

AS 19

1. Objective:

Accounting treatment - Recognition
- measurement
- Presentation

& Disclosure for both operating & finance lease in the books of lessor & lessee.

2. scope

Non - Applicability.

a. Renewable & non renewable resources - Ind norms

[Agricultural products] like oil, gas, minerals

Forest products, ~~live~~ live stock

b. Lease agreements for land - Landlord Act

c. lease agreements / arrangements for motion pictures films - cinema

Video recording - Short film

Plays - Dramas

manuscripts - handwritten books

d) contract for service - not including Right to use the Asset

Contract for service $\left\{ \begin{array}{l} \text{Right to use asset } \checkmark - \text{AS 19 } \checkmark \\ \text{Right to use asset } \times - \text{AS 19 } \times \end{array} \right.$

of service - employment \neq lease.

3. Definitions

a. lease

- is a contractual agreement
- entered b/w 2 parties
- where 1 party - transfers the lessor right to use (i.e. possession)

• In return for a payment / consideration - from lessee
[lumpsum / installment / .]

b. Note

- AS 19 - cancellable leases - x during lease term.
 - ↳ leases can be cancelled at any time
- non cancellable leases - ✓
 - ↳ can't be cancelled during lease term.

Exception

- A non-cancellable lease - can also be cancelled
 - upon occurrence of remote contingent event - Flood, Earthquake ...
 - Prior permission of lessor
 - entering into new lease agreement for the same / similar asset.
 - so decided @ inception of lease that lease can be cancelled at any time - upon payment of huge penalties.

c. Types of leases

Operating lease	Finance lease	
	<u>TRANSFER OF</u>	
x	(i) Ownership	x
✓	(ii) Possession	✓
✓	(iii) Right to use	✓
x	(iv) Risk & Reward	✓
Rent.	Similar to lessee rentals	loan
Expense / Income	lessor paid is	EMI (P+I)

Finance lease

- ★ 5 deterministic conditions + 3 suggestive conditions
any of the 5 ✓ - FL if risk & reward - ✓ - FL
[deemed assumption - ✓ & ✓ ✓ [consider agreement +]
don't bother with agreement]

★ If it is not a FL, then it is operating lease.

⑤ deterministic conditions

1. @ end (lease term) - ownership transferred to lessee
(max-chances) @ inception of lease
2. Lessor - Reasonable certainty @ inception of lease similar to hire purchase
That lessee would exercise his option to purchase
@ price < FV as on ~~end~~ DOP @ end LT
3. Present value (mini lease payments) - almost equal to -
- FV (lease asset) $\geq 90\%$
4. major economic life is covered under lease term
($\geq 75\%$)
5. Asset is of specialised in nature - lessee can use
without major modifications.

③ suggestive conditions

- 1) upon cancellation of lease - loss borne by lessee
- 2) P/C - fluctuations in Residual value - accrued to lessee
- 3) lessee - option to Renewal the lease for a secondary period @ $LR < \text{market Rent}$.

Risk Components)

Probability of loss

- ① Idle capacity
2. Technology obsolescence
3. change in the environment

Rewards Components)

Expectation of profit

- ① Residual/Scrap value
2. Economic life period
3. Sale of Asset
4. \uparrow FV

5. Other definitions

a. Inception of lease:

Date of signing the agreement

(or)

Date of fixation of terms & conditions

[Date of confirmation of negotiations]

which ever
is earlier

b. MLP - Minimum lease payments

- minimum payments made during the lease term by lessee \rightarrow lessor for using the asset to the minimum extent.

Includes

- Lease rent
- Additional Amt
- Bargain Amt
- Guaranteed residual value (GRV)

Excludes

- unguaranteed residual value
- Repairs & maintenance
- Taxes
- contingent rent

c. Bargain Amt:

price agreed b/w lessor and lessee to transfer the ownership @ end of lease term (LT)

d. Residual value.

Value attained / expected @ end of LT.

