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The Impact of Leasing Decisions on the Financial Performance of Industrial Companies

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Introduction- a) Preamble: The contractual agreement represents the lease between the two Parties, the lessee and the lessor, and gives the contract to the lessee the right to use certain assets for a specific time period owned by the lessor in return for periodic payments paid by the tenant for the owner. the use of leases have largely spread because of the advantages offered by the leases as an alternative to owning originally included leases many magazines including ships, aircraft , land , and buildings..

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THEIMPACTOFLEASINGDECISIONSONTHEFINANCIALPERFORMANCEOFINDUSTRIALCOMPANIES

Strictly as per the compliance and regulations of:

The Impact of Leasing Decisions on the Financial Performance of Industrial Companies

(Analytical Study of Industrial Companies Listed on the Amman Stock Exchange Stock Exchange in the Period from 2002 to 2011)

Marwan Mohammad Abu Orabi

I. Introduction

a) Preamble

The contractual agreement represents the lease between the two Parties, the lessee and the lessor, and gives the contract to the lessee the right to use certain assets for a specific time period owned by the lessor in return for periodic payments paid by the tenant for the owner. the use of leases have largely spread because of the advantages offered by the leases as an alternative to owning originally included leases many magazines including ships, aircraft , land , and buildings.

The leasing historically runs from the date of the Pharaohs and in Iraq, thousands of years ago people were working in the lease, such as rental of agricultural land and agricultural equipment. Leasing was well known in Islamic economics. In fact leasing exists in Islamic economics and is named Ijara; Ijara leads to acquisition. Leasing currently is based on Western experience, as with regard to leasing in the modern era, after the industrial revolution and after the Second World War, there was a need for the use of industrial machinery and equipment to keep pace with developments in those countries were not allowed at the time to own land were established leasing companies to help secure the land as well to finance industrial machinery and equipment, which was to keep pace with the industrial revolution. Aftermath World War II, leasing companies were specifically established in U.S.A. and Europe, where banks were not permitted to that do this job, and at the time when banks noticed that the leasing companies are working well and contribute to the growth of the economies of their countries, the banks asked to be allowed to exercise the lease and were allowed to do so. The banks at the moment were the biggest beneficiaries of the system of leasing. In this study, the researcher will analyze the data of industrial sector companies in Jordan for a number of years in an attempt to see the impact the leasing decisions on the performance of these companies.

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II. Reasearch Components

a) The research problem

The political changes at the end of the eighties of the twentieth century have led to unprecedented economic transformations represented by moving trend towards market economy, and the adoption of the privatization policy which gave the private sector the largest relative weight in the economic activity , and entailed the search for methods of financing new and more flexibility to suit the conditions of the market economy to finance large capital equipment in the infrastructure sectors, and the implementation of programs of structural reforms to replace the declining traditional funding sources .

The research problem lies in the absence of the use of non-traditional methods of financing, such as leasing, which can be used by the Jordanian industrial companies, as industrial companies need to finance some of their projects due to lack of financial liquidity for these establishment, which helps to them improve their financial performance.

Despite the importance of lease in the work of industrial companies, but most companies do not rely on leasing in their operations, so the problem of this research is set to answer the following questions:

1. Does leasing enhance the financial performance of the Jordanian industrial companies?
2. Does Leasing intend to achieve profits for Jordan's industrial companies?
3. Does leasing affect the risks of Jordan's industrial companies?
4. Does leasing have an effect on the liquidity of the Jordanian industrial companies?
5. What are the factors and variables affecting the leasing decision of Jordan's industrial companies?

b) The importance of the research

The investment funding is the cornerstone of infrastructure projects in general and industrial companies in particular, and because of the high capital costs as well as the continued need for working capital in the operational phases of the maintenance, replacement, and renewal of the productive assets to maintain levels of productivity and to improve it if possible, and in this context the lease is one of the methods of funding that has being introduced as a significant funding method in the recent times as a suitable tool to face the global challenges related to funding sources. In addition to being a system of financing designed to attract savings necessary new capital market, it also achieves a lot of advantages through the modernization of equipment and selection of advanced technology necessary to raise production efficiency and increase competitiveness.

The leasing is the perfect solution in many circumstances where there are no sources of funding necessary or rising costs as the cost of other funding sources, and the importance of research is also came through the international attention through the issuance of several accounting standards, which describes the accounting treatment for leases and how it is disclosed, such as the International Accounting Standards (IAS 17) and the American Accounting Standards (FASB13) The Canadian Accounting Standards (section 23065).

c) Research objectives

This research aims to assess the effect of leasing decisions on the financial performance of industrial companies listed on the Amman Stock Exchange for Securities through the following objectives:

1. Identify the impact of leasing on the financial performance of industrial companies in Jordan.
2. Identify the impact of leasing on the profits of industrial companies in Jordan.
3. Identify the impact of financial leasing on the financial risk in the Jordanian industrial companies.
4. Identify the impact of leasing on the liquidity in the Jordanian industrial companies.

d) Research hypotheses

After reviewing the research problem and in order to achieve the goals of research, researcher will test the following hypotheses:

i. *The main hypothesis*

leasing decisions have significant effects on the financial performance of the Jordanian industrial companies.

The ramifications for this hypothesis is the following null-hypotheses:

$H0_1$: There is no statistically significant effect of leasing decisions on the profitability of the Jordanian industrial companies.

$H0_2$: There is no statistically significant effect of leasing decisions on the liquidity of the Jordanian industrial companies.

$H0_3$: There is no statistically significant effect of leasing decisions on the degree of risk in the Jordanian industrial companies.

$H0_4$: There is no statistically significant effect of the decisions of leasing on financial performance of the Jordanian industrial companies.

e) Methodology

This research consists of two aspects: theoretical and practical sides:

1. The theoretical side will depend on the researcher's descriptive approach, content analysis, and comparative studies, as has been described in the scientific literature of Arab and foreign periodicals pertaining the literature of this research in order to cover the key topics for the research variables.
2. The practical side consists of the research community, which includes all Jordanian public shareholding companies within the industrial sector listed at Amman Stock Exchange (ASE) during the period (2001 - 2011), in order to ensure measurement research variables, researcher will exclude companies that meet any of the following conditions:

A. Non- trading the company shares during the study period, or part of it for more than 6 months.
B. the companies that were registered at ASE after 2011.
C. the companies that have been merged during the study period.
D. companies that have been suspended from trading its shares during the study period , or part of it.
E. companies that do not have enough information regarding the search variables.
F. companies that split their shares during the study period.

Research will be based on the annual reports and final accounts and the guide of Jordanian public shareholding companies for the research sample. Collected data of the study shall be compiled and be subjected to the appropriate statistical analysis and testing programs.

f) Research Statistical Design and Data Analysis Methods

This study is based on studying of the time series with several variables and using special methods of analysis such as time series aided by Parametric Test and Non Parametric Tests, after making sure that the data collected follows the normal distribution track or not by using Colomgrov Smirnov test (KS. test) Klomorov - Smirnov Fit Test. As has been used in previous studies, the measures of central tendency and dispersion were often used to measure the stability financial ratios. However, researcher will depend on these standards also to test the present research variables.

III. Research Structure

In order to achieve the objectives of the research and testing of hypotheses; this research has been divided into the following chapters:

Chapter I: Leasing

The first topic:

The second topic:

Chapter II: Financial Performance

The first topic:

The second topic:

Chapter III: Applied Study

The first topic: definition Amman Stock Market and industrial companies listed in it

The second topic: data analysis and hypothesis testing.

IV. Previous Studies

a) Study: Wael Qirtam year (1991)

The research problem was in trying to figure out the impact of the decision of purchasing capital assets as well as the impact of rental capital assets on the degree of financial risk in order to compare between them and then to choose the suitable alternative.

This study aimed to develop a balanced approach in making a purchase or lease, so that it is applicable in practice so as the facility, under certain conditions, will reach to a suitable alternative in each situation individually, as well as to measure the impact of this decision on the degree of financial risk faced by the facility.

The study also aimed to identify the extent of the difference between the theoretical models and the actual practice of the process of making a purchase or lease.

A number of hypotheses have emerged from this study, perhaps the most important are:

- There is no effect on the degree of financial risk between the original decision to buy the asset rather than to lease pertaining the transport sector.
- There is no effect of cash flows between the decision to buy the assets rather than leasing them.

The study found the following results:

The transport sector encloses a high degree of freedom in the choice of buying or leasing, so the decision to purchase or lease is completely a financing decision of the first class, where the company compares between the lease or purchase. There are many considerations that the company does not take into account when making a purchase and lease, such as the nature of the cash inflows and outflows for the decision, where the company assumes that all cash flows concerning the purchase or lease are the same.

