

## Accounting II

### 2 - Buy Backs

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3- cancelation of retained reserved

552	← VA	551

By the value of the shares previously acquired and now sold

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## Accounting II

### 3. Subsidies

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Entities that give subsidies: EOEP, others.

- Types of Subsidies
  - To production
  - Associated with assets/ for investments;
- A IAS 20 - Subsidies from the *Government*.
- NCRF 22 - Subsidies from the *Government*
- Accounts from SNC:
  - 593 - Donations and Subsidies;
  - 75 - Subsidies to production;
  - 7883 - Subsidies to investment

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## Accounting for operating leases






**The lessee**

The lessee has not taken on the risks and rewards of ownership, so the leased item is not shown as an asset in the lessee's financial statements. The lease payments are recognised as an expense over the lease term.

**The lessor**

The lessor has retained the risks and rewards of ownership, so the leased item is shown as an asset in the lessor's financial statements and is depreciated as usual. The lease payments are recognised as income over the lease term.

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## Accounting for finance leases (by the lessee)





The lessee has acquired the risks and rewards of ownership and so the leased item should be shown as an asset in the lessee's financial statements, along with a corresponding liability to the lessor.

At the commencement of the lease term, IAS17 requires that both the asset and the liability to the lessor should be recognised at the *lower* of:

- the fair value of the leased item
- the present value of the minimum lease payments.

The liability to the lessor should be split between current and non-current liabilities, as appropriate. This liability must not be shown as a deduction from the leased asset.

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## Allocation of finance charges for a finance lease

The total finance charge is the difference between:

- a) the total of the minimum lease payments, and
- b) the initial liability to the lessor.

IAS17 requires that this finance charge should be allocated to accounting periods "*so as to produce a constant periodic rate of interest on the remaining balance of the liability*".

Methods which could be used for allocating the finance charge between accounting periods include the actuarial method, the sum of digits method and the level spread method.









## Accounting for finance leases (by the lessor)

The lessor has relinquished the risks and rewards of ownership. So the leased asset should be removed from the lessor's statement of financial position and replaced by a receivable which represents the amount owed by the lessee.

In general, this receivable is initially recognised at the present value of the minimum lease payments which the lessee is required to make.

Subsequently, the rate of interest implicit in the lease is used to calculate the finance income element of each lease payment. This finance income is recognised in the lessor's statement of comprehensive income. The remainder of the lease payment is subtracted from the amount owed by the lessee.

**Main disclosure requirements  
(operating leases)**







**The lessee**

- the amount of operating lease payments recognised as an expense during the accounting period
- analysis of the total of the future minimum lease payments payable under non-cancellable operating leases.

**The lessor**

- analysis of the total of the future minimum lease payments receivable under non-cancellable operating leases.

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**Main disclosure requirements  
(finance leases)**

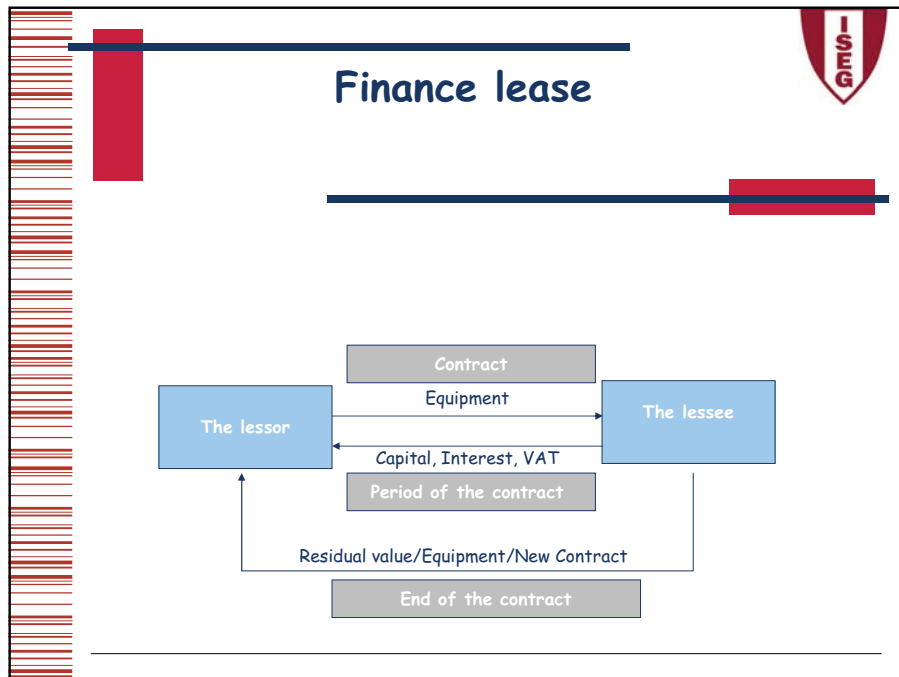
**The lessee**

- for each class of asset, the net carrying amount of assets held under finance leases
- analysis of the total of the future minimum lease payments payable under finance leases.

