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OPERATING AND FINANCIAL LEASE ACCOUNTING

Qo'ziyeva Maftuna Otabek qizi
Assistant of the Accounting Department of the
Samarkand Institute of Economics and Service
maftunaotabekovna46@gmail.com

Maksudov Shohjahon Shavkatovich
Student of the Samarkand Institute of Economics and Service
shmaksudov111@icloud.com

Bobomurodov Jonibek Jasurovich
Student of the Samarkand Institute of Economics and Service
jonibekbobomurodov888@gmail.com
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Annotation. This article examines the theoretical, methodological, and practical aspects of accounting for operating and finance leases, which represent important instruments in modern financial management and business operations. The study focuses on the economic nature of leasing transactions, the distinctive characteristics of operating and finance leases, and the principles governing their recognition, measurement, and presentation in financial statements. Particular attention is given to the accounting treatment of lease assets and liabilities, the determination of lease payments, depreciation methods, interest expenses, and the impact of leasing transactions on an entity's financial position and performance.

Keywords: operating lease, finance lease, lease accounting, IFRS 16, financial reporting, lease assets, lease liabilities, depreciation, interest expenses, accounting standards, financial obligations, financial management, transparency of financial statements.

Introduction. In the modern economic environment, leasing has become an important financial instrument that enables enterprises to use assets without necessarily acquiring ownership of them. Operating and finance leases play a significant role in business activities by providing organizations with opportunities to obtain the equipment, machinery, vehicles, buildings, and other resources required for their operations. Through leasing arrangements, enterprises can optimize their financial resources, reduce the initial capital burden, and maintain operational flexibility.

The accounting treatment of operating and finance leases is an essential element of financial reporting because it directly affects an organization's assets, liabilities, expenses, and financial performance. Accurate recognition and measurement of lease transactions ensure that financial statements provide reliable and transparent information to investors, creditors, managers, and other stakeholders. In this regard, International Financial Reporting Standard (IFRS) 16, Leases, plays a significant role in establishing unified principles for recognizing and reporting lease transactions.

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The relevance of this topic is determined by the increasing use of leasing in business activities and the need to improve the quality of accounting information. In particular, understanding the differences between operating and finance leases, their accounting procedures, and their impact on financial indicators is essential for effective financial management.

The main purpose of this article is to examine the theoretical foundations and accounting procedures of operating and finance leases, identify their distinctive features, and analyze their impact on financial statements. It also aims to highlight the importance of applying international accounting standards in improving the accuracy, transparency, and comparability of lease-related financial information.

Main body. Leasing is one of the important financial instruments that contributes to the development of enterprises, expansion of production capacity, and efficient utilization of economic resources. It provides businesses with the opportunity to use machinery, equipment, vehicles, buildings, and other assets without purchasing them through a single large investment. In modern economic conditions, leasing has become an alternative method of financing investment activities, particularly for enterprises with limited financial resources.

Uzbek economist D.G. G‘ozibekov, together with O.Sh. Sobirov, A.G. Mo‘minov, and O.M. Quljonov, extensively examines the theoretical and practical foundations of leasing relations. In their research, the authors emphasize the importance of leasing agreements, the economic justification of lease payments, and the role of leasing in financing investment projects.[1] Their scientific approach demonstrates that leasing should be considered not merely as a temporary transfer of property but also as an important financial mechanism that supports business development. From an economic perspective, leasing creates mutual benefits for both parties. The lessee obtains the opportunity to use an asset and generate economic benefits, while the lessor receives income through contractual payments. Therefore, leasing contributes to the circulation of capital, encourages investment activity, and supports the modernization of production facilities.

An operating lease represents a contractual arrangement in which an asset is provided for temporary use without transferring substantially all the risks and rewards associated with ownership to the lessee. In such arrangements, the lessor generally retains ownership of the asset and may provide additional services, including maintenance, technical assistance, and repairs.

Uzbek economists D.G. G‘ozibekov, O.Sh. Sobirov, A.G. Mo‘minov, and O.M. Quljonov explain that operating leasing is characterized by the lessor's intention to recover the cost of the leased asset through several leasing arrangements rather than relying exclusively on one lessee.[2] This economic characteristic distinguishes operating leasing from traditional long-term financing arrangements.

For enterprises, operating leases provide flexibility in managing assets and financial resources. They are particularly useful when equipment or property is required for a limited period or when purchasing an asset would create unnecessary financial obligations.

From an accounting perspective, it is important to distinguish the traditional accounting treatment of operating leases from the requirements of IFRS 16. Under the previous IAS 17 model, operating lease payments were generally recognized as expenses over the lease term by the lessee. Under IFRS 16, however, most leases are recognized through a right-of-use asset and a corresponding lease liability, subject to specific exemptions for short-term and low-value leases. A finance lease is a

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contractual arrangement in which substantially all risks and rewards associated with ownership of an asset are transferred to the lessee. Although legal ownership may remain with the lessor during the contractual period, the lessee receives the economic benefits generated through the use of the asset and assumes significant responsibilities.

