

LEASING IMPACT ON THE MAIN ECONOMIC COMPANY INDICATORS

Țurlea Carmen¹, Țurlea Eugeniu² and Tudor George Aurelian³

^{1) 2) 3)}*The Bucharest University of Economic Studies*

E-mail: turleacarmen@yahoo.com; E-mail: eugeniu.turlea@cig.ase.ro

E-mail: george.tudor@cig.ase.ro

Abstract

The emergence and development of the information technology has been one of the major instruments in terms of infrastructure development and utilization resources (software, equipment) which had an impact on modern society.

This evolution of modern society has created the need to develop the reporting system according to the new trends so that the credibility of reporting should exert a decisive impact factor in establishing the development decision of capital investors.

This article mainly aims at confirming the hypothesis that the leasing is a form of financing with impact on the development of commercial companies and at familiarizing with the implementation of International Financial Reporting Standards 16 since 2019.

To validate this hypothesis, a case study on the impact of leasing use as a form of financing the main indicators will be used to substantiate the decision on the possibility of using leasing as a form of financing.

Using this case study the results did not cease to appear by modifying the main indicators confirming the hypothesis that the leasing represents a form of financing with impact on the development of the commercial companies.

Keywords

Financial reporting, strategy, option, leasing, economic growth

JEL Classification

M14, M41

Introduction

The emergence and development of commercial companies has been one of the forms of organisation of the evolution with social impact by organizing and highlighting the daily activities necessary for ensuring the day-to-day living and developing the necessary resources (hospital, school, etc.) so that, together, they should favor a natural climate for social development by integrating students into the active society. Thus, by the existence of a circuit presented above, we can bring into discussion a natural and sustainable development of the society from one period to another.

The development of the commercial companies has also had a major impact on the reporting system as a result of a correct and clear recording of the transactions made during the financial year through the development and appearance of new accounting standards which substantiate the investment decision by increasing the reliability of the quality and complexity of the reporting system.

In developing the companies the capital contributors rely both on the experience gained in time and on a development strategy based on the current consumer requirements, as well as on potential external financing sources.

By the external financing source we bring into discussion the leasing and its financing options (financial, operational and lease-back) which represents one of the most used financing instrument as a result of the return of the equivalent value of the asset/service spread over a period of time agreed by the parties involved. Basically, we find ourselves in the situation of not blocking very large amounts in the purchase of goods or services in order to carry out the daily activities and of trying to improve the performance criteria or the development on new market segments which attract potential customers.

Also, the investors substantiate their decision to implement the development strategy of the company starting from the true and fair view which represents one of the basic accounting principles highlighting the development of the commercial companies and the transposition of the evolution in the International Accounting Standards. (Liliana Feleaga & Niculae Feleaga, 2007, p.49)

Therefore, the existence of the circuit mentioned at the beginning of the paper is necessary and it is based on the obtention of new and practical information needed for developing the professional judgment and its use should contribute to the elaboration of financial statements which have the true and fair view as a starting point. This accounting principle (true and fair view) contributes to a correct implementation of the development strategy of the companies by improving the quality of the reporting made by the professional accountant.

Considering the aspects presented above, this main objective of this article is the development of reasoning on the implementation of new external financing strategies using the leasing, thus generating future higher economic benefits by comparison with the previous financial years and the familiarization with the new standard IFRS 16. The development and knowledge trend will also indirectly generate instruments for embellishing the financial statements due to the orientation towards the material side in the context of the new times. Basically, it is necessary that the use of professional judgment should take the basic meaning for which it has been created and not to embellish the financial statements in order to obtain economic benefits depending on certain performance indicators according to the management contract. In view of the above, leasing is the main form of financing with an impact on the main clients, and this topic will continue with further articles with the impact of the ratio between the lease utilization costs and the revenues obtained as a result of leasing use.

Review of the scientific literature

The need to develop the commercial companies has been based on the desire of evolution of society (people) by Maslow's theory in which people satisfy their basic needs and the secondary needs will also be subsequently added to them (security, esteem, respect, etc.).

Thus, the society has also tried to develop the units of measurement in order to determine the degree of performance of the commercial companies by developing professional judgment and implementing new strategies in the identification of quick financing opportunities through the use of the leasing.

The identification of this financing form has generated the development of the commercial companies by diversifying the products and services offered and by reducing the production costs which generated the increase of the profit margin compared to the previous financial years.

A study made by Eisfeldt & Rampini, 2009; Beatty, Liao & Weber, 2010; Zhang, 2011 has revealed that the commercial companies were excited about the use of the leasing as a form of financing when they faced financial difficulties, which generated an economic recovery

alternative by implementing new development strategies as a result of use of the leasing as a financing form.

