

THESES OF PhD DISSERTATION

KAPOSVÁR UNIVERSITY
FACULTY OF ECONOMIC SCIENCE
Department of Finance and Accounting

Head of Doctoral School:
Prof. Dr. KERÉKES SÁNDOR DSc
professor
DSc MTA

Supervisor:
DR. WICKERT IRÉN PhD

PROBLEMS OF HANDLING ACCOUNTING FOR FINANCIAL LEASING WITHIN THE FRAMEWORK OF DOMESTIC AND INTERNATIONAL REGULATIONS

Prepared by:
Éva Gulyás

Kaposvár
2014

Contents

1.	Background and objectives of the research.....	3
2.	Material and method.....	5
3.	Results	8
3.1.	The difference between the results calculated on the basis of IFRS and the Hungarian standards in the case of financial leases.....	8
3.2.	Differences between profits calculated in accordance with IFRS and the Hungarian regulations in the case of operating lease agreements	13
3.3.	Operating lease classification under IFRS	15
3.4.	Rollover of operating lease ledger data into financial lease.....	16
3.5.	Management information needs and financial accounting data	17
3.6.	Correspondence of the Accounting Act and IAS 17 in the field of leasing.....	17
3.7.	Proposed method of preparing IFRS-based financial statements.....	19
4.	Conclusions	21
5.	New scientific results	25
6.	Proposals (theoretical and practical implementation)	28
7.	Publications in the field of the dissertation	30

1. Background and objectives of the research

In the field of accounting research we can find two interlocking areas in these days. One of them deals with the standardization of accounting rules. In this context, it studies the widespread use of international accounting standards, thus proving their superiority. This includes analyses concerning the issues related to the implementation of IFRSs by the EU, to the cooperation of the two main standard setting organizations, the American FASB and the European IASB, and to the acceptability of the standards set by them. The latter topic brings us to the other research area, which I have chosen to study, the issues related to accounting for leases. Although the lease accounting regulation has been included for decades both in the US GAAP and in the IFRSs, they have received a number of criticisms, particularly over the last years. The special feature of these criticisms is that they question the criteria of the separation of operating and financial leasing, and claim that uniform treatment is necessary. Accordingly, they set the target to have all leases included in the lessee's balance sheet. Research also predominantly focuses on this, on the aspects having an impact on the lessee's accounts.

The primary objective of the doctoral dissertation is to present burdens weigh on the companies of the financial sector due to accounting harmonization, while demonstrating a need for harmonization based on the references of the literature.

I wish to show the reporting burdens through the problems of the companies providing financial leasing services, and through the presentation of domestic and international regulations of financial leasing. Doing so, my aim is to analyse the multiple registration requirements of the examined group of companies, to point out the underlying reasons for that in the accounting harmonization, and to show how to prepare identical financial statements that

comply with both the international standards and the domestic regulations through the correct interpretation of the Hungarian Accounting Act. My final aim is to outline the possible solutions for the automation and ongoing reconciliation of parallel reporting according to the two sets of accounting rules. My secondary objective is to present the latest tendencies in international regulation of leases, and to outline the impact of the acceptance of new potential IFRSs on the Hungarian legal, accounting and tax environment, and to draw attention to the importance of the necessary preparation for the implementation of the new standards.

In order to achieve the goals it is necessary to carry out the following tasks:

- to overview, systematize, and present the literature of accounting harmonization;
- to elaborate the literature of assessment and accounting treatment of financial leasing;
- to present the domestic characteristics of leases – legislation, taxation, calculation, marketing – and to fit them into the accounting system;
- to describe the criteria of the separation of operating and financial leasing, to assess their relevance, and to carry out the IAS 17 based analysis of operating leases of the Hungarian practice;
- to introduce the latest drafts of accounting treatment of leases, including the domestic legislation and the international standards;
- to create numerical examples for each type and to prepare the General Ledger of the examples,
- based on the sample leases, to validate the conclusions, to produce the leasing market level generalization of the results.

In the dissertation the results obtained in the research are illustrated with the help of tables, figures, charts.

2. Material and method

During the preparation of my dissertation I was following the requirements of the Ph.D. Doctoral Regulations (Kaposvár University, 2013).

In order to gain detailed understanding of the research topic, I have carried out secondary and primary data collection. In the course of processing and analysing the collected data, I aimed to be able to make statements characteristic of the whole domestic leasing market.

Secondary research

I based my research on the prevalence of international accounting standards mainly on the relevant literature, and on the studies prepared for the EU and the IASB, which are listed in the Bibliography. Besides, I considered the results of several national researches in this field, particularly studies of international audit firms and of the Hungarian Financial Supervisory Authority (PSZÁF).

Primary research

At the primary data acquisition regarding leasing transactions I used the methods of qualitative and quantitative research.

The method of quantitative research

To support my statements I used my own calculations and the data of real deal calculations containing 5800 items considering various characteristics of the transactions and the customers, particularly the correlation between the contract settlement date, currency of the contracts, maturity, the type of cash-flow items incorporated into the calculation. Based on this information, my

aim is to group leases based on their influence on accounting, using multivariate mathematical-statistical methods.

Based on the actual calculations I present the amount of lease receivables and related profit of leases according to the existing Hungarian practices, which I compare with the data of the same content of – in my opinion - the proper accounting.

The realization of my solution for the implementation of the two different reporting in reality is examined based on the actual data of the sample.

