

Conceptual bases of the using of the international standards in accounting and internal audit of leasing operations

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Abstract — The paper highlights the issues related to the validity and appropriateness of the using of the international standards in the processes of accounting and internal audit of the leasing operations. The problem, the results of which are presented in this article, is that due to the changes in the Russian legislation there is a necessity for a detailed researching of the possibilities of using of the international standards in accounting and internal audit. A brief overview of changes in the Russian legislation relating to the accounting of leasing is presented as a result of the researching, its content and importance is disclosed. The statutes about accounting and internal audit of leasing operations according to the requirements of the international standards are also presented.

Keywords — *leasing, lessor, internal audit, IFRS, International standards for the professional practice of internal auditing (ISPPA), renting, lending*

I. INTRODUCTION

The relevance of the research's theme is due the fact that in the Russian Federation the using of the international standards in the practice of accounting and internal audit is still a relatively new type of activity. Due to the lack of specialists with the necessary qualifications, lack of teaching materials, as well as the lack of research of this issue, the using of international standards often raises questions among

practitioners. This is especially true for such a financial instrument as leasing, which only recently began to gain popularity in comparison with renting or lending. Also, the relevance is associated with the changes in legislation in the field of a leasing, which take effect in the Russian Federation from 1 January 2019.

In the course of the research the scientific works of Russian and foreign specialists were studied, the review of the Russian legislation and international standards was made.

The purpose of the research is to reveal the content of the main changes in the Russian legislation concerning the procedure of accounting of leasing operations, as well as how it will affect on the activities of practitioners. To achieve this goal, the following tasks have been consistently solved: to review the regulations governing leasing in Russia, to analyze the changes that came into force on January 1, 2019, to justify using of international standards in accounting and internal audit of leasing operations, to disclose the main provisions of procedures of accounting and audit.

II. MATERIALS AND METHODS (MODEL)

In the process of the research the theoretical aspects of accounting and internal audit of leasing operations according to the requirements of international standards, various general

scientific methods were used. The main ones are analysis and synthesis, induction and deduction, comparison, abstraction, observation, modeling, etc.

III. RESULTS AND DISCUSSION

1. Now the active market is rapidly developing and the country's economy is not standing still, one of the pressing problems is the international standardization of accounting in Russia. In this regard, the Russian accounting system (RAS) is undergoing a period of an adaptation to international financial reporting standards (IFRS). In this regard, in modern conditions, enterprises and accountants are faced with a number of difficulties in reporting due to the rules of IFRS [1].

On the 1 January 2019, a new reporting standard for leases came into force. It should fundamentally change the lease reporting, and this will affect on those companies that report according to the international financial reporting standards (IFRS).

To date, the Ministry of agriculture of the Russian Federation approved the register of breeding animals and nomenclature of equipment and livestock equipment recommended for the supply to agricultural producers on leasing terms [2].

The leasing of biological assets (bioleasing) will contribute to the strengthening and development of the mechanisms of interstate dialogues about food security in accordance with the Concept of foreign policy of the Russian Federation [3].

In January 2016, the Council on international financial reporting standards published a new IFRS 16 standard, which relates to leasing and has been in force since January 2019. According to the Supplement № 9 to the order of the Ministry of Finance of Russia from 28.12.2015 No. 217H «About the introduction of International financial reporting standards and Clarifications of International standards» from 01.01.2019, the new IFRS 16 «leases» came into force, the purpose of which is to determine the appropriate accounting policy and the composition of the information to be disclosed in the statements in respect of lease agreements for tenants and landlords. The new provisions of the standard are intended for address existing of accounting issues and provide greater transparency with respect to assets, liabilities and lease risks (table 1).

IFRS (IFRS) 16 «rent» was the result of a project initiated by international accounting standards Board (IASB) in conjunction with the U.S. national standards development - standards Board financial accounting of the United States (FASB). Undoubtedly, its emergence was a revolution in the field of accounting, as the accounting of tenants is changing radically: now any lease, with a few exceptions, should be reflected in the form of assets and liabilities in the statement of financial position and is considered for the tenant (lessee) as a financing operation.

Table 1. THE CHALLENGES OF THE NEW IFRS (IFRS) 16 "RENT»

	Existing accounting problems	The new standard solves the problem
Renter	Many assets and lease liabilities are recorded in off-balance sheet accounts	Recognition of assets and lease liabilities for all leases except leases of less than 12 months and leases of assets of negligible value
	Insufficient disclosure of operating leases	Additional requirements for the disclosure of information
Lessor	Lack of transparency with respect to residual risks on leased assets	Additional requirements for the disclosure of information in relation to the risks [4] associated with the stored landlord's rights to the assets, the leased

For lessees, operational leasing will disappear as a concept – in other words, any leasing or lease will have to be on the balance sheet of the organization. This means that the assets leased under the lease will be among other assets and all future lease payments will be in liabilities as a financial liabilities.

