

# IND AS 116: LEASES

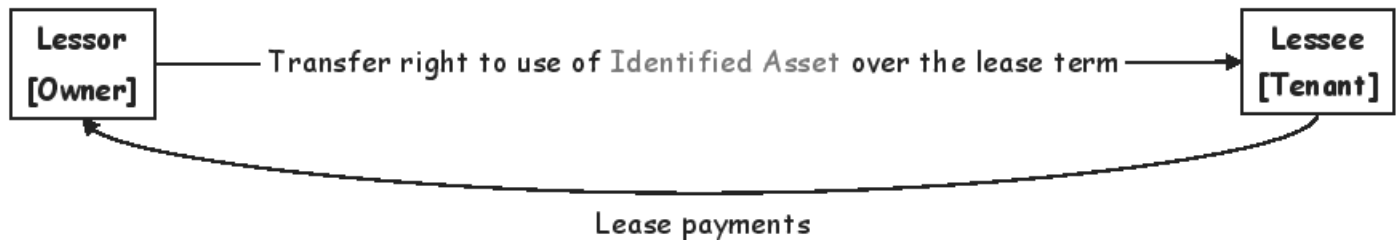


## Topics Covered

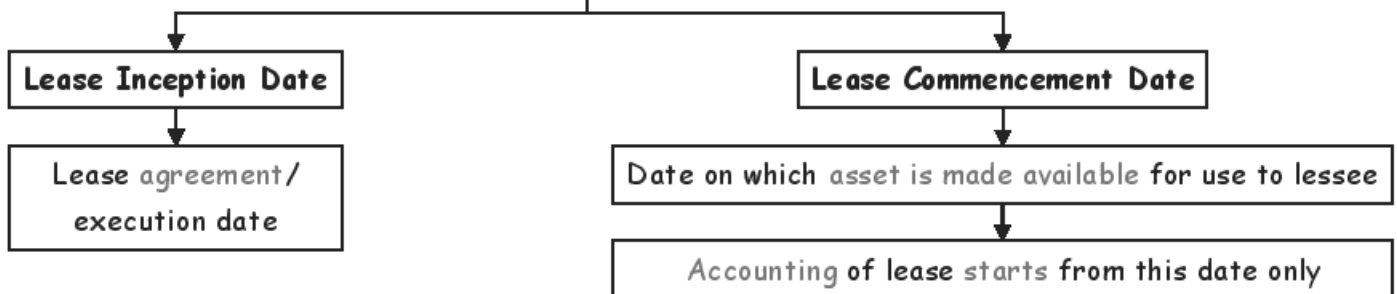
<u>Part I</u> Basics	<u>Part II</u> Accounting in Lessee's Books	<u>Part III</u> Accounting in Lessor's Books	<u>Part IV</u> Other Topics
<ul style="list-style-type: none"> <li>• Meaning</li> <li>• Lease dates</li> <li>• Lease term</li> <li>• Lease payments</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting of lease</li> <li>• Lease remeasurement</li> <li>• Lease modification</li> <li>• Multiple component contract</li> </ul>	<ul style="list-style-type: none"> <li>• Classification of lease by lessor</li> <li>• Accounting of finance lease</li> <li>• Accounting of operating lease</li> <li>• Lease modification</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting of sale and lease back</li> <li>• Sub lease</li> </ul>

## Part I: Basics

### Meaning of Lease



### Lease Dates



### Lease Term

**It means Period of Lease [Starting from Lease Commencement Date] calculated as Follows:**

Mandatory contract period	✓
(+) Renewal option period [Only if lessee expects to exercise it]	✓
	✓

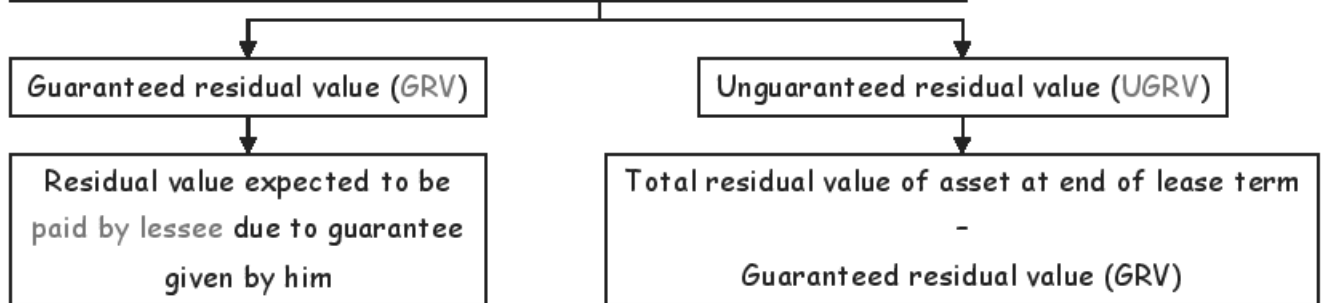
## Lease Payments

**It means Payments made by Lessee to Lessor over the Lease Term calculated as Follows :**

Period	Lease Payments
1	Lease rent - Incentive from lessor [If any]
2	Lease rent - Incentive from lessor [If any]
Maturity	Lease rent - Incentive from lessor [If any] (+) Exercise price of purchase option [Only if lessee expects to exercise it] (+) Guaranteed residual value [If any]

### Note:

(i) Total residual value of asset at end of lease term is divided as follows:



(ii) If 'advance lease payment' wording is given in question, then it means lease payments are made at beginning of each period.