With regard to operating lease agreements, I also examine to what extent their IFRS classification complies with the provisions of the international standards, and how the necessary information for this classification is available, whether they could be generated by the agreements and the underlying documentation. I present the transformation of those operating leases to financial leases where it is required under IFRS.

Method of qualitative research

The analysis of the terms and conditions of operating leases and leasing and of the general terms and conditions of the leasing companies involved in the research. The primary aim of the examination of these contracts is to identify to what proportion the operational leases present on the domestic leasing market are classified as financial leases according to the international accounting standards, i.e. what part of the market is affected by the obligation of the transformation to financial leases.

During my examination I seek the answers to two questions

- a) What is the shape of the time series of the profit realized in each period? Is it true that the total profit earned during the tenor is identical according to the two accounting systems? By and large it is true, but the time course of the transactions is different according to

these two aspects. Thus, during the statistical examinations I describe the shape of the time series and I try to characterize the transactions according to their „profiles¹”.

- b) What is the level of discrepancy between the time course according to the two types of accounting (HAS and IFRS), and what factors could it be explained with?

In my analysis, I am using representative reweighting for the Hungarian leasing market distribution, thus my results can be projected to the entire Hungarian leasing market.

My analysis covers the following:

1. Examination of relationships between the considered variables
2. Classification of leases according to the time course of their performance
3. Quantification of the discrepancies between the two types of accounting (Hungarian and IFRS) and the analysis of factors affecting the degree of difference.

During my statistical analyses, I used Excel and IBM SPSS Statistics Version 20 and F + software.

¹ Profile is a term used in electricity trade. I have not come across such a similarly realistic term in leasing or financial analyses. In electricity and gas trade, the daily course of the consumption of small consumers is not measured – as most consumers do not have „real time” measurement. A profile is a consumption flow type based on previous examinations. Several of them are prepared and the consumers choose the one that fits their consumption. Profiles by many traders in Hungary are prepared with the techniques of clustering, based on previously measured consumption data.

3. Results

The basis for the decision on pricing and acceptance of transactions is always the so-called "internal" calculation, which takes into account all planned cash-flow amounts from the transaction for the scheduled time, and this series of cash flows is discounted using a specified discount rate. At cash flow estimates all economically relevant elements are taken into account regardless of the current accounting standards. Based on this, there is the determination of an internal interest rate with the usage of which the present value of due future cash-flow elements is exactly the same as the financed value of assets subject to the lease contract. This interest rate is the effective interest rate.

The resulting interest rate is the gain economically available to the lessor, and on the basis of its extent, the decision on financing could be taken.

The most important lesson of the examination is that - although customer payments in both cases are the same – the interest rates determined by the calculation made for the client and by the economic calculation differ, typically in favour of the former.

In the rest of my doctoral theses, I presented the main results obtained from the examined sample, which support the results obtained from the theoretical calculation described in the previous chapter and from its different versions.

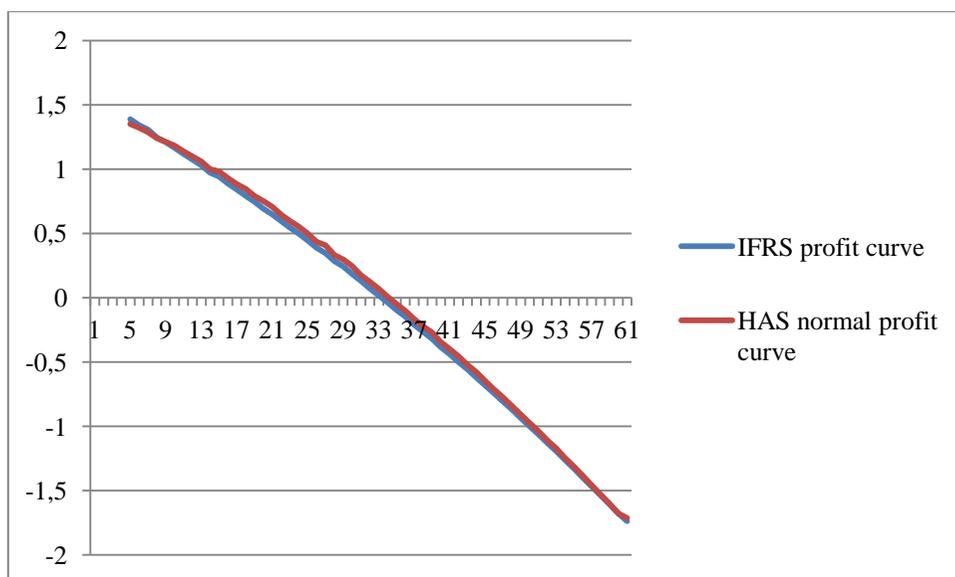
3.1. The difference between the results calculated on the basis of IFRS and the Hungarian standards in the case of financial leases

In the case of similar financed amount and standard calculation, the periodic profit curve calculated with the effective interest rate required by IFRS is

almost identical to the result realization according to the HAS, which explicitly does not require the application of the effective interest.

This case, however, – as shown by the sample transactions – occurs very rarely, profit curve is substantially influenced by the characteristics of the deal calculation.

Accordingly, based on the clustering, there are four main groups in the time course of the HAS result, the first of which – the normal HAS profit curve – is almost identical to the IFRS profit curve.



