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CHARTERING FUNDING AND RETURN ON ASSETS OF GUARANTEE CURRENCY STORES

A. I. Asuquo[1],
J. O. Udoayang[2],
E. F. Enya[3i]
[1]Assoc. Professor (ACA, FIIA, FCCA),
Department of Accounting,
University of Calabar,
Cross River State, Nigeria
[2]Professor (FCCA, FCNA),
Department of Accounting,
University of Calabar,
Cross River State, Nigeria
[3]PhD Student,
Department of Accounting,
University of Calabar,
Cross River State, Nigeria

Abstract:
The study set out to examine the chartering funding and return on assets of Guarantee Currency Stores. The study adopted the ex-post facto research design. The main purpose of the study was to generally evaluate the extent to which chartering funding could be considered as a better option amongst the various options of funding and extent which chartering funding affect the return on assets of guarantee currency stores. Data were collected from the annual reports of the selected Guarantee Currency Stores and the data were analyzed using regression method. The findings revealed that there is positive and significant relationship between funding charter, debt funding and return on asset respectively. Based on the findings, it was concluded that funding charter is one of the major sources of funding any asset as this option of funding ensures ample return on asset. The policy and economic implications are that; Guarantee Currency Stores should think through and judiciously appraise funding charter alternative in the construction of their capital structure as this increases return on asset more than others sources of capital while Machinery Charter Union of Nigeria should create more awareness on the significance of funding charter to encourage those Guarantee Currency Stores seeking for funds to use either funding charter or debt capital taking into reflection the benefits of the two options in terms of improved corporate return on asset.

[i] Correspondence: email drakabom3@gmail.com, josephudoayan@yahoo.com, ejabufidelis@yahoo.com

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1. Introduction

Corporate entities exist in environment that is very competitive, and they continuously find means to ensure that they lead in their business activities. This is due to the fact that the quest for effective management strategy is prima for any business to do well because companies seek for means that will ensure regular cash flow that will enable them to purchase all the equipment's and machineries needed for effective operation [2]. Over the years, chartering has been an alternative means of funding some facilities such as: equipment, plant and business vehicles that are needed by organization because they always articulate means of minimizing operations costs particularly when it has to do with purchase of assets [2]. Chartering is one of the means of funding some tools that are very expensive and some assets that are finance through finance lease requires straight-up purchase if the firm that is seeking for such assets enter into the contract through funding charter which will give the entity concern, the opportunity to purchase the asset or equipment after the terms of the contract. Since it is a funding decision, corporate managers need to examine their decision critically before implementing the decision of charter funding or debt [25].

Chartering is another means of funding certain costly machineries required by establishments; hence it is referred to as asset-based funding [8]. This is because chartering decision is center on the ease of securing the needed asset or equipment on time and the cash flow that the asset will generate [7]. This obviously showed that in a leasing contract, there is a separation between asset owners (the receiving guest) from the economic use. Possession of the asset/equipment through charter contract may or may not pass to the paying guest at the expiration of the charter term. But the main duty of the receiving guest is to funding the purchase of the equipment needed by the paying guest after the selection of the equipment by the user of asset by determining it performance and the suitability to their business activities [30]. Chartering accounting deals with the appropriate criteria for the recognition and the measurement of charter assets with consideration to the paying guest and the receiving guest. This is because the distinction between funding charter and operative charter must be clearly stated and the accounting treatment must be applied appropriately throughout the accounting period. Since 1950 charter has been on and prior to this period it was mainly linked with real estate such as land and building, this assist firms to let all kinds of assets to other businesses whose does not have the capacity of owing such asset in carry out their operations effectively [15]. In this era, firms can charter assets such as machines, computers, photocopy machines, printers, trucks, vehicles, aircrafts, slips and even vessel.

Business organizations operations are organized in such a way that it will generate enough cash flows to meet their obligations by expanding existing business, acquisition of new assets, replacement of assets, payment of salaries and maintenance of existing facilities- the need for adequate financing is imperative to meet their obligations [15].

