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Abstract

Leasing, as a contemporary industry of the developing countries, is being transformed in a very important form of financing ad investments in this sector, as well as in the developed countries. Compared to the trend of the development in these markets, in our country this industry is still at its first steps. The accounting practices that are related to the registration and financial reportings of these industry, here in Albania – due to its lack of general use are still very primitive. But as well, as in the whole world, to follow the development history of the Leasing industry, improvements on leasing accounting criteria are needed – this, for the purpose to combine accounting to the reality that offers the Albanian market.

A very important element of small and medium enterprises financing, is not the direct loans given from the banks as a traditional loan giving process, but the financiation through leasings or factoring companies. Different questionnairies on financing show that baning loans and over drafts make the most common used means to finance the loans on small and medium enterprises. On the other hand, alternative sources like leasing and factoring have the same importance as all the other loans. In many countries, leasing is having a wide usage as a form of financing specially small and medium enterprises, this is specially in countries like: Belgium, Finaland, Ireland and Spain. The leasing concept is an assumption that the profits are made by the lessor more through the usage of the assets, than from the property on the asset. Differently from the loan, at this case, we do not have liquidity given from the financial institutions to the client, but giving to the client an asset..

But which is the right way of financing, through operating leasing or finanncing leasing?

This is the golden question that the managers often direct it to themselves, before treating a leasing agreement. As the results of the observations, as from the inner markets, also to foreign markets, it is clear that from the managers of a company, see more advatantagous an operative leasing. Which are the reasons, why the companies mostly preferr an operting leasing more than a cepital leasing? Is it right the choice that makes the company, treating leasing as a financing out of balance? Nowadays leasing contracts find a wider usage in the international markets. Their applicaion is more common in all kinds of businesses and the accounting borders. Meanwhile their execution is becoming wider, the accounting on leasing contracts is not clearly cut. There are different ways of leasing accountig, and often the companies choose that method, on which they think that is more appropiate to their financial situation. On the other hand, the

financial procedures fore treating different forms of leasing contracts, should insure profits and limits on the companies, reflecting directly all its financial information.

This study's main aim, is to analyze the proposed differences of leasing accounting and explores how the managers take under consideration the effects of accounting in their own decisions. The specific hipothesis was tested through the questionnarie on a group of private firms on the lessor role, to idetify the variables the would plan different strategies as response on new guidelines for leasing accounting.

Specific hypothesis is tested through questionnaires with a group of private companies in the role of tenants and landlords to identify variables that will determine the different strategies in response to new accounting guidance lease.

Leases of stable assets is a central component of the financing strategy for many companies. Leases can be used to minimize risk, increase cash flow, reduce costs or improve the financial reports. (Berk & DeMarzo, 2010).

Not surprisingly, leasing is spreading quickly throughout the world. In Europe in 2011, leasing numbers in 2011 is EUR 256,606.07 compared to 237,488.77 Euro in 2010[1] (www.leaseurope.org) a similar comparison is well known in the U.S. where companies lease productive assets for more than 250 billion dollars (Berk & DeMarzo, 2010).

So, being one of the main tools of financing, lease financing is necessary and are required quality standard for leasing accounting.

Currently, all EU listed companies seeking to follow accounting standards issued by the International Accounting Standards (IASB). The IASB is an organization whose main goal is to develop a single set of reporting standards globally accepted called IFRS[2] (www.ifrs.org)

When the IASB and the Financial Standards Board (FASB) jointly launched a project in 2002, an important step in the harmonization of international standards was undertaken (www.fasb.org).

The purpose of this project was to significantly improve standards in effect at the time were very poor who were in turn also different from IFRS and U.S. GAAP. Several projects were undertaken for recognition but only one survived project and is exactly International Accounting Standard 17, the current standard of leasing accepted yet by the IASB.

In 2010, was introduced a draft lease standards. Since then, were made several attempts to change and in 2012, a new one was received. However major changes in lease accounting remained: **classification between operating and financial lease will be cancelled. Instead, all lease transactions will appear on the balance sheet.**

So Rent will recognize the rights and obligations for each asset lease agreement, resulting so all financial leases to be considered as financial lease agreements. There is only one exception to this rule. The so-called short-term rental, lease terms with maximum expiry time for a year, will be assessed again as operating leases (www.kpmg.com)

With the changes in lease accounting, the IASB believes that the biggest user of their investors, will provide more reliable information about rental agreements and transactions. Moreover, comparability will be expanded. It is important for investors, as it would help them make decisions.

When taking into account the decision "for rent" or "to buy", decision makers should surely assess the advantages and disadvantages of each alternative, to assess the real situation and needs, to conduct an analysis of cost - benefit of two alternatives, the carefully study and evaluate the results to alternative Individual costs.

If all this is done in the correct way and the right way to evaluate all the factors influencing the decision making would then lead to a result of either cost effective alternative to other alternatives.

Methodology

Search results are based on primary and secondary data . In the secondary data include magazines, books and literature that contain similar studies topics. These data help with the problem, as well as all the theoretical part of this thesis. For benefiting of these data, is main support resources such as the Internet, literature, documents and books . But compared to the inadequacy of these secondary data to answer every element of this study, I believe that it is necessary to rely on data obtained from questionnaires.

In accordance with the purpose of the study , i believe believe that a qualitative study would be more appropriate . Moreover , it will be used a small sample , which is also consistent with the qualitative study. Important to know is that a qualitative study is subjective and dependent on context.

The sample

Selection of companies

Selection of companies and respondents was conducted with purposeful sampling method. So, is an accomplished strategic choice regarding certain conditions and main characteristics.

Prerequisites include: implementation of IFRS, since companies applying IFRS are required to follow standards and use the rental lease.

A key characteristic in selecting the company would use the operating lease. However, the idea is to achieve a differentiated picture of the consequences to be expected and so, were interesting selection of companies with varying degrees of operating leases. Moreover, it is expected that more companies lease agreements are less affected than companies lease agreements (O'Donovan, 2011).

Large companies are expected to have a large number of lease agreements compared to small companies, and therefore, in order to obtain a variety of data, both companies are included, big and small, and results are taken to count, giving more emphasis on large companies. So it was compiled a list of 26 companies but only 16 of them gave answers.

The discussion is:

What are the consequences that will affect the new lease standard for companies applying IFRS?

The purpose of this study is to understand what are the consequences of implementation of leasing new standard in companies that use IFRS and operating leases, and to find out if the companies have committed any preparation.

The study also aims to illuminate why companies use leasing and if they actively try to secure a lease classification.

Financial procedures for the treatment of forms of rent should bring benefits and limitations and to ensure that each company is fairly reflecting all of its financial information.

Hypotheses that will be addressed in this thesis is:

1. ***How will the new standards affect firms applying IFRS?***

Lease Accounting Perspective

This topic will introduce a background in lease accounting and the planned changes in accounting standards. I will also present a discussion on the subject, resulting at the scope of the study.

Previous literature

Këto pasoja janë hetuar para botimit të draftit. Në një studim të hershme, Beattie, Edwards dhe Goodacre (1998) kanë raportuar se në Britaninë e Madhe, qiratë operative përfaqësojnë një burim kryesor i financimit afatgjatë.

The proposed change to lease accounting financial, means that users will finally be able to rely on leasing transactions of a company. However, the change in lease accounting is a controversial topic because maybe there will be consequences for companies applying IFRS. When new standards relating to the lease entered into force, all rental transactions except for short-term lease would trigger a right to use an asset and a liability. As a result, the balance sheets of companies affected will grow and will also be changes in the main financial reports. These effects have been investigated in previous publishing drafts. In an early study, Beattie, Edwards and Goodacre (1998) reported that in the UK, operating leases represent a major source of long term financing. In the reviewed companies, the average amount of off-balance sheet financing corresponded to 39% of long-term debt not covered. Companies with a significant amount of operating leases can expect to have their balances and key financial indicators severely affected by the new standards of the lease. In a recent German study, Fülbier, and Pferdehirts Silva (2008) also showed that the capitalization of operating leases will have a significant impact on key financial indicators.

However, they found that the consequences will be very limited to companies within the retail industry. The reason is that dealers often rent large amounts of wealth. Deloitte (2010), also investigated ED (draft) reports and reported lower turnover, return on equity lower, and an increase in debt over equity ratio, which may affect the ability of companies to obtain a bank financing .

In letters to the IASB and FASB, the affected companies have shown their concern about the new standards of the lease. In less than four months after the publication of PP, were received more than 700 letters (www.ifrs.org). Generally, in these letters have been negative comments in terms of changing the standards. Elex Group, an independent leasing company, argued in a letter to the administrative burden of the new standard will spoil the rental market. The cost of rent will increase and this will outweigh the benefits (www.fasb.org).

Another letter expressed concerns about the deterioration of key financial ratios, which may aggravate an assessment of the company. Thus, it will be difficult for companies to get loans and investments from banks and investors.(www. ifrs.org)

However, it is unclear whether the lease impact standards would actually be so heavy. In a qualitative study by Bylock & Fredriksson (2011), it was found that the aviation industry is not likely to be affected to any great extent, because of its key financial reports are customized for rent already operating in the financial statements. Of all these cases, claim that there is disagreement about the consequences and impact of the new standards of the lease.