Residual value

Guaranteed Residual value (GRV)

unGuaranteed Residual value (UGRV)

↓
 Lessee
 lessee
 (or)
 On behalf of lessee

↓
 Guarantee given by
 TO lessor
 lessee
 (or)
 on behalf of lessee
 (or)
 Independent 3rd party

• belongs only to lessor
 • no guarantee extended by lessee
 → $UGRV = RV - GRV$.

e. Lease term

• Period of non-cancellable lease +
 • Renewal period (reasonable certainty)
 (3rd suggestive cond)

d. Economic life

• Total life period of Asset for which it is capable of generating Future Economic benefits (FEB)
 (i.e. used by 1/more users)

f. useful life

• Total period of asset which is used by all the lessees.

In other words,

TOTAL period of asset used by a particular lessee.

Contingent rent: • fixed

• but payment upon happening/non happening of an event.

Reclassification of lease:

Not Permitted

classification @ inception of lease is final

if needed - it can be a different lease for new lease agreement.

* not being a renewal.

for renewal lease agreement - same classification

7. Accounting treatment - FL ~ loan

Repayment = LR ~ EMI

① In LESSOR BOOKS

② IN LESSEE BOOKS

Lessee

1. Inception of lease Asset

TO ASSET A/C

TO LESSOR A/C

@ NIL = GIL - UEFI

Asset transfers

@ PV (MLP)

UEFI = GIL - PV (GIL)

P.V. (or) CLA ↓

* GIL = MLP + UGRV

NIL = Net investment in lease

GIL = GROSS investment in lease

UEFI = unearned financial income.

2) Installment

Lessee A/C Dr

(i) Due Int

Fin Exp

TO Financial income A/C

TO LESSOR A/C

C/B

Dr

(ii) Payment

lessor Dr

TO Lessee A/C

TO C/B A/C

3) Provide dep

NA

[only by lessee
∵ risk & rewards
with lessee]

Dep
TO LA

FI

TO P&L A/C

4) close nominal A/Cs

P&L A/C Dr

TO Fin Exp
TO Dep

2. OPTIONS

(i) Wloff in P&L A/C

totally in first year

5) Initial direct exp

• (+) leased asset

(ii) Amortisation to P&L A/C

over LT

DIFF

rates %	Amount	rates %	Amt
5%	26902	5%	26902
?	14390	?	12512
2.67%		2.32%	

II Recognition table

yr	Amt £	IRR PV@ 12.67%	PV
1-5(LR)	50,000pa	3.546	177300
5 (GRV)	25,000	0.551	13775
MLP	2,75,000		191075
5 (VGRV)	15000	0.551	8265
GIL	2,90,000		PV (GIL) 199340

LESSOR BOOKS

lessee 199340
TO Asset 199340

LESSEE BOOKS

Asset 191075
TO lessor 191075

@ NIL



GIL - UEFI



GIL - PV(GIL)

290000 - 199340

PV (MLP)
(or)
PV Asset

Amortisation table (lessor)

Year	MLP/LR	P+I = installment	O/S principal
y ₀		- - -	1,99,340
y ₁	(BIF) 24744	+ 25256 = 50000	174596
		[199340 × 12.673]	(199340 - 24744)
y ₂	(BIF) 27879	+ 22121 = 50000	146717
		[174596 × 12.67%]	[174596 - 146717]

Y3	(BIF) 31411 + 18589 = 50000 [146717 x 12.67%]	1,15,306 (146717 - 31411)
Y4	35391 + 14609 = 50000 [115306 x 12.67%]	79915 (115306 - 35391)
Y5	39,915 + 10085 = 50000 (BIF)	40000 GRV UGR 25K 15K

Amortisation table for lessee

Year	MLP/LR	P + Int = Installment	O/S pr
Y0		- - - - -	191,075
Y1	(BIF) 25,791 + 24,209 = 50,000 [191,075 x 12.67%]		1,65,284 (191075 - 25791)
Y2	29059 + 20941 = 50000		1,36,225
Y3	32740 + 17260 = 50000		1,03,425
Y4	36889 + 13111 = 50,000		66,596
Y5	41596 + 8404 = 50,000 (66596 - 25000) (BIF)		25,000 GRV

In Books of LESSOR

lessee A/c	Dr	25,216
		TO Finance Income 25,216
(Being Int due)		
CIB A/c		50,000
		TO lessee A/c 50,000
(Being Installment received)		
Income	Dr	25,256
		TO P&I A/c 25,256

