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### **REPAIRS OF OWN AND LEASED FIXED ASSETS: ORGANIZATIONAL AND METHODOLOGICAL ASPECTS OF ACCOUNTING**

**Abstract.** The main results of the research concerning organization and reflection in accounting of own and leased fixed assets repairs of the enterprise are investigated in the article. The enterprises support their fixed assets in working condition and ensure their functioning in a way of their improvement and with the help of the servicing system and the system of planned and preventive repairs. Having the result of the research it was found that there is no clear definition of the concept of modernization, repairs and other types of improvements in the legislation. However, the analysis of a number of departmental regulatory documents and own considerations gave an opportunity to distinguish the content of the concepts of ordinary repairs and overhaul, improvements, modernization and servicing of the fixed assets. It is established that for the accounting system it is important to distinguish clearly between types of work concerning to the fixed asset. If the works are provided only to support the object in working condition, then we are dealing with repairs and if in future they will increase the economic benefits from its use, then this is an improvement (overhaul).

It is determined that legal details and the terms of the lease agreement are important for further repairs accounting and improvements of the leased fixed assets.

Any expenses that an enterprise carries out to support an object of the fixed assets in working condition in order to obtain the original amount of future economic benefits from its use, the enterprise includes to the expenses of the reporting period. If the management thinks that performed works will lead to the improvements of the fixed assets, the accountant should collect the repair costs in order to increase the initial cost of the overhauled fixed assets to the cost of the incurred expenses.

**Keywords:** repairs, improvement, fixed assets, servicing, modernization, expenses, initial cost, amortization.

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## РЕМОНТ ВЛАСНИХ ТА ОРЕНДОВАНИХ ОСНОВНИХ ЗАСОБІВ: ОРГАНІЗАЦІЙНО-МЕТОДИЧНІ АСПЕКТИ ОБЛІКУ

**Анотація.** Висвітлено основні результати дослідження стосовно організації та відображення в бухгалтерському обліку проведення ремонтів власних та орендованих основних засобів підприємства. Підприємства підтримують свої основні засоби в робочому стані та забезпечують їх функціонування способом як поліпшення, так і за допомогою системи технічного обслуговування й системи планово-попереджувального ремонту. У результаті дослідження з'ясовано, що чіткого визначення понять модернізації, ремонту й інших видів поліпшень у законодавстві немає. Проте аналіз низки нормативних документів та власні міркування надали можливість виділити зміст понять поточного і капітального ремонту, поліпшень, модернізації та технічного обслуговування основних засобів. Установлено, що для системи обліку важливо чітко розрізняти види робіт щодо основного засобу. Визначено, що для подальшого обліку ремонтів і поліпшень орендованих основних засобів важливе значення мають юридичні тонкощі та умови договору оренди. Будь-які затрати, які підприємство здійснює для підтримання об'єкта основних засобів у робочому стані, тобто з метою одержання первісно визначеної суми майбутніх економічних вигід від його використання включають до витрат звітного періоду. Якщо менеджмент вбачає, що проведені роботи призведуть до поліпшення основних засобів, бухгалтерові слід збирати ремонтні витрати аби збільшити первісну вартість капітально відремонтованого основного засобу на вартість понесених витрат. При цьому змінені техніко-економічні характеристики необоротного активу мають знайти своє відображення в технічному паспорті, інвентарній картці або інших реєстрах аналітичного обліку відповідного об'єкта основних засобів. Також зазначено, що для підприємств, які проводять податкові коригування, матимуть місце податкові наслідки ремонту основних засобів, що розглянуто в нашій статті.

**Ключові слова:** ремонт, поліпшення, основні засоби, технічне обслуговування, модернізація, витрати, первісна вартість, амортизація.

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**Problem statement.** Fixed assets are an integral part of any enterprise's property without which it is impossible to realize economic activity. Therefore, in order to support the objects of the fixed assets in working condition, as well as to achieve optimal indicators of financial and economic activity, the owner or lessee should allot funds for ordinary repairs and overhaul, servicing, modernization, reconstruction and other types of improvements of the fixed assets. Improving the condition of the fixed assets is an important reserve for improving the efficiency of economic entities. The slow pace of the fixed assets renewal causes the need to reproduce or replace the waste constructive elements until each of these objects becomes unfit for further usage. Partial recovery of the fixed assets requires the periodic repairs. The disadvantages in the current method of accounting repairs of the fixed assets lead to the regulation of enterprises' results without taking into account the economic essence of repairs. The current legislative, methodological and regulatory framework does not fully reveal the relevant concepts that contain general requirements for general accounting and the accounting for repair activities in particular. It does not reveal important information for managing between repairs' differences and sometimes creates new conflicts. This issue has not paid enough heed in the legislative and regulatory framework of Ukraine and in the scientific sources of accounting.

