ACCOUNTING POLICIES OF TRANSACTIONS ARISING FROM THE LEASE AGREEMENT

TRATAMENTE CONTABILE A OPERAŢIUNILOR CE DECURG DIN CONTRACTUL DE ARENDĂ

FRANCA DUMITRU[1], MARIA MORARU[2]

[1] Tibiscus University, Faculty of Economic Sciences, Timisoara, Romania; francadumitru@yahoo.com
[2]West University, Faculty of Economics and Business Administration, Timisoara, Romania; mariamoraru2002@yahoo.com

Abstract: *Currently financial accounting in Romania is organized in a uniform manner across all economic sectors. With the integration of Romania into the European Union, agriculture plays an increasingly important role due to the possibilities of attracting structural funds. We can also say that leasing is a specialized form of credit, in which money are replaced by biological assets, namely land, and the interest is subrogated with rent, which can be paid both in cash and cash equivalents. After 20 years of transition, it seems that new private owners have largely decided not to join associations and to exploit individually land or to lease it.*

Key words: *accounting, economic, agriculture contract, rent.*

INTRODUCTION

Lease is the temporary cession of the right of property exploitation, in return of a payment. It may also have the meaning of an amount paid by the lessee to the owner for the lease of a property. According to the lease law no. 16/1994 with subsequent amendments and completions, lease means the contract signed between the owner, beneficial owner or other legal owner of agricultural goods and the lessee, on the exploitation of agricultural goods for a specified period and at a price determined by the parties.

The concepts of lease and rental may be confused because they have very similar meanings. Both land and biological assets can be leased, and

the amount received from ceding the right of exploitation may be in kind or in cash and it may be called lease, respectively rental.

MATERIALS AND METHODS

By agricultural commodities that can be leased we understand: agricultural land, namely productive farmland - arable, vineyards, orchards, vineyards and orchards nurseries, fruit bushes, hops and mulberry plantations, wooded pastures, lands occupied with buildings and agrozootechnical facilities, fishing facilities and land improvements, technological roads, platforms and storage spaces that serve the need of agricultural production and unproductive land that can be adapted and used for farming and animals, buildings of all kinds, machinery, equipment and other similar goods destined for agricultural use.

Leasing is done by a written contract signed between the lessor, on the one hand, and the lessee, on the other hand.

Contracting[97] parties may be individuals or legal persons. Lessees, individuals, may be Romanian citizens, whether residing in the country or abroad and they must have specialized training in agriculture or a certificate of agricultural knowledge and they must present the guarantees required by the lessor. Lessees, legal persons, can be Romanian legal persons, based in Romania, including the ones with partially or fully foreign capital and their main activity must be operating agricultural assets and they must provide the guarantees required by the lessor.

Autonomous companies, institutes and research stations and agricultural production that manage publicly owned land can not lease agricultural goods, under penalty of absolute nullity of signed documents.

The lease contract includes: contracting parties and their address or location, subject of contract, completely and accurately determined, the subject of the contract must include a detailed description of all agricultural property leased, their inventory and the site plan of the land, responsibilities of each party, expressly and completely specified, lease period, lease terms and payment terms of the lease, the responsibilities of each party, any land

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or any other area of agricultural land that will be retained by the lessor will be specified separately in the contract, other terms agreed by the parties and permitted by law.

The lease contract shall be in writing, a copy for each party and a copy is submitted to the local council in whose jurisdiction is the leased property, within 15 days from the date of termination. It is recorded in a special register kept by the secretary of the local council. If the leased property is located within the jurisdiction of several local councils, the registration and deposit of the contract are made at each local council in whose jurisdiction the property leased is located. The fees for drafting and registering the lease contract will be paid by the lessee.

The contracting parties will include in the lease contract insurance clauses of the agricultural property; these are incumbent upon the lessee. Only the lease contracts concluded in writing and registered with the local council are valid and binding.

Lease contracts concluded in writing and registered with the local council are enforcement orders for lease payment on time and in ways stipulated in the contract. Lease duration is determined by the parties in the lease contract. Lease contract may be renewed according to parties' agreement. Each contracting party is obliged to notify the other party in writing, at least three months before the contract expires, of its intention to renew or not renew the lease contract. By agreement of the parties the lease contract may terminate before reaching term.

The lease contract can continue in case of death of the lessor or lessee. For this, the major heirs of the lessee or, where applicable, the heirs of the owner must communicate their intentions in writing and obtain a written consent of the other party, within 30 days from the date of death. The lessee's heirs may jointly agree to continue exploitation of the agricultural property leased by their author or they can designate one of them to continue their exploitation. Without an agreement, the heirs of the owner may designate one of the lessee's descendants who meet the conditions for individual persons. The heirs of the lessor or lessee, as appropriate, have the obligation within 30 days to notify the local council on the new lease parties.

Non-compliance constitutes a contravention and is punishable by a fine.

The lessor's obligation is to deliver the goods leased in time and in the conditions established, to ensure the lessee of a total or partial eviction and to perform all other obligations under the contract.

The lessee's obligation is to use the leased property as a good owner, under the terms of the contract, to maintain the productive potential of the leased property, to return them upon termination, to require the lessor's agreement for making any investment on the ground, to pay rent on time and in the manner prescribed and to execute all contractual obligations.

The lessor has the right to control whenever how the lessee used the leased property. Upon termination, the lessee can be recognized by court order, a right of retentions on his counter-claims with the other party, arising from the contract. The taxes and fees payable for the leased agricultural goods are the lessor's responsibility!

The lessee is considered a cultivator; the payable taxes on his income earned from the exploitation of the leased agricultural goods are paid according to the legal provisions.

The lessee, as a cultivator, benefits form tax and credit facilities provided by the legislation in force.

