Improving the investment activity of the enterprise

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Abstract

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The main purpose of this thesis is to solve the problem of investment management in the case organization, specifically find the right option for the acquisition of a new vehicle. The focus of this paper is to analyse and compare the financing roles of loans and leasing, consequently choosing the right option for the purchase.

The theory is built upon various credible academic sources, which include journal publications, books and respected web-sources. The theoretical part of this thesis aims at studying and analysing the development of various investment tools and how they can be used for renewal of company's assets. Moreover, the theoretical part of the thesis serves as a foundation upon which the analysis is built.

The author aims to provide theoretical and empirical evidence consistent with the recommendations for the chosen option. As a means of this research the author uses qualitative research approach, namely the interview with the company's representative as well as the analysis of the data provided by the company. Moreover, the author conducts a meta-analysis of theoretical data in regards to the company's goals.

Keywords
Leasing, Loans, Financial Assets, Investments

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1 Introduction

In the beginning of this paper, the author is going to discuss the aim of the research, the steps that need to be taken in order to conduct the research as well as the structure of the thesis. The chapters in this section are going to concentrate on the means of conducting the research and the reasoning behind these choices. Moreover, this chapter is going to briefly cover the methodology and how the research results can affect the case company's choices.

1.1 Problem and Research Questions

The research presented in this thesis is built upon the importance of improving investment management in the enterprise. The question of capital inflows in the real sector of economy is highly relevant. One of the solutions to attract investments for the enterprise is the broad application of new financial instruments, such as leasing. Leasing can serve enterprises as a powerful business investment tool; despite being one of the youngest business tools, it is a very promising form of financing. The problem that needs to be solved is to discuss and analyze three different means of acquiring fixed assets (property) which are: loans, leasing and direct purchase. The company in question is a limited liability company "Technoland" that assembles and manufactures household appliances. The main supply chains of the case company are in Saint Petersburg, Russia. In recent years, "Technoland" has considered expanding their operations to neighboring towns in Saint Petersburg area as well as other towns in the North-West of Russia. In order to achieve better efficiency in the company's supply chains, LLC "Technoland" needs to invest in the production equipment as well as in means of transportation. The analysis in this thesis will present the research on what means of acquiring the property are the most feasible for the company.

1.2 Research Aims and Objectives

One of the major objectives of this study is to discuss one of the forms of economic activity – investment management, as well as the aggregate of economic and legal relations. The other purpose of this paper is to discuss the various connections, which arise with the use of investment activity. These key points will help the author to make a well-grounded conclusion on which way of acquiring new property is the best for the case company. The case company, which will be analyzed is LLC "Technoland".

The main objectives of the thesis are:

- Study formation of financial results in the implementation of investment transactions;
- Develop proposals that would improve the mechanism of leasing and other activities in the company;
- Analyze the market for loans and leasing
- Draw conclusions on which way of acquiring new vehicle is the most profitable for LLC "Technoland"

1.3 The Structure of Thesis

The structure of the thesis consists of an introduction, three chapters, which present the literature review and the analysis, conclusion, bibliography and appendices. The first chapter discusses the theoretical framework and the concept of investment management. The second chapter analyses the case company, its activity and organizational structure. Also, the second chapter presents the analysis of economic potential of "Technoland's" current investment policy. The third chapter presents a detailed evaluation of possible impact of financial policy of the company and provides comparative evaluation with other forms of investment, such as mortgage/loan or leasing. Lastly, the thesis consists of the suggestions of how the case company can acquire a new vehicle for the transportation of goods. Thus, the research is based on defined objectives and main tasks; the research's aim and subject are defined.

2 Literature Review

Over the past five years LLC "Technoland" has set new objectives in the company's investment policy. The company had decided to develop a new type of investments, namely financial assets. The composition of financial assets that the company owns can help us determine which type of investment activity is most suitable for the company.

2.1 The Theoretical Aspects of Registration and Analysis of Financial Assets

Financial assets of the organization are a set of financial resources, which includes bankroll and securities held by the organization. Financial assets include:

- cash on hand and current accounts of the organization;
- securities, such as shares and debt securities (bills and bonds), etc.;
- receivables, except for advance payments;
- financial investments, etc. (Financial Assets Definition, n.d.)

Financial assets do not include intangible and tangible assets, advance payments, inventories and so on, because their possession does not entitle the organization to receipt of certain financial assets in the future, although it can bring a profit. (Geanakoplos, 1989)

Financial assets provide the organization the right to income derived from the use of tangible assets. That is the real assets, which are a source of income, while financial assets are used to characterize the distribution of income earned. Investment company funds in financial assets gives it the right to receive income from the use of tangible assets that were acquired due to investments. (Minsky, 1992)

"Physical" (real) assets are not financial assets because they are not entitled to claim of cash or other financial assets. Financial assets have several meanings. On the one hand, they are part of the company's assets - financial resources, which may include securities and cash. (Eckbo, 2007)

Basically, financial assets of an enterprise include:

- cash on hand;
- checks;
- loans;
- deposits in banks;
- contributions to the charter capital of other companies;
- investments in securities;
- insurance policies;

- commercial loans[1]. (Malone, Weill, Lai, & D'urso, 2006)

After examining various sources of academic economic literature, taking into consideration different points of view, we can make several conclusions:

1. Financial assets are the main subject of investment. Financial assets represent financial investments, which include: cash, purchase of securities, participation in the capital of other companies, representation of loans.
2. Financial assets provide the right to organizations to obtain income.
3. Financial assets are not real wealth and are presented in the form of payment and financial commitments on the movement of financial resources.
4. Financial assets are not involved in the production, sale of goods, provision of services and performance of work in the enterprise.
5. Financial assets are financial resources acquired (invested) by the organization as a result of past events, from which the organization is going to receive the benefits in the future.

2.2 The Role of Financial Assets in Investment Activity

Moreover, financial assets are one of the forms of financial investments. Financial investments are assets owned by the company in order to increase income in the form of interest (dividends) or as a result of sale (assignment) of those assets (Zemlyansky, 2014)

Financial assets are not acquired for use in the production of goods (works, services), they are receivables or cash (excluding acquired under cession[2]), and are used as an entitlement to receive cash, other assets (including financial assets) in accordance with the contract or security. (Hawks, 2003)

Investments are a new facility in the Russian practice of accounting. The regulatory framework related to financial investments continues go through various changes and develop, and relies heavily

[1] Receivables from other companies and organizations to pay money for products delivered

[2] Cession is the act of giving up something, usually land, by the agreement in a formal treaty. For example, after a war, a losing country might make a cession of part of its land to the victor. (Cession Definition, n.d.)

on foreign experience. (Preobragenskaya & McGee, The Role of International Accounting Standards in Foreign Direct Investment: A Case Study, 2003)

In the Russian practice of accounting of financial investments is governed by the Generally Accepted Accounting Principles (GAAP) or (RAS[3]), section 19/02, titled "Accounting for Financial Investments". According to this document, financial investments are assets for which the following conditions apply:

- the right to organize on the financial investments and to obtain the assets, rights arising therefrom (the presence of proper documents confirming these rights);
- the transition to the organization of financial risks associated with investments (risk of changes in prices, the debtor's insolvency, liquidity, etc.);
- ability to bring the organization into the future income in the form of interest, dividends or growth of their cost (as the difference between the sale (redemption) of financial investments and the purchase price, as a result of exchange be used for repayment of liabilities of the organization, increase the current market value, etc.) (Tax Code of Russian Federation, 1998)

On the other hand, the following cannot be considered financial investments:

- own shares purchased from shareholders of a joint stock company for resale or cancellation;
- promissory notes issued by the maker to the payee as payment for goods, products, works and rendered services;
- investments in real organizations and other assets that have tangible form, provided by the organization for payment for temporary use (temporary possession) to generate income;
- precious metals, jewelry, artwork and other similar property acquired for other types of activity. (Tax Code of Russian Federation, 1998)

2.3 Main Types of Financial Investments

One of the main types of financial investments is the practice of investing in authorized capitals of joint ventures. (Preobragenskaya & McGee, Corporate Governance in a Transition Economy: A Case

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[3] GAAP are known in Russia as Russian Accounting Principles (RAP) or Russian Accounting Standards (RAS)

Study of Russia, 2003) The main goal is the establishment of forms of financial impact on the company to provide a stable form of its operating profit.

