

DOI: 10.5281/zenodo.1308127  
 UDC Classification: 657.421.3:332.334  
 JEL Classification: Q15, Q24

## THE RIGHT TO USE THE LAND AS AN OBJECT OF ACCOUNTING

### ПРАВА КОРИСТУВАННЯ ЗЕМЕЛЬНИМИ ДІЛЯНКАМИ ЯК ОБ'ЄКТ БУХГАЛТЕРСЬКОГО ОБЛІКУ

Natalia M. Selivanova, PhD in Economics, Associate Professor  
 Odessa National Polytechnic University, Odessa, Ukraine  
 ORCID: 0000-0002-4157-4946  
 Email: n.selivanova.odessa@gmail.com

Natalia S. Delik  
 Odessa National Polytechnic University, Odessa, Ukraine  
 ResearcherID: I-1727-2018  
 ORCID: 0000-0002-8643-6416  
 Email: natalidelick@gmail.com  
 Received 15.03.2018

*Селіванова Н.М., Делік Н.С. Права користування земельними ділянками як об'єкт бухгалтерського обліку. Оглядова стаття.*

У статті проаналізовано дані про стан і розвиток земельних відносин в Україні. Висвітлено інформацію, щодо права користування земельними ділянками та строк користування ними. Відображено бухгалтерські проводки, щодо обліку земельних ділянок на підприємствах при тимчасовому та довгостроковому праві користування. Доведено, що право користування є нематеріальним активом підприємств. Висвітлено особливості договору оренди землі та тих хто може користуватися землею на правах постійного користування. Виявлено, що основними користувачами оренди землі є сільськогосподарські підприємства. Зроблена порівняльна характеристика постійного та тимчасового права користування. Розглянуто земельні відносини при оренді землі та виявлено якого розміру повинна бути орендна плата земледателю.

*Ключові слова:* земельна ділянка, оренда, бухгалтерський облік, сільськогосподарські підприємства, тимчасове та довгострокове право користування

*Selivanova N.M., Delik N.S. The right to use the land as an object of accounting. Review article.*

The article analyzes the data on the state and development of land relations in Ukraine. The information regarding the right to use the land plots and the use of the Lines is provided. The bookkeeping postings concerning the registration of land plots at enterprises with Temporary and long-term usage rights are shown. It is proved that the right to use is an intangible asset of enterprises. The peculiarities of the lease agreement of the land and those who can use the land on the rights of permanent use are highlighted. It is revealed that the main users of land lease are agricultural enterprises. The comparative characteristic of the permanent and Temporary Right of Use is made. The land relations in the land lease are considered and the amount of the rent is leased to the landlord.

*Keywords:* land plot, lease, accounting, agricultural enterprises, temporary and long-term use rights

Today, land plots have become a commodity for many businesses, and this is reflected in the fact that land is bought, sold, transferred for use (permanent or temporary). A sufficiently new object of accounting is the right to use land plots, for both budget and non-budget institutions. The maintenance of the account of the right of use requires a special methodology for displaying land in the accounting and tax accounting for enterprises that differ in the specifics of their activities. During reflection in the accounting, the existence of the right to use land is only a positive factor, namely, from the point of view of contracting companies in the market conditions. The right to permanent and temporary use is a fairly new element of accounting, so there is still no unambiguous method of displaying it in accounting.

#### Analysis of recent researches and publications

Problems of accounting for own and leased land in the agrarian sector were investigated by such domestic scientists as P.T. Sabluk, M.Ya. Demyanenko, M.Ya. Malik, V.M. Zhuk, T.G. Marenych and other scholars. However, today the issues of recognition of the right to use land as an object of accounting and its reflection in the accounting of agricultural enterprises, which needs further research, remain unclear.

*The aim of article is* to find out the essence of the concepts of permanent and temporary right to use the land and its reflection in the system of accounting accounts as an object of accounting.

