



Topical Issues of Accounting of Leasing Transactions in Terms of International Financial Reporting Standards

Anastasiya Valerievna Ryabchenko^{1*}, Elena Vladimirovna Shmatova², Victoria Yuryevna Pazderova³, Ruslan Aslancherievich Tkhangapso^{4,5}, Fatima Teuchezhevna Khot⁶

¹Kuban State University, 350040, 149 Stavropolskaya Str., Krasnodar, Russia, ²Kuban State University, 350040, 149 Stavropolskaya Str., Krasnodar, Russia, ³Kuban State University, 350040, 149 Stavropolskaya Str., Krasnodar, Russia, ⁴Kuban State University, 350040, 149 Stavropolskaya Str., Krasnodar, Russia, ⁵Adyghe State University, 385000, Russia, Republic of Adygea, Maikop, Universitetskaya St., 208, ⁶Kuban State University, 350040, 149 Stavropolskaya Str., Krasnodar, Russia. *Email: rav_77@mail.ru

ABSTRACT

Rental transactions play a very prominent role in property relations of many Russian enterprises and vary widely. Along with traditional rental services, their new forms also continue to develop in recent years, which is first of all leasing. However, in a challenging economic environment that objectively led to the decline of leasing transactions, there are a number of factors that contribute to the preservation of the interest of the business community. The article examines the modern approaches to accounting practice of leasing operations based on the current institutional framework. Due to the increasing interest in international leasing deals, the methodological approaches to recording the main operations of the lessee under the lease contract in accounting are offered, based on the requirements of international standards. Given the increased interest of external users to accounting due to the benefits provided by the practical application of international standards, as well as the need to increase the investment attractiveness of Russian companies, these provisions cause doubtless interest of all market participants to International Financial Reporting Standards and determine the relevance of the proposed article.

Keywords: Leasing, International Standards of Financial Accounting and Reporting, Operating Lease, Financial Lease

JEL Classifications: G32, M41

1. INTRODUCTION

In a situation where the issue of replacement of fixed assets is relevant for almost any Russian company, leasing as a form of financing of capital investments remains popular with a lack of own funds for real investments, as well as with capital investments in projects with a small period of operation or a high degree of variability of technology. It allows the lessee company to acquire the necessary equipment without withdrawing substantial financial resources from its turnover.

Companies of various business size and from various sectors resort to leasing, such as companies engaged in construction, production of building materials, road works, production and sale of cars. Additional demand for leasing from business is due

to the latest trends of import substitution in food production and agriculture.

However, in the face of uncertainty and reduced sales, many companies postpone or freeze investment projects. Accordingly, the market of leasing services also experiences a number of difficulties.

The purpose of the article is to assess and consider the prospects for the use of International Financial Reporting Standards (IFRS) in Russia in terms of recording and reporting of leasing transactions. To achieve this goal, the article provides a consistent solution of the following tasks:

- Assess the prospects of development and prove the feasibility of the application of IFRS on the leasing market in the light of the significantly worsening situation on it;

- Consider the institutional framework of leasing operations in Russia and assess its capabilities as a basis for the creation of accounting of leasing operations in accordance with IFRS;
- Develop proposals aimed at improving the national practice of accounting of leasing operations and their reporting in accordance with IFRS.

2. METHODOLOGY

This article uses empirical methods to assess the situation in the leasing market in Russia and prospects of its development and justify the possibility and feasibility of using IFRS provisions for business transactions within the framework of the lease contract.

Methodological bases of the research were such scientific methods of cognition as systematic approach, dialectical method, method of unity of the historical and logical analysis and synthesis, as well as the results of basic research in the field of institutional development, theory and methodology of accounting and financial reporting.

3. RESULTS

The results can be used in finalizing the Russian Accounting Standards (RAS) in the part of transactions with fixed assets acquired under finance lease (leasing) contract.

Maximum compliance of Russian accounting and reporting standards with international practice will increase the transparency of financial statements of domestic companies and will contribute to the growth of foreign investments in the Russian economy.

3.1. Overview of the Situation on the Russian Market of Leasing Services

As sad as it sounds, at the present time, the decline of the leasing market indicators is observed in almost all directions. In 2015, the portfolio of transactions in lease contracts narrowed by 30-40%, and the continuing drop, though uneven in various industries and areas of activity, is expected in 2016. (Main Trends on the Russian Market of Leasing Services (n.d.).