In the Books of LESSEE

Finance Exp A/c	Dr	24,209
		TO LESSOR A/c 24,209
lessor A/c	Dr	50K
		TO CIB A/c 50K
Dep A/c	Dr	33,215
		TO Leased Asset 33,215
		[191075 - 25000] / 5 → RV
P&I A/c	Dr	57,424
		TO FIN EXP 24,209
		TO DEP A/c 33,215

End of lease term
@ end of 5th year
(Dep, Int, Inst)

1) A 40K
TO LESSOR 40K
[ERV = ARV]

1. lessor 25K
TO Asset A/C 25K
[If it is > 25K restrict to 25K]

2) A 38K
P&L 2K
TO Lessee 40K

2) lessor 25K
TO Asset (< 25) 18K
TO C/B 7K

[If ARV = (25K - 40K)]

3. A 18K
C/B 7K
P&L 15K
TO lessee 40K

[If ARV < 25K]

CRD-4

Recognition table

Year	Amt(₹)	PvF @ 16%	PV(₹)
1-4	3,50,000 P.a	2.7983	979405
4(GRV)	<u>50,000</u>	0.5523	<u>27,615</u>
MLP	= <u>14,50,000</u>		PV(MLP) = <u>10,07,020</u>

In the Books of ABC Ltd

Asset A/C → Dr 10L
TO XYZ Ltd 10L

PV(MLP) (ob)
PV(A) ↓

Amortization table

Year	(B/F)P + I @ 16% = Installment	O/S Principa
40	- -	

CRD-5

In the BOOKS OF ABC-ITD.

Recognition table

Yr	Amt	Pt @ 12%	PV (₹)
1-3 (LR)	6,00,000 P.a	2.402	14,41,200
3 (GRV + UGRV)	<u>5,00,000</u>	0.712	<u>3,56,000</u>
GIL	<u>23,00,000</u>	PV(GIL)	<u>17,97,200</u>

Amortization table

Yr	P + I = Install	0.15 Principal
Y0	- - -	17,97,200
Y1	^{bif} 3,84,336 + 2,15,664 = 6,00,000	14,12,864
Y2	^{bif} 4,30,456 + 1,69,544 = 6,00,000	9,82,408
Y3	4,82,408 + 1,17,600 = 6,00,000 (bif)	5,00,000

CRD-2

PV(MLP) almost equal to PV(A)

PV(MLP)

↓
LR-?

Computation of lease rent

Fair value (LA) = 5,00,000

Less: PV(UGRV) = (37565) [50000 x 0.7513]
@ end of 3rd year

Computation of lease rent

1) Fair value (LR) = 5,00,000
 less: PV(UGRV) = (37,565)
 @ end of 3rd year

PV(MLP) 4,62,435

2) $LR \cdot p.a = \frac{PV(MLP)}{\text{Annual factor for 3yrs}}$
 $= \frac{4,62,435}{2.4868}$

= 1,85,956 p.a.

PV(MLP) = 1,85,956 x 2.4864
 = 4,62,435

Coverage = $\frac{4,62,435}{5,00,000} \times 100 = 92.481$

Conclusion: major economic life is 5 years is covered under lease term in 3 years.

PV(MLP) = FV of leased asset

∴ It constitutes finance lease.

3) Calculation of Unearned finance income

Year	Amount	PV @ 10%	PV (₹)
1-3 yrs (LR)	1,85,956 p.a	2.4868	4,62,435
3(UGRV)	<u>50,000</u>	0.7513	<u>37,565</u>
GIL	<u>6,07,868</u>	PV(GIL)	5,00,000

UEFI = GIL - PV(GIL)
 = 6,07,868 - 5,00,000
 = 1,07,868.

8. Accounting treatment - operating lease : ~ Rent
 & hence to lessor - income
 lessee - Expense

In lessor books

No entry

In lessee books

No entry

a. when asset is given under lease

CIB
 TO LESSOR A/C

b. @ The time when lessor is paid

LR
 TO CIB A/C

Diff has to be transferred
 TO DLR A/C LG A/C
 which gets automatically closed once
 lease term completes.

