

SOME ASPECTS CONCERNING THE ACCOUNTING FOR THE LANDS EXISTENCE AND MOVEMENT ON THE BALANCE SHEET OF THE ENTITY

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Abstract

One of the most essential problems of accounting is the correct estimation of the patrimonial elements, which could have a major influence on the economic benefits of the entity. Value is a main, economic concept, for which there is no unanimous definition. The appearance and existence of value are determined by several attributes. The study of accounting for the existence and movement of lands is one of the most complex problems and the most debatable modern theories and practices. This investigation is focused on accounting aspects related to the lands movement on the balance sheet of the entity, taking into account the fact that they are part of tangible assets. Research involves a set of criteria and specific motivations of the decision-making process in choosing the optimal accounting variant, based on influencing factors of different intensities, in relation to the target of the action and the social-economic conditions existing in the society at a given time. This investigation was carried out using a wide range of methods. Preference was given to the method of the monographic study with the application of the elements of analysis, observation, selection, induction and deduction. The most relevant results are summarized in the conclusion that, in practical terms it may be useful (especially for companies with large and varied areas of their own land) to open separate files of land records. The files are opened for each plot of land separately (which was passed at the entries based on a separate document and represents a distinct object of record of the fixed assets), with consequent inclusion of all the information related to the change of value, of destination and of the qualitative characteristics of the lands in question.

Key words: lands, value, accounting, purchase, price, fixed assets

INTRODUCTION

The objective of this article is to present the accounting aspects related to the lands movement on the balance sheet of the entity, taking into account the fact that they are part of tangible assets, and, as a result, they are presented as assets of significant utility to all economic agents, because they are fertile and livelong and can serve as a support for the cultivation of annual and perennial plants, the construction of buildings with different destination, the construction of roads and others. We have started from studying the legislative and normative acts in the field that regulate the way of accounting for this object of records. The analysis was a qualitative one, which followed the concerns of some researchers in the field related to land accounting as well as in order to identify the

optimal and correct solutions for accounting for lands movement and existence.

MATERIALS AND METHODS

The researches in the field were performed based on the generalization of the uncertainties conditioned by the way of accounting for lands existence and movement on the entity's balance sheet. The methodological support of the investigations is represented by the fundamental principles of accounting, the provisions of the National Accounting Standard "Tangible and intangible assets" [9], the Law on the lease in agriculture [7], NAS "Equity and debt" [10] and the publications of indigenous scholars. Preference was given to the method of the monographic study with the application of the elements of analysis, observation, selection, induction and deduction.

RESULTS AND DISCUSSIONS

As part of the tangible assets, lands (or plots of land) represent assets that:

- have a significant utility for all economic agents, due to their fertility and viability they can serve as support for the cultivation of annual and perennial plants, the construction of buildings with different destination, the construction of roads, etc. [4];
- possess a certain value (price) that varies according to many factors (location, arrangement, relief, creditworthiness, etc.) and is determined with authenticity only in the case of purchasing, selling or renting;
- do not have the actual cost, unlike buildings, agricultural machines and other fixed assets produced with own forces or purchased from third parties, they are not created by the employees, but they are, in fact, a gift of nature.
- represent a special type of agricultural real estate [7] that, by analogy with buildings, air power networks and other fixed assets, are solidly connected to the earth and cannot be moved into space (they cannot change their place) without causing considerable damage to their destination [1];
- physically (substantially) they are equivalent to the part of the terrestrial crust located at the level of the soil layer or at the bottom of the aquatic basins (ponds, lakes, etc.). Therefore the land should not be confused with the basements. The latter represent the part of the earth's crust located below the soil layer and the bottom of the water basins that extend to accessible depths for geological study and exploitation. The basements, as opposed to land, are the exclusive property of the state and cannot be privatized, sold or donated. The usefulness of the basements is determined by the presence of certain deposits, and of the lands (as mentioned above) - by their fertility and viability[6];
- in the case of rational exploitation (for example, by implementing soil cultivation, irrigation, fertilization, efficient agro technical soil tillage procedures, etc.) they have an unlimited duration of use and are not subject to physical or moral wear. Moreover, in

prosperous households the useful properties of the land (for example, soil texture, humus weight, content of mobile active substances in the arable layer, etc.) not only do not degrade over time, but on the contrary, they can even improve. To obtain that it is necessary, first of all, to compensate by fertilizing the quantity of phosphorus, potassium and nitrogen extracted from the soil by the obtained harvest (including as by-products);