In silent situation, always assume lease payments are made at end of each period.

### Example 1

A Ltd. takes office space on lease for 5 years on 1.4.20X1.

Lease rent of ₹ 10,000 is payable at end of each year.

Lessor gives ₹ 2,000 as an incentive to lessee at end of year 2 for normal tenant improvement.

GRV expected to be paid by lessee is ₹ 30,000 out of total estimated residual value of ₹ 50,000 at end of lease.

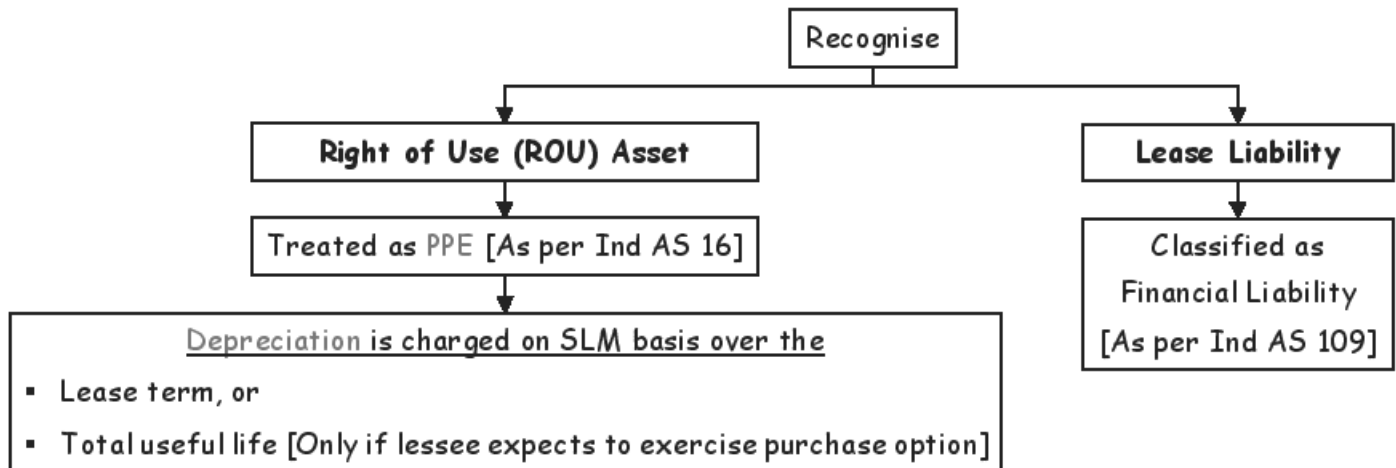
Calculate lease payments for each year.

### Solution

Year	Lease Payments (₹)	
1 [31.3.20X2]	Lease rent	10,000
2 [31.3.20X3]	Lease rent - Lease incentive	10,000 - 2,000 = 8,000
3 [31.3.20X4]	Lease rent	10,000
4 [31.3.20X5]	Lease rent	10,000
5 [31.3.20X6]	Lease rent	10,000
5 [31.3.20X6]	GRV	30,000

## Part II: Accounting in Lessee's Books

## Accounting of Lease

**Step 1: Calculate Initial Recognition Amount of Lease Liability**

= PV of lease payments using discount rate

**Note:** Discount rate

1 <sup>st</sup> Priority	Implicit interest rate in lease
2 <sup>nd</sup> Priority	Incremental borrowing rate of lessee

**Step 2: Calculate Cost of ROU Asset**

Particulars	Amount
Initial lease liability [Step 1]	XX
(+) Net payment to lessor before lease commencement date [Lease rent paid to lessor - Incentive received from lessor]	XX
(+) Initial direct costs [Example: Lease document preparation cost]	XX
	XX

**Step 3: Prepare Amortisation Table [Ledger A/c] of Lease Liability**

Period	Opening Balance	Finance/Interest Expense	Lease Payments	Closing Balance [Carrying Value]
(A)	(B)	(C) = (B) x Rate	(D)	(E) = (B) + (C) - (D)
1	Step 1	XX	XX	XX
2	XX	XX	XX	XX
Maturity	XX	XX	XX	-

OR

Period	Particulars	Amount	Particulars	Amount
1	To Bank [Lease payment]	XX	By ROU Asset [Initial]	Step 1
	To Balance c/d [Closing]	B/f	By Finance expense	XX
		XX		XX
2	To Bank [Lease payment]	XX	By Balance b/d [Opening]	XX
	To Balance c/d [Closing]	B/f	By Finance expense	XX
		XX		XX
Maturity	To Bank [Lease payment]	XX	By Balance b/d [Opening]	XX
			By Finance expense	XX
		XX		XX

**Step 4: Pass Journal Entries [If Required]**

Timing	Particulars	Debit	Credit
Initially	<b><u>Recognise ROU Asset and Lease Liability</u></b>		
	ROU Asset A/c Dr.	Step 2	
	To Lease Liability A/c To Bank A/c [Payment before commencement + Direct cost]		Step 1 If any
Each B/s Date	<b><u>Charge Finance/Interest Expense</u></b>		
	Finance Expense A/c (P&L) Dr.	XX	
	To Lease Liability A/c		XX
	<b><u>Pay Lease Payment</u></b>		
	Lease Liability A/c Dr.	XX	
	To Bank A/c		XX
	<b><u>Charge Depreciation on ROU Asset</u></b>		
	Depreciation A/c (P&L) Dr.	XX	
	To ROU Asset A/c		XX

**Example 2**

A Ltd. takes office space on lease for 5 years on 1.4.20X1. Lease payment of ₹ 10,000 is payable at end of each year. Implicit interest rate is 10% (PVAF @ 10% for 5 years is 3.791).