The new reporting standard, which came into force at the beginning of 2019, should simplify the principles of classification of lease terms in the financial statements. For many companies, this will be a revolution in reporting as the new rules eliminate the concept of operating leases. Any kind of leasing and lease should be treated only as a financial lease, in other words – will be reflected in the balance sheet. So far, operating leases have remained an off-balance sheet element, and only rents attributable to costs have had an impact on reporting. Changes will affect on the value of assets and liabilities in the financial statements.

Based on the new concepts, a lease is a contract or its element granting the right to use the underlying asset for a certain period of time in exchange for compensation and reimbursement (pic. 1).

The standard defines an underlying asset as an asset provided by a contract, or the price of which is the basis for calculation in the performance of the contract.

A lease (and/or lease) is an agreement with the right to control the use of an identified asset for a specified period of time for a fee.

We consider it appropriate to pay special attention to the «Explanations of the balance sheet and the report on financial results». In our opinion, the notes to the financial statements in accordance with IFRS are more informative than the form according to local standards.

Over time, a situation may arise where the lease contract can be measured at fair (discounted) value. This right is provided by FZ - 10 «On leasing» (as amended by the Federal law of 29.01.2002 № 10 - FZ), with the mandatory reflection of this right in the terms of the lease agreement. In this case, according to IFRS, it is necessary to specify the reasons owing to which such opportunity appeared.

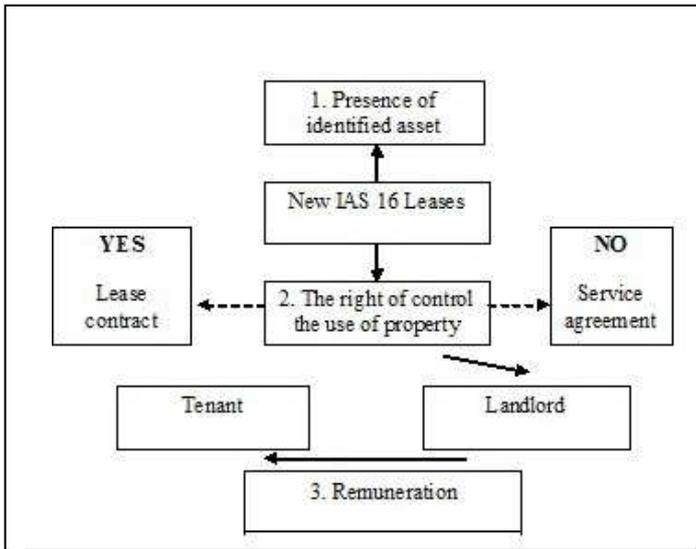


Fig. 1. Terms of recognition of financial leases under the rules of the new IFRS 16 «Lease»

In relation to the leasing of technical and biological assets, organizations should disclose in the Explanatory Notes to the financial statements the following information (picture 2).

This is not a complete list of information that should be reflected in the Explanatory Notes to the financial statements in accordance with IFRS (IAS) 17 Leases (Leases) and detailed disclosures about leasing: the impact of market conditions on the formation of the cost of leasing; the influence of the physiological properties of the leased asset. Detailing the leasing of technical and biological assets of the agricultural industry will allow you to compile complete and reliable reporting information that contributes to the growth of business management efficiency.

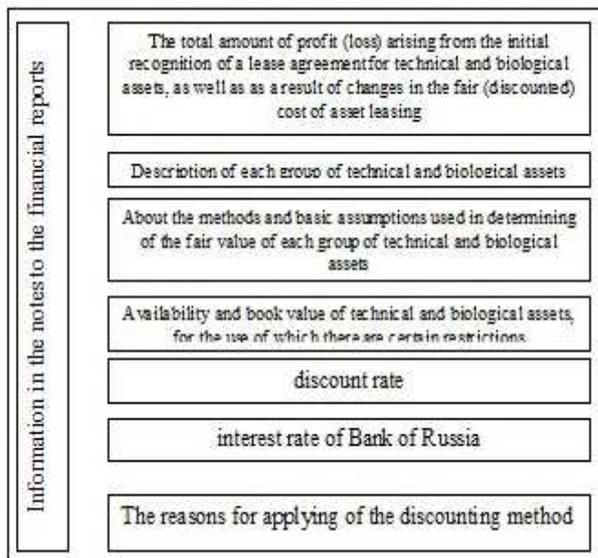


Fig. 2. Disclosures of the information about leasing in the Explanatory Notes to the Financial Statements in accordance with IAS 17 Leases

Since any correct management decision is based on the timely, reliable and complete information capacity of accounting local acts, an important role in the system of information and analytical support belongs to the correct documentation of all perfect business processes [5].