•bring together in a harmonious and natural way a varied nomenclature of solid, liquid and gaseous substances, microorganisms, organic residues and other constituent parts which, in the case of land use in the agricultural circuit, are expressed by a qualitative synthesis indicator called soil creditworthiness. The soil creditworthiness related to a certain land (with an area of, for example, 80 hectares) of a specific enterprise is established by specialists in the field of agro chemistry and soil science, with the extraction of samples according to typical schemes and their laboratory analysis, followed by generalizing the obtained results and comparing them with standardized parameters. Currently the average significance of soil quality in the Republic of Moldova is equal to 65 degrees-hectares. This indicator is widely used in cadastral calculations, in developing different forecasts and strategies, in leasing relationships, as well as in determining the size of the land tax.

The lands on the balance sheet of agricultural enterprises can be classified according to various criteria. Thus, depending on the presence of the vegetal cover, the agricultural land is divided into land with vegetation and land without vegetation. On the land with vegetation annual and perennial plants (both sown and planted, as well as of natural origin) grow regularly (permanently) or with some interruptions. According to article 36 of **the Land Code** no. 828 - XII of December 25, 1991 this type of land brings together arable areas (including lots on which greenhouses, solariums and seedlings are located), perennial plantations, meadows, pastures and streams. The plant products harvested from the lands in question (with the exception of the products collected from the young

perennial plantations) are evaluated at comparable prices and are included in the calculation of the global agricultural production for the respective financial year, which, in turn, served for a long time as the basis for completing rows 010, 011 and 014 of the form no. 6 - CAI "Main indicators of the company's activity"[6].

The amount of green mass consumed by domestic animals (especially cattle and sheep) on natural and improved (or cultural) pastures without prior harvest (i.e. grazing) is reflected in the calculation mentioned in row 5.6.4. The quantity of herbs (in quintals) is indicated in column 5 and is to be generalized based on the data from *the minutes of passing the pasture fodders to entries*. The total mass of these fodders is determined either by the agronomic method (that is, by mowing the grasses on typical sectors), or by the animal husbandry method (that is, by a special calculation). The second method is applied when each pasture is used by only one species of animals. In this case, on the verse of the primary document is indicated consecutively: the group of animals, the quantity of products (in kg) obtained during the grazing period, the need for nutritional units (in kg) in relation to a product unit, the total need for nutritional units (in quintals), the number of nutritional units (in quintals) administered to farm animals, the amount of nutritional units (in quintals) obtained by grazing by animals (this indicator is determined as the difference between the two previous indicators), the amount (in quintals) of grazed herbs (this indicator is determined by dividing the previous indicator by the nutritional value of freshly mowed grasses).

On the land without vegetation, no phyto technological products are obtained and no agro-technical (soil tillage) procedures are performed. According to the same article of **the Land Code**, this type of land brings together the surfaces on which the objects of the production infrastructure are located (warehouses, mechanized facades for temporary storage and conditioning of crops, repair workshops, etc.), animal husbandry farms (including fish farms), forest protection

curtains for fields, internal roads and access routes to the work place and others [6].

The two types of land (with and without vegetation) differ not only in the way they are used, but also according to the maximum rates of land tax that is applied if the agricultural land has no cadastral index. For the lands with vegetation the quota concerned in relation to one hectare constitutes:

- 55 lei - for meadows and pastures;
- 110 lei - for any other categories of land.

At the same time, the taxation can be carried out depending on the soil creditworthiness. In this case, for the meadows and pastures the quota of 0.75 lei is applied for one degree-hectare and for the other categories of lands – the quota is twice higher.

For the land without vegetation that does not have an estimated value determined by the territorial cadastral authorities, some maximum rates of land tax are applied. According to annex no. 1 to **the Law for the implementation of Title VI of the Fiscal Code**, the size of the quotas in question varies depending on the location of the lands (in or out of town), the composition of the objectives located on them, the state of the land sectors (suitable for use or destroyed as a result of the production activity) etc. The following quotas are distinguished respectively: in the case of the land located in rural areas (villages, communes) and destined to agricultural enterprises - 10 lei per are; in the case of out-of-town land on which buildings and constructions are located - 350 lei per hectare, etc. [2].