Pass journal entries for 1<sup>st</sup> year.

**Solution**

Step 1: Initial lease liability = ₹ 10,000 × 3.791 = ₹ 37,910

Step 2: Cost of ROU asset = ₹ 37,910

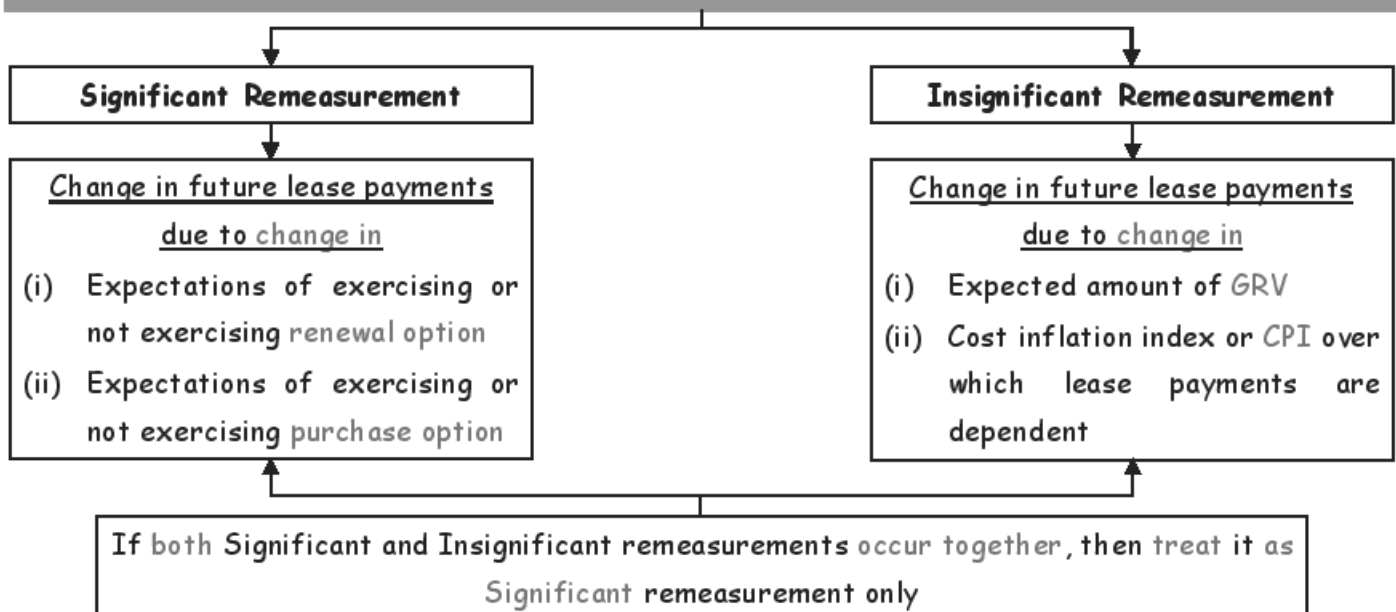
## Step 3: Amortisation table of lease liability

Year (A)	Opening Balance (B)	Finance/Interest Expense @ 10% (C) = (B) × 10%	Lease Payments (D)	Closing Balance [Carrying Value] (E) = (B) + (C) - (D)
1 [31.3.20X2]	37,910	3,791	10,000	31,701
2 [31.3.20X3]	31,701	3,170	10,000	24,871
3 [31.3.20X4]	24,871	2,487	10,000	17,358
4 [31.3.20X5]	17,358	1,736	10,000	9,094
5 [31.3.20X6]	9,094	906 (B/f)	10,000	-

Step 4: Journal entries for 1<sup>st</sup> year

Date	Particulars		Debit (₹)	Credit (₹)
1.4.20X1	ROU Asset A/c To Lease Liability A/c	Dr.	37,910	37,910
31.3.20X2	Finance Expense A/c (P&L) To Lease Liability A/c	Dr.	3,791	3,791
31.3.20X2	Lease Liability A/c To Bank A/c	Dr.	10,000	10,000
31.3.20X2	Depreciation A/c (P&L) [₹ 37,910/5 years] To ROU Asset A/c	Dr.	7,582	7,582

## Lease Remeasurement



**Case 1: Accounting of Significant Remeasurement****Step 1: Calculate Existing CV of Lease Liability on Remeasurement Date**

