Usage of international standards in accounting and internal audit of leasing operations in Russia

S A Vardanyan¹, E V Tokareva¹, T V Daeva¹ and A V Tokareva²

¹Volgograd State Agricultural University, 26, University Avenue, Volgograd, 400002, Russia
²Russian State University for the Humanities, 6, GSP-3, Miusskaya sq., Moscow, 125993, Russia

¹E-mail: sv@volgau.com

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

1. Introduction
The relevance of the research is reasoned by the fact that in the Russian Federation the using of the international standards in the practice of accounting and internal audit is still a relatively new type of activity. Due to the lack of specialists with the necessary qualifications, lack of teaching materials, as well as the lack of research of this issue, the using of international standards often raises questions among practitioners. This is especially true for such a financial instrument as leasing, which only recently began to gain popularity in comparison with renting or lending. Also, the relevance is associated with the changes in legislation in the field of leasing, which take effect in the Russian Federation from 1 January 2019.

In international editions a lot of different scientific papers about accounting and auditing of leasing operations are published. The most significant articles, among which are the papers of Robert Singer, Michael Billing, Benjamin R. Ripple and etc, consider the issue of changes in international standards relating to the accounting of rent and leasing. Robert Singer supposes that new lease accounting standard, released by FASB in early 2016, and represents one of the largest and most impactful reporting changes to accounting principles in decades [1]. Michael Billing in his paper noted, that one of the biggest questions on the minds of corporate real estate (CRE) executives is: will leasing strategies need to change? [2]. Benjamin R. Ripple says, that operating leases under the new standard will be capitalized, but that does not make properly identifying your leases as operating or finance any less important than it was to properly identify a lease as operating or capital under the old standard [3].
Russian scientists also contributed to the study of this issue. The most famous articles of such authors as R A Alborov, V V Kovalev, N N Karzaeva, M L Pyatov, Khoruzhy L I and others were published in international editions. Their papers focus on such questions, as specificity of leasing companies analysis, multiplicative model of return on assets in evaluation of company’s financial security, managerial accounting and agricultural efficiency control in Russia etc [4-6].

The purpose of this paper is to show how the international standards are used in the Russian Federation in accounting and auditing of leasing operations. This is important so that the international developers of such standards understand how standards are used now and in what direction they should be evolved. For science, the understanding of the main vectors of standardization of accounting and auditing is very important. In the course of the research the scientific works of Russian and foreign specialists were studied, the review of the Russian legislation and international standards was made [7].

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

2. Materials and methods
In the process of the research the theoretical aspects of accounting and internal audit of leasing operations according to the requirements of international standards, various general scientific methods were used. The main ones are analysis and synthesis, induction and deduction, comparison, abstraction, observation, modeling, etc.

3. Results and Discussion
Now the active market is rapidly developing and the economy of a country is not standing still, one of the pressing problems is the international standardization of accounting in Russia. In this regard, the Russian accounting system (RAS) is undergoing a period of an adaptation to international financial reporting standards (IFRS). In this regard, in modern conditions, enterprises and accountants are faced with a number of difficulties in reporting due to the rules of IFRS [8].

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

To date, the Ministry of agriculture of the Russian Federation approved the register of breeding animals and nomenclature of equipment and livestock equipment recommended for the supply to agricultural producers on leasing terms [9].

The leasing of biological assets (bioleasing) will contribute to the strengthening and development of mechanisms of interstate dialogues about food security in accordance with the Concept of foreign policy of the Russian Federation. Bioleasing (leasing of biological assets (bioassets)) is the special type of agrarian leasing (agroleasing) based on the contractual financial and property relations directed to implementation of investment transaction in the agrarian sphere of the economy based on the credit and consisting of purchase with the subsequent transfer to leasing of the biological assets developing on the basis of biotransformational processes capable to give agricultural products and/or additional biological assets and being property of the lessor during all term of the agreement of bioleasing [10].