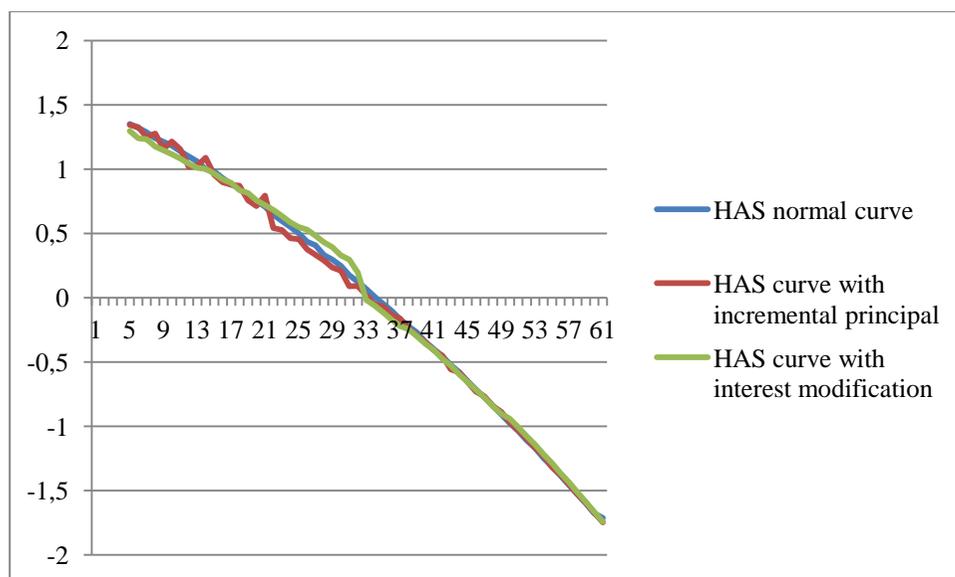
Source: own figure based on the data of the sample

1. figure: IFRS and HAS normal profit curves of 61-month tenor financial leasing contracts

In the figure, I marked the IFRS profit curve with the blue line, the red curve - the normal HAS – has a very similar shape, and very small differences are observed in each period. In the case of transactions following this HAS normal profit curve the interest rate is steady through, i.e. during the tenor its relationship to the benchmark interest rate does not change and there are no pre-built additional capital items, which means that the contract does not

include either trail (maintenance) commission or trail insurance premium. (This group accounts for the 38% of the examined contracts.)

The next groups of the HAS curves were formed exactly along these properties. In one group, only the effect of the incremental capital items appeared, in the other group solely the degressivity of the interest rate, while in the third group both factors were included together. Other explanatory factors were not identified.



Source: own figure based on the data of the sample

1. figure: HAS normal profit curve and HAS profit curve with interest modification of 61-month tenor financial leasing contracts

In the figure above, for the sake of clarity, I illustrated only the profit curves reflecting individual effects.

In the case of **interest modification** (green curve), in the period of applying the lower interest rate, realized interest according to the Hungarian practice shows lower results than the realized amount due to the effective interest rate of IFRS, and this is reversed in the second half of the tenor. In practice, the

invoiced interests diverted from the effective interest rate appear as client receivables, as this amount is known by the client. However, in principle, the realisation of this as income - with the application of the principle of deferrals – can be separated from invoicing.

In the relevant domestic legislation, there is no regulation found concerning the timing of interest realisation. However, the accounting decree deals with how to act at realisation of interests in the case of problematic transactions, and it includes a direction (section 10 paragraph 2 item (i)), according to which „that part (amount) of the administration fee charged on interest-free loans, which, in accordance with the general conditions, in its content is the equivalent of the interest expressing the proceeds of using the money” should be accounted as interest.

On the basis of the interpretation of the accounting decree, I verified the claim that *domestic legislation not only does not require accounting realization of interests under the contract from creditors, but demands the presentation of similar commissions the same way as that of interests, calculated with fixed interest rate* – thus in an effective interest rate-based way.

The above considerations are adjusted by section 17 of the accounting decree, which is about the realization of interests. Accordingly, receivables and income from the interest are only shown in the report if the realization of that is certain, that is the receivable is maximum 30 days overdue beyond the balance sheet date, and the classification of the basic receivable is unproblematic or watch-listed.

The explicit regulation of the decree for the suspension of interests and the implicit regulation for timing of interest realization are conflicting. The reconciliation of the conflict between the two regulations is possible through

the termination of one of them, and as *the regulation for the suspension of interests* neither brings economic benefit nor results in any additional information, in my opinion, this rule's *elimination*, derecognition is *necessary*.

In the case of **additional principal increase**, at predetermined times of the tenor additional cash flow items are paid; the financier has these reimbursed by the client not directly, but as part of the regular installment payments.

The red curve of the figure shows that compared with the normal curve, the application of incremental principal (which is typical for 18% of all contracts) constantly changes the shape of the curve, interferes with its steady deceleration, it diverts it from period to period, virtually wavering around the normal curve. This curve corresponds to the expected theoretical curve, as additional payments made at certain points of time, according to the national regulations, appear as costs for the period, thus its time course is linear. In the case of the monthly aggregate accounted income this diversion is less spectacular, while with a daily analysis it results in a significant swinging. In accounting terms, we can say that more frequent accounting than monthly is not required; more frequent close than that is not required of banks even by the accounting decree.

The scope of cash flow items that could or should be taken into account in the calculation raises questions both from the point of view of economic considerations and from that of their accountability. In the case of domestic leasing constructions a number of cash-flow items occur that do not emerge upon transaction settlement, but it is essential to take them into account in the economic calculation.

