

ACCOUNTING FOR OPERATIONAL LEASES ACCORDING TO NAS AND INTERNATIONAL PRACTICES

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***Abstract.** Operational lease is considered to be leasing under which the risks and benefits associated with the use and ownership of the leased assets are going to the lessor. This research is focused on the fact that the study of the national and international regulatory framework for operational leases, as well as the international one, is changing with the development of the new IFRS 16, applicable from 2019, which introduces new operational lease arrangements. Or, this requires knowledge for correct application. Analyzing the operational lease according to NAS National "Leases" and international standards, IAS 17 and IFRS 16, there are some differences and changes, according to the operational lease activity.*

***Keywords:** operational lease, transactions, contract, lessor, lessee, payments, standard.*

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Introduction. Nowadays, one of the most tackled issues in the economy of any country is finding a safe source of funding. Attracting financial resources against a moderate cost is an intention to expand and modernize investments. Obtaining different types of bank loans is one of the ways to satisfy the need for capital for any business, but this possibility is sometimes not accessible or requires a period of time (documenting, pledging, etc.). Under these circumstances, lease is an effective help for business development. Leasing, through its operability, satisfies in very short intervals the need for investment funds of entities.

Content. Leases have become an important source of investment. There are several factors that have led to their evolution: increased flexibility in commercial financing, the need to provide modern equipment to economic agents. Leasing is the solution for collateral issues and for banks to get adequate collateral for their loans.

According to the NAS Leases, depending on the degree of distribution between the lessor and the lessee the risks and benefits related to the ownership of the assets leased, two types of leasing are delimited:

- ▶ operational
- ▶ financial

Operational lease is considered to be leasing under which the risks and benefits associated with the use and ownership of the leased assets are going to the lessor. In this form, the lessor transfers its assets to the lessee for a specific period to meet temporary needs. Upon expiration of the lease term, the assets are returned to the lessor. During the term of operational lease, the lessee is only given the right to use the rented property and the rights and obligations of the owner belong to the lessor.

Individual for operational leases is that the lessor leases the asset for a short period of time, also the time of the lease is much lower than the useful life of the asset. In pursuit of the purpose of recovering the costs incurred for the purchase of the good, the lessor tends to be leased more than once. At the same time, the lessor risks that the property will not be required. For this reason, under leasing, leasing rates are higher than in financial leasing.

The regulation of operational leasing transactions in the Republic of Moldova takes place through the following framework:

- Lease Law no. 59-XVI of 28.04.2005; [3]
- NAS "Leases" - for accounting entities according to the National Accounting Standard; [4]
- IAS 17 "Leases" until 31.12.2018 - for public interest entities and those that keep accounting under IFRS; [5]

- IFRS 16 "Leases" - to be applied from 2019 and will replace IAS 17. [6]

In operating leases, all obligations relating to the maintenance and repair of the asset are at the discretion of the lessor. Also, the risk of loss the leased asset is borne by the lessor, as opposed to financial leasing, where the risk of loss the leased asset is at the expense of the lessee.

Therefore, we can highlight the following features of the operational leasing, according to the Lease Act: [3, art.4]

- ✓ the good is delivered to the lessee for a shorter term than the depreciation term;
- ✓ the good may be leased several times;
- ✓ lease rates paid by the lessee cover only part of the cost of the property;
- ✓ lease payments are higher because there is a risk that the lessor will not be able to recover the investment if the asset can not be re-leased.

Operating leases specific to the lessor require the renting of technical means for a period of time less than the depreciation period. In this case, the rent payment during the period of validity of the agreement only partially compensates for the first payment of the leased means, which after the end of the lease term is twice paid for rent.

For the user, one of the priorities of this type of leasing is the possibility after the end of the rental period, or even before moving to a more modern machine.

Operating leases include the depreciation allowance calculated in accordance with the normative acts in force and a benefit established by the contracting parties [3, art. 3] and is reflected in the lessor as income from sales. During the management period the costs / expenses related to the leasing activity to the lessor can be reflected:

- In Account 811 "Basic Activities" with subsequent settlement to account 711 "Cost of sales" - when using the accounts of the accounting;
- Directly to account 711 "Cost of sales".

Under the Lease Act, [3, art. 11 paragraph 3] upon the expiry of the operating lease:

- a) the property may be bought by the lessee at the price agreed by the parties;
- b) the contract may be extended by the parties, the property remaining in the possession and temporary use of the lessee, at predetermined rates or at modified rates, depending on the rate of inflation and the evolution of the market.

Operating lease payments to the lessee are attributable to current costs and / or expenses according to the destination and place of use of the leased asset under the accrual basis principle on a systematic basis that reflects the benefits of using the asset over the lease term.

Table 1. Regulation of the operating leases according to the national and international normative framework.

