

ACCOUNTING METHODOLOGY SPECIFIC TO OPERATIONAL LEASING FOR LESSEE FROM A NATIONAL AND INTERNATIONAL PERSPECTIVE

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Abstract

Taking into account that following the application of various accounting regulations for the same company and the reporting period, the information provided by the financial statements of an entity regarding the operating leasing transactions in the lessee's accounting (prior to the date of 01.01.2019) was not sufficient for investors and analysts in order to make decisions, to ensure comparability between entities, but also to determine the degree of indebtedness and used capital, they adjusted the elements of the statement of financial position with the information on operating leasing found in the explanatory notes.

Looking from this perspective and taking into account the major importance of the complete description of economic phenomena related to the operational leasing transactions in lessee's accounting, we considered it useful to conduct a study to analyze the possibility of reducing the differences in the presentation of similar phenomena from an economic point of view, in the financial reporting of the lessee, respectively in the way of accounting for its operational leasing transactions, in order to facilitate the interpretation of information on these operations, in all markets and to all users of accounting information. In this regard, we will address issues related to ensuring complete registration in accounting, depending on the national and international reference, ensuring the comparison of the usefulness of accounting information in the two variants.

Keywords: *accountancy, operational leasing, lessee, debt, result of the exercise.*

Classification JEL: *M41, M48*

1. INTRODUCTION

The financial statements are drawn up and presented by various entities around the world, both for internal users, but especially for external users.

In this context, the Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting regulations regarding the individual annual financial statements and the consolidated annual financial statements (OMFP no. 1802/2014) and the International Standard on accounting of leasing contracts, IAS 17 Leasing contracts (until 01.01.2019) present two models of accounting of the leasing contracts, both to the lessee (user) and to the lessor. Moreover, regarding the international reference in force until 01.01.2019, the existence of the two presented models was criticized over the years, because it did not allow the presentation in the financial position of a complete picture of the controlled and used assets for the development of the activities and debts, related to leasing contracts, which, from an economic point of view, cannot be avoided.

Looking from this perspective, since all the principles are subordinated to the true image, as a fundamental objective of accounting, [5], [7] our approach in this material refers to the description of the way of accounting for the leasing contracts to user, after the date of 01.01. 2019, both in accordance with OMFP no. 1802/2014 and with the International Financial Reporting Standards [3].

2. ACCOUNTING TREATMENT OF OPERATIONAL LEASING CONTRACTS AT THE LESSEE, THROUGH THE LIGHT OF THE NATIONAL AND INTERNATIONAL REFERENCE

If both the national reference, in this case OMFP no. 1802/2014 as well as the International standard on accounting for leasing contracts, IAS 17 *Leasing contracts* (in force until 01.01.2019) refers to the mandatory accounting treatment applied by the lessee in the operating leasing transactions, in which the goods subject to the contracts are not highlighted in the asset of the balance sheet, but in off-balance sheet accounts [8], the International Accounting Standard *IFRS 16 Leasing*, the application of which is mandatory from 1.01.2019, requires: the recognition in the situation of financial position of both an asset related to the right to use, as well as a debt arising from it, at the date of commencement of the leasing contract, and in the situation of profit or loss, expenses with redemption of support assets and with the interest are recognized [6]. Thus, a faithful image of the economic reality, and of the user's results of economic-financial and accounting analyzes is provided.

In this context, an objective in our scientific approach on ensuring the comparability of financial-accounting information regarding the economic phenomena related to operating leasing transactions in lessee's accounting, is to study the possibility of reducing the differences in the presentation of similar phenomena from an economic point of view, in the lessee's financial reporting, respectively in the way of accounting for its operating leasing transactions, in order to facilitate the interpretation of the information related to these transactions, in all markets and by all users of accounting information [4].

In order to achieve the intended purpose, we consider an entity A (lessor) that concludes on the date of 01.01.2019 a leasing contract with company B (user or lessee) by which the company A undertakes to buy a *machine* from the manufacturing company C and to makes available to company B which mandatorily applies the provisions of OMFP no. 1802/2014, and for information purposes and the International Accounting Standards. Regarding the machine that is purchased by the leasing company, the following elements of the contract are known: there are no direct costs related to the leasing contract, the entry value of the asset: 500,000 lei, duration of the contract: 3 years (at the beginning of the leasing contract, *we consider that the lessee concludes that he has no reasonable certainty that he will exercise the option to extend the leasing and therefore establishes that the duration of the leasing contract is of 3 years*), rent: 3 annual rents of 180,000 lei, transferred at maturity at the end of each year, the lessee's marginal lending rate is 5% per year and reflects the fixed rate at which the lessee can borrow a value similar to the value of the asset related to the use right, in the same currency, for a period of 3 years and with guarantees, similar. We also consider that the immobilization has an estimated useful life of 3 years and that the lessee uses the straight-line amortization method and the residual value will be zero after 3 years. At the beginning of the leasing contract, the lessee assesses the debt arising from the leasing contract at the updated value of the remaining three payments of 180,000 lei with an interest rate of 5% per year, which represents 490,184.65 lei (Table no. 1).