If, according to the business model, the proceeds of the additional (regular) cash outflows are interpreted as increase in the financed amount, then they should be taken into account in the calculation of the internal interest.

According to IAS 17, however, fees that the lessee is obligated to pay do not form part of the the minimum lease payments, such as, e.g. the costs of various services, the cost of maintaining the lease agreement and the various taxes. Based on the principles of the standards, the reflection of the real picture is a priority, thus any of the above business models can be used not only in the economic calculation of the lessor, but also in the preparation of financial statements in accordance with IFRS², as opposed to the amount of VAT calculated for the principal of the open-end lease.

Nevertheless, 42% of the transactions include both methodological differences; on the one hand, they handle **continually incurred costs** during the tenor as incremental principal, and at the same time, the **interest rate is diverted** from the effective interest rate. This group does not require further legislative changes from the theoretical point of view, my proposals in this direction have already been presented at the previous two figures.

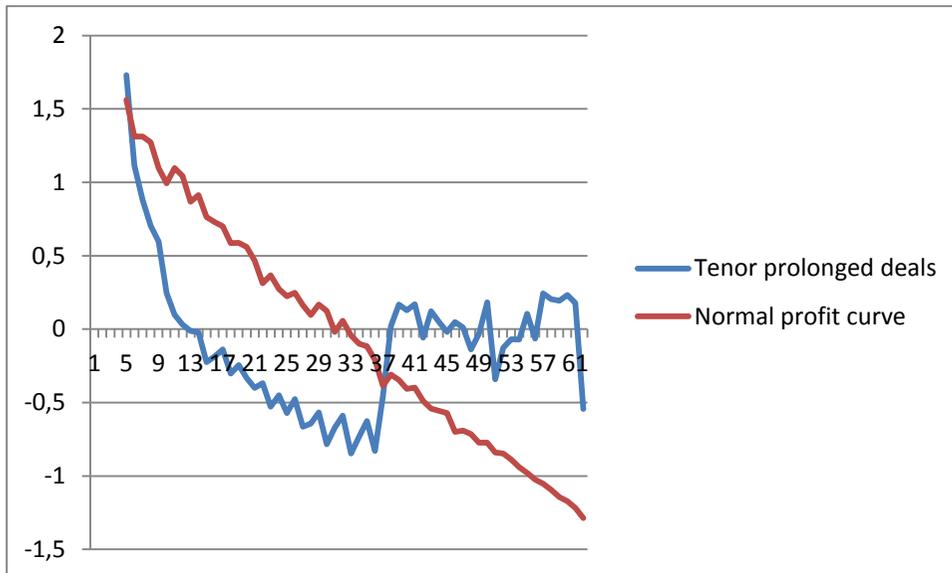
3.2. Differences between profits calculated in accordance with IFRS and the Hungarian regulations in the case of operating lease agreements

In the case of operating leases, the time course of the Hungarian profit was virtually constant in accordance with the applied accounting method, so plotting of only one curve was enough.

In the case of classifying lease agreements as financial leases under IFRS, I examined the curve of the available agreements in accordance with the effective interest rate, separately for agreements with different tenor. The two

² I understand that the method I have proposed is not universally accepted, surely there are large audit firms whose domestic practices are contrary to the practices described herein.

observed curve types are illustrated with the figures presenting the curve of the 62-month tenor transactions.



Source: own figure based on the data of the sample

2. figure: IFRS profit curve of the 62-month tenor lease agreements

The red IFRS normal profit curve reflects well the theoretical IFRS curve. The non-linear nature of the curve reflects the impact of repricing. Tenor prolonged deals (blue curve) also show a similar picture until the 36th month, when the originally then expiring agreements were resettled, and the transaction was restarted with the residual value as financed amount. The resettlement, however, means a number of solutions in practice, it is reflected in the rather irregular profit curve after the original expiration.

The two types of IFRS and the constant HAS profit curves support the previous finding that the *regulations of the classification of transactions as financial or operating leases are definitely ready for revision*, and also that at accountings in accordance with either the Hungarian regulations or the IFRS, particular attention should be paid to the accounting of *contract*

extension options.

3.3. Operating lease classification under IFRS

According to the domestic regulations, **a deal should be classified as financial lease in the case of either predefined or potential transferring of the ownership of the leased asset.** The criteria for financial lease classification are determined by the law in four points; however, according to the international standards, these conditions should be examined not exactly in this way, and other - unknown in the domestic regulations - conditions also should be analysed. Based on the terms and conditions of some major operating lease companies (hereinafter ÁSZF (Terms and Conditions)), I proved that *domestic operating leases from the the lessor's point of view are typically considered as IFRS - financial leases.*

In consequence of the inclusion of the return of the **proprietary right** to the lessor, *there is no need* or opportunity on the basis of this criterion *for the classification of the contract as a financial lease* either according to the domestic regulations, or to the international standards.

I found that in the cases of early termination the lessor is entitled to the collection of remaining principal debt, as well as to the reimbursement of the **incurred loss**, that is *the examined lease contracts are to be classified as financial lease under international standards.*

Lessors typically exclude **risks** arising both from changes in the exchange rate of the **residual value** and from changes in the market value; in consequence, *the examined operational lease contracts are to be classified as financial lease under international standards.*

The tenor usually cannot **be extended** as the contract is normally automatically terminated; the lessee must then return the leased object, and if

they fail to do so, they could be required to pay a user fee for the period elapsed after the maturity, thus *the classification of the given operating lease contracts as financial lease under international standards is not necessary*.

