

**REPUBLIC OF AZERBAIJAN**

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**"IMPROVING THE ACCOUNTING AND AUDIT OF  
LEASING OPERATIONS IN THE AGRICULTURAL  
SECTOR"**

Specialty: **5303.01 - Accounting**

Field of science: **Economic sciences**

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**ABSTRACT**

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The dissertation work has been conducted at the Department of Accounting and Audit at Azerbaijan State Agricultural University.

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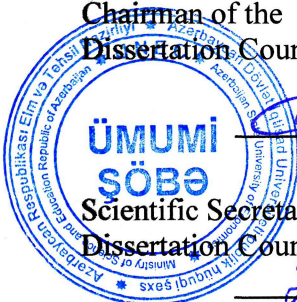
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## INTRODUCTION

**Relevance of the topic and degree of development.** In recent times, the equipment and machinery in the production sphere, considered long-term assets, have not been updated in line with the country's modern development pace. This has, in turn, resulted in a slowdown in the rate of technical progress as one of the intensive forms of production. Particularly in the agricultural sector, this indicator differs sharply from that in other sectors. As is the case worldwide, significant investments are being made in the agricultural sphere in our republic for food security. In particular, in small and medium-sized enterprises, the implementation of agro-technical measures using modern methods is hindered by the excessive obsolescence of existing technical equipment, leading to faster breakdowns of machinery and aggregates, a decline in labor productivity, increased risk of delays in agricultural operations due to dependence on natural factors, and ultimately, product loss. Because investments in the agricultural sector are considered riskier than in other sectors, leasing arrangements have been presented as the primary source for this field. In this way, in situations where there are insufficient private funds available for acquiring agro-machinery, leasing operations serve as the most efficient means for internal capitalization of the main production assets.

As one of the main points, as a result of the Great Karabakh Victory of November 8, 2020, our territories that were occupied for a long time were liberated, and the natural resources and economic resources of our Republic are being brought to the use of our country in these lands. The initiation of large-scale construction processes in Karabakh and Eastern Zangezur economic regions has increased the demand for production tools, including any agricultural equipment in the agrarian sector. In these processes, the leasing service, carrying important functions, is considered an important factor in directing large financial investments and modern agro-innovation projects to these regions, and in the maximum effective use of financial and investment resources. In addition, by the decree of the President of the country dated February 2, 2021, the special necessity of leasing

activity was noted in the fulfillment of the tasks set by the approval of "Azerbaijan 2030: National Priorities for socio-economic development".

The execution of financial leasing operations in accordance with modern requirements involves the application of International Financial Reporting Standards for Lease Accounting, the formation of modern accounting thinking, the application of new analysis methods, and the conduct of a complete audit of accounting from start to finish. However, the inconsistency and sometimes complexity of normative legal documents regarding leasing operations make accounting work difficult, creating obstacles to the formation of a quality database considered crucial for analysis methods. All of the above indicates the relevance of the researched topic.

We should note in relation to the degree of study of the topic that leasing operations, compared to other areas of accounting (such as financial instruments, intangible assets, contingent assets, contingent liabilities, etc.), are relatively "younger," which has led to less research on this topic. Although there are International Financial Reporting Standards, such as IFRS 16 "Leases," and local regulations like the Law on "Leasing Services," they provide limited information for such an important area. Theoretical problems in financial leasing operations have been increasingly addressed by local scientist in recent years. Azerbaijani economists and scientist such as Z.E. Samedzade, E.A. Guliyev, B.Kh. Atashov, A.F. Musayev, E.J. Muradov, S.M. Sebzeliyev, J.B. Namazova, I.M. Abbasov, N.M. Ismayilov, V.T. Novruzov, H.E. Abbasov, E.E. Alekperov, Z.F. Mammadov, S.M. Gasimov, Y.A. Kalbiyev, E.A. Sadigov, Kh.R. Rzayev, A.R. Kerimov, Y.A. Kalbiyev, R.B. Mekharramov, P.Kh. Rzayev, A.S. Shekereliyev, V.E. Gasimli, F.Sh. Hajiyevev, and others, along with foreign researchers such as David Hamilton, David Alexander, Anne Britton, Christopher Nobels, Ann Yorissen, Efremov E.I., Svirin A.R., Semeykin R.R., V.D. Kazman, E.P. Kozlova, E.V. Kabatova, O.B. Eremina, L.N. Prilutski, P.P. Sukhostavets, V.I. Tkach, V.I. Petrova, T.N. Babchenko, M.Z. Pizengolts, I.A. Slabinskaya, V.G. Shirobokova, Rybakov V.A., Putnikova E.L., Goremykin V.A., Gasiyev Z.P., Yusuf KAYA,

Mehmet UTKU, Osman Altuğ, Y. Sürmen, and others, have contributed various scientific ideas and directions related to this topic.