**The lessor**

- analysis of the total of the future minimum lease payments receivable under finance leases
- total amount of unearned finance income outstanding at the end of the reporting period.

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## Financial Leasing





In the contract it is defined:

- Value of the periodic payment
- Period that the contract is active
- Residual value of the contract (value of the asset in the end of the contract)

In the end of the contract the Lessee may choose to:

- Acquire the asset in the amount of the residual value
- Sign a new contract
- Return the asset





It exists the transference of the economic risk associated to the ownership of the asset to the lessee



## Financial Leasing

**It is considered financial leasing if one of the conditions is met:**

- there is an agreement related to the transference of the ownership of the asset in the end of the contract;
- there is purchase option at a price that is expected to be inferior to the fair value of the asset at the date of the beginning of the contract and there is great probability that the option will not be exercised;
- the contract is valid for the major part of the useful life of the asset, even that the asset will be transferred.;
- at the date of the beginning of the contract the net present value of the payments is equal or higher than the fair value of the asset;
- The underlying assets of the contracts are quite specific for the activity of the lessee.



## Financial Leasing

**Additional elements:**

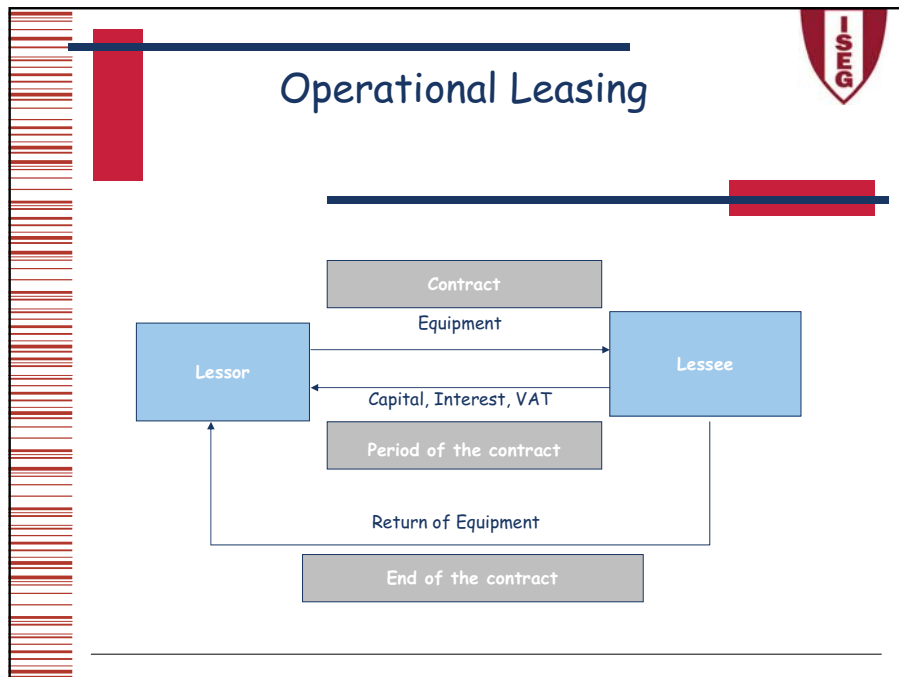
- The lessee may cancel the contract, but the losses of the lessor is for the lessee;
- The gain and losses derived from the fluctuation of the residual value are for the lessor;
- There is the possibility of having a second rent that is less than the market value (in the case that the lessor may continue the contract for a second period).

## Financial Leasing

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**Financial Leasing**

<p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>-Only way to have the adequate utilization of the asset/equipment;</li> <li>-Source of financing (increases the capacity of debt);</li> <li>-There is no need of a substantial initial investment;</li> <li>-It is a mean of technological progress and permits an increase in productivity;</li> <li>-It facilitates the financial planning and permits a provisional management more secure.</li> </ul>	<p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>-High costs involved;</li> <li>-Costs associated to the cancelation of the contract;</li> <li>-Value of the guarantees;</li> <li>-Fiscal disadvantages.</li> </ul>
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## Operational Leasing



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- It is the temporary transference of the utilization of the asset in exchange of a payment of a rent. Additionally the lessor can obtain additional expenditures associated to the contract like the maintenance expenditures.
- Usually is not predicted the transference of the asset in the end of the contract. Exceptionally can contain a triple option: acquisition, return or new contract. However, the residual value and the amount of the new payments are not known at the moment of the initial contract.
- It does not exist the transference of the economic risk to the lessee.


