leasing can be worthwhile when the lessor is in a tax paying position. The lessor is then able to pass on to the lessee (via reduced lease payments) some of the benefits of the capital allowances which the lessee would not otherwise receive. However, not all lessees are leasing for tax-related reasons as the belief that leasing conserves cashflows appears widespread. This is particularly interesting as in theory, there can only be a cashflow advantage to leasing if leasing does not displace debt as a £1 for £1 basis, or if leasing is actually cheaper than debt. If neither of these conditions are satisfied, then, as illustrated in Hull and Hubbard (1980) the lessee can obtain an equivalent cashflow effect by negotiating a loan. One of the reasons why leasing is considered to give a cashflow advantage may be indicated by the emphasis that it is a

form of finance which does not affect other borrowing sources. Clearly a number of lessees believe that leasing does not displace debt at all.

Most companies in the U.K. lease for "cash flow" related rather than tax related reasons for example, Sykes (1976) found that 41% of managers interviewed identified as the most important reason for entering into a financial lease agreement, as it "provides a source of funds which does not utilise existing working capital". Tomkins et al (1979) using a points system found that "no large capital outlay" accounts for 50% of the reasons why small companies enter into financial lease agreement. Fawthrop and Terry (1975) when interviewing 38 lessees found that 25 considered the tax advantages of leasing to be irrelevant. Fawthrop and Terry (1976) also concluded that in addition to using leasing as a taxation strategy companies also use leasing as:-

- (i) Part of a "planned financing mix" where funds are sourced by leasing because it does not displace debt on a shs. 1 for shs. 1 basis, and
- (ii) as "spill over" financing where additional funds are close to exhaustion. They recommended a method of lease evaluation explicitly recognising this.

Surveys carried out in other countries have produced similar results to those in the U.K. Dietz (1977) in a postal survey found that lessees in Switzerland and Germany considered "liquidity" to be a very important reason for leasing more often than they considered "tax advantages" to be so. In the U.S. Sorenson and Johnson (1977) examined 520 lease contracts written by four leasing companies and concluded:

Implied cost rates were quite high averaging 24.98 and 18.69 per cent on before and after-tax (50 percent) bases respectively. Whereas one could not with available data perform a lease versus purchase analysis on any sample contract it appears reasonable to speculate that most leases studied would have been rejected under commonly accepted analytical procedures.

It is also worth noting that one reason why some lessees may be prepared to pay a higher effective rate of interest for lease finance than for debt finance is the difficulty of arranging an "equivalent loan". Frank and Hodges (1979) show that for a fairly five - year lease

contract the loan balance for an equivalent loan is , in successive years 792.5, 241.4, 113.9, 2.4, -113.7, -5.6, -0.3, 0.0. This implies a rather unusual repayment pattern which all but very largest companies are unlikely to be able to negotiate with their lenders (Modigliani and Miller, 1963). An overdraft could of course be used to provide the equivalent loan but that has the disadvantage that it is repayable on demand.

Operating leases provide an important protection against the risk of obsolesce (Drury 1990:182) thereby enabling the lessee to terminate the leasing contract after a short period, and without having to make sufficient rental payments to cover the cost of the asset. Where the economic life of equipment is uncertain, an operating lease can provide an important protection against the risk of obsolescence. In effect, the lessee transfers the risk of obsolescence to the lessor (Drury 1990: 189). However, the rental payments will be higher to reflect the additional risk which the lessor bears on behalf of the lessee. With finance leases, the lessee bears the risk of obsolescence.

Surveys in the U.K. (Fawthrop and Terry, 1975; Sykes Hull and Hubbard, 1979; Tomkins at al, 1979;) and those undertaken in the U.S.A. (Anderson and Martin, 1977; Ferrara, Thies and Dirsmith, 1980; Anderson and Bird, 1980) tend to indicate that companies attach less importance than theory would suggest to taxation factors.

It would appear from the surveys that the most important reasons for leasing are that it conserves cashflows and provides a source of funds which does not utilise working capital.

Leasing can therefore only claim to offer unique cashflow advantages if a firm faces capital rationing and lease finance is the only viable method of raising additional funds to finance capital expenditure. It is also apparent from the various studies that incorrect approaches were being used to evaluate finance leases. Sykes, Hull and Hubbard have expressed concern regarding the methods which companies used to evaluate leases. Hull and Hubbard found that only 49% of lessees used discounted cashflow techniques, and of those that did, 46% used the wrong interest rate.