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

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

Table 1. Challenges of the new IFRS 16 "Rent".

| Existing accounting problems | New standard solves the problem |
|-----------------------------|--------------------------------|
| Renter                      | Recognize only assets and lease liabilities for all leases except leases of less than 12 months and leases of assets of negligible value |
| Insufficient disclosure of operating leases | Additional requirements for the disclosure of information |
| Lessor                      | Additional requirements for the disclosure of information in relation to the risks [4] associated with the stored landlord's rights to the assets, the leased |

In the conditions of innovative and investment policy the functioning of the Russian economy in the agricultural sector, aimed at the course of import substitution, it is important to use the mechanism of agricultural leasing. The Federal law dated 29.01.2002 N 10-FZ "On leasing" is defined the assignment of breeding animals to the leasing object, which is a living organism, developing on the basis of the biotransformation processes. Recognition of breeding animals as a biological asset as the object of accounting of leasing must comply with the requirements of IAS 41 "Agriculture" in the context of the implementation of IFRS (IAS) 17 leases (Leases).

The International Financial Reporting Standard (IAS) 17 "Leasing" presents the information for all the leasing relations participants. Unlike the Russian system of accounting according to the international standards the object of leasing is reflected only in balance of the lessee. According to the conditions of financial rent on IFRS, the lessee, as summing all risks and receiving an economic benefit from use of leasing property, pays leasing payments to the lessor (the paragraph 37 of IFRS (IAS) 17).

According to the conditions of financial rent on The International Financial Reporting Standard (IAS) 17 "Leasing", the lessee, assuming all risks and receiving an economic benefit from use of leasing property, pays leasing payments to the lessor (the paragraph 37 of IFRS (IAS) 17). According to the paragraph 36 of IFRS (IAS) 17, the lessor’s write-off of property is reflected by receivables in the sum equal for the beginning of leasing term of leasing property fair value, or at the discounted rent payments cost if it is lower. The lessor’s (not being the producer’s or the dealer’s) direct costs (the commission, legal collecting and internal expenses relating directly to the leasing contract preparation) join at initial calculation of the payments which are required to receiving under the financial rent contract (the paragraph 38 of IFRS (IAS) 17). Thus, these...
expenses compensation is recognize at the rate percent arrangement on the leasing contract, and they reduce the lessor’s income size conformed during all leasing term.

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

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

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

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

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

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

Since any correct management decision is based on the timely, reliable and complete information capacity of accounting local acts, an important role in the system of information and analytical support belongs to the correct documentation of all perfect business processes [11].

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

In preparing the statement of financial position, management is responsible for disclosing information relating to the leasing activities of the organization. The persons responsible for corporate governance are responsible for overseeing the preparation of the financial position of the organization [12].

2. To date, it is very important that agricultural enterprises can not avoid risks in the course of their activities [13]. One of the most effective ways to solve these problems is to organize the functioning of the internal audit service in agricultural holdings [14]. Internal audit of leasing operations is regularly carried out in cases when the volume (size) of leasing payments is significant. It allows early detection and prevention of violations of legislation in the field of leasing, which allows the organization to avoid penalties from regulatory authorities or contractors.

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

Algorithm for the internal audit of leasing operations, consisting of 8 stages, was proposed in accordance with IPPF to achieve high efficiency.

In the process of implementation of the first stage, the key features of the state and economic activity of the organization are identified; qualitative and quantitative assessment of the factors affecting its activities is carried out. In the process of the second stage, it is necessary to prepare information support for the audit. At this stage, a list of documents regulating the legal, economic,
organizational and technical support of the organization is formulated, a list of laws and other legal acts that regulate the economic activity of the organization in General and the procedure for leasing operations in particular. The third stage of the audit is its planning. In accordance with the IPPF, the head of internal audit should draw up a risk-oriented plan, formulating internal audit priorities for compliance with the objectives of the organization [15].

The IPPF states that the head of the internal audit shall submit for review and approval by the top Executive management of the organization an internal audit work plan containing information on the resources necessary for its implementation [16].

In accordance with the IPPF, work programs to achieve the objective of the assignment should be developed and documented by internal auditors before the audit [16].

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

The essence of the fifth stage of the proposed algorithm of internal audit of the organization is based on the collection of audit evidence, their analysis and evaluation. At this stage, the methods used to collect evidence for each verification task are determined, resulting in the necessary information being obtained and processed. In accordance with the IPPF, internal auditors should ensure that sufficient reliable, relevant and useful information is collected to achieve the objectives of the assignment [16].