As of 01.10.2015, the volume of distressed transactions amounted to about 12% of the portfolio, while 2 years ago it was <4%. Main Trends on the Russian Market of Leasing Services (n.d.).

The smallest reduction is observed in the segment of transport leasing. The reasons for the latter were the active phase of the state program to subsidize car leasing and reduction in costs of transactions funding following the key rate of the Central Bank. In addition, the market is supported by avialeasing, which showed an increase in absolute volume (+29%) due to large transactions for the lease of the Russian planes.

Declining quality of the leasing portfolio has led to an increase in the volume of seized equipment. According to agency estimates, the volume of seized equipment amounted to about 53 bln rubles for the first 9 months of 2015, which is almost 90% higher than

2 years earlier. The vast majority of confiscated goods are usually sold in the secondary market (about 90% in January-September 2015). However, compared to the same period in 2014, the lessees have started to lease used equipment more actively: Its share in the volume of seized equipment has increased from 6% to 10% over the past 12 months. Main Trends on the Russian Market of Leasing Services (n.d.).

The aggravation of the foreign policy situation and imposition of economic sanctions against a number of strategic sectors of Russia prompted the Russian Government and large state-owned companies to develop programs aimed at development of import-substituting productions. Leasing of domestic equipment may play an important role in their development, but its potential can be realized only in the long term.

The point of the growth of the leasing industry in the next 2 or 3 years could be leasing of import-substituting equipment. This is confirmed by a steady decline in the share of imported equipment in the business of leasing companies.

State provides strong financial support to the leasing market. For example, in 2015, the Ministry of Industry and Trade provided substantial assistance to car leasing. In accordance with a specially developed program, leasing companies provided buyers of commercial vehicles a 10% discount on the initial payment from the price, which was reimbursed by the federal budget. As a result, the indicator of car sales planned by the Ministry of Industry and Trade as 16 thousand units increased to nearly 28 thousand cars. The program has been in place until October 2015, but some leasing companies have extended it to the end of the year. Main Trends on the Russian Market of Leasing Services (n.d.).

The leasing market is adversely affected not only by the decline in economic growth, but also by the cost of borrowed resources, which significantly increased back in the end of 2014. In addition, the devaluation of the ruble observed throughout the 2015 led to the fact that the financial burden on the lessees has almost doubled, with the possibility of refinancing liabilities at reasonable rates being minimized. In particular, it affects airlines that have actively updated the aircraft fleet by means of leasing and denominated their liabilities in foreign currency up to now.

It is impossible to miss the positive factors in the form of the state aid to individual sectors of the Russian economy. For example, considerable effort has been made for the development of the Russian aircraft industry and hence the segment of aircraft leasing. The program to subsidize the interest rate for purchasing innovative cars is implemented in the railway industry.

Reduction of the leasing market as a whole in the leasing of Russian-made vehicles was somewhat mitigated largely thanks to government subsidy program. Currently, the programs of subsidizing leasing of domestic equipment are being discussed.

In 2016, the recovery of the Russian economy should become an important factor in the growth of the leasing market. So far, the forecasts of the Russian Ministry of economic development for

GDP growth are at 0.7%. The investment in fixed assets is expected to decline by 1.6%. In this regard, according to the pessimistic scenario, in 2016 the leasing market will remain at the level of 2015, but under the optimistic scenario, a slight increase is quite possible in the market. Main Trends on the Russian Market of Leasing Services (n.d.).

A special role in the development of leasing is given to small and medium enterprises whose interest in the leasing products gradually grows. In just 1 year, the share of small and medium enterprises in leasing increased by almost 5% (Figure 1).