2.3

DECISIONS TO LEASE OR BUY

Lease vs. Buy is typically a financing decision based on the current and future availability of cash (Bauman 1990:22). The decision is very simple if the corporate borrower has extended its line of credit to the limit, as borrowing costs then become, excessive and may involve a shareholder giving personal guarantee. Leasing in such circumstances is much more attractive regardless of the tax implications. Alternatively, if the company can arrange the required borrowing with an acceptable finance cost, the buy / lease decisions becomes more difficult.

Bowman (1990) as reported in the management Accounting Magazine states that the decision to buy or lease is then based on the company's after-tax cost of borrowing in relation to the implicit rate of interest assumed in the lease. The most common buy / lease decisions involve assets used for manufacturing and processing.

In a typical lessor-lessee relationship of an operating lease, the lessee will expense for tax purposes the total lease payments made to the lessor.

The net present value of future lease payments (after tax) is then compared to the actual purchase price of the asset discounted for the benefit of future tax savings (tax shield). Clark (1978) stated that a lease is considered a capital lease for tax purposes if the lessee has the right to acquire title to the property at the end of the lease term for no proceeds or for proceeds less than the fair market value of the asset at that time. Therefore if the object of the arrangement is to transfer the ownership in the asset from the lessor to the lessee, the lease is considered a capital lease for tax purposes, such that the transaction is considered a sale rather than a lease.

If the lease is a capital lease, the lease payments are considered payment of blended principal and interest. The net present value (after - tax) cost of leasing an assets may vary considerably if a capital rather than an operating lessee is negotiated. Although the distinction between the two is relatively straight forward, a common error is to assume that a capital lease is an operating lease for tax purposes (Martin.1981: 625). This may lead to the wrong buy/ lease decisions since the tax impact can be quantified for each

alternative, it sweeps as a useful tool for comparison. A lease/ buy decision should therefore incorporate a balance of tax and non-tax considerations. (Seducca, 1981: 631). But the problem with quantifying the tax impact is that various uncertainties exist and assumptions must therefore be made. If the decision analysis is very sensitive to changes in one or more of the assumptions, it may be more efficient to ignore the formulas and manually calculate the tax impact on a year- to - year basis, discounted to the present.

Bowman (1990) states that a lessee will obviously choose the option that will allow him or her to accelerate deductions and thus defer the greatest amount of income tax. The choice of tax treatment will directly impact the buy/lease decision. When evaluating the lease or borrow decision, it is a convenient assumption that lease finance displaces an equal amount of debt finance.

2.4 PROBLEM WITH LEASE ACCOUNTING - Special Reference
to Kenya.

A leasing transaction will usually involve a number of different contractual documents (Reid 1984;134). This will force auditors to examine each document and consider their effect on the lessors overall exposure to risk. One transaction could cover a wide-range of areas as maintenance, Insurance, guarantees and tax indemnities. The volume and the complexity of these agreements provide the auditors first hurdle. Although he is not expected to be a legal expert, he will need to exercise his Professional judgment when examining documents. In practice, he will need to rely of specialists such as lawyers, brokers and value to indemnify the potential legal risks. Consequently, the auditor may require evidence that the lessor has obtained appropriate advice on whether or not the terms of the lease could be legally enforced.

Since leasing company's assets consist largely of contractual rights to future rental income, there is need to establish whether the lessor has adequate

control over lease documentation. The auditor needs also to establish the physical existence of leased assets, although it is not easy to test that this actually exist. Problems can also arise when trying to establish that the lessor owns the asset. Where the leased asset is not "tagged" to identify the lessor as owner it may well be indistinguishable from other assets owned by the lessee.

Apart from testing that the leased assets actually exist, the auditor will need to ascertain that they are properly valued. Normally, the book value of the leased assets will derive from the method of income adopted by the lessor.

Where the book value of an asset exceeds the amount the lessor could recover for it in the market place, the lessor need to provide for this. The problem is particularly relevant when a default in lease rentals is anticipated or has arisen.

The commercial risks of leases are such that the lessor must maintain adequate insurance cover and the auditor will need to review the lessor's system of insuring against material risk. Insurance on leases can encompass many different areas as requirements of specific classes of assets, third party insurance and

residual value insurance. The need for specialized insurance cannot be over stated; the shooting of the Korean airliner in 1993 and the dangers that existed to shipping because of the Gulf war, serve only to reinforce this need. Lessors, as owners of the equipment, are vulnerable to litigation that may arise from either the use or the misuse of that equipment. The claims that have been made in the wake of airliners crashes, by passengers and their relatives as well as other third parties injured by the debris, have always been considerable.