**Object and Subject of Research:** The object of the research is the accounting conducted by entities operating in the agricultural sector of the Republic of Azerbaijan and involved in financial leasing relationships, including the preparation of accounting records according to International Financial Reporting Standards (IFRS) for Leases and the investigation of the current state of lease accounting and its audit. The subject of the research is the compilation of theoretical-practical and organizational-methodological solutions, methods, tools, and legal compliance concerning the accounting and audit of financial leasing operations in the agricultural sector.

**Purpose and Objectives of the Research:** The purpose of the research is to investigate the compliance of lease accounting in the agricultural sector with IFRS and to examine the application of modern audit standards for auditing these operations. It aims to identify existing conflicts and problems, utilizing the experiences of advanced countries to develop scientific and experimental proposals and recommendations in this direction.

In line with the research purpose, the following objectives were set and fulfilled:

- Clarification of the nature of leasing, formulation of its modern definition, and comparative analysis based on the legal significance of financial leasing, operational leasing, and credit.

- Preparation of methodological and practical recommendations related to the accounting of leasing operations in lessee's financial statements, utilizing additional synthetic accounts.

- Demonstration of the methodological basis for organizing accounting and audit in leasing operations in agricultural enterprises and integration with IFRS.

- Investigation of the formation of accounting and audit in leasing operations in agricultural enterprises based on the principles of IFRS, including the incorporation and disclosure of information on agricultural leasing operations in financial statements, and the generalization of all modern approaches to accounting, leading to the

creation of a unified accounting model.

- Investigate the impact of tax accounting, which includes fulfilling accounting obligations in accordance with IFRS.
- Establish the sequence of conducting external audits of agricultural leasing operations based on modern audit standards, identifying sources of evidence and audit evidence for auditors' work documents.

**Research Methods:** In the research process, a systematic approach, observation, comparative analysis, structural analysis, as well as methods such as induction, deduction, synthesis, analysis, and historical approaches have been used.

**The main points defended are as follows:**

- It is crucial to improve the theoretical and organizational aspects of accounting and auditing of leasing operations in economic entities;
- Conducting comparative analyses of financial and operational leasing, as well as its classification under modern leasing standards and its comparison with the credit legal form, is essential for organizing and maintaining accounting;
- The shortcomings of agro-leasing should be monitored and eliminated by highlighting the distinctive features of leasing operations in the agricultural sector compared to other sectors;
- Developing a system of criteria for planning audits in agricultural and processing enterprises, defining the main organizational stages, and determining procedures are crucial for conducting audits;
- Identifying directions for the automation and improvement of accounting and auditing processes by lessors and lessees in various ownership-based agricultural enterprises in our country is of great importance for enhancing the efficiency of accounting operations.

**The scientific novelty of the research can be outlined as follows:**

- New approaches have been introduced for the presentation, disclosure, and evaluation of accounting information related to agricultural leasing operations in financial statements, based on the

requirements of IFRS.

- Methodological and practical recommendations have been elaborated to enhance clarity in accounting for lessees or lessors by incorporating additional analytical accounts into the revised chart of accounts.

- Enhanced methods have been presented for the sequential conduct of audits on agricultural leasing operations, based on existing local guidelines and international audit standards, particularly focusing on the preparation of audit work documents and the collection of audit evidence.

- New formats for initial accounting documents for leasing operations have been developed, and a streamlined workflow schedule has been provided to facilitate audits on agricultural leasing operations.

- "Filter" elements have been identified for the automation of control systems in the internal audit system for leasing operations.

- Transparency in information due to the application of modern accounting methodology for financial leasing, its impact on financial results, and differentiation from tax accounting for these operations has been determined.

- Proposals have been put forward regarding the investigation of the differentiation of financial leasing and subleasing accounting in developed countries in terms of the main directions, with their theoretical and practical differences reflected in accounting operations.

**The theoretical and practical importance of the research is significant.** The recommendations and suggestions generated from the research can enable the simplification of documentation processes during lease accounting, facilitate the presentation of leasing relationships in a more contemporary and easily understandable manner in legislative acts, enhance the audit system by considering the specificities of leasing operations, accelerate the modernization process of software infrastructure for agricultural leasing, and facilitate the selection and application of cost-effective forms and methods aimed at minimizing audit risks.

The results obtained and proposals put forward during the

research process can be utilized in the preparation of strategic documents, projects, and programs aimed at improving accounting and auditing in the agricultural sector. Additionally, they can contribute to enhancing the overall efficiency of agricultural leasing activities. These findings and recommendations can also be integrated into the teaching process of courses such as "Financial Accounting," "Audit," "International Financial Reporting Standards," "Practical Audit," "Regulation of Economic Law," and similar courses in higher education institutions.

**Approval and implementation.** Five scientific articles (including one international) have been published in influential domestic and international journals based on the results of the research, and four abstracts (including two international) have been published at national and international scientific-practical conferences.