#### The main part

The land is a natural resource of Ukraine and a major component of agricultural production. In 1995, the agrarian reform "On the Procedure for Land Placing Transferred to Collective Property by Agricultural Enterprises and Organizations" was implemented, in which each individual, that is, residents of villages got a land plot that became the

property of the inhabitants. Therefore, agrarian enterprises began to take land for lease from small owners. Agricultural enterprises rent a territory for their production, which forms the system of renting and issuing shares to the landlord. This system generates in the bookkeeping a display of land rent and all expenses associated with it.

The procedure for displaying the rights of permanent and temporary use of land plots requires significant improvement. Particular attention should be paid to the assessment of this right. In the period of the establishment of the land market and the accession of Ukraine to the WTO, the domestic economy in the world division of labour and goods should take a worthy place. Therefore, an important mission of accounting is to reflect all available resources of

enterprises and organizations of different fields of activity based on a well-grounded valuation technique that meets international accounting standards. Currently, the main problem of accounting is the recognition of the right to use land parcels subject to accounting and display it in the system of accounting and accounts of the enterprise [1].

In the current market environment, it is mandatory for a land lease agreement to be leased to the land, in which the terms of the lease are specified. For agricultural enterprises, this term is from 7 to 10 years, after the end of the contract the tenant has the right to extend the contract or to refuse to cooperate. For use of land, the landlord has a rent or is issued in kind, this is decided between the parties to the lease. Fig. 1 shows the features of the land lease agreement.

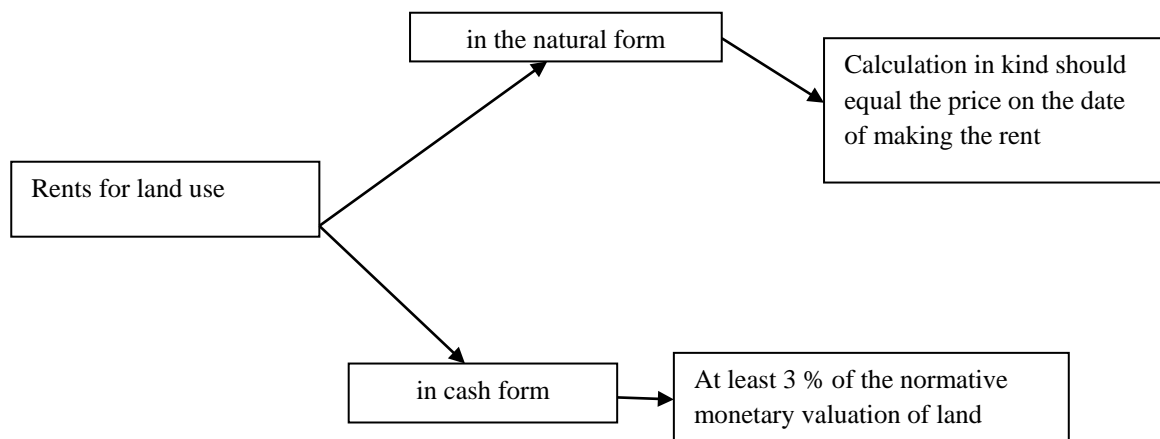


Fig. 1. Features of the land lease agreement

Source: compiled by the authors on the materials [5]

Ownership of land plots of communal ownership is obtained by subjects of territorial communities or local self-government bodies.

The right to permanent use of a land plot is the right to own and use a land plot that is in state or communal ownership, without the establishment of a term [2].

Consequently, the right to permanent use of land is a specific matter of law. It is characterized by a limited subjective and object composition: the object of ownership can only be land plots of state or communal property; entities can be only legal entities, namely: enterprises, institutions and organizations belonging to the state and communal property [2].

The right to permanent use is acquired by decisions of state authorities and local self-government bodies. The decision on the granting of land plots for use is made on the basis of land management projects concerning the allocation of land in the case of: the provision of land with a change in its intended use; the formation of a new land (apart from division and association) [2].