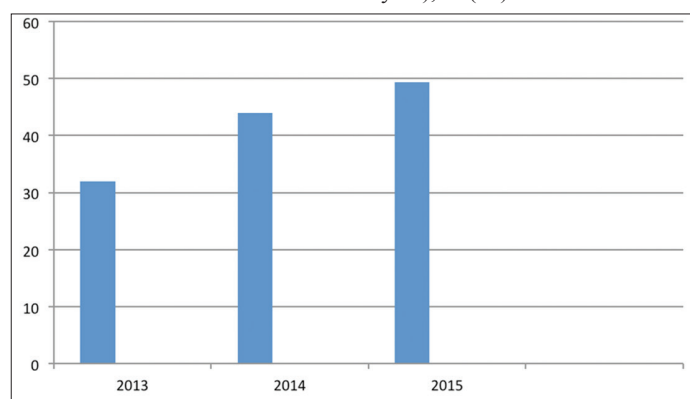
Therefore, a number of leasing companies, which previously worked mainly with large enterprises, currently enter the retail segment, where the main target group is small and medium enterprises. In this niche, the most popular is leasing of cars and trucks, construction and agricultural equipment, commercial equipment.

At the regional level, there are also many programs for small and medium enterprises and those aimed at supporting business from the real economy – above all, agriculture and the construction industry. However, the disadvantages of such programs include the uneven distribution of funds and the difficulty to receive them. As a result, the programs cover a small number of enterprises, because many of them simply do not have time to submit applications, or their applications remain unfulfilled.

Another important trend is operating leasing or lease-back, in which the property at the end of the lease term does not become the property of the client but returns to the leasing company. Monthly payments for this kind of leasing are much lower, because the client does not pay for the entire cost of the property. This area has good prospects for further development, as it exempts the lessee from the problems associated with the disposal of leased assets.

In addition, leasing with a complete service is gaining popularity, where the client receives an additional service with the property acquired on lease. For example, when purchasing means of transport, they get storage and replacement of tires, replacement car in the event of an accident, roadside assistance, maintenance and more.

Figure 1: Share of small and medium enterprises in leasing (data for the 1st half of each year), % (17)



Source: Main trends on the Russian market of leasing services (n.d.)

Thus, the main factors contributing to the development of leasing in Russia are:

- Growing demand for leasing of import-substituting equipment;
- State subsidies for leasing;
- Interest in leasing as a source of financing of fixed assets by small and medium enterprises;
- Development of additional services by the lessors.

3.2. Methodical Bases of the Organization of Accounting of Leasing Operations in Accordance with IFRS

3.2.1. Overview of sources on the issues of accounting of leasing operations

The variety of forms of leasing activity and its undoubtedly important role in solving the problems of investment development of business entities resulted in a steady interest in the various issues related to its implementation in the special literature. These circumstances led to a broad overview of the use of leasing not only in foreign sources and surveys (Gross et al., 2014); Urban Density, Law and the Duration of Real Estate Leases (2013), but also in numerous works of Russian authors.

First of all, we would like to highlight monographs containing a comprehensive approach to the consideration of the leasing activity.

One of the most significant papers on leasing issues is, of course, a workbook by V.V. Kovalev (Kovalev, 2011). In this workbook, the author separated, theoretically grounded and practically confirmed only those options of transactions and operations that appear to be most important for understanding the logic of lease transactions and leasing business. The standard approaches offered in the paper can be adapted, altered, complicated or simplified depending on the conditions of the specific transaction that are put forward by its members on the basis of considerations of risk, yield, production needs, etc.

We should note the author's attempt to draw attention to the problem of the formation of the essential concepts in the field of renting operations, since, for example, the ratio between the categories of "rent" and "leasing," which is being established in Russia and is already enshrined in a number of national regulations, does not quite correspond to the interpretation of these categories accepted in international practice. At the same time, Kovalev critically reviews the current state-recommended method of calculating the value of the lease payments and offers a fundamentally different approach to determining the value of the lease payments based on the discounting technique. We should note that these calculations, based on the simulation method, are widespread in the West, but have not yet received due recognition in Russia. Finally, we should pay attention to the presented comparison of the two options of assessment of the leased property on the lessee's balance sheet, both providing for the inclusion of the interest due to the lessor and without it. It is shown that each of these options has both undoubted advantages and certain disadvantages. Therefore, the choice of accounting options should be based on the analysis of the specific conditions of the lease contract, the current financial condition of the company and its policies with respect to the capital structure.

