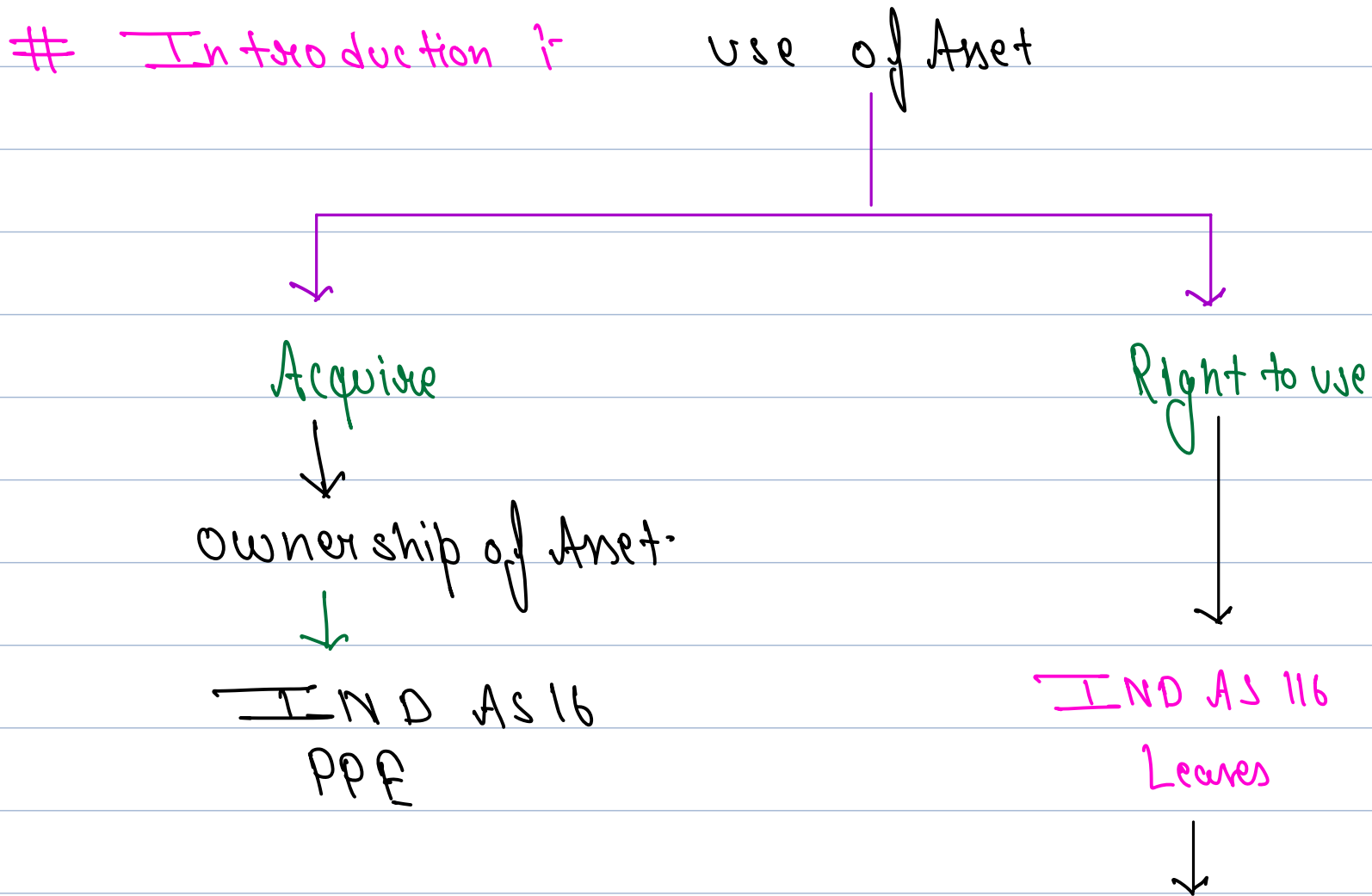




श्री अरुण शर्मा
श्री अरुण शर्मा:
श्री अरुण शर्मा



IND AS 116 Leases



Leases

A Contract where by
one party grants right of
use of identified Assets



↓
owner of asset
& receives consideration

for a period against
consideration
to another



party.

↓
Lessee

↓
user of asset
against payment.

Lessee's point of view

- ↳ ROU (Right of use)
- ↳ identified Asset
- ↳ period
- ↳ Consideration

Right of use is Control

↓
Right over
Substantial Economic
benefit

↓
Can restrict
right of use
to others
&



identified Asset :- lessor should not have
substantial substitution right.

Period :- Non Cancellable & there is an option
to extend.

Consideration :-

P.V. of fixed consideration
+

variable payments.
+

GRV (guaranteed
Residual value)
+

Exercise price.

(if option to purchase
exists)

+ Penalties
—

incentives.

I.R.R. @ which
P.V. of all lease payments.
= F.V. of asset.

if I.R.R. is not available
then use discounting rate.



incremental borrowing rate.

FV \Rightarrow Represents market value
@ which asset can be purchased
out right.

GrRV :- amount of Residual value guaranteed
by lessee to lessor

eg:- R.V. \Rightarrow 10000

GrRV
8000



means at the end of lease
term asset will revert back
to lessor

UGrRV
2000



from
market.

\therefore lessee to lessor \Rightarrow GrRV



means lessor will get GrRV from lessee

Overview of Standard :-



in books of
lessee
a)

in the
books of
lessee
b)

Sales
leave
back.
c)

First
time
Adaption
d)

a) In the books of lessee :-

Initial
Recognition

Subsequent
Recognition

Special
issues

provided
↳ lease is not
Short term
(12m)
↳ lease is not
for **small
value item**

ROU

a) cost model
or
Rev. model.
(both options are
available)

b) Amortisation Dr
To ROU
(SLM)

L-L

a) acc it as **financial
liability** as per
ACM of Ind As
log.

Finance charge Dr
To L-L

- i) Separate Contract
- ii) Remeasurement
- iii) Modification
- iv) Small value items.

TIE.

L-L
Dr

c) B/S.

To Bank.

ROU Dr xxx

To lease liability xx
 To bank xx
 To Provision for DSR xx

Cost
 - Acc. dep. (xxx)
 - imp. loss. (xxx)
 xxx

b) classify L.L. as F.L. under NCL/CL as the case may be.



PV of lease payments
 initial direct cost
 Prov. for DSR (same as in PPE)

Classification of lease liability as NCL/CL.

eg:- Amortisation table of L.L.

Case 1 :- Installments are paid on **yearend.**

Yr.	Op.	Int. @ 10%	Install.	Cl. bal.
1	100	10	11	99
2	99	9.9	11	97.9
3	97.9	9.79	11	96.69

Notes:

- Red circles around 11 in Install. column for years 1 and 2.
- Red arrow from 11 in year 2 Install. points to 'Inclodes.' below.
- Green circle around 99 in Cl. bal. for year 1.
- Green arrow from 99 in year 1 Cl. bal. points to 'paid after Next yr' below.
- Green circle around 97.9 in Cl. bal. for year 2.
- Green arrow from 97.9 in year 2 Cl. bal. points to 'paid after Next yr' below.
- Green circle around 96.69 in Cl. bal. for year 3.
- Green arrow from 96.69 in year 3 Cl. bal. points to 'paid after Next yr' below.
- Text on right: 'Paid on next year' with arrows pointing to 99, 97.9, and 96.69.

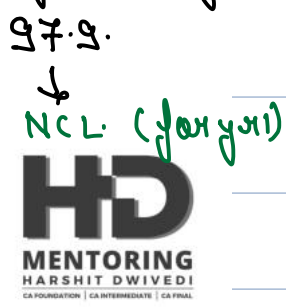


9.9
 as installment of
 year 2.

bal. 1.1
 of principle.

in year 2. \rightarrow 11 includes $\rightarrow 9.79$
 $\rightarrow 1.20$ from prin.
 \rightarrow C.L. (year 2)

$$\begin{array}{r} 979 \\ - 121 \\ \hline 9669 \end{array} \rightarrow \text{NCL (year 2)}$$



Case 2 Installments are paid on year starting of Next year

Year	Op.	Int. @ 10%	Install.	Cl. bal.
1	100	10	11 \rightarrow C.L.	99 \rightarrow NCL
2	99	9.9	11 \rightarrow C.L.	97.9 \rightarrow N.C.L.
3	97.9	9.79	11	96.69

\Rightarrow if installments are paid @

\rightarrow yr. end \rightarrow

\rightarrow y.s. of N.y.

NCL \rightarrow Cl. bal. of N.y.
 C.L. \rightarrow Cl. bal. C.y. - NCL

NCL \rightarrow Cl. bal. of C.y.
 C.L. \rightarrow C.y. installments

Few important Definitions:-

A **right-of-use of asset** is the lessee's right to use an underlying asset over the lease term.

Implicit Interest Rate (IRR) is the rate of interest at which the present value of {lease payments and any guaranteed residual value} = Fair Value.

If IRR cannot be calculated then "Incremental Rate of Borrowing" should be considered

Inception of Lease means Earlier of two

✗ Date of lease Agreement

✗ Date of Commitment by the parties

} whichever is earlier

Short Term Lease - Lease of 12 months or Less AND lessee does not have purchase option

Initial Direct Costs :-

Included ✓	Excluded ✓
✓ <u>Commission</u> (including payments to <u>employees acting as selling agents</u>)	<u>Employee salaries</u>
✓ <u>Legal fees</u> resulting from the <u>execution of the lease</u>	<u>Legal fees</u> for services rendered before the <u>execution of the lease</u>
✓ <u>Lease document preparation costs</u> incurred after the <u>execution of the lease</u>	<u>Negotiating lease term and conditions</u>
✓ <u>Certain payments</u> to <u>existing tenants</u> to <u>move out</u>	<u>Advertising</u>
✓ <u>Consideration</u> paid for a guarantee of a <u>residual asset</u> by an unrelated third party	<u>Depreciation</u> and <u>amortization</u>

Question# 1**ILL – 19 ICAI SM**

Entity M and Lessor A enter into a 10-year lease of an office building for fixed annual lease payments of ₹ 200,000. Per the terms of the lease agreement, annual fixed lease payments comprise ₹ 170,000 for rent and ₹ 30,000 for real estate taxes.