**The name of the organization where the dissertation work was carried out:** Azerbaijan State Agricultural University.

**The dissertation consists of separate structural sections with the total volume indicated by the number of characters marked with the dissertation.** The dissertation work, consisting of an introduction, three chapters, a conclusion section, and a literature list containing 139 sources, amounts to 154 pages. The dissertation work includes 23 tables, 5 figures, and 13 schemes. The introduction - 14,198 characters; the first chapter - 71,610 characters; the second chapter - 76,700 characters; the third chapter - 61,322 characters; the conclusion - 7,517 characters. The total text part of the dissertation work, excluding tables, graphs, figures, and the literature list, amounts to 231,347 characters.

## **DISSERTATION CONTENTS**

### **Introduction**

### **Chapter I: Theoretical and Methodological Principles of Accounting for Leasing Operations in the Agricultural Sector**

1.1. Nature and theoretical foundations of accounting for leasing operations.

1.2. The role of organizing accounting for leasing operations in



the development of the agricultural sector.

1.3. Formation stages of the normative-legal basis for accounting for leasing operations in the agricultural sector.

## **Chapter II: Evaluation of the Organization of Accounting and Audit of Leasing Operations in the Agricultural Sector**

2.1. Current state of accounting and audit of leasing operations in agricultural institutions.

2.2. Reflection of leasing operations in accounting and establishment of audit work for these operations and their application directions in enterprise accounting.

2.3. Evaluation of the use of International Financial Reporting Standard "Leases" (IFRS 16) in organizing leasing operations in agricultural institutions.

## **Chapter III: Directions for Improvement of Accounting and Internal Audit of Leasing Operations in the Agricultural Sector in accordance with International Standards**

3.1. Ways to improve accounting for leasing operations in the agricultural sector.

3.2. Directions for improving the organization of internal audit work in carrying out leasing operations in the agricultural sector.

3.3. Main objectives of automating compliance with international standards for accounting and auditing leasing operations in the agricultural sector.

**Conclusion**

**References.**

## **POINTS RAISED IN DEFENSE**

**Section 1: It is crucial to improve the theoretical and organizational aspects of accounting and auditing of leasing operations in economic entities:**

In modern economic conditions, especially in the agricultural sector, many enterprises require modern equipment, particularly for production conditioning and increasing output, especially considering the existing financial crises. However, in an economic environment where risks are high, no entrepreneur wants to make

direct investments. In this situation, there arises a necessity to utilize a new type of financing called leasing operations for the renewal of techniques and equipment. Research shows that many enterprises, whether lessors or lessees, often prioritize the form rather than the substance of these operations and present their accounts more as transfers of rights than the essence of leasing. However, without properly understanding the content and specific characteristics of leasing operations, neither the establishment of its accounting nor the improvement of its auditing can be achieved.

Leasing relationships in Azerbaijan are mainly regulated by Articles 747 and 751 of the Civil Code of the Republic of Azerbaijan<sup>1</sup> and Articles 123.1 and 140 of the Tax Code of the Republic of Azerbaijan<sup>2</sup>. These regulations do not provide a definition of leasing; they only indicate the subject of leasing, the lease agreement, its forms, and other concepts. This will create difficulties in the future in leasing operations concerning land, buildings, and equipment, which are subjects of accounting.

When explaining financial leasing, we must first look at the tax legislation. As it appears from this legislation, the subject of leasing is prepared based on the lessor's order, and after the lease term ends, it can be transferred to the ownership of the lessee or purchased for a pre-calculated amount. For the contract to be considered a financial lease, the lease term must be more than 75% of the useful life of the lease subject or the residual value of the lease subject must be less than 20% of its initial market value at the beginning of the contract. Additionally, the present value of the lease payments must be at least equal to or more than 90% of the market value, or the property leased is custom-made for the lessee and cannot be used by anyone else after the lease term ends.

However, as we know, since financial accounting is not a fully integrated part of financial accounting, this presentation is only relevant in tax reports and contradicts the principle of "substance

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<sup>1</sup> The Civil Code of the Republic of Azerbaijan. // With amendments made until May 30, 2023. - Baku: Law Publishing House, - 2023.

<sup>2</sup> The Tax Code of the Republic of Azerbaijan. // With amendments made until January 1, 2024. – Baku: Law Publishing House, - 2024, - 276

over form," which is one of the fundamental qualitative characteristics of financial statements. Research shows that neither in the Civil Code nor in the Tax Code, there are no provisions regarding operational and repeat leasing, which may create uncertainty among participants in accounting, subleasing registration, and reuse of operational leasing.

In modern audit organization, the fundamental approach is to view audit processes through the prism of IFRS. We believe that the main theoretical and methodological basis for this is the essence of International Audit Standards. Therefore, recognizing, understanding, and implementing all innovations in the organization of audit work should be of paramount importance.