It is becoming increasingly common for lessors to insure the residual value of an asset during or at the end of the lease term. The residual value of a leased asset is the unamortized book value remaining when the lease is terminated. The auditor will also need to consider whether the lessor has adequate procedures for managing his tax capacity properly. The growing leasing demand and the problem of monitoring levels of bad debts have made it particularly difficult for the lessor to estimate his group tax capacity.

Consequently, the lessor is exposed to the risk that he might write business that exceeds in total the amount of tax

shelter he has available. The auditor will therefore need to examine in detail the financial schedules of the lease agreements to ensure that they are accurately reflected in the accounting cashflow.

As stated earlier, the distinction between the various types of leases is a major problem. Associated with this classification is the accounting treatment. KAS 8 is in itself not very clear in the classification of the various types of leases. The standard only provides for the accounting treatment of the finance and operating leases whereas it is almost silent in the accounting treatment of other forms as sales-type and direct financing leases. This therefore implies that the treatment of this other forms/types of leases will fall under either finance or operating lease. This is also a problem that is seen in international Accounting Standard No. 17, as it also classifies leases into two major types. KAS 8 therefore has a weakness for it adopted IAS 17 with only a few modifications to suit the Kenyan law and requirements of other statutory bodies.

The standard uses the ability of an asset to transfer risk and rewards to classifying the leases but does not give the

extent to which this should happen. It only states that it should transfer a substantial part which is in itself relative.

These is also the problem of determining the rates to be applied. The standard (KAS 8) mentions that the interest rate implicit in the lease or the rate of incremental borrowing can be used, but it does not go ahead to explain how each of this rates are to be determined. All these ambiguities in the classification and interest rates leads to the distortion of the financial statements making them unreliable for decision making.

2.5 OFF-BALANCE SHEET FINANCING.

Evidence available from UK studies suggests that lease finance is often chosen because of its off-balance sheet characteristics. Even if financial analysts are not fooled by off-balance sheet financing, firms will still continue to lease because of the off-balance sheet characteristics if they think the market can be misled or if restrictive debt covenants are tied to balance sheet ratios.

The introduction of SSAP21 has resulted in the loss of the potential advantage of off-balance financing in

respect of finance leases (Drury,1990:182). Nevertheless there is no positive disadvantage in terms of financial reporting requirements from financing asset acquisitions with finance lease instead of borrowing. SSAP21 does not require operating leases to be capitalised, and this has led to speculation that some firms will seek to restructure finance leases as operating leases.

Survey by Sykes (1976) and Fawthrop (1975) indicate that many financial directors consider that leasing reduces borrowing capacity by a smaller amount than an equivalent loan. This would suggest that the potential total borrowing capacity available to a firm could be increased by including leasing in the capital structure.

The sixth schedule of CAP 486 of the Laws of Kenya requires that the balance sheet report the liabilities and assets of the reporting entity, summarised and with such particulars as are necessary to disclose the general nature of the assets and liabilities (Nzomo,1984:28). The schedule continues to stipulate that liabilities and fixed and current assets shall be classified under headings appropriate to company's business. Where any asset cannot properly be described either as "fixed" or as "current" it shall be separately classified and

described. The stipulations continue to require and provide for the method of arriving at the amount of any fixed asset.

However, the standard does not cover lease agreements to explore for, or use of natural resources, such as oil, gas, timber, metals and other mineral rights. Similarly, it does not cover licencing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

CHAPTER III

3.0 RESEARCH DESIGN.

3.1 Research Framework.

A descriptive study was used in the study. Churchill (1991:144) notes that a descriptive study can be used when the purpose is to:-

- a) Describe the characteristics of certain goals.
- b) Estimate proportion of people who behave in a certain way.
- c) Make specific predictions.

Descriptive design is therefore justified for this study since it includes an array of research objectives whose purpose was to come up with factors that influence the growth of finance leases in Kenya.

3.2 Data collection and description.

The type of data collected was descriptive permitting only inferences about the relationships around the variables. The data source was primary.

The data collection instrument was mainly a questionnaire both structured and unstructured. The first part covered mainly the firm's as well as the respondent's demographics whereas the second part captured the factors

influencing the finance lease growth. The likert scale was employed to measure the responses which ranged from strongly agree to strongly disagree.

