European Journal of Accounting, Finance & Business

Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

ACCOUNTING AND FISCAL ASPECTS ON LEASING FINANCING

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Abstract

Lately, the leasing concept has begun to become more and more important due to the fact that this financing method satisfies in very short time the need for investment funds of economic agents. Also, by leasing, economic agents avoided complicated procedures for contracting bank credits. The popularity of this funding is due generally to affordability, but also to the benefits offered, with fiscal treatment being just one of them. In the present paper we have dealt with some theoretical aspects regarding the concept of leasing, by defining the concept, the presentation of the types of leasing operations and the contract underlying the leasing operations, by exemplifying the main operations regarding the financial leasing and of the fiscal treatment applicable to it.

Keyword: financing, financial leasing, operational leasing.

JEL Classification: M41, M49, G20, G21

I. Introduction

Leasing is a financing technique for companies that want to acquire machinery and equipment but do not have the necessary facilities and want to expand their business and improve their performance. Commercial companies use this technique to not strike movable and immovable goods by contracting various loans and affecting the whole activity, but also because of prices. The purpose of the lease is to fully cover the investment funds by foreign funds. This technique enables enterprises to be at the same pace as the technology evolution in the field. As stated above, leasing provides the technological evolution of the enterprises, because at the end of the period, the company can choose to become the owner of the good or can return it to the favor of another, much more performing. Through this technique, the manufacturer can easily market the

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Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

equipment, the financiers help both producers and users by fully financing the investment, and the user benefits from modern and performing equipment at lower costs.

II. II. Presentation of the leasing concept

The definition of leasing can be given both economically and legally. From an economic point of view, leasing is a financing operation in which the financier provides the necessary funds for the entire investment. From a legal point of view, leasing is a complex contract that allows a person to obtain and use a thing without paying the price immediately, with the possibility of buying it at a residual price.

Responding to the specific interests of the Romanian environment, the legislator delimits the regulations of the Western states, giving leasing not only an economic purpose, but also a social one. The economic goal is to encourage investment by providing a multi-asset financing instrument, including tax, while also providing credit security without burdening goods with special tasks.

The term leasing is susceptible of different interpretations and especially of expansion to other operations that are not part of its sphere, such as renting or selling affected by the term. The term "leasing" joins the other international economic terms, which have an Anglo-American origin. Etymologically, the word "lease" is of French origin. The first legal definition of leasing in Europe comes from France, where the transaction is called "credit-bail" (Clocotici & Gheorghiu, 2000: 9). The word "Leasing" comes from English, from the word "leasing" and the word "to lease" that would translate, in a first sense, to "rent". The development of this product over the last decades has, however, confirmed a specific form of financing whose name has departed from the initial understanding, better represented today by the words "to rent" or "to hire" (Financial Services Association - ALB Romania, n.d.).

II.1 Leasing finance

In the modern period, especially after the Second World War, as a result of scientific and technical conquests, new instruments were developed for other high-performance commercial activities (computer technology, communication devices, high-performance machines and equipment) (Cărpenaru, 2009).

The high prices of these goods and the difficulty in purchasing money for their purchase have led to the emergence and establishment of a contractual technique - leasing - which ensures the financing of the acquisition of these goods for use in commercial activity. Such a legal technique is based on the complementarity of the interests of the three persons involved in the operation: the financier, interested in the payment of the money funds, by buying the goods necessary for the user; the supplier interested in capitalizing on the good he produces or disposes of; the user, interested in the use of the property, in return for a rent and having the option of buying the property at a reasonably residual price (Cărpenaru, 2009:419).

Leasing has proven to be the most effective means of financing productive investment, providing added security to the capital owner. States have encouraged leases to invest in general interest. Some state projects can be financed through "public leasing"; community investments can use "communal leasing". Last but not least, leasing combined with adequate tax incentives can be an effective means of developing underdeveloped regions.

Leasing is a modern alternative to classic credit, but it can also be a leaseback method. This means encouraging cost-effective businesses capable of generating the profit needed to pay royalties. This form of financing gives the lender the right to own the property right, which gives the credit a low degree of risk.

Internationally, leasing is a means of supporting export or financing of companies with development projects, and last but not least, leasing can be a credible way to finance investment by developing countries (Clocotici & Gheorghiu, 2000: 28-29).

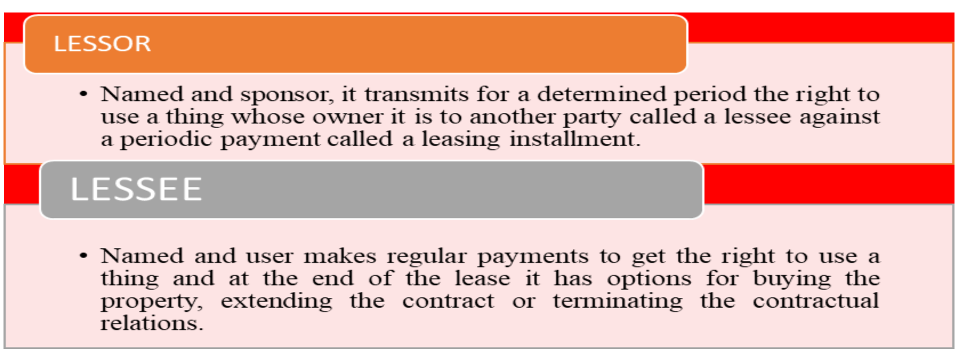
Leasing is integrated with modern financing techniques, driven by the rapid pace of trade, technical progress, which involves investments that sometimes exceed the possibility of self-financing and the lending capabilities of the entrepreneur. Leasing provides for full financing of the investment through borrowed funds, without the beneficiary providing insurance measures likely to affect its commercial dynamism (Belu-Magdo, 2004: 248).