**Section 2: Conducting comparative analyses of financial and operational leasing, as well as its classification under modern leasing standards and its comparison with the credit legal form, is essential for organizing and maintaining accounting:**

We believe that the most authoritative definition of leasing is provided in International Financial Reporting Standard "Leases" (IFRS 16). According to the standard, "Financial leasing is a type of lease that ensures the transfer of all risks and rewards incidental to ownership of an asset. Ownership may or may not ultimately transfer." Another explanation, provided by the World Bank, describes leasing as a special relationship between parties allowing one party to use the property of the other party in exchange for agreed periodic payments, thus enabling the lessee to use the property without owning it. The definition endorsed by the European Leasing Association encompasses the lease agreement for the use of production objects, industrial objects, equipment, and real estate for production purposes, where the lessee retains ownership rights even though the asset is leased out.

To fully understand financial leasing, we must also explore operational leasing, another form of leasing. Operational leasing is a type of leasing where the period for leasing the property is determined by mutual agreement of the parties and is significantly shorter than the normal useful life of the technical equipment and assets. Consequently, the object of operational leasing is often

property needed by the lessee for short-term, seasonal, or one-time operations.

In accounting, the terms "financial leasing" and "operational leasing" are primarily associated with leasing operations. If, in practice, all risks and rewards related to ownership and use of the leased asset are practically transferred from the lessor to the lessee, and if the leasing operation is considered as a transaction where the ownership of the leased asset ultimately transfers to the lessee, then, in our opinion, the lessee is the one who reflects the value of the leased property and the amount of obligations in relation to the lessor in their financial statements, in accordance with the terms of the lease agreement.

**Table 1.**

**The classification of leasing operations**

Classification Characteristics	Forms of Organizing Leasing Relationships
1. Leasing Objects	<ul style="list-style-type: none"> <li>- Leasing of vehicles;</li> <li>- Leasing of agricultural machinery and equipment;</li> <li>- Leasing of oil and gas equipment;</li> <li>- Leasing of construction and road equipment;</li> <li>- Leasing of mining equipment;</li> <li>- Leasing of food processing equipment;</li> <li>- Leasing of printing equipment;</li> <li>- Leasing of metallurgical equipment;</li> <li>- Leasing of logging equipment;</li> <li>- Leasing of buildings and structures.</li> </ul>
2. Sources of Financing for Leasing Operations	<ul style="list-style-type: none"> <li>- Leasing through bank loans or government loans;</li> <li>- Self-financed leasing;</li> <li>- Combined leasing</li> </ul>
3. Type of Leasing Operation	Operational; Financial
4. Composition of Leasing Relationship Parties	- Bilateral; Multilateral
5. Volume of Operational Service	- "Pure"; Partial Service; Full Service
6. Market Sector	- Domestic; Foreign
7. Nature of Lease Payments	- Cash; Compensation; Mixed
8. Risk Level for the Lessor	- Unsecured; Secured

*Source: The table has been prepared by the author.*<sup>3</sup>

Actually, financial leasing is a form of long-term purchase credit. After the expiration of the financial leasing contract, the lessee can return the leased object, extend or renew the contract duration, or even purchase the leased object at its residual value (typically, this is purely symbolic). Another issue in leasing relationships is the comparative description with credit operations, which allows identifying the more complex legal and economic nature of leasing. The complexity of leasing relationships is determined by the fact that they are conditioned not only by the leasing contract but also by sales contracts, pledge agreements, credit contracts, and agreements for the supply of products manufactured on leased equipment.

One of the main differences between credit and leasing is that in lending, the acquired asset is recognized as a loan collateral when the purchase-sale transaction occurs. In the leasing process, however, until the purchase-sale transaction occurs (until the purchase-sale), the relationships are recognized as lease, and after the purchase-sale, they are recognized as the asset of the enterprise. In such processes, there is certainly a difference in accounting and audit procedures.

**Section 3. The shortcomings of agro-leasing should be monitored and eliminated by highlighting the distinctive features of leasing operations in the agricultural sector compared to other sectors:**

As we know, the agricultural sector differs sharply from other production fields due to its specific characteristics. Therefore, special attention should be paid to these differences when organizing accounting for this sector. Hence, we believe that the following should be considered in the accounting of leasing operations, which involve fairly complex processes related to agricultural leasing:

- a. Risks arising directly from natural factors.
- b. Seasonal problems with production tools.
- c. Allocation of labor reserves due to the dependence of production on natural factors.

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<sup>3</sup> Namazov, R. What is Leasing and Its History. // - Baku, Works of the Azerbaijan National Academy of Sciences Cybernetics Institute. - 2014. - p.79

d. The almost complete absence of fully adapted automated modern systems specifically tailored to the agricultural sector.