3.3 Population of study.

The population of interest comprised all the firms listed in the Nairobi Stock Exchange (NSE). The rationale behind studying this is because listed firms cover all the sectors making up the economy and also the fact that their information is readily available.

3.4 Data analysis and procedures.

Descriptive statistics (proportions and percentages) and charts were used to capture general trends and principal component analysis to uncover the underlying dimensions measured by the second part of the questionnaire elements.

The objective of the principal component is to transform a set of unrelated variables into a set of unrelated linear combinations of this variables. The set of linear combinations (factors or components) accounts for a decreasing proportion of the variance in the original variables, subject to the condition that each

linear combination is unrelated (geometrically at right angles) to all previous linear combinations.

To improve substantive interpretation, the principal components solution was rotated orthogonally using varimax rotation. "..... empirical evidence indicates that varimax tends to produce (factor) loading that are more interpretable". (Churchill, 1991:909).

This procedure has been used in other similar studies. (Kipngetich,1991, and Gatune,1993). SPSS package with principal component analysis as the default factor-analytic technique was used for this analysis.

CHARTER IV

4.0 DATA ANALYSIS AND FINDINGS.

4.1 General Information.

Data in this study is summarised and presented in terms of proportions and mean scores for the second part of the questionnaire.

Table 1: Sectoral distribution of Companies.

	Frequency	Percent
Agricultural	9	28
Commercial and Allied	11	34
Financial and Investment	5	16
Industrial and Allied	7	22

Sample size = 32

Source : Primary data.

From the table above it can be deduced that most registered firms on the stock exchange are in the commercial and allied sector. However the response rate was higher for those firms that are in the agricultural sector.

Table 2: Age in operation.

	Frequency	(%)
Less than 8 years	1	(3.1)
Less than 15 years but more than 8 years	2	(6.3)
More than 15 years	29	(90.6)

Percent = (Frequency *100)/32

From the data it can be concluded that most businesses have been in operation for more than 15 years. This implies that leases are normally undertaken for long periods of time.

Table 3: Cross - Tabulation of sector with period of lease financing utilisation.

Years	1-5	5-10	10 or more
Agricultural	1 (11)	-	8 (89)
Commercial and Allied	1 (9)	3 (27)	7 (64)
Financial and Investment	-	-	5 (100)
Industrial and Allied	-	-	7 (100)

Source : primary data.
: Percentages (%)

The table shows a range of periods of utilisation of finance lease by the various sectors of the economy.

Approximately 89% of those in the agricultural sector

have been using leases for 10 or more years. In contrast 100% of the firms in the industrial and allied have used leases over the same period of time, whereas only 64% of those in the commercial and allied have as well used leases over this period.

4.2 Respondents Characteristics.

The target respondents were the financial controllers or if non-existent, the Chief Accountants . The table below gives a summary of the respondents' characteristics.

Table 4: Respondents' Characteristics.

Characteristics	Frequency	%
1. Sex - Male	30	94
- Female	2	6
2. Age - 30 or less years	1	3
- 31-40 years	5	16
- Over 41 years	26	81
3. Years worked in the present company		
- Less than 4 years	2	6
- 5-10 years	8	25
- More than 10 years	22	69
4. Years in formal schooling		
- Less than 15 years	18	56
- 16-18 years	11	34
- Over 19 years	3	10

Percent: $(\text{Freq} * 100) / 32$

Source: Primary data.

The table above shows that 94% of the respondents were male whereas only 6% were female. A larger proportion of the respondents (81%) were well over 41 years of age compared to a meagre 3% of those less than 30 years. Only 6% of the respondents had worked with their current employees for a period less than 4 years compared to 69% who have worked for more than 10 years. There was not much discrepancy between those who had formal schooling for less than 15 years (56%) and those who had between 16-18 years (34%) as compared to those who had the same or over 19 years whose percentage was only 10.

4.3 Factor Analysis.

The results of factor analysis performed on part B of the questionnaire are presented below.

Table 5. Statements in the questionnaire.

-
1. Leasing conserves cashflow.
 2. Leasing is cheaper than purchase.
 3. Leasing is an additional form of finance which does not affect other borrowing sources.
 4. Leasing assists in having a mixed financing strategy.
 5. Leasing safeguards against obsolescence.
 6. Leasing has certainty of fixed payments.
 7. Leasing is obtained with greater ease and fewer restrictions.
 8. Leasing provides off-balance sheet financing.
 9. Can the use of lease financing offer tax advantages to an organisation.
-

Table 6 below shows the summary statistics that was first performed relating to the section B of the questionnaire.