Hypothesis

According to the IASB, financial reports would be more useful since comparability between companies will grow with new lease standards. However, the increase affects comparability fact that all rental costs are recognized in the balance sheet. This will have consequences for the company. Thus, further studies of these effects are beneficial. This makes us answer the following research:

What consequences will the new lease standard have for companies applying IFRS?

The purpose

The purpose of this study is to understand what are the implications of new standards on companies that lease and use IFRS operating leases, and to find out if the companies have committed any preparation. The study also aims to illuminate why companies use leasing and if they actively try to secure a lease classification.

1. A presentation of IAS 17 - Rent

1.1. Rent-current standard IAS 17

The present standard IAS 17 defines lease as a lease agreement whereby the landlord tenant passes in exchange for a payment or series of payments, the right to use the asset for a period of time determined between the two parties. (IAS 17:4). A contract that meets the definition of a lease will be classified as either finance leases or operating leases as. What distinguishes the two types of leasing is that leasing creates an asset and a liability, while the last, only causes lease payments. Leasing can then be compared with a purchase financed with debt and operating lease that is similar to a regular lease agreement (Dag Smith, 2006). If leasing is classified as a finance lease or operating, this process essentially depends on whether the benefits and the risks pertain to landlord or tenant (IAS 17:07).

This means that th one, that is carrying the risk and benefits associated with the asset, is recognized as a finance lease and, therefore, recognizes an asset in the balance sheet. Legal ownership is irrelevant which is related to a main conclusion of IAS 17: Lease agreements will be assessed on the substance of the transaction, rather than the form of the contract. In order to decide the classification, as landlord and tenant are allowed to assess the substance of the transaction (Marton et al, 2010). However, IAS 17:10, provides relevant conditions individual or combined to lead to a financial lease:

a) the lease transfers ownership of the asset to the lessee at the end of the lease term;

b) the lessee has the option to purchase the asset at a price that is expected to be significantly lower than the true value of the asset, at the time when this option becomes potential and it is clear that at the beginning of this option agreement will exercised;

c) the term of the lease includes most of the economic life of the asset even if the title is not transferred yet;

d) at the beginning of the rental agreement the total present value of the minimum lease payments in the environment constitutes, the entire fair value of the leased asset; and

e) the leased assets are of a special nature in such a way that only the lessee can use them without major modifications performed.

However, instructing samples are not always accesible. If it is clear, even from particular signs of leasing agreement, that this contract does not transfer considerably all the risks and the profits related with the ownership, this type of contract is classified as a common leasing contract (SNK 17:12).

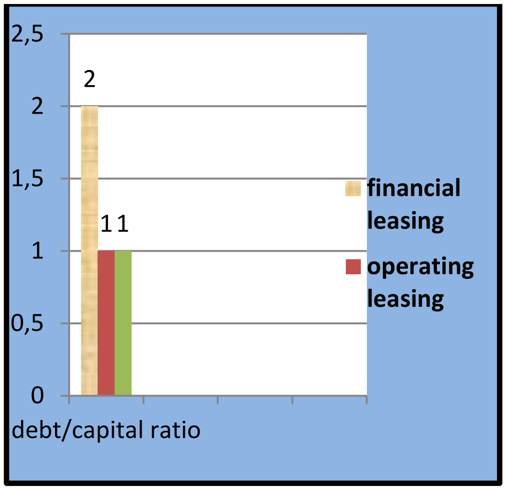
The amount recognized in the balance sheet at the lower estimated between fair value and the present value of future lease payments. As mentioned above, the operating lease does not affect the balance sheet. Also it requires operating lease rental payments to appear in the explaing notes.

1.2. Lease Classification

IAS 17 allows a landlord and tenant to assess the composition of the rental transaction in order to classify leases as operating or financial (Marton et al, 2010). Most of the companies tend to classify them as operating leases. Leasing brings additional presence of an asset and a liability collections, while operating lease does not affect the balance sheet. This is the most important point in IAS 17, as long as there are no consequences in financial reports. The classification of a financial lease as always will worsen the debt over equity, or return on assets improves if operating lease brings the highest net income. Starting from these, there will always be favorable for companies to classify a lease contract as operating contract (Marton et al, 2010).

It is important to keep records of the benefits and costs of rent, in both cases, the operating and financial lease. Advantages in financial reports from operating lease accounting is only an illusion (Marton et al, 2010). The issue is as follows:

Initially the company X has an asset with a value of 100 ALL that generates net income of 10 ALL. Asset is financed with equity 50 ALL and 50 ALL debt. Company X decides to lease a machine worth 50 current booking accounting. Net income in this case rise to 20 ALL. The initial report debt / equity ratio is equal to 1.0 while the return on assets is equal to 10%.



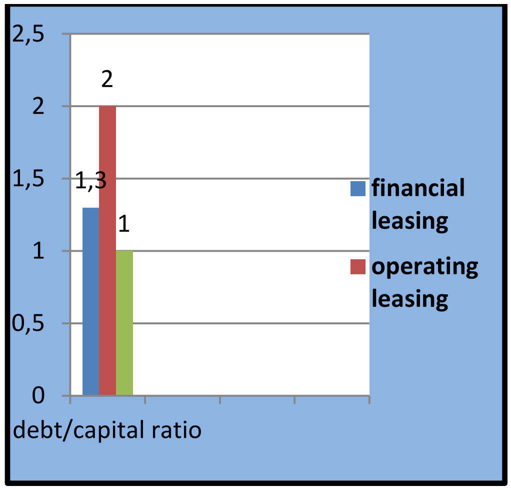


Fig.1 Debt/ capital ratio, IAS 17 **Fig. 2: Debt/capital ratio, DP**

It is understandable why companies tend to classify as operating leases. This can be achieved by the formulation of leases IAS 17:10 avoid criteria and thus give the landlord risks and rewards. One example is the relation between the life of the lease and economic life of the asset (criterion c).

One example, as illustrated in Figure 1, the case can be treated as an operating lease, the lease since life expectancy is much smaller compared to the economic life of the asset.

Figure 2, on the other hand represents the opposite case and should normally be treated as a finance lease. The space between the two cases above, is a gray area and is open to the classification of the lease. Thus, two similar contracts may be classified differently (Marton, 2010).

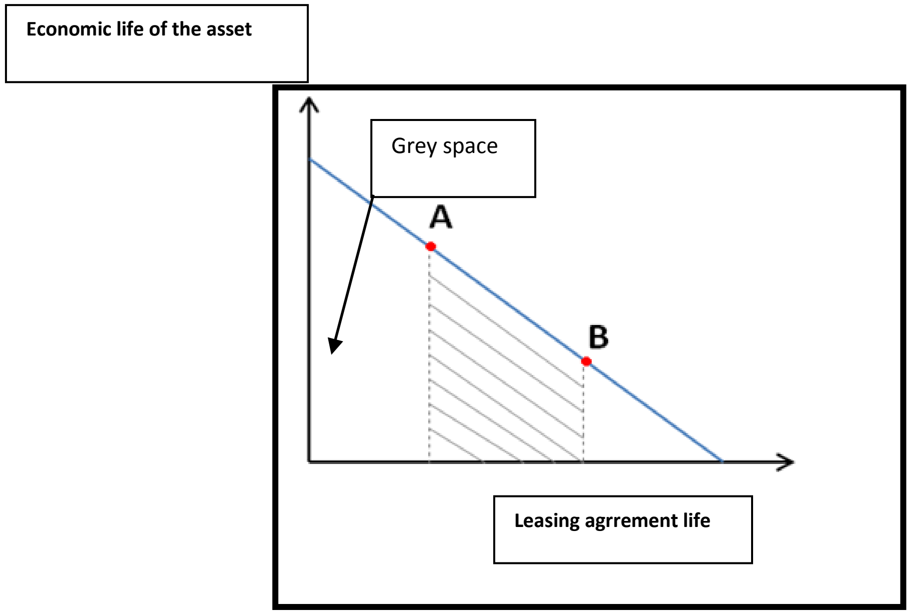


Fig. 3:leasing according to the terms

The situation above is problematic. The objectives of financial reporting is to provide users financial information for a business, which is necessary to make economic decisions (IFRS Volume, 2010). IAS 17, fails in achieving these goals as the lease transactions features are not classified reliably.

As a result, the comparability between financial companies and users pick should make the necessary adjustments in the balance sheet for the operating lease to take appropriate decisions. Adjustments made by discounting the operating lease presented in the notes. Discounted value must then be presented in the balance sheet in order to have the proper structure of liabilities. However, the information presented in the financial statements is insufficient, and therefore it is difficult to make proper accounts (Knubley, 2010).

2. Accounting of tenants

If the calculation of the present value of the tenant of minimum lease payments is greater than the fair value of the leased asset, the borrowing rate should be adjusted so that the present value of lease payments do not exceed the fair value of the asset given rent.

This adjustment will result in the recognition of high interest.

This adjustment is necessary because it prevents the recognition of a capital asset in an amount greater than its fair value.

2.1. Amortization of assets under capital lease

A capital lease should be amortized in a consistent manner with the normal depreciation policy the lessee, generally uses during the term of the lease.

However, if ownership is transferred at the end of the lease, or there is an option to purchase the property must be depreciated, usually on a straight-line basis over the useful life to be determined if the asset was owned by the owner.