**Analysis of recent researches and publications.** The problems of the theory, methodology and organization of the repairs of the fixed assets accounting were discovered in the works of T. F. Plakhtii [1], V. M. Holovachko [2], S. A. Kemayeva [3], I. A. Slabinskaya, V. A. Rovenskikh [4], L. N. Korovina, Ye. A. Babayeva [5], D. Zinkeviciene, G. Vaisnoraitė [6], J. Wong, N. Wong, D. C. Jeter [7] and other authors. Most of them focus on the classification of repairs, their

compensation sources, the general method of accounting, control and analysis of the repairs expenses. At the same time, the direction of accounting for the repair of own and leased fixed assets, in particular the issue of repair planning, the organization of its accounting, the procedure for determining the change in economic benefits under the influence of repair, the methodology of accounting for repair expenses are not sufficiently determined.

**The purpose** of this research is to develop the recommendations for improving the organization and methods for repairs of own and leased fixed assets accounting to ensure an effective impact on the financial results of economic entities.

**Presentation of the main material.** Enterprises support their fixed assets in working condition and ensure their functioning in a way of improvement and through a system of servicing and a system of planned and preventive repairs.

It is necessary to note that there is no clear definition of the concepts of modernization, repairs and other types of improvements in the legislation. But in a number of departmental regulations such explanations are available. For example, in a letter of the State Treasury Service of Ukraine «About the cost accounting of the works concerning the modernization of computer equipment» dated by 31.07.2006 № 34-08/1342-7137 [8] it is noted that modernization and reconstruction is a complex of works involving the change of technical and operational data of non-current assets in order to increase its technical and economical level. In the Accounting Standard 7 «Fixed Assets» 7 approved by the Order of the Ministry of Finance of Ukraine dated by 27.04.2000 № 92 (with amendments and additions, by the text of AS 7) [9], in the Methodological Recommendations about Fixed Assets Accounting approved by the order of the Ministry of Finance of Ukraine dated by September 30, 2003 № 561 (with amendments and supplements) [10], under the concept of modernization they understand the improvement of technical parameters of equipment in order to increase the useful operation or production capacity.

As to the term «repairs» then this definition is also not determined in the legislation. The meaning of this word can be found in departmental acts. The definitions of terms were given in the letter of the State Building Committee of Ukraine «About the assignment of repairs and construction works to overhaul and ordinary repairs» dated by April 30, 2003 № 7/7-401 [11]:

— ordinary repairs is a complex of repairs and construction works that provides systematic and timely maintenance of operational qualities and prevention of premature deterioration of constructions and engineering equipment;

— overhaul is a complex of repairs and construction works that involves the replacement, restoration and modernization of constructions and equipment of buildings because of their physical deterioration and breaking, improvement of operational parameters and also improvement of building planning and welfare of the territory without changing the building dimensions of the object.

Therefore, it is important for the accounting system to distinguish the difference between the types of works concerning the fixed assets. If works are performing only to support the object in a working condition then it is repairs but if in future they will increase the economic benefits from its usage then this is an improvement. In its turn, the latter can be considered as modification and modernization, replacement of the separate parts of the equipment for improving the quality of the products, the introduction of more efficient technological process and extension of the building that will increase the area of the building.

Many entrepreneurs and enterprises use foreign objects of the fixed assets under operating (quick) leases [17; 18]. Accordingly, from time to time it is necessary to spend money on their repairs. Paying attention to it, repairs accounting of the fixed assets can be considered from two positions: from the position of the less or and from the position of the lessee. So let's stop on the organizational and methodological features of repairs accounting of own fixed assets.

Any expenses that an enterprise carries out to support an object of the fixed assets in working condition in order to obtain the original amount of future economic benefits from its use, the enterprise includes the expenses to the reporting period. That means that they do not increase the initial cost of the fixed assets but fall into the expenses in the period they occur. If the other firm

performed the ordinary repairs of the fixed assets then the expenses for such repairs are immediately attributed to the debit of the same account, where the amortization of the repaired assets wrote off:

- 23 «Production», 91 «General Production Expenses» — the fixed assets of general production or of production purpose;
- 92 «Administrative expenses» — the fixed assets are used for administrative purposes;
- 93 «Expenses on sales» — the fixed assets are used for sales purposes;
- 949 «Other operating expenses» — the fixed assets are used for other purposes.

A document confirming such expenses may be the certificate of performed works provided by the executor.