Table 6. Summary statistics of section B of the questionnaire.

Statement	Mean	Std Dev	Mode
F1	4.25	0.6224	4
F2	1.44	0.6991	1
F3	2.59	0.7563	3
F4	4.47	0.5074	4
F5	4.19	0.5354	4
F6	4.63	0.4925	5
F7	3.28	0.8134	4
F8	3.09	0.8934	4
F9	1.59	0.6651	1

Source: Primary Data.

Strongly agreed was represented by a score of 5 (five) and a score of 1 (one) represented strongly disagreed. The table above shows that most respondents agreed or strongly agreed with statements 1, 4, 5, and 6. Thus, on average the respondents agreed that leasing conserves cashflow, assists in having a mixed financing strategy, safeguards against obsolescence and that it has certainty of fixed payments. Respondents, however,

disagreed with statements 2, 9, and were neutral on statements 3, 7, 8.

The standard deviation does not seem to show a wild variation of the statements by the respondents. To generate the factors, a correlation matrix was necessary and its results were as follows.

Table 7. Correlation Matrix.

	F1	F2	F3	F4	F5	F6	F7	F8	F9
F1	1								
F2	.19	1							
F3	-.33	-.21	1						
F4	.23	.04	-.08	1					
F5	-.24	-.42	.19	-.22	1				
F6	.00	.02	-.08	.21	.03	1			
F7	-.14	-.29	.51	.06	.02	.03	1		
F8	.01	.04	-.09	.04	.10	.01	-.13	1	
F9	-.06	-.02	.24	.10	.04	-.09	.22	.23	1

From the correlation matrix above, Variables 1 and 2 show a correlation though negative. Most of the correlations were found to be weak.

SPSS software package was used to perform the principal component analysis (PCA) on the scores. The principal component extracted four factors. Table 8 shows the final statistics output of the PCA with the achieved

commonalties which expresses the sums of the factor loading of variables (common factor variance). Communality shows the proportion of the variable's variation to the total variation that is involved in the factors.

Table 8. PCA Output of Final Statistics.

Var	Comm.	Factor	Eigenvalue	Pct of Var	Cum Pct
F1	.407	1	2.13670	23.7	23.7
F2	.551	2	1.39652	15.5	39.3
F3	.686	3	1.22832	13.6	52.9
F4	.676	4	1.15139	12.8	65.7
F5	.721				
F6	.663				
F7	.729				
F8	.764				
F9	.716				

An analysis of the commonalties above shows that the factors captured most of the variables' variations. The variations of statement 1 was the least captured by the factors.

The eigenvalues show how the factors fit the data given the responses to the statements. The eigenvalue which is the sum of the squares of its factor loading shows the amount of variance extracted by the very

factor. The four factors explained 65.7% of the total variation with factor 1 contributing the highest variation of 23.7%.

Table 9. Final Varimax Rotated Factor Matrix.

	Factor 1	Factor 2	Factor 3	Factor 4
F1	-.26197	.51721	.03233	.26459
F2	-.26930	.67543	.05529	-.13762
F3	.77455	-.24418	.04143	-.15573
F4	.14091	.34583	.16892	.71246
F5	-.05431	-.83692	.12917	-.02806
F6	-.09854	-.17841	-.11342	.78021
F7	.83766	-.08873	-.04521	.13305
F8	-.27573	-.12676	.81847	.04782
F9	.43246	.09096	.72010	-.05021

The initial matrix was orthogonally rotated using varimax to give the above results. Orthogonal rotation was preferred to oblique since it maintains the independence of the factors. This therefore substantially improves interpretation as it gives the terminal solution of the factors representing the regression weights and the correlation coefficients.

From the table above it can be deduced that both statements 3 and 7 load heavily on factor 1, statements 1 and 2 load on factor 2, statements 8 and 9 load on factor

3 and finally statements 4 and 6 load on factor 4. The statements that comprise the various factors are then summarised below.

Table 10. Summary of Factors.

Statements	
Factor 1.	<ul style="list-style-type: none"> -Leasing is an additional form of finance which does not affect other borrowing sources. -Leasing is obtained with greater ease and fewer restrictions.
Factor 2.	<ul style="list-style-type: none"> -Leasing conserves cashflows. -Leasing is cheaper than purchase.
Factor 3.	<ul style="list-style-type: none"> -Leasing provides off-balance sheet financing. -Lease financing offer tax advantages to an organisation.
Factor 4.	<ul style="list-style-type: none"> -Leasing assists in having a mixed financing strategy. -Leasing has certainty of fixed payments.