What are the fixed lease payments for purposes of classifying the lease?

The fixed lease payments are ₹ 2,00,000. Although real estate taxes are explicitly stated in the lease contract, they do not represent a separate non-lease component as they do not provide a separate good or service. The right to use the office building is the only component. The annual lease payments of ₹ 2,00,000 represent payments related to that single lease component.

Question# 2**ILL – 23 ICAI SM**

An entity enters into a 10-year lease of property. The lease payment for the first year is ₹ 1,000. The lease payments are linked to the consumer price index (CPI), i.e., not a floating interest rate. The CPI at the beginning of the first year is 100. Lease payments are updated at the end of every second year. At the end of year one, the CPI is 105. At the end of year two, the CPI is 108.

What should be included in lease payments?

At the lease commencement date, the lease payments are ₹ 1,000 per year for 10 years. The entity does not take into consideration the potential future changes in the index. At the end of year one, the payments have not changed and hence, the liability is not updated.

At the end of year two, when the lease payments change, the entity updates the remaining eight lease payments to ₹ 1,080 per year (i.e., ₹ 1,000 / 100 x 108).

Question# 3**ILL – 26 ICAI SM**

An entity (a lessee) enters into a lease and guarantees that the lessor will realise ₹ 20,000 from selling the asset to another party at the end of the lease. At lease commencement, based on the lessee's estimate of the residual value of the underlying asset, the lessee determines that it expects that it will owe ₹ 8,000 at the end of the lease.

Whether the lessee should include the said payment of ₹ 8,000 as a lease payment

The lessee should include the amount of ₹ 8,000 as a lease payment because it is expected that it will owe the same to the lessor under the residual value guarantee.

Question# 4**ILL – 27 ICAI SM**

Entity L enters into a lease for 10 years, with a single lease payment payable at the beginning of each year. The initial lease payment is ₹ 100,000. Lease payments will increase by the rate of LIBOR each year. At the date of commencement of the lease, LIBOR is 2 per cent. Assume that the interest rate implicit in the lease is 5 per cent.

How lease liability is initially measured?

Solⁿ:-

Lease liability = P.V. of all lease payments.

@ I.R.R.



year	lease payments @ year starting increase by 2% each year	PV. factor @ 5%	P.V.
1	100000	1	100000
2	102000 (1L + 2%)	0.952	
3	104040 (1L + 2% + 2%)	0.907	
4	106121	0.864	
5	108243	0.823	
6	110408	0.784	
7	112616	0.746	
8	114869	0.711	
9	117166	0.677	
10	119509	0.645	

LL ⇒ 880726

Question# 5

ILL - 28 ICAI SM

Entity Y and Entity Z execute a 12-year lease of a railcar with the following terms on January 1, 2016:

- The lease commencement date is February 1, 2016.
- Entity Y must pay Entity Z the first monthly rental payment of ₹ 10,000 upon execution of the lease.
- Entity Z will pay Entity Y ₹ 50,000 cash incentive to enter into the lease payable upon lease execution.

Entity Y incurred ₹ 1,000 of initial direct costs, which are payable on February 1, 2016. Entity Y calculated the initial lease liability as the present value of the lease payments discounted using its incremental borrowing rate because the rate implicit in the lease could not be readily determined; the initial lease liability is ₹ 850,000.

How would Lessee Company measure and record this lease?

Solⁿ: Step 1 calculation of leave liability as.

⇒ ₹ 850000



Step 2 ROU

L.L.	850000
+ Direct cost	11000
(1000 + 10000)	
— incentive	<u>(50000)</u>
ROU	<u>811000</u>



Step 3: In the books of leasee (Y Ltd) (Hogift)

ROU Dr 861000

To L.L. 850000

To Bank 11000

Bank Dr 50000

To ROU 50000

Aling in books of leasee (steps)

Step 1 :- Cash of L.L.

Step 2 :- Cash of ROU

Step 3 :- Amortisation of L.L.





year end
↓

yr. op. bal. Int. - inst. cl. bal.

yr. starting.
↓

yr. op. bal. inst. Int. cl. bal.

Step 4 :- Amortisation table of ROU asset.

year	op. bal.	amortisation	cl. bal.
------	----------	--------------	----------

Step 5 :- J.E. in the books of Lessee

T Initial Recognition.

ROU asset Dr

To L.L. @ P.V.

To Bank

To PFDSR.

T Subsequent Recognition

i) Amortisation (PIL) Dr

To ROU asset

ii) Finance cost (PIL) Dr

To L.L.

iii) Lease Liability Dr



To Bank.

iv) Finance cost (PIL) Dr

To PFD&R



S.O. PIL

B/S.

<p>Expense</p> <p>Finance cost</p> <p style="margin-left: 20px;">↳ L.L.</p> <p style="margin-left: 20px;">↳ PFD&R</p> <p>Amortisation</p> <p style="margin-left: 20px;">↳ ROU asset</p>	<p>Non-c.A.</p> <p>ROU asset xxx</p> <p>NCL.</p> <p>FL LL xxx</p> <p>CL.</p> <p>FL L.L. xxx</p>
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Question# 9

ILL - 30 ICAI SM

Entity ABC (lessee) enters into a three-year lease of equipment. Entity ABC agrees to make the following annual payments at the end of each year:

- ₹ 20,000 in year one ✓
- ₹ 30,000 in year two ✓
- ₹ 50,000 in year three. ✓

For simplicity purposes, there are no other elements to the lease payments (like purchase options, lease incentives from the lessor or initial direct costs).

Assumed a discount rate of 12% (which is Entity ABC's incremental borrowing rate because the interest rate implicit in the lease cannot be readily determined).

Entity ABC depreciates the ROU Asset on a straight-line basis over the lease term.

How would Entity ABC would account for the said lease under Ind AS 116?

Solⁿ is Step 1 Calcⁿ of L.L.

year L.P. PV@12% PV



1	20000	0.893
2	30000	0.797
3	50000	0.712



77359

Step 2 Calⁿ of ROU = L.L. = 77359

Step 3 Amortisation Table

Year	Op. bal.	Int @ 12%	Inst.	Cl. bal.
1	77359	9283	(20000)	66642 CL. \rightarrow 22000
2	66642	7997	(30000)	44639
3	44639	5361	(50000)	—

B/P

Step 4 Amortisation table for ROU

Year	Op. bal.	Amortisation.	Cl. bal.
1	77359	25786	51573
2	51573	25786	25787
3	25787	25787	—

Step 5 In the books of lessee

~~T~~ I.R.

ROU Dr 77359

To LL

77359



TR S.R.

	Year 1	Year 2	Year 3
Finance Cost Dr	9283	7997	5361
To L.L.	9283	7997	5361
Amortisation (PIL) Dr	25786	25786	25787
To ROU	25786	25786	25787
L.L. Dr	20000	30000	50000
To Bank	20000	30000	50000

TR SOPIL

	Year 1	Year 2	Year 3
Finance cost	9283	7997	5361
Amortisation	25786	25786	25787

TR BIS

	Year 1	Year 2	Year 3
NCA			

ROU asset

51573

25787



NCL

FL

L.L.

44639

—

—

C.L.

FL

L.L.

22003

44639

—

Question# 10

ILL - 31 ICAI SM

Company EFG enters into a property lease with Entity H. The initial term of the lease is 10 years with a 5- year renewal option. The economic life of the property is 40 years and the fair value of the leased property is ₹ 50 Lacs. Company EFG has an option to purchase the property at the end of the lease term for ₹ 30 lacs. The first annual payment is ₹ 5 lacs with an increase of 3% every year thereafter. The implicit rate of interest is 9.04%. Entity H gives Company EFG an incentive of ₹ 2 lacs (payable at the beginning of year 2), which is to be used for normal tenant improvement.

Company EFG is reasonably certain to exercise that purchase option.

How would EFG measure the right-of-use asset and lease liability over the lease term?

Soln: step 1 calⁿ of L.L.

Year	lease payment.	PV @ 9.04%	P.V.
1	500000	1	500000
2	5L + 3% - 200000 = 315000	0.9171	
3	515000 + 3% = 530450	0.8412	
4	530450 + 3% = 546364	0.7713	



5	$546364 + 3\% = 562754$	0.7074
6	$562754 + 3\% = 579637$	0.6487
7	$579637 + 3\% = 597026$	0.5945
8	$597026 + 3\% = 614937$	0.5456
9	633385	0.5004
10	652386	0.4589
10 th	3000000	0.4589



L.L. 5000000

Step 2 ROU asset \Rightarrow 5000000

Step 3. Amortisation Table of L.L.

year	op. bal.	Int. @ 9.04%	Imp/Rep.	cl. bal.
1	5000000 4500000	406800	(31500)	4591800
2	4591800	415099	(530450)	4476449
3	4476449	404671	546364	4334756
4	4334756	391862	562754	4163864
5	4163864	376413	579637	3960640
6	3960640	358042	597026	3721656
7	3721656	336438	614937	3443157
8	3443157	311261	633385	3121033

9

3121033

282141

652386

2750788



2750788

249212

3000000



Step 4. Amortisation of ROU Asset

$$\frac{\text{₹ } 5000000}{40 \text{ yrs}} = \text{₹ } 125000$$

Steps:- In the books of EFG

115

JIR.