Using amortisation table

**Step 2: Calculate Revised CV of Lease Liability on Remeasurement Date**

= PV of revised future lease payments using new discount rate

**Step 3: Calculate Increase/(Decrease) in Lease Liability**

= Step 2 - Step 1

**Step 4: Pass Journal Entry [If Required]**

Particulars	Debit	Credit
<b><u>If Increase in Lease Liability on Remeasurement</u></b>		
ROU Asset A/c <span style="float: right;">Dr.</span>		Step 3
To Lease Liability A/c		
<b><u>If Decrease in Lease Liability on Remeasurement</u></b>		
Lease Liability A/c <span style="float: right;">Dr.</span>		Step 3
To ROU Asset A/c		

**Case 2: Accounting of Insignificant Remeasurement**

Same as 'Accounting of Significant Remeasurement' except use original discount rate instead of new discount rate in Step 2

**Example 3 → Case 2**

A Ltd. takes office space on lease for 5 years on 1.4.20X1. Lease payment of ₹ 10,000 is payable at end of each year. Implicit interest rate on 1.4.20X1 is 10% (PVAF @ 10% for 5 years is 3.791).

Lease rent is to be adjusted every year on the basis of CPI. CPI is 150 on 1.4.20X1 and 180 on 1.4.20X3. Implicit interest rate on 1.4.20X3 is 8%. Pass journal entry for remeasurement on 1.4.20X3.

**Solution****Step 1: Existing CV of lease liability on 1.4.20X3**

Initial lease liability = ₹ 10,000 × 3.791 = ₹ 37,910

Amortisation table of lease liability

Year (A)	Opening Balance (B)	Finance/Interest Expense @ 10% (C) = (B) × 10%	Lease Payments (D)	Closing Balance [Carrying Value] (E) = (B) + (C) - (D)
1 [31.3.20X2]	37,910	3,791	10,000	31,701
2 [31.3.20X3]	31,701	3,170	10,000	24,871

**Step 2: Revised CV of lease liability on 1.4.20X3**

Insignificant remeasurement. So, implicit interest rate of 8% on 1.4.20X3 is irrelevant.

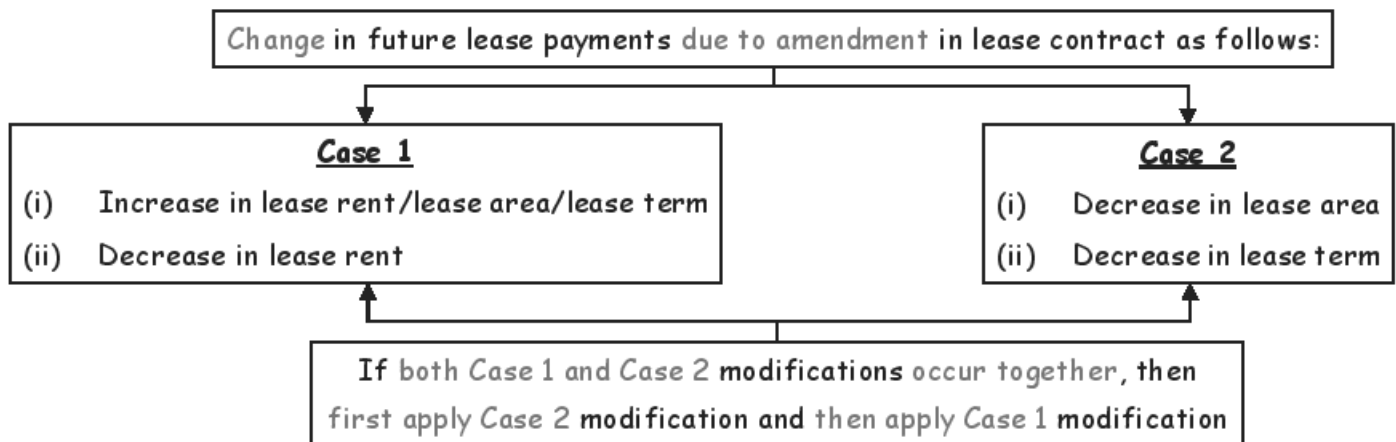
Year	Revised Lease Payments (₹)	PVF @ 10%	PV (₹)
1 [31.3.20X4]	12,000 [₹ 10,000 × (180/150)]	0.909	10,908
2 [31.3.20X5]	12,000 [₹ 10,000 × (180/150)]	0.826	9,912
3 [31.3.20X6]	12,000 [₹ 10,000 × (180/150)]	0.751	9,012
			29,832

**Step 3: Increase in lease liability on 1.4.20X3**

= ₹ 29,832 - ₹ 24,871 = ₹ 4,961

**Step 4: Journal entry for remeasurement**

Date	Particulars	Debit (₹)	Credit (₹)
1.4.20X1	ROU Asset A/c To Lease Liability A/c	Dr. 4,961	4,961

**Lease Modification****Accounting of Case 1 Modification**

Same as 'Accounting of Significant Remeasurement'

**Accounting of Case 2 Modification****Step 1: Calculate Existing CV of Lease Liability on Modification Date**

Using amortisation table

**Step 2: Calculate Existing CV of ROU Asset on Modification Date**

= Cost of ROU asset - Depreciation till date

**Step 3: Calculate Gain/(Loss) Due to Decrease in Scope**

	If Decrease in Area	If Decrease in Lease Term
Reduction in lease liability	Step 1 x $\frac{\text{Decrease in area}}{\text{Original area}}$	Step 1 - PV of revised future lease payments using original discount rate
(-) Reduction in ROU asset	Step 2 x $\frac{\text{Decrease in area}}{\text{Original area}}$	Step 2 x $\frac{\text{Decrease in lease term}}{\text{Remaining original lease term}}$
Gain/(Loss)	XX/(XX)	XX/(XX)