Basically, the long-term financing using the leasing has a characteristic similar to long-term debts by the fact that these are based on certain terms and conditions agreed and observed by the parties involved in the economic act. The use of the financing form through leasing presents the following advantages which contribute to the implementation of the development strategy, namely:

- cheaper financing compared to the purchase of the asset or contracting of a loan for its purchase;

- tax benefits by assessment of the leased assets which have an impact on taxable profit;

- the use of operational leasing with the aim of maximizing the company's performances in the financial reports. (Nunung Nuryani et al., 2015, pp.269-270)

Thus, the leasing represents one of the instruments searched by the capital investors due to the development opportunity at both microeconomic and macroeconomic level through the possibility of accessing financing and implementing their own development strategies in order to obtain economic benefits. (Vakhitov Damir R. & Zamaletdinov Aidar, 2015, p.840)

Basically, the development of the performance criteria will also indirectly generate the strategy of implementation of a new form of labour organization by hiring the staff necessary for fulfilling the orders, and last but not least, of finding spaces which give the possibility of producing goods and services. We can also bring into discussion the possibility of the development abroad, thus shaping an economic development strategy at macroeconomic level.

We can also find this thing entirely in the large companies which move their headquarters / create working points in developing areas as a result of the decrease in the costs of the rents or the alternative in which these companies search for working points depending on the company's prestige, the security of the place where they operate, the easy access to the means of transportation for the hired staff.

Analyzing this aspect we can identify an overlap of several fields of activity (economy, production, etc.) which create an added value and the understanding of the needs in the presentation and elaboration of the economic development strategy by identifying the spaces needed for the production of goods and services. Thus, the economic development trends also aim at ensuring the minimum comfort needed by the hired staff for carrying out the activities in order to streamline and maximize the utilization of material resources which materializes into profit growth from one financial year to the other. (Romualdas Ginevičius et al., 2017, pp.223-224)

Another principle to be approached is the principle of substance over form by the correct and chronological recording of the transactions during the financial year. The principle of substance over form is represented by the leasing which presents the economic reality through the way of concluding contracts and transposing them in the financial statements.

The first people who began to understand and to raise the issue of the importance of this principle of substance over form have been the American professional accountants who also had as objective the recording of these operations in the financial statements in order to identify the true and fair view as a component part in determining the economic development strategies of the commercial companies.

The principle of substance over form is often encountered in the leasing contracts where the lessor is the owner from the legal point of view and the lessee is the user of the asset even if the lessee does not hold the ownership right from the legal point of view, but it has obtained all the benefits and risks related to the use of asset which allows the registration in its own balance sheet.

Research methodology

In order to transpose the theory into practice, we have analyzed a company which operates in the manufacturing sector and to ease the transposition we call this company the Leader Company. So, we want to present the impact of using the leasing on the main economic and financial indicators underlying the economic development strategy of the company and the possibility of promotion to attract potential investors.

The Leader Company presents the following situation at the end of the financial year 2017:

Table no. 1. Situation of the financial years

INDICATORS	2017	2016
DEGREE OF INDEBTEDNESS (TD/E)	1.04	1.09
DEGREE OF INDEBTEDNESS (TD/TED)	0.51	0.52
FINANCIAL STABILITY RATIO ((E+TLD)/TD))	0.65	0.64
GLOBAL AUTONOMY RATIO (E/TED)	0.49	0.48
CURRENT LIQUIDITY RATIO (TCA/TCD)	2.71	2.56
QUICK RATIO ((TCA-S)/TCD)	2.26	2.11
CASH RATIO ((TCA-S-AC)/TCD)	1.01	0.99
GENERAL SOLVENCY RATIO (TA/TD)	1.96	1.92
PATRIMONIAL SOLVENCY RATIO (E/(E+BC))	0.72	0.71

The purpose of this application is to present the impact on the main indicators following the use of the leasing in the economic development strategy of the company and a parallel between the application of the financial leasing and the operational leasing.

The company purchases a machinery on 03.04.2018 in amount of RON 150,000 based on a leasing contract for a period of 5 years.

