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**MORTGAGE AS ONE OF THE MOST EFFECTIVE TYPES  
OF COLLATERAL: ACCOUNTING ASPECTS**

*The paper investigates the role of mortgage among other ways of collateral, determines its advantages and feasibility of use. The paper defines the problems with mortgage operations accounting, thus determining the directions for future research.*

*Keywords: mortgage; collateral; accounting.*

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**ЗАСТАВА ЯК ОДИН З НАЙБІЛЬШ ЕФЕКТИВНИХ ВИДІВ  
ЗАБЕЗПЕЧЕННЯ ЗОБОВ'ЯЗАНЬ: ОБЛІКОВІ АСПЕКТИ**

*У статті досліджено місце застави серед інших способів забезпечення виконання договірних зобов'язань, встановлено її переваги та доцільність використання. Окреслено проблеми бухгалтерського обліку операцій із заставою, що формують напрями для подальших досліджень.*

*Ключові слова: застава; забезпечення зобов'язань; бухгалтерський облік.*

*Рис. 1. Табл. 1. Літ. 10.*

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**ЗАЛОГ КАК ОДИН ИЗ НАИБОЛЕЕ ЭФФЕКТИВНЫХ ВИДОВ  
ОБЕСПЕЧЕНИЯ ОБЯЗАТЕЛЬСТВ: УЧЕТНЫЕ АСПЕКТЫ**

*В статье исследовано место залога среди других способов обеспечения исполнения договорных обязательств, установлены его преимущества и целесообразность использования. Определены проблемы бухгалтерского учета операций с залогом, которые формируют направления дальнейших исследований.*

*Ключевые слова: залог; обеспечение обязательств; бухгалтерский учет.*

**Problem statement.** Activity of any company is accompanied by cooperation with other companies, which is based on contracts. Relationship between enterprises may be different, but they are based on contracts that provide records of an agreement, its subjects, rights and obligations of the parties to ensure the fulfillment of this contract. The choice of collateral for contract obligations fulfillment is quite difficult because various types of collateral are used in practice, and mortgage is the most effective of them.

**Recent researches and publications analysis.** Different types of collateral have been studied by the following scientists: A.A. Boyko (2010), T.M. Banasko (2013), M.V. Chudak (2011), O. Kizlova (2010), I.O. Serebryakova (2011), T.V. Zatoka (2012). However, most studies consider only legal aspect of it and neglect the accounting aspect of such operations. Also, insufficient attention is paid to the choice of the most effective way of collateral from the economic point of view and its reflection in company's accounting system.

**The aim of the study** is to find the place of mortgage among other forms of collateral and delineate the problems concerning accounting security of obligations and mortgage management.

**Key research findings.** Fulfillment of contractual obligations is one of the most important institutional aspects of national economy's development. The relative sta-

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bility of business environment is provided, among other factors, by the fulfillment of contractual obligations of contractors. Different means of influence is used for it and one of them is the security of obligations fulfillment that can be implemented in various forms.

The Civil Code of Ukraine defines the following types of security of obligations' fulfillment (Code, #435-IV, 16.01.2003): penalty, bail, guarantee, mortgage, holding, deposit. However, this is not an exhaustive list of types of obligations fulfillment. According to p.2, Art.546 of the Civil Code of Ukraine (Code, #435-IV, 16.01.2003), agreement or law may establish other types of obligations fulfillment, which allow economic subjects choose other possible forms of security. Let us consider their basic forms, which are determined by Ukrainian legislation and establish key differences between them to select the most effective one.

Art. 549 of the Civil Code of Ukraine reveals the concept of penalty and determines that penalty (fine) is the sum of money or other property that a debtor must pass to a creditor in case the former breaches obligations (Code, #435-IV, 16.01.2003). Also, this regulatory document specifies the conditions for penalty application. Penalties application requires determining that a debtor actually violated obligations and then, after a violation, he must pass a creditor an amount of money or other property. The object of penalty may be an amount of money, movable and immovable property. If the object of penalty is an amount of money, the amount is set by the contract or a civil act. Thus, penalty is the right of a creditor to get a refund if a contract is breached.