**Step 4: Calculate Existing CV of Lease Liability After Decrease in Scope**

= Step 1 - Reduction in lease liability [As calculated in Step 3]

**Step 5: Calculate Revised CV of Lease Liability on Modification Date**

= PV of revised future lease payments using new discount rate

**Step 6: Calculate Increase/(Decrease) in Lease Liability**

= Step 5 - Step 4

**Step 7: Pass Journal Entries [If Required]**

Particulars	Debit	Credit
<b>Reduction in Lease Liability &amp; ROU Asset Due to Decrease in Scope</b>		
Lease Liability A/c Dr.	Step 3	
Loss on Reduction A/c (P&L) Dr.	B/f	
To ROU Asset A/c		Step 3
To Gain on Reduction A/c (P&L)		B/f
<b>If Increase in Lease Liability on Modification</b>		
ROU Asset A/c Dr.	Step 6	
To Lease Liability A/c		
<b>If Decrease in Lease Liability on Modification</b>		
Lease Liability A/c Dr.	Step 6	
To ROU Asset A/c		

**Example 4 → Case 2**

A Ltd. takes 2,000 square metres of office space on lease for 5 years on 1.4.20X1. Lease payment of ₹ 10,000 is payable at end of each year. Implicit interest rate on 1.4.20X1 is 10% (PVAF @ 10% for 5 years is 3.791).

On 1.4.20X3, lease is amended to reduce the office space to 1,400 square metres and annual lease payments for remaining years are now ₹ 5,000. Implicit interest rate on 1.4.20X3 is 8%.

Pass journal entries for modification on 1.4.20X3.

**Solution****Step 1: Existing CV of lease liability on 1.4.20X3**

Initial lease liability = ₹ 10,000 × 3.791 = ₹ 37,910

Amortisation table of lease liability

Year (A)	Opening Balance (B)	Finance/Interest Expense @ 10% (C) = (B) × 10%	Lease Payments (D)	Closing Balance [Carrying Value] (E) = (B) + (C) - (D)
1 [31.3.20X2]	37,910	3,791	10,000	31,701
2 [31.3.20X3]	31,701	3,170	10,000	24,871

**Step 2: Existing CV of ROU asset on 1.4.20X3**

Cost of ROU asset on 1.4.20X1	₹ 37,910
(-) Depreciation till 1.4.20X3 [(₹ 37,910/5 years) × 2 years]	(₹ 15,164)
CV of ROU asset on 1.4.20X3	₹ 22,746

**Step 3: Gain due to decrease in scope on 1.4.20X3**

Reduction in lease liability [₹ 24,871 × (600 sqm/2,000 sqm)]	₹ 7,461
(-) Reduction in ROU asset [₹ 22,746 × (600 sqm/2,000 sqm)]	(₹ 6,824)
Gain due to decrease in scope	₹ 637

Step 4: Existing CV of lease liability after decrease in scope = ₹ 24,871 - ₹ 7,461 = ₹ 17,410

**Step 5: Revised CV of lease liability on 1.4.20X3**

Year	Revised Lease Payments (₹)	PVF @ 8%	PV (₹)
1 [31.3.20X4]	5,000	0.926	4,630
2 [31.3.20X5]	5,000	0.857	4,285
3 [31.3.20X6]	5,000	0.794	3,970
			12,885

Step 6: Decrease in lease liability on 1.4.20X3 = ₹ 17,410 - ₹ 12,885 = ₹ 4,525

**Step 7: Journal entries on 1.4.20X3**

Date	Particulars		Debit (₹)	Credit (₹)
1.4.20X3	Lease Liability A/c	Dr.	7,461	
	To ROU Asset A/c			6,824
	To Gain on Reduction A/c (P&L)			637
1.4.20X3	Lease Liability A/c	Dr.	4,525	
	To ROU Asset A/c			4,525

## Multiple Component Contract

- It means a contract which contains both lease and non lease component.
- Hence, Lessee has to Bifurcate Total Payment to be Made to Lessor in Each Period into**