Depending on the tax regime, taxable and non-taxable lands are distinguished. Most of the lands on the household's balance sheet is taxable and contributes directly or indirectly to obtaining agricultural products. They are taxed, as a rule, with land tax in accordance with the provisions of the legal act mentioned above.

The non-taxable land comprises:

- plots of land planted with young perennial plantations;
- surfaces used by the technological-experimental stations "Bălți", "Pașcani", "Codrul" and others for scientific purposes

(i.e. for the elaboration of new varieties or testing of modern technologies for soil tillage, conditioning or primary processing of the crop, etc.);

- perennial fruit bearing plantations that were destroyed or considerably damaged as a result of natural calamities. In this case, the tax exemption is granted by the representative authority of the local public administration, and the extent of the damage caused by the exceptional events is determined by a special commission whose structure and functioning mechanism are established by the Government.

Other criteria for land classification can be identified in the specialty literature. Thus, depending on the presence of the constructions and their destination the lands are delimited in:

- land with constructions;
- land with complex destination;
- land with no constructions [11].

In conclusion, it can be mentioned that the normative acts in force and some works of the indigenous economists operate with other names of the land types that are not characteristic for agricultural households and neglect obvious things. Thus, **the General plan of accounts** [5] provides for the notion of land with deposits, the same notion can be found in point 51 of the **NAS "Intangible and tangible fixed assets"** [9]. But this notion neglects the fact that the deposits (separately or in combination with other natural resources) are located not on land or inside it, but in the basement, which cannot be qualified as a tangible asset and cannot be accounted for by the businesses, as it represents a public heritage (a wealth of the whole nation). That is why it would be fairer to call these types of lands not lands with deposits, but lands under which there are basements with deposits; and not lands with natural resources (oil, natural gas, forests, etc.), but lands with forest areas (or forested lands) and lands under which there are basements with deposits.

Each land classification criterion has a certain applicative value and contributes to solving specific tasks. However, in our opinion, farms

need other approaches to this subject, which, on the one hand, take into account the production profile and the particularities of rural enterprises, and on the other hand, avoid existing duplications and uncertainties. In this order of ideas it can be considered optimal (or primary) to delimit the land into three groups as follows:

- land used for agricultural purposes;
- land used for other purposes;
- unused land [3].

Thus, depending on the direction of the lands receipt, their entry cost is equal:

- in the case of the purchase against payment of the land plots for agricultural purpose owned by the state or by the administrative-territorial units - at the normative purchase price which is determined by multiplying the tariff indicated in position I of the annex to **the Law on the normative price and procedure of sale and purchase of land** no. 1308 of July 25, 1997 (with subsequent modifications and completions) [13] to the soil creditworthiness and to the surface of the purchased sector. Today the mentioned tariff is unique for all buyers and constitutes 621, 05 lei for one degree-hectare. The quantitative and qualitative parameters of the purchased land (or its cadastral characteristic) are indicated in the document issued by the Land and Land Relations Agency or by the town hall on whose territory the land in question is located. At the same time, if necessary, the normative purchase price (for example, in the amount of 217,367.50 lei of an agricultural land with the surface of 5 hectares and with the soil creditworthiness of 70 degrees-hectares) is supplemented with one-time related costs (broker's commissions for intermediation services; third party fees for verifying the existence of the sequester, pledge, mortgage and other restrictions regarding property management; land tax not paid by the seller; property valuation payment; notarial services payment; fee for legalizing property rights; means used for clearing shrubs, collecting and evacuating stones, boulders and industrial waste, land levelling, demolishing unnecessary buildings and / or buildings with trash transportation

and the obtained materials storing, etc.). If, in the process of preparing the purchased land for inclusion in the agricultural circuit, some goods are obtained that are of interest to the enterprise and have a certain consumption value (for example, firewood, monolithic or broken bricks, concrete slabs, etc.), they are estimated at the net realizable value and are attributed to the diminution of the entry cost of the land.