Table no. 1 Debt situation arising from the leasing contract at the updated value

Year	Amount paid by the lessee at the end of each year (lei)	Updated debt arising from the leasing contract (lei)
0	1	$2 = 180,000 / (1 + 5\%)^n$
2019	180,000	171,428.57
2020	180,000	163,265.31
2021	180,000	155,490.77
Total	540,000	490,184.65

where: n represents the number of the year in which the payments are made.

Next, the lessee must establish:

- the amounts to be paid annually, divided into debt repayment and the related interest (Table no. 2).

Table no. 2 The situation of the amounts to be paid annually by the lessee lei

Year	Initial balance of the updated debt	Annual amount paid by the lessee	Interest expense	Debt repayment	Final balance of the updated debt
0	1	2	$3 = 1 \times 5\%$	$4 = 2 - 3$	$5 = 1 - 4$
2019	490,184.65	180,000	24,50.23	155,490.77	334,693.88
2020	334,693.88	180,000	16,734.69	163,265.31	171,428.57
2021	171,428.57	180,000	8,571.43	171,428.57	-
Total	-	540,000	49,815.35	490,184.65	

- the amounts to be recorded annually, representing the asset depreciation expenses related to the usage rights of the leased assets (Table no. 3).

Table no. 3 The situation of the asset depreciation expenses related to the usage rights lei

Year	Initial balance of the updated asset	Depreciation expense	Remaining value of the asset
0	1	$2 = 1 / 3 \text{ years}$	$3 = 1 - 2$
2019	490,184.65	163,394.88	326,789.77
2020	490,184.65	163,394.88	163,394.88
2021	490,184.65	163,394.89	-
Total	-	490,184.65	-

For entity B (lessee), the situation presented above implies the following possibilities of reflection in accounting, in view of the accounting regulations provided by the national and international reference:

A1. In the balance sheet drawn up for the financial year 2019 in accordance with the provisions of OMFP no. 1802/2014:

- o the receipt of the machine is recorded:

D: 8031 „Tangible assets received with the rent or based on other similar contracts”	500,000.00
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- o the royalties payable are recorded (180.000 lei/year x 3 years):

D: 8036 „Royalties, management locations, rents and other similar debts”	540,000.00
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- o the leasing invoice from the lessor is recorded, representing the leasing payable installment (annual royalty):

612 „Royalties expenses, management locations and rents”	=	401 „Suppliers”	180,000.00
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- o the payment of the invoice issued by the lessor is recorded: representing the leasing installment (annual royalty):

401 „Suppliers”	=	5121 „Bank accounts in lei”	180,000.00
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- At the same time, the total value of the leasing installment decreases with the invoiced and paid amounts:

C: 8036 „Royalties, management locations, rents and other assimilated debts”	180,000.00
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A2. In the balance sheet drawn up for the financial year 2020 in accordance with the provisions of OMFP no. 1802/2014:

- the lease invoice from the lessor is recorded, representing the payable leasing instalment (annual royalty):

612 „Expenses with royalties, management locations and rents”	= 401 „Suppliers”	180,000.00
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- the payment of the invoice issued by the lessor is recorded: representing the leasing instalment (annual royalty):

401 „Suppliers”	= 5121 „Bank accounts in lei”	180,000.00
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Simultaneously, the total value of the leasing instalment decreases with the invoiced and paid amounts:

C: 8036 „Royalties, management locations, rents and other assimilated debts”	180,000.00
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A3. In the balance sheet drawn up for the financial year 2021 in accordance with the provisions of OMFP no. 1802/2014:

- the lease invoice from the lessor is recorded, representing the payable leasing instalment (annual royalty):

612 „Expenses with royalties, management locations and rents”	= 401 „Suppliers”	180,000.00
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- the payment of the invoice issued by the lessor is recorded: representing the leasing instalment (annual royalty):

401 „Suppliers”	= 5121 „Bank accounts in lei”	180,000.00
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Simultaneously, the total value of the leasing instalment decreases with the invoiced and paid amounts:

C: 8036 „Royalties, management locations, rents and other assimilated debts”	180,000.00
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Simultaneously, the handing over of the equipment to the leasing company is registered:

C: 8031 „Tangible fixed assets received on rent or based on the other similar contracts”/ Leasing	180,000.00
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A4. In the balance sheet drawn up for the financial year 2019 in accordance with International Accounting Standards:

- registration of the recognition for the leasing contract:

251 „Assets related to the usage rights for the assets taken in leasing”	= 167 „Other loans and Assimilated debts”	490.184,65
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- registration of the invoice received from the lessor, in the amount of 180,000 lei (at the end of the year):

%	=	4641 „Debts related to the leasing contracts”	180.000,00
167 „Other loans and assimilated debts”			155.490,77
6685 „Interest charges related to the leasing contracts”			24.509,23

- registration of the payment of debt related to the leasing contract that became due (at the end of the year):

