Accounting reporting of leasing with the CBN

The accounting qualification of a leasing transaction is important to determine the applicable accounting reporting. For accounting purposes the (financial) lease is quoted on the assets side of the balance sheet. All other transactions such as rent and operational lease, which do not meet the conditions for financial leasing, are for accounting purposes treated as rent. The Accounting Standards Commission (CBN) has recently published a (summary) advice 2015/4 with the most important principles related to leasing.

Legal definition of leasing

Leasing is a financing method whereby the lessor buys e.g. business equipment, investment goods or durable consumption goods and puts these at the disposal of the lessee during a negotiated period of time and against a fixed fee. The lessor remains the legal owner of the leased goods. In most cases the leasing contract contains a purchase option giveng the lessee the possibility, without obligation, to acquire the goods at the end of the contract, for a predefined price.

Accounting definition of leasing

The accounting qualification of a leasing contract is based on article 95 of the royal decree implementing the Belgian Companies Code. This article lists a number or criteria which should be fulfilled, for accounting purposes, by a financial leasing contract.
Within the material fixed assets distinction is made between long term rights on immovable property (immovable leasing) and long term rights on movable goods (movable leasing). When the conditions are met, both the lessor and the lessee should report this transaction in their books following certain specific rules. If the contract does not qualify as a financial leasing, it is called a rent, an operational lease or a 'non full-out lease'.

In order to distinguish leasing from an accounting perspective from a normal rent, the full reconstitution of the invested capital is an important criterion. Also the interest and the costs of the transaction should be covered by the lease payments.

Accounting reporting by the lessee

The lessee should report the granted rights on the assets side of the balance sheet, and the payments due on the liabilities side under debts. Since using the purchase option is no obligation, the amount of the purchase option is not reflected in a debt on the liabilities side of the balance sheet. The amount of the purchase option should be quoted under rights and obligations not mentioned on the balance sheet. The leased asset is amortized according to the rules applicable to the underlying asset.

Accounting reporting by the lessor

The lessor has a claim on the lessee for the amount of the outstanding capital payments due by the lessee. The profit made by the transfer of the right to use the goods should be recorded immediately and complete as gains. When there is a purchase option and the lessor obtains the amount of the option at the end of the contract, the amount of the option remains under the fixed assets.

Accounting reporting of rent, operational lease and sale and lease back

In case of rent or renting, and operational lease, the equipment which is rented out is not shown on the balance sheet of the renter, but on the balance sheet of the letter. Entry of the rent payments is done directly through profit & loss. Imagine that it is contractually foreseen that there is a considerable first payment or an increased first rental payment, this payment is taken in P&L in the period to which it relates.
The costs or profits made in sale and lease back transactions are processed through transfer accounts.

For extended information: refer to CBN-advice 2015/4, www.cnc-cbn.be

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