Discounts or other facilities in the case of the sale of the public lands are not provided for by the law mentioned above. Moreover, if the land plots are sold through competition or at an auction, their maximum price is not limited and depends exclusively on the payment capacity of the buyers. At the same time, the minimum price cannot be lower than the normative price of the land;

- in the case of purchase against payment of the private lands - at the free purchase price negotiated by the land owners (that is, the holders of the right of ownership, possession and land beneficiaries) and the interested buyers on behalf of the agricultural households. The minimum or maximum size of this price is not regulated by any domestic legal act. It depends exclusively on the honesty of the participants in the commercial transaction, being influenced at the same time by the market situation, the national currency stability, the inflation level and other economic and / or social factors.

In the case of the occurrence of one-time costs similar to those listed above, they are added to the free price of the land, thus increasing the entry cost of the purchased land. However, if the owner of the land (the seller) grants the buyer a commercial discount at the time of purchase, the discount in question is deducted from the price and from the entry cost of the land respectively. This one from the beginning is recorded at the free price diminished by the amount of the granted discount. The commercial discount granted later (for example, more than one month after the land transaction has been made) does not affect the entry cost. It is reflected in accordance with the provisions of point 48 of the NAS "Equity and debt" [10], to be

attributed to the reduction (extinction) of the debts and the increase of the current income;

- in the case of the purchase of land and buildings (or constructions) on a parcel of land at a lump sum price (unique price)- at the current price (derived from the normative or free price) determined by calculation, in two stages, by the accounting apparatus. The first stage is the ratio between the common price (common for both types of real estate) and the total fair value of the purchased assess; it is established based on the information of the state statistical bodies and the bodies regulating prices formation or by an independent appraiser, starting from the convention that these goods were purchased separately (i.e. based on fractional prices indicated in a common document or in two different documents). Usually, this ratio is expressed by a coefficient that is less than 1. In the second stage the fair value of the purchased land is multiplied by the coefficient determined previously. The obtained product represents the entry cost of the plot of land concerned which is to be recorded in the composition of the non-depreciable tangible assets. The entry cost of the buildings (or constructions) located on the purchased land is determined the same way, but it is registered in the respective group of fixed assets or tangible fixed assets in execution.

From the above mentioned we can conclude that in the case of land operations, the directions of their entry are less varied than in the case of fixed means operations. Some of these directions are simply physically and geographically impossible (for example, land as the surface part of the earth's crust cannot be created on somebody's own or by the enterprise, even if there are daring opinions at this point), and other directions are not accepted by the legislative framework in force (for example, Article 4 (2) of the **Leasing Law** [8] prohibits the transfer of agricultural land into leasing, and Article 20 (4) of the **Leasing Law in agriculture** [7] does not allow the redemption of the leased land].

The entry cost of the land is determined for each sector that served as the object of a separate economic operation (purchase,

contribution, donation, etc.) and was accompanied by a separate primary document. In practice, this cost is definitively formed after the land has been brought to working condition (when it becomes suitable for use) and after the registration of the property right at the territorial cadastral body.

The lands, included in the enterprise's patrimony, are evaluated in Moldovan lei. If in the sale-purchase contract of the land the price is indicated in foreign currency (and this can occur when the seller of the land wants to protect himself from the negative effect of the spontaneous and significant variations of the exchange rates), and the payment will be made in the national currency, then the entry cost is also expressed in lei by recalculating the amount in foreign currency according to the official rate established by the National Bank of Moldova at the date of the beneficiary's entry into the possession of the real estate. In practice this date coincides, in fact, with the date of entry into force of the sale-purchase contract. Subsequently, as the debts are being paid from the pay office or by transfer, favourable and unfavourable amount differences can appear. The first type of difference is caused by the lowering of the national currency (when, for example, for one euro or one US dollar a larger number of lei is offered) and it is related to the financial expenses, and the second type is generated by the increase of the national currency (when, for example, for one euro or one US dollar a smaller number of lei is offered) and it is attributed to the same type of income. As a result, the differences in amount do not affect the entry cost of the land received from third parties.

After the initial recognition of the lands and their estimation at the entry cost, each company decides on its own how to continue to reflect the existence and movement of this type of estate - at the entry cost or at the reassessed value. The first indicator is based on real data from certain documents, it is simple and convincing and is in full accordance with the provisions of point 17 of the NAS "**Intangible and tangible fixed assets**" [9]. While the second indicator

focuses on fair value (or market value), it requires a significant volume of calculations (information, selections, surveys, etc.) and must be reviewed (specified) periodically. The selected variant for subsequent land valuation is indicated in the entity's accounting policies and should not be changed arbitrarily (without sufficient arguments), as this may complicate the collection of data from financial statements by external users.