The second type of financial investments is investing in profitable types of monetary instruments. For example, the main type of financial investment instruments is a deposit in commercial banks. Generally, it is used for short-term investment capital, and its major purpose is to provide the investment income. (Sprenger, 2010)

Lastly, the third type of financial investments is the process of investing in profitable equity instruments.

When assessing financial assets, the following indicators are analyzed:

- Liquidity ratio. Liquidity is defined as the degree of coverage of obligations of the company by its assets. The time period of transformation of bonds to debts equals the maturity of the bond;
- Solvency ratio. Solvency characterizes the capabilities of the enterprise to pay its liabilities;
- Indicator of quality asset management, on the basis of which it is possible to determine how the organization manages its assets (these include asset turnover ratio);
- Performance monitoring and debt management (financial stability), which reflect the degree of financing of the enterprise by the means of borrowed funds and the organization's ability to repay its debt obligations (to use this leverage ratio, flexibility, coverage of cash flows);
- Profitability (profitability of sales, total assets, equity and working capital). (Dimson & Mussavian, 1999)

2.4 Characteristics and Classification of Financial Assets

Characteristics of financial assets is shown in Table 1. This list of financial assets formed based on the old version of International Financial Reporting Standard (IAS) 39, so it provides information on the financial assets in the accounts of Russian companies. (Eades & Marston, 2002)

Characteristics of Financial Assets

Type of financial assets	Objectives, achieved through financial assets	Types of earnings
Financial assets at fair value (i.e. Investments held for trading). They include equity and debt securities. They do not include equity instruments that are not traded in the financial market	Making a profit in the short term. Stabilization of income. Maintaining the liquidity of the company. To be used as collateral for liabilities	Income from change in fair value, i.e., the growth rate of the securities. Dividends. Interest. Exchange differences
Investments held to maturity (financial assets with fixed or determinable payments and fixed maturities). They include debt instruments, including bonds and promissory notes	Making a profit in the short and long term. Diversification, the stabilization of incomes. The use as collateral for liabilities	Interest. Discount revenue. Exchange differences
Loans	Making a profit in the short and long term	Interest. Exchange differences
Accounts receivable. Includes receivables from buyers and customers, promissory notes receivable, other receivables. It does not include any kind of advance payment, payments to employees, deposits to the budget	Demand management, attracting customers through the implementation of credit policy	Revenues from sales of products. Exchange differences
Financial assets available for sale. They include any financial assets that are not included in other groups of financial assets (securities, currency, precious metals)	Making a profit in the long run. Stabilization of income. The use as collateral	Dividends. Interest. Income from change in fair value, i.e., the growth rate of the securities. Exchange differences
Various assets and their cash equivalents	Ensuring liquidity. Transfer of funds from one account to another	Interest earned on cash balances. Exchange differences

Table 1 (Velez-Pareja, 2006)

Financial assets are diverse, so in the first stage of analysis it is necessary to analyze the structure of financial assets in separate classification principles that can be estimated based on accounting data (Table 2). (Eades & Marston, 2002)

Classification of Financial Assets

Characteristics of Classification	Classification groups

Book Value	Assets measured at amortized cost. Assets at fair value
The purpose of acquisition and use	Investable, speculative, transactional (accounting tools)
The level and security of income	Assets that generate income indefinitely. Assets that generate guaranteed income. The assets that do not yield income
The maturity of financial assets	Long-term. Short-term
Liquidity	Liquid and illiquid assets

Table 2 (Eades & Marston, 2002)

In accordance with IFRS 9, the basic classification of financial assets includes two categories:

- Assets measured at amortized cost;
- Assets measured at fair value. (Tax Code of Russian Federation, 1998)

In brief, the amortized cost is the value in which financial assets are measured at initial recognition:

- Reduction or increase in the difference between cost and the redemption;
- Minus the amount of reduction for impairment. (Tax Code of Russian Federation, 1998)

Financial assets are valued at the amortized cost if the following conditions are met:

- The asset is held for the contractual cash flows;
- Cash flows are solely payments of principal and interest on the outstanding principal amount. (Tax Code of Russian Federation, 1998)

In other cases, financial assets are measured at fair value, i.e. at a price that would be received to sell an asset during the operation on a voluntary basis between market participants at the valuation day. (Eades & Marston, 2002)

Financial assets are classified according to the purpose of the acquisition on:

- Investment assets to generate income in the long run in the form of dividends, interest and value growth. These include financial assets available for sale and financial assets held to maturity;

- Speculative assets, which are intended to generate income in the short term as a result of fluctuations in interest rates, foreign exchange rates. These are financial assets, which are held for trading;
- Transaction assets that are intended for service transactions. These include receivables, bills, checks, cash, short-term deposits in banks, i.e., financial assets serving for placement of temporarily free funds (Astakhova, 2012)

In terms of income guarantee financial assets are classified as:

- Financial assets with an uncertain income, such as equity (investments in authorized capitals of other organizations);
- Financial assets, bringing a guaranteed income, such as debt securities;
- Financial assets, not bringing income, in particular cash and accounts receivable. (Astakhova, 2012)

By date of circulation financial assets are divided into:

- Long-term assets with a circulation period of more than a year, such as investments for sale where maturity is not set (for example, shares);
- Short-term assets with a circulation period of less than one year, such as cash and cash equivalents, receivables, trade receivables, notes receivable and investments held for trading. (Astakhova, 2012)

In terms of liquidity, financial assets are classified into:

- Illiquid, which include long-term investments held for sale; long-term receivables;
- Liquid financial assets, which include short-term investments; accounts receivable; notes receivable;
- Highly liquid financial assets, which include cash and cash equivalents. (Astakhova, 2012)

2.5 Leasing as an Investment Tool

The leasing activity is a complex socio-economic phenomenon, which performs a number of important tasks for the development and formation of the main sectors of the economy, while helping to activate investment processes and operations from the smallest to the largest economic entities of the national economy. (Eades & Marston, 2002)

Many years of experience of using leasing in businesses around the world allows us to conclude that it is a very effective tool to manage enterprise's investments. (Yan, 2002) Moreover, other investments can be attracted by means of leasing.

2.5.1 The History and Definition of Leasing

To present day it is unknown who was the first one to introduce the leasing activity. There is evidence that such transactions that involved rental relationships were known to the Sumerians, in Babylon at the time of Hammurabi, in the territory of the Roman Empire, ancient Greece, Phoenicia. The objects that were rented for temporary use, at that time were land, agricultural implements, animals, buildings, ships, etc. (Crutcher, 1986)

As we know, there are various types of loans: mortgage, pledge[4] over shares, securities, receivables, etc. (Curtis, n.d.) However, if the company needs to constantly be up to date with their plants and equipment, it is much more profitable to use the equipment under a leasing agreement. The enterprise savings, compared to conventional loans for the purchase of fixed assets, usually equals 10% of the equipment cost for the entire lease term[5]. (Financial Benefits of Leasing, n.d.)

