

The Problematic of the accounting and tax treatment of leasing Transactions in accordance with the financial accounting system of small and medium-sized enterprises (SMES), Comparative evaluation.

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Abstract:

The objective of this research is to conduct a compared analysis of the modification in tax legislation that have occurred in the field of leasing for SMEs in recent years. It also discusses and tabulates the impact of leasing transactions on accounting information in the context of dissemination of information to lessors and lessees, identifying similarities and differences between the various players in the field of leasing for small and medium-sized enterprises (SMEs).

Key Words: *Law No. 07-11 on leasing operations, Leasing, Finance lease, Royalties, Option to buy.*

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1. Introduction

Leasing in Algeria is one of the methods by which SMEs obtain the necessary financing for their operations and it is increasing every year. Therefore, taxpayers should examine the issue of leasing more carefully. However, it is very important for companies to identify all the positive and negative aspects of leasing in order to maximize profits (BANQUE, 2011).

The history of leasing can be traced back to British Columbia. As early as the 2000s, companies began using financial renting in United States in 1930 s and Europe in 1960 s (Pruvost, 2009). The history of bail financier in Algeria dates back to 1996, with the issuance of Regulation No. 96/09 of January 10, 1996.

According to the Professional Association of Banks and Financial Institutions, “A leasing is accord which grants the lessor the movable or immovable property selected by the tenant from the contractor and purchased from the lessor ”.

Operating bails and rental are the two categories of leasing action. Due to this situation, different accounting methods lead to recording and presenting financial events in different ways, and lease transactions cannot be reliably reflected on the sheet of accounts. Consequently, those who utilize the balance sheet cannot receive information that is understandable, reliable, comparable and suitable for their needs. In order to avoid these situations, standard setters have conducted a lot of research to improve lease accounting (Jean-Jacques, 2010).

The current situation is showing a trend of internationalization. In order to further develop the SCF financial accounting system introduced in our country on January 1, 2010, “According to the -International-Financial-Reporting-Standards-(IFRS), established as an accounting framework. Its aim is to eliminate the problems faced of financial business to grow and the differences in practices between countries, and ensure correlation and clarity of annual financial statements.” (BARCLAY, 2024).

The National Accounting Advisory authority is the only body authorized to issue these regulatory, accounting and auditing standards. In addition to the published standards, leasing transactions involve conflicts between tax laws and accounting practices.

In this study, we explore the impact of leasing transactions on financial information by conducting a comparative theoretical study of legislative changes in the field of leasing in SMEs in recent years, especially those related to tax laws and the financial accounting system of SMEs. An attempt is made to explain the similarities and differences between the two parties based on Algerian regulations.

2. Literature review:

In the study of SMAILI Nabila (2018), leasing transactions were examined by reviewing the provisions of Law No. 07-11 and the Tax Code and developing accounting practices for lessees and lessors in accordance with current accounting terminology (SMAILI, 2018).

In their study, HABAREK Wahiba (2011) reviewed the provisions of Law No. 07-11 and the Tax Code on Leasing Business and developed an accounting application in accordance with current accounting terminology based on the financial information systems of lessees and lessors (Habarek, 2011).

In the study of DJOUAMA Amine (2020), leasing transactions were examined by reviewing the provisions of Regulation No. 2020-01 of March 15, 2020, which establishes the general rules of

banking conditions applicable to banking transactions with leasing, factoring and financing companies; the application example was created to determine the minimum rent for tenants and its impact on accounting. (DJOUAMAÂ, 2020).

In their study, BAALA Tahir and NAMOUN Mohamed Azzedine (2007) compared Law No. 07-11 and the Tax Code from the tenants' perspective and evaluated how the new regulation affected financial indicators based on financial reporting (BAALA Tahir, NAMOUN Mohamed Azzedine, 2007) .

In their study ATTAR, K. and NIBOUCHE, L. (2016) created an example of accounting application for lease transactions based on the financial accounting system of SMEs and examined their differences with the tax code (ATTAR, K., NIBOUCHE, L, 2016) .

The study by DALI YUCEF (2011) examined leasing transactions in international trade, the provisions of Law No. 07-11 and the Tax Code, and accounting practices based on the lessor's financial accounting system and current accounting terminology (Dali Youcef, 2011).

In their study, ACHOUCHE Mohamed and BELAHBIB Razika (2009) studied the impact of financial and operating leases on financial statements and key figures using examples of application according to IFRS 16 (ACHOUCHE Mohamed, BELAHBIB Razika, 2009).