CHAPTER V

5.0 SUMMARY AND CONCLUSIONS

The objective of this study was to determine the major factors that influence the growth of finance leases in Kenya as well as ascertain the problems associated with its usage.

The literature covered in this study pointed out the various types of leases and their modes of classification. Various factors that influence the lease or buy decisions were discussed. In its earlier parts the literature also discussed the importance of leasing to business. The study was not a replica of any other but attempted to give a view of the factors influencing finance leases in Kenya.

5.1 Conclusions.

From the research findings as presented in chapter IV, several conclusions may be drawn. These are now discussed with regard to the objectives of the study.

5.1.1 Conclusions on surveyed Firms.

A greater proportion of the surveyed firms indicated that leases are mainly used in the acquisition of land and buildings. This therefore explains why most of those firms in the agricultural sector are to a greater extent engaged in lease practices. However, this is not to say that those in other sectors do not use leases. Infact it was noticed that there is a lot of equipment leasing such as computers and motor vehicles.

5.1.2 Conclusions of the Factor Analysis.

Looking at the summary statistics, on average, most organizations agreed that leasing conserves cashflow, that it assists in having a mixed financing strategy as well as safeguarding against obsolescence. They further agreed that leasing has certainty of fixed payments.

However, they disagree that leasing is cheaper than purchase and the fact that leasing offers tax advantages to an organisation. And on average were neutral in all the other statements.

The initial factor matrix indicated that leasing as an additional form of financing not affecting other

borrowing sources loaded heavily on factor 1, that it provides off-balance sheet financing loaded heavily on factor 3 and the fact that it has certainty of fixed payments loaded heavily on factor 4.

From the final varimax rotation, in conjunction with the summary statistics, the most important factor is the fact that leasing conserves cashflows, that it is cheaper than purchase as well as assisting in having a mixed financing strategy since it does not affect other sources of financing. Most respondents however, noted that there is a problem with the tax laws in Kenya and this has a negative effect on the usage of leases

5.2 Limitations of the study and suggestions for further research.

This section discusses both general and methodological limitations of the study and suggestions for further research.

5.2.1. Limitations of the study

A major limitation of the study was that some firms never agreed to participate in the study. The content of

the study would have been better if these firms had participated.

There was also a limitation of time allocated for carrying out the study. More time was required to access and review the otherwise very scattered literature which would have further enhanced the quality of the study.

Resource constraints were also another limitation confining the study to those easily accessible. A larger response would have been suitable for the study but it was not possible.

5.2.2 Suggestions for further research.

This study dwelt on factors that influence the growth of finance leases in organizations. However, due to the limitations of time and resource constraints the researcher could not go deeper.

Research should therefore be done to establish the effect of KAS 8 on the accounting practices as well as compliance with the same. A further research should be done to establish and clearly define the mode of classification of leases into its various types.

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APPENDIXES

QUESTIONNAIRE.

SECTION A.

Tick as appropriate ().

1. Name of the institution.....
2. Please indicate the number of years your organisation has been in operation..... years.
3. Do you hold any leased assets in your organisation?
() Y. () N.
4. If yes to (3) above, fill the following table:-

Type of Asset	Lease term	Useful life	Capitalised	Not Capitalised
Land				
Buildings				
Machinery				
Motor Vehicles				
Others (please specify)				

5. Kindly fill the following table:-

	Land	Buildings	Machinery	Motor vehicles	Others (specify)
i) Does the ownership of the leased asset get transferred to your firm by the end of lease term?					
ii) Does the asset contain a bargain purchase option?					
iii) What was the fair value at date of purchase?					
iv) If the asset is capitalised, (a) please specify the amount capitalised, (b) What is the rate of capitalisation					
v) What is the rate of depreciation?					

6. When did your organisation first use leasing as a form of financing?

() less than 5 years ago.

() less than 10 but more than 5 years.

() more than 10 years.

7. (i) Does your organisation have any borrowed funds?

() Y () N

(ii) If yes what is the interest rate charged? _____%

8. In calculating the present value of the minimum lease payments do you use :-

a) Interest rate implicit in the lease?

() Y, () N.

b) Your incremental borrowing rate?

() Y, () N.

9. Does your company have a target debt/equity ratio?

() Y.

() N.

10. If yes to question 9 above, what is this target ratio based on?

.....