Antoshina (2011), in addition to the foundations of legal regulation and taxation of leasing operations, also considers the basic differences between the financial and operating leasing. The periodization of formation of legal framework offered by the author is also of great interest. An important place in the paper is given to the solution of problems of structuring the lease payments, as well as the choice of the source of leasing funding.

The monograph of Abramova (2012) consistently examines the legal characteristics of leasing relations (procedure of the conclusion and termination of the lease contract), peculiarities of the taxation of leasing operations, both transferred and leased property, as well as the procedure of reporting of leasing operations, both by the lessee and the lessor, in accounting.

The article by Kazankina (2008) is devoted to consideration of the sectoral aspects of leasing activity. This article assesses the role of leasing in boosting investment in the innovative development of the machine-building enterprise, describes the concept of “innovative leasing,” its specific features, and formulates some suggestions for its development.

Article by Ionichev (2013) is devoted to the consideration of possibility to improve the mechanisms of entry of equipment into the customs territory of the Customs Union under international financial lease contracts, which involves simplifying the method for determining the customs value and the payment of customs duties in case of replacing the customs procedure of temporary importation (admission) with the customs procedure of release for domestic consumption. The author presents these simplifications as the mechanisms for implementing the functions of the customs service focused on its users (customers).

The issue of international leasing is considered by one of the leading experts in this field (Filosofova, 2011). This article analyses the features of the regulatory and legal framework of the international leasing business. The basic reasons for the low presence of Russian leasing companies in these regions are defined. The basic ways of improving the competitiveness of the Russian leasing abroad are shown.

The article by Khromtsov (2012) offers the author’s method of evaluating the cost- efficiency of investment in leasing projects, which allows to make a comprehensive decision that takes into account the interests of both the leasing company and the lessee – the oil industry enterprise, as well as to include compensation payments in settlement mechanism.

In light of the expansion of international leasing relations, the need to ensure transparency and comparability of reporting data from all participants in the transaction, the publications by Kovalev (Kovalev, 2013; Kovalev, 2012) are of special interest. Finally, a significant contribution to the development of the methodology of accounting of leasing operations was made by Professor, Doctor of Economics Kulikova (2011). In particular, Kulikova paid much attention to the comparison of domestic and international approaches in accounting practice to various components of the lease contracts both by the lessor and the lessee,

peculiarities of reporting of leased property, as well as calculation of the distribution of interest payments on finance Leases and depreciation on leased assets.

It is assumed that the interest in various aspects of leasing activity, despite its decline due to the current economic situation, will continue in the future.

3.2.2. Legal regulation of leasing transactions in the Russian federation

Russian legislation that regulates relations in the field of leasing, despite its shortcomings, generally provides a favorable external environment for the development of the leasing business.

Leasing is understood as the type of investment activity on the acquisition of property and its transfer under the relevant contract to individuals or legal entities for a certain fee, certain period and under certain conditions stipulated by the contract, – the return to the owner or buyout by the lessee.

Leasing relationships are relationships between the three parties (lessee, lessor, property provider). Lessor is the owner of the property. Lessee shall use the property for business purposes.

The civil code establishes that:

- Participants of leasing relations are given the freedom to determine the conditions of the lease contract (Article 665 of the Civil Code);
- Lessee is the only subject who bears the risk of loss of the leased property. Moreover, the risk of accidental loss or accidental damage to the leased property is transferred to the leaseholder (lessee) at the time of the transfer of the leased property to them, unless otherwise provided by the contract of finance lease (Article 669 of the Civil Code);
- Lessee has the right to impose requirements directly to the seller of the property which is the subject of the financial lease contract arising from the purchase contract concluded between the seller and the lessor (in particular with regard to quality and completeness of the property and the timing of its delivery) (Article 670 of the Civil Code) (Civil Code of the Russian Federation 1996).

Thus, the lease contract is an agreement under which the lessor undertakes to acquire the property specified by the lessee from a particular vendor and give this property to the lessee for payment for temporary possession and use. The lease contract may provide that the lessor chooses the seller and the property to be acquired (Federal Law “About Financial Lease” № 164-FZ 1998).

A feature of relations in the legal field of leasing transaction is that they are not limited only to the parties that are participants of the lease contract. To make a leasing transaction, at least two contracts must be concluded – the lease contract between the lessor and the lessee and the contract of sale of property which is the object of lease between the lessor and the seller of the property. In more complex situations, a loan agreement, collateral agreement and agreement of insurance of the leased property can be concluded within the framework of leasing relations.