## Leasing



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<i>operating lease</i>	<i>financial lease</i>
<ul style="list-style-type: none"> <li>-Contract of short period</li> <li>-The lessor transfers, temporarily, the utilization of the asset</li> <li>-In exchange of a payment , named rent</li> <li>-The contract does not include, usually, the transference of the asset in the end of the period</li> <li>-Exceptionally, it can have a triple option</li> <li>-The residual value and the new payments are subject to new contract</li> </ul>	<ul style="list-style-type: none"> <li>-The parts know in advance:                             <ul style="list-style-type: none"> <li>- the duration of the contract</li> <li>- The payments</li> <li>- The value of the asset in the end of the contract (residual value)</li> </ul> </li> <li>- The lessee , in the end of the contract, has 3 options:                             <ul style="list-style-type: none"> <li>- Acquisition</li> <li>- New contract</li> <li>- return</li> </ul> </li> </ul>






## Leasing

<i>operating lease</i>	<i>financial lease</i>
The contract can be ended at any point in time. The lessee just need to express that will. The duration of the contract is usually less than the useful life of the asset.	The contract cannot be ended , unless there is a penalty for the lessee. The duration is usually the useful life of the asset.
Lessor can be, eventually, an industrial firm	Lessor is always a leasing firm
Lessee is usually obliged to ask the lessor for additional services like maintenance , accountability, auditory, etc	There are no associated services





## Leasing

<i>operating lease</i>	<i>financial lease</i>
For assets with high technological incorporation	Any type of assets
The legal ownership and risks are not transferred to the lessee	The lessor is the intermediate between the supplier of the asset and the lessee Lessee has the risk of depreciation and obsolescence The lessor retains the propriety of the asset only as a guarantee of the contract.

## Journal record for the Lessor





<b>Signature of contract</b>	$\begin{array}{c} 2513 \quad 43/44 \\   \quad \quad   \\ \hline \quad \quad \quad \rightarrow \\ \text{VL}_0 \end{array}$	VL <sub>0</sub> = Net present value of the asset at the moment of acquisition*
<b>Rent Payment</b>	$\begin{array}{c} 12 \quad 2513 \quad 2432 \quad 691 \\   \quad \quad   \quad \quad   \quad \quad   \\ \hline \quad \quad \quad \rightarrow \quad \quad \quad \rightarrow \quad \quad \quad \rightarrow \\ \text{P} \quad \quad \text{A} \quad \quad \text{VAT} \quad \quad \text{I} \end{array}$	A = Capital Amortization I = Interest - based in the capital in debt VAT - based in the interests and amortizations P = Payments = A + J + VAT
<b>Depreciation</b>	$\begin{array}{c} 4x8 \quad 64x \\   \quad \quad   \\ \hline \quad \quad \quad \rightarrow \\ \text{Qt} \end{array}$	Qt = Annual depreciation

\* Lessors must recognize the leasing contracts as assets or liabilities in their balance sheets in the amount that is equal or higher to the fair value of the underlying asset or smaller if the net present value of the payments. Both are calculate at the beginning of the contract. (NCRF 9 - §20)

## Journal record for the Lessor

<b>End of the contract - Acquisition of the asset</b>	$\begin{array}{c} 12 \quad 2513 \quad 2432 \\   \quad \quad   \quad \quad   \\ \hline \quad \quad \quad \rightarrow \quad \quad \quad \rightarrow \\ \text{RV} \quad \quad \text{VAT} \end{array}$	RV = Residual value, written at the contract
<b>End of the contract - Return of the asset</b>	$\begin{array}{c} 43/44 \quad 7x/6x \quad 4x8 \quad 2513 \\   \quad \quad   \quad \quad   \quad \quad   \\ \hline \quad \quad \quad \rightarrow \quad \quad \quad \rightarrow \quad \quad \quad \rightarrow \\ \text{VL}_0 \quad \quad \text{Am ac} \quad \quad \text{RV} \end{array}$	Am ac = Accumulated Depreciations at the date of the end of contract





Operational Leasing, ALD: record in 6261 Rents in the amount of the total payment in which it is necessary to calculate the VAT, (2432 if applicable). Do not forget the Accruals!



## Other Types of Leasing

### Sale and Lease Back

- Sale of an equipment or building to a lessor that immediately rents to the seller. It is recognized the acquisition option in the end of the contract.
- The assets remain in the same place but there is a transference of the legal property of the asset.
- It is a way of have fresh money entrances in the firm.
- The record in the books of the firm is depending of the type of contract signed.



## Other Types of Leasing

### Estate Leasing

- the lessor agrees to transfer to a third party a building or other estate that agrees to acquire or build in accordance with the lessee in the future.
- The land can be either property of the lessor or lessee.

### leveraged lease

- used in business that involve large amounts of capital
- Have fiscal advantages
- Lessor is the leader in gathering all the required capital to the investment.