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BASIC ELEMENTS OF LEASE RELATIONS

Abstract: The article is devoted to the essence of leases, their classification and features of accounting for financial leases in accordance with the international standard IFRS 16 "Leases", as well as problems associated with the accounting and evaluation of leased assets

Key words: Lease, long-term lease, short-term lease, lease objects, lease subjects, lease relations, tenant, landlord, lease agreement, lease payments.

Today, rent is an important part of the investment policy of enterprises in many countries. The extent to which rental relations are widespread and developed can be used to assess the economic development of the country, since it is one of the unique indicators of the economic state of the state.

The essence of the lease is that the lessor provides the lessee with temporary possession and use of his own property for a certain fee both during the term of the lease agreement and before and after its validity (under the current lease). In order to characterize the essence of lease, it is necessary to consider the main elements of lease relations: lease objects, lease subjects, lease agreement.

Lease objects can be:

- land plots and other isolated natural objects;
- enterprises and other property complexes;
- buildings, structures, equipment;
- vehicles;
- other things that do not lose their natural properties during use.

In the absence of this data in the contract, the condition regarding the object to be leased is considered not agreed upon by the parties, and the corresponding contract is not considered concluded. The subjects of lease relations (parties to the lease agreement) in accordance with national accounting standard No. 6 "Lease Accounting" and international financial reporting standard No. 16 "Lease" are:

- Lessor - the owner of the property or a person authorized by the owner or law to lease the property.
- Lessee - a person who receives property for temporary possession and use.

The following may act as a lessor: legal entities and individuals, organizations to which the leased property is assigned with the right of economic management or operational management.

The two most common types of leases in accounting are operating and finance leases. However, it is worth noting that, in accordance with IFRS, all types of leases are considered as finance leases. In order to classify a lease as a finance lease, at least one of the following conditions must be met:

- **Transfer of ownership:** Ownership of a right-of-use asset passes from the lessor to the lessee at the end of the lease term.

- **Buy Option:** The lessee is given the option to purchase the asset for less than its fair market value at a future date (usually the end of the lease term). This option is determined at the beginning of the lease term.

Lease term: The lease term is at least 75% of the useful life of the asset. During this period, the rental period cannot be terminated.

- **Present value:** The net present value of the minimum lease payments required under the lease exceeds substantially (by at least 90%) the fair value of the underlying asset at the beginning of the lease term.

- **No Alternative Use:** The underlying asset is of a specialized nature and is not expected to have any alternative use at the end of the lease term. Any other type of lease is called an operating lease.

In accordance with IFRS requirements, if a lease is classified as a finance lease, then the lessor must write off the property from its balance sheet. The tenant must take into account his own valuables. The asset may remain on the lessor's balance sheet by agreement of the participants. In this case, the lessee will account for such property in an off-balance sheet account. Let's look at what has changed in reporting after the implementation of the IFRS 16 Leases standard. The procedure for accounting for finance leases by a lessee under IFRS 16 "Lease":

Initial recognition. At the beginning of the lease period, the lessee needs to show on its balance sheet the assets received and the resulting liabilities. In general, property is measured at fair value. If it turns out to be more than the discounted amount of the minimum rental payments, an entry is made in the accounting for the amount of the rental payment.

That is, property is reflected at the lower of two estimates (the principle of conservatism). The present value of the minimum lease payments is determined based on the interest rate included in the lease. In most cases, the tenant does not know it. Then you need to use the interest rate of a bank loan, the payment schedule for which would correspond to the terms of the lease agreement.

If the discounted value of the minimum rental payments is less than the fair price of the property, it must be increased to the latter value. All initial expenses of the tenant will be included in the amount at which he will accept the property for accounting.

- **Cost accounting.** According to IFRS rules, the lessee's expenses mainly consist of two components: depreciation of the leased asset and interest expense. According to IFRS, the lessee must depreciate leased assets according to the rules that it applies to similar property. However, he cannot establish accelerated depreciation. Interest expense for the use of leased property is reported using the effective interest method, similar to interest on the company's long-term liabilities.

Accounting for finance leases under IFRS 16 "Lease" by the lessor is carried out as follows.

- **Initial recognition.** If the lessor is not the manufacturer or dealer of the rental property, then when the asset is transferred to the lessor, it must recognize an "accounts receivable" on its balance sheet. The rules for its assessment are the same as for the tenant's debt: the total amount must be shown at nominal value.

- Income recognition. Under international accounting standards, both the lessor and the lessee must record interest income over the entire term of the lease. Moreover, they need to do this systematically and rationally. The constant rate of return is allocated to the lessor's net outstanding investment in the lease.

The latter represent the difference between the nominal amount of debt and the amount of interest income not yet received.

Lease transactions are multifaceted and complex transactions with a significant number of different conditions; their accounting reflection is related to the accounting procedure for many other transactions and accounting objects.

In market conditions, due to the variety of business transactions associated with rental relations, accountants face a number of unresolved issues regarding the accounting and attribution of rental expenses to the appropriate expense accounts.

In conclusion, it must be said that in our country, in a market economy, rental transactions are reaching a qualitatively new level, that is, rental transactions are increasingly becoming diverse and similar to similar transactions in economically developed countries of the world. It should be noted that reliable accounting of rental relations creates opportunities for an objective reflection of the results of the use of leased objects by enterprises

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