In modern conditions, leasing as a source of financing for capital investment retains the following advantages:

- Return on capital growth due to the appearance of free funds;
- Improvement in the financial statements due to the optimal reporting of property acquired under a lease contract on the balance sheet of the lessor or the lessee;
- Optimization of tax payments as a result of accelerated depreciation and hence reduced tax base for corporate income tax;
- Sale (buyout) of the leased asset at a lower residual value (compared to the market);
- Reduction of the amount of VAT payable to the budget due to reimbursement of VAT on leasing payments;
- Possibility of the return of the leased property to the lessor (lease-back), followed by renewal of equipment (used in transport companies), as well as its transfer to subleasing;
- Emergence of new forms of servicing lessees that allow for a more efficient use of the leased property.

Thus, in spite of the difficulties, leasing has certain prospects in our country in various segments of business.

3.2.3. Classification of lease transactions and their role in determining the party accounting for the leased object

Types of leasing are very diverse, depending on the conditions stipulated by the contract of leasing services. This approach allows flexible approach to leasing transactions by varying combinations of the lease terms, methods of property accounting and payment of interest.

The main types of leasing are financial and operating.

Content of operations, rather than the form of the contract, has a decisive impact on the determination of whether the lease is financial or operating. This provision is very precisely coordinated with one of the basic principles of both domestic and foreign accounting practices, which proclaims the priority of economic content over legal form.

In connection with the exception from the Law “On leasing” of the norm providing the opportunity to the parties to the contract to decide on their own about who will account for the property transferred on lease, the correct classification of the type of leasing becomes crucial.

So, a finance lease is characterized by the transfer to the lessee of substantially all the risks and benefits. The manifestation of the risks is due to possible losses caused by unplanned downtime, or the advent of more advanced technical counterparts, as well as the reduction of the level. As for the benefits, they are expectably related to the profits that the lessee intends to receive throughout the economic life of the asset, as well as possible revenue from its sale.

The following features that help classify the relations of financial lease are formulated in the economic literature:

- Lease term covers the major part of the economic life of the asset even when there is no transfer of ownership;

- Lease contract provides for the transfer of ownership of the asset to the lessee at the end of the lease term;
- Leased assets are of such a specialized nature that only the lessee can use them without major modifications;
- Present value of the minimum lease payments at the inception of the lease is almost equal to the fair value of the leased asset (Dirkova, 2015).

These symptoms are not always of indisputable nature. If other factors clearly indicate the absence of transfer of substantially all the risks and benefits related to ownership of the asset, relations between the parties are classified as operating lease (Semenov, 2015).

For example, if it is a short-term use of real estate (up to 1 year), the lease can be considered operating, which does not provide for the transfer of substantially all the risks and benefits related to ownership of the asset. They remain with the lessor who receives revenue from the lease of property. As for the lessee of the property, they get more benefits not from renting the facility (these are indirect costs), but rather from the conduct of the activities. However, if it is lease of a vehicle, there is already a direct link with the costs of the core income-generating activities.

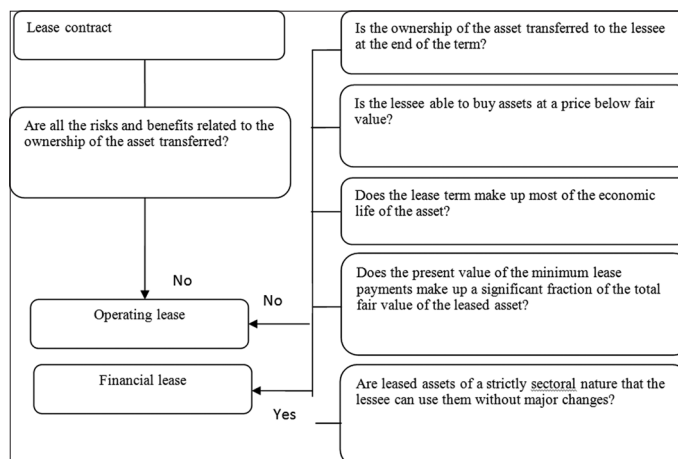
The lease must be classified at the date of commencement of the lease. If at some point the lessee and the lessor take a decision on the introduction of significant changes in the terms of the lease contract, the revised contract should therefore be regarded as a completely new legal act with all the consequences for the accounting under its conditions (Kulikova, 2011).