According to the requirements of the Law of Ukraine "On land lease" of October 6, 1998, the term of the lease contract for a land plot (including the onset of a certain condition) is determined by

agreement of the parties, but not more than fifty years [3].

Landlords are landlords and citizens of Ukraine, which own land [3].

Landlords in communal property are local governments: rural, settlement, city councils [3].

Landlords of state-owned land are district, regional administrations and the Cabinet of Ministers of Ukraine within their authority. The decision on the lease of land is taken by the said bodies of state power upon preliminary approval of these issues at the sessions of the respective councils [3].

The right of state and communal ownership of land for permanent use may be obtained:

- institutions of state ownership;
- public organizations of invalids of Ukraine;
- a religious organization, for the purpose of maintaining their activity;
- public joint stock company of general rail transport;
- higher education institutions.

More land enterprises and state-owned institutions are currently using land for permanent use.

Owners of permanent and temporary use of land are endowed not only with the right to use, possession and also the right to land. In case of temporary use,

the tenants can transfer the land to sublease, but only with the consent of the owner. In case of constant use, such actions are impossible. Tab. 1 shows the

differences in the permanent and temporary use of land.

Table 1. Differences of permanent and temporary rights to use land

Permanent right of use	Temporary right of use
Ownership of land and the right to permanent use of land is certified by a state act: — the right to private ownership of land; — on the right of collective ownership of land; — ownership of land; — for the right to permanent use of land forms of which are approved by the Verkhovna Rada of Ukraine.	The right to use temporary land (including on a lease) is made out by a contract in the form approved by the Cabinet of Ministers of Ukraine.
State certificates certifying the right to ownership of land or the right to permanent use of land that is in state ownership are issued on the basis of decisions of the Verkhovna Rada of Ukraine, the Supreme Council of the Republic of Crimea, and local Soviets of People's Deputies.	An agreement with land users for the right of temporary use of land (including on a lease) on land that is in state ownership shall be concluded by the respective village, settlement, City council of people's deputies, and on the land owned by the respective owners of this land.
If the land plot, which is transferred to the property or provided for permanent use, is located on the territory of several local Council of People's Deputies, state acts on the right to own land and the right of permanent use of land are issued separately in the territory of each Council of People's Deputies.	When people place a land plot granted for temporary use on the territory of several local Council of People's Deputies, the contract for the right of temporary use of land (including on the terms of lease) is made separately on the territory of each Council of People's Deputies.
The production of state acts for the right of private ownership of land, permanent use of land and collective ownership of land, issued to gardening companies, is carried out after passing in-kind (on a locality) of inter-land plots on projects of their allocation.	The land plots that are used by citizens, enterprises, institutions, organizations and gardening companies, state acts are made after the definition of interstitials in kind (on the ground) and drawing up a plan for the land plot.
The right to permanent land use is indefinite.	The right of use is valid for a certain period of time specified in the contract.

Source: compiled by the authors on the materials [4]

Every citizen of the country has the right to use temporary land. This right may be obtained under a lease agreement. Each person may obtain this right for

a certain period specified in the contract. Lease land relations are shown in fig. 2.

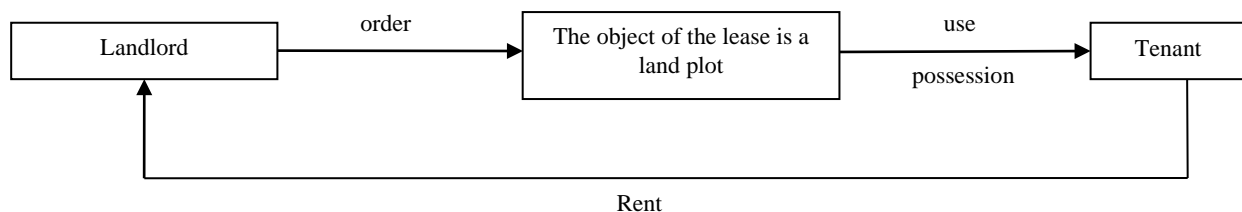


Fig. 2. Renting land relations

Source: compiled by the authors on the materials [5]

The assets of the enterprise in accordance with NUAs 1 include resources controlled by the enterprise as a result of past events, the use of which is expected to lead to the receipt of economic benefits in the future. Consequently, the right to use land can be recognized as an asset. To display in the accounting of this asset it is necessary to use UAs 8 "Intangible assets" [1].