The minimum lease payments are periodic capital leases divided between a reduction of interest expense and to produce a constant periodic rate of interest on the remaining amount of the obligation.

This will result in a residual value of the obligation at the end of the lease term equal to the sum of each option

(1) suitable purchase,

(2) the left guarantee, or

(3) The final penalty

Depreciation of the properties – with capital leasing contract

Assets under capital lease must be assessed for depreciation, similar to other assets owned:

Example

- The following example illustrates many of the requirements of a tenant accounting for a capital lease, however, it is unlikely that all these factors are in the same rent.
- Capital Lease Accounting
- A company enters into a five-year lease non-cancellable, with four renewal options for one every year, for machinery that has an estimated economic life of 10 years and a fair value on the date the original lessor 370.000 ALL
- The implicit interest rate is unknown, and rising borrowing rate is 12%. The company uses straight-line depreciation method of assets. Lease contains the following provisions:

- Lease payments are ALL 5,300 per month, including 300 ALL property tax, payable at the beginning of the month.
- A guarantee from the company's 7-year bank loan for the landlord obtained to finance the construction of machinery
- An insurance contract lease for a period of two years after the loan guarantee.
- An option that allows the landlord to extend the term of the contract year
- A guarantee from the company that the landlord will pay an amount of 5,000 leks from the sale of the asset at the end of the lease.
- This lease is a capital lease because its term (10 years - see calculations below) exceeds 75% of the economic life of machinery. In addition, the present value (353.503 ALL) of the minimum lease payments exceeds 90% of the fair value of machinery (333,000 ALL). See below estimates.

Lease conditions	
Lease terms	5 years
Extra time guaranteed	2 years
Additional term for any contract irregularity	2 years
The deadline covered by additional option for landlords	1 year
	10 years
Minimum payments of lease contracts	
Monthly leasing payment	5,300 ALL
Execution office costs	(300)
	5,000

Monthly terms	X 120
	600,000
Left guarantee	5,000
	605,000
Present payments value:	
Present value (1%; 119 months)	69.3975
Initial payments	10000
	703,975
Net monthly payments	X 5,000 ALL
	351,988
PVIFA (12%; 10 years)	0.3030
Left Guarantee	X 5,000 ALL
	1,515
	353,503[1] ALL

Table no.1: The calculation of the present value of payments

[1]Asset and liability are recorded at fair value, If the fair value of the machinery is less than the present value of the minimum lease payments. This results in the use of an interest rate greater than the growth rate of borrowing in the distribution of rent payments between principal and interest.

The following table summarizes the amortization of the lease liability and the interest expense over the lease term.

Years	**Annual payment of lease**[2]	**Annul interest expenses**[3]	**Left monetary value of liability**
Initial value	ALL —	ALL —	ALL 353,503
1	60,000	40,786	334,289
2	60,000	38,349	312,638
3	60,000	35,605	288,243
4	60,000	32,509	260,752
5	60,000	29,023	229,775
6	60,000	25,095	194,870
7	60,000	20,668	155,538
8	60,000	15,679	111,217
9	60,000	10,059	61,276
10	60,000	3,724	5,000 [4]

Table no 2: division of monthly installments in principal and interest.

Accounting recordings in the daybook are as follows::

Db Capital lease -Machinery 353,503

[2]Gross annula payments from lease: 63,600 ALL – 3,600 ALL for tax on property payment.

[3]Accumulated annual amounts, that result at an interest rate of 1% in the balance sheet – for lease liabilite at the beginning of each month. Lease liability was increased from interest amounts of the previous month and decrease at 5,000 ALL, that is the net payment lease at the beginning of the month.

[4] This amount represents the guaranteed value left at the end of the lease term.

Db due to tenants

to

Cr Short term assets 19,214

Cr Long term assets 334,289

Recording of the first lease contract payment:

DB Interest expenses 40,786

Db Due to tenants – short term assets 19,214

DB Tax on property 3,600

to

Cr Cash 63,600

Amortiation record on the first year of lease[5]*:*

DB Amortization expenses- capital lease- Machinery 35,350

to

Cr Accomulated amortization- capital lease- Machineriy 35,350

Amortiation record on the first year of lease:

Db Longterm liability to tenant 21,651

to

Cr short term liability to tenant 21,651

The table below shows the annual change in the common capital lease if this contract would be classified as an operating lease:

[5] The company does not get anything from the machinery sale and it will pay the left value of 5,000 ALL

Year	**Interest**	**Depreciation**	**Tax**	**Total**	**Operating lease** [6]	**Increase before tax**
1	$ 40,786	$ 35,350	$3,600	$ 79,736	$ 64,100	$(15,636)
2	38,349	35,350	3,600	77,299	64,100	(13,199)
3	35,605	35,350	3,600	74,555	64,100	(10,455)
4	32,509	35,350	3,600	71,459	64,100	(7,359)
5	29,023	35,350	3,600	67,973	64,100	(3,873)
6	25,095	35,350	3,600	64,045	64,100	55
7	20,668	35,350	3,600	59,618	64,100	4,482
8	15,679	35,350	3,600	54,629	64,100	9,471
9	10,059	35,350	3,600	49,009	64,100	15,091
10	3,724	35,353	3,600	42,677	64,100	21,423
	251,497	353,503	36,000	641,000	641,000	

Table no 3: annual differences between capital and operating lease

2.2. Renewal or extension of the initial capital lease

Një qira ekzistuese është konsideruar si një marrëveshje e re, kur ajo rifillohet ose zgjatet përtej afatit të qirasë origjinale për aq kohë sa rinovimi vazhdon me kushtin e një dispozitë garancie ose dënimi i cili ishte pjesë e qirasë origjinale.

[6] It is compounded of 12 monthly leasing payments (including executing costs)Përbëhet nga 12 pagesave të lizingut mujore (përfshirë kostot ekzekutuese) e 5300 lekwvedhe 1/10 e 5.000 all, shuma e vlerës së mbetur të garantuar.

An existing lease is regarded as a new agreement, when it renewed or extended beyond the original term of the lease as long as the renewal continues with the condition of a guarantee or penalty provision that was part of the original lease.

1. Expansion of capital lease – with a capital lease contract is made – when both, origjinal lease contract and new agreement are classified as capital lease. Registered property and liabilities on the balance sheet are regulated at the review date from the difference between present unpaid due of future payments installments of lease. Present value of minimum lease payments under the revised agreement, should be calculated using the interest rate used to record the lease initially.
2. Expanding with capital lease with a common lease - If the new agreement arises from a renewal or extension, the original lease continues to be treated as a capital lease by the end of his term of lease. After that, the new agreement is accounted as an operating lease

2.3. Change in capital leases (except lease extension period) resulting in a new lease contract

A change in capital lease, that results a new lease contract, is recorded as follows:
1. when both, original lease and the new lease agreement is classified as capital lease, registered property and liability are regulated by the difference between the outstanding liability and the present value of the minimum lease payments in the future. Present value of minimum payments of lease contract, according to the reviewed agreement, should be calculated using the interest rate used to record the lease initially.
2. When a new agreement is classified as an operating lease and replaces it with a capital lease, the transaction is treated as a sale leaseback.

2.4. Extinction of a capital lease obligation

A capital lease obligation is extinguished (recognizing a gain or loss), if they meet each of the following two conditions:
1. The tenant pays the landlord and is released from his obligation. Paying rent includes delivery of cash, other financial assets, goods or services, or recovery of tenant debt securities outstanding.
2. The tenant is legally freed from being the primary obligor under the liability, either judicially or by the landlord .

Some other sales agreement may have some other components for recognizing them at accounting books. For example, a landlord can freed a tenant from the obligations as main borrower, at the condition that another third party endorses the obligation, and the orogonal tenant becomes second responsible to this lease contract. Meanwhile the release from the obligation, is made by the original tenant as primary borrower to this contract. As a guarantee pat, the original tenant, will know a guarantee obligation at the right value, at the same manner he has never been responsible to the landlord. Recognition of the guarantee presumes the fact that the person in charge will know its obligation. For example, if the main tenant had a little property, being not able to pay his dues, the guaranter of this obligation should recognize a liability with its right value that will not considerably differ from the obligation that will register the primary tenant. Except this treatment the due from the guarantee, that appears to its right value, reduece s the profit or increases the loss at the liquidation moment.

2.5. Extinction of a capital lease

The end of capital lease contract results to the recognition of a profit or loss for the difference of the value betwen the remained value of the asset and the obligation value at the balance sheet.

Illustration*:* accounting for the closure of a capital lease contract

The company X has just finished the third year of a 5 year agreement of the capital lease. The asset given as capital lease has the net accounting value of 3,000 All, on the other hand the lease obligation is 2,000 All. To this conditions the company X (the tenant) has just finished the repayment of the third year of 5 year term of a contract for capital lease. The aseet subject of the capita leasing – has a net accounting value of 3,000 All and the leasing due is of 2,000 All. If the leasing contract is interrupted at the end of the third yearand does not have to make other payments – the X company shlla register a loss of 1,000 All for extinction of the leasing contract.