With active implementation, leasing can be a very powerful tool for technical re-equipment of production, supplying the market with high-quality products, restructuring the economy and increasing the profits of enterprises. The current economic situation in Russia and Europe is favorable to leasing. (Astakhova, 2012)

Leasing as a financial tool is a relatively new phenomenon for the modern Russian economy. Therefore, in the Russian practice to date, the term "leasing" is interpreted and used in different ways.

[4] A pledge is a bailment that conveys possessory title to property owned by a debtor to a creditor (the pledgee) to secure repayment for some debt or obligation and to the mutual benefit of both parties. Pledge can be conducted over goods, securities, real estate, etc.

[5] Which is usually accounted for over the term of five years

(Markina, 2011) Some people compare leasing to the long-term lease. Others believe that the lease is just a form of a long-term rental or that leasing is linked with salaried or contract relations. In Russian literature, the leasing scheme is sometimes regarded as the "cash-strapped form of credit" or a way of funding a business. In some cases, leasing is interpreted as a "hidden form of sale of means of production", "form of management of another's property on behalf of the principal", "the right to use the property from its owner", a form of property relations, and others. (Gitman & Joehnk, 2011)

The Law of the Russian Federation №164 from October 29, 1998 provides the following definition of leasing: “Leasing is a type of investment activity for the acquisition of property and its transfer on the basis of a leasing agreement to persons or entities for a fee, for a certain period and under certain conditions stipulated by the contract, with an option for lessee to purchase the property”. (Federal Law On Leasing, 1998)

The Civil Code of the Russian Federation defines leasing as a form of financial rent (Article 665 of the Civil Code): “According to the leasing agreement, the lessor undertakes to acquire the property specified by the lessee from a seller and give the tenant the property in temporary possession for payment” (Article 665 of the Civil Code of the Russian Federation, 1996)

However, along with similarities, there are differences between rent, loan and lease (Table 3 and Table 4):

Differences between Rent and Leasing

Subject of Comparison	**Rent**	**Leasing**
1	2	3
Object	Not expendable equipment permitted in circulation	Not expendable equipment permitted in circulation used for business activities, excluding nature objects
Subjects	Landlord and tenant	Seller (who provides the property), lessor and lessee, sponsors and others.

Participation of the seller (supplier) of the property	Not Involved	The contract of sale with the lessor
Features of the acquisition of property ownership	Not associated with renting	The treaty states that the property would be leased to the certain lessee
Responsibility for compliance with the requirements of the project	The responsibility rests with the lessor	The responsibility rests with the lessee, unless the seller is determined by the lessor
The possibility of acquiring ownership of the property	Is possible under the contract of sale	Once the most of the cost is paid, it is possible to exercise an option according to an agreement
The risk of accidental loss	Imposed on the lessor	Imposed on the lessee
Property insurance	Exercised by the lessor	Usually exercised by the lessee

Table 3 (Benjamin, 2004)

In theory and in practice leasing is characterized by the following definitions:

1. As a method of business activity;
2. As a form of a long-term rent;
3. As a method of purchase or sale of the means of production, or the right to use another person's property;
4. Investment activity. (Wallace, 2013)

Features and functions of leasing are much broader than what credit offers. This can be determined by a complex mix of interests and goals of the subjects of leasing, particularly their relations arising in the implementation of treaty obligations, as well as the significant impact of the leasing market on the level of macro-economic indicators. (Markina, 2011)

2.6 Loans and Lease as Tools of Financing

Loan is an act of giving of money or goods from a lender to a borrower on the terms of repayment, usually with payments of the principal with the interest or other finance charges. This form of financing is the most common in small and medium-sized companies. (Loan Definition, n.d.)

Advantages of Loans:

- Loans are more independent, since the contract under which the borrowed funds are received does not feature any special conditions;
- Most often loan is offered by a bank that already serves the company, so that the process of obtaining a loan becomes very quick. (DeMerceau, n.d.)

Disadvantages of loans:

- Loan period rarely exceeds 3 years, which is too much for businesses aimed at long-term profits;
- In order to obtain the loan, the company is required to provide collateral, often equivalent to the amount of the loan;
- In some cases, banks will offer to open a checking account as one of the conditions of bank loans, which is not always advantageous to the enterprise;
- For this form of financing, the company can use the standard scheme of depreciation of purchased equipment, which obliges to pay property tax for the duration of its use. (DeMerceau, n.d.)

Differences between Loan and Lease

Loan	**Lease**
1	2
In accordance with the Tax Code, it is possible to only enlist a certain percentage of the loan in the costs	Lease payment is fully included in the costs of the lessee (Federal Law On Leasing, 1998)

Fixed assets acquired for credit funds are depreciated according to the general procedure c depreciation groups established the Tax Code	Plants and equipment as leased assets are amortized using the special rate not exceeding 3 (Tax Code of Russian Federation, 1998), which allows companies to depreciate the property three times faster
When repaying a loan, the VAT is not allocated, not paid and not accounted for	When making leasing payments VAT is allocated and accepted by the lessee for offset, i.e. the payments to the budget from VAT decrease
Property tax on fixed assets, which were acquired through a loan, is higher in aggregate terms, because it is paid over a long period of time and with greater value	Property tax on fixed assets is 3 times less (through accelerated depreciation). After the transfer of the property under lease to the lessee the property tax is not paid at all, because the property is fully depreciated and is transferred into the ownership with zero residual property
Loan period usually does not exceed 12-36 months	The term of the leasing contract may be up to 60 months or more

Table 4 (Federal Law On Leasing, 1998)

Thus, it is wrong to adequately compare loans, leasing or rent. Leasing is a versatile and flexible tool that can easily integrate in the company's investment policy. Also, leasing meets the needs of renewal of equipment to a greater extent. As it helps the real sector of economy, it also covers the interests of various economic entities and the needs of the market.

Leasing is based on the proposition that profits are obtained through the use of assets, rather than from the ownership of them. One of the basic principles in medium and long term lending that cash generated by the investment that is partly financed is a primary source of repayment. (Titolo, 2013) In the event that the borrower is unable to repay the loan from regular business operations, the secondary source of the repayment is the collateral, which is taken as a security deposit for the loan. In short-term loans the asset conversion cycle, rather than long-term profitability of the business and cash generation is more critical to assessing the probability of repayment. (Gallardo, 1999) Conventional bank loans focus on loan repayment by the borrower from both a primary source (cash flow generation or asset-conversion cycle) and a secondary source (credit enhancements and collateral). In contrast, leasing is more intensely focused on the lessee's ability to generate cash flow from business operations to service lease payments, because the lessor-financier retains ownership of the asset during the term of the lease. (Cornaggia, Franzen, & Simin, 2013) As a lessee, the company has the right to acquire property for any purpose. The subjects of lease can include buildings, various equipment, vehicles and other types of property. However, the subject of lease can't include objects which lose their properties during the use, so raw materials, spare parts, etc. can't be the subjects of lease. (Eades & Marston, 2002)

Leasing can be characterized as a highly-available form of financing, as it allows to reduce the risk of non-repayment of capital and its intended use. (Crutcher, 1986) Moreover, a variety of leasing schemes allow both parties to create a mutually suitable contract.