Corporate managers are confronted with various challenges daily as they strive to maximize shareholders wealth, as such; the decision to either use funding charter or operative charter to obtain the assets that are needed is a decision that entails proper planning taken into consideration stream of income that the asset/equipment will generate within the period [2]. Financial performance is a vital element that is widely used to evaluate organizations because it clearly showed how managers were able to utilize the resources entrusted in their hands by the owners through increase in income, profits, and increase in the wealth of shareholders through increase in total values of the firm [4]. Financial performance measure like profit after tax and interest is crucial to all stock holders because it enhance both existing and prospective investors to make sound decision concerning their wealth. As such, it is one of the prima variables that are widely used to access the performance of an organization irrespective of the location or size [2]. The financial ratios that are used by both analysts and investors to measure the performance of firms are grouped into three ways, which help to offer an assessment of the entirety of the financial position of any firm [11]. The various accounting ratios used to measure performance are used based on the requirement of the user because there are ratios that is used to determine the structural change in an organization, ratios that are used to measure profitability of a company, and ratios that are used to evaluate companies from market position within the business environment that they operate. Financial performance for decades has always been measured by researchers using various ratios but the most widely used ratio is profitability [29]. Considering the complexity of the business environment and most times the inability of firms to purchase the asset/equipment needed to facilitate their operations effectively. Corporate managers need to be very scrupulous by ensuring judicious use of their lease asset/equipment in order to take care of the lease fees and at the same time boost their profitability. In Nigeria, chartering is one of the major means by which some financial institutions obtained some of the assets and equipment that are needed for effective operations. Despite financial institutions like: Guarantee Currency Stores, discount houses, insurance firms are mostly engaged in chartering, other companies and even government are investing heavily in this sector of the economic. From available records, the equipment leasing association of Nigeria was established in June, 1983 with just six registered members but at present there are more than 350 established firms that carry out the business of chartering in Nigeria. However, despite the fact that there is proliferation in the number of leasing companies, business organizations still encounter some difficulties. This work critically examines four means of funding such as: funding charter, operative charter, equity and long-term debt to see the degree of correlation between charter funding and components of financial performance [7, 2].

1.1 Statement of the Problem

For corporate managers to make decision concerning funding activities is always very Herculean due to the fact that the economic benefits which is to enhance financial performance is the same irrespective of the type used, but there are various costs implications depending on the one that a firm intend to use because all the sources ranging from funding charter, operative charter, equity funding and debt funding comes with various commercial implications but the ultimate goal of any source is to enhance the wealth of shareholders. The rationale for chartering is based on the fact that chartering offers modified means of funding assets/equipment with potentially unique cash flows and tax features. Funding of some essential assets/equipment is one of the major challenges that firms in Nigeria are facing and because of stringent requirements of chartering firms, corporate organizations finds it hard to generate enough funds to maintain the terms of condition in the lease contract which at times result to litigation between the receiving guest and the paying guest and also, the high interest rates on loans, collateral requirements and lack access to secure long-term funds are some of the constraints encountered by managers which has in turn hindered financial performance [6]. Because of these, firms are unable to obtain a better means of financing some equipment that are needed to enhance productivity and improve the flows of income. The end result when firms find it hard to operate is to retrench the workers or to go into Moribund.

The high stringent requirements by leasing firms are also affecting firms either through the inability to ensure regular payment of the rental income to the receiving guest/user of asset. This problem has caused many firms to close down their operations permanently or temporary because of litigations arising between the receiving guest and the paying guest due to inability for the paying guests to meet up the charter terms. However, funding assets or equipment through charter agreement has been in practice for years, because despite the challenges associated with charter funding decision, it is one of the easiest means of funding any business activities and it has been very helpful especially to existing financial institutions in distress or new ones that find it hard to secure loans to acquired their assets or equipment. Therefore, the researchers find it pertinent to evaluate the relationship between charter funding and firm’s return on asset and provide answers that will help address the challenges of charter funding.