To date, significant work has been done, contributing to the gradual transition of a number of companies to the preparation of financial statements according to international standards (Picture 3).

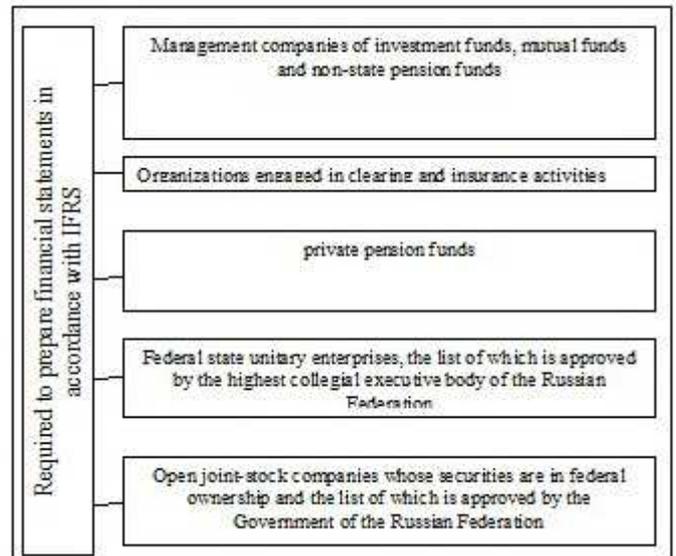


Fig. 3. Organizations required to prepare statements under IFRS

Leasing companies that prepare IFRS statements and make their own estimates and assumptions that affect the reported amounts and the carrying value of assets and liabilities in the next financial year are no exception.

In preparing the statement of financial position, management is responsible for disclosing information relating to the leasing activities of the organization. The persons responsible for corporate governance are responsible for overseeing the preparation of the financial position of the organization [5].

Estimates and assumptions are continually analyzed on the basis of leasing experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances..

2. To date, it is very important that agricultural enterprises can not avoid risks in the course of their activities [6]. One of the most effective ways to solve these problems is to organize the functioning of the internal audit service in agricultural holdings [7]. Internal audit of leasing operations is regularly carried out in cases when the volume (size) of leasing payments is significant. It allows early detection and prevention of violations of legislation in the field of leasing, which allows the organization to avoid penalties from regulatory authorities or contractors.

For the implementation of internal audit of leasing operations we consider expedient the application of International professional standards for internal audit (MPSV) developed by the International institutes of internal auditors (The Institute of Internal Auditors (IIA)). This is due to the fact that in the legislation of the Russian Federation there are no legal acts regulating the internal audit procedure, and the IASC has been successfully applied in the practice of various companies since the mid-twentieth century.

To achieve high efficiency of the proposed algorithm for the internal audit of leasing operations in accordance with ESVA, consisting of 8 stages.

In the process of implementation of the first stage, the key features of the state and economic activity of the organization are identified, qualitative and quantitative assessment of the factors affecting its activities is carried out. In the process of the second stage, it is necessary to prepare information support for the audit. At this stage, a list of documents regulating the legal, economic, organizational and technical support of the organization is formulated, a list of laws and other legal acts that regulate the economic activity of the organization in General and the procedure for leasing operations in particular. The third stage of the audit is its planning. In accordance with the IASB, the head of internal audit should draw up a risk-oriented plan, formulating internal audit priorities for compliance with the objectives of the organization [8].

The IASB States that the head of the internal audit shall submit for review and approval by the top Executive management of the organization an internal audit work plan containing information on the resources necessary for its implementation [8].

In accordance with the IASP, work programs to achieve the objective of the assignment should be developed and documented by internal auditors before the audit [8].

At this stage, the internal auditor forms an opinion on each section of the audit program, based on the documented findings.

The essence of the fifth stage of the proposed algorithm of internal audit of the organization is based on the collection of audit evidence, their analysis and evaluation. At this stage, the methods used to collect evidence for each verification task are determined, resulting in the necessary information being obtained and processed. In accordance with the IASP, internal auditors should ensure that sufficient reliable, relevant and useful information is collected to achieve the objectives of the assignment [8].

Internal audit begins with verification of compliance of the leasing agreement and the contract of sale of leasing property to requirements of the current legislation: existence in it of the subject of leasing, the obligatory Appendix – the contract of purchase and sale of leasing property; correctness of definition of leasing payments; structure of the signed contract, i.e. existence in the leasing agreement of elements of other contracts (purchase and sale, the Commission, etc.), and also existence at the leasing company of the necessary license.

Further, the internal auditor must verify the correctness of the calculations of depreciation, to verify the use of accelerated depreciation. The main purpose of accelerated depreciation is the prompt reimbursement of the lessor's expenses.

The auditor should check the correctness of the calculation of lease payments and reflect in the accounting correspondence of accounts on business transactions related to the long-term lease of fixed assets from the lessor and the lessee.