The process of evaluating the financial implications of the purchase or leasing policy suffers from serious shortcomings in terms of being based mainly on some financial indicators that may be misleading in some cases, such as the ratio of trading and that cannot be relied upon because they are based on historical cost.

b) Study: Muayad Al Fadhl, (1991).

The problem of the study was to find out the extent of the use of lease financing to raise the rate of return on investment as well as the importance of using the present value of the unity of cash instead of the nominal value.

This study aimed to develop a set of proposals and recommendations from the reality of the application in the Arab region about the role leases assets in the financing of investment projects as well as to draw the attention of the departments of economic establishments in the Arab countries , especially those that suffer from a shortage of capital in hard currency , to the importance of using such contracts in their financing of projects and get what they need from fixed assets necessary to start or continue to exercise their economic activity.

This study was purely theoretical the researcher followed the descriptive approach in addition to the use of postulated digital data to illustrate the impact of the default entry of such contracts in the profitability of both the lessor and lessee alike.

The most important findings of this study are:

1. use of lease contracts and the financial ones in particular, will raise the rate of return of investment and equity for both the lessor and the lessee and that is due to emerging leverage.
2. the accounting measurement function for leases uses the present value of cash instead of its nominal value .
3. Adoption of the economic life of the asset, for purposes of determining premium of annual depreciation, if the contract refers to the transfer of ownership at the end of the contract period to the tenant or enclosing a preferential price, but if terms of the contract do not confirm the transfer of ownership of the asset to the lessee it includes a preferential purchase price. Depreciation must be in accordance with the duration of the contract, and for whatever duration to be used in measuring depreciation the benefits and services are to apportioned according to the way in which the tenant if it differs from the method used by the lessor.

c) Study of Fouad Melegy year (1993)

The problem of the study lies in the possibility of the accounting measurements for financing leases on its profitability for both the lessor and the lessee in the shipbuilding industry.

This study aimed to draw attention to the role played by the leases in the field of maritime transport, which contribute to the financing of investment projects in order to intensify efforts to reach out to suggestions and recommendations that can be guided by them in the field of maritime transport industry in the Arab world and especially for a country that suffers from a lack of capital in foreign currencies.

The researcher in this study has followed the descriptive analytical style and the field study (Applied), where this study was conducted in the field of Maritime Transport.

The results of this study showed that long-term leases have a positive impact in increasing the rate of return on the lease and equity of both tenants and landlords, this is in light of the availability of financial, administrative and regulatory potential for each of them , and in addition it is to take into account the time value of money , as the investment in the shipping industry is characterized by a length of time and its impact cannot be ignored; therefore it is much better for the tenant to lease the means of transport instead of buying them.

d) Study of Samir Ramahi year (1995)

This study deals with a problem over the application of accounting rental contracts in industrial corporations Jordan.

The goal of the researcher of this study is to clarify the aspects related to leasing contracts through clarifying the concept of leasing contracts and knowing the accounting rules laid down in order to stipulate the accounting lay outs of leasing contracts , as well as highlighting the importance of leasing contracts and their accountability in helping the Jordanian industrial public shareholding companies to achieve their missions and to qualify the nature of the contracts used in these companies.

The study also aimed to identify the financing alternatives available to the director and how to compare between these alternatives upon taking a funding decision. This study was conducted on a sample of 46 industrial companies, the study concluded that there was no use of the leasing contracts in the Jordanian industrial corporations and this is due to the lack of awareness among the decision makers to the advantages of rental contracts.

e) Study of Saeed Lebda year (1995)

The problem presented in this study is to see the manifestations of non-completion of the Egyptian capital market and the presence of the catalyst on leasing. This study aimed to test and study the effect of the attributes on the Egypt ion market is full of motivation for Leasing, especially as the theoretical justifications for resorting to leasing, which reflect the presence of the manifestations of the imperfection of the Egyption capital market which are:

- Rapid technological development.
- High rate of interest on loans and credit facilities.
- Exposure to changes in industry prices.
- Non-availability of sufficient cash flow to buy the asset.
- Depreciation of assets in a short time.
- Take advantage of tax benefits.
- Blaming some of the project risk to the lessor.
- Inability to increase the capital of the project.

The most important outcomes of this study include:

1. The companies facing high costs for regular loans have more incentive to use the leasing in accordance with the standard value of the organization.
2. The small-sized companies considered to be more motivated to use financial leasing as compared with the large-sized ones in accordance with the standard value of the company.

f) Study of Ammar Shaheen year (1997)

The problem presented in this study is to find out the extent of reliance on the lease as a way of funding the construction sector in Jordan.

Objective of this study was to highlight the advantages of capital leasing and clarify its concept properly, and the definition of lease as a method of financing fixed assets ,elaborating its types and characteristics ,the development of the foundations to take the right decision in financing through leasing in Jordan through leasing and by comparing it with other funding alternatives , and to identify the reasons why the decision-makers in the construction sector in Jordan do accept (or reluctant) to use leasing as a method of financing.

The researcher followed in this study the descriptive analytical method by distributing the questionnaire to each of lessee companies represented by construction companies of buildings, roads and leasing organizations represented by commercial banks and machinery leasing companies.

The most important findings of this study were:

- The decision-makers in the construction companies in Jordan incline in application of the leasing system in their companies.
- Leasing helps companies to update their leased assets with ease they wish to do so , which will enable them to keep pace with the latest technological developments to always lease the latest edition which will lower operating costs due to the update.
- The Jordanian laws and regulations related to the classification of contractors constitute a real obstacle to the application of the leasing system and they need to do some modifications in these laws to enable them make advantage of borrowing via the leasing system.
- The study has shown from the viewpoint of banks and leasing companies that lease mechanisms lacks some aspects regarding the collaterals provided by the lessor companies compared with regular credit collaterals.

g) Study of Mrs Hiam Al Sayyed (1997)

This study was concerned the problem of the possibility of the application of lease financing practically to achieve the lowest possible cost at an acceptable degree of financial risk and the application was on Egypt Air .The objective of this study is to take a balanced decision for lease financing so that it is applicable in practice and under certain conditions so as to reach to better financing alternatives and to have an optimally financing portfolio through the least possible cost in an acceptable degree of financial risk.

The researcher in this study followed the descriptive analytical approach by conducting financial analysis and statistical data of Egypt Air in order to Identify the impact of the company decisions on the determinants of financial value of the organization.

The most important findings of this study were:

- There is significant inverse relationship between the degree of significant business risk into practice facility and the decision to lease financing.
- There is significant inverse relationship between the degree of risk a moral entity's financial position between the application and the decision to lease financing.

It is found during this study that the researcher presented a general idea of the factors affecting the decision to lease financing, in addition to the statement of the importance of financial leasing as a modern financing method.

h) Study of Mohammed Jalal Al Sayyed (1998)

The problem concerned in this study is the possibility of rationalizing the accounting treatments for Leasing for both the lessor and the lessee in the light of the different accounting standards and disclosures.

The aim of this study was to examine the types and patterns of different leasing operations, with a focus on financing, and the rationalization of accounting treatments for the leasing operations of both the lessor and the lessee, in the light of the rules and accounting standards of various international , American , Canadian and Egyptian systems, and the importance of and how to disclose in this regard, in addition to evaluating law No. 95 of 1995 regarding the leasing and to clarify the accounting requirements necessary for the application, and the adoption of controls substantive tax exemptions.

The most important findings of this study were:

- The modern economic units need leasing as a way to acquire assets of high-tech and high cost and to overcome the difficulties that might accompany the traditional sources of financing.
- There are multi advantages of leasing for lessors, lessee and the national economy which sustains the state's efforts in the areas of economic and social development.
- The accounting treatments for financial leasing operations and disclosure of rationalization are of deem necessity in order to achieve an integrated treatment of both the lessors and the lesseesin the light of the rules and different accounting standards.

i) Study of Mahmoud Subuh (1999)

The problem treated via this study was to know the views of academics and accountants in the practical issues of leasing and whether there were agreements or disagreements between the theorists, academics and practitioners regarding the use of leasing as a financing tool.

The aim of this study was to know the views of academic theorists in cases of the use of lease financing of assets, and to know the views of accountant's practical issues in using lease financing of assets, in addition to clarify whether there is agreement or disagreement between the theorists, academics and practitioners pertaining the issues of using asset lease financing.

In this study, the researcher used the descriptive analytical method by distributing a questionnaire to a sample of 100 companies used lease financing.

