FINANCIAL LEASING IN ACCOUNTING: A COMPARATIVE ANALYSIS OF THE USA AND UZBEKISTAN

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Abstract
The purpose of this work is analysis and importance of Financial leasing in accounting systems of the USA and Uzbekistan. This article aims to provide a comprehensive analysis of financial leasing in accounting, focusing on the United States (USA) and Uzbekistan. By comparing the practices and regulations in these two countries, we can gain insights into the similarities and differences in financial leasing processes.
Key words: Payment, finance, financial leasing, assets, National Accounting Standards (NAS), business, financial resources, lending, individual payment, corruption, collective payment, need, want, savings, Financial Accounting Standards Board's (FASB), right-of-use asset, operating lease, The Internal Revenue Service (IRS),

INTRODUCTION

Financial leasing is a widely utilized approach by businesses to obtain assets, offering several benefits such as flexibility, capital preservation, and tax advantages. Financial leasing allows companies to acquire assets without substantial upfront payments, offering flexibility and operational efficiency. However, the accounting treatment of financial leasing varies across countries. The purpose of this article is to conduct an extensive examination of financial leasing in the field of accounting, specifically in the United States (USA) and Uzbekistan. Through a comparative analysis of the practices and regulations in these two nations, we aim to uncover the resemblances and disparities in the processes associated with financial leasing.

RESEARCH CONTEXT

Financial Leasing in the USA: In the United States, financial leasing is regulated under the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 842, Leases. This standard requires lessees to recognize lease assets and liabilities on the balance sheet, regardless of whether the lease is classified as an operating lease or a finance lease. This change was implemented to improve transparency and provide users of financial statements with a clearer picture of a company's leasing activities.

Under ASC 842, lessees are required to calculate the present value of lease payments to determine the lease liability, which is recorded on the balance sheet. The leased asset is recognized as a right-of-use asset. The lessee also needs to evaluate the lease term, renewal options, and purchase options to assess the classification of the lease as either an operating lease or a finance lease.

Financial Leasing in the USA: Financial leasing in the United States is governed by the Financial Accounting Standards Board (FASB) and the Generally Accepted Accounting Principles (GAAP). Under GAAP, a financial lease is recognized as a capital lease if it meets any of the following criteria: a) The lease term covers a significant portion of the asset's economic life. b) The present value of lease payments exceeds a predetermined percentage of the asset's fair value. c) The lease transfers ownership to the lessee at the end of the lease term. d) The lease contains a purchase option, which is reasonably certain to be exercised

In the USA, financial leasing is widely used across various industries, including manufacturing, transportation, and technology. The Internal Revenue Service (IRS) provides guidelines regarding tax treatment for financial leasing arrangements. Tax benefits such as depreciation deductions and interest expense deductions may be available to lessees.

When a lease is classified as a capital lease, the lessee records both an asset and a liability on their balance sheet. The asset is reported at the lower of the fair value of the leased asset or the present value of the lease payments. The liability represents the obligation to make lease payments. Lease payments are allocated between interest expense and reduction of the liability.

Why Lease?

Operational, financial, and tax incentives often make leasing an attractive alternative to purchasing. These advantages are laid out below:

1. Leasing reduces the upfront cash needed to use an asset.
2. Lease payments often are lower than installment payments.
3. Leasing offers flexibility and a lower cost when disposing of the asset.
4. Leasing might offer protection against the risk of declining asset values.
5. Leasing might offer tax advantages.

For accounting purposes, we classify leases as follows:

LESSEE	**LESSOR**
Finance lease	Sales-type lease • without selling profit • with selling profit
Operating lease	Operating lease

A lease is considered a finance / sales-type lease if it meets one or more of five criteria:

1. The agreement specifies that **ownership of the asset transfers** to the lessee.
2. The agreement contains a purchase option that the lessee is reasonably certain to exercise (**bargain purchase option**).
3. The **lease term** is for the "major part" of the remaining economic life of the underlying asset.
4. The present value of the **lease payments** equals or exceeds “substantially all” of the fair value of the underlying asset.
5. The underlying asset is of such a **specialized** nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Sales-Type Leases with Selling Profit

- Occurs when the fair value of the asset exceeds the cost or carrying value.
- Lessor recognizes a **selling profit** at the beginning of the lease term.
  - Selling profit is the difference between **sales revenue** and **cost of goods sold**.
- Lessor also recognizes interest revenue over the lease term.