2.6. The purchase of an asset through a leasing contract from the tenant during the period of the leasing contract.

If the exctinction of the capital lease results from the purchase of an asset from the tenant, than the purchase and the contract extinction is recorded as a single transaction. The difference, if there is any between the purchase price and the net accounting value of the leasing contract is registered as an improved accounting value of the asset.

Consindering the below example:

Accounting of an asset purchase during the life last of a capital lease contract.

The compnay X (the tenant) has just finished the third year of a 5 year capital lease agreement contract. The asset on leasing contract has a net accounting value of 3,000 All – and a leasing due of 2,000 All. If the leasing contract is interrupted at the end of the 3 – rd year from the tenant through the purchase of the porperty at the price of 1,500 All, than the company X shall record the following transaction:

leasing due 2,000lekë

fixed asset 2,500 lekë

to

rights on leasing contract 3,000lekë

Cash 1,500lekë

the asset under the capital lease is classified as an asset under its property and the net accounting value is (all 3,000) its is improved in value from the difference between due accounting value of 2,000 All and the purchase price of 1,500 All.

3. The landlord accounting

A leasing under selling purchase is recorded as below:

1. Gross investments – minimum payments of leasing - (that excludes execution expenses and any related profit to it) plus any remained not guarateed value – is calculated under landlord profit. Nor a remained value is not supposed to be added to the landlord if the lease contract transfers the property or contains a purchase option.

2. Receivable income – is the gross investment minus combines of actual values

3. Net investments – gross investments minus receivable income

4. Selling price – actual value of minimum payments of leasing

5. Selling cost – cost of the amount inherited, or differently, the leasing value minus actual value of every remained value not guaranteed is summarized on landlord behalf. If a minimumpart of the payments is related to the leasing and some voices such as voices as for example the selling taxes, these elements have to be recorded as part of the cost or net value of te property subject of the leasing contract.

6. Expenditures –each initial direct cost.

Receivable income have to be recorded during the leasing contract using the interest method. Applied method of amortization should result in an equilibrum of the net remained value at the end of lease term that is equal with the amount of each option: (1) purchase option, (2) remainde guarantee, (3) punishment from leasing exctinction, by assuring that as a leasing term is not included each renovation period because of the damage and/or each remained value that is not guaranteed. Net investments are to be recorded in the balance sheet as a leasing investmentand is subject of the same considerations like all the other assets classified as actual and non actual.

Illustration: Accounting of the landlord

The company ABC produces equipments with an economic life avaluated for a longterm of 12 years and gives it in leasing to a company XYZ for a period of 10 years.The normal selling price is 144,128 $ and the remained value not guaranteed at the end of the leasing life is calculated at 10.000 $. The company XYZ shall pay the annual leasing of 20,000 $ at the beginning of each year and is responsible at all senses, for example: maintenance, security and taxes. The company ABC has caused a cost of $ 100,000 at the producing of the equipments and 2,000 $ in the negotiation process and ending leasing. Its was first decided, that no added expense can be caused. The interest rate calculted is 9% . leasing fulfills the criteria for classifiying it as a selling lease because: (1) the period of leasing surpases 75% of the economic life - evaluated for the equipments, (2) the summary of the payments is surely reasonable and ha no added commited expenses (3) a profit element is realized because of the property cost of leasing differs from its fair value. This leasing fulfills 90% of the test of the right value.

The right information is as follows:

1. gross investment is $ 210,000 (10 annual payments of the leasing at the value of $ 20.000 plus unguaranteed remained value of $ 10,000).

2. receivalbe income are 65,872 $ (Gross investments $ 210,000 minus $ 144,128, actal value of its components – as calculations below).

3. net investment is $ 144,128.

4. selling price is $ 139,904 (presents value of annual leasing payments is 10

5. the selling cost is 95,776 $ ($ 100,000 equipments cost minus 4,224 $.

6. Expenditures are 2,000 $ (initial direct expenditures).

Accounting recordings are as below:

the selling of the property through leasing giving is recorded:

present net investment	8,828	
longterm net investment	135,300	
selling cost	95,776	
selling expenditures	2,000	
to		
selling	139,904	
property subject of lease	100,000	
Cash		2,000

***Recording of leasing income realized on the first year**:*

Cash	20,000	
to		
rights from longterm investment assets		8,828
income from interest rate		11,172

selling price:

factor for present payable value is $ 1 in 9 annual payments

(9% per year) **5.9952**

Initial payment (no interest element) 1.0000

6.9952

Annual leasing **X 20,000** $

Selling value **139,904 $**

Remained present value

Facto on present value of $ 1 because of 10 years paymentt (9% in a year) **0.4224**

Unguaranteed remained value **10,000 $**

Present value of unguaranteed remained value **4,224**

Present value of the components on gross investment **144.128 $**

The following table includes the net investment amortization and knowing of receivable income during the lesing period:

Year	Annual payment of leasing	Annual interest expenses	Remained value of liability
Initial value	ALL —	ALL —	ALL 353,503
1	60,000	40,786	334,289
2	60,000	38,349	312,638
3	60,000	35,605	288,243

4	60,000	32,509	260,752
5	60,000	29,023	229,775
6	60,000	25,095	194,870
7	60,000	20,668	155,538
8	60,000	15,679	111,217
9	60,000	10,059	61,276
10	60,000	3,724	5,000

Table no 4: division of installment in principal and interest

Regulations on remained value

A lanlor is obliged to annalyze the remained values at least each year. If the foreseen value remained was decided that its value decrease is temporary, the accounting but not leasing clasification should be revised by using the new evaluation. Resulted reduction in net investment should be charged for the operations in the period when the evaluation was changed. The above regulations are forbidden specifically. An existing leasing is considered as a new agreement, when it is renwed or lasted over the terms of the original leasing contract. Një marrëveshje e re gjithashtu rezulton kur detyrimet e pagesave të qirasë janë ndryshuar në një mënyrë që do të sillte një klasifikim të ri të qirasë. Exercising a renewal oportunity included as part of the original period of leasing is not a renovation or extension of a leasing contract. Differences on evaluations (for example, economic life or remained value) shall not vary the leasing classification. Meanwhile regulations increasing in vaues are proihibited specifically, even when leases are reviwed (in cases of renovation, period extension etc)

3.1. Classification of renovation or period extension of existing societies

An existing lease is considered a a new agreement, when it is renovated or extended beyond the original leasing term.

Renovation of a financial lease

Detention of a renovated lease registration or extension of period of a financial lease, is still valuable when this happens almost at the end of leasing agreement. This is consistent to the ban of a regulation recording, increasing the remained value. Similarly, proihibition of classication of varying leasing is still executed, for the difference in leasing liabilities payment, if these happen during leasing period.

This guidance is executed for all landlords. For example, let us suppose that a bank gives in financial leasing an aeroplane, at the expiration of the initial term, lease is renewed. If at the beginning of the renewed lease, the right value of the property, subject of lease contract is greater or less than its accounting value (this happens often), than the lease contract is going to be classified as a financial leasing at the recognition of a profit or loss.

3.2. Renovation of a direct financial lease with a direct financial lease

When a direct financial lease is renewd or extended, adn the new agreement is classified as a direct financial lease, than the remained minimum payment of lease and remained estimated value (if its influenced by this action), should be regulated. Net registration would be the accounting record as a payment or receivable income.

3.3. Renovation of finacial leasing with an operating lease

If the new agreement is an operating lease, as result of a renovation or extension of period of finacial lease, the original contract still is being treated as a sort of financial lease till the end of the period lease extension. After that, the renovation or period extension is being recorded as an operating leasing.

3.4. Other changes in existing leasing contract beyond extension or renewal of the period.

A change in another leasing agreement, beyond the term (for example, a change in the amount of lease payments), needs a test, if the new leasing agreement was created for accounting purposes. If this agreement results at a new leasing contract, than another second test was accomplished to define the rent classification..

Tests are as below, described:

1. First test was accomplished, to determine if the lease classification would be different, and if the leasing tems would be determined from the beginning. For example, if the monthly

rent, according to a sixty monthly planning installments was differd from 1,000 ALL to 1,200 All for the last 36 months, the rent shall be tested by using the criteria as it was foreseen at the beginning of the 24 monthly repayments with 1,000 ALL and 36 montly repayments with 1,200 ALL. All the other factors (interest rate, fair value, and estimated remained value) used at this rent test shall be the same as prescribed at the beginning of the rent contract conditions. If, as result of this test, was determined that the revised leasing ter,s would result at a different leasing classification, than the existing lease is classified as a new contract and than the second test is needed.

2. The second test, is accomplished from the changing leasing conditions date, by using the revised leasing terms during its remained life. Other factors, such as discount rate, fair value and estimated remained value, is based upon the present conditions as those that exist at the date of changes.

Capital rent varies, and the new rent contract is a direct rent contract financiation.

When direct leasing was changed and the new agreement is classified as a direct financial rent, the remained balance sheet of minimum remained net values and the foreseen remained value, if it was corrected, it should than be regulated. Net recording was recorded as a payment or credit to receivable income. The same procedure in accounting is followed even when a direct financing lease is changed and the changes does not result at a new agreement.

Capital rent changes and the new rent contrat is an operating rent

When a new agreement is classified as a common rent because of the existing provisions of rent, remained net investment was eliminated. The property on rent was registerd as asset subject on lease, with lower value than (1) its original cost, (2) fair present value or (3) present accounting value, with a net registration by charging the income.