- Bifurcation of Total Payment to be Made to Lessor in Each Period**

Case	Bifurcation of Total Payment
Asset Taken on Lease with Maintenance Service	<p>Step 1: <u>Calculate Total payment to be made to lessor in each period</u>            = Asset rent + Maintenance service charge</p> <p>Step 2: <u>Allocate Total payment in each period to Lease and Non lease component</u></p> <p>Lease = Step 1 × <math>\frac{\text{SSP of Asset rent}}{\text{SSP of Asset rent} + \text{SSP of Maintenance service}}</math></p> <p>Non lease = Step 1 × <math>\frac{\text{SSP of Maintenance service}}{\text{SSP of Asset rent} + \text{SSP of Maintenance service}}</math></p>
Goods Purchase Contract with Exclusive Right to Use Machine	<p>▪ <b><u>If Minimum Purchase Quantity is Mentioned in Contract</u></b></p> <p>Step 1: <u>Calculate Total payment to be made to lessor in each period</u>            = Minimum purchase quantity × Applicable price per unit</p> <p>Step 2: <u>Allocate Total payment in each period to Lease and Non lease component</u></p> <p>Lease = Step 1 × <math>\frac{\text{SSP of Machine rent}}{\text{SSP of Machine rent} + \text{SSP of Goods}}</math></p> <p>Non lease = Step 1 × <math>\frac{\text{SSP of Goods}}{\text{SSP of Machine rent} + \text{SSP of Goods}}</math></p> <p>Here, SSP of goods = Minimum purchase quantity × Cost p.u. of lessor</p> <p>▪ <b><u>If Minimum Purchase Quantity is Not Mentioned in Contract</u></b></p> <p>Lease = Payment for use of machine in each period [Directly given in question]</p> <p>Non lease = <math>\frac{\text{Actual units purchased in each period}}{\text{in each period}} \times \text{Price per unit}</math> (excluding machine cost component p.u.)</p>

### Note:

- Standalone selling price (SSP) means price of respective individual item in a separate transaction.
- Lessee can choose to apply practical expedient, i.e., No need to separate non lease component & lease component from a contract [In this case, treat complete contract as lease contract only].

**Example 5**

Bifurcate payment to be made to lessor in lease and non lease components in following cases:

- (i) A Ltd. takes office space on lease for 5 years. Lease contract also include maintenance by lessor. Lease rent of ₹ 9,000 & maintenance service charge of ₹ 7,000 are payable at end of each year. SSP of lease rent per year is ₹ 10,000 and SSP of maintenance service per year is ₹ 8,000.
- (ii) A Ltd. enters into a contract to purchase goods from B Ltd. for 5 years. A Ltd. has exclusive right to use production machine of B Ltd.  
A Ltd. has agreed to purchase minimum 10,000 units at ₹ 10 p.u. in each year.  
SSP of lease rent per year is ₹ 40,000 and Cost incurred by lessor (SSP of goods) is ₹ 7 p.u.
- (iii) A Ltd. enters into a contract to purchase goods from B Ltd. for 8 years. A Ltd. has exclusive right to use production machine of B Ltd. Production machine costs ₹ 10,00,000 to B Ltd. This cost can be allocated as ₹ 1,74,015 per year till 8 years at implicit interest rate of 8%.  
A Ltd. will pay ₹ 4.75 p.u. on the basis of budgeted annual purchase of 7,00,000 units as follows:

Particulars	Per unit price (₹)
Variable cost of manufacturing	4.00
Cost of machine [₹ 1,74,015/7,00,000 units]	0.25
B Ltd.'s profit margin on goods	0.50
	4.75

If A Ltd. purchases more than 7,00,000 units in a year, then cost of machine (₹ 0.25 per unit) is not payable on excess units. However, if A Ltd. purchases less than 7,00,000 units in a year, then unabsorbed cost of machine is payable to B Ltd.

A Ltd. actually purchased 1,00,000 units in 1<sup>st</sup> year.

**Solution**

- (i) Asset taken on lease with maintenance service

Step 1: Total payment to lessor in each year = ₹ 9,000 + ₹ 7,000 = ₹ 16,000

Step 2: Allocation of total payment in each year to lease and non lease component

$$\text{Lease component [Lease accounting]} = ₹ 16,000 \times \frac{₹ 10,000}{₹ 10,000 + ₹ 8,000} = ₹ 8,889$$

$$\text{Non lease component [Expense in P\&L]} = ₹ 16,000 \times \frac{₹ 8,000}{₹ 10,000 + ₹ 8,000} = ₹ 7,111$$

- (ii) Goods purchase contract with exclusive right to use machine [Minimum purchase quantity]

Step 1: Total payment to lessor in each year = 10,000 units × ₹ 10 p.u. = ₹ 1,00,000

Step 2: Allocation of total payment in each year to lease and non lease component

$$\text{SSP of goods} = 10,000 \text{ units} \times ₹ 7 \text{ p.u.} = ₹ 70,000$$

$$\text{Lease component [Lease accounting]} = ₹ 1,00,000 \times \frac{₹ 40,000}{₹ 40,000 + ₹ 70,000} = ₹ 36,364$$

$$\text{Non lease component [Expense in P\&L]} = ₹ 1,00,000 \times \frac{₹ 70,000}{₹ 40,000 + ₹ 70,000} = ₹ 63,636$$

(iii) Goods purchase contract with exclusive right to use machine [No minimum purchase quantity]

Lease component in each year [Lease accounting] = ₹ 1,74,015 [Given]

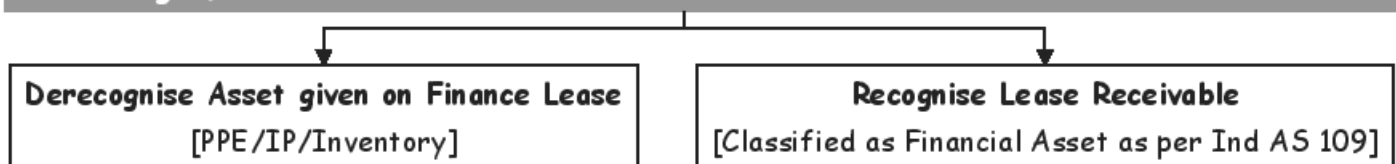
Non lease component in 1<sup>st</sup> year [Expense in P&L] = 1,00,000 units × ₹ (4 + 0.50) p.u. = ₹ 4,50,000