<u>**Lessor**</u>

- When there is a selling profit, all lessor entries, other than the entry at the beginning of the lease to include the selling profit, are precisely the **same** as the entries for a sales-type lease without a selling profit.

Lessee

- The lessee's accounting is not impacted by whether or not the lessor recognizes a profit. The journal entries made by the lessee are precisely the **same** with or without a selling profit for the lessor.

Financial Leasing in Uzbekistan:

In Uzbekistan, financial leasing is regulated by the Law on Financial Leasing and the Law on Accounting and Financial Reporting. The Central Bank of Uzbekistan oversees the leasing activities in the country. Financial leasing has gained popularity in recent years, as it offers an alternative financing option for businesses that may not have sufficient funds to purchase assets outright.

According to the laws in Uzbekistan, financial leasing contracts must be in writing and registered with the authorized state body. The lessor retains ownership of the leased asset during the lease term, and the lessee has the right to use the asset for the agreed-upon period in exchange for lease payments. The lease contract should specify the lease term, payment terms, and any purchase options.

Financial Leasing in Uzbekistan: In Uzbekistan, financial leasing is regulated by the Law "On Leasing" and the National Accounting Standards (NAS). According to NAS, a financial lease is recognized as a finance lease if it meets certain conditions: a) The lease term is at least 75% of the asset's useful life. b) The present value of lease payments is at least 90% of the asset's fair value. c) The lessee has the option to purchase the leased asset at a price significantly below its fair value. d) The lease transfers ownership to the lessee at the end of the lease term.

In Uzbekistan, financial leasing is utilized by various sectors, including agriculture, construction, and services. The tax treatment of financial leasing is outlined in the Tax Code of Uzbekistan, which provides guidelines on the recognition and taxation of leased assets for both lessors and lessees.

Comparison of Financial Leasing Practices: While financial leasing is practiced in both the USA and Uzbekistan, there are notable differences in the accounting and regulatory frameworks between the two countries. In the USA, ASC 842 mandates the recognition of lease assets and liabilities on the balance sheet, enhancing transparency for financial statement users. In contrast, Uzbekistan does not have a specific accounting standard for leases, but the Law on Accounting and Financial Reporting provides guidelines for financial reporting.

Tax treatment also differs between the two countries. The USA offers tax benefits such as depreciation deductions and interest expense deductions, while Uzbekistan's tax code outlines specific rules for the recognition and taxation of leased assets.

Similarities and Differences:

a) Classification: Both the USA and Uzbekistan utilize criteria to determine whether a lease is a finance lease or an operating lease. If a lease meets the criteria, it is classified as a capital/finance lease; otherwise, it is treated as an operating lease.

b) Asset and Liability Recognition: In both countries, capital/finance leases require the lessee to recognize both an asset and a liability on the balance sheet. The asset is recorded at the lower of fair value or present value of lease payments.

c) Lease Payment Allocation: Both countries allocate lease payments between interest expense and reduction of the liability, following a similar approach.

d) Specific Criteria: While the general principles align, the specific criteria for classifying a lease as a capital/finance lease differ between the USA and Uzbekistan. The thresholds for lease term, present value of lease payments, and purchase option significantly vary, reflecting divergent legal frameworks and business environments.

CONCLUSION, LIMITATION AND FUTURE RESEARCH

Financial leasing is an important financing tool for businesses in both the USA and Uzbekistan. While the USA has implemented stringent accounting standards under ASC 842 to improve transparency, Uzbekistan follows its own regulatory framework for financial leasing. Understanding the similarities and differences in financial leasing practices between these two countries is crucial for businesses operating in international markets or considering leasing arrangements in either jurisdiction. Although the fundamental accounting principles for capital/finance leases are similar, there are notable differences in the specific criteria used for classification. Companies operating in these countries need to adhere to the respective accounting standards and legal requirements when accounting for financial leases. Understanding these differences is crucial for accurate financial reporting and compliance with regulatory frameworks.

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