3.5. Interruption of a financial rent

The interruption of a financial rent is recorded by eliminating the net investment and registering the property with rent with a lower value than (1) its original cost, (2) fair present value, or (3) present remained value, with a net recording by charging the income.

3.6. Which are the difference on present leasing recording standard and draft proposal

	Standarti i qirasë aktual	Draft propozimi
Leasing definition	Rent is an agreement whereby the lessor passes tenants in exchange for a payment or series of payments, the right to use the asset for a set time period between the two parties.	The draft proposal defines a lease agreement where the right to use a specific asset is conveyed in return for a consideration. A contract is or contains a lease agreement if the following conditions are met: • it conveys the right to use a specified asset • it conveys the right to control the use of the asset.
Finacial rent versus operation rent	A lease is classified as a finance lease if it transfers substantially all the risks and benefits in an actual ownership over the asset or meets one of the four conditions set out in the standard. A lease is classified as an operating lease if it does not transfer substantially the risks and rewards incidental to	The draft proposal has specified all leases greater than 12 months that should be capitalized and recorded in a manner similar to how capital lease is currently registered.

	ownership.	
Short term rent	Short term rent appears like longter, operating rent	For leases with maturities less than 12 months: The tenant should be allowed initially to measure the obligation in the amount of undiscounted lease and right-of-use asset value of lease liability plus initial direct costs. A lessor would recognize not allowed additional assets and liabilities arising from lease contracts and to recognize the leased assets.
Conditions on rent renovation	If at a later time the lessee and the lessor agree to change the terms of the rental agreement without the update, in a way that would result in a different classification of the lease agreement under the criteria of paragraphs 7-12, if the amended terms of the agreement have been part of the beginning of the lease, the revised agreement will then be considered as a new agreement during the term of the lease.	The draft proposal defines the term as specified in the terms of the lease as a longer term lease. If you have a lease extension should be anticipated than early in the lease agreement.

Changing payment of rent	Changing rent payments are recorded as expenses when they happen.	Draft Proposal must determine the present value of payments based on expected revenues. Revenues are expected present value of future cash flow for a number of reasonable income.
Discounting rate	For the landlord interest rate implicit in the lease For tenants, the growth rate borrowing	ED stated: The leasor measures its rent obligation by discounting the rent incremental payments of borrowing, or as it can be easily determined, the rate the lessor charges the lessee
Rent/not rent	Service and maintenance expenditures invisible are considered part of the leasing agreement.	Draft proposal capitalises ad knows the rent expenses divided from the service components when they happen.
Selling	A transaction of sale and leaseback means that asset sales and rental reclaiming on the same asset is serving as a financing manner.	Sales transactions and rent reclaims that are not classified as a selling shall be classified as financiation. Selling transactions and rental agreements classified as sells are resulting at the removing for the assets part of the lesse seller and a revenue/loss recognition upon the difference of carrying value from buyer landlord and carrying value of seller lessee.

Sub lease	The net present value of all lease expenses including depreciation deductions, is compensated by sub lease income.	Intermediate lessor will present obligation for lease payments divided Other assets and liabilities arising from the sub lease and submit the following information in balance: • The right to use assets • The rights to receive lease payments under Sub lease obligations.

Table no. 7: Comparing between accounting national standard 17 and the rental draft proposal

	Reviews on draft proposal	**Present updates**
Rent definition	• proposed definition of a rental contract is very wide and can end by including conracts of services. • possibilities on transaction structuring can exist beacause of the big changes between the rental and service accounting.	Boards have decided in advance that a contract contains a lease if: • fulfillment of the contract depends on the use of an asset • The contract gives the right to control the use of an asset for a period of time
Financial leasing	A single accounting model	Meanwhile the boards briefely are

versus operating leasing	is not enough for each kind of leasing contract.	resigned with two rental kinds, than they returned again at the model proposed at the draft proposal.
Short term rent	• the lesse should have the same possibility as the lessor at his choice whitch of the leasing contracts can be treated as short term agreement.	Boards have reaffirmed the short term advance rents will be calculated based on the current guidelines for operating leases and the tenant may elect to apply the accounting of non-current lease rental for short-term rentals.
Renovations conditions on rent	• volatility in the financial statements due to reassessments of the lease term • determination of the lease term will involve significant judgments	Boards have decided beforehand "lease term" shall be defined as non-cancellable period plus any period for which there is a "clear economic incentive" for the tenant to exercise this option.
Varying rental payments	Such predictions would be costly and challenging for reliable estimations.	Boards have decided that future payments variable rent will include: • All variable lease payments that are based on an index or rate • The minimum lease payments of the phenomenon into view as variable
Discounting rate	As the tenant and the landlord will determine what interest rates are available, because there	Boards decided in advance: • Tenant shall use the implicit rate in the lease, if this is determinable. If that rate is not available, then the tenant will

	exist a large number of such rates to be used.	have to implement incremental borrowing rate • Landlords will implement implicit lease rate.
Rent/nor rent	Separation of duties within the same contract should not be in consistency with the recognition of revenue.	Lease payments between rental and non-components as follows: • If the sale price of each component is observable, payments will be allocated depending on the sale price • If the sale price of one or more components is observable, payments will be allocated using the residual method. If any of the components is not a sale price, then the entire contract will be calculated as a rental, one.
Selling	Recognized the discrepancy between the criteria for a sale (and subsequent leaseback) in the draft proposal Leases Income and Revenue Recognition on financial statementa	Boards previously confirmed that the transactions of sale and leaseback will be counted as two transactions - a sale separately and then lease the asset sold
Sub lease	Lack of clarity if a sub lease should be recorded.	lease and sublease should be counted as shared transactions and the intermediate tenant will follow a standard lease including all previous decisions made in

		that date.

Table 8: reviews on draft proposal

Example

Annual payment of rent (does not include nor rent condition, remained guaranteed value or penalty): **6, 000 All**

Rent terms : **3 years**

Present value of rent based on incremental rate of interest on borrowing for **15, 000** All

Balance sheet

A rent right of **15, 000** All and a corresponding liability that is ecorded at the beginning of the rent.

Expenditures annalyze

	First year	**Second year**	**Third year**	**Total**
Rent amortization PV/3	5,000	5,000	5,000	15,000
Interest expenses	1,500	6,00	9,00	3,000
Proposed expenses	6,500	5,600	5,900	18,000
Expenses according to actual standards	6,000	6,000	6,000	18,000

Table no 5: analyze according to accounting national standard 17

3.7. Accounting of the lessor?

Amortization of expenses excludes from its rents longterm material investments that are measured to the right value referring to accounting national standard 40 on invested longterm materila assets. According to the lessor point of view, its recording to the costs, this new porposal proposes two models. Liability performance – such an element is used when the lessor saves the exposation to the great risks or the revenues that are related to the asset given on rent. Such accounting records predicts symetric accounting treatment referring to the tenant, too. Using the same facts, mentioned above, for example, the landlord will know sucha right to receive the receivable payments on rent that is 15,000 and a correspondent liability at the same amount on the balance sheet.

This liability on rent, is the obligation of the landlord to allow the tenant to use the asset with no limits during the rent period contract.

The landlord shall continue knowing the asset as rent object and the amortization expenses related to it. This appart, she will depreciate its liability and the income on rent during the rent contract. Rent installments are divided on interest income and an amortization of receivable rent by using the effective interest calculation method.

On the above example, the net general effect in accounting, can not be different from the existing recording from the landlord based on operating leasing.

Liabilities not recorded – this case is going to be used when the lessor is not exposed to great risks or revenues that are related to the asset given in rent.

In this case, substantially, the lessor "sells" a part of the asset given in loan and recognizes a net profit or loss at the beginning of the rent period that is eual to the difference between present value payments of leasing and net accounting value of a part of rent that is not recognized.

During the rent period, the landlord records also the interest income by using the effective interest rate method. Referring to the proposed model, a lessor shall register the two assets – a financial asset for the receivable rent and an asset not financial to the asset remained.

According to the financial rent accounting, the lessor records the financial asset – net investment on leasing (receivable leasing), that is compounded of present value of lease payments and the remained value not guaranteed on the asset subject of rent giving.

<u>Financial data</u>

A= accounting value of the given asset in rent: **12, 000 All**

B = rent annual payment (does not include no rent condition, remained – guaranteed value or penalties): **6, 000 All**

C = leasing period: **3 years**

D= Present value of leasing payments based on incremetal interest on borrowing **15, 000** All

E = the fair value of an asset subject of a leasing contract: **16,500** All

The lessor will determine the amount of the asset that is subject of leasing that shall be elleminated from accounting books and the net initial accounting value shall remain a property as below:

accounting value of the asset (All 15, 000) – the fair value of leasing payments

A*D/E = 10,900 lekë

The amount of the asset that is going to be elleminated from the accounting books is 10,900 All and the remained part is 1,100 All of the accounting value that is going to be allocated for the resting asset.

Balance annalyze

At the beginning of the leasing period, the lessor shall know the leasing asset receivable at the value of 15,000 All and the correspondet income. Appart this, the landlord shall retrieve the asset from the balance and know the selling cost of 10,900 All and a remained value of 1,100 All. The difference of 4,100 (15,000 all – 10,900 all) shall be registered as revenue from the rent and should be recorded at the beginning of the rent period.