2. Theoretical Frameworks and Conceptual Review

2.1 Pecking Order Theory

The main thrust here is the review of the relevant theories propounded by scholars that provide an insight on the theories that underpinned the study. However, the main theory this work is anchored on is the theory propounded by Myers and Majluf [27] which holds that when there is information asymmetry firms adopt a pecking order approach in arranging their capital structure. This theory was put forward by Myers and Majluf [27] opined that when there is information irregularity companies will adopt a pecking order approach to funding any project that they intend to embark on. This is as a result of the asymmetry information available to business managers relative to external parties or outsiders, corporate managers will consider it optional to maintain reserve borrowing level and disdain external equity market. These obviously show that firms preferred retained earnings when considering the means to funding a project before debt funding and the consideration to use new stock offering will be the last option. And in the selection of the source to funding an asset using the array of sources available, the best sources that will generate enough cash flows are considered first [10].

The pecking order theory is one theory that is widely used and as such, the implication is that for capital formation consideration, each individual capital structure will show historical profitability and growth not the predetermined optimal mix of equity and debt. Baskin [5] and Toy, Arthur, Lee, Richard and Theo [35] stated that there is strong relationship among debt ratios and growth and negatively related to the availability of internally generated revenue/profitability. The lacuna created by previous literatures which omit the impact of chartering on return on asset and development on chartering from the models resulted to potentially serious misspecification issues and causes significant tests questionable. However, the theory holds that chartering is assumed to be absolutely correlated to profitability/return on asset over some period and absolutely correlated to asset growth. But from available studies, there is no certain models of the determinate of charter used, some scholars contend that tax bracket of chartering constitutes significant influence to charter used by firms [35]. This is due to the fact that chartering give organizations with zero or low marginal tax rates to transfer unusable tax shields to tax paying charter owner in exchange for lower or small payments for the charter assets or equipment.

2.2 Literature Review

Charter funding is one of the measures corporate entities use as a sources of funding to execute medium and long-term projects. This can be secured when the owner of the assets (the charter owner) gives the firm/the individual that want to use the asset (the charter user) the right to use the assets based on terms of agreement between the parties. The periodical payments that the charter owner is entitle to for given out the assets is known as “charter rental” and the charter owner duty is to provide reserve for the acquisition of the equipment [30]. Charter funding has remained a major source of funding for a very long time and entrepreneurs considered it more convenient. But the level of patronage using this source is still quite low in Nigeria when compare to other countries like: South Africa, Ghana, Uganda, Tanzania etc. [28]. Lackerath-Rovers [18] considered chartering as a cheaper means of funding a project because firms can choose either using funding charter or operative charter. In traditional corporate funding, the choice of purchasing and chartering equipment is mostly debated in the framework of the Modigliani ad Miller theory of world of frictionless or perfect capital market, a situation they considered that the capital structure is irrelevant to determining firm’s value. But in real market operations there exist market imperfection that hindered firm’s capital structure [1, 3]. Chartering is mostly preferred as the best alternative mechanism to facilitate access to funding some equipment because its enable companies to have access to some preferred equipment’s and even for young enterprises that lack credit facilities to start operation with ease. This is based on some empirical evidence that showed that charter funding is related with moderately low risk exposure against other form of funding [31, 9]. Chartering contributes higher to the return on asset of firms because it is easier to access because the presence of physical collaterals contributes adversely towards handling some production challenges that need immediate attention to avoid break down in production [31].