Sometimes it is needed to buy new spare parts or additional materials for the repairs of the fixed assets. In practice such spare parts are used at the day of purchase. And then there is a question: is it necessary to debit such spare parts for subaccount 207 «Spare parts» (205 «Building materials») or is it possible to put them immediately to the grouped repairs expenses (to account 23)? In our opinion, purchased spare parts are still better to debit to inventory. This order will be more correct considering the basic principles of accounting. In fact, we have two business operations: the purchase of spare parts (materials) and the establishment of their defective of the fixed assets: D 207 (205) C 631, D 23 C 207. In addition, having made the expanded conducting (D 23 C 631), the accountant may face further problems with the qualifications of such an operation. After all, without knowing all the history of this conducting it can be misinterpreted.

Another problematic practical issue that is not fully researched is related to the distribution of the salaries of workers who during the part of the month perform basic work and the other part of the month (for some time) are involved in the repairs of the fixed assets. Let's note immediately that the decision about the salary distribution depends on the significance of such a distribution and the professional judgment of the accountant. By the way, there is one very interesting norm in the International Standards that says that the expenses (time, efforts, money, etc.) for submitting certain information into the financial statements should be justified by the benefits of this [12]. In other words, such information should be useful for making financial decisions by the financial reporting users. Projecting this norm to our situation, let's note that if such salary expenses are negligible, then it is inappropriate to spend time on their selection from the entire salary of the employee. After all its part will be just insignificant.

After the completion of repairs, the total cost of the performed work is taken off from the account 23 by debiting one of the accounts: 91, 92, 93, 94. It depends on the direction in which the fixed assets are used.

There must be a ground for the repairs work. For example, a financially responsible person during the review of the fixed assets found a defect or it's time to provide scheduled repairs. In this case, the responsible person makes an Act of the defects separately for each object that needs repairs after the consent of the director and the execution of the order. It prescribes the scope and nature of repairs work, the names of the parts that require replacement etc.

Acceptance of completed work of the repairs and improvement of the fixed assets (modernization, completion, reconstruction, etc.) is made by the act of acceptance-transfer of refurbished, reconstructed and upgraded objects. This procedure prescribes point 28 of the Methodological Recommendations for the fixed assets accounting [10].

During the ordinary repairs, technical and economic characteristics of the fixed assets (cost, capacity, area, etc.) do not change, and then it is not necessary to put data in the technical passports, inventory cards and registers of analytical accounting.

If the management thinks that the performed works will lead to improvements of the fixed assets then the accountant should collect the repairs expenses to the subaccount 152 «Acquirement (production) of the fixed assets» up to the moment of complete completion of the modernization (reconstruction, extension, pre-installation, etc.).

If the fixed asset is totally prepared for the use in an updated form, then an accounting entry is made: D 10 «Fixed assets» 152 «Acquirement (production) of the fixed assets» in order to

increase the initial cost of the overhaul of the fixed asset to the cost of the occurred expenses. At the same time, the changed technical and economic characteristics of the non-current asset (cost, capacity, area, etc.) should be reflected in the technical passport, inventory card or other registers of analytical accounting of the corresponding object of the fixed assets.

After the completion of the improvement works, the accountant may revise the usage term of the fixed asset for amortization purposes. And even if the terms are unchanged, it would still be necessary to recalculate the amortization rates as the initial value has changed.

The increased amortization rate should be used from the month following the month in which the overhaul was completed.

The second option is also interesting for us, namely the features and the specifics of leased fixed assets accounting for the lessee.

At first it is necessary to understand the legal details of the repairs of the leased fixed assets. In accordance with the Part 1 of Art. 776 of The Civil Code of Ukraine, the lessee provides only the ordinary repairs: «The ordinary repairs of the rented thing is provided by the lessee at his expenses, unless otherwise recorded by the agreement or the law» [13]. However, as it is noted in the Part 3 of Art. 776 of The Civil Code of Ukraine that if the less or has not provided the overhaul that prevents the use of the fixed assets in accordance with the purpose and the terms of the agreement, the lessee has the right to repair. The lessee has the right to include the repairs cost to the rent payment or to demand reimbursement of the repairs cost, or to demand termination of the contract and indemnification.

For the correct and faultless accounting of repairs of the leased fixed assets, first of all, it is necessary to familiarize with the terms of the lease agreement. The possibility and options for performing repairs of the rented objects by the lessee should be recorded in the lease agreement. If the agreement provides the possibility of improvements and repairs by the lessee at his own expenses then the next step should be a clear definition of the type of repairs and the consequences with what they can end up for the fixed assets that will be under repairs or under improvement.