In the study of BOUBENNA Lamri (2009), the best accounting practices for operating lease transactions related to lessees and lessors were developed within the current legislative framework (BOUBENNA, 2009).

In their study of DJEMAOUI. N and MAMMERI. W (2002), by analyzing leasing transactions in accordance with rules, an accounting model for lessors and lessees was developed. (DJEMAOUI .N & MAMMERI .W, 2002).

In the study of GHEDDACHE. L (2007) the progress of reporting financial IAS 17 to IFRS 16 based on financial data of companies operating and trading on financial markets at a certain point in time (GHEDDACHE, 2007).

The study of CHABANE, K. (2015) attempts to make an overall comparison of leasing transactions related to lessees and lessors and their differences within the framework of national and international regulations (Law No. 07-11, Tax Code and IFRS 16), using the example of identifying accounting documents (CHABANE, 2015).

The study by AMAZIGH, H (2014) mentioned the application of leasing business in Law No. 07-11 and the Tax Code, conducted a case study of accounting documents and addressed some specific issues (AMAZIGH, 2014).

In the study by BELADEL Amina (2011), leasing transactions were examined by reviewing the provisions of Law No. 07-11 and Tax Law, and practices accounting the lessees and the lessors under Law No. 07-11 (Beladel, 2011).

3. Financial Lease:

Businesses can use leasing as a way to get the funding they require for their operations. A lease is a financial instrument where the lessee has access to an asset but the lessor retains ownership of it. Under this arrangement, there are lots of definitions of rent. It's a "rental for finance is a contractual accord under which the lessee promises to pay several instalments surrender any whole value to the lessor that exceeds the rental property's purchasing price" (BANQUE, 2011).

In another definition, leasing is described as follows: “Leasing is generally a method of materializing the right to commercially exploit a object for a specific amount of time without returning its ownership. It is considered a source of financing for a company’s medium to long-term (at least four years) cash flow, a buy option (voting rights) and use rights in exchange for contractually specified rent.” (BOUSRI, Avril, 2004).

On the different view, a credit bail is an accord in which the owner gives it the authority, in return for one or more sets of payments, to utilize an instrument for a predetermined amount of time (Lubonja and Ghirametti, 2018).

The definition of lease financing in our country was established in Executive Order No. 06-90 issued in 2006, which stipulates the conditions for leasing, factoring and financing companies to publish movable and immovable proprietary lease transactions.

4. Valuation of the leasing transaction in accordance with legal provisions:

In our country, leasing was included in the legal framework for the first time. This was created only in 1996 by Regulation 96/09 of January 10, 1996. Specifically, the legal infrastructure was created by Executive Decree 06-90 of February 20, 2006, which established the procedure for the publishing of movable and immovable proprietary leasing transactions, and Regulation 96-06, which established the procedure for movable and immovable ownership leasing transactions. The institution of companies and the conditions for their approval were established. This was enforced as part of the credit bail supervision.

Due to the imperfect rental regulations, the implementation Decree 06-90 of February 20, 2006 on leasing, factoring and financing companies and Resolution 96/09, which annexed and amended Regulation 96/09, and Resolution 29/D.CC/E.I/22 of May 25, 2022 on the exceptions to the constitutional review of article 20 of Law 96-09 of January 10, 1996 on leasing. The most important tax measures in favor of lease financing are:

- Taxable profit deduction for rents paid to the lessor (Financial Law 1996);
- Exclusion of leasing agreements corresponding to depreciation of finance lease transactions from the scope of application of professional activities tax (TAP) (Supplementary Finance Act of 2001);
- Depreciation period of fixed assets consistent with the finance lease agreement (Supplementary Financial Law 2001);
- Profits from equipment acquired by the lessor under the provisions of investment, tax and customs incentives provided for in Regulation No. 01-03 of August 20, 2001 on investment development when the equipment is purchased by the lessor under a finance lease agreement with a developer benefiting from the aforementioned benefits (Financial Law 2003);
- Introduction of an accelerated straight-line depreciation regime for leasing activities (Finance Law 2006);
- Abolition of the obligation to repay deductible VAT in lease sales (Finance Law 2006);
- Exemption of capital gains that may arise from sales or sub-leasing transactions in fulfilment of leaseback agreements (Finance Law 2008);
- Authorisation for banks, financial institutions to align the tax depreciation of assets acquired leases (Finance Law 2008);

- Exemption from VAT on acquisitions carried out by banks and financial institutions within the framework of leasing transactions (Finance Law 2008);
- When a lessor transfers capital goods or business property to a lessee, the registration requirement may be waived if renter exercises acquisition option in connection with assignment (Finance Law 2008);
- Rental payments within the framework of leasing of agricultural equipment and related to agricultural activities produced in Algeria are exempt from VAT (Supplementary Finance Law, 2009);
- “In a lease, depreciation is calculated over a period equal to the lease term.” (Finance Law, 2010).
- The preceding article 2010 Finance Act regarding the depreciation rules for leases continue to apply transitionally until December 31, 2012 (Supplement Finance Law 2010).
- Rent received is recorded as income (Finance Law 2015).