Characteristics of the main features of subjects of leasing

Feature	Content
1	2
Condition of material form	Constant in the period of leasing agreement
Designations	In business activity
Limitations	None (in free circulation)

Another difference between leasing and loans is that in practice, leasing is characterized as investment activity. (Cornaggia, Franzen, & Simin, 2013) Features and functions of leasing are much wider than in loans. This is determined by a complex mix of interests and goals of leasing subjects, especially their relations arising from the implementation of treaty obligations, as well as the significant impact of the development of the market. (Gallardo, 1999)

2.6.1 Leasing as a Tool of Acquiring Property

Leasing agreements are flexible and can adapt to the needs of both parties. As a financing technique, leasing has proven to be very effective in overcoming barriers posed by interest rates and various collateral requirements of conventional commercial bank financing. (Covaci, 2009) For many companies leasing can serve as a solution for short-term and medium-term financing for equipment needed to expand operations. Leasing agreements are mutually beneficial to both parties, since the operations are cash-flow oriented. This means that while being provided with new market opportunities, leasing companies can offer new ways of acquiring the use of an asset as an alternative to outright purchase using borrowed funds which are generally in very limited supply. (Cornaggia, Franzen, & Simin, 2013)

The advantages of leasing are as follows:

1. Leasing involves financing of fixed assets in the full amount and does not require the immediate start of payments, which allows companies to update the basic production assets during temporary shortage of financial resources.
2. The lease agreement is more flexible than a loan, because it provides an opportunity for participants to work out the deal that works best for both of them.
3. Financial leasing facilitates the acquisition of property because the property under lease serves as a collateral.
4. Leasing reduces the risk of obsolescence of property, because under leasing agreement the property is taken for temporary use. In the case of obsolescence, the lessee has the option to acquire new property at the expiration of the term of the leasing agreement.
5. The property provided in financial leasing to the lessee is not listed on the balance sheet, which does not increase the company's assets, and exempts the company from paying property tax.
6. The lease payments are charged to production costs of the lessee and, accordingly, reduce taxable income, i.e., leasing reduces the tax.
7. The manufacturer of equipment and other property transferred in financial leasing gets additional opportunities for marketing their products.
8. Lease payments include VAT.
9. Leasing agreements are generally easier to obtain in comparison to loans. (Advantages and Disadvantages of Leasing, n.d.)

Leasing can become a key financing technique for various enterprises due to the way business entities finance operations from three main sources of capital. These are internally-generated cash, bank loans and capital markets. (Curtis, n.d.) In Russia companies struggle to obtain financing due to capital markets being still relatively undeveloped and banks being reluctant to lend to newly-established businesses. In order to obtain a loan many small businesses have to submit a profitable track record and offer strong security. Moreover, most banks are either unable or unwilling to undertake term lending. Thus, leasing is the only recourse to external financing for small and medium-sized businesses in Russia, because ownership of the financed asset does not transfer to the borrower until when the lease obligation has been fully discharged. (Zemlyansky, 2014)

3 Research Approach and Methods

The methods used in this thesis for the analysis of the financial assets and their major elements were proposed by the authors of National Research Nuclear University" MEPhI" Kogdenko V.G. and Krasheninnikova M.S.

The methodology includes the following steps:
• Analysis of the structure of financial assets on various classification criteria and analysis of the cost of various types of financial assets;
• Analysis of the impact of financial assets on the financial position of the organization: estimate of the proportion of financial assets in the balance sheet and investments;
• Analysis of the impact of the financial assets in the liquidity indicators;
• Analysis of indicators of movement of financial assets (indicators of the intensity of financial assets), namely the ratios of purchase and sales of financial assets;
• Analysis of the efficiency of management of financial assets and assessment of their impact on the financial results of the organization. Evaluation of profitability and turnover of financial assets; (Kogdenko & Krashennikova, 2006)

The reason why some parts of Kogdenko's and Krashennikova's methodology are going to be used is that they offer a comprehensive understanding of the financial position of the company and which options for investments are going to be used. The simple formulas that they provided in the introductory section of the methodology serve as an explanation for the composition of financial assets that the company owns and offer a perspective on which actions can be taken in order to find a suitable agreement in regards to the investments.

The second stage of the research includes the analysis of effectiveness of loans, leasing and direct payments in the modern Russian economy regarding the case company. For the analysis, the information gained in the interview with the company's representative is used as a basis of understanding the financial position of the company as well as the wants and needs of the organization in the upcoming years. In order to make a well-grounded statement regarding the best possible way to make a purchase of fixed assets (transportation), the author analyzed the peculiarities of loans and leasing in the modern Russian market, as well as researched possible options for choosing a suitable agreement.

Lastly, based on the financial highlights of the organization and on the aims that the company has in regards to the purchase of the new vehicle, the author draws recommendations on which option is best and how to find a suitable solution within the area.

4 Description of the Case Company

This chapter concentrates on the history and structure of the case company, as it pertains to the analysis done in the following chapters.

4.1 Brief History of "Technoland"

LLC "Technoland" is a dynamically developing company. The main activity of the company is distribution of kitchen appliances and other home electronics; delivery and assembly of goods. Moreover, "Technoland" creates innovative solutions to manufacturers of cooking, laundry, refrigeration and dishwashing products. The new branch of "Technoland" business was launched in early 2015, when the company acquired LLC "Akron" – a company which specialized in production of gardening equipment and mineral fertilizes. Now the company's activity is carried out in two industries: home appliances and household electronics, as well as gardening tools and equipment.

The history of "Technoland" dates back to the collapse of Soviet Union, when the enterprise had been privatized. After that, the company had a large-scale reorganization of production. In the early 2000s, the company has set its sights on building a vertically integrated holding. Today, the Group includes logistics and distribution channels, as well as external investment projects. In order to strengthen its position in the world's largest market for home and garden goods- in China - the Group acquired a plant for the production and assembly of complex equipment and fertilizers and has established a broad sales network.

LLC "Technoland" has agreed with the state authorities to change the license agreement for the plant, including the new deadlines for the construction of production and processing plant. After the recent investment in the plant and positive results of collaboration with local distributers, the company's focus has been on expanding its services abroad.

By September 2015 LLC "Technoland" has vastly expanded its operations and now consists of two modern enterprises, which offer versatile solutions to both businesses and consumers.

4.2 Company's organizational and operational structure

Technoland is a limited liability company, meaning that the liability of the members is limited to what they have invested. The company is also private. The head of the company's operations is the CEO, who is followed by the management team and lastly, the board. Technoland has several departments, which are responsible for various duties. The whole organizational structure can be split into two parts: departments, which are responsible for operative activities, and departments, which are responsible for support activities. During each business day, departments are in constant cooperation with one another, since all of them share the same goal and the long-term vision.

Company's sales strategies pose a significant competitive advantage, since "Technoland" uses its own logistics and distribution channels for handling finished goods. Moreover, the company has achieved production efficiency through significant investments in energy-saving technologies, bringing reduction to the electricity costs and avoiding the adverse impact on the environment.

Table 4 shows the main financial indicators of LLC "Technoland" for the period of 2010-2014.