ROU Asset Dr 5000000

To LL 5000000

(I.R.)

S

L.L. Dr 500000

To CIB. 500000

(Advance)

Question# 6

Q-7 ICAI SM

A Company leases a manufacturing facility. The lease payments depend on the number of operating hours of the manufacturing facility, i.e., the lessee has to pay 2,000 per hour of use. The annual minimum payment is ₹2,00,00,000. The expected usage per year is 20,000 hours.

Whether the said payments be included in the calculation of lease liability under Ind AS 116?

ANSWER :

The said lease contains in-substance fixed payments of ₹ 2,00,00,000 per year, which are included in the initial measurement of the lease liability under Ind AS 116.

However, the additional 2,00,00,000 that the company expects to pay per year are variable payments that do not depend on an index or rate and, thus, are not included in the initial measurement of the lease liability but, are expensed when the over-use occurs.

Special Issue 1 :- Separate Contracts.



In one contract there are 2 agreements -



①

Lease

②

Non lease

$$\therefore \text{Contract price} = \text{lease} + \text{Non lease}$$

So we need to break total contract price & find out how much individually each contract would be.

As per IND AS 116

i) A contract with lease component as well as non lease component.

ii) Contract price should be bifurcated between lease & non lease in ratio of S.A.S.P.

Question# 11

SM 11-15243

A lessee enters into a lease of an equipment. The contract stipulates the lessor will perform maintenance of the leased equipment and receive consideration for that maintenance service. The contract includes the following fixed prices for the lease and non-lease component

Lease ✓	80,000 ✓
Maintenance ✓	10,000 ✓
Total	90000 ✓

T.C.P.

Assume the stand-alone prices cannot be readily observed, so the lessee makes estimates, maximising the use of observable information, of the lease and non-lease components, as follows

Lease	85,000 ✓✓
Maintenance	15,000 ✓✓
Total	100,000 ✓

SASP.

In the given scenario, assuming lessee has not opted the practical expedient, how will the lessee allocate the consideration to lease and non-lease component?

Solⁿ :- calⁿ of T.P. based estimated SASP.

$$1) \text{ lease component} = \frac{85000}{100000} \times 20000 = ₹ 6500$$

$$2) \text{ Non lease component} = \frac{15000}{100000} \times 20000 = 13500$$

Contract price 20000

Question# 12

Q-7 ICAI SM

A Lessee enters into a ten-year lease contract with a Lessor to use equipment. The contract includes maintenance services (as provided by the lessor). The Lessor obtains its own insurance for the equipment. Annual payments are ₹ 10,000 (₹ 1,000 related to maintenance services and 500 to insurance costs).

The Lessee is able to determine that similar maintenance services and insurance costs are offered by third parties for 2,000 and 500 a year, respectively. The Lessee is unable to find an observable stand-alone rental amount for similar equipment because none is leased without related maintenance services provided by the lessor.

How would the Lessee allocate the consideration to the lease component?

ANSWER :

The observable stand-alone price for maintenance services is 2,000. There is no observable stand-alone price for the lease. Further, the insurance cost does not transfer a good or service to the lessee and therefore, it is not a separate lease component.

Thus, the Lessee allocates ₹8,000 (₹10,000-2,000) to the lease component.

Entity X (lessee) entered into a lease agreement ('lease agreement') with Entity Y (lessor) to lease an entire floor of a shopping mall for a period of 9 years. The annual lease rent of ₹ 70,000 is payable at year end. To carry out its operations smoothly, Entity X simultaneously entered into another agreement ('facilities agreement') with Entity Y for using certain other facilities owned by Entity Y such as passenger lifts, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement, for annual service charges amounting to ₹ 1,00,000. As per the agreement, the ownership of the facilities shall remain with Entity Y. Lessee's incremental borrowing rate is 10%. The facilities agreement clearly specifies that it shall be co-existent and coterminous with 'lease agreement'. The facility agreement shall stand terminated automatically on termination or expiry of 'lease agreement'. Entity X has assessed that the stand-alone price of 'lease agreement' is ₹ 1,20,000 per year and stand-alone price of the 'facilities agreement' is ₹ 80,000 per year. Entity X has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component(s) from lease component(s) and accordingly it separates non-lease components from lease components. How will Entity X account for lease liability as at the commencement date?

Solⁿ :- Calⁿ of T.P. based estimated ASP.

$$i) \text{ Building Rent (Lease Comp)} = \frac{120000}{200000} \times 170000 = 102000$$

$$ii) \text{ Service charge (Non lease)} = \frac{80000}{200000} \times 170000 = 68000$$

Calⁿ of L.L. at beginning.

$$L.L. = \text{Minimum L.P. p.a.} \times \text{PVAF @ 10\% for 9 years}$$

$$= 102000 \times 5.759$$

$$= ₹ 587420$$

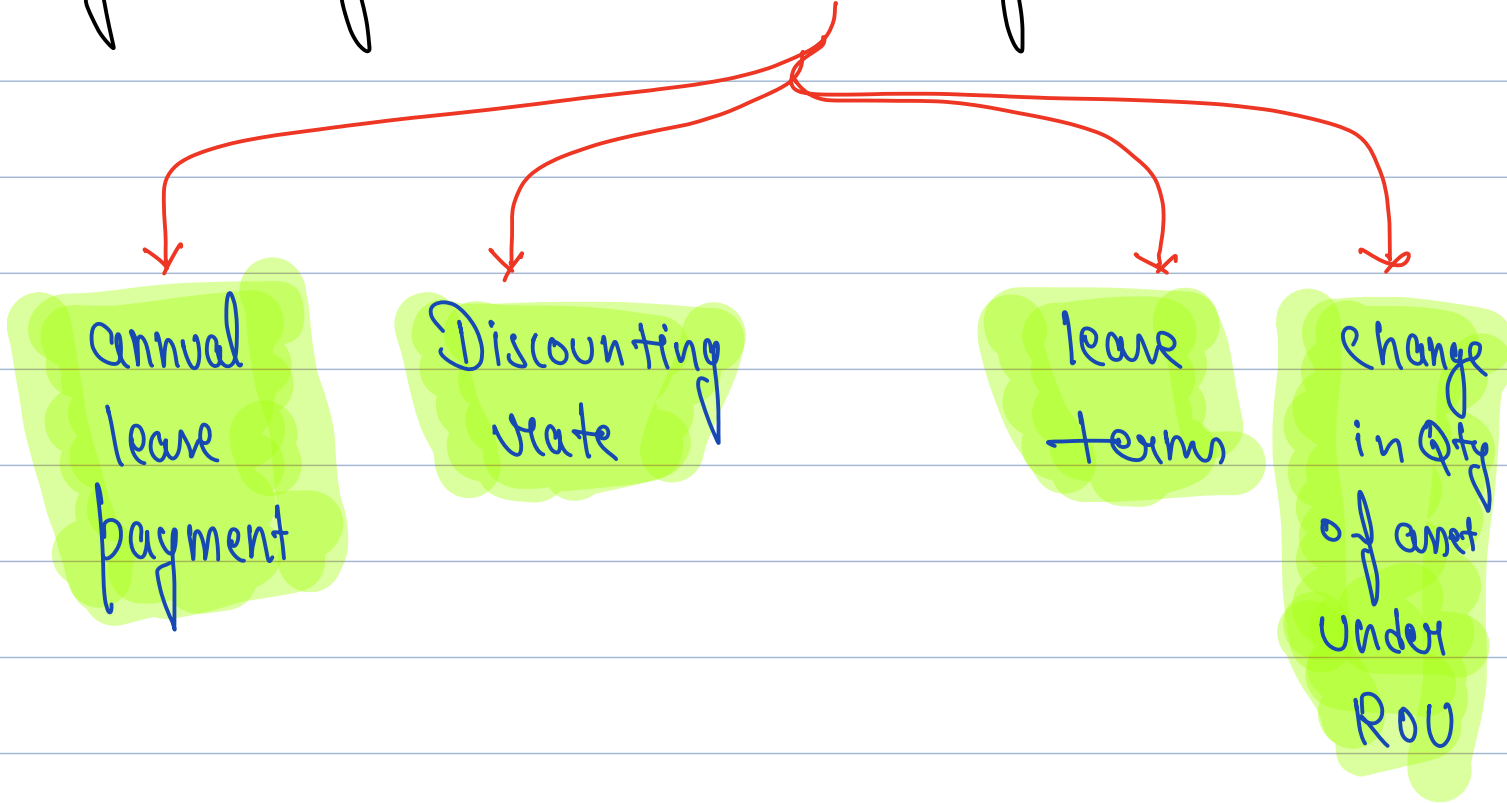
Special Issue 2 :- Modification & Reassessment.