Income and expenses statement annalyze

	First year	**Second year**	**Third year**	**Total**
Income	**15,000**	**0**	**0**	**15,000**
Cost of sold products	**(10,900)**	**0**	**0**	**(10,900)**
Interest income	**1,500**	**900**	**600**	**3,000**
The proposed revenue	**5,600**	**900**	**600**	**7,100**

Table no 6: Annalyze referring to the draft proposal on leasing

3.1. How is the business influenced from these standards?

Based upon the collection cited above, both the lessor and the lessee can be begin to see the opened influenece, that the proposed leasing accounting shall have at their operations – these are effects that go beyond the eccounting. Some of these are listed below:

3.1.1. Financial annalyses

The first difference that is visible to this new accountign treatment, at lessee financial statements is the increase in the balance that shall conclude at an asset and liability recognition for all the leasing transactions that were operating leasings before. As result, some capital reports, will worsen even though the cash flow and business activity shall not be changed. This appart, the profit and loss statement of the lessee, will be affected, becasue the leasing operating expenses shall be charged at the end. Moreover, the linear expenses of leasing nowadays is substituted with the effective interest rate method, accelerated recognition of interest expenses, both with the amortization of the rights on property usage. The reports on interst coverage, shall be decreased, but such measurements as EBIT will be improved. Because of the neccesity to re evaluate the leasing liabilities at each reporting period,these reports shall be mostly unstable that in the past. The cash flow – shall be improved, according to the model proposed, because the leasing payments, shall be classified as financial assets, that act instead of operating assets, at the cash flow monetary means. According to this, cash present payments, for the lessee, on operating leasing are classified as operating activity. To the lessor, income from leasing that before were recorded as operating leasing, shall be charged at the end, according to the proposals, compared to te existing accounting, and the balance statement of the lessor shall increase. As result to this action, lessor reports and metrics shall change.

According to financial leasing records, the effect of the proposed project on profit and loss statement, both for lessor and lessee compared to the existing accounting shall vary depending on the specific conditions of leasing. Varying of financial statements can influence at loan relations, financial agreements and regulatory requests of the company itslef. The companies that act according to the bonuses, that are shares based upon the payments instead of the provisions, and the compensation plans, should first re avaluate the agreement and if theey continue should assure performance the influence degree, at an individual company shall surely, vary according the transactions level of leasing companies, depending on how the leasing contracts were recorded before (operating versus financial) and other factors such as leasing terms and other leasing provisions. Making an avaluation at the beginning of a leasing contract, even at a high level, shall make the company to annalyze the possible effects of proposal project, such as full communication with interested parties shall be as per companies'necessity.

3.1.2. Data collection

As above mentioned, the present draft proposal needs the new accounting standard to be applied for all the existing leasing contracts, since the first day of application. This means, that if a company was asked to see the way it is applied the new porposed standard at the ending of the fiscal year, on december 21 2013, and three financial years shall be compared, the beginning leasing on january 1, 2011 shall be on the new standard application. To assure that the approval of the new draft proposal is full, and explaining the key provisions such as the leasing terms (including the possible expansions), shall be necessary conditions on leasing contracts, guarantees, and penalties. According to the model of non recognition from the part of the lessor, shall be necessary also, the right asset value, given in leasing.

Resources included, can be considerable, especially, by taking under advice that many of the leasing contracts were first started many years before and maybe many of them are from centralized econimies countries. Collecting data from the beginning shall save costs and time to re gain and re create the necessary data at a time when the approval of many new standards on accounting are going to happen. The companies shall be adviced to begin to collect, in a real time the basis, so the necessary data, from the new proposed standard for all the new leasings.this appart, the criteria on the definition on what is or not a leasing shall not change, such a definition will take a special importance for many leasing agreements. Because of the operating leasig contracts, service leasing contracts are often similar.

3.1.3. Processes and internal control

For many companies, the accounting on leasing, mostly is direct, mainly resulting at monthly leasing expenses and leasing income from the lessor. According to the proposal, not only management shall evaluate the first recording on leasing, but also it is necessary the continous evaluation for each reported period.

Assumptions according to the proposed project, can be very complex and need a high level judgement beyond the accounting department functions. Because the assumptions, need evaluation on leasing terms, and future leasing provision. To this reason it is necessary, the deep knowledge of the business and foreseeing usage of the asset, that is object of leasing contracts. To this, a company should improve the aacounting policies, and projecting controls on internal control, to make sure the the operating managing input is observed, annalyzed, documented and processed.

3.1.4. Systems and information technologies.

Because of the basic requests, that at present exist on operating leasing, many companies, nowadays are able to use sofisticated methods less than excel spreadsheets ore simple softwares in the computer to keep the recordings, related to the leasing expenditures, or leasing income. Although the proposal shall increase the assets and liabilities in the balance sheet. This process needs a periodic reavalution and another added treatment to the profit and loss statement.as result, many companies should have a more developed system, because the present method, has not a necessary depth to catch and manage all the critic data, to record the leasing transactions. Many companies need to plan their own systems of IT to address the proposed requests, through this others can decide to purchase or to integrate external leasing systems.

The companies that are actually, projecting or improving the reporting systems on IT, should be carefull to take under consideration the future leasing data as part of the actual development of IT. Time valuation of project proposal influence on IT systems, can reduce risk on revising and redesigning of IT systems.

3.1.5. Structuring and modifying the leasing agreements

To redesign the effect on the balance sheet, the porposed model on leasing can influence the way the companies negotiate and structure their agreements on leasing. Short – term leasing or leasing without renewal options, in general shall result in less than a gross surplus on balance. Anyway the companies, have to weight the desire on a smaller effect in the balance versus the high costs, on leasing renewals that maybe result at the end. To lessors, short term leasing agreements, will result at a higher risk on renewal and high financiation on exependitures. In an attempt, to reduce the influence on new propsed rules adaptation, the companies can ask to modify the existing leasing agreements. Other still, can evaluate leasing versus the purchase strategy. The companies that enter new leasing agreements, sholud at least be self conscious for potential influence of the project proposed on their balances. The companies should not take strategic economic decisions based upon the accounting results, they should be conscious on accounting consequences of their decisions.

3.1.6. Tax matter

The lessor and the lessee should analyze tax changes that shall result on the execution of the proposed leasing contract.This appart, as the companies potentially modify the existing agreements of leasing to address their accounting treatment as per the proposed new standards, influence treatments of existing taxation should be valuated and the risks from taxation should be managed as well. This has a strong importance, according to the companies with important operations included in the leasing activities. Valuation on tax treatments soon will help the companies, to reduce the tax esposing and favorable developments on taxation strategies.

3.1.7. How should companies act by now?

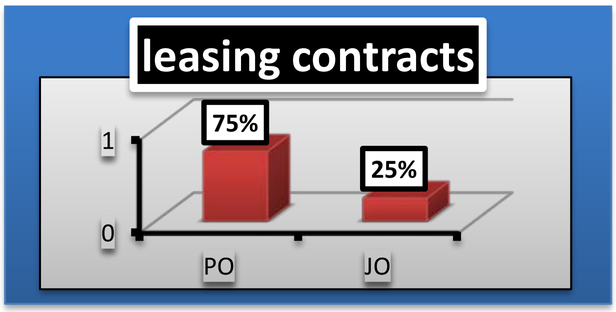
As said before, a final standard is not expected to be efficent for many years, and other changes will emerge, as part of the normal process of boards' discusssions. Evene thoudh no one can foresee at sure the final result of accounting standards, the most agree that the most basic change proposed – is the recognition of all the leasing agreements on the balance sheet- that is a possible result. Even though it is early to make a fast predition for the avaluation of the proposal project, the companies with both considerable activities on leasing – lessor and lessee- shall make profit from an initial valuation on proposal effect in their financial and operational statements. Understanding this project proposal shall help the companies to plan for a regular transistion and efficient on the new standard at a manner to reduce financial reporting, taxattion effects, businesses and their risky operations.

4. Analysis of the questionnaires

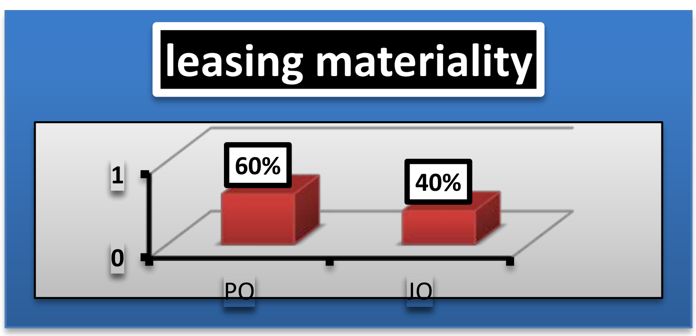
One of the basic tests that are based on the received information and important conclusions about the spread of knowledge and lease financing as a means of questionnaire analysis is as one of the main primary sources.

The sample on which we rely mainly consists of large firms. Sample size is 16 entity. Choosing the sample is random. Most of the units that we have to consider the trade and service busy and too little production. These units freed the following results:

4.1 As to whether companies use the lease as financing, insurance funds, asset use or other elements of the interviewed firms came to these conclusions, the lease agreement is used in businesses in Albania at a level of 75% serving as a business or as tenants of rental property.