The terms and conditions do not contain any indication as to how **the present value of the lease payments** relate to the fair market value of the leased object upon the settlement of the transaction. Nor is there any reference in the contract as to how the **economically useful life** of the subject is related to the tenor of the contract.

3.4. Rollover of operating lease ledger data into financial lease

1. figure: Rollover of operating lease into financial lease

HUF					
Description	Fee revenue	Depreciation	Profit	Net book value of leased asset = Lease receivable	IFRS retained earnings
1st period - status according to HAS books	233 541	175 000	58 541	825 000	-
Correction due to amount financed by the client			-	100 000	-
Correction due to principal part of the fee revenue	- 125 541		- 125 541	125 541	-
Reversal of depreciation		- 175 000	175 000	175 000	-
	108 000	-	108 000	774 459	-
2nd period - status according to HAS books	233 541	175 000	58 541	650 000	
Correction due to principal part of the fee revenue	- 140 606		0 - 140 606	140 606	
Reversal of depreciation		0 - 175 000	175 000	175 000	
Accumulated IFRS correction from previous periods				50 541	
	92 935	-	92 935	633 854	108 000
Expected value in case of financial lease	92 935	-	92 935	633 854	108 000

Source: own calculation

The table shows all the steps necessary for the conversion: reversal of amortisation, carrying forward the principal of premiums as reduction of lease receivables, presenting the result for the period in the next period as accumulated profit reserve, and transferring fixed assets – expressed with renaming the headers– into lease receivables.

3.5. Management information needs and financial accounting data

One of the key points of management information needs is the quantification of the factors of the achieved results, the determination of how different business structures, different solutions affect the outcome.

In terms of management information needs, we can say that *reports prepared on the basis of client contracts* - corresponding to the Hungarian practices –provide *more transparent* and analysable data for the management. The reasons for that are the separation of details, and handling of a variety of capital items separately. While in the IFRS certain capital items can not be seen as they appear as changes in the capital, and the interest is also presented on a net basis with the effects of cash flow factors contracted, in the reports prepared according to the domestic practices, the components of the results (interest, commission, insurance) can be easily pointed out.

3.6. Correspondence of the Accounting Act and IAS 17 in the field of leasing

I showed previously that financial statements in conformity with IFRS requirements can be also prepared by book-keeping according to the Hungarian rules, with the help of taking into account the necessary corrections. The scope of the discussed changes was the following:

- correction of discrepancy between transaction rates and effective interest;
- accrual and effective interest rate-based release of initial direct costs;
- treating periodically incurring costs during maturity as capital/principal instruments;

I have proved previously that *the diversion of the transaction rates* from the uniform rate *does not comply with the spirit of the Accounting Act*, with the principle of matching. In this area, therefore, it is necessary to carry out a correction and interest realization can be booked calculated with the effective interest rate. The condition of this accounting change is that the internal rate of return calculated on the basis of the customer's contract cash flow items should be available, thus the principal-interest breakdown of the instalment could be determined for each period. So after these modifications, the items included in the Hungarian books comply with the principle of matching defined in the Accounting Act, and at the same time support the realizable income according to the international standards, too. Another condition of the implementation of this solution is the termination of interest rate reversal obligation.

I have developed a solution proposal found in the next chapter – which retains the current Hungarian general ledger accounts and the report based on this; it also allows the analytical - contract and partner level - book-keeping under IFRS, and supports the reconciliation between the values reported in the two types of financial statements.

3.7. Proposed method of preparing IFRS-based financial statements

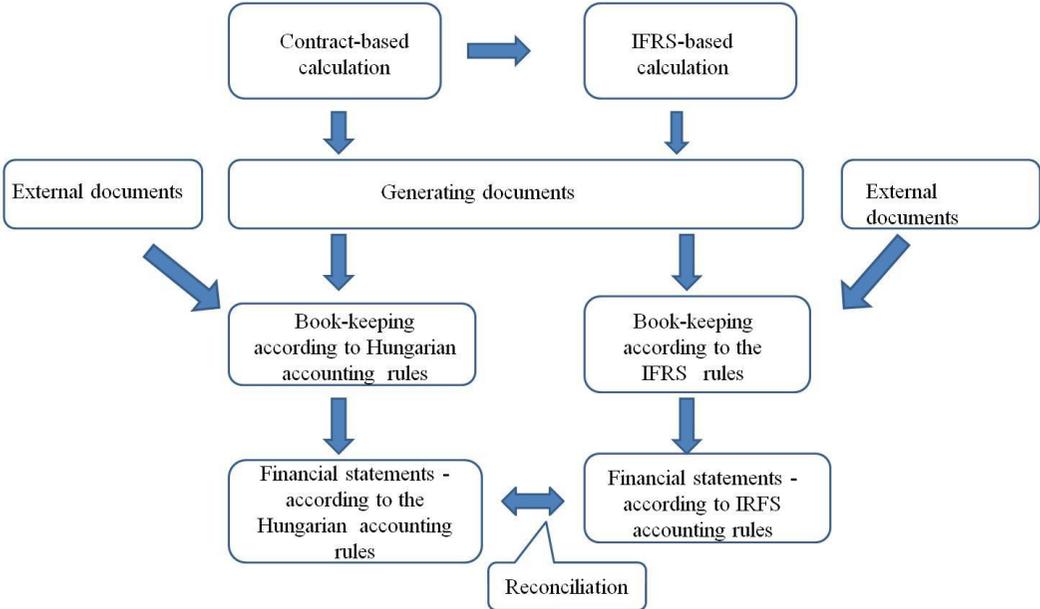
The condition of the baseline is that the two types - IFRS-based and contract-based – of transactional calculations are available, and the relationship between the two is automatically ensured at contract level. Since– as proved earlier – book-keeping in accordance with the Hungarian rules is still needed, I do not change it. The accounts of due fees be the same according to both accounting rules as the amount charged upon³ the client is given. However, there is a difference between the amount of the remaining capital and its amount realized in the given period, so they need to be registered irrespective of the Hungarian books. In order to prepare the corresponding financial statement, the general ledger accounts shall be divided into three groups. The first group includes invoices to be considered only in the Hungarian report; the second group includes invoices to be considered only in the statements in accordance with IFRS, while the third group includes invoices to be considered in both reports.