In this situation the two standards mentioned above (IAS 17 and IFRS 16) present the same evolution of the main indicators as follows:

Table no. 2. Leasing impact on the main economic company indicators

INDICATORS	FINANCIAL LEASING	OPERATIONAL LEASING
DEGREE OF INDEBTEDNESS (TD/E)	1.11	1.04
DEGREE OF INDEBTEDNESS (TD/TED)	0.53	0.51
FINANCIAL STABILITY RATIO ((E+TLD)/TD))	0.66	0.65
GLOBAL AUTONOMY RATIO (E/TED)	0.47	0.49
CURRENT LIQUIDITY RATIO (TCA/TCD)	2.65	2.71
QUICK RATIO ((TCA-S)/TCD)	2.22	2.26
CASH RATIO ((TCA-S-AC)/TCD)	0.99	1.01
GENERAL SOLVENCY RATIO (TA/TD)	1.90	1.96
PATRIMONIAL SOLVENCY RATIO (E/(E+BC))	0.69	0.72

The presentation of the main indicators in the chart below highlights a slight difference in the use of financial leasing compared to operational leasing, but this may increase when we talk about a large company which shows a clear difference in the use of the leasing in the indicators analyzed.



Fig. no. 1 Leasing impact

Table no. 3. Legend

TD- Total debts	S- Stocks
E- Equity	AC- Account Receivables
TED- Total equity and debts	TA- Total assets
TLD- Total long term debts	TD- Total debts
TCA- Total current assets	BC- Bank credits
TCD- Total current debts	

Thus, the leasing represents one of the main financing instruments with impact on the main economic indicators which allows the elaboration of economic development strategies.

Results and discussion

Given the desire of development of the economic companies in order to obtain greater financial resources compared to the previous periods, the need to implement the financing strategy of the commercial companies to fulfill the customers' orders will be automatically

created. Thus, the leasing represents an instrument necessary for the development of the company because it does not involve the "blocking" of financial resources to purchase the product or service, and thus it allows the orientation towards the elaboration of economic development strategies.

The new standard (IFRS 16) to be applied starting from the year will present a true and fair view of the transactions carried out by the commercial companies affecting the financing in the leasing system so that the users of the financial statements can evaluate the situation of the company as much correctly as possible and the management of the companies should be able to implement viable strategies having the financial reporting as a starting point.

The use of professional reasoning is one of the fundamental elements in the elaboration of the decision to establish the economic development strategy. Thus, the use of this empirical study on the impact of leasing utilization on key indicators helps to develop a development strategy on the importance of using leasing as a form of funding.

Using professional judgment is just a starting point that influences the main indicators by translating the accumulated experience into practice, but we can identify certain limitations in terms of company development such as prudence or risk appetite. Also, the size of the company may be another limitation in terms of the impact of leasing use on the main indicators.

The reasoning behind this conclusion on the importance of leasing use will also be elaborated in future articles on research activity by presenting the impact of leasing use with a starting point if the amount of expenditures on the use of leasing as a form of financing exceeds or not the income obtained in the use of the leasing.

References/Bibliography

- Aleksandrova, O., Burgonov, O., Ivleva, E. and Shashina, N., 2016. Management of developing the leasing sector of entrepreneurial economy. *Procedia Engineering*, 165, pp.980-989.
- DELOITTE, 2016. *IASB issues new leasing standard*. [online] Available at: <<https://www.iasplus.com/en/news/2016/01/ifrs-16>> [Accessed 13 April 2018].
- DELOITTE, 2018. *IAS 17 Leases*. [online] Available at: <<https://www.iasplus.com/en/standards/ias/ias17>> [Accessed 10 April 2018].
- Feleagă, L. and Feleagă, N., 2007. *Financial Accounting a European and International Approach*. Bucharest: Ed. Economica.
- Ginevičius, R., Ginevičius, T. and Gedvilaitė, D., 2017. Ranking of Office-lease Options by Multi-criteria methods. *Procedia Engineering*, 182, pp.222-228.
- IFRS, 2018. *IFRS 16 Leases*. [online] Available at: <<http://www.ifrs.org/-/media/project/leases/ifrs/published-documents/ifrs16-effects-analysis.pdf>> [Accessed 22 April 2018].
- Nuryani, N., Heng, T.T. and Juliasta, N., 2015. Capitalization of Operating Lease and Its Impact on Firm's Financial Ratios. *Procedia Social and Behavioral Sciences*, 211, pp. 268-276.
- PWC, 2013. *Exposure draft: Leases*. [online] Available at: <http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175827616807&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=916383&blobheadervalue1=filename%3DLEASES2.ED.0301.PRICEWATERHOUSECOOPERS_INTERNATIONAL_LIMITED.pdf&blobcol=urldata&blobtable=MungoBlobs> [Accessed 17 April 2018].



Vakhitov, D.R. and Zamaletdinov, A.V., 2015. Leasing as A Factor of Economic Growth. *Procedia Economics and Finance*, 23, pp.839-845.