### Part III: Accounting in Lessor's Books

#### Classification of Lease by Lessor

<b>Finance Lease</b>	<p>If risks and rewards relating to ownership of asset are transferred to lessee, i.e., <u>any of the following condition is satisfied:</u></p> <p>(i) Lease term covers major part [<math>&gt; 50\%</math>] of life of asset.</p> <p>(ii) PV of lease payments substantially [<math>&gt; 90\%</math>] covers FV of asset.</p> <p>(iii) Ownership of asset will be transferred to lessee at end of lease.</p> <p>(iv) Lessee has purchase option at price less than FV of asset.</p> <p>(v) Asset is of specialised nature that can be used by lessee only.</p>
<b>Operating Lease</b>	Which is not finance lease

#### Accounting of Finance Lease



#### Step 1: Calculate Initial Recognition Amount of Lease Receivable

$$= \text{Net investment in lease [FV of asset]} = \text{PV of lease payments by lessee} + \text{PV of UGRV}$$

#### Step 2: Prepare Amortisation Table [Ledger A/c] of Lease Receivable

Period	Opening Balance	Finance/Interest Income	Lease Receipts	Closing Balance [Carrying Value]
(A)	(B)	(C) = (B) × Rate	(D)	(E) = (B) + (C) - (D)
1	Step 1	XX	XX	XX
2	XX	XX	XX	XX

Maturity	XX	XX	XX	UGRV
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OR

Period	Particulars	Amount	Particulars	Amount
1	To PPE/IP/Inventory [Initial]	Step 1	By Bank [Receipts]	XX
	To Finance income	XX	By Balance c/d [Closing]	XX
		XX		XX
2	To Balance b/d [Opening]	XX	By Bank [Receipts]	XX
	To Finance income	XX	By Balance c/d [Closing]	XX
		XX		XX
Maturity	To Balance b/d [Opening]	XX	By Bank [Receipts]	XX
	To Finance income	XX	By PPE/IP/Inventory [Return]	UGRV
		XX		XX

**Step 3: Pass Journal Entries [If Required]**

Timing	Particulars	Debit	Credit
Initially	<b><u>If PPE/IP Given on Lease [Normal Lessor]</u></b>		
	Lease Receivable A/c	Dr. Step 1	
	Loss on Lease A/c (P&L)	Dr. B/f	
	To PPE/IP A/c		CV
	To Bank A/c [Initial direct costs]		If any
	To Gain on Lease A/c (P&L)		B/f
Initially	<b><u>If Inventory Given on Lease [Dealer Lessor]</u></b>		
	Lease Receivable A/c	Dr. Step 1	
	COGS A/c (P&L)	Dr. B/f	
	To Inventory A/c		CV
	To Sales A/c (P&L)		Step 1 - PV of UGRV
	To Bank A/c [Initial direct costs]		If any
Each B/s Date	<b><u>Recognise Finance/Interest Income</u></b>		
	Lease Receivable A/c	Dr. XX	
	To Finance Income A/c (P&L)		XX
	<b><u>Receipt of Lease Payment</u></b>		
Bank A/c	Dr. XX		
To Lease Receivable A/c		XX	

<b>Maturity</b>	<b><u>Return Back of PPE/IP/Inventory</u></b>		UGRV
	PPE/IP/Inventory A/c	Dr.	
	To Lease Receivable A/c		

**Note:** In dealer lessor case, profit/loss is automatically recognised in P&L [Sales - COGS]

### Example 6

A Ltd. provide its PPE on lease for 5 years on 1.4.20X1.

Lease rent of ₹ 10,000 is payable by lessee at end of each year.

GRV expected to be paid by lessee is ₹ 30,000 out of total estimated residual value of ₹ 50,000 at end of lease.

Implicit interest rate is 10%.

FV of PPE is ₹ 68,950.

CV of PPE is ₹ 60,000.

Pass journal entries for 1<sup>st</sup> year.

### Solution

UGRV = ₹ 50,000 - ₹ 30,000 = ₹ 20,000

Step 1: Initial lease receivable

Year	Receipts (₹)	PVF @ 10%	PV (₹)
1 [31.3.20X2]	10,000	0.909	9,090
2 [31.3.20X3]	10,000	0.826	8,260
3 [31.3.20X4]	10,000	0.751	7,510
4 [31.3.20X5]	10,000	0.683	6,830
5 [31.3.20X6]	10,000	0.621	6,210
5 [31.3.20X6]	30,000 → GRV	0.621	18,630
PV of lease payments			56,530
5 [31.3.20X6]	20,000 → UGRV	0.621	12,420
Net investment in lease [FV of asset]			68,950

Step 2: Amortisation table of lease receivable

Year	Opening Balance	Finance/Interest Expense @ 10%	Lease Receipts	Closing Balance [Carrying Value]
(A)	(B)	(C) = (B) × 10%	(D)	(E) = (B) + (C) - (D)
1 [31.3.20X2]	68,950	6,895	10,000	65,845
2 [31.3.20X3]	65,845	6,585	10,000	62,430