The most important findings of this study were:

- A small proportion of assets were acquired through financial leasing operations.
- 62% of practitioners consider debt and lease as financing alternatives, while 32% of them believe that are complements.
- 54% of the practitioners see that the most important practical reason to lease a financial asset is to avoid the risk of obsolescence, while 44% of them believe that the reason why the next in importance to the use of this source of funding because it offers off budgetary funding.

j) Study of Nidal Al Arbeed (2000)

The problem considered in this study was to find out the extent of the leasing application of Syrian commercial banks as a way of investment on the one hand and as a way of funding method for companies.

The main objective of this study was to study the new method of attracting and investing of funds in Syrian commercial banks which is leasing, and to shed light on the accounting problems associated with this type of contracts through the presentation and analysis of the accounting study that was issued by the (FASB) No. / 13 / and the possibility of taking advantage of them to make a proposal of the accounting treatment related to this activity to the Syrian commercial banks.

The most important results of this study is to present of the importance of the leasing activity for Syrian commercial banks, also the study demonstrated the weakness of the policy of Syrian commercial banks to employ their money which led to an imbalance between liquidity and profitability which has led to a decline in the rates of profitability of these banks, this is decline in the rates of profitability of these banks, this is due to the lack of laws and regulations that govern the employment policies of funds.

k) *Study by Bashar Jamal Nimr (2000)*

The problem concerned in this study is the nature of the legal relationship between the parties in the process of leasing (the supplier, the lessee and the lessor)

The objective of this study is to present the importance of financial leasing contracts in supporting the national economy, and in particular to developing countries for their limited financial resources to gain access to technical development and the advancement of the industry by acquiring the necessary equipment to run projects for the production of goods, and remove them from the process of economic recession to prosperity and integration into the circle of producing countries.

The researcher pointed to the existence of two legal relationships: the first is the relationship between the supplier and the lessee, this a selling one. The second relationship is between the lessee and the lessor, and it is a leasing relationship, and the researcher concluded that these two relationships are integrated to form a leasing contract.

The most important results of this study were:

- The leasing contracts are the most important financial contracts, which play an important roles and essential to the national economy, especially in developing countries.
- The leasing contract is made up of three parties which are: the lessor who is buying the assets, and the supplier who sells the assets, and the lessee who rents these assets.
- The leasing contract is distinguished from other financial contracts as it is composed of three contracts: the sale, the agency and the lease.

l) *Study by Mohammed Khalifa (2001)*

The problem tackled by this study is how the tax for long-term contracts have been treated in accordance with international accounting standards , as well as to study the validity of the general sales tax on leases in accordance with the concept of incoming international standards.

The most important findings of this study is that the leases in accordance with International Accounting Standard proposes is to be subjected to the general sales tax at the conclusion of the lease as long as the leased asset is an industrial commodity subjected to tax, and the lessee of the non- exempted entities are, according to the sales tax law.

m) *Study by Ali Abul Fateh Shata (2001)*

The problem treated in this study is the legality of the lease in terms of legitimacy and the legal verdict on this type of contracts.

The aim of this study was to identify the legality of contracts for purchased leases and ends in ownership along with brief analysis of the overall opinions and jurisprudence of the groups and legal opinions of jurists. Devising measurement bases and Evidence of accounting processes associated with contract administration ended with ownership which are carried out by Islamic banks, whether the bank is a lessor or lessee, in addition to the problems of accounting procedures for those contracts and the ways to address them from Islamic accounting perspective.

The researcher followed the descriptive analytical methods, by conducting an analytical study of accounting problems related to these operations:

- Many of the contemporary scholars see the ability of holding leasing contracts that end by ownership.
- The U.S. standard has more targeted attempts than others by laying the foundations for the accounting for leases financing which end with ownership. This rests upon a comprehensive theoretical integrated framework.

n) *Study by Ramzi Yousef Al-Hajji (2002)*

The problem addressed in this study is associated with the accounting of leasing contracts and the position of the auditor and what are the most important procedures for checking the validity of these contracts.

The purpose of this study indicate the variety of leasing contracts and recommendations of the financial accounting standards laid by the accounting foundations that govern the classification and evaluation of the leasing contracts. The researcher has addressed the accounting problems associated with the long-term leases and the of the auditors' view points of these contracts and the procedures used to examine these contracts. The main results are the following:

- The financial leasing activity is important and must be publicized especially after the release of the decision to allow its exercise.
- There is a need to make some adjustments in the tax and accounting systems and laws in order to fit with the nature of this new activity.
- There are specific procedures that the auditor's have to follow in reviewing financial leasing contracts.

o) *Study by Mohammed Yasin Al Subuu (2003)*

The problem addressed in this study is an attempt to explore the risks to which banks are facing in their capital assets leasing process to companies and the most important accounting practices they follow by in recording and documenting these leasing operations.

The main objective of this study to address the basic accounting practices used to record these leasing operations and the treatment of these contracts and consider them as a kind of investment, and to estimate the magnitude of risks to banks as a result of dealing in such contracts.

Study main results were:

- There is an upward trend for the use of leasing to help businesses expand and develop their activities.
- The leasing process has a significant contribution to all businesses as it enabled them to use advanced technology which cannot be bought and constantly updated.
- This study highlighted the phenomenon of the tendency of many businesses in Jordan for the use of lease financing to fund their operational expenses instead of resorting to borrowing.
- Leasing has helped to create more profitable outlets and new activities to banks where profits have become increasingly grown.

p) *Study by Sakhr Ahmad Al-Khasawneh, 2004.*

The problem addressed by this study is the importance of the leasing from the legal point of view. The researcher elaborated the importance of the leasing from the law standpoint. Jordanian legislator has developed the Law No. (16) in 2002, which contributed to solving many of the issues that govern the leasing contracts, where a special legislation has been issued which deals with risks taken by the lessee, it is the same legislation developed by international accounting standards

Study main results were:

- The leasing contract is relatively recent, and has sought by the Jordanian legislator by selecting and appointing its own terms as a kind of investment funding to promote and revive the national economy.
- The lease payment is a key element in the financial leasing contract.
- The standard leasing principle in Jordan is that risk is always taken by the lessee.
- The leasing contract is a bilateral contract in terms of the conclusion of in both the lessor and the lessee and the tripartite in terms of implementation which are: the lessor, the lessee, and supplier or contractor.
- The major Character of the leas contract is that the lessee is the only negotiating party with a supplier or contractor, he identifies his needs and agrees with the supplier on the price of the leased asset and the lessor receives the funds from the lessee upon the receipt of the acknowledgment .
- This type of contract is known and accepted by Islamic banks within the certain conditions and regulations consistent with the provisions of Islamic law.

q) *Study of Holmes, (1991)*

The problem addressed in this study is the trade-off between contracts for the purchase of capital versus its lease.

The objective of this study to point out the advantages of asset lease financing as an alternative to the purchase of a capital asset. The study also tackled the case of taking the decision of lease financing, it is often done with a discount rate equals the opportunity cost of the interest rate on loans in order to discount the cash flows associated with the alternative. The study also shows that when evaluating the decision that the asset is leased or purchased through borrowing, cash flows often appear in negative vale in the early years and therefore the optimal decision is one that reduces costs as it is often used method of net present value and internal rate of return to make a suitable alternative.

The study pointed out the advantages of leasing as compared to buying in addition to the identifying the aspects of lease financing such as the net present value and internal rate of return which are used upon analyzing the lease funding decision compared to buying .

r) *Study by Branson, (1995)*

The problem addressed in this study is to attempt to answer the question of whether leasing is complementary to borrow or an alternative.

The objective of this study was to find out whether leasing as a is an alternative funding source to borrowing or a complementary, this study was an update of a study Ang and Peterson titled The Lease Ganglion in 1984. The researcher found that the leasing is a complement to borrow but not a substitute for it also researcher noted that there is a significant trend by companies towards the use of leasing during the study period.

s) *Study by Baker (2003)*

The problem tackled by this study is how the financial manager decides on owning the asset or lease it, and was applied on the school and car plants sectors in New Zealand.

This study demonstrated the importance of leasing as a means of funding the acquisition of services asset, in addition to highlighting the role of leases in the field of road transport, which contributes to the financing of investment projects in New Zealand, where as leasing industry is so new. The study focused on how the decisions are to choose between the lease or acquisition using other funding sources. The choice is with reference to the interest rate competition and to choose the alternative that achieves the lowest interest rate possible.

This study was conducted on many businesses, schools, and all those who use the transportation business, where the researcher noted through interviews conducted with specialists in this area that there is a growing demand towards the use of leasing within the financial structure of these companies and institutions. Another study was conducted on one of the largest car factories in New Zealand, where the researcher noted that this plant has sold 80,000 cars, of which 35% - 40% of these cars were sold through leasing.