Intangible assets are not material, they may be held for the purpose of using the enterprise, for trade, production or presentation of the object for lease, and the term of their maintenance for more than one year. Most of the objects that are in the company's balance sheet are suitable for the intangible asset category, but not all of them relate to intangible assets.

According to UAs 8 the accounting of intangible assets is conducted in the following groups:

1. Use of natural resources;
2. Use of property: a) use of a land plot that can be owned or leased; b) the right to use the building; c) lease of a premise;
3. Use of the trademark;
4. Use of the object of industrial property: a) a license; b) a patent;
5. Copyright;
6. Incomplete capital investment in intangible assets.

According to UAs 8 "Intangible assets", the right to use the land plot must be credited to the balance sheet at the original cost. The initial cost of this intangible asset is its fair value, taking into account

acquisition costs and bringing it to a condition in which it can be used [1].

When people purchase a lease, all expenses for this transaction (except for interest on a loan and the exchange difference in case of purchase for foreign currency) are accumulated in the account 154 "Acquisition (creation) of intangible assets". After putting it into operation, the amount is written off to the account number 122 of the "Right to use property". Regarding the leased land plot itself, it will be accounted for in the account 01 "Leased Fixed Assets".

The right to lease may also be paid into the authorized capital of the enterprise by its founders (participants). In carrying out such an operation, the following bookkeeping transactions are carried out:

- 1) reflection of the debt of the founder (participant) on contributions to the authorized capital D-t 46 K-t 40;
- 2) introduction of the right of lease of agricultural land to the authorized capital of the D-t 122 K-t 46.

With regard to acquired rights to use land, it would be most appropriate to apply a straightforward method of depreciation, since it involves determining the amount of depreciation by dividing the cost of the

object for a period of useful use. Concerning the useful life of intangible assets, with the adoption of the Tax Code of Ukraine, paragraph 26 of the UAs 8 was amended, in particular, it was supplemented with a paragraph: "For the calculation of amortization of intangible assets, the enterprise may apply terms of useful use, established by tax legislation" [6].

Accrual of depreciation is reflected in the accounting records: DT-23 "Production", 91 "General production costs", K 133 "Accumulated depreciation of intangible assets." Upon expiration of the term of right's use to lease, it is written off from the balance of the enterprise by correspondence: Dt133 K-t 122 "Rights properties of use" [6].

In today's reality farms mostly do not keep records of land use rights in intangible assets. Accounting for leased agricultural land to reflect off-balance account 01 "Leased fixed assets" for the value specified in the lease agreement. At the same time, the cost of the contract obtained land increased debit balance on the account 01 and the end of the contract due loans 01 the cost of the leased land that was returned to the landlord.

The procedure for displaying the leased land in the register of agricultural enterprises is given in tab. 2.

Table 2. Reflection of land lease in agrarian enterprises (temporary use)

Contents of the economic operation	Correspondence of accounts	
	debit	credit
1. Land plot in operating lease is received	01	–
2. The rent to the expenses account is charged	23/ 91	685
3. The PIT is retained when the lessor pays the rent in cash or in kind	685	641
4. Rent is paid (from the company's cash desk)	685	301
5. The land plot is returned to the owner after the end of the operating lease term	–	01

Source: compiled by the authors on the materials [5]

The terms of temporary lease may not be less than 7 years old and more than 10. And lands in constant use are not more than 50 years. The reflection in the accounting of long-term use rights differs from the temporary. Long-term use after the signing of the

contract reflects in the balance sheet immediately, in contrast to the temporary, which is credited to the off-balance sheet account. The order of business transactions for the account of the right of permanent use is shown in tab. 3.