In their research entitled Leasing: Recognition, Measurement and Its Accounting, Uzbek scholars Sh.U. Haydarov, X.A. Ortiqov, and X.A. Tuxsanov focus on the recognition, measurement, and accounting procedures of leasing transactions.[3] Their research highlights the importance of establishing appropriate accounting principles for recognizing leased assets and related financial obligations. Finance leasing is particularly important for enterprises that need expensive production equipment, transportation facilities, or technological resources. Instead of paying the entire purchase price immediately, the enterprise makes contractual payments over an agreed period.

The main characteristics of finance leasing include the long-term use of assets, the transfer of significant ownership-related risks and rewards, regular lease payments, and the possibility of transferring legal ownership to the lessee at the end of the contract.

Under IFRS 16, lessees generally recognize a right-of-use asset and a corresponding lease liability at the commencement date. The lease liability is initially measured at the present value of future lease payments, while the right-of-use asset is measured at cost. During subsequent periods, depreciation and interest expenses are recognized in accordance with the requirements of the standard.

The accounting of operating and finance leases requires a systematic approach to identifying, measuring, recording, and reporting lease transactions. Accurate accounting ensures that the financial statements reflect the actual economic substance of contractual relationships. The first stage involves identifying whether a contract contains a lease. This requires determining whether the agreement provides the right to control the use of an identified asset for a specified period in exchange for consideration. The second stage involves determining the lease term, contractual payments, and applicable discount rate. These factors directly influence the initial measurement of lease liabilities and right-of-use assets.

Uzbek scholars Sh.U. Haydarov, X.A. Ortiqov, and X.A. Tuxsanov emphasize the importance of the recognition and measurement of leasing transactions as essential elements of their accounting treatment.[4] Their approach demonstrates that the correct valuation of leased assets and obligations is necessary for producing reliable financial statements. The third stage involves the recognition of lease-related assets and liabilities. Under IFRS 16, the lessee generally recognizes a right-of-use asset and a lease liability at the commencement date. The initial lease liability is calculated by discounting future lease payments to their present value. The fourth stage involves subsequent accounting. The right-of-use asset is depreciated over the relevant period, while interest expenses are calculated on the outstanding lease liability. Lease payments reduce the liability according to the established payment schedule.

Leasing plays an important role in financing investment projects and strengthening the financial potential of enterprises. It allows companies to acquire access to modern technologies, improve production capacity, and increase competitiveness without immediately using substantial amounts of their own capital.

Uzbek economist N.X. Jumayev, in his research on leasing and its contribution to sustainable economic growth, considers leasing an important instrument for supporting the development of

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business entities.[5] His scientific approach draws attention to the relationship between leasing opportunities, investment financing, and the sustainable development of enterprises.

Similarly, J.R. Zaynalov and S.S. Aliyeva, together with other researchers, examine investment activities and the financial mechanisms used to support them. Their research provides a theoretical basis for understanding leasing as one of the available methods of financing investment projects.[6] The practical significance of leasing is especially evident in manufacturing, agriculture, transportation, construction, and other capital-intensive sectors. In these industries, access to modern equipment is essential for improving productivity and reducing operating costs. However, the effectiveness of leasing depends on the financial condition of the enterprise, the cost of contractual payments, the expected economic benefits, and the ability to meet long-term obligations.

The accounting treatment of operating and finance leases has a significant impact on the financial position and performance of enterprises. Lease transactions influence the structure of assets and liabilities, operating expenses, interest costs, profitability, and financial stability. The recognition of right-of-use assets and lease liabilities under IFRS 16 generally increases the reported total assets and liabilities of lessees. This change can affect financial indicators such as the debt-to-equity ratio, return on assets, and other measures of financial performance.

Uzbek economist R.X. Karlibayeva, in her research on the organization and financing of investments, examines the financial mechanisms through which enterprises obtain and allocate investment resources.[7] This perspective is important when evaluating leasing because the decision to enter into a lease agreement must be considered in relation to the enterprise's overall investment strategy and financial capacity.Another important issue is the recognition of expenses. Under IFRS 16, the lessee generally recognizes depreciation expenses and interest expenses separately. This differs from the traditional treatment of operating lease payments as a single rental expense.Therefore, financial managers should evaluate not only the accounting consequences of leasing but also its influence on liquidity, profitability, debt levels, and long-term financial sustainability.

Despite the economic advantages of leasing, enterprises may encounter several difficulties in accounting for lease transactions. These difficulties include the correct identification of lease components, determination of lease terms, calculation of discount rates, and accurate measurement of financial obligations. Uzbek economist Sh. Latipova, in her research on financial mechanisms for regulating leasing services in enterprise investment activities, emphasizes the importance of improving the financial mechanisms of leasing, managing associated risks, and expanding access to investment resources. Her research demonstrates that the effectiveness of leasing depends not only on the contractual relationship but also on the quality of financial regulation and management.

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