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

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

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

After that, the correctness of transactions in accounting is checked [17]. The instructions for the application of the Chart of accounts provide for the accounting of tangible assets acquired for the provision of temporary use for a fee, by debit of account 03 "Income investments in tangible assets" in correspondence with account 08 "Investments in non-current assets".

The initial cost of fixed assets purchased for a fee is the amount of the actual costs of the enterprise for the acquisition, construction and manufacture [18].

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

1 "Property for leasing";
2 "Property leased".

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

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

Since the property can be recorded on the balance sheet of the lessor, the lessor makes depreciation [19].

Consequently, the accounting monthly on the basis of the set by the lessor useful life reflects the depreciation on the debit account 20 "Main production" and the credit account 02 "depreciation of fixed assets".
Lease payments in accordance with the schedule of their payment under the terms of the contract are accounted for by the lessor as income from ordinary activities and are recorded on the loan account 90 "Sales", sub-account "Revenue", in correspondence with the debit account 62 "Settlements with buyers and customers".

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

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

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

In accordance with PBU 6/01, the value of the disposal of fixed assets is subject to write-off from accounting. In this case, the amount of accumulated depreciation on the disposal object is written off from the loan account 02 "depreciation of fixed assets" in the debit account "Property in leasing", and the residual value of the object is written off from the loan account "Property in leasing" in the debit account 91 "other expenses".

Sources of audit information.
• contracts;
• invoices and invoices;
• acts of the performed works;
  • statement of depreciation
  • payment and cash documents
  • waybill
  • work orders
  • memorial orders
• form FA-1, FA-3, FA-4, FA-6, FA-14, FA-15, FA-16;
• administrative records and calculations of the credit Department (or other relevant structural units) of the Bank;
• personal account statements
• decisions of judicial and Executive bodies;
• other primary documents

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

According to the IPPF, it is the responsibility of internal auditors to draw conclusions and present the results of the assignment on the basis of appropriate analysis and evaluation of the information [16]. At the seventh stage of the internal audit should be a discussion of preliminary reports, proposals with the management of the organization, specialists of the audited departments, employees of structural units, etc. [20].

This is in line with the requirements of the IPPF, according to which the head of internal audit is obliged to communicate the results of the audit to the relevant parties. It is only after discussion with these individuals that the head of internal audit reviews and approves the final accounts of the audit before its release and decides to whom and how it is presented [16].

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

According to the IPPF, the final report should contain the following information [16]:
- a list of the scope of work indicating the period of time that covers internal audit;
- information on the circumstances that limited the scope of work;
- substantiation of risk assessment criteria or other criteria underlying the report;
- justification of the final opinion, judgment or conclusion.

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

4. Conclusion
To date, operating lease or lease processes have not substantially reflected the financial performance of the company. In the financial statements of the company showed only the costs in the form of interest or rent. Since 2019, the assessment of leasing obligations will require the collection of a lot of data, and the whole process will be complicated. Some companies are already preparing for these changes. Companies that use leasing or leasing will need effective information systems.