V. Literature Review

a) Leasing

i. *First: the concept of leasing and nature*

Lease is a contractual agreement between two Parties, the lesse and the lessor, this contract gives the lessee the right to use certain assets for a specific time period owned by the lessor in return for periodic payments paid by the lessee to the lessor. This kind of funding has spread largely due to the advantages offered by the leases as an alternative to owning the original assets. Leases include many assets such as: ships, aircraft, land, buildings, etc., Accounting Accord No. (17) Has been introduced as a treatment of leases for all concerned such as lessors and lesses, and the appropriate accounting disclosures for these agreements. The leasing accord covers all kinds of leases except those pertaining natural resources such as oil and mining, also it does not cover contracts relating the use of films, video tapes, manuscripts, patents, copyrights, and the like. The importance of Lease Contracts has increased in our present time because of the numerous advantages they offer to both lessor and Lessee sides. Multiple companies are specialized in dealing with this type of contract due to the growing size of its activities, after special legal legislations have been put to organizes its work and to determine the rights and responsibilities of the parties concerned.

The lease is an agreement between the lessor and lessee whereby the lessor gives the lessee the right to use certain asset owned by the lessor - during a specified period versus an amount of cash paid periodically and is called lease. The risk faced by lessors are less than the risk faced by lenders who accept to take an asset as a collateral for the granted loan.

From the perspective of banks, Lease financing is not intended or designed that the lessor will own the assets for itself. it is the process of leasing the asset to be made available for the customer to use the finance against the performance of the value of the lease to be agreed upon, and by the end of the lease period this asset may be sold in public auction, or sold to the lesse or returned to the lessor to re-lease it again.

In general, the lease contract includes the following components:

- characteristics of the asset that determines its type and state.
- Contract Duration: How long the lessee leases out the asset and this may be part of of the asset life time, or may cover all the economic valid life of the leased asset.
- The leasing value of the asset: It is a periodic payments paid by the lessee to the lessor and the nature of these payments: are they equal or decreasing or increasing installments.
- The fair value of the asset: It is the appraised value of the asset upon leasing which usually similar to the market value of the asset that the lessor determines the leasing value of the asset.
- Residual Value: represents the fair market value of the asset or the leased asset at the end of the contract period.
- Contract validity: the ability or inability of contract cancellation: it describes the terms of the contract whether to allow the termination of the lease contract before it ends, and in this case it should illustrates the value of the fine that have to be paid to the lessor.
- Responsibility for the expenses of the asset during the period of the leasing contract: the expenses related to the implementation of the contract, such as the asset maintenance expenses, taxes and insurance on the leased asset.
- The option to purchase the leased asset at a discounted price Bargain Purchase Option: this enable the lessee to buy the leased asset at a discounted price at the end of the leasing contract.
- The requirement to renew the contract if the economic life of the asset exceeds the duration of the contract.
- Any other protection conditions as agreed by the lessor and lessee.

Jordanian law No. (16) for the year 2002 has defined Leasing as "the contract under which the lessee is entitled to use the asset in exchange for the lease, paid to the lessor. The lessee has to bear any risks related to the leased asset.

ii. *Secondly, the main characteristics of the process of leasing*

The main characteristics of the process of leasing as has been identified by the Union of equipment leasing within the definition of Leasing context as "a contract between the lessor and the lessee in order to lease a specific asset from a distributer or an industrial company specialized in such assets at which the lessor retains the asset ownership. And the lessee retains the possession of the asset and use it against specific leasing payment for a certain period of time, "and these characteristics lies in the following points:

1. Selected assets that are leased from either from its supplier, from the facility that manufactures those assets, from a bank, or from a specialized company or individual.
2. The lessor retains ownership of the asset, and this asset is one of the things the concept of tenancy where it should not be for the lessee the right to acquire the asset at the moment or at a future date , otherwise this will be considered as a purchase in installments

3. As long as the lessee is committed to pay the leasing payment and meets all the other conditions of the lease, he has the full right to use the asset throughout the period of the lease.
4. There is a certain time period where the lease is binding and irrevocable and called period of primary or mandatory which could be lengthened or shortened depending on the type of the lease, and during that period the lessee tries to recover at least what has been invested, or at least part of it with adequate profit to be realized from the leasing process.
5. The burden of technical obsolescence of the asset during the term of the lease is located entirely on the lessee, where he cannot cancel the lease at any time under the pretext that the leased asset has become technologically obsolete.
6. The responsibility of maintenance and insurance relies upon the type of leasing contract. Usually, the burden is on the lessor in the case of operating lease and on the lessee in the case of financial leasing. Or as may be agreed upon.

iii. *Third, the parties to the process of leasing*

1. Lessor: the party who finances the purchase of the asset of his own and leased it to the lessee with the condition of retaining his ownership of the asset during the lease period.
2. lessee: the party who determines the standards of leased asset, deadline and place of receipt, the lessee shall bear the costs of maintenance, repair and insurance of the asset with its pledge to maintain it during the term of the lease and authorize the lessor for any claims for third-parties pertaining the asset. Against the use of the asset, lessee pays periodic payments to the Lessor cover part of the cost of the asset, benefits, and profit margin.
3. Supplier or producer who is supplying the asset to the lessee upon the orders of the lessor in the light of the specifications that may put by the lessee.

iv. *Fourth: Leasing as an activity*

The mechanism of leasing is clarified as follows:

1. The lessor - which is usually a financial institution - funded purchase specific assets and the required knowledge of a company or institution (lessee) and lease it long-term contract is irrevocable to cover payments rental - during the period of the contract - money paid originally, benefits and profit margin, and so close to the the so-called full coverage of the value of assets.
2. Expresses this type of leasing activity financing for the purchase of equipment or capital assets for leasing.
3. Borne by the tenant - without the lessor - all maintenance and repair costs, taxes and other, but may be required to enter into a maintenance contract with a tenant or product supplier to ensure the continued validity and efficiency of the operation of the equipment.
4. Enable the lessee the opportunity to buy the equipment at the end of the lease duration, either against the residual value of the purchase cost as well as benefits and profit margin, or at prices determined at the beginning of the lease contract.
5. Allow the lessee an opportunity to renew the contract for a period or periods at a symbolic leasing price.

v. *Fifth: the advantages of leasing*

a. *The advantages of leasing for the national economy*

1. The productivity of capital assets adds great additions to the national GDP. , and as the leasing does not require full funding (100%) so the leasing contracts contribute to the progress of the economic development programs.
2. Leasing contracts are considered as stability factors for the sustainability of investments during crises and economic changes.
3. Finance of capital assets through leasing requires potentially qualified working hands to provides speed in the implementation of the projects.
4. Leasing contracts help in Keeping pace with technological developments, raises the production quality, reduces cost, and increase the level of investment opportunities by opening new markets at home and abroad.
5. Since the right of ownership to the lessor remains when using the method of leasing, and as the profit made by the lessee may exceed his profit by buying, this brings us to the profit realized for ways to lease assets but not purchase them.

b. *The advantages of leasing for the lessee*

Lessees usually evaluate investments on the basis of expected cash flow but not on the basis of expected profits. The lessee will differentiate between r purchase and lease by cash outflows related to any of these resolutions, where limited cash outflows in the case of lease installments, while maintenance expenses are usually borne by the lessor.

One of the main advantages for the tenant:

1. the tax savings achieved as a result of downloading all operating expense payments decade leading to the reduction of the value of taxable profit ( ) .
2. to achieve the advantages of financing through savings in cash instead of using it to buy the leased asset , and use this liquidity to finance the working capital needed for operations rather than directed to capital funding .
3. improves the financial position of the lessee, which saves him from borrowing to buy assets and thus reducing his commitments which improves the

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image of the financial indicators in the balance sheet. And thus financial will be lowered. At the same time this will raise the rate of return on assets and Leeds to improves the image of the financial position.

4. reduce the asset risk as a result of becoming obsolete and transfer this risk to the lessor at the end of the contract and give him the right to change the original leased asset by another which will be more efficient.
5. low of interest cost as the lease regarded as an operating expense , thereby reducing the proportion of credit and resulting to a better credit rating.

c. The advantages of leasing for the supplier

Most important advantages are: -

1. It provides an opportunity to take advantage of excess of idle assets and get excess returns on these assets.
2. It provides him with an opportunity to market the commodity of goods produced by the lease and provided a refund for the leased asset with payoff.
3. The opportunity of selling the leased asset to the lessee at the end of the life term of the lease.

d. The advantages of leasing for the lessor

The lessor assesses the investment decision of the commodity on the basis of evaluation of the lease, where this decision is based on cash outflows and inflows together and the difference any on a net basis between the two (the difference between cash inflows and outflows) inflows represented premium lease in addition to the sale value of the asset at the end of the lease period, and cash outflows represented in all expenses that represent the actual use of money (such as maintenance expenses and taxes on profits from asset leasing. We can say that the advantages enjoyed by the lessor are the same advantages enjoyed by the supplier, but the lessor has the additional advantage in reducing the cost of bankruptcy:

- In case exposed the charter company to the risk of bankruptcy, the lessor position will be better than the lender position, as the lessor in this case can get on the original lease, while for the lender on the original guarantor of the loan is not easy as well to its attendant costs.

vi. *Sixth : Types of leasing*

There are two main types of leasing: Operating Lease and Finance Lease.