4641 „Debts related to the leasing contracts”	=	5121 „Bank accounts in lei”	180.000,00
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- annual registration of the amortization of assets related to the usage rights of the assets taken in leasing (in the third year the amortization is of 163,394.89 lei):

685 „Asset depreciation expenses related to the usage rights of the assets taken in leasing”	=	2851 „Asset depreciation related to the usage rights of the assets taken in leasing”	163.394,88
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A5. In the balance sheet drawn up for the financial year 2020 in accordance with International Accounting Standards:

- registration of the invoice received from the lessor, in the amount of 180,000 lei (at the end of the year):

%	=	4641 „Debts related to leasing contracts”	180.000,00
167 „Other loans and similar debts”			163.265,31
6685 „Interest expenses related to leasing contracts”			16.734,69

- registration of the payment of debt related to the leasing contract that became due (at the end of the year):

4641 „Debts related to leasing contracts”	=	5121 „Bank accounts in lei”	180.000,00
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- the annual recording of the depreciation of assets related to the usage rights of the assets taken in leasing:

685 „Asset depreciation expenses related to the usage rights of the assets taken in leasing”	=	2851 „Asset depreciation related to the usage rights of the assets taken in leasing”	163.394,88
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A6. In the balance sheet drawn up for the financial year 2021 in accordance with International Accounting Standards:

- registration of the invoice received from the lessor, in the amount of 180,000 lei (at the end of the year):

%	=	4641 „Debts related to leasing contracts”	180.000,00
167 „Other loans and similar debts”			171.428,57
6685 „Interest expenses related to leasing contracts”			8.571,43

- registration of the payment of debt related to the leasing contract that became due (at the end of the year):

4641 „Debts related to leasing contracts”	=	5121 „Bank accounts in lei”	180.000,00
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- the annual recording of the depreciation of assets related to the usage rights of the assets taken in leasing:

685 „Asset depreciation expenses related to the usage rights of the assets taken in leasing”	=	2851 „Asset depreciation related to the usage rights of the assets taken in leasing”	163,394.89
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- registration of derecognition of the leasing contract (when handing over the machine):

2851 „ Asset depreciation related to the usage rights of the assets taken in leasing”	=	251 „ Assets related to the usage rights for the assets taken in leasing”	490,184.65
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Comparing the two situations, it is observed that, **in 2019**, in the balance sheet drawn up in accordance with the provisions of the International Accounting Standards, the company records both an asset related to the right of use and a debt arising from the leasing contract at the start of the leasing contract. Continuing this approach, the company registers in *2020 and 2021* both the payment of the debt related to the leasing contract that became due by influencing the result of the exercise with the related interest, and the depreciation of the asset related to its usage right in operating leasing, and in 2021 it also registers the derecognition of the leasing contract when handing over the machine. In this situation, the influence in the result of the exercise is different from year to year, starting from 187,904.11 lei in 2019, to 180,129.57 lei in 2020 and reaching 171,966.32 lei, amounts composed of interest and depreciation, according to the data from Table no. 2 and Table no. 3, however, for the total leasing period the amount is 540,000 lei.

Unlike the application of the international system, the same value of the leasing instalment and the same debt are spaced out throughout the operational leasing system in the national accounting system, the influence in the result of the year being the same of 180,000 lei per year, respectively of 540,000 lei per year for the whole period (2019-2021).

Thus, it is observed that depending on the accounting treatment applied by the entity, respectively accounting regulations provided by the national or international reference, the comparability of similar phenomena from an economic point of view is questioned, and, moreover, the way of structuring transactions in order to obtain a certain *result*.

3. CONCLUSIONS

The intensification of international capital movements, as well as the increase in the proportion of economic entities that procure their financial resources from the global markets, have also generated changes in the financial reporting. Thus, it is necessary to draw up reports on the financial position and performance of entities, which simultaneously meet the need for transparency and comparability of financial-accounting information because as long as the reports bear the imprint of a variety of national accounting practices, comparability cannot be achieved. [2]

In this context, in 2016 a study was conducted to highlight the level of convergence between Romanian accounting regulations and IFRS, and the results proved both that the regulations showed an average level of convergence for leasing and that even if it was improved during the convergence level, there is still room for improvement. [1]

Therefore, in order to facilitate the interpretation of information on *operational leasing* transactions, provided by the *lessee's* financial statements in all markets and by all users of accounting information, it is necessary to reduce differences in the accounting treatment used by the entity. In this regard, and taking into account our scientific approach, we believe that the mandatory accounting treatment applied by the unit, respectively the accounting regulations provided by the national reference (in which the goods subject to operational leasing contracts are not highlighted in the assets of the balance sheet, but in off-balance accounts), provides a distorted image of the user's economic reality, *distorting the results of annual economic-financial and accounting analyzes*, which is why, as previously mentioned, *IFRS 16 Leasing* changes this aspect from January 1st, 2019.

We consider that, regardless of the applied, national or international accounting framework, we consider, in this situation, that the lessee has not made a decision beneficial to the company he represents, if at the end of the operational leasing contract he does not choose to become the owner of the machine whose value he paid in full during the operational leasing contract.

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