Unlike fixed assets, for the accounting of land movement there are currently no standardized primary documents elaborated by the Ministry of Finance or other central bodies empowered with such functions. At the same time, it is known that a good part of the bought plots of land, by analogy with some buildings, equipment, machines and other objects of long use with a unit value over 6,000 lei, cannot be exploited at once and logically they will be reflected in the composition of the tangible fixed assets in progress for a certain period of time. Therefore, in this case, a separate document is needed that would confirm the completion of the preparation works of these lots for use and their commissioning confirmed by a special commission, with the inclusion of the estate in the composition of the land. The minutes (receipt) of the receipt-delivery (movement) of the fixed assets (form no. MF-1), for example, can serve the basis for the elaboration of the form of such a document. The need to make documents for narrow use may also occur in other cases (for example, when the lands are reprocessed, their transfer from one group to another, the consolidation of land by voluntary exchange, the exclusion of land lots from the agricultural circuit as a result of soil erosion, the uncovering of the fertile soil layer to prepare mineral deposits for exploitation, etc.).

In addition, in practical terms it may be useful (especially for companies with large and varied areas of their own land) to open separate files of land records. The files are opened for each plot of land separately (which was passed at the entries based on a separate document and represents a distinct object of

record of the fixed assets), with consequent inclusion of all the information related to the change of value, of destination and of the qualitative characteristics of the lands in question.

The generalization of the information regarding the existence and the movement of the lands is made with the help of the asset account **122 "Lands"**. The debit reflects the entry of the real estate in question and the increase of its value as a result of some events (preparation for working conditions, adjustment, re-evaluation, etc.), and the credit reflects the exit of the given type of non-depreciable assets, the recording of the stocks obtained from the demolition of the unnecessary buildings located on the lands received from third parties, as well as other less frequent economic operations. The balance of the account is debited and represents the entry cost (or re-evaluated cost) of the parcels of land of the company at the end of the month, quarter or year [4]. In the balance sheet this balance is reflected by an ordinary amount in line 070 "*Lands*" in chapter 1 "*Fixed assets*".

At the same time, it is necessary to make some clarifications. First of all, according to the **General plan of accounts** in the debit of account **122 "Lands"** there are compulsory reflected:

(a) all lump sum costs and payments related to the purchase of the land lots and bringing them into working condition. For comparison, it can be mentioned that in the case of future objects of fixed assets, the same costs and payments are accumulated in advance in account **121 "Tangible fixed assets in progress"**, which, in our opinion, is more methodologically correct ;

(b) all the parcels of land received from third parties, regardless of the size of the gap (several days, weeks, months or even years) between the date of taking over the lands and the date of putting them into operation. While, as mentioned above, in the case of fixed assets the existence of such a gap is inadmissible. In other words, the tangible fixed assets entered from the outside can be registered in the debit

of the account **123 "Fixed assets"** only if the date of their entry coincides with the date of putting into operation. Otherwise, the assets in question are also reflected in the account **121 "Tangible assets in progress"**, which is in full accordance with the professional reasoning and the fundamental principles of accounting [12].

(c) according to the **General accounting plan** the following seven sub-accounts are foreseen in account **122 "Lands"**:

- 1221 "Lands under preparation for pre-determined use";
- 1222 "Lands without constructions";
- 1223 "Lands with constructions";
- 1224 "Fields with deposits";
- 1225 "Lands with perennial plantations";
- 1226 "Lands received in economic management";
- 1227 "Other lands"[5].

Thus, in comparison with the situation that existed until 2013, four new sub-accounts (the first and last three) were added to the examined account. The other sub-accounts didn't change.

However, as it was mentioned above, such an approach is not one of the best and can be rejected by businesses. At the same time, the following circumstances may serve as additional arguments in favour of the given opinion:

(i) Article 36 of the **Land Code** [6] assigns to the agricultural land not only the lands with vegetation (sowing, orchards, pastures, meadows, etc.), but also the lands containing deposits, facades, repair shops , livestock farms and other real estate for agricultural purposes;

(ii) even the agricultural lands themselves, according to the same article, include plots of land on which various terrestrial constructions are located: greenhouses, wire trellises for vine, anti-hail systems in the orchards etc.;

(iii) the deposits of useful minerals are located not on land or inside it (that is, in the soil layer), but in the basement, which represents a

public heritage and is not subject to accounting.