Goodacre [14] in his study found a favorable and substantial relation between operative charter and the return on asset of firms. This assertion was drawn from the research work he carried out on the potential impact of lease accounting reform in oxford. Thomson [34] also stated that there is significant evidence that there is a robust correlation between chartering and firm size. This was based on the study he carried out using UK and US firms. UK outcome suggests that companies that are operational at both extremes of size range adopt less chartering against companies of medium size. But the study observed constructive correlation between liquidity and funding charter for some of the US companies that were used as sample. The study further exerted no correlation between liquidity and funding charter of the UK sample companies. It was also observed that in the US, companies with high tax position or with considerable cash flows seem to use less operative charter. Funding charters to a large extent stimulus the sales turn-over because companies that use funding charter in the UK reported a larger turnover in relations of sales and show increase in gearing ratios and market to book ratios. This is due to the fact that chartering was discovered to have impacted on growth levels measured by increase to other tangible fixed assets. In some bigger companies, financial gearing, taxation and profitability were discovered to be positively related with leasing, while in small firms the decision to charter is motivated by profitability or taxations reasons, but rather growth prospects [19]. Evidences have shown that chartering is very important for all companies despite the kind of goods or services firms are into. In the study carried out by Gavazza [13], it was shown that charter funding contributed immensely to the liquidity positioning of firms that engage in the operation of aircraft in Europe. Since companies that are into aircraft business in Europe find it challenging to raise funds needed to commence operation, they used both operating and funding charter to obtain the needed assets for prospered operation. Gate [12] contravened the above view and stressed that there is no positive relationship between charter funding and the performance of Airline industry in Florida. Vasantha [36] also carried out study on capital market frictions, chartering and investment. The researcher revealed that companies with enough information chartered more and then those with less information or low agency costs chartered less. The study further showed that companies with significant tax-loss carry forwards were not able to take full opportunity of tax benefits of asset ownership which always result to leasing more. The relationship between chartering and profitability/return on asset of firms irrespective of the sector the firms are operating need to be taken into consideration with adequate care because it is a variable that contribute to economic development in a long run and short run [26]. Also, Tarus [33] contended that many companies used charter funding due to the fact that it helps in the conservation of cash flows and also helps firms against obsolescence.

Charter funding is also very helpful in the agricultural sector because evidence have shown that there is significant relationship between charter funding and firms that are into agricultural business. Eighty responses were randomly selected within the study area and it was found that chartering farmland enhance returns to the farmers who later moved from pastoralism to doing business with their crops. The most importance economic benefit of chartering can be derived from the point of choice because firms have the opportunity to decide either to use funding charter or operative charter which is quite different from borrowing and acquisition when firms find it hard to provide collateral to borrow the funds needed for the acquisition of the assets and even the tax differential effect also make charter more preferable for companies in distress that need some assets urgently [23]. Batra, Kaufmann and Stone [6] stated that some firms operating in African used charter funding because of the inadequacy often experience by them to access long term funds such as high interest rates in acquiring fund and stringent requirements for collateral as big constraints for companies that are operating in Africa. Also, Mehran and Taggart [21] opined that chartering is part of financing contract that enable firms to choose a funding alternative that will mitigate risk and increase return on investment. In pecking order theory of capital structure, leasing is considered the first means of external financing and as such, there is need to evaluate its impact on the performance of firms [20, 17]. Kelly, Khayum and Price [16] stated that charter funding play significance role in enhancing the performance of community banks because community banks that use charter funding increase in return on asset and total assets and better operations of modern investment system.

2.3 Review of Empirical Studies

They have been several studies on the effect of charter funding on the return on asset of companies in different sectors in both developed and developing countries, it is pertinent to summarize some of these studies by various scholars. Lackerath- Rovers [18] studied operative charter of 251 companies that were listed on the Dutch security market using ordinary regression and explanatory variables like size, performance, leverage, growth asset structure, investments opportunity, tax ownership structure. It was found that corporate leasing is a function of management, size, leverage and performance showing that good companies we lease less because they can have access to other cheaper funds to finance capital assets which have the tendency of influencing ownership structure of a firm. In his study, Meziane [22] used time series and 16 cross-sectional observations of companies listed on UK stock exchange from 1989-2002 to examine financial drivers and impact of chartering on real estate's assets of companies. The result showed companies that own real estate are likely to be mature by value companies, while that of own real estate tend to be growth in stage. Samila [30] adopted regression method to study the effect of funding charter on the Profitability of Conglomerate firms that were quoted on the Nigeria stock market between the periods of 2005-2006. The result revealed that funding charter is substantial and positively related to the performance of conglomerate firms. To further buttress this fact, the study of Siam and Quatishat [32] on the impact of funding chartering on the profitability of charter firms in Jordan revealed that effect of chartering on the performance of the charter firms was positive. This is because chartering was found to increasing profitability, cash and reduce risks factor of considering other sources of finance available to the study firms. Hence, average Jordan firms prefer to use charter funding given its several accruing benefit. Considering the fact that some of these studies were conducted in countries with different economic conditions in terms of government policies and differences in local accounting standards and industry peculiarity with few studies in Nigeria where companies in the oil and gas sector, agriculture sector, manufacturing and conglomerate were used. This work used Guarantee Currency Stores to examine the impact of charter funding on four components of performance measures of selected guarantee currency stores in Nigeria.