The lease payment is made according to the contracting parties' agreement and it's performed at the time and place set in the contract.

The elements for establishing lease for each land use category may be: area, production potential, parcelling structure, topography and accessibility of mechanization, the possibilities of access, distance from the storage sites, industrialization and commercialization, state of buildings, land improvement or other features.

For the land planted with vines, trees, shrubs, hops and mulberry trees, the lease will be determined taking into account the type of plantation, age, variety, technical and biological status.

In the case of livestock, the lease may be set depending on the species, breed, age, biological status, production potential and their veterinary health state.

Agricultural goods can't be leased by public officials and employees with leadership positions from autonomous companies with agricultural profile, research institutes and research stations and agricultural production that manage publicly-owned agricultural land.

The lessee may change the category of leased land only with a prior consent in writing given by the owner and in compliance with the legal provisions. In the lease contract, by mutual agreement, the contracting parties may determine the cases and limits of bearing the damage caused by natural calamities.

RESULT AND DISCUTIONS

Contracting[98] parties may agree to provide to pay total or partial losses of the leased property, as a result of fortuitous circumstances or contingency.

With the written consent of the lessor, the lessee may assign the lease to her/his husband/ wife, co-participant in the exploitation of agricultural goods, or to his descendants who have reached age of majority.

Offices for lessees are not allowed! Total or partial sublease is prohibited! Any sublease act is null! Permanent or seasonal employees used by the lessee will benefit from all rights and social protection stipulated by labour legislation.

Any contracting party may request termination of the lease in court, for cases of default by the other party, under the law. Litigations are handled by the courts or can be resolved, with the agreement of the parties, by arbitration. Contracting parties have available all legal means to defend their contractual rights and legitimate interests in connection with the leased property.

Finding contraventions and sanction application are made by the persons empowered by Directorate General for Agriculture and Food Industry, and the lessor is entitled to damages and to restore the previous situation.

Accounting policies for **land taken on lease:**

- for lease contracts concluded with individuals, the following entry will be made monthly:

612 „Cheltuieli cu redevenţe, locaţii de gestiune, chirii” = 462 „Creditori” (Creditors)

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- for lease contracts in which[99] the landowners of the given land are legal persons, based on an invoice issued according to contractual provisions, the following entry will be made:

612 „Cheltuieli cu redevenţe, locaţii de gestiune, chirii" = 401 „Furnizori" (Suppliers)

- if the legal person is VAT payer, then the invoice will also include the related value added tax, the entry will be: % = 401 "Suppliers"
612 „ Royalty expenses, location management, rents" 4426 „VAT deductible"

- if through the contract is established that on account of the lease there will be given some of the products obtained from the field, until obtaining those products, the following entry will be made 612 = 462 or 612 = 401, by estimating the value of these products.

Accounting policies on **the exploitation of agricultural goods**

An entity is engaged in operating agricultural goods. On December 1, 2010 a lease contract is signed with a Romanian legal person, for an area of land, on which oats will be cultivated. The duration of the contract between the parties is set for 3 years with renewal rights with the consent of the parties. The lease value is 25,000 lei and it is paid in kind, at harvest time. The production cost of agricultural goods obtained by the lessee is 5 lei/kg oats.

The accounting policies in the lessee's accounting arising from the lease contract are:

In the lessee's accounting

a) The lessee - company is a VAT payer entity, and the lessor is a legal person.

1. Entry of the due lease based on the invoice issued by the lessor company:

612"Cheltuieli si redeventele, locatiile de gestiune si chiriile" = 401 "Furnizori"		25.000

612 „Royalty expenses, location management, rents" = 401 „Suppliers"		25.000

In terms of tax event and chargeability of VAT for deliveries of agricultural products representing lease payment in kind, occurs at the date/

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dates mentioned in the contract for paying the lease. The data stipulated in the contract must coincide with the invoice date for the delivered goods. In accordance with art. 141, par. (2) let. e), from the Fiscal Code of Romania, lease made on Romanian territory is exempt from VAT.

2. Entry of products delivery, in contractual terms:

4111"Cienţi"	=	%	31.000
		701 "Venituri din vanzarea produselor finite"	25.000
		4427 "TVA colectată"	6.000

3. Deduction[100] in the lessee's management of the assets transferred to the lessor:

711 "Venituri din producţia stocată"	= 345 "Produs finite"	25.000

711 - Incomes from the stored production

345 – Finished products

The accounting it is registered the compensation of the liability with the lease, with the liability resulting from the delivery of agricultural products as payment in kind.

Also, in accounting an actual collection of money does not occur, but there is a compensation of some amounts of cash with goods.

4. Debt compensation with the liability resulting from the agricultural products:

401 "Furnizori"	= 4111"Clienţi"	25.000

b) The lessee - company is a VAT payer entity, and the lessor is an individual.

1. Entry of the due lease based on the agreement between the parties:

612 "Cheltuieli cu redevenţele, locaţiile de gestiune şi chiriile"	= 462 "Creditori diverşi"	25.000

2. Entry of products delivery, in contractual terms:

4111"Cienţi"	=	%	31.000
		701 "Venituri din vanzarea produselor finite"	25.000
		4427 "TVA colectată"	6.000

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CONCLUSIONS

In conclusion we can say that the Romanian agriculture needs a developed land market, and accounting should improve the "instruments" to give a true and accurate picture of the operations resulting from the contract of lease, as well as biological assets and the lands taken on lease. We also believe that leasing is a form of entry of agricultural assets in the patrimony of agricultural entities and, also internationally, should be given a greater importance to this issue in the sense that IAS 41 Agriculture to include provisions for temporary leasing the rights of exploitation.

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