The obligation to conduct independent audits of leasing companies is covered by Law No. 91-08 of 1 May 1991 about the profession of auditor, legal accountant and certified auditor of the Minister of Finance, published in the Official Gazette of 21 May 1991, number 20, as the supervisory body for state and private accounting and auditing. – Law No. 07-11 stipulates that, as of 1 January 2010, Algerian accounting regulations must be applied when preparing annual financial statements for accounting periods. “Applicable to independent audit and adopted in conformity with the important decisions of the State Accountancy Commission.”; The Circular on Accounting Standards for Enterprises has been issued. Leasing companies will apply accounting standards, as lessors are required to use these applications when preparing financial statements. Therefore, only the tenant's perspective is considered in the corresponding sample application.

Align the existing financial accounting system related to leasing practices with tax legislation as part of the valuation framework for leasing transactions.

4.1. Financial leasing Content regarding the dissemination of financial information:

Information about lessors can be found in the current legislation. This application considers the following definitions.

Leases are defined as follows:

“These leases take into account all the danger and benefits corresponding with credit takeover are borne of lease term.” (Regulation No. 09-08 of December 29, 2009 on the valuation and accounting of financial instruments for banks and financial establishment).

Implementing Regulation No. 06-90 of February 20, 2006, establishes the conditions for the publication of movable and immovable property leasing transactions, and Regulation No. 96-06 establishes the conditions for the establishment of leasing companies and their registration. It should be noted that the activities carried out are considered leasing by law, even if they are established by a leasing company authorized by a decision of the Ministry of Finance.

It also indicates which cases fall within the scope of leasing: "This article shall apply only to lease agreements for land, plots of land, the premises should also be included. Annotation:

valuation." (Ordinance No. 06-90 of February 20, 2006, which provides for the publication of movable and immovable ownership lease transactions.)

To indicate special circumstances, it is clarified that "lease agreements for the exploration or use of natural resources and license agreements for assets such as films, videos, patents, copyrights, etc. are not assessed under this article."

Principle to be applied by the lessee:

- "The credit bail paid by lessee under the rent accord is divided into debt repayment and interest expense. The amortization process is conducted so that a fixed periodic importance rate applies to the amount of debt remaining at the end of respective period. In addition, the importance cost and exchange amount distinction of the leased property should be inserted in the acquisition cost in the first year and expensed or charged to expenses in subsequent years."

Principles to be applied by the lessor:

- If the lessor manufactures or purchases the leased asset itself, its current value is reflected in balance sheet as net investment value. The difference between current cost and purchase cost is examined as profit or loss in a sale transaction between an independent third party.
- "Lessors will continue to allocate depreciation based on the value of leased items as determined under IFRS 16." and amendments will be made to determine the method by which sellers/lessees value purchase and leaseback trade after the transaction date. These changes will take effect gradually.

4.2. Leasing under Law No. 07-11:

Leases are explained in Chapter III of the Special Procedures for Measurement and Accounting, which provides Information on accounting standards for small and medium-sized enterprises and related notes.

The definitions of leasing transactions are contained in the Decree of 26 July 2008. These definitions:

"A lease is specific as an concord whereby the owner transfers to the tenant the common loan rights for a specific period in transaction for a payment or calendar of payments".

In addition: "From now on:

(a)- Leasing transactions are divided into traditional leasing trade and financial leasing trade, and

(b)- If transaction is classified as finance tenancy agreement.

Rent payments: "These are the repayments that the lessee is contractually required to make during lease term". "If it is a guaranteed amount for residual value of élément at the finish be inserted in the lease".

If the lessee has the due exerted, and is probably to be exercised at start of lease, the rent is estimated based on exercise of that right and rent paid up to date the right is exercised. This is called the "total buy price."

There is also a statement that "conditional rent, service charges and taxes paid by landlord and rebated in rent to the landlord are not included".

A lease that transfers significantly all risks and rewards related with asset ownership, regardless of whether property is transferred at the finish of lease term".