In our research, we have witnessed both the positive aspects and conflicts of leasing. While problems in many developed countries are often resolved with their insignificance, unfortunately, this is not the case in our country. Demonstrating and resolving conflicts in leasing operations will ensure their usefulness and efficiency in the future, and well-structured leasing relationships will enhance their effectiveness. Therefore, it is possible to see the positive and negative aspects of leasing operations through Table 2:

**Table 2.**

**Advantages and disadvantages of leasing operations**

Leasing advantages	Leasing disadvantages
Simple documentation: Practice shows that it is faster than obtaining credit and the payment capacity requirement for concluding a leasing agreement is softer compared to banks.	According to practice, leasing interest rates are always higher than bank loan interest rates. This can be considered as the main negative aspect of leasing. However, providing tax incentives for resolving this issue can encourage interest in leasing services.
The requirement of a mandatory taxpayer identification number (VAT) from the lessor creates problems for some products of leasing (such as auto leasing, purchase of personal assets, etc.) in competition with banks.	
Leasing is almost the optimal means for legal and natural persons who intend to obtain equipment and transportation means but do not have sufficient collateral. World practice shows that leasing, by paying for the value of the asset almost proportional to its useful life, creates opportunities for obtaining more funds for other areas.	Due to the lack of full transfer of ownership rights in legal relations (ownership rights are transferred to the lessee only after the final payment), the lessee may not fully feel ownership rights and may refrain from investing additional finances in property maintenance costs.
Unlike loans, lessees can pay leasing payments with "elastic" schedules, with the consent of parties, tailored to the production characteristics. This is particularly important in agriculture.	An initial payment is required relative to the value of the leased asset (usually between 20% and 50%), which can lead to justified dissatisfaction in lease relationships.

<p>By obtaining real estate through leasing, the lessor can optimize their tax payments. In other words, leasing payments are usually fully included in the cost of the product. Both interest and the main part are recognized as expenses in the form of amortization. This reduces the tax payment on profit, resulting in less withdrawal of working capital for the enterprise. In comparison with bank loans, only the interest is included in the cost of the product. From a tax point of view, the lessee is exempt from property tax until the final payment of the property in leasing.</p>	<p>In addition to the positive aspects mentioned, the documentation of the property in the lessor's name is required, which then requires another documentation for the property to be registered in the name of the lessee. This means documentation needs to be completed twice.</p>
<p>Until the end of the lease term, the property remains with the lessor.</p>	

*Source: The table was prepared by the author.<sup>4</sup>*

In addition to the information provided in the table, it is possible to highlight the advantages of agricultural leasing, such as state supervision, the desire to centralize the resolution of demands, direct access to government subsidies, the convenience of state insurance, and the potential acquisition of reserve assets through leasing in the future. However, as research shows, there are also negative aspects.

Examples include incomplete payment of demands, supply of unlocalized equipment, lower competition in the sector if not desired, and the risk of more qualified leasing organizations exiting the market.

**Section 4. Developing a system of criteria for planning audits in agricultural and processing enterprises, defining the main organizational stages, and determining procedures are crucial for conducting audits:**

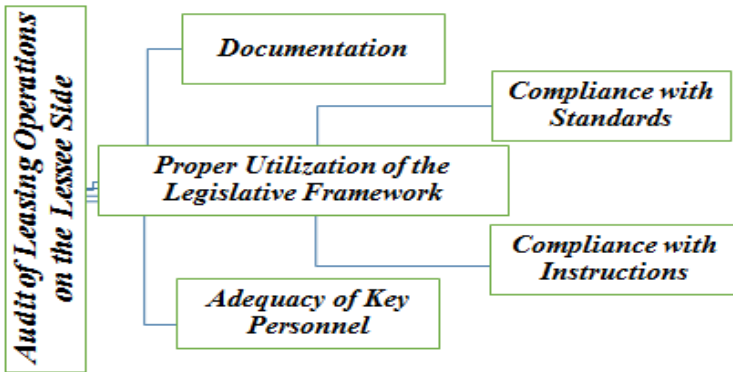
It is understood that audit work in our country is carried out in compliance with international audit standards, and leasing operations, being one of the modern areas of activity, are no exception in light of the availability of new audit procedures. Particularly, the differentiation of financial accounting rules in the taxation of leasing operations raises issues related to the recognition of deferred taxes as debtors or creditors, and the application of tax

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<sup>4</sup> Kondrakov, N.P. Accounting / N.P. Kondrakov. - Moscow: Prospekt, – 2018.

incentives envisaged by legislation poses challenges to conducting audits at the international standard level.

Auditors, after obtaining consent from at least two parties involved in leasing operations, can formulate their opinions with confidence only when they are assured that no issues will arise now or in the future. Therefore, considering the complexity of leasing operations in the agricultural sector, it is possible to outline the following directions during the establishment of audit work.



**Figure 1. Guidelines for Establishing Audit Procedures in the Agricultural Sector.**

*Source: Figure prepared by the author.*

As seen from the figure, all audit activities primarily involve document examination (including lease object inclusion, contracts, approval documents for commercial expenses, relevant vouchers, customs documents, invoices, production release certificates, supply contracts, inventory journals, inventory cards, etc.), recognition, presentation, and valuation in accordance with IFRS and GAAP, reflection of the leased object in financial statements, references to the Comments Committee's recommendations in explanatory notes, and compliance with Conceptual Framework.