The following algorithm can be used for the purposes of the correct classification of the type of lease (Figure 2).

As you can see, the main feature of lease classification is the transfer of risks and benefits related to the ownership of the asset. If it becomes clear that the lease does not entail a significant transfer of all the risks and benefits related to the ownership, it is classified as an operating lease (Kulikova, 2011).

Lease classification is made at the conclusion of the lease contract. If the lessee and the lessor agree to change the terms

Figure 2: Algorithm for determining whether the lease is operating or financial



of the lease so that it will change the classification of the lease, the revised contract is regarded as a new contract over its term. However, changes in estimates of useful life and residual value of the leased asset or changes in circumstances (for example, failure to comply with the conditions of the lessee) do not lead to a revision of the classification of the lease for accounting purposes.

Thus, currently the choice of the party accounting for the leased object is not arbitrary, but is entirely subject to accounting standards depending on the type of lease contract. Therefore, if a concluded contract falls under financial lease adopted in (International Accounting Standard [IAS] 17 “Leases,”) the leased asset is recorded on the lessee’s balance sheet. If the contract concluded by the parties is closer to the criteria of operating lease, the asset is recorded on the balance sheet of the lessor acting as a lease provider.

These circumstances must be secured in the accounting policy of the company as an option of choosing the party accounting for the property, according to requirements of IAS 17.

3.2.4. Application of the provisions of IFRS (IAS) 17 “Leases”

In the case of financial lease, standard IAS 17 implies recording of the leased object on the lessee’s balance sheet only.

Objects acquired under financial lease are accounted by the lessee according to the following procedure.

In accordance with the Order of the Russian Ministry of Finance dated 17.02.1997 No. 15, if the leased asset under the contract is recorded on the balance sheet of the lessee (leaseholder), the value of the leased property is recorded on account 01 “fixed assets,” subaccount “leased property.” The total amount of liabilities under the contract should be recorded on the credit of account 76 “settlements with sundry debtors and creditors,” subaccount “Lease obligations” (Order of the Ministry of Finance of the Russian Federation №15 1997).

According to standard IAS 17, at the commencement of the lease, the asset (leased item) and liabilities (leasing obligation) are recorded on the balance sheet of the lessee in equal amounts. At the same time, the asset is accounted on the lessee’s balance in correspondence with liability account or by the fair value of the leased property or the present value of the minimum lease payments, if it is lower that the fair value IAS 17 “Leases.”

For example, on 01.10.2015, the organization receives production equipment under financial lease for a period of 4 years with annual installments of \$2,000. The total amount of liabilities under financial lease amounts to US \$8,000. Present value of minimum lease payments is \$5,710. Under the terms of the lease contract, the ownership of the equipment will be transferred to the lessee at the end of the lease term.

According to Russian regulations, accounting of the leased equipment on the lessee’s balance is made by the accounting records (Table 1).

Under IFRS, the leased equipment will be recorded in the accounting by the present value of the minimum lease payments as the following accounting entry:

Debit of account “Leased equipment”
 Credit of account “Lease obligations” – \$5,710.

Thus, the cost of leased equipment in the Russian and international accounting will be recorded at various estimates.

The lessee accounts for payments under financial lease according to the following procedure.

Standard IAS 17 recommends to distinguish between the amount of lease for financial expenses related to interest payments on lease and outstanding liability IAS 17 “Leases.”

The Russian accounting does not divide lease payments into components. In accordance with the Order of the Russian Ministry of Finance dated 17.02.1997 No. 15, the accrual of the lease payments due to the lessor is recorded on the debit of account 76 “Settlements with sundry debtors and creditors,” subaccount “Lease obligations” in correspondence with account 76 “Settlements with sundry debtors and creditors,” subaccount Debts on leasing payments. IAS 17 “Leases.”

Let’s continue consideration of the case study based on the same source data. Annual payments on the financial lease amount to \$2,000. In 2015, as part of the lease payments, the interest expenses are \$857, and the cost of repayment of principal is \$1,143.