Another type of security of proper obligation fulfillment is bail. Bail can secure obligations, it has gained considerable popularity in ensuring obligations under loan agreements. Bail is concluded between a creditor and a guarantor to secure the fulfillment of obligations under the contract concluded between a debtor and a creditor. Bail may secure partial or full fulfillment. Thus, bail requires a third party that is the guarantor of fulfillment of a debtor's obligations to a creditor. Detailed terms of a particular bail are specified in a separate contract between a guarantor and a creditor.

Guarantee is a way to secure fulfillment of obligations according to which the guarantor bank (or other financial institution) assumes liabilities to a beneficiary (in written form) to make payment on behalf of the principal in case of his failure to fulfil obligations fully or partly in case the beneficiary claims payment and compliance with all requirements stipulated by the terms. Obligations of the guarantor bank (or other financial institution) to a beneficiary are independent of the main obligation of a principal (its expiration or invalidity) including when the reference to such obligation is found directly in the text. Thus, the guarantee feature is that it is used in financial transactions.

Mortgage is one more way to secure obligations. According to Art.572 of the Civil Code of Ukraine (Code, #435-IV, 16.01.2003) in case of a mortgage the creditor (mortgagee) has the right to satisfaction by the mortgaged property primarily to other creditors of the debtor in case the debtor (mortgagor) fails to fulfil the obligation secured by mortgage, unless otherwise provided by law. Mortgage may result from the concluded agreement or by the court decision. The peculiarity of mortgage is its material nature, while other types of security are only the right for compensation or reimbursement.

The right of holding appears in case a debtor fails to fulfill obligations on time concerning payment for a thing or compensation of related costs and other damages to a creditor. Creditor is entitled to hold the thing until obligation is fulfilled by a debtor. Holding stipulates postponing the fulfillment of contract terms by a creditor until debtor fulfills its obligations.

Deposit is an amount of money or movable property given by a debtor to a creditor on account of contract payments, to confirm obligation and secure its fulfillment. In fact, deposit stipulates a kind of advance payment on the part of a debtor, and as a result creditor receives certain guarantees concerning the fulfillment of debtor's obligations.

As we can see, only mortgage and deposit are of material nature among the methods of obligation fulfillment security fixed at the legislative level, while all the rest are the right to claim obligations repayment, which repayment guarantee, in fact, having no material support. However, deposit can be used only on the basis of a signed contract, while mortgage can be used by court decision, which extends the possibilities for its use in judicial settlement of commercial disputes. Taking into account all the above mentioned we believe that mortgage is the most appropriate and effective way of contract obligations fulfillment.

Mortgage as a collateral method is secondary in the contract process and cannot be used without attachment to main obligations. The object of mortgage, depending on its type, can be any property (including, securities, property rights), which may be alienated by a mortgagor and collected (Table 1). The objects of mortgage include property which the mortgagor gains after mortgage occurrence (future harvest, live-stock litter etc.). Thus, even if the mortgagor has no valuables to be mortgaged at the moment, he can mortgage values, he will acquire ownership rights to after a certain period of time.

*Table 1. Objects of mortgage as accounting objects (depending on the type of mortgage), authors' compilation*

No.	Type of mortgage	Subject of mortgage
1	Mortgage on real estate	Land plots and real estate
2	Pawn	Money, tangibles
3	Securities	Stocks, bonds, promissory notes and other securities of guaranteed income
4	Property rights	Documents confirming the right to certain tangibles or the right to receive income
5	Mortgage of goods in circulation or processing	Goods in circulation or processing
6	Tax mortgage	Enterprise property
The object of mortgage cannot be:		
1) cultural values that are objects of state or municipal property and must be recorded or are recorded in the State Register of Cultural Heritage;		
2) cultural heritage monuments, recorded in the list of cultural heritage that cannot be privatized;		
3) demands of personal nature;		
4) state property that cannot be privatized.		