We conclude that the following issues should be addressed in organizing the audit of agricultural leasing operations:

1. Consideration of GAAP may only be significant after full transition to IFRS.
2. Compliance with GAAP is possible only with full adherence



to all audit standards.

3. The Law on "Leasing Activities" must be enacted in the Republic of Azerbaijan to protect and develop leasing relationships and complete the legal framework of leasing.

4. Specific accounting instructions should be provided for the proper organization of the audit of the accounting and activities of leasing parties, and an audit approach that takes into account all the peculiarities of leasing should be developed. For example, distinguishing contours from credit operations, examination of related parties, adherence to the latest requirements for audit evidence, etc.

5. It is necessary to establish mechanisms for attracting experts proficient in IFRS and GAAP and engaging them in the registration/audit processes of leasing operations in the agricultural sector. The limited availability of service fees in this area restricts the recruitment of qualified experts.

6. Achieving simplification of documentation processes will lead to savings in both time and administrative tasks. Consequently, this will reduce incidental expenses. For instance, merging the sales contract with the lease agreement or organizing the acquisition of expensive components through leasing can serve as examples.

7. Initiatives should be implemented to accelerate the implementation of automated accounting and internal audit systems.

As it stands, many issues regarding leasing operations in the agricultural sector have not yet been fully resolved. However, we believe that recent improvements in accounting and audit services, as well as the implementation of automated software solutions, offer promising opportunities for both the government and business entities in the near future. Therefore, to enhance the audit process, below are examples of new audit formats that will be implemented:

"Document on the Financial and Economic Activities of the Organization", "Contract for the Audit of Financial Leasing (Subleasing) Operations", "Document analyzing the factors affecting the effectiveness during the inspection of agricultural leasing operations", "General Audit Plan for Agricultural Leasing Operations" and etc.

**Section 5. Identifying directions for the automation and improvement of accounting and auditing processes by lessors and lessees in various ownership-based agricultural enterprises in our country is of great importance for enhancing the efficiency of accounting operations:**

Unlike IFRS, the national standards of many countries are detailed sets of rules that describe accounting for business operations and exceptions to these rules. However, it should be noted that after changes in the legislation on accounting from the year 2018, accounting standards have gradually converged with IFRS, and currently, the accounting standards are aligned with international standards. Nevertheless, differences still exist in some cases. As some foreign experts have also noted, attention should be paid to the accounting issues related to leasing in accordance with national accounting standards. As a recent decision, the "Leases" standard, which is International Financial Reporting Standard 16, has been created, and this standard has resulted in the replacement of the following Standards and Interpretations:

- (a) IFRS 17, "Leases";
- (b) IAS 4, "Determining whether an Arrangement contains a Lease";
- (c) IFRS 15, "Revenue from Operating Leases";
- (d) IAS 27, "Assessment of the Substance of Transactions involving Leases in the Legal Form of a Lease".

The purpose is to establish a unified methodological approach to the classification and accounting of leasing operations by the parties to the lease agreements.

As a result of the research, the following issues can be presented as innovations in the establishment of audit:

- Modern challenges require not only viewing the audit issue as mere control but also reevaluating new opportunities;
- Differentiation of internal audit rules for parties involved in leasing, considering the formation of leasing operations based on different methodologies. As research shows, not only the impact of the differences in the form and nature of accounting between parties but also their various activity directions significantly affect this issue;

- Recommendations have been made for the proper selection of program software based on modern organizational rules for internal and external audit in leasing operations;

- Recommendations have been prepared for the preparation of Internal Audit Instruction based on the requirements of IFRS.

Based on the alignment shown above, the automation of leasing accounting can be considered feasible and scientifically grounded based on the following stages in the future:

1. Software selection stage: At this stage, the selection of an appropriate accounting program for leasing operations is ensured.

2. Database, data entry, and integration of information: These capabilities need to be organized to align with the nature of the business, local regulations, requirements of the Ministry of Finance, the direction of activities, and the level of significance.

3. Presentation and recognition criteria in leasing financial statements: According to updated standards, the software solution prioritizes the accounting of leasing operations based on the Ministry of Finance's requirements (especially according to BMHS 16) or conventional accounting principles, or methodologies developed based on local legislation. Today's requirement emphasizes that, considering the complexity of leasing operations, reporting on financial position and recognition of assets and liabilities should be automated in all cases.

4. Automation of calculations: This section may include calculated interest expenses, preparation of current and final financial statements, depreciation accounting for operating leases, provision of all journal entries for transactions, lease terms, discounting operations for contingent liabilities and assets, depreciation of non-current assets, calculation of accrued liabilities, and other related matters.