3 [31.3.20X4]	62,430	6,243	10,000	58,673
4 [31.3.20X5]	58,673	5,867	10,000	54,540
5 [31.3.20X6]	54,540	5,460 (B/f)	40,000	20,000

Step 3: Journal entries for 1<sup>st</sup> year

Date	Particulars		Debit (₹)	Credit (₹)
1.4.20X1	Lease Receivable A/c	Dr.	68,950	
	To PPE A/c			60,000
	To Gain on Lease A/c (P&L)			8,950
31.3.20X2	Lease Receivable A/c	Dr.	6,895	
	To Finance Income A/c (P&L)			6,895
31.3.20X2	Bank A/c	Dr.	10,000	
	To Lease Receivable A/c			10,000

## Accounting of Operating Lease

(1) Journal Entries if Lessor Give Lease Incentive to Induce Lessee to Enter into Lease

Timing	Particulars		Debit	Credit
Initially	<u>Recognise Lease Incentive</u>			
	Deferred Incentive A/c	Dr.		Lease incentive
	To Bank A/c			
Each Period	<u>Receipt of Lease Payment</u>			
	Bank A/c	Dr.	Lease payment	
	To Deferred Incentive A/c			Lease incentive ÷ Lease term
	To Lease Income A/c (P&L)			B/f

(2) Journal Entries if Lessor Give Lease Incentive for Leasehold Improvements Owned by Lessor

Timing	Particulars		Debit	Credit
Initially	<u>Recognise Lease Incentive</u>			
	PPE A/c	Dr.		Lease incentive
	To Bank A/c			

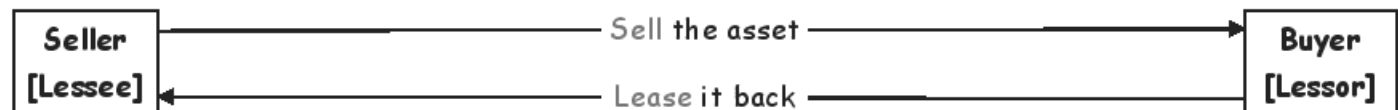
Each Period	<b>Receipt of Lease Payment</b>		
	Bank A/c	Dr.	Lease payment
	To Lease Income A/c (P&L)		
	<b>Charge Depreciation on PPE [Lease Incentive]</b>		
	Depreciation A/c	Dr.	Lease incentive ÷ Lease term
	To PPE A/c		

### Lease Modification

Earlier Classification	New Classification	Accounting of Modification in Lessor's Books
Finance Lease	Operating Lease	Derecognise 'Lease Receivable' and recognise 'Asset' at CV of lease receivable
Operating Lease	Finance Lease	Treat finance lease as new contract

### Part IV: Other Topics

#### Accounting of Sale and Lease Back



#### (1) If Sale Price of Asset = FV of Asset

Journal Entry in Seller (Lessee) Books		
Particulars	Debit	Credit
Bank A/c	Dr.	Sale price
ROU Asset A/c	Dr.	Lease liability $\times \frac{CV \text{ of asset}}{FV \text{ of asset}}$
Loss on Sale A/c (P&L)	Dr.	B/f
To Asset A/c		CV
To Lease Liability A/c		PV of lease payments
To Gain on Sale A/c (P&L)		B/f

Journal Entry in Buyer (Lessor) Books		
Particulars	Debit	Credit
Asset A/c To Bank A/c	Dr.  	Purchase price
Also apply accounting of lease by lessor [Finance lease or Operating lease]		

(2) If Sale Price of Asset < FV of Asset

Journal Entry in Seller (Lessee) Books		
Particulars	Debit	Credit
Bank A/c ROU Asset A/c Loss on Sale A/c (P&L) To Asset A/c To Lease Liability A/c To Gain on Sale A/c (P&L)	Dr. Dr. Dr.    	Sale price  Lease liability $\times \frac{CV \text{ of asset}}{FV \text{ of asset}} + \left( \begin{array}{l} FV - \\ \text{Sale price} \end{array} \right)$ B/f
		CV PV of lease payments B/f
Journal Entry in Buyer (Lessor) Books		
Particulars	Debit	Credit
Asset A/c To Bank A/c To Lease Income A/c (P&L)	Dr.  	FV  Purchase price B/f
Also apply accounting of lease by lessor [Finance lease or Operating lease]		

(3) If Sale Price of Asset > FV of Asset

Journal Entry in Seller (Lessee) Books		
Particulars	Debit	Credit
Bank A/c ROU Asset A/c Loss on Sale A/c (P&L) To Asset A/c To Loan Liability A/c To Lease Liability A/c To Gain on Sale A/c (P&L)	Dr. Dr. Dr.    	Sale price  Lease liability $\times \frac{CV \text{ of asset}}{FV \text{ of asset}}$ B/f
		CV Sale price - FV PV of payments - Loan liability B/f

Journal Entry in Buyer (Lessor) Books		
Particulars		
Asset A/c	Dr.	FV
Loan A/c	Dr.	B/f
To Bank A/c		Purchase price
Also apply accounting of lease by lessor [Finance lease or Operating lease]		

## Accounting of Sub Lease