Calculation based on the customer's contract forms the basis of documents sent to the client, and so, based on this, bookkeeping is done automatically, which is completed with the initial direct costs typically in the form of external documents, whose accrual is automatically booked on the basis of external documents, while the data generated on the basis of the calculation mean their release. In order to ensure reconciliation, it is not proposed to generate new documents at that point, but to complete the documents sent to the client with the principal/interest breakdown of the calculation in

³ In the Hungarian practice, the invoice for the due details of the leases (in the case of a lease and an open-end lease), and the remittance advice (in the case of a closed-end lease) are regularly sent to the lessee by the lessor, because in most cases, due to the interest rate and exchange rate changes, the client cannot determine otherwise the exact amount to be paid.

accordance with IFRS. Obviously, this „secondary” breakdown does not appear on the documents forwarded to the client; however, the difference between the two accountings becomes traceable.

The structure of the system now is shown in the following figure.



Source: own experience

1 Figure: Preparation process of financial statements in accordance with the Hungarian rules and the IFRS based on a separate bookkeeping

Hence, based on the above bookkeeping, arises the whole – Hungarian and IFRS - general ledger structure, which allows the preparation of both accounts. So, the accounts prepared according to international accounting standards can be produced the same way on the basis of booked documents as the Hungarian report.

4. Conclusions

On the basis of the reviewed literature, the legal regulations, and my own experience, it has been proved that credit institutions and financial enterprises basically **cannot avoid the preparation of consolidated IFRS-based financial statements**, since it is an obligation due either to the legal regulations – them being listed, or their public bond issuance - or to the demands imposed by their parent company. In addition, it is essential for them to prepare a consolidated report based on the domestic rules for the banking group designated by the Hungarian Financial Supervisory Authority (PSZÁF), and to prepare individual-level accounts applying the same set of rules. This **multiple administrative burden should be reduced** taking into account the needs of the stakeholders, with particular regard to the increasing additional burdens on the institutions of the sector, which prioritize the roles of efficiency and cost-saving. At the same time, such a reduction in the burdens **would not impair the quality of available information** on credit institutions at individual level, and with due diligence it would not affect adversely the central government's budgeted tax revenues either. According to the above, it would be practical to allow the credit institution sector to prepare reports under international standards even at the level of individual companies both for taxation and supervisory purposes.

In the course of consulting the **accounting** decree for credit institutions and financial enterprises, I have found that its **regulations are too detailed**, while they are unable to describe or regulate the full range of phenomena, thus in many cases they result in a narrow interpretation manifested in practice and attitudes conflicting with the principles of the Accounting Act, and particularly with the need of a true and fair presentation of the real picture. In order that the principles could fully prevail in the assessment and

record keeping of areas not explicitly covered by the legislature, it is necessary to change the nature of the regulation and to declare its frame-principle nature.

(The validity of these claims were shown and proved previously through the asymmetric regulation of the given and received commissions, the diversion of received interests from effective interests, and the example of the accounting of interest-free transactions.)

The regulation of the realization of interests is the priority area of the accounting decree. During the examination of relevant regulations and related legislation, including the Civil Code, I have found that **the methodology of the suspension of interests serves neither the interests of the clients nor the better satisfaction of the demand for information of internal and external stakeholders**. According to the current rules, the amount of money payable by the client – where the capitalisation of interest paid on late is not prohibited – is independent of the suspension of interests and the application of repayment order; thus, in this case, the amount to be paid - in the case of applying transaction interest – is exactly the same as the amount to be paid without applying a special repayment order. I have also found that the suspension of interests in practice corresponds to a 100%-rate creation of impairment losses for this part of the accounts receivables, which is supported by the regulation, prior to the relevant legislation, regarding 100%-rate provisioning. **The suspension of interests and the repayment order mean a large administrative and IT burden** for the credit institutions, while not having relevant results in respect of transparency or provisioning, and while making the simple application of effective interest rate impossible.

On the basis of the above, changes seem necessary in the regulations of the accounting decree concerning the suspension of interests and the

determination of repayment order.