National Accounting Standard „Leases”	International Accounting Standard IAS 17	International Financial Reporting Standard IFRS 16
1. Identification of an operating lease		
If the lease does not contain any of the conditions indicated in item 8 of the standard: <ul style="list-style-type: none"> - upon expiration of the deadline lease the ownership of the asset transferred to the lessee moves to the lessee; - the term of the contract the lease represents at least 75% of the economic life of the asset leased; - the amount of minimum payments the lease represents at least 90% of the fair value of the leased asset; the lease is considered operational. [4, pct.8]	If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards. [4, pct.12]	
	Identifying operating leases under IAS 17 versus IFRS 16, no significant changes are noted in the new Standard than the introduction of the term "asset-backed" and the specified example being addressed from the lessor's point of view: "... or there are variable payments leasing, which results in the lessor not essentially transferring all these risks and rewards. " [5, pct.65]	

Classification of the lease is made at the date of initiation and is revalued only if there is a change in the lease. [5, p. 66]	
All three standards provide that the type of lease is specified at its initiation and is reviewed only in the event of changes by the lessee or the lessor.	
However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes. [5, pct.13]	
2. Recognition of operating leases to the lessee	
<i>assets</i>	
Assets received under operating leases are reflected by the lessee in the off-balance sheet accounts at the amount agreed by the parties in the lease. [4, pct.26]	At the beginning of the lease, a lessee must recognize a right of use and a liability arising from the lease. [6, pct.22]
<i>costs</i>	
Costs directly attributable to the entry (restitution) of the leased asset and maintenance costs are recorded as current costs / expense according to the destination and place of use of that asset. [4, pct.27]	At the beginning of the lease, a lessee has to measure the asset's right to use at cost [6, pct.23]
<i>lease payments</i>	
Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.[5, pct.33]	
3. Recognition of operating leases to the lessor	
<i>assets</i>	
Assets transferred under operating leases are reflected in the lessor's balance sheet. [4, pct.43]	A lessor must disclose the underlying assets under operating leases in the situation of its financial position, depending on the nature of the underlying asset. [6, pct. 88]
<i>costs</i>	
Initial direct costs, directly related to the negotiation and conclusion of the operating lease that under the terms of the contract are borne by the lessor, are found to be current expenses. [4, pct.44]	A lessor must recognize as expenses the costs, including depreciation, incurred to obtain lease income. [6, pct.82]
<i>lease payments</i>	
A lessor has to recognize the payments of leasing on operating leases on revenue, either on a straight-line basis or on another systematic basis. [6, pct.81]	

Source: elaborate by author according to the NAS "Leases", IAS 17 "Leases", IFRS 16 "Leases"

Researching the regulation of operating leases according to the national and international regulatory framework, it can be seen that the NAS "Leases" correspond to a large extent with IAS 17 "Leases", the distinction being made between the NAS and IFRS 16 "Leases" applicable from 2019.

The carrying amount of assets transferred under operating leases at the end of the reporting period is reflected in the balance sheet of the non-current assets.

At the end of each reporting period, revenue calculated as operating lease payments is reflected in the income statement and influences the operating result.

According to the provisions of the Civil Code [1, art. 888], the lessee is obligated to cover the current expenses of use and maintenance in the condition of the property and to carry out the current repair of the property.

According to the Civil Code [1, art. 898], the lessor is obligated to carry out the capital repair of the rented property, unless the contract or the law provides otherwise.

For the operational lease to the lessee, the specificity of retaining income tax in the amount of 10% of the income obtained by natural persons who do not carry out entrepreneurial activity from the transfer / lease (rental, rental) of the movable and immovable property, with the exception of the lease of agricultural land [2, art. 90! p. 3];

In accordance with the provisions of the Lease Act [3, art. 17], the lessee bears all the costs of repaying the leased asset, being recorded in the debit of account 714 "Other operating expenses"

In the case of the repair of goods on the lessee's account, repair costs are reflected only in its financial accounts and no accounting records are made at the lessor.

For the purpose of taxation, the deduction of repair costs is allowed to the lessee up to 15% of the lease payment [2, art. 27 para. 9 letter b]

Conclusion. The fact that leasing transactions are important at international level is also the fact that the development of a new applicable standard in 2019 IFRS "Leases", which imposes new treatments for operating leases and will certainly cause changes in the accounting regulation of each countries, including the Republic of Moldova.

Currently, the accounting treatment of operating leases is largely consistent with the national and international frameworks. As a result of the development of transactions owed internationally, the new IFRS 16, "Leases" was developed.

Nowadays, financing conditions make leasing increasingly accessible. Leasing can and must become the main factor in creating and renovating capital in business.

Taking into account the fact that the leasing activity is of particular importance, being in continuous development, in the future, in order to make the leasing activity more efficient at the national level, it is recommended to comply with the requirements of IFRS 16 in the national one.

References

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