3. Materials and Methods

3.1 Research Design, Population and Sample Size

In this study, the ex-post facto research design along with descriptive method was employed. This is because the independent and dependent variables exist and cannot be manipulated. The study made used of seven (7) out of fifteen (15) Guarantee Currency Stores that are continuously listed on the Nigerian Stock Exchange from the period of 2008-2019. Data for the study was obtained from the financial statement of the seven Guarantee Currency Stores selected for the study on the basis of their capital base.

3.2 Model Specification

From pecking order theory perspective, when there is information asymmetry firms arranged their capital configuration so as to maximize shareholder's wealth. In such situation only the best method of funding capital assets will be selected because the choice of any method of funding has a direct correlation with the performance of the company measured by the return on asset or any other accounting variables. The pecking order theory takes into consideration the various types of funding that made-up the capital configuration of any firm like: charter funding, debt and equity because of their impact on the return on asset of firms [24, 27].

The Ordinary Least Square of the equation is stated thus;

$$ROA = f\,(FC, OC, EQ, DT) \text{ -------------------------------- } (1)$$

$$ROA = b_o + b_1\,FC + b_2 OC + b_3\,EQ + b_4\,DT + e \text{----------- } (2)$$

ROA = Return on Asset
FC = Funding charter
OC= Operative charter
EQ = Equity
DT = Debt
$b_1 + b_2$ and $+b_3 + b_4 =$ Unknown coefficient to be estimated,
b = constant term,
e = error term.

4. Results and Discussion of Findings

Table 4.1: Regression result of pooled financial data of 7 Guarantee Currency Stores on ROA, Funding and Operative Charters Equity & Debt Funding

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.167966	2.982107	2.403658	0.1381
FC	1.67E-09	7.01E-10	2.378281	0.1405
OC	-6.01E-09	3.25E-09	-1.852081	0.2052
EQUITY	4.17E-12	2.67E-12	1.561950	0.2587
DEBT	-8.52E-11	3.14E-11	-2.710603	0.1134

R-squared	0.837040	Mean dependent variance	2.116156
Adjusted R-squared	0.711119	S.D. dependent variance	1.148559
S.E. of regression	0.803073	Akaike info criterion	2.575065
Sum squared residual	1.289851	Schwarz criterion	2.536430
Log likelihood	-4.012729	Hannan-Quinn criterion.	2.097536
F-statistic	20.56832	Durbin-Watson stat	3.356496
Prob(F-statistic)	0.009365		

Source: Researchers' computation.

Based on the pooled financial data of the seven Guarantee Currency Stores, that were collected and analyzed in order to validate the results using the various statistical indicators to measure the level of correlation and significant relationship as shown in the table 4.1 above. The adjusted R^2 which is more considered as the best indicator to test the degree of correlation in multiple regression analysis showed the existence of high level of relationship between funding charter and guarantee currency stores return on asset. This was clear indication that the four variables (funding charter, operative charter, equity and debt) of the seven guarantee currency stores that were sampled for the analysis showed positive relationship between the explanatory and dependent variables. The t-statistics of: funding charter and debt funding showed that there is a significant relationship between the explanatory variables (Funding charter and Debt funding) and the dependent variables (ROA) used in this study, while the reverse was the results operative charter and equity funding (independent variables) and ROA (dependent variable). The F-statistic further reinforced the result of the t-statistic because it showed that the entire model could be effectively used to explain the rate variability at 5 per cent level of significance. From the results of the study, it was further observed that funding charter and debt funding all indicated positive correlation with ROA. Also, the t-statistics that were used to test for the significance of the estimated coefficient of individual independent variables showed that funding charter and debt funding have significant effect in enhancing the return on asset of business entities in the commercial sector and also the f-statistic result further affirmed that the variables are the main determinants of business entities funding alternatives.