Financial Highlights

Name	2010	2011	2012	2013	2014
1. Revenue (mm Rub)	37 542	46 738	65 431	71 112	67 904
2. Net Profit (mm Rub)	7 256	6 279	20 328	14 861	13 019
3. Income from Operating Activities (mm Rub)	5 374	8 741	27 731	18 420	13 980
4. Profit Before Tax (mm Rub)	7 275	10 336	20 856	19 924	15 386
5. Return (%)	19	13	31	21	19

Table 5 (Ponomarev, 2016)

5 Interview with LLC "Technoland" Representative

This interview took place on May 10, 2016 in the town of Porvoo / St. Petersburg via Skype. Interview was held with Vyacheslav Ponomarev, the executive of LLC "Technoland". Upon request of Technoland, where I was an intern during my work placement, I am writing my thesis. The interview was 45 minutes long. Interviewer - Svetlana, the writer of the thesis, the interviewee - Vyacheslav Ponomarev. The interview was written down by hand from the words of the interviewee.

- Good afternoon, Vyacheslav! Today I would like to talk to you about the topic of the thesis that I am writing for your company. Could you please elaborate on what your company does?

- Good afternoon, Svetlana! Our company manufactures and assembles household appliances. In recent years we also acquired a plant which produces gardening tools and equipment. We have two main offices in Saint Petersburg, we have been in the market for household goods for way more than 10 years – the company was established in the early 90s. We have several supply channels across Russia and China, our quality control mechanisms have shown a proven record of satisfying our customers' needs. Our staff is dedicated to bring high-quality and affordable goods to the consumers. In brief, we sell, manufacture and assemble a variety of goods for home and garden. Our clientele includes both consumers and businesses, which purchase our goods in bulk. We have our own trademark and each piece of equipment that we sell is truly unique. Basically, every customer can find something useful for themselves if they visit the store. We are very proud of the way that we walked together as a company to this day.

- What's «Technoland"'s mission and vision?

- The main goal that "Technoland" has is to supply the market with high quality goods that families and businesses can use on a daily basis. As I mentioned earlier, our services are highly demanded both among consumers and businesses. Business often use our products on a larger scale: for instance, in the last year we got several big-scale orders from bakeries - the companies use our appliances for cooking. We offer assembly services as well, depending on the needs of each particular needs. So, our mission is to deliver tailored services that work well for each customer in particular. The most important aspect of our company is to uphold the high standards of manufacturing and assembly of goods and provide our customers with top-notch services. Our vision is to always be open and honest with our customers and I am proud to say that "Technoland" has consistently kept up with its goals and standards over the years.

-What are "Technoland"'s plans for the near future?

- First and foremost, we are planning to expand. As I mentioned before, we have two stand-alone stores in Saint Petersburg, but we are interested in opening a new branch. Moreover, we want to improve our supply channels to the whole Saint Petersburg area, including neighboring regions and towns. Also, we are considering selling our trademarked goods to other resellers of household appliances and gardening tools. Since we have these thoughts about expansions, we asked for your help to solve the issue of purchasing new transportation for our goods in your thesis. As we previously discussed with you, we have considered three main options of acquiring new equipment for the transportation of our goods to the whole Saint Petersburg area and to neighboring towns. The most important question that we need the answer to is what way of acquiring the equipment, namely the truck, is the most feasible for our company. Unfortunately, nowadays our company doesn't possess enough funds to make the purchase of the truck from our own financial assets, since it can severely affect our budget. Also the economic state of our country doesn't allow us to sacrifice a large share of our budget for the purchase of the truck at this time. However, the suggestions that you made, that you can analyze whether loans or leasing can work for us, seem very interesting to me and the board. Although, if your analysis shows that neither loans or leasing allow us to find a profitable solution, we can consider purchasing the truck directly.

- Could you please tell me more about the financial situation at the company? Which ways of acquiring the truck do you consider?

- Since currently many Russian businesses deal with financial crisis, we can honestly admit that we've been experiencing a decline in our profits. However, we are optimistic about the future of the company: we still have a lot of orders and our distribution channels in general didn't experience a decrease in demand. Even though the financial crisis has affected our pricing policy, the market research that we conducted assures us that in the upcoming years we should experience an increase in sales. In order to take advantage of increased demand, we believe that we need to act on expansion now, when we can afford to purchase a truck through the use of borrowed funds. For this reason, we would like you to analyze which way of acquiring the truck is more suitable for "Technoland" – leasing, loan or direct purchase?

- Have you ever tried using loans or leasing for the purchase of equipment?

- A couple of years ago we acquired assembly equipment using leasing. At that time, it was a very profitable transaction, which helped us save a lot of financial resources. On the other hand, due to the financial crisis and possible change in the market we need to analyze whether it is still a convenient way of acquiring new equipment. Now, when the financial crisis has hit many Russian companies, one of our goals for 2015 is to save the financial resources within the company, while still planning ahead.

- Which goals do you want achieve with the purchase with the new truck?

- Since we want to expand our operations not only within the city of Saint Petersburg, but in the whole area and in the neighboring towns we believe that the new truck can help us handle the workload more easily. Moreover, we will be able to accept more orders and supply our customers with goods in shorter periods of time than we do now. We always put the customer first in our business, so we are not only aiming at increasing our sales, but we also want to make our clients happy by delivering our products faster and more conveniently.

- What would you like to see in my thesis? How my research can be helpful for "Technoland" in the future?

- We have provided our financial highlights that signify the company's financial performance in the recent years. Based on this data and the situation in the market we would like you to draw recommendations and conclusions on which way of acquiring the new transportation is the most convenient and profitable for our company in regards to our goals and financial position. We want to use your research as a basis to solve the problem of the purchase of the new truck.

- How soon does "Technoland" plan to purchase the truck?

- We plan to make the purchase in the late summer-early autumn. We want to have our new distribution channels ready for work by the time our new store is open, which is under construction. The construction of the new store is planning to end by the end of the summer.

- Thank you very much for your time!

- You are welcome! Goodbye.

6 Analysis of Financial assets in "Technoland" and Recommendations to Improve the Investment Activity

Financial assets of the studied organization take up a large share of overall assets. It is safe to assume that financial assets have a significant impact on the financial position and financial performance of the organization.

According to accounting reports it is possible to calculate the indicators of structure and dynamics of financial assets, the share of financial assets in total assets and investment. Accounting reports also serve as a basis for assessment of the impact of financial assets on the dynamics of liquidity ratios. According to the statement of cash flows we can analyze the intensity of operations with financial assets. (Hillier, Grinblatt, & Titman, 2011)

Financial assets are diverse, so at the first stage of the analysis it is necessary to analyze the structure of financial assets according to different classification principles that can be evaluated by analyzing the accounting data.

Domestic financing of fixed assets involves the use of the financial resources, the sources, which are formed in the course of financial and economic activities of the organization. Examples of such sources may be net profit, depreciation, accounts payable, provisions for liabilities and charges and deferred income.

6.1 Types of Financing of Company's activity

The research has analyzed the ways in which the company's activity can be financed.

So, there are the following sources of funding:
• The internal enterprise resources (net profit, depreciation, sales or rental of unused assets).
• Borrowed funds (foreign investments).
• Borrowed funds (loans, leasing, promissory notes).
• Mixed (complex or combined) funding.

The advantages of internal financing of the enterprise include no additional costs linked with the attracting capital from external sources and that control over the activity of the enterprise is on behalf of the owner. The major disadvantage of this type of financing is that it is not always possible to apply it in practice, due to high costs.

As practice shows, the majority of enterprises do not possess enough internal resources for the renewal of fixed assets. When selecting a source of financing from the foreign investor, enterprise must take into account the fact that the investor is mainly interested in high profits, the company itself and its share of ownership in it. The higher the proportion of foreign investment is, the less control there is for the owner of the enterprise.