The regulations of the accounting decree regarding **interest-free transactions** require in such cases also the **separation of interests** within the possible treatment costs, and its realization as interest, too. Based on the numerical presentation of the solution of this problem, I have come to the conclusion that **the application of the effective interest rate is necessary** during the tenor, **based both on the reliable and fair picture requirement of the Accounting Act** and on the itemized regulation of the accounting decree, despite the fact that it does not explicitly requires it. Provided my previous amendment proposals are implemented, there should be no more obstacles to the introduction of the application of the effective interest rate.

During the overview of the domestic regulation solutions, I also examined the **provisions of the new Civil Code relating to financial leases**, expected to enter into force in 2014. These provisions **are not in accordance either with the current Hungarian legislation or with the regulations of the international accounting standard in force**. In addition, they do not take into account the several years of international efforts to amend IAS 17 or the expected solution directions. Moreover, in my opinion the solution contained in the Civil Code prescribes a flawed criterion of financial leasing transaction classification, because the nominal value of cash flows during the tenor are compared to the fair value of the financed asset, which condition must exist in all cases, otherwise the lender would get back even their invested capital - not even according to the initial agreement. This makes it necessary to **review the financial leasing regulation** of the Civil Code, and at the same time, to take into consideration - beyond the professional reasons I have described – the experience gained in the course of the revision of IAS 17, and

the regulations of the new international leasing standard.

On the basis of the examined general terms and conditions and my previous experience, I can say that the **classification of leases** under domestic accounting rules – classified as financial or operational leases – **does not meet** either **the economic content** or the international accounting standards. **The current form of regulation provides ample room for** different structuring of transactions **circumvention of the rules both for lessors and for lessees**. I have come to this conclusion based, on the one hand, on the calculations of lease transactions, on the other hand, on the analysis of general terms and conditions regarding lease (operational leasing) contracts of leasing companies.

Until the new international standard for leasing and the amendments to the rules in the Civil Code come into force, **the amendment of the definition of financial leasing in the Hpt** (Act CXII of 1996 on Credit Institutions and Financial Enterprises) would seem appropriate, under which it would be advisable to clarify that the inclusion of the principal-interest breakdown in the contract and the leasehold account in the lessee's books are not the conditions but the consequences of the classification. **Priority of content over form** should be defined explicitly in the new legislation, i.e. it is proposed to state that not only in the case of a call option is a lease classified as a financial lease, but also based on the economic content of the transaction.

5. New scientific results

Based on the elaboration of the empirical research carried out, the relevant legislation, and the domestic and international literature, the following new and novel scientific results can be formulated:

1. **Even at the level of individual financial statements, instead of the application of domestic accounting standards for credit institutions, the application of international accounting standards would be helpful**, informative and economical.

In order to reach this result, I examined the relevant legal provisions, the banking practice of preparation of financial statements in conformity with international standards, and the planned changes in the international supervisory reporting requirements. I also compared the relevant regulations with the ownership structure of the Hungarian banking sector, and analyzed the relevant researches of the large audit firms.

2. **Deals qualified** and thus presented **as operating leases according to domestic law, in terms of their economic content** and according to the requirements of international accounting standards **typically are classified as financial leases**.

I have attained this result with the analysis of the legal regulations and with the detailed analysis of the general terms and conditions for leasing of the largest leasing companies. Calculations have confirmed that from the lessor's perspective at least one of the international standard qualification criteria is substantially relevant in the case of operating lease transactions.

3. With the correct application of the accounting act in force today and the accounting decree for credit institutions, and with changing the current reductive wording and interpretation, **the proper accounting treatment and evaluation of standard** – not including deals with additional capital items and interest modification - **transactions qualified as financial leases could disclose the same result even according to the Hungarian rules as the international accounting standard.**

In support of this, I examined the current accounting and valuation practices through a variety of self-made examples; I compared this to the principles of the accounting act and to the literal requirements of the government decree. I proved that the literal requirements of the government decree are in contradiction both with each other and with the principles of the accounting act, and I showed the possible way to resolve this contradiction. All of the above I proved with the cluster analysis of the contracts included in the samples.

4. In terms of its economic content, **the registration of lease transactions under IFRSs** is closer to the true and fair picture than the solutions presented by the literal interpretation of the domestic government decree. However, on the basis of my own numerical examples, I proved that **in terms of management information**, this solution actually **impairs clarity** and makes it necessary to break down the profit (interest profit) factors of the lease transactions. For this breakdown I used the factorization method of breakdown of factors, well known in management accounts but not yet applied in this area.

5. **The current methodology for the preparation of reports in accordance with international accounting standards is cumbersome**, it makes it difficult to keep records, and in many cases, its support by contract-level analytics may be difficult. This statement of mine coincides with the previous research results known in this area. Although the legislature seems to have the intention to allow the IFRS accounts at the individual level, the work is going slowly, so we should still expect the accounting decree to stay in force in the long term; it is therefore necessary to simplify and automate the preparation of financial statements according to the international standards.

To solve this, I suggested and explained in detail a methodology which in the case of the financial leases allows parallel – based on the Hungarian documents and the principal-interest breakdown under IFRS – book-keeping, and with proper parameterization of the general ledger accounts based on this, the automatic balance sheet and profit preparation according to both criteria. The presented solution requires the parallel accounting of all relevant economic events, as well as the correct classification of the general ledger accounts in the two types of reporting systems.