11. Kindly supply the following information about yourself:-

(i) Sex Male Female

(ii) Age 25 years or less

26-30 years

31-35 years

36-40 years

41-45 years

Over 45 years

(iii) What is your estimated gross salary (Kshs)

less than 35,000

35,000-44,999

45,000-54,999

55,000-64,999

65,000-74,999

Over 75,000

(iv) Number of years in formal schooling (tick one)

Less than 15 years

Between 16-18 years

Over 19 years

(v) How many years have you worked in your present company?

() Less than one year

() 1-4 years

() 5-9 years

() Over 10 years

SECTION B.

Questionnaire on factors influencing growth of lease financing.

For each of the following statements tick as appropriate.

Strongly agree (S.A), Agree (A), Neither (N), Disagree (D), Strongly disagree (S.D)

1. Leasing conserves cash flow.

S.A.(), A (), N (), D (), S.D. ().

2. Leasing is cheaper than purchase.

S.A.(), A (), N (), D (), S.D. ().

3. Leasing is an additional form of finance which does not affect other borrowing sources.

4. Leasing assists in having a mixed financing strategy.

S.A.(), A (), N (), D (), S.D. ().

5. Leasing safeguards against obsolescence.

S.A.(), A (), N (), D (), S.D. ().

6. Leasing has certainty of fixed payments.

S.A.(), A (), N (), D (), S.D. ().

7. Leasing is obtained with greater ease and fewer restrictions.

S.A.(), A (), N (), D (), S.D. ().

8. Leasing provides off-balance sheet financing.

S.A.(), A (), N (), D (), S.D. ().

9. Can the use of lease financing offer tax advantages to an organisation?

S.A (), A (), N (), D (), S.D. ().

10. Other factors (please specify).

.....
.....

11. What factors did your company consider in choosing leasing?

.....

THANK YOU FOR YOUR CO-OPERATION

LIST OF THE EIGHTEEN COMPANIES CONSIDERED

1. Brooke Bond Kenya Limited.
2. George Williamson.
3. Kakuzi Limited.
4. Kapchorua Tea Company Limited.
5. Cooper Motors Company Holdings Limited.
6. Limuru Tea.
7. Ol Pajeta Ranching.
6. Express Kenya
7. Hutchings Biemer.
8. Kenya Hotels
9. Marshalls E.A. Limited.
10. Nation Printers and Publishers.
11. Pearl Dry- cleaners.
12. Uchumi Supermarkets Limited.
13. Barclays Bank.
14. Credit finance corporation .
15. Industrial and Commercial Development Corporation. Investments.
16. Housing Finance Company of Kenya Limited
17. Jubilee Insurance Company
18. Kenya Commercial Bank Limited.

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Analysis number 1 Listwise deletion of cases with missing values

	Mean	Std Dev	Label
F1	4.25000	.62217	
F2	1.43750	.66901	
F3	2.59375	.75602	
F4	4.46875	.50701	
F5	4.18750	.53506	
F6	4.62500	.49187	
F7	3.28125	.81258	
F8	3.09375	.89296	
F9	1.59375	.66524	

Number of Cases = 32

Correlation Matrix:

	F1	F2	F3	F4	F5	F6	F7
F1	1.00000						
F2	.19375	1.00000					
F3	-.32575	-.21126	1.00000				
F4	.23009	.04161	-.07627	1.00000			
F5	-.24225	-.41678	.19438	-.21553	1.00000		
F6	.00000	.02451	-.07590	.21020	.03064	1.00000	
F7	-.14356	-.29258	.50704	.06117	.02319	.03027	1.00000
F8	.01452	.03712	-.08511	.04231	.09705	.00918	-.12642
F9	-.05845	-.02265	.23852	.10461	.03965	-.08626	.21819

	F8	F9
F8	1.00000	
F9	.22909	1.00000

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Extraction 1 for analysis 1, Principal Components Analysis (PC)

Initial Statistics:

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
F1	1.00000	1	2.13670	23.7	23.7
F2	1.00000	2	1.39652	15.5	39.3
F3	1.00000	3	1.22832	13.6	52.9
F4	1.00000	4	1.15139	12.8	65.7
F5	1.00000	5	.90443	10.0	75.7
F6	1.00000	6	.64863	7.2	83.0
F7	1.00000	7	.61818	6.9	89.8
F8	1.00000	8	.54384	6.0	95.9
F9	1.00000	9	.37199	4.1	100.0

PC extracted 4 factors.