The table shows the spread of leasing financing of the Albanian companies. 75 % answer yes and 25 % answer no to the financing with this contract.



about the materiality 60 % of the companies answer yes and 40 % answer no.

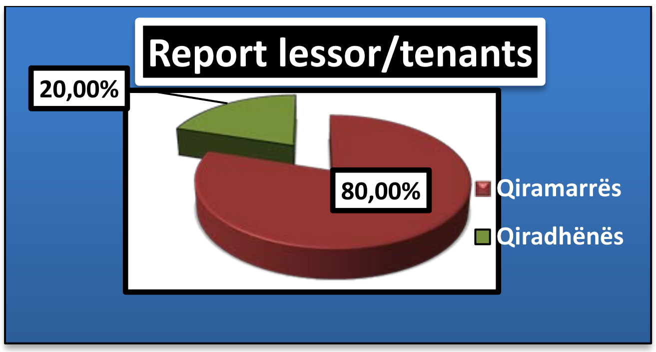
4.2 The payments of common contract leasing are registered as axpenses at the time of payment. If this payments are made in cash, explanation shoolud be given at the illustrations of financial sheets.

Financial sheets are prepared at basis of materiality, that means to give the right importance to the financial records that are specific important for the users of balance sheet and financial result sheet.

The worsening financial statements with excessive detail and information immaterial damages their clarity and understanding. Financial statements based on assumptions built-basic principles and characteristics of accounting information.

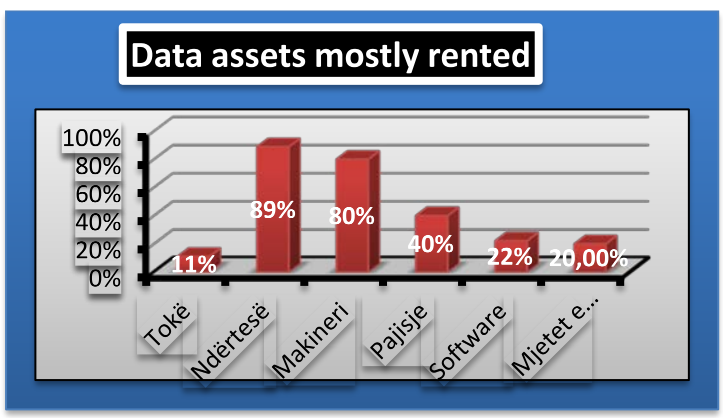
Basing on survey data I conclude that rental costs are material to 60% of firms use leasing as a financing or fundraising, so that the main items listed in their financial statements and notes which appear in .

2.3 One of the main questions was whether your company serves as lessor or lessee and from our analysis we concluded according to the following schedule:



so from the questionnary it is evident that tennats are highly increased compared to lessors.

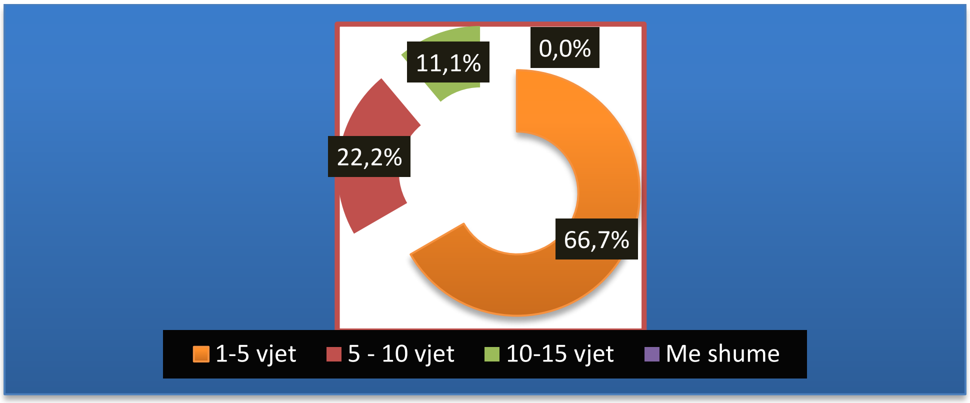
From where it is noticed that most of the companies serves as the lessor in 80% of cases. Here we must distinguish if given the size and nature of business. Other information would take the small businesses where most of them serve as tenants.



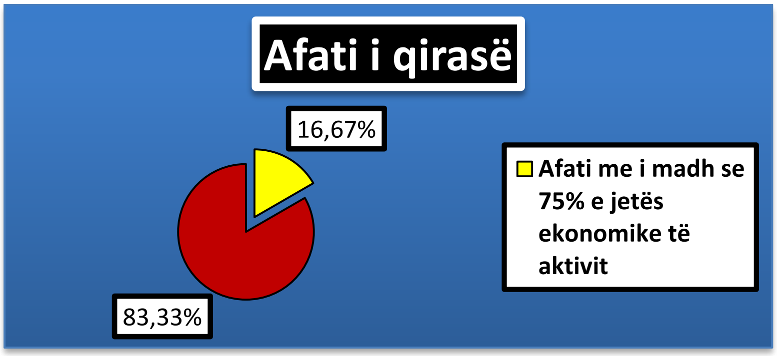
4.3 Assets are mainly land lease object, building, machinery, equipment, Software released, means of transport. But making reports or lease business change. In some businesses mainly engaged in building, has other entities that acquire or lease the building and land together, or several simultaneously active.

Focusing now on lease terms that constitute the basis of the study Officers to reach the information if we in Albania mostly used operating lease or financial lease.

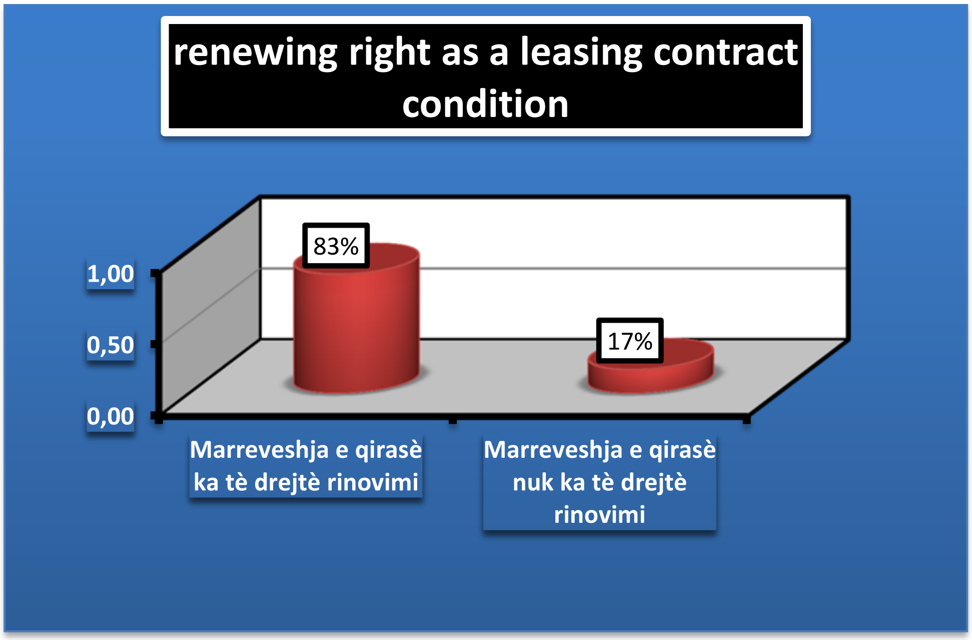
4.4 So in terms of the lease term, the question of what are the key terms of the rents that firms use their entities have responded as follows:



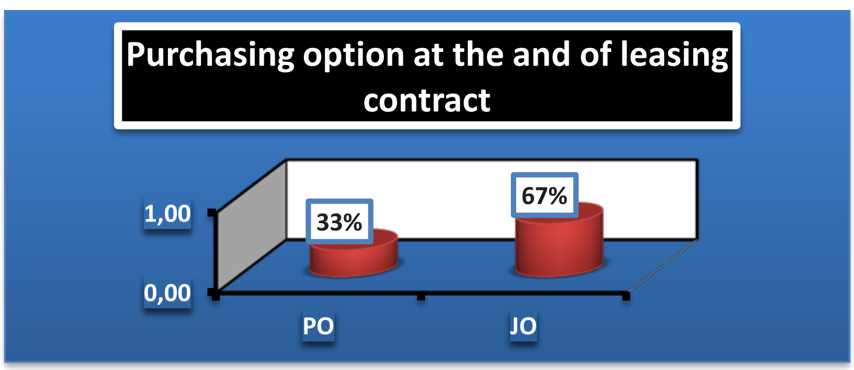
And as we see, the majority of time is 1-5 years in 67.7% of the rents studied, 22.2% of cases constitutes the lease term 5-10 years, 11.1% of leases are within 10-15 years and almost 0 % to more than 15 years. We see that with increasing time there is a decrease in the number of leases. And this is an indication that the majority of operating lease rental occupied.



4.5 Time greater than 75% of the economic life of the lease of the encounter only 16.67% of the cases studied in entities in Albania. 83.33% of the cases studied companies with lease terms that are lower, than 75% of the asset's economic life, by not fulfilling one of the conditions of leasing. Such a conclusion also connect with the above chart and actually see where both data give us a just conclusion. Most busy lease operating lease.