There are two remaining forms of financing from the borrowed funds, which are leasing and loans. In most cases, companies directly compare leasing with loans, which is not entirely correct. The mistakes occur due to the fact that each transaction and contract under leasing and loan have their own specific conditions, which in return cannot be directly compared.

6.2 Financing for LLC "Technoland": the Analysis of Possible Options

After reviewing the financial highlights of the company's activity, we can analyze various financing options that are offered to LLC "Technoland". As it was mentioned in previous chapters, three main types of financing that the company can consider at this stage are loans, leasing or purchase of equipment through the company's funds.

6.2.1 Loans: Peculiarities of Taxation and Loan Agreements

The loan can be given by any organization or person, including entrepreneurs and enterprises. To do this, the recipient (borrower) needs to compose a loan agreement.

The loan can be granted in both money and property. The subject of loan is stated in the contract. When the loan is given in the form of money, then by default the lender has the right to receive the interest from the payments. When creating a loan agreement, it is important to include the amount of loan instalments as well as the interest rate. In case the amount of instalments and the interest rate are not stated in the contract, the borrower needs to pay the interest rate according to the "bank interest rate" (the refinancing rate), which is valid on the date of the repayment of the loan. Now refinancing rare in Russia is equated to the key rate (the rate at which the Bank of Russia provides loans to commercial banks) and is 11%. If the parties have agreed on a free loan, meaning that the borrower doesn't need to pay interest on the instalments, then this condition is directly prescribed in the contract. These rules are established by paragraph 1 of Article 809 of the Civil Code. (Article 809 of the Civil Code of the Russian Federation, 1996)

In case the loan is given in a form of a property, by default this loan is considered to be interest-free. Therefore, if the lender is planning on earning interest, he must indicate it in the contract along with the amount of instalments. To sum up, any loan agreement provided for the loan with interest rate must indicate how, when and in what amount the instalments need to be paid. (Article 809 of the Civil Code of the Russian Federation, 1996)

6.2.2 Peculiarities of Taxation of Leasing Payments

The terms, the extent of lease payments and the deadline of the transfers of the lease payments that the lessee makes must always be stated in the leasing agreement.

If the contract includes a condition under which at the end of the contract the property becomes the property of the lessee (i.e. the lessee buys it), then the lease payments must be documented under a special procedure. The reason for this is that the sum of the lease payments will include the redemption value of the property.

Payments under the lease agreement can be confirmed by the following documents:

- schedule of payments under the lease agreement,
- an act of acceptance and transfer of the property,
- invoices and other payment documents.

How often and in what amount the lessee should transfer the lease payments is stated in the contract. Usually the contract includes a separate appendix with the payment schedule.

There are two options for calculating the tax for the lease payments:
Option 1. The agreement states the total amount of lease payments for the entire period without a breakdown by each month. Lease payments can be uneven according to the fixed payment schedule.

In this case, the calculation of income tax expenses in the form of lease payments will have to be all distributed evenly throughout the term of the contract (para. 1, Art. 272 of the Tax Code). For example, the amount of the lease payment under the contract amounts to 5 000 000 rubles over the term of the contract (two years). Regardless of the schedule of payments the lessee takes into account the costs evenly, for 208,333 rubles. month (5 000 000 rub.: 24 months).

Option 2. The contract specifies the amount of lease payments for each individual period.
In this case, the lease payments are recognized as an expense to the extent that is provided by the contract for the relevant period. For instance, the contract states that the lessee makes a payment of 300 000 rubles in January, 250 000 rubles in February and 200 000 rubles in the rest of the year.

These sums are accounted as costs by the lessee, i.e. 300 000 rubles in January, 250 000 rubles in February, etc.

In determining the useful life all factors are taken into account:
• an expected period of use in accordance with the performance and capacity;
• the expected physical wear, which depends on the operating conditions, the natural environment and the impact of aggressive environment;
• legal and other restrictions of use (for example, the lease term).

If redemption of the property is not stated in the leasing contract, the amortization period can be determined based on the duration of the contract.

Only the amount of lease payments should be reflected in the expenses. Other costs and depreciation on the leased property don't have to be accounted in the expenses. The reason for this is how the lease payments are generated.

Lease payments include:

- the income of the lessor,
- reimbursement of the lessor's expenses, relating to the acquisition costs, transfer of property to the lessee and other services provided by the contract.

Depreciation can be listed in the expenses only if it reimburses the cost of the asset. The reason to this is that deprecation is a way to repay the cost of a fixed asset. Thus, depreciation should be charged from the organization that has the asset on its balance sheet. But in this situation, this condition is not satisfied.

The lessee does not bear the costs for the acquisition of property, because it is the lessor's expense. The lessee shall reimburse the lessor's expenses only in the amount of lease payments. Therefore, the lessee cannot recognize depreciation as an expense. Thus, amortization is written off on reduction of liabilities, recorded upon receipt of property in leasing.

To what extent the lease payments should be recorded in the expenses when calculating income tax depends on who has the subject of leasing on the balance sheet. It can either be a lessor or a lessee. If the leased asset remains on the lessor's balance sheet, each lease payment (entire amount) should be taken into account as other expenses related to production and sales. If under the contract's conditions the property is transferred to the lessee's balance sheet, each lease payment includes the reduction of the amount of accumulated depreciation. This is done due to the peculiarities of the Russian Tax Code – "property included in the balance sheet is recognized as depreciable" (Sec. 10, Art. 258 of the Tax Code).

Including amortization of the costs, the lessee already takes into account a certain portion of the lease payment in their cost. Therefore, when calculating the income tax for the other expenses, the lessee needs to write off only the remainder of the leasing fee (subtracting the amount of accumulated depreciation). Otherwise, the tax cost can wrongfully increase.

An exception is provided for organizations that use the cash method for accounting of taxes. They don't need to adjust the amount of the lease payments on the accrued depreciation. The reason is that the cash method of depreciation is allowed for only the property which is paid for. And because the lessee can acquire the property only if the equity of redemption is provided, the property cannot be amortized beforehand. Therefore, no matter on whose balance sheet the leased asset is, all lease payments are included in other expenses as they are paid.

6.3 Operating Cash Flow Ratio, Quick Ratio and Current Ratio

The second stage of the analysis involves assessing the impact of the financial assets on the financial position of the organization through the definition of the share of financial assets in the total assets and the shares of income, as well as expenses from financial assets in the aggregate income of the organization. In assessing the impact of the financial assets on the financial condition of the organization it is important to take into account the operating cash flow ratio, quick ratio and current ratio. For this purpose, it is essential to calculate the ratios. The calculation of these ratios is somewhat different from the traditional calculation of the indicators (Lyubushin, 2007).

These formulas are useful for determining the liquidity of the assets in the organization, meaning how quickly these assets can be converted into cash. This information can allow us to understand the value of the assets that the company owns and whether they can be used as investments.