4.3. Comparison of Leasing Transactions under Law No. 07-11 and Dissemination of Financial Information:

This section compares lease transactions under Law No. 07-11 in terms of lessees and lessors and dissemination of financial information. Table 1 presents a general comparison of leasing transactions. Table 2 compares leasing transactions from the perspective of lessors and Table 3 compares leasing transactions from the perspective of lessees.

Table 1 : «General comparison of leasing transactions »

	LAW No. 07-11	Financial reporting
The difference between a finance lease and an transaction lease	Neither	Neither
Where should an transaction leasing be registered	-	-
Provisions on subsequent changes to the contract	-	-
Initial direct costs	It has been moved to exercise expenses.	Initial direct costs are added to the cost

4.3.1. Comparison of leasing transactions performed by lessors, in accordance with Law No. 07-11 and in the spirit of dissemination of financial information:

Table 2 : « Compares Leasing Transactions From the Perspective of Lessors »

	LAW No. 07-11	Financial reporting
First action	The total amount of lease (primary plus interest) remunerated by the tenant during the lease term is capitalized as debt. However, they are recognized as a liability and recorded as interest income in future periods.	The asset is derecognized. The sum of fair value of asset and the initial direct costs is recorded as a lease receivable.
Next action	It is divided into interest income and principal payments. It will be accumulated by calculating a fixed periodic interest rate on the amount outstanding after deducting principal payments at the finish of each period.	The rental income received is divided into repayments and interest income. The financing income is allocated over the period and the remaining amount is charged a fixed rate.
Separation of lease installments	Lease payments are divided into debt repayments and interest expense.	The lease contract is divided into financing income and repayment income after it is initially recorded.
Interest rate	The discount percentage that compare present value of summary of rent payments and the not guaranteed residual value to present value of credit underlying the rent concord.	Implied importance estimate of lease: refers to the discount estimate determined by the summary of present value of remuneration and present value of not guaranteed residual value at the initiation of rent relative to fair value of rented property and summary of initial direct costs undergone by the lessor.
Present value of rent	This is the summary of present value of rent, estimated taking into account the importance estimate applicable in the lease concord at time contract is signed.	

4.3.2. Comparison of leasing transactions performed by lessees, in accordance with Law No. 07-11 and in the spirit of dissemination of financial information:

Table 3: « Compares Leasing Transactions From the Perspective of Lessees »

	LAW No. 07-11	Financial reporting
First action	The liability is determined as the lesser of the rental asset's value and the fair value of the lease payments due under the agreement.	The debt is the lower of fair value of rented asset or the present value of rent.
Account group to be activated	On the affected investment account.	Rights as an asset group.
Depreciation or amortization	The right of use is depreciated over the depreciation period of that asset as provided for by law and the	If it is uncertain whether the renter will obtain proprietorship of credit at

	LAW No. 07-11	Financial reporting
	relevant general notices. Leased assets are subject to revaluation and depreciation within the framework of the established principles for assets.	termination of rent term, the important asset needs to be depreciated or “depreciated from shorter of rent term or useful life”. (Team, 2024). Depreciation and impairment applicable to the relevant fixed asset group are applied.
Next action	Lease payments are separated into debt repayments and interest expenses. The separation process is carried out to ensure that a fixed periodic interest rate is applied to the remaining debt amount at the end of each period.	Separated into financing costs and repayment of debt principal. The financing costs are spread over each period throughout the lease term to ensure that a fixed interest rate is applied to the remaining debt amount.
Separation of rent rate	After initial recognition, lease payments are allocated between finance costs and principal repayments. Finance costs are distributed over the lease term to maintain a consistent interest rate on the outstanding debt balance. Contingent lease payments are recorded in net income during the period in which they are incurred.	Lease payments are divided into debt repayments and interest expenses. The separation process is done to ensure that a fixed periodic interest rate is applied to the remaining debt amount at the end of each period.

5. Conclusion and recommendations:

the development of economic means, leasing transactions have become common in our country. For companies, the reliability of financial reports is crucial, and it is important for both lessors and lessees to understand regulatory information on leasing transactions. There are various types of regulatory information on leasing transactions. In this examination, we inspect and present in tabular form the lease transactions between lessors and lessees.

When signing a lease agreement, there is a difference between whether the renter declares tangible assets or intangible assets. And the financial information proposes to transfer it to the corresponding tangible fixed asset account. For the lessor, Law 07-11 declares transactions in the commercial receivable group, while financial information sharing monitors rental levels in other receivable groups. As pointed out in the study from the perspective of the lessor, different accounting scenarios can be observed. There are differences between the applications. Eliminating these differences is appropriate for accounting uniformity and consistency.

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