5. Reporting and disclosure: The lease accounting software must comprehensively disclose leasing operations in financial statements: these include financial position reports, profit and loss reports, changes in equity reports, and cash flow statements, all of which are mandatory under IFRS. Additionally, relevant information about leasing should be included in the notes to the financial

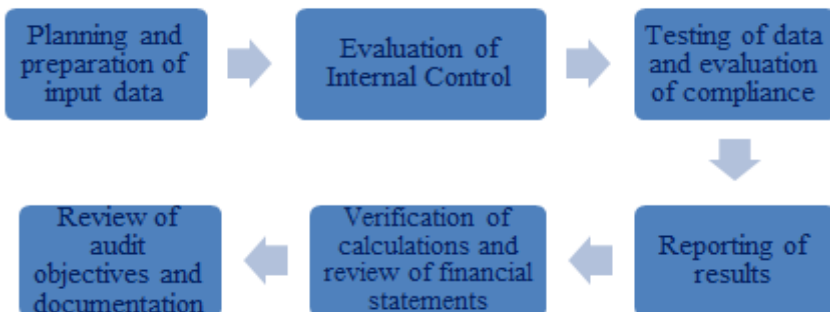
statements in compliance with disclosure requirements.

6. Review of leasing processes: The selected accounting software for leasing organizations should facilitate the monitoring of leasing operations, identification of discrepancies, and oversight of transactions related to lease agreements.

7. Audit of the program and database security: One of the automated modules of leasing accounting is system audit. Through this module, automatic audits of the system are conducted, leading to both cost savings and reduced audit risk.

The dissertation work provides extensive information on the software applications used in leasing accounting. After the software application is implemented, the enterprise should rely on modern audit standards for oversight of accounting operations, with particular emphasis on including auditing the accounting software system as part of the audit process.

When auditing the system, "the auditor primarily examines the proper functioning of the modules that make up the program, authorization to access the program (program key), compliance of operations with standards and local legislation, and resolution of other issues."<sup>5</sup> " The audit of the accounting software system should primarily involve the following stages.



**Figure 2. Phases of Program Audit**

*Source: Figure prepared by the author.*

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<sup>5</sup> Fogarty, T.J., Kalbers, L.P. An empirical evaluation of the interpersonal and organization a correlates of professionalism in internal auditing. Accounting and Business Research. 2000, 30(2), pp. 215-236.

Algorithm for auditing based on leasing programs can be prepared as follows:

First step - You should be familiar with the local legal framework for leasing, internal and superior organizational instructions, and international standards.

Second step - Ensure rational thinking and mathematical logic-based calculations.

Third step - Tools should be prepared and reviewed to block errors in data entry.

Fourth step - Auxiliary sub-modules should be developed to manage identified errors and other irregularities.

Fifth step - The examination/confrontation should be conducted based on the principle of starting from simple to complex or vice versa. In other words, synthetic accounts should be reconciled with subsidiary accounts, subsidiary accounts with analytical accounts, initial documents with summary documents, trial balance with balance sheet, differences between trial balance and final balance determined, and irregularities discovered in a timely manner.

Sixth step - Are the final data suitable for analysis? That is, the flexibility of the reporting should facilitate the examination of any information.

Seventh step - Documentation of the examination results. Here, documenting the audit process will have a significant impact on collecting reliable information during future audits. Therefore, after documenting the audit process, including any irregularities and errors, reports summarizing the results should be created.

Eighth step - As the final step, the review of information and the confirmation of the final results should be conducted. In this step, ensuring the correctness and effectiveness of the algorithms through re-evaluation with different tools creates complete confidence in obtaining more reliable results.

## **RESULTS**

Research on the accounting and auditing improvement directions of leasing operations in the agricultural sector has been conducted, identifying the issues in this area. This work, which

addresses fundamental issues, highlights the restoration of the agricultural sector as a priority for the country, especially under the leadership of the President of the Republic of Azerbaijan, Commander-in-Chief Ilham Aliyev, following the glorious victories. The liberated territories have significant potential for Azerbaijan's economy and overall development. Leasing operations will contribute significantly to unlocking this potential and accelerating the development of new business areas. The results, new scientific approaches, arguments, suggestions, and recommendations obtained from the completed dissertation work can be summarized briefly as follows:

1. Leasing relationships play a significant role in providing recognized assets as primary assets in agricultural enterprises, and leasing is considered a favorable financial source for obtaining these assets without significant obstacles. Additionally, although leasing operations bear similarities to both rental and credit relationships in many respects, they have their specific characteristics. In our research, we have been able to provide a comprehensive definition of leasing. Leasing is a contract concluded by the lessor to transfer the right to use an asset for a specified period in exchange for payment or consecutive payments to the lessee when the lessor agrees to lease any asset. We believe that these understandings should also be differentiated because the lack of proper differentiation in conducting the accounting of leasing without dividing it into financial and operational types is problematic. Financial leasing is a type of leasing that ensures the transfer of risks and rewards associated with the asset based on ownership rights. At the end of the process, ownership rights may or may not be transferred. Operating leasing, on the other hand, is a type of lease that is different from financial leasing.