Moreover, most agricultural households don't want to open some sub-accounts to the first-degree account mentioned above. The basic reason that is usually invoked is the reduced surface of own lands and the uncertain criteria for the classification of the plots of land.

The analytical records of the lands are kept according to their types, destinations, location, objects of assets records, sources of origin and other directions provided in the entity's accounting policies.

The following examples are given to strengthen the practical skills of the readers in the field of accounting for land operations.

Example 1. In the year 201N, due to its bad financial situation, the agricultural household "Prosperare" Ltd. sold against payment two separate plots of land to a legal person headquartered in Chisinau. The value base of the exited capital assets is equal to their entry cost and constitutes 110,000 lei. The land transaction in question brought to the enterprise an income of 90,000 lei which allowed it to successfully complete the autumn agricultural works (harvesting grapes, ploughing etc.). Other operations for the alienation of capital assets (land, shares, debt securities etc.) did not take place during this year in the household. It is worth mentioning that in the previous year capital losses were not recorded.

The following year, the same household sold the shares of a primary winemaking factory that had not paid dividends to any of its many investors for the last few years.

This operation generated expenses in the amount of 11,000 lei and brought in an income in the amount of only 6,000 lei, which constituted only 54.5% of the entry cost of the issued securities. The factory in question is an unaffiliated part of the household.

Until the end of 201N + 1 the company sold another plot.

The expenses incurred from this transaction (it is the entry cost of the land established by

the calculation based on the accounting data) amounted to 120,000 lei, and the income obtained was 150,000 lei. Other exits of capital assets were no longer recorded in 2015.

The above example results in the following economic facts, accounting formulas and records in annexes 1.2D and 1D of *the Income Tax Declaration* (VEN 12 form).

1) Settlement of the entry cost of the exited capital assets:

debit account **721 "Expenditures on fixed assets"** - in the amount of 110,000 lei (in 2014) and 131,000 lei (in 201N + 1), credit account **122 "Lands"** - in the amount of 110,000 lei (in 2014) and of 120,000 lei (in the year 201N + 1),

credit account **141 "Long-term financial investments in non-distressed parties"** - in the amount of 11,000 lei (in the year 201N + 1).

2) Reflection of the income from the sale of capital assets:

debit account **234 "Other current receivables"** - in the amount of 90,000 lei (in 2014) and 156,000 lei (11,000 lei + 120,000 lei) (in the year 201N + 1), credit account **621 "Revenue from operations with fixed assets"** - in the amount of 90,000 lei (in 2014) and 156,000 lei (in 201N + 1).

Example 2. In February 201N the agricultural household "Plai" Ltd. leased 3 distinct plots of arable land (A, B and C) which are component parts of a previously divisible land in the share capital of the enterprise brought by one of the founders. Until this month, all the 3 new tenants were registered as unemployed at the territorial office of the labour force and received benefits, and then they lost a source of existence. There were concluded typical lease agreements for a period of 5 years with the concerned persons, the agreements were registered at the territorial cadastral office. As the tenants have agronomic studies and they have previously activated as average managers or specialists in various households for a long time, an

additional clause was included in the agreements which stipulated their material liability for diminishing the fertility of the soil and the way of determining the damage caused to the lessor.

The data related to the leased land parcels, the size of the lease payments and the results recorded by the tenants during the 5 years of activity are presented in Table 1.

Table 1. Data related to the operations of leasing land parcels for agricultural use

Indicator	Parcel A	Parcel B	Parcel C
A	1	2	3
The entry cost determined by calculation, lei	10,000	15,000	20,000
Area, hectares	2	3	4
Soil credit worthiness, degrees-hectares including -at the beginning of the lease term	65	62	67
-at the end of the lease term	62	62	68
Minimum amount of lease payment in force majeure the case, lei including -for the whole parcel	1,614.73	2,310.31	3,328.83
-for one hectare	807.36	770.10	832.21
The share of the value of the global harvest that is payable to the lessor as a monetary payment,%	20	20	20
The average annual value of the global crop according to local market prices, lei	50,000	69,000	112,000

Source: Elaborated by authors based on case studies from the practice of agricultural entities.

On the leased land plots there were cultivated early varieties of potatoes, peppers, donuts and eggplants, i.e. vegetables with a high added value.