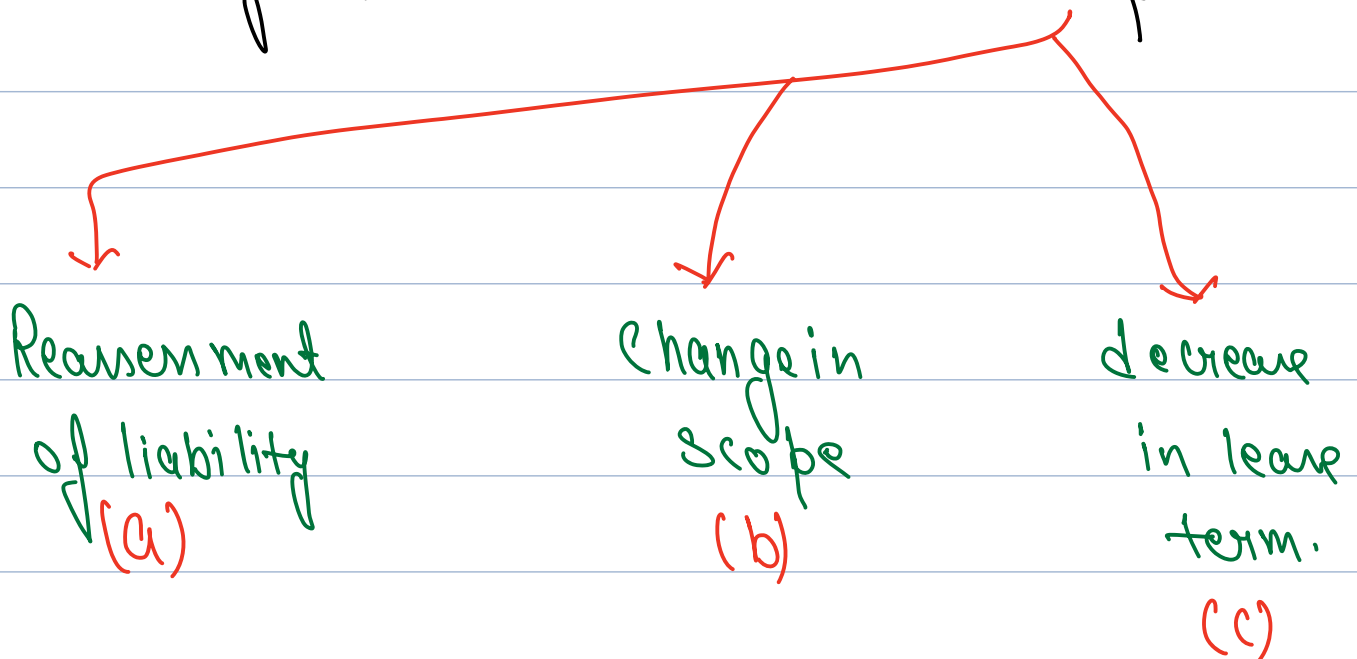
↓
Changes in terms of Contract.



i) Any lease agreement has 4 ingredients.



ii) these modifications are divided into 3 parts.



a) Reassessment of liability.



i) it means change in L.L. due to

↳ i) Δ in Lease payments.

↳ ii) Δ in dis. rate.

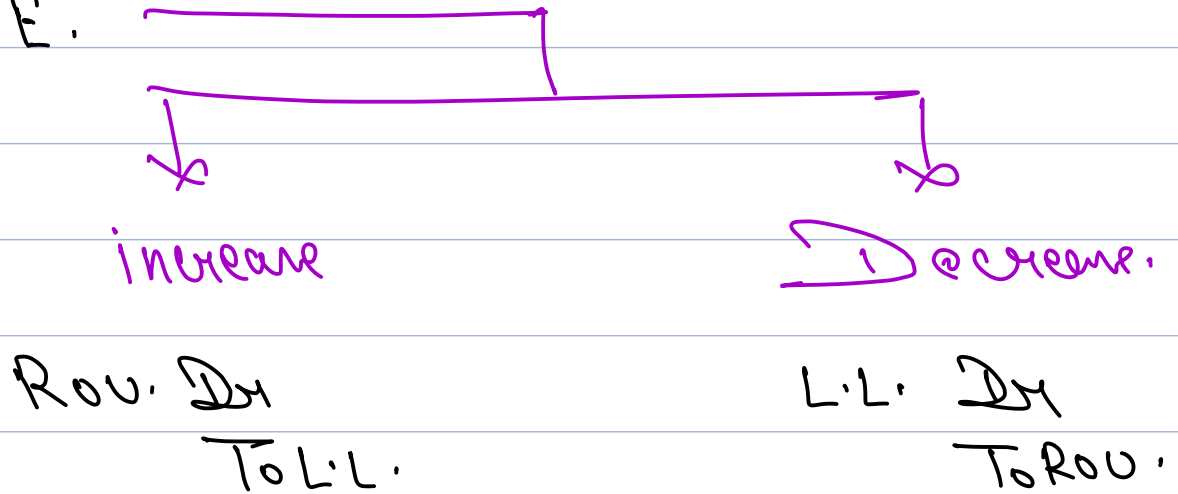
↳ iii) increase in lease term

ii) Calculation of change in L.L.

Revised C.A. of L.L. as on D.O.M. (Revised terms)	xxx
Old Lease Liability as on D.O.M. (Old terms)	xxx



iii) J.E.



iv) Steps to solve.

Step 1 Calculate L.L. @ inception (beginning) of lease

Step 2 Calculate ROU



Step 3 L.L. table upto D.O.M.

Step 4 Statement of ROU upto D.O.M.

Step 5 Calculate P.V. of Revised L.L.

Step 6 Calculate amount of Reassessment.



Question# 15

II-32 (Dec 21)

Entity W entered into a contract for lease of retail store with Entity J in January 1/1/20X1. The initial term of the lease is 5 years with a renewal option of a further 3 years. The annual payments for initial term and renewal term are ₹ 100,000 and ₹ 110,000 respectively. The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 1/1/20X2 will be based on the CPI available at 31/12/20X1.

Entity W's incremental borrowing rate at the lease inception date and as at 1/1/20X4 is 5% and 6% respectively and the CPI at lease commencement date and as at 1/1/20X4 is 120 and 125 respectively.

At the lease commencement date, Entity W did not have a significant economic incentive to exercise the renewal option. In the first quarter of 20X4, Entity W installed unique lease improvements into the retail store with an estimated five-year economic life. Entity W determined that it will only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.

Is Entity W required to remeasure the lease in the first quarter of 20X4?

Solⁿ: Entity W will measure lease liability as they clearly determined in first Quarter of 2014 about exercise of option.

Step 1 Cal. of L.L. as on 1-1-11

year	L.P.	PV @ 5%	P.V.
1-1-11	100000	1	100000

1-1-12 100000 0.9524



1-1-13 100000 0.9070

1-1-14 100000 0.8638

1-1-15 100000 0.8227



L.L. \Rightarrow 454600

Step 2 ROU Asset \Rightarrow 454600

Step 3: Amortisation table upto DOM

year	op. bal.	inst.	Int@ 5%	cl. bal.
2011	454600	(100000)	17730	372330
2012	372330	(100000)	13616	285946
2013	285946	(100000)	9297	195243
2014	195243			

Step 4: Statement of ROU upto DOM

year.	Op. bal.	Amortisation (5yrs)	Cl. bal.
2011	454600	90920	363680
2012	363680	90920	272760
2013	272760	90920	181840
2014	181840		

Steps 5 calⁿ of Rev. L.L. on 1-1-14 (DOM)

$$\text{Revised L.L. for 2014 \& 2015} = \frac{\text{₹ } 100000}{120} \times 125$$



$$= 104167$$

ICAI soln

$$120 \xrightarrow{5\%} 125$$

$$\Rightarrow \frac{5}{120} \times 100 \Rightarrow 4.167\%$$

$$1L + 4.167\% \Rightarrow 104167$$

↓

$$1L + 4\% \Rightarrow 104000$$

Date of L.L.	Revised L.L.	PV @ 6%	P.V.
1-1-14	104167	1	104167
1-1-15	104167	0.9434	
1-1-16	110000 + 4.167% = 114584	0.8900	
1-1-17	114584	0.8393	
1-1-18	114584	0.7921	
		PV \Rightarrow	<u>491385</u>

Steps Amount of Reassessment.

C.A. of L.L. on DOM (old) (step 3)	195243
Rev. value of L.L. on DOM (New) (steps)	<u>491385</u>
increase in L.L.	<u>296142</u>

ROU Dr 296142

To L.L. 296142



Revised amortisation table (not asked in Q.)

yr	Op. bal.	install.	int	Cl. bal.
2011	454600	100000	5%	372330
2012	372330	100000	5%	285946
2013	285946	100000	5%	195243
2014	195243 491385	104167	6%	
2015		104167	6%	
2016		114584	6%	
2017		114584	6%	
2018		114584		

Question# 16

ILL - 34 ICAI SM SIMILAR TO MAY 24

Lessee enters into a 10-year lease for 5,000 square metres of office space. The annual lease payments are ₹ 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. At the beginning of Year 7, Lessee and Lessor agree to amend the original lease by extending the contractual lease term by four year The annual lease payments are unchanged (i.e., ₹ 1,00,000 payable at the end of each year from Year 7 to Year 14). Lessee's incremental borrowing rate at the beginning of Year 7 is 7% p.a. How should the said modification be accounted for?

Solⁿ :- step1 Carⁿ of L.L.
 = L.P. x PVA @ 6% for 10 yrs.
 = 100000 x 7.3600

$$= ₹ 736000$$



Step 2 ROU = ₹ 736000

Step 3 A.T. upto DOM.



year	Op. bal.	Int @ 6%	Rep.	Cl. bal.
1	736000	44160	(100000)	680160
2	680160	40810	(100000)	620970
3	620970	37258	(100000)	558228
4	558228	33494	(100000)	491722
5	491722	29503	(100000)	421225
6	421225	25274	(100000)	346499
7	346499			

Step 4. Amortisation table of ROU (Not req.)

Step 5 Revised L.L. on DOM.

- i) L.P. = 100000
- ii) Dis. rate = 7%
- iii) lease term = 8 years (7th yr to 14th yr.)

$$\therefore \text{PV of Rev. L.L.} = ₹ 100000 \times \text{PVAF}_{7\%}^8$$

$$= ₹ 597130$$

Steps Reassessment of L.L.



C.A. of L.L. on DOM (old) (Step 3)

34699

Revised L.L. on DOM (New) (Step 5)

597130

increase in L.L. 250631

ROU Dr 250631

To L.L. 250631

Question# 17

ILL - 36 ICAI

Lessee enters into a 10-year lease for 5,000 square metres of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to reduce the lease payments from ₹ 1,00,000 per year to ₹ 95,000 per year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a. The annual lease payments are payable at the end of each year. How should the said modification be accounted for?