Operating cash flow is calculated as a ratio of cash and equivalents to the value of short-term liabilities. The numerator excludes investments held for trading, as they cannot be immediately converted into cash:

(1) $OCF = \frac{Cash\&E}{L_{Current}}$, where:

$Cash\&E$ – cash and equivalents;

$L_{Current}$ - current liabilities. (Kogdenko & Krashennikova, 2006)

It is useful for determining the liquidity of the assets in the organization, meaning how quickly these assets can be converted into cash. This information can allow us to understand the value of the assets that the company owns and whether they can be used as investments.
Quick ratio of financial assets is calculated as the ratio of cash, cash equivalents and receivables to the value of short-term liabilities. Accounts receivable do not include advances to suppliers or tax authorities and the VAT on purchased assets:

(2) $QR = \frac{Cash\&E + AR}{L_{Current}}$, where:

AR - accounts receivable, notes receivable, short-term loans receivable, other receivables relating to financial assets. (Kogdenko & Krashennikova, 2006)

We can assume that only financial assets are used in the numerator when calculating the operating cash flow ratio as well as the quick ratio. Current ratio is calculated as the ratio of current assets to current liabilities. Current assets include both financial and non-financial assets, in particular inventories. (Lyubushin, 2007) In an analysis of financial assets, it is important to determine how they affect the value of the current liquidity ratio, which is calculated by the formula:

(3) $CR = \frac{Cash\&E + AR + AR_{NFA} + I_{sale} + FA_{other} + Inventories}{L_{current}} = \frac{A_{current}}{L_{current}}$, where:

AR_{NFA} - Receivables not related to financial assets[6], including advances to suppliers, VAT receivable, etc.;

I_{sale} - Investments available for sale (securities, currency, precious metals, etc.);

FA_{other} - Other short-term financial assets, including irrevocable letters of credit;

$Inventories$ - Inventories and other current assets.

$A_{current}$ - Current assets

$L_{current}$ - Current liabilities (Kogdenko & Krashennikova, 2006)

In the third stage the movement of financial assets is analyzed. It also helps the assessment of the intensity of operations involving the financial assets. High levels of intensity of operations is generally not typical for industrial organizations. (Dimson & Mussavian, 1999) The intensity of the financial assets is inherent to investments held for trading, which help obtain short-term profits. To estimate these profits, the ratios are determined by the purchase and sale. (Lyubushin, 2007) Ratio of acquisition of financial assets is calculated as follows:

(4) $R_{AFA} = \frac{P_{FA}}{FA}$, where:

P_{FA} - Payments for the acquisition of financial assets;

FA - The value of the financial assets except loans, receivables, deposits, cash and cash equivalents. (Kogdenko & Krashennikova, 2006)

Ratio of sale of financial assets is calculated as follows:

(5) $R_{SFA} = \frac{R_{FA}}{FA}$, where

R_{FA} - Income from sale of the financial assets. (Kogdenko & Krashennikova, 2006)

[6] NFA – non-financial assets

At the last stage of the analysis of financial assets, the effectiveness is assessed. To do this, return on assets and financial assets turnover ratios are calculated. (Dimson & Mussavian, 1999)To calculate the return on financial assets, the income from financial assets is divided at their cost.

(6) $ROA_{FA} = \frac{NI_{FA}}{FA} \times 100$, where:

NI_{FA} - net income from the financial assets. (Kogdenko & Krashennikova, 2006)

For the calculation of financial assets turnover, the following formula is used:

(7) $FAT = \frac{FA_{TR}}{Earnings} \times D_{cp}$, where:

FA_{TR} - Transactional financial assets, including receivables, cash and equivalents;

D_{cp} - Duration of the calendar period. (Kogdenko & Krashennikova, 2006)

The analysis of financial assets was carried out on the basis of financial statements of the case organization, operating in a real sector of economy. Information on the composition and structure of the financial assets of the organization are presented in Table 5.

Judging by the analysis of the data presented in table 5, it is apparent that the company owns a variety of financial assets, including investments available for sale, accounts receivable, deposits, cash and cash equivalents. The structure of the financial assets has significantly changed over the analyzed period. For instance, the beginning of the period was dominated by investments available for sale (68.18% of total financial assets), yet the end of the period was dominated by cash and cash equivalents (47.05%). The share of investments available for sale, rose to 35.50%. The value of financial assets increased, the growth rate amounted to 48.70%, exceeding the growth rate of the balance sheet total (33.51%). This indicates the fact that financial assets are widely used in the organization.

The composition and structure of the financial assets of the organization in 2012-2014

Index	Sum (million rub)			Structure (%)		
	31.12.2012	31.12.2013	31.12.2014	31.12.2012	31.12.2013	31.12.2014
Investments available-for-sale among non-current[7] assets	24 398	19 950	4 824	68,18	50,84	**8,27**
including:						
- shares	24 398	19 812	4 684	68,18	50,49	8,03
- other	-	138	140	-	0,35	0,24
Accounts receivable in long-term loans	42	68	23	0,12	0,17	**0,04**
Investments available for sale in current assets	727	345	20 717	2,03	0,88	**35,50**
including:						
- bonds, promissory notes	671	345	860	1,88	0,88	1,47
- shares	56	-	19 857	0,16	-	34,03
Accounts receivable	3 021	4 247	3 898	8,44	10,82	**6,68**
including:						

[7] Non-current assets are also referred to as long-term assets

Index	Sum (million rub)			Structure (%)		
	31.12.2012	31.12.2013	31.12.2014	31.12.2012	31.12.2013	31.12.2014
- Trade receivables	1 657	2 384	1425	4,63	6,08	2,44
- Short-term loans receivables	956	920	1 363	2,67	2,34	2,34
- Promissory notes receivable	172	212	314	0,48	0,54	0,54
- Other receivables	236	731	796	0,66	1,86	1,36
Irrevocable letters of credit	-	1 121	1 435	—	2,86	**2,46**
Cash and equivalents	7 597	13 509	27 453	21,23	34,43	**47,05**
including:						
- cash in hand and in bank accounts in rubles	2 194	1 904	10 179	6,13	4,85	17,44
- cash in hand and in bank accounts in other currencies	5 403	11 605	17 274	15,10	29,57	29,60
Total financial assets	**35 785**	**39 240**	**58 350**	**100,00**	**100,00**	**100,00**

Table 6 (Ponomarev, 2016)

6.4 Financing for LLC “Technoland”: Conclusions and Recommendations

After monitoring and analyzing the leasing market, the company” Svoe-Delo Leasing” was chosen as the most suitable for "Technoland". The main advantages of this company-lessor over the others are the following:

- A sufficiently long period of work in the leasing market (over 10 years);
- Provision of financial leasing;
- A choice of schemes of leasing payments;
- Changes in lease terms for the client;
- The possibility of deferred payments and early repayment of debt.

In order to develop activities and increase profits "Technoland" should consider acquiring Equipment 58149Z 6520-61 under the lease agreement from the company CJSC "Svoe Delo-Leasing". Leasing agreement reflected the position that the right of ownership over the course of lease belongs to the lessor.

"Technoland" LLC has the exclusive rights to possess and use the object of leasing. Income received by the user from the use of the leased property is owned by the lessee. Without the written consent of the lessor, the leasing object cannot be transferred to a third party. The company "Technoland" LLC should use the property only for its intended purpose and does not have the right to make changes and modifications to the property under lease.

The leasing contract has a special section that lists the rights and obligations of the parties. The main responsibility of LLC "Technoland" is to pay the lease payments in a timely manner, with the indication of the total amount. This amount has to be paid by the lessee, with the established timing, procedure and the form of periodic lease payments. The agreement provides a detailed schedule of lease payments with specific amounts and dates of payments. In case of delay in payments, the contract includes penalties for violation of terms of payment of periodic lease payments.

In the present conditions of the leasing contract, the lease can be terminated prematurely on the initiative of LLC "Technoland", and on the initiative of the leasing company CJSC "Svoe Delo-Leasing".

Basic conditions of the leasing contract are the following: the contract of financial leasing with full amortization; the leasing contract is valid for a period of 5 years; lease payments are paid monthly; at the end of the lease term, the lessee is given the opportunity to purchase the equipment at residual value.