The lease is apparent in the form of rent, but it is not, in essence, it is a finance, because the lease is a financing process.

a. Operating lease

It is a contract whereby the customer gets fixed asset and used it for a certain period and to return at the end of the leasing period and has no choice to own the asset at the end of the period.

Advantage of this type of leasing a set of characteristics Perhaps the most important are:

1. This type of lease is not intended to own the asset, and thus the asset is owned by the service provider, the entity provided this service bears the expenses of maintenance, insurance and other expenses.
2. The leasing period should be less than the lifetime of the asset usually a short leasing period basis enables the lessor to lease the asset again.
3. according to the accounting principles , the lease shall not enter into the assets nor the liabilities of the balance sheet which helps to improve the financial status of this client.
4. For tax purposes for this type of lease, each installment is considered an expense eligible for the client deducts the lease expense from taxable income, but as for the sales tax, the full premium is viable and the full sales tax will be added.
5. This a revocable contract, the customer can rescind it at any time.
6. This type of lease is globally used due to its numerous advantages because it is considered a running cost for the lesse organization.

b. Lease Financing

1. It is a contract between the lessee and the lessor and fee is required, there is an option for the customer to own the asset or return it back at the end of the lease period according to the agreement signed. If the customer wants to return the asset there must be a text gives the right to return.
2. according to international accounting principles ,the lessee enjoys all the benefits and bears all the risks associated with this asset.

c. Types of financial leasing

Financial leasing has many forms:

A. leased asset form:

The type of leasing contract which considers the forms of leased asset as it may be transferred item, property, or nonmaterialistic assets.

B. leasing facilities forms:

Financial Leasing is divided into two types:

1. direct financing lease: a direct contractual relationship between the lessor and the lessee.
2. Indirect financing Lease:

The lease funding will be indirect and is transacted through the factory or distributor of the asset, it is intended to introduce the client to the lessor, or what is so-called sales facilities.

C. Asset ownership at the end of the lease contract:

Financial Leasing can be divided into two main sections, according to whether the lessee has the right to to buy the asset at the end of the lease term, financial leasing sections are:

1. keep the residual value of the leased asset.
2. Participation of benefits.

Census parties relationship: It is divided into two sections:

1. direct financing lease:

   Transaction is stuck between the lessor and the lessee without the intervention of third parties, or center.
2. multi-parties financial lease:

   It is a form of financial leasing, which requires the intervention of several parties to accomplish the process of leasing.

vii. *Seventh: Importance of financial leasing*

importance of leasing of equipment and tools for productive purposes has increased in the developed world within a short period of time and derives its importance for companies, they can be leasing equipment and devices needed in much easier to buy, leasing companies also benefit as it ensures them to get the cash flow in constant pace throughout the productive life of the equipment or the economic life agreed with the charter company, also ensures that they also have to get the cost of these machines, as well as to achieve an adequate return. As for lessees it ensures that the marketing and disposal of large equipment with a high cost for the producers , leasing cost seems much reasonable for them, as it can on the way to get the equipment they need, without having to carry a huge financial burden. The importance of leasing as follows:

1. Provides a means of appropriate funding in light of the need to create projects and renovation of existing ones.
2. to find new areas for investment.
3. contribute effectively to the development and transfer of technology and innovation for the different sectors.
4. to contribute to the alleviation of the rising trend of the prices of products as the cost of this method is less than the traditional ways of funding.
5. activation and development of certain sectors characterized by high value capital equipments.

viii. *Eighth : Leasing experience in Jordan*

In 1984 there was a company in Jordan called " Jordan Leasing" and the International Finance Corporation (IFC) was contributing to the Jordanian company, the main function was in leasing machinery and equipment. However, for more than one reason this company did not continue its activities and was turned into a bank, known as Amman Bank. And thus the leasing service stopped in Jordan for more than one reason, but the most important reason that there was no legal accords and regulations to govern the leasing transactions between the parties, in addition to some of the difficulties faced by the company where the market was not configured to accommodate such a. and as a result it stopped leasing. since that time and up to 1998 there were no leasing services listed in Jordan at all, until 1998, where authorities concerned have prepared a law draft for Leasing and through it some companies began to work even before the issuance of the Financial Leasing Law, and in 2002 the provisional Law for Leasing was released, where some basic principles were included by this law to cover the legal framework of the related parties, but it did not cover all aspects of the needs of this sector and it is hoped the growth in this area, today there are more than 20 hand holds a license leasing business. Some of these companies are owned by banks and part of the banks involved in this type of financing and there are real estate companies and placed are involved in the leasing business. practice.

Later, the Ministry of Industry and Trade, has issued a number of executive instructions concerning the registration of leasing companies, as well as the Income Tax Department has issued instructions on how to accounting for leasing operations for tax purposes.

ix. *Ninth : The volume of leasing in Jordan*

The volume of leasing in Jordan in 2001, about 35 million dinars accounted for 0.6 % of the total credit facilities with banks, but more importantly, it was followed by a growth in this size until it reached an average during the last five years to 50 Million dinar is a matter of great optimism for Leasing . If we look at the portfolio of leasing note that 48 % of them for the purposes of the property such as residential and commercial complexes, and not all for the purpose of business, even though if the factory leases a land is classified within the business sector, if the Hospital leases land is classified as investment, the basic principle is the same but not for the purposes of financing real estate. Industrial Development Bank has funded property leases for the purposes of industry and tourism are classified as investment property. The transport sector constituted 27 % of the leasing portfolio which is positive because this sector needs development and modernization. The industrial sector amounts to its share of 20%, even if we talked about banking facilities for the industrial sector, according to figures from the central bank does not exceed 15% of the size of the facilities. Which means that the leasing organizations contributed to the industrial sector, more than banks, while the other sectors such as the medical sector had a limited share of leasing.

x. *Tenth: The difference between the regular funding and leasing / Case of Jordan*

Bank usually grants overdraft or loans given in the form of cash, the Bank usually examines the purpose of granting this facility, while in the leasing the funding is very specific and is conducted in advance where the leasing company will not pay the lessee the value of the asset until the receipt of the asset, which is determined by the end of lease so they are not up to the other, and when the lessee is selected. This end draw this money out to the particular end and make sure to exploit the funding for this purpose is deem important to the success of the funding process.

For Leasing in general, more than 99% of the leases, which was held in Jordan were originally to ensure the same and there is no other collateral versus the asset, while in regular funding there is usually subject to an additional purpose. For the repayment of public funding in the normal loan is repayable in constant installments, while in the lease, there is flexibility to suit the client's ability and these characteristics are present in leasing such flexibility in the process and the fit with a straight income is the basis of the lease and put the program on the client's needs .

The return for financial leasing is intended to be constant, while in the regular funding does not have a steady income, but variable, also leasing is irrevocable and neither party is able to cancel the contract under any circumstances.

In Jordan, as is the case in many countries, leasing activity is primarily practiced by banks and through specialized departments, and through leasing companies owned by banks, or through suppliers or manufacturers, now in Jordan, there are suppliers exercised leasing activity such automobile companies, machinery factories.

The leasing company gets its money from its capital. As for bank subsidiaries, Central Bank requires that the bank can not lend its subsidiary more than 20% of its capital, and it should resort leasing money for other sources of funding such as mutual funds, pension funds, specialized funds or to issue bonds to the market.

xi. *Ninth: leasing " of the current law and the new law*

Among the obstacles faced by financial leasing in Jordan that there is no clarity regarding the mechanisms and procedures for re- ownership, I am lessor owner of the asset, as there is no court cases in respect of Financial Leasing, either because it is the selection of the customer or that the nature of the service is different from the nature of the service regular funding in the bank, so let no obvious issues for this type of financing.

Related parties as lessor and lessee and the supplier and the duties and rights of each party is defined in the current law , the registration procedures must go to the lessor and the lessee and the Ministry of Industry and Trade and the sign in front of the Registrar and this procedure is counterproductive and has no meaning .