Solⁿ :- Step 1 Calⁿ of L.L.

$$\begin{aligned}
 &= L.P. \times PVA @ 6\% \text{ for } 10 \text{ yrs.} \\
 &= 100000 \times 7.360 \\
 &= 736000
 \end{aligned}$$

Step 2 ROU Asset = L.L. = 736000

Step 3 AM: Table upto DOM.

Year	Op. Bal.	Int @ 6%	Paym.	Cl. bal.
1	736000	44160	(100000)	680160
2	680160	40810	(100000)	620970



3	620970	37258	(10000)	558228
4	558228	33494	(10000)	491722
5	491722	29503	(10000)	421225
6	421225			

Step 4. Calcⁿ of Rev. L.L. on DOM

- i) L.L. = ₹ 25000
- ii) Dis. Rate = 7%
- iii) L. Term = 5 yrs.

$$\begin{aligned}\therefore \text{Rev. L.L. on DOM} &= \text{PV of LL} \times \text{PVAf @ 7\% for 5 yrs.} \\ &= 25000 \times 4.1002 \\ &= ₹ 382519\end{aligned}$$

Step 5 Reassessment amount.

C.A. of L.L. on DOM (step 3)	421225
Revised L.L. on DOM (step 5)	<u>382519</u>
	<u>Deer. in L.L. 31706</u>

L.L. Dr 31706
To ROU 31706.

H.W.

Question# 18

PRACTICE Q.3 OF SM RTP NOV 21

The Company has entered into a lease agreement for its retail store as on 1st April, 20X1 for a period of 10 years. A lease rental of ` 56,000 per annum is payable in arrears. The Company recognized a lease liability of ` 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X1. As per the terms of lease agreement, the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. Inflation cost index was 280 for financial year 20X1-20X2 and 301 for financial year 20X3- 20X4. The current incremental borrowing rate is 8% p.a. Show the Journal entry at the beginning of year 3, to account for change in lease.

Solⁿ: Step 1 Calcⁿ of L.L.

=> 351613

Step 2 ROU = 351613

Step 3 L.L. upto D.O.M.

Year	Op-bal.	Int @ 9.5%	Rep.	Cl.
1	351613	33403	56000	329016
2	329016	31257	56000	304273
3	304273			

Step 4 Revised L.L. on D.O.M.

i) Lease Rentals = $\frac{56000}{280} \times 301 = 60200$

ii) Discounting rate = 9.5%

iii) L.T. = 8 years.

= 60200 x PVAF @ 9.5% for 8 years.

= 60200 x 3.433

= 327093

Step 5 Reassessment



C.A. L.L. (old)

304273

Revised L.L.

327093

incr. in L.L. 22820

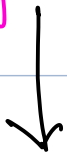


ROU. Dr 22820

To L.L. 22820

B) change in scope. (Qty. of ROU)

increase in Qty
of ROU



Then

- a) increase C.A. of ROU proportionately
- b) increase L.L. proportionately.

any diff
= PLL.

- a) Decrease C.A. of ROU proporti
- b) decrease L.L. proportionately.

Decrease in Qty
of ROU

Decrease in
Leave term.





Note :- increase in L. Payments.

Should be commensurate
with current SASP.

else

the treatment should
be of reassessment
of liability.

Steps to solve.

Step 1 :- L.L.

Step 2 :- ROU

Step 3 :- L.L. upto DOM

Step 4 :- A. Table upto DOM

Step 5 :- Calⁿ of Revised L.L.

Step 6 :- Reassessment.

Step 7 :- Change in scope.

Question# 19

ILL - 35 ICAI SM SIMILAR TO NOV 22

Lessee enters into a 10-year lease for 5,000 square metres of office space. The annual lease payments are ₹ 50,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to reduce the space to only 2,500 square metres of the original space starting from the end of the first quarter of Year 6. The annual fixed lease payments (from Year 6 to Year 10) are ₹ 30,000. Lessee's incremental borrowing rate at the beginning of Year 6 is 5% p.a.
How should the said modification be accounted for?

4

Solⁿ :- step 1 calⁿ of L.L.



yr
1

L. Payments
₹ 50000

DF @ 6%

2

11

3

11

4

11

5

11

6

11

7

11

8

11

9

11

10

11

PV \Rightarrow

367950

Step 2 ROV (Asset) \Rightarrow 367950

Step 3 :- L.L. Table upto D.O.M.

year	op. bal.	Int @ 6%	Lease p.	cl. bal.
1	367950	22077	(50000)	340027

2	340027	20402	(50000)	310429
3	310429	18626	(50000)	279055
4	279055	16743	(50000)	245798
5	245798	14748	(50000)	210546
6	210546			



Step 4 ROU Table.

year	op. bal.	Amortization	cl. bal.
1	367950	36795	331155
2	331155	36795	294360
3	294360	36795	257565
4	257565	36795	220770
5	220770	36795	183975
6	183975		

Steps Calculation of Revised L.L. & Revised ROU on DOM

- i) Leave payments = 30000
- ii) Dis. Rate = 5%
- iii) L. Term = 5 yrs.
- iv) office space reduced by 50%.



Revised L.L. on DOM.

$$\Rightarrow ₹ 30000 \times PVA_f @ 5\% \text{ for } 5 \text{ years}$$

$$\Rightarrow ₹ 30000 \times 4.329$$

$$\Rightarrow ₹ 129884$$



\therefore office space Reduced by 50%

\therefore C.A. of ROU will also reduce by 50%

$$= 183975 \times 50\%$$

$$= 91987.5$$

\therefore L.L. will also reduce by 50%

$$\Rightarrow 210546 \times 50\%$$

$$\Rightarrow 105273$$

Step 6 Reassessment of liability

C.A. of L.L. on DOM (old) (steps)	105273
Revised L.L. on DOM (new) (steps)	<u>129884</u>
increase in L.L.	<u>24621</u>

ROU Dr	24621
To L.L.	24621

Step 7 Change in scope. (due to \downarrow in ROU)

L.L. Dr	105273 (steps)
---------	----------------

To P/L.	13285.5
---------	---------

(steps) To ROU	91987.5
----------------	---------

Lessee enters into a 10-year lease for 2,000 square metres of office space. The annual lease payments are ₹ 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a.

At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to:

- include an additional 1,500 square metres of space in the same building starting from the beginning of Year 6 and
- reduce the lease term from 10 years to eight year. The annual fixed payment for the 3,500 square metres is ₹ 1,50,000 payable at the end of each year (from Year 6 to Year 8).

Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a. The consideration for the increase in scope of 1,500 square metres of space is not commensurate with the stand-alone price for that increase adjusted to reflect the circumstances of the contract.

Consequently, Lessee does not account for the increase in scope that adds the right to use an additional 1,500 square metres of space as a separate lease.

How should the said modification be accounted for?

Solⁿ :-

Step 1 L.L.

$$= L.P. \times PVA_f @ 6\% \text{ for } 10 \text{ years.}$$

$$= 100000 \times 7.36$$

$$= 736000$$

Step 2 ROU = 736000

Step 3 Amortisation table for L.P. upto DOM

Year	Op. bal.	Int @ 6%	Rep.	Cl. bal.
1	736000	44160	(100000)	680160
2	680160	40180	(100000)	620970
3	620970	37258	(100000)	558228
4	558228	33494	(100000)	491722
5	491722	29053	(100000)	421225
6	421225			

Step 4. ROU statement upto DOM

year	op. bal.	Amortisation	cl. bal.
1	736000	73600	662400
2	662400	73600	588800
3	588800	73600	515200
4	515200	73600	441600
5	441600	73600	368000
6	368000		

Steps Rev. L.L. on DOM

- i) ROU = 3500
- ii) L.T. = 3 year
- iii) L.P. = ₹ 150000
- iv) Dis. Rate = 7%.

$$\begin{aligned}
 \text{Revised L.L.} &= ₹ 150000 \times \text{P.V.Af} @ 7\% \text{ for 3 yrs.} \\
 &= ₹ 150000 \times 2.6243 \\
 &= 393647
 \end{aligned}$$

Step 6 Reassessment

P.V. of LL on DOM. (old) 267301

(₹ 100000 × P.V.Af @ 6% for 3 yrs)

Revised L.L. on DOM (New) (Step 5) 393747

incr. in L.L. 126346



ROU Dr 126346

To L.L. 126346



Step 7 Change in Scope.

i) ROU

C.A. of ROU on DOM. (step 4) 368000

C.A. of ROU for 3 yrs. $\left(\frac{368000}{3 \text{ yrs}} \times 3 \text{ yrs}\right)$ 220800

decrease in ROU. 147200

ii) L.L.

C.A. for 5 years. 421225

C.A. for 3 years. (steps) 267301

decr. in L.L. 153924

L.L. Dr 153924

To ROU 147200

To P/L 6724

iii) Small Value items. i-j means those assets which can be used with readily available

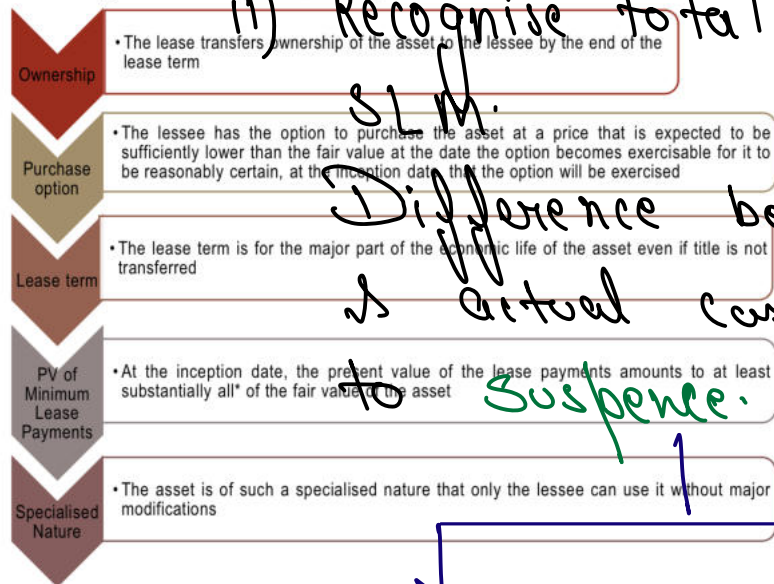
Resources & its value is low.