By the end of 2015, the balance of the account “Lease obligations,” accounted for in accordance with IFRS, will be \$4,567, which is recorded as follows (Table 2).

Table 1: Correspondence of accounts in accounting the leased objects on the lessees’ balance

Debit	Credit	Amount, \$
08 “investments in non-current assets,” subaccount “Acquisition of individual assets under the lease contract”	76 “settlements with sundry debtors and creditors” subaccount “Lease obligations”	8,000
01 “Fixed assets” subaccount “Leased property”	08 “Investments in non-current assets,” subaccount “acquisition of individual assets under the lease contract”	8,000

Table 2: Accounting for lease obligations (account 76, subaccount “Lease obligations”)

31.12.2015 – \$1,143 – repayment of principal	01.01.2015 – \$5,710 – long-term liabilities
\$857 – interest expenses	31.12.2015 – \$859 – short-term liabilities
\$2,000	\$6,567
	Balance as of 31.12.2015 – \$4,567

By the end of 2015, the balance on account 76, subaccount “Lease obligations,” in accordance with Russian rules, amounts to \$6,000, which is recorded in the following way (Table 3).

Another quite interesting aspect of accounting practices is the lessee’s depreciation of the leased object in case of financial lease.

Federal Law “On financial rental (leasing)” establishes that depreciation is accrued by the party of the lease contract that holds the subject of lease on the balance (Federal Law “About financial lease” № 164-FZ 1998). In accordance with the order of the Russian Ministry of Finance dated 17.02.1997 No. 15, the lessee (leaseholder) accrues depreciation based on the value of the leased property and the rules approved in the prescribed manner. Depreciation is accounted on the debit of the accounts of production costs in correspondence with account 02 “depreciation of fixed assets,” subaccount “depreciation of property handed over in the lease.”

In accordance with standard IAS 17, the lessee records depreciation of the leased property as expenses in the period. The assets acquired under financial lease should be depreciated over the period of intended use. If there is reasonable certainty that the lessee obtains ownership of the leased asset by the end of the lease term, the period of intended use is the useful life of the asset. If there is no reasonable certainty that the lessee obtains ownership by the end of the lease term, the asset should necessarily be fully depreciated over the shorter of the two periods: The lease term or the estimated useful life.

For example, the lessee acquired equipment under financial lease for a period of 4 years with annual installments of \$2,000.

Under IFRS, the equipment is recorded at a cost of US \$5,710, while in accordance with Russian accounting rules, the cost is \$8,000. The useful life of the equipment is 8 years.

The organization has reasonable certainty that at the end of the lease it will obtain ownership of the equipment. The amount of annual depreciation under IFRS, in case of the straight-line depreciation, will be \$713 (\$5,710/8).

According to Russian regulations, the amount of annual depreciation is \$1,000 (\$8,000/8).

As for the objects transferred over in financial lease, they are withdrawn from the lessor’s account as the fixed assets and only create a receivable. Accordingly, the lessee records them in their own accounting as fixed assets, but with the advent of the obligation in accordance with the terms of the contract IAS 17 “Leases.” At the same time, the lease payments are accrued

under the special scheme – by cumulative or actuarial method. A particular method of calculating the payments is recorded by the lessee in their accounting policies.

“Off-balance sheet accounting” in this situation applies in the traditional Russian accounting system. However, off-balance accounting is not provided in the practice of IFRS. In this connection, when reporting under the requirements of IFRS, all items of off-balance sheet data must be translated into the main reporting group, but with a recording of the liabilities of the opposite side.

4. CONCLUSION

Thus, following the results of the consideration of the issues of application of international standards of financial accounting and reporting to leasing operations presented in the article, the following conclusions were made.

Despite a significant drop in performance in the segment of leasing activity, however, the factors contributing to the development of leasing in Russia should include the growing demand for leasing of import-substituting equipment, government subsidies for leasing, interest in leasing by small and medium enterprises, as well as the development of additional services by the lessors.

The need for the application of IFRS in Russia, despite the difficult economic situation, is objective in nature and is aimed at improving the transparency of financial statements for external users – potential investors. The institutional basis for the successful application of IFRS in the part of leasing operations (IAS 17 “Leases”) is a further rapprochement between the national legal framework with international practice.