It is important from the very beginning to classify correctly the repairs and performed works of the rented object in the accounting. If they lead to the growth of future economic benefits (modernization, modification, extension, additional equipment, etc.) then they are capitalized and it means that they are debited into account 15 «Capital investments». In particular, for the leased fixed assets, they are debited into subaccount 153 «Acquirement (production) of other non-negotiable tangible assets». And then after the completion of repairs are shown as other non-negotiable tangible assets. This is recorded in the p. 8 of the Accounting Standard 14 «Lease» [14]. For such improvements accounting use subaccount 117 «Other non-current tangible assets». But in the case of several improvements to various leased fixed assets, the enterprise should formulate in the accounting the appropriate number of other non-negotiable tangible assets. Firstly, such expenses (objects) may be different in their content, and secondly, for assets (created objects) it is logical to set different useful usage terms taking into account the term of lease of each of the improved objects.

Concerning the situation when it comes to several improvements for one leased object, there are different thoughts. For example, in one period a gas-fired plant was installed on the rented car and in the next period it was equipped with an air conditioning system. One of the options for such operations is the accounting as for a separate object of other non-current assets only the cost of the first improvement of the leased object, setting the appropriate term of use for it. But the cost of all other improvements to the same leased object attributed to an increase of the initial cost of the already created object, that is the first improvement. We think that in some cases this option has the right to exist. For example, in cases where such an object and any further improvements are intended to amortize over the term of the lease of the object of the fixed assets. If the managers of an enterprise evaluate and determine the amortization period for each individual improvement then, of course, it is necessary to create a separate object of other non-negotiable tangible assets for each improvement. It fully complies with the established rules.

As for the expenses accounting of improvements of own fixed assets (modernization, modification, extension, pre-equipment, reconstruction) that increase the initial cost of an object, enterprises in accordance with the p. 14 of the Accounting Standard 7 conduct in the context of objects of analytical accounting into the account 15 «Capital investments» (on the corresponding subaccounts), followed by transferring them to the account 10 «Fixed assets» after installation.

The accounting of expenses for supporting an object in working condition and its restoration by the way of servicing, ordinary repairs, overhauls, that do not increase the initial cost of the object of the fixed assets is conducted in accordance with the Accounting Standard 16 «Expenses» approved by the order of the Ministry of Finance of Ukraine dated by December 31, 1995 № 318 [14]. In particular, repairs are attributed to the expenses of some period. 23 «Production» is in case of repairing the fixed assets of production purpose. 91 «General Production Expenses» is in case of repairing the fixed assets of a general purpose that are involved in the management of workshops, sections, divisions, teams and other units of basic and auxiliary production. 92 «Administrative expenses» is in case of the repairing the fixed assets that are involved in the management and servicing of the enterprise. 93 «Expenses on sales» is in the case of repairs of the fixed assets connected with the sale of products, goods, works, services. 941 «Research and development costs» is for the repairs of the fixed assets involved in the research and development provided by the enterprise.

It should be noted that when repairing its own fixed assets, the enterprise can choose whether to account such expenses in a classical way, as required by the Accounting Standard 7, or according to the tax rules, taking advantage of the right of choice which gives the Accounting Standard 7. In the Accounting Standard 7 «Fixed Assets» approved by the order of the Ministry of Finance of Ukraine dated by 27.04.2000, № 92 [13] with the adoption of the Tax Code of Ukraine dated by 02.12.2010 № 2755-VI, p. 14 supplemented with such a sentence: «Initial (revalued) value of the fixed assets may be increased by the amount of expenses related to the improvement and repairs of objects defined in the way prescribed by tax legislation». In the case of leased fixed assets this possibility is not foreseen. There is only one option that is indicated in p. 8 of the Accounting Standard 14.

When returning a rented object, it is necessary to write off its improvements from the assets that have been capitalized in accounting. After all, the economic benefits of such an asset are not expected. The residual value of improvements for this object that formed another non-negotiable tangible asset and was reflected in the debit of the subaccount 117, should be written off as expenses periods creating the following accounting entry: D 976 «Write-off of non-current assets», C 117 «Other non-current assets».

The next step is the consideration of the nuances of repairs tax accounting of both own and leased fixed assets. If an enterprise does not apply tax differences in accordance with applicable law, it will fully use the accounting rules for tax-profit purposes. So the recognized accounting expenses reduce the object of tax levy on profit in one of two ways: it is through the expenses of the period in the case of repairs that does not increase the initially expected economic benefits from the use of the fixed asset and it is referred to current expenses; it is through the amortization that accrued to the object of the fixed assets if the works are classified as an improvement (modernization, modification, reconstruction, etc.) and for their cost has increased the initial cost of the object. If in the accounting repairs expenses are attributed to the expenses of the period then no tax adjustments are required for them. An exception may take place only when repairs services are provided by a non-profitable person or non-resident [8].