- eg →
- i) Tablets.
 - ii) P.C.
 - iii) furniture
 - iv) Telephone.

it is also known as short term lease.

Ind AS 116 lists a number of examples that individually, or in combination, would normally lead to a lease being classified as a FINANCE LEASE:



ii) Recognise total lease payments in P&L in SLM.

Difference between L.P. as per SLM & actual cash payments is transferred to Suspense. (Deferred Revenue)

Balance will become zero at the end of lease term.

every year show suspense acc in B/S as N.C. items

summary of modification



Remeasurement of L.L.

1st calculate PV of LL on DOM

2nd. Cal. LL on DOM as per L.L. Table.

3rd. change L.L. through ROU

Decrease in slope.



- a) ↓ in Qty
- b) ↓ in lease term

Decrease ROU &

L.L. proportionately

increase in scope.



- a) ↑ in Qty then increase

ROU & LL

proportionately

if ↑ Qty = SASP
else
Remeasurement of Liability

Question# 21

Entity A leases office Equipment for 5 year The total value of equipment when new is ₹ 5,000 (determined as low value). Lease payments are as follows:

YEAR - 1	YEAR - 2	YEAR - 3	YEAR - 4	YEAR - 5
NIL	1750	1750	1500	1500

Lessor provides a lease incentive with a value of ₹ 500

Show pricing as per Ind AS 116.

116 lists a number of examples that individually, or in combination, would normally lead to being classified as a **FINANCE LEASE**:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised
- The lease term is for the major part of the economic life of the asset even if title is not transferred
- At the inception date, the present value of the lease payments amounts to at least substantially all* of the fair value of the asset
- The asset is of such a specialised nature that only the lessee can use it without major modifications

∴ lease payments

$$\begin{aligned} \text{Total Lease payments} &= 0 + 1750 + 1750 + 1500 \\ &\quad + 1500 - 500 \\ &= 6000 \end{aligned}$$

$$\begin{aligned} \text{Dr to P/L in SLM} &= \frac{6000}{5} = ₹ 1200 \text{ p.a.} \end{aligned}$$

In the books of lessee



L.R. Dr 1200

Cash Dr 500

To Def. Revenue (Suspense) 1700

Yr 2

L.R. Dr 1200

D.R. (Bif) Dr 550

To CIB 1750

Yr 3

L.R. Dr 1200

D.R. (Bif) Dr 550

To CIB 1750

Yr 4

L.R. Dr 1200

D.R. (Bif) Dr 300

To CIB 1500

Yr 5

L.R. Dr 1200

D.R. (Bif) Dr 300

To CIB 1500

Disclo suris → Read HD text book → pg 242.

b) In the books of lessor



Asset is transferred with **Substantial Risk & Reward.**

Asset is transferred **w/o** substantial risk & rewards

↓
Finance lease

↓
operating lease.

↓
indicator of F.L.

↓
Indicators of O.L.

↓
Non finance lease

Ind AS 116 lists a number of examples that individually, or in combination would normally lead to a lease being classified as a **FINANCE LEASE**.

Ownership	• The lease transfers ownership of the asset to the lessee by the end of the lease term
Purchase option	• The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised
Lease term	• The lease term is for the major part of the economic life of the asset even if title is not transferred
PV of Minimum Lease Payments	• At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset
Specialised Nature	• The asset is of such a specialised nature that only the lessee can use it without major modifications

Ownership at end of L.T.
 Prop. Pur. op
 PV of V. lower
 less certain

PPS → Lease → SRK.
 PPS → Lease → SRK.
 ↳ 8 years.

lease rental income should be amortised to P&L in SLM.
 Same as we did in Small Value items.

Pg. 16 of IAS 18

↓
calculation

Step 1 in cal of lease receivable

for



Particulars

amt.

PV of

PV

LR.

xx

-

xxx

GrRV

xx

-

xxx

M.L.P.

x

xxx

UGRV

x

✓

xxx

xxx

xxx

↓

↓

Gross invt

Net invt.



Net Gross inv - Net inv = unearned income.

Net Inv ⇒ financial Assets & hence acted used ACM

if $\frac{PV \text{ of } M.L.P.}{FV} \times 100 = \geq 90\%$ then F.I.
 more than 90% or min. 90%

→ if Dis. factor (ROI) is not given then use IRR method, where we need to calculate that ROI at which Net Inv = FV (apply interpolation)

→ If lease rentals are not given.



$$\text{Net inv} = FV$$

$$\text{OR } PV(LR) + PV(RV) = FV$$

$$\text{OR } LR \times PVAF + RV \times PVF = FV$$

$$\therefore LR = \frac{FV - RV \times PVF}{PVAF}$$



Step 2 :- prepare Amortisation table of Net inv

Step 3 :- **Aligning**
E.R. Net inv Dr
Oroc hires out industrial plant on long-term operating leases. On 1 January 20X1, it entered into a seven-year lease for a mobile crane. The terms of the lease are ₹175,000 payable on 1 January 20X1, followed by six rentals of ₹70,000 payable on 1 January 20X2 to 20X7. The crane will be returned to Oroc on 31 December 20X7. The crane originally cost ₹880,000 and has a 25-year useful life with no residual value. **To PPE**

Required:

Discuss the accounting treatment of the above in the year ended 31 December 20X1
(Diff = P12)

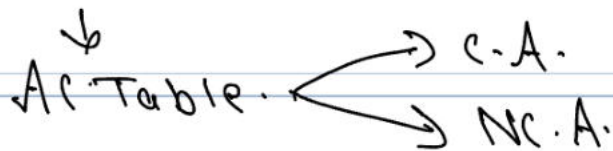
S.R All for net inv as per amortisation table

a) Net invt Dr
To Int

b) Bank Dr
To net invt

Step 4:- B.I.S.

Net invt.



Question# 30

ILL - 38 ICAI SM

A Lessor enters into a 10-year lease of equipment with Lessee. The equipment is not specialised in nature and is expected to have alternative use to Lessor at the end of the 10-year lease term.

Under the lease:

Lessor receives annual lease payments of ₹ 15,000, payable at the end of the year

Lessor expects the residual value of the equipment to be ₹ 50,000 at the end of the 10 year lease term

Lessee provides a residual value guarantee that protects Lessor from the first ₹ 30,000 of loss for a sale at a price below the estimated residual value at the end of the lease term (i.e., ₹ 50,000)

The equipment has an estimated remaining economic life of 15 years, a carrying amount of ₹ 1,00,000 and a fair value of ₹ 1,11,000

The lease does not transfer ownership of the underlying asset to Lessee at the end of the lease term or contain an option to purchase the underlying asset

The interest rate implicit in the lease is 10.078%.

How should the Lessor account for the same in its books of accounts?

- Solⁿ :-
- a) F.V. ⇒ 111000
 - b) L.R ⇒ 15000 for 10 years.
 - c) G.R.V ⇒ 30000
 - d) U.G.R.V ⇒ 20000
 - e) I.R.R ⇒ 10.078%

Step 1 calⁿ of lease receivables.

Yr.	Particulars	amt	Df @ 10.078%	P.V.
1-10	L.P. 15000 x 10	150000	6.1240	91860

10th year
10th year



GrRV

30000

0.3828

11485

mini. L.P

180000

103345

GrRV

20000

0.3828



200000

111000

↓

Gr. Inv.

↓

N. Inv.

i) Calⁿ of unearned income

⇒ Gr. I — N. I.

⇒ 200000 — 111000

⇒ 89000

ii) $\frac{PV \text{ of MLP}}{FV} \times 100 \Rightarrow$

$\frac{103345}{111000} \times 100$

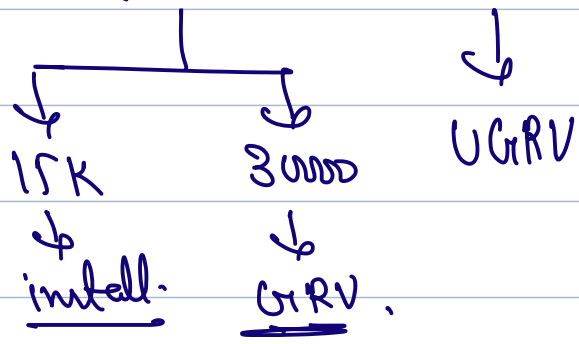
⇒ 93.10%

hence it is finance lease.

Step 2 Amortisation table of Net invt.

year	Op. bal. (net invt)	Int.	installm.	cl. bal.
1	111000	11187	(15000)	107187
2	107187	10802	(15000)	102989

3	102989	10379	(15000)	98368
4	98368	9914	(15000)	93282
5	93282	9401	(15000)	87683
6	87683	8837	(15000)	81512
7	81512	8216	(15000)	74736
8	74736	7532	(15000)	67267
9	67267	6779	(15000)	59047
10	59047	5953	(45000)	2000



Step 3 :- calcng.

Net invt Dr 111000
 To PPE. 100000
 To P/L (By) 11000

	1	2	3	4	5	6	7	8
Net invt Dr	11187							
To int.	11187							

based on
 Amortisation table
 in step 2.

CIB Dr 15000
 To net invt. 15000



eg on Operating Lease.