Note: lessor has to be amortised in PROP to depreciation
 if no method is prescribed follow SIM

Dep
 TO asset A/C

c. provide dep NA
 [only to lessor
 ∵ risk & rewards
 himself with lessor]

lessor
 TO P&L
 &

d. close nominal A/C PL
 TO LESSOR A/C

LR
 TO P&L A/C

e) Initial direct exp charged to P&L.

same as FL
 e 2 options)

Presentation of DLR ~ other CA/CL / other NCA INCL
~~9. sale & lease back ~ financing lease~~



CRD-6

Total lease rent = 25000 + 45000 + 50000

Production unit method = 120000

1st year	2nd year	3rd year
40,000	20,000	50,000

LR Recognition	15K	30K	75K
	[120000 × $\frac{100000}{800000}$]		

141 BOOKS OF LESSOR

C/B	25K
TO LR	15K
TO DLR/LE	10K

BOOKS OF LESSEE

LR	15K
DLR/LE	10K
TO C/B	

LR	15K
TO P&L A/C	15K

P&L	15K
TO LR	15K

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C/B	45K
TO LR	30K
★ TO DLR	15K

LR	30K
DLR	15K
TO C/B	45K

LR	30K
TO P&L	30K

P&L	30K
TO LR	30K

(iii) Depreciation in lessor Books

Cost Price (leased asset) = 1,50,000



Depreciation

[150000 x 40/300]

9. Sale and lease back ~ Financing a loan.



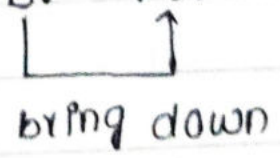
* Here, we will learn, how to recognise P/L in books seller-lessee

* SP & LR are independent & negotiated as a package.

(A) If lease back is FL: P/L on sale of asset - amortised LTC (in prop to depreciation)

(B) If lease back is O/C (operation lease)

Common condition: if BV > FLV



Such diff loss -> P/L A/c & recog immed

Case-1

SP = FV
P/L - Immed. recogn

Case-2

SP < FV
P - Immediately recogn
- If LR compensated & amortise ✓
- If LR ^{not} compensated ×
immede recognise

Case-3

IF SP > FV
P/L UPTO FV - Immede recogn

P/L > FV
↓
In excess of fair value
amortise towards
later term

CRD-8

BV = 40 Lakhs

SP = 50 L

(a) $\left. \begin{matrix} BV = 40L \\ SP = 50L \\ FV = 50L \end{matrix} \right\}$

(i) common condition = $BV \neq FV$

(ii) P/L = $SP - BV = 50L - 40L$

$P = 10L$

(iii) Recognition

$SP = FV$

Profit of RS 10L recognised immediately.

b) BV = 40L

SP = 50L

FV = 60L

(i) C-C = $BV \neq FV$

(ii) P/L = $SP - BV = 50L - 40L = 10L = P$

(iii) Recognition

$SP < FV$

Profit of RS 10L Imme recognised.

BV = 40L

SP = 38L

FV = 45L

(i) CC = $BV \neq FV$

(ii) P/L = $SP - BV = 38L - 40L = \text{Loss} = 2L$

(iii) Recognition

$SP < FV$

J

$SP < FV$

if LR compensated

loss of ₹ 2L amortised
to the lease term

if LR not compensated

loss of ₹ 2L Immediate recognise

d) $BV = 40L$
 $SP = 50L$
 $FV = 40L$

(i) $CC = BV \neq FV$

(ii) $PL = SP - BV \Rightarrow 50L - 40L = \boxed{\text{Profit} = 10L}$

(iii) Recognition

$SP > FV$

Profit upto FV value

BIF 0
↓

Immediately Recognised.

Profit in excess of FV value

$50L - 40L \Rightarrow 10L$

↓
amortised over lease term

e) $BV = 40L$
 $SP = 50L$
 $FV = 46L$

(i) $CC = BV \neq FV$

(ii) $PL = SP - BV \Rightarrow 50L - 40L = \boxed{\text{Profit} = 10L}$

(iii) Recognition

$SP > FV$

Profit upto FV

BIF $\frac{6L}{6L} (10L - 4L)$
↓

Immediately Recognised

In excess of FV

$SP - FV = 50L - 46L$
 $= 4L$

↓
amortised over LT.