Despite the prevalence of operations with mortgage, the accounting issues of such operations remain unsolved, which manifests itself in a number of points

(Figure 1). In the current Plan of accounts of assets, capital, liabilities and economic operations of enterprises and organizations, and Instructions for its use (Manual, #291, 11/30/1999) we use the off-balance accounts 05 "Guarantees provided" and 06 "Guarantees obtained", respectively, to account gained and provided guarantees and secure fulfillment of obligations and payments.

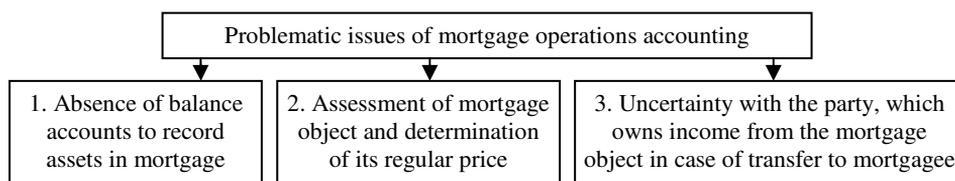


Figure 1. **Problematic issues of mortgage operations accounting**, developed by the authors

Within the framework of these accounts an enterprise can form analytical sections of mortgage accounting, however mortgage does not appear on balance accounts that narrows information capabilities of accounting system in provision of information about enterprise operations with mortgage for obligations management and their security.

Another problematic issue of mortgage operations accounting is mortgage object assessment. This assessment is carried out by the mortgagor with the mortgagee according to regular prices prevailing at the time of mortgage occurrence, unless a different procedure of mortgage object assessment is provided by a contract or a law. Regular price is the price of goods (works, services) determined by parties (Code, #2755-VI, 02.12.2010). Regular price of a mortgage object can be defined for objects presented at the active market. When mortgage object is a unique one, then determination of its regular price is quite problematic. The same situation occurs when the mortgagee gains property rights to objects in future. In this case, the formation of the object regular price is influenced by conjuncture price changes of these objects, inflation rate and market situation, as well as general conditions of business uncertainty. In this case, the price of mortgage must be considered as compensation for possible risks.

If the mortgage object must be in possession of the mortgagee under a contract or law, the right of mortgage occurs at the time the mortgage object is transferred. If such a transfer is made before the mortgage contract is signed, the mortgage right occurs after the contract conclusion. However, the issue of accounting this property transfer to mortgage remains unsolved. Current plan of accounts does not include separate balance accounts to account assets received or transferred to mortgage. In fact, one company writes off a particular object, and another gets it on balance, but no assets inflows and outflows are recorded in accounting on economic and legal nature of this operation, which leads to violation of the principles of credibility and objectivity.

Current legislation stipulates that the mortgagee is entitled to use the mortgage object only in cases specified by a contract. Also the mortgagee may be obliged to acquire harvest<sup>3</sup> and revenues from the mortgage object if specified by the agreement.

<sup>3</sup> If the mortgage object is workstock, productive livestock or perennials.

However, the issue of the party to own harvest or revenues obtained remains unsolved, which in turn affects the accounting display of these operations and formation of appropriate managerial information.

Thus, we can conclude that problematic issues of mortgage operations accounting are of organizational and methodical nature thus requiring further research to find solutions to problem areas outlined.

**Conclusions and prospects for further research.** The study of types of contractual obligations collateral established by law in Ukraine shows that the most appropriate and effective in use is mortgage. The use of mortgage may be fixed at the level of agreement between parties, as well as by the court decision, which provides the legal basis for realization of mortgage economic benefits compared to other types of obligations fulfillment security.

The described problems of mortgage accounting are of methodical nature and manifest themselves as: 1) the lack of balance sheets to account incoming mortgage in the current plan of accounts; 2) the problem of regular price determination of the mortgage object, due to institutional features of economic development of national economy; 3) the unsolved issue of ownership rights distribution to harvest or revenues obtained from the mortgage object in case of its transfer and storage by the mortgagee. The detected issues are the areas for accounting system improvement as a whole and its separate components (including the methodological principles of contractual obligations accounting and their security). Solution of these problems will increase the effectiveness of management of economic entities.

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Стаття надійшла до редакції 22.12.2014.