At present there is no tax incentives in the current law, although there should be incentives in some cases. The law of leasing deals with several parties such as the Ministry of Industry and Trade with the Ministry of Tourism with circles territory and with some ministerial departments such as Transport Regulatory Commission and with the Jordan Investment Board, all of these parties are ignorant about the current law. These form part of the existing defects in the law and in its application.

The "International Finance Corporation" IFC had a significant positive role, where it had made all the preparation of the draft of the new leasing law. , and this project is supposed to address many of the gaps in the current law, when prepared؛

The accounting treatment for the leasing company: These companies consider the leasing return is an increase in their revenue, and thus it appears in the income statement, it is treated like a usual revenue for the budget if the lease has been financed through its fund, then net effect becomes on the assets side becomes zero. However, if the leasing company had borrowed to finance this lease, this will increase its value on the asset side, while the liabilities side will be increased by the value of the loan versus leasing.

VI. Data analysis and Hypothesis Testing

a) *Study Variables*

This study examines the (lease financing) as an independent variable and will be expressed in the financing lease and this includes three quantitative indicators:

1. leasing Index,
2. Fixed Assets Turnover index
3. Total Assets Turnover index

Dependant Variable: it is the financial performance which will be expressed in three key indicators are: (liquidity, profitability, risk).

b) *Collection and data compilation*

The aim of collecting and preparing the data for the purposes of testing study hypotheses:

Study sample: all industrial companies listed on the Amman Stock Exchange and engaged in the lease financing as a society for the study, during the period between 2007 -2011.

c) *Normality Test: Researcher used [Klomogrov - Smirnov Fit test (K-S test]*

The results of this test showed that most of the variables of the study data follow a normal distribution, and that, as shown in the following table:

Testing normal distribution : (K-S) test to study variables

Variable	Mean	Stand. Dev.	K - S	Significance Lev.
Leasing Index	0.4274	0.3505	0.043	0.05
Total Assets Turnover index	0.6352	0.3008	* 0.217	0.05
Fixed Assets Turnover index	3.924	5.372	0.000	0.05
Current Ratio Index	3.713	3.027	0.0229	0.05
Quick Ratio	1.972	3.744	0.000	0.05
Net Working Capital Turnover	1.699	11.140	0.000	0.05
Gross Profit	5374851.13	12527688.63	0.000	0.05
Net operating profit	451055.32	7371810.50	0.000	0.05
Net Profit	2755.688	8279765.95	0.020	0.05
Return on assets	0.308	0.115	0.022	0.05
Return on Equity	0.073	1.066	0.000	0.05
Percentage of Gross Profit Margin	0.224	0.184	0.050	0.05
Percentage of operating profit margin	0.503	0.127	0.000	0.05
Percentage of net profit margin	0.009	0.337	0.011	0.05
Earnings / JD	0.185	0.355	*0.213	0.05
Dividend per share / JD	0.143	0.211	0.000	0.05
The standard deviation of sales	3409368.74	7874661.15	0.007	0.05
The degree of financial leverage	1.881	2.260	0.000	0.05
Degree of Operational Leverage	0.725	1.592	0.000	0.05

* Greater than the significance level of 5% do not follow a normal distribution.

Source: prepared by the researcher in 2014.

d) Data analysis

1 - using software (SPSS), the researcher calculates the Pearson correlation coefficient and that, as shown in the table below:

Dependant Variable	Leasing Index -R	R^2	Total Asset Turnover-R	R^2	Fixed Asset Turnover-R	R^2
Current Ratio	%79.1	0.626	%42.5	0.181	%78.6	0.618
Quick Ratio	%75.1	0.565	%40.7	0.166	%74.4	0.554
Net Working Capital Turnover	%28.4	0.081	%14.1	0.020	%8.3	0.007
Gross Profit	%34.2	0.117	%28.6	0.082	%21.6	0.047
Net Operating Profit	%35.6	0.127	%23.4	0.055	%21.2	0.046
Net Profit	%34.7	0.121	%23.2	0.054	%21.2	0.046
Assets Turnover	%67.8	0.461	%53.8	0.290	%74.1	0.550
Equity Turnover	%40.3	0.163	%75.6	0.572	%51.5	0.266
Percentage of gross profit margin	%59.5	0345	%38.7	0.150	%62.5	0.391
Percentage of operating profit margin	%58.8	0.346	%41.8	0.175	%66.5	0.442
Percentage of net profit margin	%58.4	0.341	%51.7	0.325	%65.9	0.435
Earnings Per Share	%66.3	0.440	%42.7	0.183	%66.4	0.442
Dividend per share	%57.4	0.330	%64.8	0.420	%76.1	0.578
The standard deviation of sales	%32.7	0.107	%27.3	0.075	%18.9	0.036
The degree of financial leverage	%23.4	0.055	%48.6	0.237	%24.5	0.062
The degree of operating leverage	%47.2	0.223	%24.3	0.0	%34.2	0.117

SPSS Test : Using software (SPSS), the researcher developed 3 sets of regression models :

Regression coefficient shows that a low coefficient of interpretation and therefore can be interpreted that the relationship between the variables of the study through the equations of the third degree (Cubic) and Table above shows the coefficient of determination R2 between the variables of the study.

VII. Test of Hypotheses

This study is based on the prime hypothesis that leasing affects the financial performance of industrial companies engaged in the leasing, this main premise has been subdivided into three sub hypotheses because of the different ways of expressing the financial performance as the dependent variable.

a) The FIRST hypothesis test.

i. In conducting the test the impact of the decision of leasing representative, we use the following formula:

$Y= a+b_1x_1+b_2x_1^2+b_3x1^3$

$Y= 5, 0016+ ^-2, 2402x_1+^-12,775x_1^2+10,475x_1^3$

Where:

Y = dependent variable = Current Ratio
X1 = independent variable = lease index
R2 = 0.626
R = 0.791

The model indicates that the relationship between the dependent variable (Current Ratio) and the independent variable (the rental index) is not a linear relationship in the sense that the relationship curve takes an upward trend downward trend.

ii. when testing the effect of the decision of leasing representative] index lease [and liquidity of the company represented] by the quick [, show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$$Y = a + b_1x_1 + b_2x_1^2 + b_3x_1^3$$
$$Y = 2,6202 + 7,2327x_1 + {}^{-}28.046x_1^2 + 16.936x_1^3$$

Where:

Y = Dependent Variable = quick ratio
X1 = independent variable = lease index
R2 = 0.565
R = 0.752

The model indicates that the relationship between the dependent variable (quick ratio) and the independent variable (the rental index) is not a linear relationship in the sense that the relationship curve takes an upward trend downward trend and sometimes at other times.

iii. In conducting the test the impact of the decision of leasing representative] index lease [and liquidity of the company as measured by] Turnover net working capital], show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$$Y = a + b_1x_1 + b_2x_1^2 + b_3x_1^3$$
$$Y = -1,592 + 40,833x_1 + {}^{-}91,741x_1^2 + 48,682x_1^3$$

Whereas

Y = the dependent variable = Net Working Capital turnover
X1 = independent variable = lease index
R2 = 0.081
R = 0.285

The model indicates that the relationship between the dependent variable (turnover net working capital) and the independent variable (the rental index) is not a linear relationship in the sense that the relationship curve takes an upward trend downward trend and sometimes at other times.

iv. In conducting the test the impact of the decision of leasing representative] index of fixed asset turnover [and liquidity companies represented] by trading [, show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$$Y = a + b_1x_1 + b_2x_1^2 + b_3x_1^3$$
$$Y = 0,4216 + 1,573x_1 + {}^{-}0,161x_1^2 + 0,005x_1^3$$

Whereas:

Y = dependent variable = Current Ratio
X1 = independent variable = turnover of fixed assets
R2 = 0.618
R = 0.786

The model indicates that the relationship between the dependent variable (Current Ratio) and the independent variable (fixed asset turnover) is not a linear relationship in the sense that the relationship curve takes an upward trend downward trend and sometimes at other times.

With regard to the correlation coefficient R between the dependent variable (Current Ratio) and the independent variable (turnover rate of fixed assets), we find that the link 78.6 % which means that there is a correlation is positive and strong and statistically significant as the value of (sig. t) 0.001 which is smaller than the significance level 0.05 Based on the foregoing, we reject the hypothesis nihilism and accept the alternative hypothesis, which requires the presence of statistically significant effect of the fixed asset turnover ratio and trading of industrial companies listed on the ASE, which engaged in lease financing.

v. With a decision to test the impact of leasing representative] turnover rate of fixed assets [and the company's liquidity, measured through] quick ratio [show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$$Y = a + b_1x_1 + b_2x_1^2 + b_3x_1^3$$
$$Y = {}^{-}0,387 + 1,592x_1^2 + {}^{-}0,179x_1^2 + 0,005x_1^3$$

Whereas

Y = dependent variable = quick ratio
X = independent variable = turnover of fixed assets
R2 = 0.554
R = 0.744

The model indicates that the relationship between the dependent variable (quick ratio) and the independent variable (fixed asset turnover) is not a linear relationship, in the sense that the relationship curve takes an upward trend downward trend and sometimes at other times.