Let's consider leasing transaction for the purchase of equipment. According to the financial leasing agreement, the cost of equipment including VAT is 3 million rubles. The total term of the leasing agreement is 5 years. The initial cost of the equipment is 3 000 000. Accelerated depreciation will be calculated in accordance with applicable regulations (10%), increased by a factor of 2, and the acceleration of 20% per year respectively, amortization of property cost for the half year will be 3000 rubles. Payment to the lessor for the used loan funds shall be paid at the rate of 22% per annum. Lessor's remuneration 3%.

For LLC "Technoland" purchase of equipment through the use of leasing is profitable and will bring the company the profit of 504 060 rubles.

However, if the organization will acquire the same equipment through the use of loans, it will be more profitable. The reason for it is that since the purchase of equipment through the bank loan requires to pay only the interest on the loan without paying for leasing (lessor's compensation).

On the other hand, in the case where the lessor will not use borrowed funds for the purchase of equipment provided in the lease, then on the other hand, the lease agreement is more favorable, because the lessee will pay only the cost of the lease, which is significantly less than the interest on bank loans. If LLC "Technoland" purchased the equipment, they would make an annual depreciation charge of 300 thousand rubles per year. Considering that the income tax rate is 20%, the company would save on taxes on profits 60 thousand rubles in a year.

These tax savings are called "depreciation protection". Since the leasing the property remains under the property of the lessor, the lessee may not use such protection. In this case loan is more favorable to the lessee, and in order to make the lessee interested in the leasing transaction, the lessor will be forced to lower interest rates.

Thus, the cost of using the enterprise financial resources as the source of funding is considerably smaller. This is one of the important benefits of the loan compared to lease as tools of financing the project.

Changing the terms of the contract in favor of the lessee can be accomplished in other ways. For example, the lessor can be responsible for the maintenance of the equipment. Another source of compensation that can be favorable for both sides is the partial lease payment by the products manufactured using the leased equipment.

Leasing may be more attractive if the parties of the contract use additional tax benefits. In this case they lose the tax protection for a grace period, but the loss is compensated due to the fact that all profits remain in their full possession.

When the leasing contract is signed, the rate is fixed and remains unchanged throughout its term. On the contrary, when taking a bank loan, the bank can unilaterally change the conditions of the loan agreement, including the rates, if, for example, the lender fails to maintain a certain level of the turnover on their current account. This is another advantage in choosing leasing. The cost of the lease payments can significantly reduce the tax base.

Acquisition of fixed assets under the lease agreement and under the loan agreement have some similarities:

• payment scheme - the lease payments are similar to debt repayment;
• mandatory payments of the lease payments are similar to the obligation of repayment of the debt;
• urgency principle - the lease agreement must be signed for a certain period;
• repayment of principle - the costs of the lessor shall be reimbursed in full;
• payment for the principle - the redemption price under the contract, if the contract takes place at the end of the redemption of the property, is always higher than the actual costs produced

The advantages which are in favor of leasing are the following:

1). Availability: the decision on the implementation of a leasing deal is based largely on the lessee's ability to generate sufficient funds for the payment. Leasing agreement is not dependent on the credit history of the company.
2). No additional maintenance: because the lessor is in ownership of the property, the transaction doesn't require any other official collateral (pledge, guarantee, etc.).
3). Tax shield and accelerated depreciation, which prove the effectiveness of leasing. Leasing agreements are often associated with the possibility of using tax incentives: lease payments are fully included in the cost and reduce the tax base for income tax; accelerated depreciation is applied with an acceleration factor of up to 3, thus reducing the property tax and increasing the depreciation charge. This fact, of course, is fundamental when choosing an implementation technique for the investment project. Leasing allows you to calculate all the possible changes in the tax environment for future periods and to make tax planning and tax optimization the more effective.

Currently, banks do not issue loans for the purchase of fixed assets. In the current economy, the only possible way for LLC "Technoland" to purchase new equipment is leasing. However, in order to obtain the most lucrative deal is to conduct a proper monitoring of leasing companies and their respective offers.

When the lessor's income tax rate is above the lessee's tax rate (in case the special tax conditions are used), leasing may be more effective than direct loan financing because of the smaller cost of the interest and depreciation tax protection. The economic effect of leasing increases with the interest rate of the loan because of the greater income tax rate that the lessor needs to pay. When lessor's income tax rate is higher than the lessee's rate, the lessor receives a relatively higher depreciation tax protection and thus, the economic benefits of leasing increase. Therefore, the rate of depreciation on the leased asset increases. What matters is the lease term and the amount of payments at any given time. When the tax rates on the profits of the lessor and lessee are different, the efficiency of leasing changes in the redistribution of cash receipts and payments for periods of time.

When starting a leasing agreement, the lessor receives the interest and depreciation tax protection when they are worth more to them than to the lessee. Instead of amortization and interest tax protection, the lessee receives a tax protection for lease payments. The added value of the tax incentives is a margin of the lessor, which he receives in excess of the interest rate, which is set for the project. Part of this margin is given by lessor to the lessee, providing them with a better financing options, meaning that the lessee is able to receive more investments than he would through a bank loan.

7 Conclusions

As research showed, LLC “Technoland” does not possess enough funds for the purchase of the truck at this time, making a direct purchase now would strongly affect the overall performance of the company in the market and is the least feasible option. Based on the financial records provided by the company it is safe to assume that at this point the purchase of the truck can result in a serious loss. Although, based on the information discovered in the interview and in the company’s financial highlights, the company can possibly purchase the truck in the upcoming years, due to a stable increase in sales. However, since the purchase of the truck is very important at this particular time due to increase in demand in the market. For this reason, it is not recommended that the company postpones the purchase of the equipment.

Another discovery that the research made was the way the structure and composition of financial assets changed during the years. While they still make up for the big part of what the company owns, in recent years they weren’t crucial for the company’s performance in the market. Basically, financial assets in LLC “Technoland” play a very little role in the company’s profits, even though they still are a big part of what the company owns. In regards of how to improve the operations with them, the research revealed that financial assets that the company owns currently don’t play a major role in the company profits. Thus, due to the goals that the company has set and the whole economic situation in the market, it is recommended that the company doesn’t make any changes to their use yet.

When comparing loans and leasing, the author discovered that loans can only be a competitive option for the purchase of the vehicle only in case the bank rate exceeds the rate on the lease payments. However, in modern times it is impossible to find a feasible agreement for the purchase of the vehicle, since, as it was mentioned above, the interest rate that the banks offer for the purchase of equipment and vehicles are much higher than those offered by leasing companies. Moreover, loan agreements rarely offer insurance and protection for the lender, as it was discovered earlier. For this reason, loans are not an option for the purchase of the new truck for LLC "Technoland".

After monitoring the leasing market in Saint Petersburg area, it is safe to assume that many leasing companies offer a variety of solutions for LLC "Technoland". However, judging by the criteria of availability, contract requirements, conditions and features the company CJSC "Svoe-Delo Leasing" was chosen. The lessor offers a competitive rate on lease payments as well as the option of the buyout of the equipment once the lease term is over. Since the cost of the equipment is 3 000 000 rubles, the leasing contract will last 5 years, with the property being transferred to the lessee at the end of the lease term. LLC "Technoland" previously collaborated with CJSC "Svoe-Delo Leasing" for the purchase of the assembly equipment and the leasing agreement was very feasible for that time. The current conditions that the leasing company offers are still very feasible for both parties and allow "Technoland" to make an affordable purchase of the new vehicle.

8 Bibliography

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9 Table of Figures