Table 3. Economic transactions for the account of the right of land's permanent use [7]

Contents of the economic operation	Correspondence of accounts	
	debit	credit
1. The right to permanent use of the land plot is obtained	122	424
2. Expenses related to registration of the right to the land plot are shown	154	685
3. Tax credit is displayed	641	685
4. The cost of services received is paid	685	311
5. The amount of costs to the original cost of the use's right is included	122	154

Source: compiled by the authors on the materials [7]

Thus, as it is noted above, the right to permanent land use is acquired only by state and communal enterprises for a long term (up to 50 years). Such land plots at the same time are the source of the formation of the equity capital of state-owned enterprises because the value of the right of permanent use

increases their additional capital at the expense of a free-of-charge non-current asset (intangible asset). At the same time, expenses for the registration of the right of permanent use of the land plot are reflected in the account 154 "Acquisition (creation) of intangible assets" and relate to an increase in the carrying value of the right to use the property.

## Conclusions

In modern conditions, the value of land is constantly increasing. Therefore, the accounting reflection of the rights to use land is an important aspect of the economy of agrarian enterprises. Most enterprises of the country take land for lease and display the item on off-balance sheet account 01 "Leased non-current assets". In considering the question of the correctness of the display of the leased

land by the enterprise, it was found that land in temporary lease should be included in the intangible assets of the enterprise, and according to this keep an account. Accounting for lands of permanent and temporary use varies considerably in terms of accounting and terms of use of land. It is revealed that every citizen of Ukraine can arrange a temporary lease, and there are certain restrictions for permanent use.

## Abstract

The rights to use land as an object of accounting is a fairly new element of accounting. Historically, agrarian enterprises began to take land for lease from small owners who had shares. Agricultural enterprises lease the territory for their production, which forms the system of rent payment and issuance of shares to landlords. This system generates in the bookkeeping a display of land rent and all expenses associated with it. Transfer for land use is defined as the right to use. The right of use is divided into permanent and temporary. Accordingly, it differs by the fact that the permanent is transferred for perpetual use, and temporary under the lease agreement for a term up to 10 years and have different methods of reflection in the accounting. Owners of permanent and temporary use of land are endowed not only with the right of use, possession, but also by the right to land. When temporarily using tenants, they can transfer the land to sublease, but only with the consent of the owner. In case of constant use, such actions are impossible. The peculiarities of the land lease agreement are also highlighted and the differences between the permanent right of use and the temporary ones are analyzed. Agricultural enterprises are the main users of the leased land. The acquired rights to use land parcels are best depreciated on a straight-line basis, as it involves the determination of the amount of depreciation by dividing the cost of the object for useful life. It is revealed and proved that the right of use is an intangible asset of enterprises and is accounted for in the account 12 "Intangible assets". Intangible assets are not material, they may be held for the purpose of using the enterprise, for trade, production or presentation of the object for lease, and the term of their maintenance for more than one year. Most of the objects that are in the company's balance sheet are suitable for the intangible asset category, but not all of them relate to intangible assets. According to P (S) BO 8 "Intangible assets", the right to use the land plot must be credited to the balance sheet at the original cost.

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**Посилання на статтю:**

*Selivanova N. M. The right to use the land as an object of accounting / N. M. Selivanova, N. S. Delik // Економіка: реалії часу. Науковий журнал. – 2018. – №2 (36). – С. 43-48. – Режим доступу до журн.: <https://economics.opu.ua/files/archive/2018/No2/43.pdf>. DOI: 10.5281/zenodo.1308127.*

**Reference a Journal Article:**

*Selivanova N. M. The right to use the land as an object of accounting / N. M. Selivanova, N. S. Delik // Economics: time realities. Scientific Journal. – 2018. – № 2 (36). – P. 43-48. – Retrieved from: <https://economics.opu.ua/files/archive/2018/No2/43.pdf>. DOI: 10.5281/zenodo.1308127.*