During the lease term, the climatic conditions were, in fact, favourable, that is why the lease payment was cashed in the initially negotiated proportion.

According to the provisions of the concluded contracts, the household incurred the following costs during the considered period:

a) annual payment by transfer of the land tax according to the maximum quotas stipulated in annex no. 1 to **the Law on the implementation of Title VI of the Fiscal Code** [2];

b) advance cash payment by the holder of the services related to the contracts registration, the elaboration of the geometric plans and the obtaining of the copies of the cadastral plan of the divisible land to which the plots of land transmitted for rent belong - in a total amount of 2,500 lei;

c) payment by transfer for the services of a specialized enterprise for the determination of soil creditworthiness at the beginning and at the end of the lease term - in the amount of 24,000 lei;

d) annual payment by transfer for the services of a holder of the entrepreneur patent related to the experimental determination (by field measurements) of the size of the biological harvest (until its manual or mechanized harvesting) - in the amount of 2,000 lei.

The lease payment was paid into the cash register of the entity by all leaseholders on due date and in full size. In addition, a complaint was filed in relation to the reduction of soil quality on the plot of land A. The respective tenant acknowledged the complaint and until the end of the concerned year recovered the damage in the cash register. The following economic facts, calculations and accounting formulas result from the data of the example above.

1. Reflecting the entry cost of the plots of arable land transmitted for lease:

debit account **122 "Lands"** - in the amount of 45,000 lei (10,000 + 15,000 + 20,000),

credit account **122 "Lands"** - in the amount of 45,000 lei (10,000 + 15,000 + 20,000).

Note. It is recommended to open an additional sub-account for the leased land.

2.Reflection of the costs incurred by the lessor for the calculation of the land tax for the parcels of land transmitted in the lease:

debit account **711 "Cost of sales"** - in the annual amount of 876 lei during the lease term, credit account **534 "Debts to the budget"** - in the annual amount of 876 lei during the lease term.

Note. The above amount was determined in the following way: $(1.5 \text{ lei} \times 65 \text{ degrees-hectares} \times 2 \text{ ha}) + (1.5 \text{ lei} \times 62 \text{ degrees-hectares} \times 3 \text{ ha}) + (1.5 \text{ lei} \times 67 \text{ degrees-hectares} \times 4 \text{ ha}) = 195 \text{ lei} + 279 \text{ lei} + 402 \text{ lei} = 876 \text{ lei}$.

At the same time, if the concerned plots of land were used in the agricultural circuit of the owner, the amount of the land tax would be attributed to the administrative expenses. It should also be borne in mind that according to article 16 paragraph (3) of **the Leasing Law in agriculture** the land tax is calculated and paid by the tenant, except the cases when the contract assigns this obligation to the lessor [7].

3.Land tax transfer to the budget: debit account **534 "Debts to the budget"** - in the annual amount of 876 lei during the lease term, credit account **242 "Current accounts in national currency"** - in the annual amount of 876 lei during the lease term.

4.Advance payment by the holder for the services provided by the territorial cadastral office related to the transmission of the land parcels for rent: debit account **711 "Cost of sales"** - in the amount of 2,500 lei, credit account **226 "Staff receivables"** - in the amount of 2,500 lei.

Note. The above accounting formula is preceded by another formula as follows: debit account **226 "Staff receivables"**, credit account **241 "Cash"**. At the same time, the payment order shall indicate the destination of the advance and its term of use.

5.Reflection of the costs incurred by the lessor when determining the soil creditworthiness at the beginning and the end of the lease term:

debit account **711 "Cost of sales"** - in the amount of 12,000 lei in each year of 2014 and 2018, credit account **521 "Current commercial debts"** - in the amount of 12,000 lei in each year of 2014 and 2018.

6.Payment of the services related to the determination of soil creditworthiness by transferring cash from the current account into national currency: debit account **521 "Current commercial debts"** - in the amount of 12,000 lei in each year of 2014 and 2018, credit account **242 "Current accounts in national currency"** - in the amount of 12,000 lei in each year of 2014 and 2018.

7.Reflecting the costs incurred by the lessor in determining the size of the biological harvest: debit account **711 "Cost of sales"** - in the annual amount of 2000 lei during the lease term, credit account **544 "Other current debts"** - in the annual amount of 2,000 lei during the lease term.