Question# 34

Oroc hires out industrial plant on long-term operating leases. On 1 January 20X1, it entered into a seven-year lease for a mobile crane. The terms of the lease are ₹ 175,000

payable on 1 January 20X1, followed by six rentals of ₹ 70,000 payable on 1 January 20X2 – 20X7. The crane will be returned to Oroc on 31 December 20X7. The crane originally cost ₹ 880,000 and has a 25-year useful life with no residual value.

Required:

Discuss the accounting treatment of the above in the year ended 31 December 20X1

Solⁿ:- Accounting in case of operating lease will be done based on small value items.

$$\begin{aligned} \text{i) total Lease Receivables} &\Rightarrow ₹ 175,000 + (70,000 \times 6) \\ &\Rightarrow ₹ 595,000 \end{aligned}$$

$$\begin{aligned} \text{ii) Lease Rents amortised as Revenue in P/L} \\ \text{via SLM} &\Rightarrow \frac{₹ 595,000}{7 \text{ years}} \Rightarrow ₹ 85,000 \end{aligned}$$

$$\text{iii) Dep. p.a.} \Rightarrow \frac{₹ 880,000}{25 \text{ yrs}} = ₹ 35,200$$

iv) Accounting :-

1-1-11

CIB

Dr

175000

To L.R

85000

To D.R.

(B/f)

90000



1-1-12 to 1-1-17

CIB

Dr

70000

D.R. (B/f) Dr 15000

To L.R.

85000

11

Dep.

Dr

35200

To PPE

35200

Lease Modifications in the books of lessors

Δ in scope
increase in scope + C.P./T.P/Should Comm with S.A.P. → X
decr. in scope → X

Finance Lease Modification

Operating Lease Modification

The modification **increases the scope of the lease by adding the right to use one or more underlying assets**
+
The **consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope**

A lessor shall account for a modification to an operating lease as a **new lease** from the effective date of the modification, **considering** any prepaid or accrued lease payments relating to the original lease as **part of the lease payments** for the new lease.

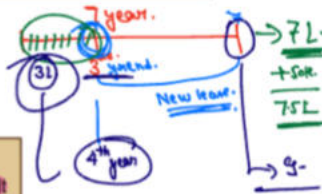
Whether **both** the conditions are satisfied?

Y

N

Modification results into a **separate lease**, hence lessor would follow the existing lessor guidance on initial recognition and measurement as of the effective date of lease modification on a prospective basis

Modification does not result into a **separate lease**



Whether the lease have been classified as operating with the modifications at the inception date?

Y

N

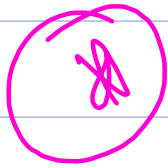
5. Account for the lease modification as a new lease from the effective date of the modification; and
6. Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification

Apply the requirements of Ind AS 109 'Financial Instruments' to all **other lease modifications**

** → Cash*
orig → P.L.
Δ in scope → X

Don't Com with S.A.P

Check days with the modification
1 a e 001



modification

F.L.

O.L.

Δ in scope.

Treat it as
New leave from
D.O.M.

increase

decrease

+
C.P. comm. with
SASP.

else

Same.

Considering
prepaid L.R. as
part of New
Leave.

Satisfied

on DOM. check.
from Day 1 based
on revised terms
whether it is op. Leave
or not.

Treat it as Sep. leave.
And.

Lenor on D.O.M.
will recognize the sep.
leave as new leave
and do A/c ing as
per principles of
Initial recog.
in case of lenor.

based on Revised
+ term.

means its a O.L.
then treat it as
New leave from DOM
considering

↳ C.A. of asset under
leave.

till D.O.M. to remaining
leave
term.

Not
a 'op Leave.

Treat it as FA
and apply ACM

Just similar to
Case of modification.

in case of op. lease

FEW LATEST CASE STUDIES BY ICAI ON COVID - 19

✓ Lessor Modifi.

Question# 1

ILL - 29 ICAI SM

Lessor L leases retail space to Lessee Z and classifies the lease as an operating lease. The lease includes fixed lease payments of ₹ 10,000 per month.

Due to the COVID-19 pandemic, L and Z agree on a rent concession that allows Z to pay no rent in the period from July, 2020 to September 2020 but to pay rent of ₹ 20,000 per month in the period from January 2021 to March 2021. There are no other changes to the lease.

How this will be accounted for by lessor?

ANSWER :

- determines that the reduction in lease payments in July 2020 to September 2020 and the proportional increase in January 2021 to March 2021 does not result in an overall change in the consideration for the lease.
- does not account for the change as a lease modification. L continues to recognise operating lease income on a straight-line basis, which is representative of the pattern in which Z's benefit from use of the underlying asset is diminished.

Before the rent concession agreement- the rent recognized by lessor in PorL = ₹ 10,000.

After the rent concession agreement- the rent recognized by the lessor in PorL = ₹ 10,000

Question# 2

ILL - 40 ICAI SM

Lessor M enters into a 10-year lease of office space with Lessee K, which commences on 1 April 2015. The rental payments are ₹ 15,000 per month, payable in arrears. M classifies the lease as an operating lease. M reimburses K's relocation costs of ₹ 600,000, which M accounts for as a lease incentive.

The lease incentive is recognised as a reduction in rental income over the lease term using the same basis as for the lease income – in this case, on a straightline basis over 10 years.

On 1 April 2020, during the COVID-19 pandemic, M agrees to waive K's rental payments for May, June and July 2020.

This decrease in consideration is not included in the original terms and conditions of the lease and is therefore a lease modification.

How this will be accounted for by lessor?

ANSWER :

M accounts for this modification as a new operating lease from its effective date – i.e. 1 April 2020. M recognises the impact of the waiver on a straightline basis over the five-year term of the new lease. M also takes into account the carrying amount of the unamortised lease incentive on 1 April 2020 of ₹ 3,00,000. M amortises this balance on a straight-line basis over the five-year term of the new lease.

Before the rent concession agreement- the rent recognized by lessor in PorL = ₹ 10,000.

After the rent concession agreement- the rent recognized by the lessor in PorL = ₹ 9500.

Lessor L enters into an eight-year lease of 40 lorries with Lessee M that commences on 1 January 2018. The lease term approximates the lorries' economic life and no other features indicate that the lease transfer or does not transfer substantially all of the risks and rewards incidental to ownership of the lorries. Assuming that substantially all of the risks and rewards incidental to ownership of the lorries are transferred, L classifies the lease as a finance lease. During the COVID-19 pandemic, M's business has contracted. In June 2020, L and M amend the contract so that it now terminates on 31 December 2020.

Early termination was not part of the original terms and conditions of the lease and this is therefore a lease modification. The modification does not grant M an additional right to use the underlying assets and therefore cannot be accounted for as a separate lease.

How this will be accounted for by lessor?

ANSWER :

L determines that, had the modified terms been effective at the inception date, the lease term would not have been for the major part of the lorries' economic life. Furthermore, there are no other indicators that the lease would have transferred substantially all of the risks and rewards incidental to ownership of the lorries.

Therefore, the lease would have been classified as an operating lease.

In June 2020, L accounts for the modified lease as a new operating lease. The

lessor L:

- a. derecognises the finance lease receivable and recognises the underlying assets in its statement of financial position according to the nature of the underlying asset – i.e. as property, plant and equipment in this case; and
- b. measures the aggregate carrying amount of the underlying assets as the amount of the net investment in the lease immediately before the effective date of the lease modification.

Read Covid
Case Studies from
HD Textbook.

(d) First Time Adaption (IND AS 101)



1-4-19

Practicle expedient selected

Practicle expedient not selected.

Continue as per previous GAAP
(AS-19 / IAS 17 / IND AS 17)

Full Retrospective

Modified Retrospective

- a) A/c as per I.R.R. on inception date.
- &
- b) change comparatives.

option 1 :- A/c as per I.R.R. as transition date from C.Y.

OR
option 2 :- A/c as per I.R.R. as on Transition date from C.Y. with Remaining payment.

Question# 36

IND 11-46

A retailer (lessee) entered into 3-year lease of retail space beginning at 1 April 2017 with three annual lease payments of ₹ 2,00,000 due on 31 March 2018, 2019 and 2020, respectively. The lease is classified as an operating lease under Ind AS 17. The retailer initially applies Ind AS 116 or the first time in the annual period beginning at 1 April 2019. The incremental borrowing rate at the date of the initial application (i.e., 1 April 2019) is 10% p.a. and at the commencement of the lease (i.e., 1 April 2017) was 12% p.a. The ROU asset is subject to straight-line depreciation over the lease term. Assume that no practical expedients are elected, the lessee did not incur initial direct costs, there were no lease incentives and there were no requirements for the lessee to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition under the terms and conditions of the lease.

What would be the impact for the lessee using all the following transition approaches:

Full Retrospective Approach

Modified Retrospective Approach

- Alternative 1

- Alternative 2

Solⁿ :-

1) Full Retrospective Approach: (I RR = 12%)



Step 1 :- Calⁿ of L.L.

$$= 2 \text{ Lac} \times \text{PVAF} @ 12\% \text{ for } 3 \text{ yrs}$$

$$= 480360$$

Step 2 :- ROU = 480360

Step 3 :- Amortisation table for L.L.

Year	Op. bal.	Int @ 12%	Rep/ins.	Cl. bal.
1	480360	57644	(200000)	338003
2	338003	40560	(200000)	178564
3	178564	21436	(200000)	—

B/P

Step 4 :- Statement of ROU

Yr.	Op. bal.	Amortisation	Cl. bal.
1	480360	160120	320240
2	320240	160120	160120
3	160120	160120	—

Step 5 SOPIL.

	2018-19	2019-20
Finance Cost	40560	21436
Dep's Amortisation	160120	160120

Step 6 B/S.