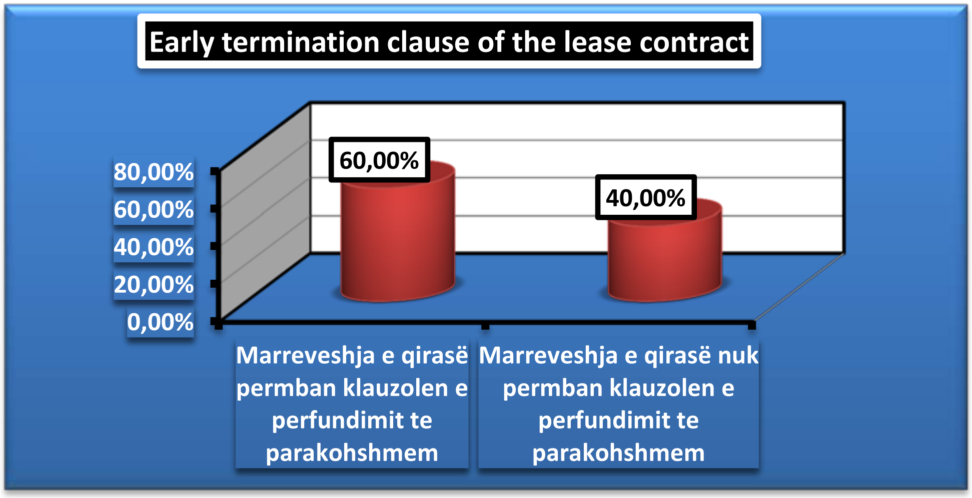


4.6 The right of renewal is a suitable criterion for leasing as well as operating leases. The chart shows that 83% of leases have renewal lease condition, which means that expiry, if decided by the two parties to the contract, lease can continue in a second term conditions similar to the initial contract or taking other lease form, as set out above is the rent for each of the types of lease classification.

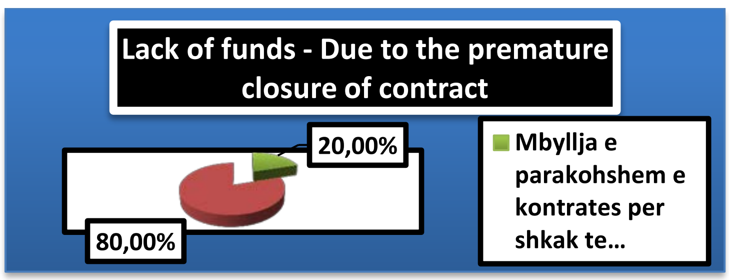


4.7 One of the conditions listed in IAS 17 is the criterion of the call option at the end of the lease from the graph above, we concluded that 33% of leases contain purchase option, while 67% of the contracts do not contain purchase option at the end the lease term.

Since the call option is one of the conditions of capital lease classification, we arrive at the conclusion the majority of operating lease rental occupied.



4.8 Additionally, the leases have early termination clause and implemented in 60% of cases leases entities interviewed but despite this it is not always related to lack of funds, one thing is related only to 20% of cases or leases, which we can see in the chart below.



4.9 This chart shows that 20 % of the tenants close the contract because of the lack of funds. This is a premature closure of easing contract

5. Conclusions

In fact leasing financing approaches many advantages:

• leasing contract is profitable to all the parts included

• To the furnishers, leasing wides their market basis

• differing with the simple loan, leasing financing doesn't need a guarantee

• any expenses like: loan payments, insurances and administrating expenses can be registered as expenses at your bookeeping

These are the reasons that the usage of these contracts has increased from year to year.

1. Basing on survey data I conclude that rental costs are material to 60% of firms use leasing as a financing or fundraising, so that the main items listed in their financial statements and notes which appear in .
2. The fact is that we have a higher level of rental lease that derives from the aforementioned advantages of leasing. But no entity to serve as the landlord as a tenant. In fact, the answers have been more different from, for example Classic firm has a landlord-tenant ratio 60% to 40%, Copier Computer System has a 2 to 1 ratio, etc.. (source: the questionnary)
3. The value of the total rent is different assets. And the information collected will see that the major share of business units in buildings occupied Albania with 89% of cases being rented, then the machines are in 80% of the units that this asset is subject to a lease. Many are less equipment in 40% of businesses and even fewer vehicles in 20% of cases the rent. Others listed as the graph above.
4. I have listed above some of the key terms of the lease that are:

Examples of situations that individually or in combination would lead to the classification of the lease as a finance lease are:

a) the lease transfers ownership of the asset to the lessee at the end of the lease term;

b) the lessee has the option to purchase the asset at a price that is expected to be significantly lower than the true value of the asset at the time when this option becomes possible and it is clear that at the beginning of this option agreement will ushtohet;

c) the lease term is most economic life of the asset even if title is not transferred yet;

d) at the beginning of the lease the present value of total minimum lease payments is significant in all manner of fair value of the leased asset, and

e) the leased assets are of a special nature in such a way that only the lessee can `t use them without major modifications carried out.

5. According to the questionnary it indicates, that the majority of operating lease rental occupied from Albanian Companies.
6. From all the above, we arrive at the conclusion that in Albania is used mainly operating lease and rent less capital. This only confirmed the features and conditions of the lease, the time, the call option at the end of the lease term relationship with the economic life of the asset. And by the firm's that the questionnairy was spread, especially in those firms where the rent was an item in the financial statements, 88.89% are operating leases and occupies only 11:11% capital lease. This is actually an indication of a new market rent in Albania, we find indications primarily in economies in transition, but despite the fact of a low level, we see an increase in this market, an increase that will be followed by new standards. But in conditions, which have a spread primarily operating leases, as would be expected that the new standard is an element that will continue to be developed in the future.
7. And in fact, our question how standards are aware of the new lease accounting, responded positively from a small accounting firm managers. And that leaves us to understand that lack of information is a reason not to take any action for the future to adapt to new accounting standards.
8. One of the main questions that were posed in this study is:
9. What impact will the new lease standard for companies applying IFRS?

• Replacing the current lease standard, IAS 17, removes the possibility for companies to choose between operating leases and finance leases. In the next moment, all leases are classified as financial, which means that the tenant will have to recognize an asset and a liability on its balance sheet.

• Changing the standard rent is considered necessary to achieve an increase comparability between companies and reduce the abuse of accounting rules. However, the process of setting new standards characterized by criticism, controversy and delay, which makes it clear that the replacement of IAS 17 is a controversial topic.

• The findings of the present study indicate that the new lease standard would have consequences on companies that use IFRS operating leases and from which we can conclude that a madhh impact will be from vocational companies as edhde in our study resulted from 88.89% of companies use primarily operating leases.

10. These consequences will include:

10.1 increased balance,

10.2 debt structure changed,

10.3 an increased administrative burden,

10.4 a need to buy new IT systems,

10.5 educational efforts and changes in the behavior of companies that are included in rent.

• In response to increasing balance, key financial ratios will deteriorate. However, the basic effects of key financial ratios are very individual and will be affected by the types of deals that companies are required to meet currently.

• The results also show that companies lease not due to concealment of assets from the balance sheet, but mainly leasing as a financing source.

• Also i noticed a lack of information about these companies possess new lease standard. Regardless, efforts to change the standard plan, we expect companies to be a little more informed and prepared for change. However, this study shows that most companies have not examined any preparation about changing the standards.

6. Recommendations

A new IT-system will be necessary in all companies. Moreover, it will be necessary educational efforts in all companies. However, to what extent remains unclear. In general, it seems that most of the costs and administrative burdens associated with IT systems are transition costs.

6.1. Carry out a preliminary assessment on the impact of the Draft Proposal of the new standard on the financial statements of the company.

6.2. Assess processes for data collection, internal control and IT systems.

6.3. The estimated tax positions related to the proposed lease.

6.4. Communicate effect adjustment to interest groups, analysts, regulators and shareholders.

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[a]http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11758190 18817&blobheader=application%2Fpdf

[b]http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175821987699&blobheader=application%2Fpdf

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[e] http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156245663

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[a] http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm

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This book provides a new insight on the comparisons of discrete choice models. It provides evidence on the fact that using different discrete models yield similar results except by size of coefficients. The chapter on methodology has revisited four econometric models popular in theory of discrete estimation. The main strength of the book lies more in the use of practical approach to using demand for health to argue that one can adopt various discrete models estimation to arrive at the same conclusion for policy. This is not to say that assumption and weakness of the model is not important. The author has highlighted the limitation of each model but has gone further to show that this should not hinder the acceptance of approximated results for policy. Hence this come as a consolation for those who intends to use any of the models discussed model. The book also provides a comprehensive literature on the findings of past researches that used either logits or probit models in the health studies. The clarity of the language makes the book a good read especially for students and researchers interested in the analysis that involves discrete models of more than two categorical variables. The book provides a good guide on the interpretation of maximum likelihood results including practical approach on simulation and price elasticity measure.

Urbanus Kioko
(MSC Health Economics , PhD Health Economics)

Dr. Elidiana Bashi – finance lecturer at university “luigj gurakuqi” Shkoder

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