The findings from this study were in conformity with findings of the study that was carried out by Hassan [15] which examined the effect of funding charter on the return on asset of guarantee currency stores that are quoted on the Nigerian Stock Exchange between the periods of 2006-2007. The empirical result of the study showed the existence of significant relationship between funding charter and the return on asset of commercial sector in Nigeria. The findings of this study is also in line with the findings of Siam and Quatishat [32] whose result showed positive effect on the study firms as a result of constant increase in cash flow, profitability/return on asset as well as mitigates the level of risk in funding through chartering. Finally, the study also affirmed the result of Goodacre [14] that chartering represents a major source of funding for firms as a whole especially firms in the retail sector.

5. Conclusion

The main purpose of this study was to examine the effect of charter funding on commercial return on asset of guarantee currency stores in Nigeria. To achieve the purpose of this study, four research objectives were set and four research questions were constructed to guide the researchers during the investigation. The four questions that aided the researchers to carry out proper investigation were accordingly converted into null and alternative hypotheses and tested with appropriate statistical techniques. The research design employed in this study was ex-post facto research design. The population of the study comprised of 15 cited guarantee currency stores on the Nigerian Stock Exchange. The sample size utilized was seven Guarantee Currency Stores and the data collected for the study were analyzed using ordinary least square technique and regression method.

The R^2 and the adjusted R^2 where highly positive and it is a clear indication that when appropriate funding preferences are selected such as: funding charter and debt funding this will increase return on asset. The t-statistic of the funding charter and debt funding revealed that these two means of funding an asset are more adequate. The debt funding t-statistic entered the model with positive sign and was significant. But the F-statistic of the overall result which was used to test the significant of the explanatory variables on the dependent variable revealed that the two variables out of four variables were significant. It is crystal clear that charter funding has a major effect on the profitability/return on asset of guarantee currency stores in Nigeria because the variables used have shown that there is positive correlation and significant relationship In the course of this research, many works were consulted both local and international works and most of the works indicated that there is positive correlation and significant relationship. Therefore, based on the variables used in this study, evidences have shown that funding charter and debt funding are major sources of funding for Guarantee Currency Stores.

6. Recommendation

Based on evidence shown in the findings and conclusion drawn in the study, it means that guarantee currency stores should take appropriate measures in considering these sources of funding as a critical component to improving profitability/return on asset. Though, acquisition of such machineries require management at all level to make reasonable contribution so as ensure that decision arising thereafter is not misleading especially in the selection process because having the right facilities increase return on asset. With regard to the research findings, it recommended that Guarantee Currency Stores should consider and carefully evaluate funding charter alternative in the formation of its capital structure as this increases return than other sources of capital. More so, Machineries Charter Union of Nigeria should carry out more awareness on the significance of charter funding and/ or chartering to encourage those Guarantee Currency Stores seeking for funds to use chartering either funding charter or operative charter taking into reflection the benefits of the two methods in terms of improved corporate return on asset.

6.1 Future Scope

The study should be extended other organizations or sectors in the economy that considered chartering funding as option to other sources of funding. Again, primary data should be obtained to test the perception of individual operators on chartering as a mean of funding.

Conflict of Interest

Nil.

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About the Authors

Associate Professor **A. I. Asuquo** holds B.Sc., M.Sc., and PhD degrees in Accounting. And has many professional certificates: ACA, FCCA and FIIA. He is a member, European Centre for Research Training and Development, UK; Member, International Research and Development Institute, Nigeria. Currently, he is the Chairman, Faculty Seminar and Research Committee. Associate Professor Asuquo has attended many local and international conferences and had presented academic papers in all these conferences. He has developed an award-winning model called Standard Magnitude Variance/Progress index, which is used in determining the financial progress of any business organization since 2006.

Professor **J. O. Udoayang** holds B.Sc., M.Sc., MBA and PhD degrees in Accounting. And has professional certificates: FCNA, FCCA and FIIA. He is a member of many professional bodies in home and abroad; and a committed community development leader. Professor Udoayang has attended many local and international conferences and had presented cutting edge research papers in all these conferences.

Mr. **E. F. Enya** holds B.Sc., M.Sc. Degrees in Accounting and he is currently a PhD student in Accounting. He is presently a lecturer in the Department of Accounting, Faculty of Management Sciences, University of Calabar, Nigeria. He has published researched articles many local and international journals.

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