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

References
[1] Accounting for Leases Under the New Standard, Part 1, Robert Singer, Alyssa Pfaff, Heather Winiarski and Mark Winiarski, available at: https://www.cpajournal.com/2018/08/16/icymi-accounting-for-leases-under-the-new-standard-part-1/
[2] Billing Michael 2018 New rules, new strategies: How the changes to lease accounting rules impact leasing decisionsCorporate Real Estate J. 7 (4) 304–318
[3] What You Need to Know About the Changes Part 2: Operating Lease Accounting, Benjamin R. Ripple, available at: https://www.brccpa.com/2019/03/04/leases-what-you-need-to-know-about-the-changes-part-2-operating-lease-accounting/
[4] Kontsevaya S and Alborov R 2017 Managerial accounting and agricultural efficiency control in RussiaAgrarian Perspectives XXVI: Competitiveness of European Agriculture and Food SectorsProc. of the 26th Int. Sci. Conf. pp. 145–150
[5] Voronova E A, Kovalev V V and Kovalev V V 2018 Specificity of leasing companies analysis: the case of Russia Innovation Management and Education Excellence through Vision 2020 Proc. of the 31st Int. Business Inform. Managem. Association Conf. (IBIMA) pp. 2078-2088
[6] Karzaeva N N, Zimin N E, Rokotyanskaya V V, Sevastyanova E V and Volodina N G 2018 Multiplicative model of return on assets in evaluation of company’s financial security AD ALTA J. of Interdisciplinary Res. 8 (1) 17–24
[7] Khoruzhy L I, Ryakhovsky D I, Khoruzhy V I, Dzhikiya K A and Postnikova D D 2019 Transformation of tax legislation in the digital economy. Research Journal of Pharmaceutical, Biological and Chemical Sciences 10 (1) 2000–2003
[8] Balashova N N, Melikhov V A, Ovchinnikov M A, Egorova E M and Tokareva E V 2016 Organizational and methodological approaches to development of accounting policy for formation of integrated accounting of interrelated agricultural companies European Research Studies Journal 19 (2) Special Issue153–160
[9] Balashova N N and Vardanyan S A 2015 Internal audit in the agricultural sector: condition, problems and prospects of developmentNews of the Nizhevolzhsky agrouniversity complex: Science and higher professional education [in Russian – Izvestiya Nizhevolzhskogo agrouniversitetskogo kompleksa: Nauka i vysshee professional’noe obrazovanie] 3(39) 246–250
[10] Tokareva E V and Balashova N N 2017 Leasing of biological assets (bioleasing): classification characteristics and accounting and analytical support. *News of the Nizhnevolytskaya agrouniversity complex: Science and higher professional education* [in Russian – Izvestiya Nizhnevolzhskogo agrouniversitetskogo kompleksa: Nauka i vysshee professional'noe obrazovanie] 2(46) 289–296

[11] Jennifer Putnam and Stephanie Markert *Understanding the New Lease Standard*, available at: http://docplayer.net/45618943-Understanding-the-new-lease-standard.html

[12] Kostyukova E I, Vakhrushina M A, Shirobokov V G, Feskova M V, Neshchadimova T A 2018 Improvement cost management system for management accounting *Research Journal of Pharmaceutical, Biological and Chemical Sciences* 9 (2) pp. 775-779

[13] Internal Audit Policy and Operations Manual. Available at: http://docplayer.net/42067740-And-operations-manual.html

[14] Gorlanov S A, Medelyaeva Z P, Malitskaya V B, Chirkova M B and Kostyukova E I 2019 Content analysis the term "effectiveness" and the concepts of its quantitative characteristics *Indo American Journal of Pharmaceutical Sciences* 6 (3) pp. 5293-5298

[15] Vardanyan S A 2018 Model of integration of internal audit into structure of management of agricultural holding *Scientific Review: Theory and Practice* [In Russian – Nauchnoe obozrenie: teoriya i praktika ] 12 98–104

[16] International professional standards of internal audit, available at: https://www.iia-ru.ru/contact/Standards-rus%202016%20IIA%202017122016.pdf

[17] Khoruzhy L I, Katkov Y N, Khoruzhy V I, Dzhikiya K A and Stepanenko E I 2018 Current approaches to assessing and enhancing the efficiency of managerial decisions in agrarian organizations *Astra Salvensis* 6 pp. 835-845

[18] Sekerin V D, Bank S V, Gorokhova A E, Dudin M N and Lesnykh Y G 2017 Vertically integrated holdings in the system of developing the national complex of iron and steel industry of Russia *Metalurgija* (Zagreb, Croatia) 56 (3-4) pp. 429-431

[19] Bautin V M, Katkova E A, Dzhikiya M K, Zaruk N F and Ukolova A V 2018 Knowledge management in the system of ensuring the economic security for agricultural organizations *Astra Salvensis* 6 pp. 891-898

[20] Bogoviz A V, Alekseev A N, Lobova S V, Telegina Z A and Barcho M K 2018 *Quality - Access to Success* 19 (52) pp. 166-170