Note. The need for such an action is conditioned by the fact that the majority of the tenants intentionally reduce the data on the collected harvest, and the surplus of the undocumented products is sold to different natural or legal persons (even at a price lower than the market price), with the appropriation of the earned cash. Determining the biological (potential) harvest before the beginning of mass harvesting of plant products doesn't allow the tenants to act that way.

8.Payment by transfer of the services related to the determination of the size of the biological harvest: debit account **544 "Other current debts"** - in the annual amount of 2,000 lei during the lease term, credit account **242 "Current accounts in national currency"** - in the annual amount of 2,000 lei during the lease term.

9.Calculation of the lease payment in the amount of 20% of the annual average value of the global harvest obtained by the tenants: debit account **231 "Receivables regarding the revenues from the use of the entity's assets by the third parties"** - in the annual amount of 46,200 lei during the lease term, credit account **611 "Sales revenue"** - in the annual amount of 46,200 lei during the entire lease term.

10. Cash receipt in the account of repayment of the tenants' receivables: debit account **241 "Cash"** - in the annual amount of 46,200 lei during the lease term, credit account **231 "Receivables regarding the revenues from the use of the entity's assets by third parties"** - in the annual amount of 46,200 lei during the lease term.

11. Reflection of the submitted and acknowledged complaint to recover the damage caused by the decrease of the soil creditworthiness on the plot of land A:

debit account **234 "Other current receivables"** - in the amount of 3726.30 lei, credit account **611 "Sales revenue"** - in the amount of 3,726.30 lei.

Note. The above amount was determined by multiplying the number of degrees-hectares by which the fertility of the soil was reduced at the tariff for calculating the normative price of the land indicated in position I of the annex to **the Law on the normative price and the way of selling-buying the land** and at the surface of the land plot concerned. In other words, $3,726.30 \text{ lei} = (65 - 62) \times 621.05 \times 2$.

12. Cash receipt in cash at the settlement of the complaint submitted and recognized by the tenant: debit account **241 "Cash"** - in the amount of 3,726.30 lei, credit account **234 "Other current receivables"** - in the amount of 3,726.30 lei.

13. Reflection of the entry cost of the plots of arable land returned by the tenants on the basis of the act of surrendering-taking over the leased agricultural land: debit account **122 "Lands"** - in the amount of 45,000 lei (10,000 + 15,000 + 20,000), credit account **122 "Lands"** - in the amount of 45,000 lei (10,000 + 15,000 + 20,000).

Note. As a result, the additional sub-account for the land parcels submitted for lease is closed.

CONCLUSIONS

According to its economic nature and to the generated consequences leasing of agricultural land is a part of the operational lease category. Although the lease term is imposing (up to 30 years, with the possibility of unlimited

subsequent extension based on a common agreement of the parties), the repurchase of the leased land is prohibited by law. During the lease term the tenant has only the right of possession, and the right of owner belongs to the lessor. Therefore, both the transfer of the land for rent and the return of the land by the users are recorded through internal accounting formulas within a synthetic account;

-The revenues obtained from land leasing represent incomes derived from leases, and they, in turn, are included in the composition of the revenues from sales;

-In accordance with the principle of matching the incomes and expenses, the incomes obtained from land leasing shall correspond only to the costs related to the lease agreements on the concerned real estate. In other words, if, under ordinary conditions, some expenses (for example, land tax paid by the landowner) are considered as administrative expenses, then under lease conditions they will be considered as component parts of the cost of sales. Of course, such accounting treatment of the costs conditioned by land lease does not change the profit of the company nor its fiscal obligations. That is why it is methodologically and professionally reasoned. In addition, authentic information about the profitability of leasing operations is ensured systemically. Thus, in the example above, the costs of the enterprise conditioned by land leasing amounted to 40,880 lei, and the incomes obtained – to 234,726.30 lei. These data correspond to a gross profit of 193,846.30 lei and to an extremely high profitability of 474.2%.

For comparison, it can be mentioned that in practice the profitability of obtaining the absolute majority of plant and animal products in agricultural enterprises is much lower and it rarely exceeds several tens of per cent. Unfortunately, the results of land lease are not valuable, which is explained, firstly, by the lack of operational and permanent control by the lessor, and secondly, by the frequent cases of fraud committed by both parties.

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