Factor Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4
F1	-.58148	.26142	-.01294	.02370
F2	-.61743	.11753	.04416	-.38555
F3	.74663	.26173	-.12540	-.20939
F4	-.25175	.68972	-.04055	.36721
F5	.54197	-.43195	.27106	.40875
F6	-.10253	.21632	-.16241	.76121
F7	.62627	.49851	-.29067	-.06386
F8	-.05426	.08380	.85647	.14407
F9	.31167	.52549	.53939	-.22833

Final Statistics:

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
F1	.40119	1	2.13670	23.7	23.7
F2	.55973	2	1.39652	15.5	39.3
F3	.68542	3	1.22832	13.6	52.9
F4	.67558	4	1.15139	12.8	65.7

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Variable	Communality	* Factor	Eigenvalue	Pct of Var	Cum Pct
F5	.72986	*			
F6	.66313	*			
F7	.72929	*			
F8	.74427	*			
F9	.71635	*			

VARIMAX rotation 1 for extraction 1 in analysis 1 - Kaiser Normalization.

VARIMAX converged in 6 iterations.

Rotated Factor Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4
F1	-.26197	.51721	.03233	.26459
F2	-.26930	.67543	.05529	-.13762
F3	.77455	-.24418	.04143	-.15573
F4	.14091	.14583	.16892	.71246
F5	-.05431	-.83692	.12917	-.02806
F6	-.09854	-.17841	-.11342	.78021
F7	.83766	-.08873	-.04521	.13305
F8	-.27573	-.12676	.81847	.04782
F9	.43246	.03096	.72010	-.05021

Factor Transformation Matrix:

	Factor 1	Factor 2	Factor 3	Factor 4
Factor 1	.70971	-.67524	.07901	-.18470
Factor 2	.58593	.51454	.34910	.51967
Factor 3	-.29018	-.15620	.93295	-.14490
Factor 4	-.26228	-.50487	-.03852	.82148

LIST OF COMPANIES QUOTED ON THE NAIROBI STOCK EXCHANGE

Quoted Companies by Industrial Groupings

AGRICULTURAL

- Brooke Bond Kenya Ltd.
- Faagads Ltd.
- George Williamson Kenya Ltd.
- Kakuzi Ltd.
- Kapchorua Tea Co. Ltd.
- K.P.C.U Ltd.
- Limuru Tea Co. Ltd.
- Ol Pejeta Ranching Ltd.
- Rea Vipingo Co. Ltd.
- Sasini Tea & Coffee Ltd.
- Theta Group Ltd.

COMMERCIAL AND SERVICES

- A. Baumann & Co. Ltd.
- African Tours & Hotels Ltd.
- Car & General (K) Ltd.
- CMC Holdings Ltd.
- Express Kenya Ltd.
- Hutchings Biemer Ltd.
- Kenya Airways Ltd.
- Kenya Hotels Ltd.
- Lonhro Motors (E.A) Ltd.
- Marshalls (E.A) Ltd.
- Nation Printers & Publishers Ltd.
- Pearl Drycleaners Ltd.
- Phillips International Ltd.
- The Standard Newspapers Ltd.
- Uchumi Supermarkets Ltd.

FINANCE AND INVESTMENT

- Barclays Bank of Kenya Ltd.
- CFC Bank Ltd.
- Chancery Investments Ltd.
- City Trust Ltd.
- Diamond Trust of Kenya Ltd.
- Housing Finance Co. Ltd.
- I.C.D.C Investments Co. Ltd.
- Jubilee Insurance Co. Ltd.
- Kenstock Ltd.
- Kenya Commercial Bank Ltd.
- Kenya Finance Bank Ltd.
- National Bank of Kenya Ltd.
- National Industrial Credit Ltd.
- Pan Africa Insurance Co. Ltd.
- Standard Chartered Bank (K) Ltd.

INDUSTRIAL AND ALLIED

- B.A.T Kenya Ltd.
- Bamburi Cement Ltd.
- BOC Kenya Ltd.
- Carbacid Investments Ltd.
- Crown Berger (K) Ltd.
- Dunlop (K) Ltd.
- East African Cables Ltd.
- E. A. Packaging Industries Ltd.
- E.A. Portland Cement Ltd.
- Firestone East Africa (1969) Ltd.
- Kenya Breweries Ltd.
- Kenya National Mills Ltd.
- Kenya Oil Co. Ltd.
- Kenya Orchards Ltd.
- Kenya Power & Lighting Co. Ltd.
- Total Kenya Ltd.
- Unga Group Ltd.