When such works qualifies as an improvement then the enlarging and reducing «amortization» adjustments from p. 138.1, 138.2 of the Tax Code of Ukraine for such an object of the fixed assets should be provided on the basis of its increased amortization amount. Of course, tax adjustments are provided only for those non-current tangible assets that correspond to the definition of the fixed assets from p. 14.1.138 of the Tax Code of Ukraine, in particular, the initial cost of which (without VAT) more than 6000 UAH.

Concerning the production of the fixed asset, the amount of its capitalized improvements is taken into consideration in the tax amortization of the object. Therefore, in this situation, the payer

contribution. Peculiar actuality is getting the issue of tax adjustments in the case of repairs or improvements of the objects of the fixed assets non-productive purpose. According to p. 1.3.3.2 of the Tax Code of Ukraine, the term «non-productive fixed assets» means the fixed assets that are not intended for use in the taxpayer's economic activities [5]. It is the activity of a person associated with the production and/or sale of goods, the execution of works, the provision of services and is aimed to income.

Let's consider the situation when the non-productive fixed asset has improved that means the economic benefits of its further use were increased. As is well known, the financial result before taxation increases on the amount of accrued amortization of a fixed asset in accordance with the Standard of Accounting or International Financial Reporting Standards [15, p. 12]. The corresponding amount is recorded in the line 1.1.1 of Appx P1 in the Tax Declaration on Income Tax. Instead, the financial result reduces by the «so-called» tax amortization (p. 138.2). It is recorded in the line 1.2.1 of the Appx of AM P1 in the Declarations [13]. In fact, it is the same accounting amortization but with the limitations recorded in the p. 138.3 of the Tax Code of Ukraine.

In other words, a taxpayer who uses the tax differences on accrued fixed assets accounts for amortization should increase the financial result before the taxation. Then at this stage it does not matter whether there is the production purpose of these fixed assets or not. With this adjustment the enterprise-taxpayer just reduces for tax purposes all the accounting amortization of all objects that are agree with the tax definition of the fixed assets. However, in order to make a reverse reducing adjustment in accordance with the p. 138.2 of the Tax Code of Ukraine, an enterprise should take into account the restrictions specified in the p. 138.3 of the Tax Code of Ukraine. Among other things, in accordance with the p. 1.3.3.1 of the Tax Code of Ukraine the expenses that you see below are not subject to amortization and are provided at the expenses of the relevant sources: expenses for the acquisition / independent production of non-productive assets; expenses for repairs, reconstruction, modernization or other improvements for non-productive assets.

Because of these restrictions, the enterprise cannot reduce the financial result on the amount of tax amortization for non-productive assets. Consequently, the improvement expenses taken into account at their initial cost will also not be able to reduce the object of taxation through amortization.

Therefore, it is not necessary for the enterprise-taxpayer to increase the financial result on the amount of improvements for non-productive assets. They have already been taken into account for amortization accounting for non-productive assets. The enterprise-taxpayer should generally increase the financial result for amortization accounting for non-productive assets (amortized cost takes into account the amount of improvements). The reverse reducing adjustment is not necessary because tax amortization of non-productive fixed assets are not needed. As for the tax consequences of the ordinary repairs of non-productive fixed assets then the expenses for its repairing will not be taken into account. For such repairs works the taxpayer should increase the financial result. The appropriate amount should be recorded in the line 1.1.4 of Appx P1 in the Tax Declaration on Income Tax [16]. It is necessary to do during the repairs period. Such a mechanism that reflects these adjustments in tax reporting, in our opinion, is the most optimal. However, p.138.2 of the Tax Code of Ukraine allows to restore tax-deductible expenses for non-production fixed assets for tax purposes. It is possible to do in the case of their sale. When selling non-productive fixed asset, the financial result before taxation reduce by the amount of its initial cost or expenses for its repairs, reconstruction, modernization or other improvements, including current expenses under the accounting rules. However, there is one condition. The amount of such a reducing adjustment is limited by the amount of revenue received from a sale. Also the taxpayer should increase the financial result for the accounting value of such objects.

**Conclusions.** Consequently, the results of the research lead to the following conclusions and recommendations given below.

1. Enterprises support their fixed assets in working condition and ensure their functioning in a way of improvement through the system of servicing and the system of planned preventive repairs.

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