With regard to the correlation coefficient R between the dependent variable (quick ratio) and the independent variable (turnover rate of fixed assets), we find that there is a relationship strong and positive 74.4% and statistically significant as the value of (sig. t) 0.001 which is smaller than the significance level 0.05 based on what progress we reject the hypothesis nihilism and accept the alternative hypothesis, which requires the presence of statistically significant effect of the fixed asset turnover and quick ratio.

b) The second hypothesis test.

This study will be limited to (the rate of return on assets (RoA) Net Income ratio, AND earnings per share (EPs) dividends Dps.

i. In conducting the test the impact of the decision of leasing representative] index [and profitability of the company represented by] the rate of return on assets ROA [show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$Y=a+b_1x_1+b_2x_1^2+b_3x_1^3$

$Y=0{,}099+ 0{,}523x_1+^-2{,}094x_1^2+1{,}301x_1^3$

Whereas

Y = dependent variable = rate of return on assets ROA

X1 = independent variable = lease index

R2 = 0.461

R = 0.679

The model indicates that the relationship between the dependent variable (the rate of return on assets ROA) and the independent variable (the rental index) is not a linear in the sense that the relationship takes an upward trend downward trend. With regard to the correlation coefficient R between the dependent variable (the rate of return on assets) and the independent variable (leasing index), the correlation coefficient R = 67.9%, which is a positive correlation and the forces to some extent are statistically significant as the t value is 0.035 which is smaller than 0.05 significance level, so we reject the nil hypothesis And accept the alternative hypothesis, which requires the presence of a statistically significant effect of the lease index on the rate of return on assets of industrial companies engaged in lease financing.

ii. In carrying out the effect of the decision of leasing representative] index [and profitability of the company represented] by net profit margin [show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

Y=a+b1x1+b2x12+b3x13

Y=0, 2261+0,529x1+-3615x12+2,456x13

Where:

Y = dependent variable = net profit margin

X = independent variable = index hire

= R2 0.341

R = 0.584

The model indicates that the relationship between the dependent variable (net profit margin) and the independent variable (leasing index) is not a linear relationship in the sense that the relationship takes an upward and downward trends.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (net profit margin) and the independent variable (leasing index). Test shows that this model is fit to represent the relationship at the level of significance 0.022 and a confidence degree 97.8 %; this indicates that the model is valid to represent the relationship in question. The value of the coefficient of determination (R2) has reached 34.1 %, which is relatively low, yet it is statistically significant.

With regard to the correlation coefficient R between the dependent variable (net profit margin) and the independent variable (lease index), correlation coefficient has reached 58.4 %, which is a good and statistically significant. The t value is 0.05 which is equal to the minimum significance level 0.05. Accordingly, we reject null hypothesis and accept the alternative hypothesis, which confirms the presence of statistically significant effect for the lease index on the net profit margin of industrial companies engaged in the lease financing.

iii. In conducting test on the impact of the leasing decision represented by leasing index and the profitability of the company represented by the stock a yield of EPS show that this effect can be described through the third degree (exponential) regression model according the following equation:

$Y= a+b_1x_1+b_2x_1^2+b_3x_1^3$

$Y=1{,}101+-4{,}778x_1+1{,}836x_1^2+^-2{,}109x_1^3$

Whereas

Y = dependent variable = Earnings Per Share EPS

X1 = independent variable = index hire

R2 = 0.440

R = 0.663

The model indicates that the relationship between the dependent variable (earnings per share EPS) and the independent variable (leasing index) is not a linear relationship in the sense that the relationship takes an upward trend downward trend.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (earnings per share EPS) and the independent variable (leasing index) show that this model is fit to represent the relationship at the level of significance 0.019 any degree of confidence of 98.1, this shows that the model is valid the representation of the relationship in question.

Coefficient of determination R2 value has reached 44%, this means that rental index explains 44% of the changes in the dependent variable.

With regard to the correlation coefficient R between the dependent variable (earnings per share) and the independent variable (lease index), researcher found that the correlation percent is 66.3 %, which is positive, fairly strong and statistically significant as the value of t value is 0.030, and therefore the null hypothesis is rejected and alternative hypothesis is accepted.

iv. In conducting the test of the impact of the leasing financing decision represented by leasing index and company profitability represented by dividends per share (DPS) show that this effect can be described through a degree regression model (exponential), according to the following equation:

$Y=a+b_1x_1+b_2x_1^2+b_3x_1^3$

$Y= 2, 31+0,024x_1+4, 23x_1^2+5,631x_1^3$

Where:

financing decision represented by leasing index and

Y = dependent variable = Dividend per share DPS

X1 = independent variable = index hire

R2 = 0.330

R = 0.574

The model indicates that the relationship between the dependent variable (dividend per share) and the independent variable (leasing index) is not a linear relationship in the sense that the relationship takes an upward downward trend.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (dividend per share) and the independent variable (leasing index) show that this model is fit to represent the relationship at the significance level of 0.024 and 97.7% degree of confidence, this indicates that the model is valid for the representation of the relationship in question.

The coefficient of determination value (R2) has reached 33% which means that the independent variable (leasing index) has interpreted 33% of the changes taking place in the dependent variable (dividend per share) and the remaining 67% is due to other factors not included in the model.

With regard to the correlation coefficient, it has reached 57.4% at t value of 0.045 which is smaller than the significance level of 0.05. Accordingly, we reject the null hypothesis and accept the alternative hypothesis, which reflects a statistically significant effect of the leasing index on dividends per share DPS for industrial companies involved in the leasing finance.

v. In conducting the test the impact of the of lease financing represented by (fixed assets rotation) and profitability of the company represented by (average ROE) shows that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$Y= a+b_1x_1+b_2x_1^2+b_3x_1^3$

$Y= {}^-0, 2897+1,055x_1+{}^-0,976x_1^2+0,31x_1^3$

Where:

Y = dependent variable = rate of return on equity

X1 = independent variable = asset turnover

R2 = 0.572

R = 0.756

The model indicates that the relationship between the dependent variable (rate of return on equity, ROE) and the independent variable (fixed asset turnover) is not a linear relationship, in the sense that this relationship takes an upward and downward trend.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (the rate of return on equity) and the independent variable (turnover of fixed assets) showed that this model is fit to represent this relationship at 0.021 significance level and 97.9 % confidence degree and this indicates that the model is valid for mentioned representation.

The value of the determination coefficient (R2) is 57.2 % which means that the turnover rate of fixed assets explains 57.2 % of the changes in the dependent variable (equity rate of return), while the remaining 42.8 %, are factors other than the turnover index of fixed assets.

With regard to the correlation coefficient (R) between the dependent variable (equity rate of return) and the independent variable (fixed assets turnover rate), we find that the correlation is75.6 %, which a positive, strong and statistically significant correlation, also (t) value is 0.022 which is smaller than the standard significance (0.05) level; based on the aforementioned, we reject the null hypothesis and accept the alternative one which states that there is a statistically significant effect of the rate of rotation of the fixed assets on the rate of return on equity for public industrial companies listed on the Amman Stock Exchange and are engaged in lease financing.

vi. In deciding to test the impact of leasing representative (rate of rotation of fixed assets) and profitability of the company represented by (Dividends per share) show that this effect can be described through a regression model of the third degree (exponential), according to the following equation:

$Y= a+b_1x_1+b_2x_1^2+b_3x1^3$

$Y= 0, 0969+ {}^-0,093x_1+0,029x_1^2+{}^-0,0016x^3$

Where:

Y = dependent variable = Dividend per share DPS

X1 = independent variable = turnover of fixed assets

R2 = 0.578

R = 0.761

The model indicates that the relationship between the dependent variable (dividend per share) and the independent variable (fixed asset turnover) is not a linear relationship, in the sense that this relationship takes an upward trend downward trend and sometimes at other times.

Upon conducting the F-test to measure the validity of the model which represents the relationship between the dependent variable (dividend per share, DPS) and the independent variable (turnover of fixed assets), the test showed that this model is fit to represent the relationship at 0.020 significant level, or a 98% confidence degree. This indicates that the model is valid in representing mentioned relationship.