6. Proposals (theoretical and practical implementation)

Based on the analyses and results described above and throughout the dissertation, I have the following **proposals**:

- **The preparation of reports under international standards** should be allowed for the credit institution sector also **at the individual company level**, both for taxation and for supervisory purposes.
- **Specific regulations of the accounting decree** regarding reporting specifications of credit institutions and financial companies, **resulting in narrow interpretation need to be removed**, and they should be presented not as legislative requirements but as professional guidance – maybe in the form of PSZÁF-recommendations or circulars.
- Based on the above, I propose **the deletion of parts of the accounting decree regarding the suspension of interests and the determination of repayment order (section 17)**, and correspondingly, the amendment of the related requirements of Appendix No.7 for assessment of the outstanding items.
- I propose that credit institutions and financial companies should determine the interest income realized using the effective interest rate.
- I propose **the review of the regulations of the Civil Code for financial leasing**. In the course of this review, not only the professional reasons I described, but also the experience gained during the revision of IAS 17 should be taken into account, and its

entry into force is expected to be synchronized with the date of entry into force of the expected new international leasing standards.

- Until the new international standard for leasing and the amendments to the rules in the Civil Code come into force, I propose **the amendment of the definition of financial leasing in the Hpt.** Under this, it would be advisable to clarify that the inclusion of the principal-interest breakdown in the contract and the leasehold account in the lessee's books are not the conditions but the consequences of the classification. Priority of content over form should be defined explicitly in the new legislation, i.e. it is proposed to state that not only in the case of a call option is a lease classified as a financial lease, but also based on the economic content of the transaction.

7. Publications in the field of the dissertation

A. BOOKS

Rakó Ágnes – Nagy Zsuzsanna – Gálos Gréta Diána – Csikósová Sabina – Gulyás Éva – Veres Judit: Hitelintézetek könyvvizsgálata és ellenőrzése, „C” rész 1-4. fejezetek, Budapest, Alinea Kiadó, 2010. 377 – 429. p.

Veres Judit – Gulyás Éva: Bankszámvitel, 5. fejezet és gyakorló feladatok 7, 10, 13.; Budapest, Alinea Kiadó, 2008. 129 – 187. p.; 231. p.; 235. p.; 239. p.

B. FULL SCIENTIFIC PUBLICATIONS IN FOREIGN LANGUAGES

Gulyás Éva – dr. Wickert Irén: The impact and practice of applying IFRS – the case in Hungary, 4th International Conference of Economic Sciences, Quality of Life, Sustainability and Locality, 9-10 May 2013 – Kaposvár University – Kaposvár – Hungary, ISBN 978-963-9821-61-3

Éva Gulyás: Foreign currency position and the financial statement; in: Proceedings of 2nd International Conference on Emerging Economies Partium Christian University, Oradea, Romania; 2011. október 27-29.

C. SCIENTIFIC PUBLICATIONS IN SCIENTIFIC JOURNALS

Gulyás Éva: Az IAS 17 és a vezetői számvitel, in: SZAKma (Számvitel-Adó-Könyvvizsgálat), 56. évfolyam, 2014. január, 9.p. (also in www.szak-ma.hu)

Gulyás Éva: Devizás tételek értékelése – a számviteli szabályozás és a gazdálkodók döntéseinek összefüggései, in: Hitelintézeti Szemle Különszám, 2012/tizenegyedik évfolyam, 2012. július, 50-61.p.

Gulyás Éva: Az eszközviszavétel számviteli és áfa-sajátosságai a lízingbeadónál, termelőeszközök zártvégű lízingje esetén; in: Számviteli tanácsadó; III. évfolyam, 12. szám, 2011. december; 14-21. p.

Gulyás Éva – Veres Judit: A pénzügyi lízingszerződések idő előtti lezárása – Az eszközviszavétel számviteli és adózási sajátosságai; in: Számviteli tanácsadó, III. évfolyam, 12. szám, 2011. december; 2-5. p.

Gulyás Éva – Veres Judit: A devizás pénzügyi lízing elszámolásának számviteli és áfa-szabályozása II.; in: SzámAdó; XVII. évfolyam, 1. szám, 2008. január;

Gulyás Éva – Veres Judit: A devizás pénzügyi lízing elszámolásának számviteli és áfa-szabályozása I.; in: SzámAdó; XVI. évfolyam, 12. szám; 2007. december, 3-9. p.

Gulyás Éva – Veres Judit: A devizás pénzügyi lízing szabályozása; in: SZAKma (Számvitel-Adó-Könyvvizsgálat), 49. évfolyam, 2007. december; 511-516. p.

Gulyás Éva: Lízingügyletek idő előtti lezárásának számviteli kezelése a lízingbeadó szempontjából; in: Válasz a kihívásokra – Számadás a legújabb közgazdasági

kutatások eredményeiről; Magyar Tudományos Akadémia VEAB Közgazdaságtudományi Munkabizottságának és a Pannon Egyetem Számvitel és Controlling Tanszékének közös kiadványa; 2012.; Elfogadva, megjelenés folyamatban;

D. INNOVATIONAL RESEARCHES IN HUNGARIAN

Gulyás Éva – Veres Judit: Eszközvisszavétel kezelése pénzügyi lízingügyletek esetén; Corvinus Egyetem, Pénzügyi és Vezetői számviteli tanszék, Innovációs kutatás, Megrendelő: CIB Lízing Zrt; 2005

Gulyás Éva – Veres Judit: Devizás lízingügyletek ÁFA-kezelése; Corvinus Egyetem, Pénzügyi és Vezetői számviteli tanszék, Innovációs kutatás, Megrendelő: CIB Lízing Zrt; 2005