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ACCOUNTING OF LEASE RELATIONS IN ACCORDANCE WITH IFRS 16 "LEASE" IN MODERN BUSINESS

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Abstract:

In this article, the author reveals the essence and importance of rental relations in modern business. The procedure for accounting for leases in accounting is disclosed. The need for accounting in accordance with IFRS 16 "Lease", as well as problems that occur in the process of accounting for lease relations.

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Introduction

Recently, renting has become increasingly important for business representatives. Thanks to the lease, companies get the opportunity to use in their activities those objects that they do not have the financial ability to purchase on the right of ownership. That is why organizations are increasingly faced with the problems of reflecting the consequences of such business transactions in their financial statements.

Previously leased assets of the company were required to be on off-balance sheet accounts, which made the accounting statements obtained by the results of accounting unreliable and untrue, and the results of its analysis irrelevant, which had a negative impact on the management decisions made by users of the reporting. In world practice, companies that prepare their financial statements in accordance with International Standards have been using IFRS 16 "Lease" since 2019.

Thus, IAS 17 "Rent" adopted in 1984 has been increasingly criticized by scientists and experts over the years. Such discontent was caused by a number of good reasons, which are described in the works of foreign economists studying IFRS.

One of the main reasons for the development of new provisions that became the basis for IFRS 16 was the lack of transparency of financial reporting data and comparability of the accounting and reporting information received. Thus, the lease reflection system that existed before 2018 did not allow the full picture to be disclosed in the statement of financial position. Leased assets under the control of the

company and used in current activities, along with liabilities related to lease agreements, were accounted for as part of operating leases and were reflected exclusively in the notes. As a result, the information available in the reports of organizations, in terms of balance sheet indicators, became insufficient for investors and analysts to make decisions, which forced them to independently adjust some elements of the statement of financial position, achieving the maximum possible reliability and comparability of data between the studied enterprises. However, the resulting data were also far from reality, since users often did not take into account that financial lease obligations were disclosed in the financial statements at discounted cost, and operating lease obligations reflected in the notes were not discounted. Thus, the existing debt was unreasonably overstated. Different approaches created asymmetric information in the realities of that time. To solve this problem, the IFRS Council proposed to disclose both financial and operating leases in the statement of financial position, which was later fixed in a new international standard that replaced IAS 17, IFRS 16.

The second signal indicating the need to develop a new standard was the abuse by companies of the advantages of operating leases. Tenants structured large contracts, after which they equated them with operating leases. Thus, under the guise of IAS 17 rules, companies have been actively "hiding" both large leased assets and significant liabilities in the notes to the financial statements for decades. In other words, the lease, which could be considered as a source of financing, including as part of borrowed capital, could simply not be reflected in the statement of financial position, which increasingly pointed to the imperfection of IAS 17.

One of the reasons for replacing IAS 17 with the new IFRS 16 is also the imperfection of the wording. A striking example was the absence in IAS 17 of precise criteria for attributing leases to operating, which, in turn, was considered in the standard only as all those lease operations that the company could not attribute to finance leases. We can say that the standard contained a hierarchy of types of leases and put financial above operating, which by definition should not be.

Despite the fact that the new lease accounting standard describes in detail the rules for reporting lease transactions, and also solves most of the problems that IAS 17 previously created, there are still controversial provisions in it. So for example:

The international standard IFRS 16 should apply to all lease agreements, including similar cases under sublease. However, before using it, the company needs to determine whether this agreement is a lease agreement, or whether it contains a lease component. According to IFRS 16, an agreement is considered a lease or has a lease component if, under this agreement, the right to control the use of an asset, which is called an "underlying asset" by developers, is transferred in exchange for compensation for the period specified in the agreement.

Contracts concluded by companies can be of various types: contracts with lease components and lease agreements that have non-lease components. According to the new standard, the lessee and the lessor are obliged to distinguish the components of the lease from the components that are not rental, if the following conditions are met simultaneously :

- 1) the lessee has the opportunity to benefit from this asset separately or jointly with other assets owned by the lessee;
- 2) the underlying asset specified in a specific contract does not depend on other underlying assets specified in this contract (or this dependence is not decisive).

An agreement has a lease component only when that component is associated with an identified asset. It can either be specifically specified in the contract, or follow from the context of the latter. In this case, the accountant needs to understand whether the lessee has full control over this asset [49]. In other words, if the lessor has a valid opportunity to replace this asset with another one with similar properties and characteristics during the lease, then the lessee does not have 100% control over the identified asset. It follows from this that this contract will not have a lease component.

After the rental components and non-rental components have been distinguished in the course of the study, the payments received from them should also be distinguished. In this case, it is necessary to use the rules specified in IFRS 15 "Revenue from contracts with buyers" and divide the transaction price into different components of the contract, based on the relative individual selling prices. If the contract does not contain information about individual sales prices, then companies need to evaluate them in accordance with the methods specified in IFRS 15. However, the standard provides for a choice for organizations in which they may not allocate the components of the contract. This is possible if the accounting policy of the organization has chosen a method of accounting without splitting into components. This policy choice is possible with respect to asset classes – rental objects. In this case, the entire contract is taken into account as a lease agreement.

It is worth noting that the distribution of the components of the contract into rental components and non-rental components, as well as the choice of estimates used to determine the observed individual prices, occur on the basis of the professional judgment of the organization's specialists, since most often tenants simply do not have the information necessary for distribution, which is another problem. In this case, information is needed from the landlord, who must provide approaches for separating the components. However, in practice, this is very rare, since landlords most often do not evaluate the elements separately for each of the clients. That is why the professional judgment of the employees of the tenant company in this case is the basis for decision-making.

So, the contract can be considered a lease if:

- 1) the rental object is identified;
- 2) the lessee receives all economic benefits from the use of the asset;
- 3) the determination of the method and purpose of using the asset is carried out by the lessee;
- 4) the asset cannot be replaced by the lessor.

If all of the above requirements are met, then there is a high probability that the contract is a lease, and, therefore, companies should apply the rules reflected in IFRS 16 to it .

Thus, even at the stage of concluding a lease agreement, it is necessary to make many decisions, on which the correct further reflection in the accounting and reporting of this agreement will depend. And most often all these decisions will be made on the basis of the subjective professional judgment of the company's specialists, which necessitates the solution of an important scientific and practical problem, which consists in the application of a variety of subjective assessments for the purpose of reflecting in the financial statements the reliable financial condition and financial results of the organization, which should be more objective.

Despite the fact that IFRS 16 "Lease" discloses in detail the specifics of reflecting transactions related to leased assets in companies' financial statements, it still contains a large amount of unsettled provisions, and also refers to subjective estimates when solving many issues. In such cases, the emphasis is on professional judgment, which, according to International Financial Reporting Standards, often plays a decisive role in decision-making. However, such an individual approach may not always provide the necessary reliability of the compiled statements, which is important when assessing the assets and liabilities of the company by users of accounting statements.

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