Determination coefficient (R2) has reached 57.8 % which means that fixed asset turnover explains 58 % of the changes in dividend per share and the remaining 42.2 % is due to other factors not included in the model. Correlation coefficient (R) between the dependent variable (dividend per share) and the independent variable (fixed assets turnover rate), the correlation is 67.1 %, a positive correlation and strong to some extent and is statistically significant as the (t) value is 0.022 which is smaller than the standard (0.05) significance level, therefore it can reject the null hypothesis and accept the alternative one , which reveals that there is a statistically significant effect of the fixed asset turnover on the dividends of industrial companies listed at Amman Stock Exchange and are engaged in lease financing.

c) Testing third hypothesis testing.

HO_3: There is no statistical significant effect of the decision between leasing and the risk encountered by industrial corporations listed on ASE and engaged in lease financing. There are several risk measures in companies to measure systemic or unsystematic risks these measures include dispersion measures (range, standard deviation, variance, and coefficient of variation) which are suitable for measuring the overall risks (systemic + unsystematic), while financial and operating leverage are two barometers to measure business and financial risks of companies. In this study, the researcher will use three risk measures: sales standard deviation, financial leverage, and operational Leverage:

i. when testing the effect of the leasing decision represented by the leasing index and companies risk represented by the standard deviation of sales. This effect can be described through a regression model of the third degree (exponential), according to the following equation:

$Y=a+b_1x_1+b_2x_1^2+b_3x_1^3$

$Y={}^-4x10^6+7,7x10^7x_1+{}^-2x10^8x^2+7,7x10^7x_1^3$

Where:

Y = dependent variable = standard deviation of sales

X1 = independent variable = index hire

R2 = 0.107

R = 0.327

The model indicates that the relationship between the dependent variable (standard deviation of sales) and the independent variable (the leasing index) is not a linear relationship in the sense that the relationship takes a downward trend, and sometimes an upward trend.

When an F-test is used to gauge the validity of the model to represent the relationship between the dependent variable (standard deviation) and the independent variable (leasing index) show that this model is not fit to represent this relationship as the value of (.F) is 0.756 which is greater than the significance level of 5% and the value of the coefficient of determination R2 has reached 10.7% ,which means that the leasing index explains 10.7% of the dependent variable data (standard deviation of sales) and the remaining 89.3% belonging to factors other than the leasing index and were not included in the model.

Based on the foregoing, we accept the null hypothesis, which means that there is no statistically significant effect of the leasing index on companies risk represented by the standard deviation of sales.

ii. when testing the effect of lease financing decision represented by leasing index on corporate risk represented by the degree of financial leverage [DFL]. This effect can be described through a regression model of the third degree (exponential), according to the following equation:

$Y=a+b_1x_1+b^2x_1^2+b_3x_1^3$

$Y={}^-1,134+28,194x_1+{}_-73,243x_1^2+41,465x_1^3$

Where:

Y = dependent variable = degree of leverage DFL

X1 = independent variable = index hire

R2 = 0.223

R = 0.472

The model indicates that the relationship between the dependent variable (degree of leverage DFL) and the independent variable (leasing I index) is not a linear relationship in the sense that the relationship takes a downward trend, and sometimes an upward trend at other times.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (financial leverage) and the independent variable (leasing index) show that this model is not fit to represent this relationship as the value of (F) is 0.45 which is greater than the significance level of 5%.

The value of the coefficient of determination R^2 has reached 0.223, which means that leasing index explains 22.3 % of the changes in the data of the dependent variable (financial leverage) and the remaining 77.7 % belonging to factors other than the leasing index and were not included in the model in question.

Based on the foregoing, we accept the null hypothesis, which means that there is no statistically significant effect of leasing index on companies risks represented by financial leverage.

iii. when testing the effect of the decision of leasing representative] index lease on corporate risk represented] degree of operational leverage [DOL]. This effect can be described through a regression model of the third degree (exponential), according to the following equation:

$$Y= a+b_1x_1+b_2x_1^2+b_3x1^3$$
$$Y= 1{,}165+ 1{,}423x_1+^-2{,}555x_1^2+1{,}546x_1^3$$

Whereas

Y = dependent variable = degree Lifting operational DOL
x1 = independent variable = index hire
R2 = 0.055
R = 0.235

The model indicates that the relationship between the dependent variable (degree of operating leverage, DOL) and the independent variable (the leasing index) is not a linear relationship in the sense that the relationship takes a downward trend, and sometimes an upward trend at other times.

In conducting the F-test to measure the validity of the model to represent the relationship between the dependent variable (degree of operational leverage) and the independent variable (index hire) show that this model is not fit to represent the relationship reaching (sig. F) 0.899 which is , of course, is greater than the significance level of 5% .

The value of the coefficient of determination R^2 has reached 5.5 %, which is a low interpretation rate and means that the lease index has explained 5.5 % of the changes in the data of the dependent variable (degree operational leverage) and the remaining 94.5 % belongs to other factors than the leasing index and were not included in the model in question.

Based on the foregoing, we accept the null hypothesis, which means that there is no statistically significant effect of the leasing index on companies risk measured by the degree of operational leverage.

VIII. The Third Topic

a) First- results

Through statistical analysis, we could extract the following results:

1. The lease financing measured by lease index has statistically significant effect on the liquidity of companies measured by trading ratio. 62.6 % of the changes in the financial performance of the (liquidity) are attributable to the lease financing.
2. The lease financing measured by lease index has statistically significant effect on the liquidity of companies measured by quick ratio. 56.6 % of the changes in the financial performance (quick ratio) are attributable to lease financing.
3. The lease financing measured by lease index has statistically significant effect on the liquidity of companies measured by the rate of rotation of net working capital. Hence the rate of rotation of the net working capital can not be relied upon as an indicator of liquidity. The reason behind this is the fluctuation in the volume of companies sales and its impact upon the turnover of net working capital, thus it could be argued that the net working capital turnover is not a substitute for companies' liquidity.
4. The lease financing measured by the fixed assets rotation rate has a statistically significant effect on the liquidity of companies, measured by trading rate. 61.8 % of the changes in the financial performance (liquidity) is attributed to the turnover rate of fixed assets and it could be argued that the turnover rate of fixed assets can be a substitute and an indicator of lease financing.
5. The lease financing as measured by the rate of rotation of the fixed assets has a statistically significant effect on the liquidity of companies, measured by the quick ratio. 55.4 % of the changes in the financial performance (quick ratio) are attributable to lease financing.
6. The lease financing measured by lease index has a statistically significant effect on the profitability of companies measured by return on assets (ROA), 46.1 % of the changes in corporate profitability is attributable to the lease financing.
7. The lease financing measured by lease index has a statistically significant effect on the profitability of companies measured by net profit margin. 34.1 % of the changes in profitability are attributable to the lease financing.
8. The lease financing measured by lease index has a statistically significant effect on the profitability of companies measured by EPS. 44% of the changes in EPS are attributable to the lease financing.
9. The lease financing measured by lease index has a statistically significant effect on the profitability of companies measured by profits distributed per share (DPS). 33% of the changes in corporate DPS are attributable to lease financing.
10. The lease financing measured by the rate of rotation of fixed assets has a statistically significant effect on the profitability of companies measured either by return on equity (ROE) or dividends per share (DPS).
11. It is found that 57.2 % , 57.8 % of the changes in the financial performance (profitability)[ROE, DPS] are attributed to lease financing .So it is worth to conclude that the lease index and turnover of fixed assets index can be used as agents to lease financing .
12. The lease financing measured by the lease index (turnover of fixed assets) does not have a statistically significant effect on the risk of companies measured financial leverage, operational leverage, and the standard deviation of sales).

Where the interpretation rate is low (10.7%, 22.3%, 5. 5%); this may be due to the dialectical proportional relationship between risk and return. It is found that lease financing increases the profitability of companies, but rises the corporate risk accordingly.

IX. Second: Recommendations

Based on the results of this study, the researcher recommends the following:

1. Researcher proposed three indicators to measure financial leasing is (leasing index, total assets ,turnover index, fixed assets turnover index) , based on the theoretical framework and previous studies , researcher thinks that other indicators could be used as replacements for lease financing such as rent installments.
2. researcher recommends using other measures to reflect the companies' risk such as beta coefficient which measures systemic risk, covariance, or standard deviation of earnings instead of the standard deviation of sales.
3. The study was conducted on industrial companies listed on the Amman Stock Exchange for the period (2007-2011); however, the researcher recommends that other researches to be conduct this on other companies or other sectors and different periods.
4. companies that use lease financing are urged to compare between the lease expense and amortization rate before embarking on a rental asset.
5. companies that use high leverage levels are urged to develop plans and programs for high productivity rates and get rid of idle equipment in order to achieve profitability for the company and reduce financial risks .
6. Researcher recommends that corporations to expand the use of lease financing as an activity rather than buying the asset.

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