2.1.1 Parts of the leasing contract

In order to understand the mechanism on which this funding method works, it is essential to know the parties involved in this contract, (Florescu et. al., 2013).

The two parts of the contract are briefly presented in the Figure 1:

Figure 1- The parts of the leasing contract



Source: Own elaboration

Volume **VI**/2018 ISSN 2344-102X
Issue (XVI) / **February** 2018 ISSN-L 2344-102X

2.1.2 Leasing forms

Depending on the transfer of the risks and benefits associated with the ownership of an asset, we have a financial and operational type of leasing. A lease is recognized as a finance lease if it meets at least one of the following conditions:

- The title of ownership of the good is transferred to the lessee until the end of the lease term;
- The lessee has the option of buying the good at an estimated price to be small enough compared to the fair value at the date when the option becomes exercisable, so that at the inception of the lease there is reasonable assurance that the option will be exercised;
- The lease term covers, for the most part, the economic life of the good, even if the title is not transferred;
- The total value of the lease rates, less the incidental expenses, is greater than or equal to the value of the input of the asset, represented by the value at which the asset was purchased by the grantor.

A lease contract is recognized as operating leases if it does not qualify as finance leases. Returning to financial leasing, it offers a number of advantages that are not found in the case of bank credit:

- The investment effort is lower and so we can use our own capital for other projects.
- Customer accessibility to multiple sales channels.
- The pledge is represented only by the good bought.
- Access to finance is also much easier.

III. II.2Fiscal aspects specific to the financial leasing operation

An important aspect is represented by the fiscal treatment applied to the financial leasing operation. In the case of financial leasing, the lessee (the user) is treated as a taxable owner. Thus the user has the following status:

- Must recognize financial leasing operations on the balance sheet;
- Record the depreciation of the asset subject to the lease;
- To deduct interest accrued in the contingent of the accrual accounting expense account.

The main accounting records related to financial leasing operations are shown in Table 1.

European Journal of Accounting, Finance & Business

Volume **VI**/2018 ISSN 2344-102X
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Table 1- Economic operation related to financial leasing

Accounting records			Explanation
% 4093 4426	=	404	Registration of the advance bill. Advance is a specific feature of financial leasing.
404	=	5121	Advance payment bill
2131	=	167	Entering the property in management from the moment the lessee has the right to use the property.
167	=	4093	Advance Invoice Adjustment
DEBIT	8051		Highlighting interest payable on an extrabilance account
666	=	168	Recording of the interest rate related to the leasing rate in the counterpart of the expense account
% 167 4426	=	404	Recording the lease rate together with the related interest on the basis of the invoice issued by the lessor. Of course this invoice is VAT.
% 404 168	=	5121	The lease and the related interest payment are recorded.
CREDIT	8051		Simultaneously with interest payment, the off-balance sheet account previously credited will be credited
6811	=	2813	Recording the monthly depreciation of the asset subject to the lease. Depreciation costs will reduce the result
% 167 4426	=	404	Receipt of the residual value invoice in order to be purchased by the lessee at the end of the contract
404	=	5121	Payment of the payment of the residual payment bill is recorded.

Source: Processing from (Hlaciuc & Mihalciuc, 2008; Hlaciuc et al., 2007; OMFP 1802/2014).

The symbols used in the Tabel 1 are presented with the explanations in the Table 2.

Table 2- Explanations of account symbols used

Account symbol	**Explanations**
167	Other borrowings and assimilated debts
168	Interests related to assimilated loans and debts
2131	Equipment (machinery and equipment working)
2813	Depreciation of installations and means of transport

Table 2- *Cont.*

Account symbol	**Explanations**
404	Suppliers - tangible assets
4093	Advance payments for tangible assets
4426	VAT - Value-added tax deductible
5121	Accounts in lei (RON) banks
666	Interest expenses
6811	Operating Expenses on Depreciation of Fixed Assets
8051	Interest to pay

Source: The general account plan. (2018). Retrieved from: http://www.e-contabilitate.ro/plandeconturi.html

It is important to note that leasing is not just a way of financing, it can also be a way to make various financial engineering.

For example, a sale transaction of a long-term asset and the lease of the same asset under a lease term is called leasback. As a result of such an operation, the person who sells the asset obtains financing and also remains with the right to use the asset he has sold.

The Beneficiary Entity (the lessee) will not recognize the sale of the asset in the accounts, as the income recognition conditions are not met. The asset thus remains recorded at the value existing before the lease with the related depreciation.

The financing operation will be highlighted by the accounting item: 512 = 167

IV. Conclusion

Concluding, we consider that leasing financing is an advantageous alternative to classical financing methods, as it is made accessible by many small and medium-sized economic entities (but not only) resorting to leasing to other sources of finance because easy to get financing and fiscal treatment applied are advantages that should not be ignored.

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