With regard to the use of leasing operations, application of the corresponding standard is possible only in conditions of perfect clear identification of the lease contract as an operating or financial lease. In the latter case, this circumstance dictates a clear choice of the party accounting for the leased object in favor of the lessee, allowing to use IAS 17 “Leases.” In this situation, the lessor will be able to comply with the requirements of the international standard only in the case of abandoning the traditional for our country off-balance sheet accounting and recording the cost of the leased asset transferred in the form of assets as the main indicators of the financial statements.

The lessee will achieve the compliance with international standards under a financial lease contract only if the leased asset is fully depreciated over the shorter of the two periods: The term of lease or the estimated useful life. In this case, there may be a conflict with Russian standards that uniquely consider the useful life of the property determined in accordance with the requirements of the relevant regulations as a period of depreciation.

On the whole, despite the differences in some Russian and IAS, accounting of the financial lease in our country is based on quite a similar approach, which, however, does not preclude its further adjustments. This fact can best be achieved through the adoption

Table 3: 76, subaccount “Lease obligations”

31.12.2015 – \$2,000 – repayment of obligations \$2,000	01.01.2015 – \$8,000 – long-term liabilities \$8,000 Balance as of 31.12.2015 – \$6,000
---	---

of the RAS “Leases” with the inclusion of a section on accounting of leasing operations.

REFERENCES

- Abramova, N.V. (2012), Rental Agreement, Leasing: Accounting and Taxation. Moscow: Status Quo 97,168.
- Antoshina, O.A. (2011), Leasing. Moscow: Tax Bulletin. p288.
- Civil Code of the Russian Federation (Part Two) of 26.01.1996 #14-FZ (as amended on 29.06.2015).
- Dirkova, E.Y. (2015), Accounting for lease according to IFRS rules. Practical Accounting, 4, 60-63.
- Federal Law “About Financial Lease” of 29.10.1998 #164-FZ (as amended on 31.12.2014).
- Filosofova, T.G. (2011), Opportunities and prospects of development of leasing business in international markets. International Economics, 1, 42-48.
- Gross, A.D., Huston, G.R., Huston, J.M. (2014), The path of lease resistance: How changes to lease accounting treatment may impact your business. Business Horizons, 57, 6, 759-765.
- International Accounting Standard (IAS) 17 “Leases” (as amended on 11.06.2015) (effective on the territory of the Russian Federation by Order of the Russian Ministry of Finance of 25.11.2011 #160n).
- Ionichev, V.N. (2013), International leasing: Import of equipment. Leasing, 1, 48-55.
- Kazankina, O.A. (2008), Leasing as a tool of investment in the innovative development of the machine-building enterprise. Bulletin of the Saratov State Technical University, 4, 186-190.
- Khromtsov, L.S. (2012), Evaluation of efficiency of leasing project: An integrated approach. Economic Analysis: Theory and Practice, 23, 25-37.
- Kovalev, V.V. (2011), Leasing: Financial, Accounting, Analytical and Legal Aspects: Workbook. Moscow: Prospect. p448.
- Kovalev, V.V. (2012), Issues of comparability of reporting data in leasing operations. International Accounting, 27, 2-12.
- Kovalev, V.V. (2013), Logic of reporting of lease operations in the accounting and prospects of its change. International Accounting, 21, 2-8.
- Kulikova, L.I. (2011), IAS 17 “Leases” and the Russian rules on leasing accounting: Comparative analysis. International Accounting, 24, 2-7.
- Main Trends on the Russian Market of Leasing Services (n.d.). Magazine “Director General.” Available from: <http://www.gd.ru/articles/8227-rynok-lizingovykh-uslug>. [Date Views: 01.21.16].
- Order of the Ministry of Finance of the Russian Federation “About the accounting treatment of Transactions Under a Leasing Contract” of 17.02.1997 #15 (as amended on 23.01.2001).
- Semenov, M.V. (2015), About choosing the asset holder of the leased property. Housing and Utilities: Accounting and Taxation, 8, 38-44.
- Urban Density, Law and the Duration of Real Estate Leases. (2013), Journal of Urban Economics, 74, 99-112.