After that, the correctness of transactions in accounting is checked [9]. The instructions for the application of the Chart of accounts provide for the accounting of tangible assets acquired for the provision of temporary use for a fee, by debit of account 03 «Income investments in tangible assets» in correspondence with account 08 «Investments in non-current assets».

The initial cost of fixed assets purchased for a fee is the amount of the actual costs of the enterprise for the acquisition, construction and manufacture [10].

The transfer of the leased asset to the lessee is reflected in the analytical records on account 03 «Income investments in tangible assets». To the balance sheet account 08 «Income investments in tangible assets» sub-accounts are opened:

- 1 «Property for leasing»;
- 2 «Property leased».

The transfer of the object of lease is reflected in the debit account «Property leased» and the credit account «Property for leasing».

Return of the object at the end of the lease agreement is reflected in the reverse transaction: Debit «Property for leasing» Credit «Property leased».

Since the property can be recorded on the balance sheet of the lessor, the lessor makes depreciation [11].

Consequently, the accounting monthly on the basis of the set by the lessor useful life reflects the depreciation on the debit account 20 «Main production» and the credit account 02 «depreciation of fixed assets».

Lease payments in accordance with the schedule of their payment under the terms of the contract are accounted for by the lessor as income from ordinary activities and are recorded on the loan account 90 «Sales», sub-account «Revenue», in correspondence with the debit account 62 «Settlements with buyers and customers».

The amount of VAT presented to the lessee and due to be paid to the budget is recorded on the debit account 90 «Sales», sub-account «value added Tax», and the credit account 68 «Calculations of taxes and fees».

If the object of lease becomes the property of the lessee subject to full payment of lease payments and payment to the lessor of its redemption value specified in the lease agreement, the accounting of the lessor specified operation in this situation is reflected as the sale of fixed assets.

Proceeds from the sale of property are other income and are recorded on the loan account 91 «other income and expenses», sub-account «other income», in correspondence with the debit of the account of settlements with the lessee in the amount of the redemption price of the leased asset.

In accordance with PBU 6/01, the value of the disposal of fixed assets is subject to write-off from accounting. In this case, the amount of accumulated depreciation on the disposal object is written off from the loan account 02 «depreciation of

fixed assets» in the debit account «Property in leasing», and the residual value of the object is written off from the loan account «Property in leasing» in the debit account 91 «other expenses».

Sources of audit information.

- contracts;
- invoices and invoices;
- in acts of the performed works;
- statement of depreciation;
- payment and cash documents;
- waybill;
- work orders;
- memorial orders;
- form FA-1, FA-3, FA-4, FA-4, FA-6, FA-14, FA-15, FA-16;

16;

- administrative records and calculations of the credit Department (or other relevant structural units) of the Bank;
- personal account statements;
- decisions of judicial and Executive bodies;
- other primary documents;

At the 6th stage the analysis of the collected audit evidence is carried out.

According to the IASB, it is the responsibility of internal auditors to draw conclusions and present the results of the assignment on the basis of appropriate analysis and evaluation of the information [8]. At the seventh stage of the internal audit should be a discussion of preliminary reports, proposals with the management of the organization, specialists of the audited departments, employees of structural units, etc. [12].

This is in line with the requirements of the IASB, according to which the head of internal audit is obliged to communicate the results of the audit to the relevant parties. It is only after discussion with these individuals that the head of internal audit reviews and approves the final accounts of the audit before its release and decides to whom and how it is presented [8].

At the eighth stage, a report containing proposals and recommendations of the internal auditor on the results of the audit is prepared.

According to the IASP, the final report should contain the following information [8]:

- a list of the scope of work indicating the period of time that covers internal audit;
- information on the circumstances that limited the scope of work;
- substantiation of risk assessment criteria or other criteria underlying the report;
- justification of the final opinion, judgment or conclusion.

The proposed algorithm of internal audit determines the organizational and technical aspects of internal audit. In our opinion, the implementation of internal audit in accordance with the developed and proposed algorithm will allow us to achieve the greatest efficiency and effectiveness of the audit.

IV. CONCLUSION

To date, operating lease or lease processes have not substantially reflected the financial performance of the company. In the financial statements of the company showed only the costs in the form of interest or rent. Since 2019, the assessment of leasing obligations will require the collection of a lot of data, and the whole process will be complicated. Some

companies are already preparing for these changes. Companies that use leasing or leasing will need effective information systems.

For companies, these changes in the standard mean very big complications in terms of reporting, it is a completely new quality of reporting on leasing. What has hitherto been treated as operating leases, or simply an invoice, was recognized as an expense, and now should be shown as a liability: it is necessary to specify the composition of assets, it is necessary to accrue depreciation on them, and on the other hand on the balance sheet should be liabilities and accrued interest on them. Companies should be prepared for this in advance.

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