2. Research has shown that leased assets in the agricultural sector are mainly based on the diminishing balance method as an amortization method. We believe that this is not correct according to the principle of adequacy of expenses to revenues. Each appropriate amortization method provided within the framework of the standard should be used. While such calculations may pose difficulties for tax accounting to align with financial accounting, ultimately, it will

ensure the integrity of financial statements. Thus, leasing objects, such as agricultural machinery, can distribute their value over the period and conditions of use, just as PP&E does.

3. One of the main issues to consider in financial leasing is maintenance, because entrepreneurs are generally not very interested in having leased equipment repaired. Therefore, including the substantial repair of assets acquired under financial leasing in the lease cost will protect the entrepreneur from incidental expenses and prevent equipment from sitting idle in production. In the drafting of the leasing agreement, the effect of expense recognition on the carrying amount is often not fully specified. We believe that if such a situation exists, the resulting change should be recognized as an event occurring on the date the lease terms are accepted. In many cases, the parties involved in a leasing transaction prepare both a purchase agreement and a leasing agreement. Some economic entities even prepare a separate sales contract. Therefore, any changes occurring in the contract should be re-evaluated, and the relationship of this impact to the payment amount and its accounting treatment should be examined. For example, IFRS 16 states that, regardless of the contract terms, the repair of the leasing asset should be recorded as an expense of the party using that right during the period of its use. Therefore, any substantial repair expenses should be capitalized, re-amortized, and recorded in the accounts.

4. During the accounting of leasing operations in agricultural enterprises, multiple repetitions are allowed in documentation. Parties prepare a series of repetitive documents such as "Lease Agreement," "Purchase-Sale Agreement," and "Delivery Receipt." We believe that it is possible to consolidate these documents into a "General Lease Agreement." We suggest that all three parties (lessee, lessor, and seller) can be identified and their positions and approvals can be confirmed with this agreement.

5. As in many developed countries, the "Law on Leasing Activities" should be enacted in the Republic of Azerbaijan, and all modern requirements should be under the influence of this law. Although we may have quickly adopted a leasing law among post-Soviet countries, later the key provisions of this law have been

transferred to the relevant articles of the Civil Code, rendering the law itself obsolete. Additionally, after the adoption of this law, our country must join the Ottawa Convention on International Financial Leasing. Currently, at the national level, although the Azerbaijan Leasing Companies Association assists in resolving some issues (especially in the form of consultations), many strategic issues, such as studying differences in accounting rules, conducting analyses, sharing information, and applying specific leasing regulations in auditing work, require our focus on this area.

6. Proper accounting for leases is essential for presenting financial statements in accordance with international standards. Because lease accounting directly affects financial statements. That is, the lease accounting should be recognized either as an asset or liability in the lessee's financial statements according to the new rules of balance sheet accounting.

7. According to our research, during the auditing of leasing operations, internal audits must be implemented for leasing companies. Just as internal auditors are essential in the list of important regulators for credit organizations, it is purposeful to have an internal auditor position in leasing organizations regardless of their size.

8. We believe that the accounting of subsidies (under subsidiaries) in agricultural leasing organizations is not accurately performed. This is unacceptable. The accounting of subsidies should be carried out in accordance with the full requirements of IFRS No. 20, "Government Subsidy Accounting and Disclosure of Government Assistance." Currently, many organizations cannot properly recognize revenues in a timely manner due to inadequate accounting. We suggest that obligations related to the recognition of income be established through monitoring groups for subsidies.

9. Overall, we consider several directions reasonable for improving the accounting of leasing operations in the agricultural sector:

- a) Compliance with IFRS;
- b) The existence of a special department related to leasing audits in the organization's internal leasing management center for



monitoring, evaluation, and internal audit programs;

c) Resource planning based on software and new technologies;

d) Application of tax optimization.

10. During the audit of leasing operations, the effective use of audit management software and technological solutions should be employed to simplify the audit process, enhance data analysis, and increase the efficiency of audit procedures. Software and technological solutions can improve the organization of internal audit work in leasing operations, thereby reducing risks, enhancing financial transparency, and ensuring compliance with accounting standards and regulations. Automation is a vital component for meeting the requirements of leasing operations accounting and audit standards in agricultural enterprises.

**The list of the author's published scientific works is as follows:**

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(LIX International Scientific-Practical conference «Advances in Science and Technology), 2024. 5 səh. (13411 i.s.) [https://xn--80aa3afkgydfe5he.xn--p1ai/AST-59\\_originalmaket\\_N.pdf](https://xn--80aa3afkgydfe5he.xn--p1ai/AST-59_originalmaket_N.pdf)

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