ROU
L.L.

1-4-18

320240

338003

31-3-19

160120

178564

31-3-20



Modified Retrospective approach. (IRR = 10%)

Alternate 1

$$\begin{aligned} \text{Step 1} &= \text{Cal}^n \text{ of L.L.} \\ &= 200000 \times \text{PVAF} @ 10\% \text{ for 3yr} \\ &= 497370 \end{aligned}$$

$$\text{Step 2} = \text{ROU} = 497370$$

Step 3: Am. table of L.L.

year	op. bal.	Int @ 10%	Install	cl. bal.
1	497370	49737	(200000)	347107
2	347107	34711	(200000)	181818
3	181818	18182	(200000)	—

Step 4 ROU Statement:

Yr.	op. bal.	amortisation	cl. bal.
17-18	497370	165790	331580
18-19	331580	165790	165790
19-20	165790	165790	—

Step 5 Journal:



1-4-19 ROU Dr 165790

R.E. Dr 16028 (B1)

To L.L. 181818

31-3-19

F.C. Dr 18182

To L.L. 18182.

LL Dr 200000

To CIB. 200000

PIL Dr 165790

To ROU 165790

Step 5 SOPIL.

2019-20

Finance Cost

18182

Depr. Amortisation

165790

Step 6 BLS.

31-3-20.

ROU

—

L.L.

—



Alternate-2.

IRR = 10% on remaining payments.



Step 1 Calⁿ of L.L.
 $= 200000 \times PVf @ 10\% \text{ for } 1 \text{ year.}$
 $= 200000 \times 0.9091$
 $= 181818$

Step 2 ROU = 181818

Step 3 N.A. Step 4 N.A.

Step 5 Journal.

1-4-2019 ROU Dr 181818
To L.L. 181818

31-3-2020 Amortisation (PIL) Dr. 181818
To ROU 181818

Finance cost (PIL) Dr 18181
To L.L. 18181

L.L.

Dr

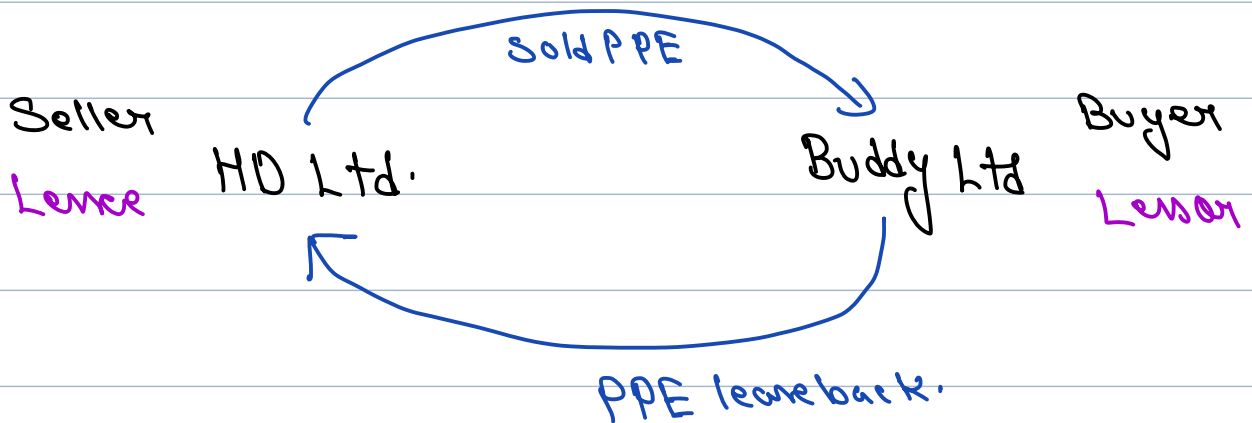
200000

To CIB

200000

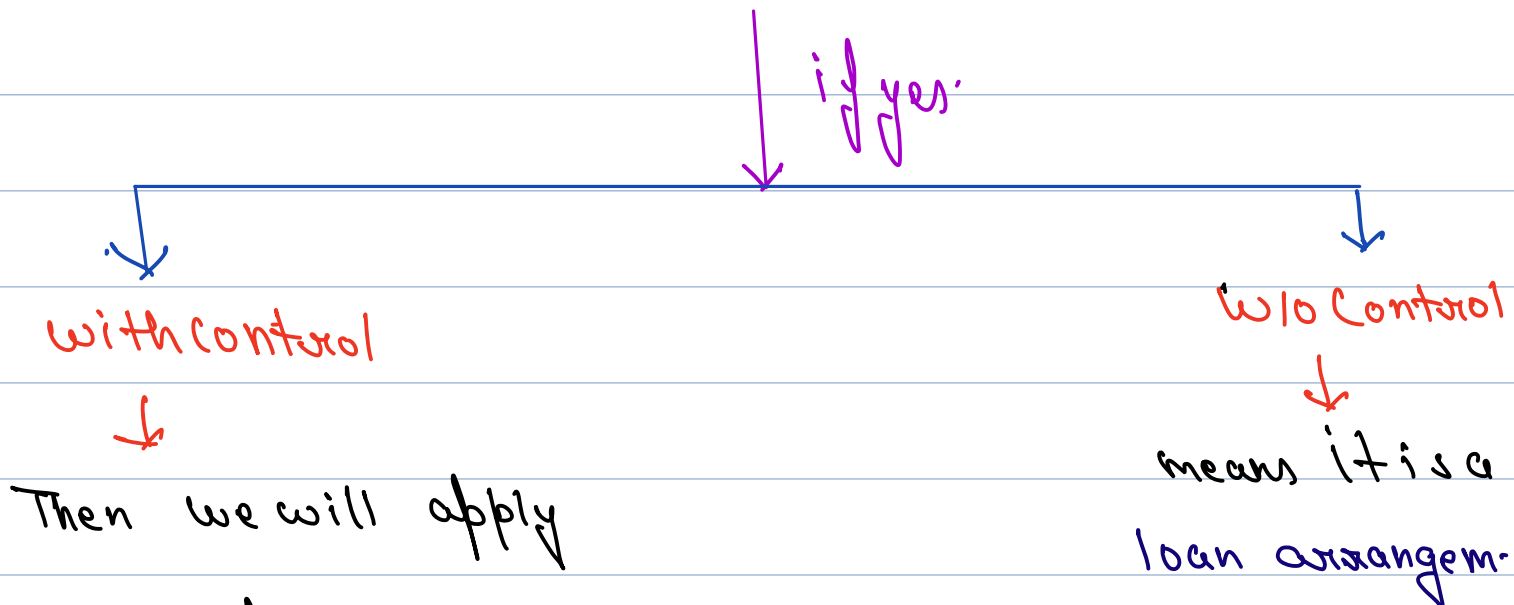


C) Sales & lease back



In such a situation first we check whether seller (lessor) (HD Ltd) has sold PPE to buyer lessee (Buddy Ltd)

(means seller should recognised the sale as per IND AS 115)



pricing for sales

- ent. hence



leave back.

apply



IND AS 109.

↓
ACM.

Step 1 Calculate FA or F.L.

if $SP > FV \rightarrow F.L.$

if $SP < FV \rightarrow F.A.$

Step 2 Calculate L.L.

P.V. of L.P. - FL + FA.

Step 3 Calⁿ C.A. of ROU

$$\frac{\text{C.A. of PPE}}{\text{SP or FV}} \times \text{L.L.}$$

Step 4. Calculate P/L

profit on sale of PPE. (FV - CA) xxx

loss on leave back (L.L. - ROU) xxx

P/L.

Step 5 in the books of seller (lessee)

(HD Ltd)

F.A. Dr if any



ROU Dr
CIB Dr



To L.L.
To PPE
To P/L.

To F.L. if any.

Step 6 in the books of Buyer/lessor (Buddy Ltd)

PPE Dr @ F.V.
To CIB. c.p.
 $(diff = FA/FL)$

Note:- After this entry buyer/lessor should
acc as operating lease OR finance lease
as the case may be.

Ill-02 of ICAI SM.

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of ₹ 30,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 15,00,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with annual payments of ₹ 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in Ind AS 115 Revenue from Contracts with Customers. The fair value of the building at the date of sale is ₹ 27,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee.

Buyer-lessor classifies the lease of the building as an operating lease.

How should the said transaction be accounted by the Seller-lessee and the Buyer-lessor?

Solⁿ :-



1) as given in Q that terms of sale between seller & buyer satisfies requirements of IND AS 115 which means sales actually took place.



Step 1 Calⁿ of F.A / F.L

$$\because SP > FV \Rightarrow 30L > 27L$$

then ₹ 3 Lac is diff. which is F.L.

Step 2 Calⁿ of L.L.

$$\begin{aligned} & \text{PV of L.P} - \text{F.L.} \\ & = ₹ 2L \times \text{PVAF @ 12\% for 20y} - ₹ 3L \\ & = 1493889 - 300000 \\ & = 1193889 \end{aligned}$$

Step 3: C.A. of ROU

$$\begin{aligned} & \frac{\text{C.A. of PPE}}{\text{SP or FV}} \times \text{L.L.} \\ & = \frac{1500000}{2700000} \times 1193889 \\ & = 663272 \end{aligned}$$



Step 4 P/L

profit on sale of Building (27L-15L)	1200000
- 10% on leave back (1193890 - 663272)	<u>530618</u>
profit	<u>669382</u>

Step 5 in the books of seller leasee

Bank	Dr	3000000	
ROU	Dr	663272	
	To FL		3000000
	To L.L		1193890
	To P/L		669382
	To PPE (Building)		1500000

Step 6 In the books of Buyer leasee

PPE	Dr	2700000	
FA (Bif)	Dr	300000	
	To CIB		3000000

buyer leasee will consider this lease as operating lease (given in Q.)