

# INDAS 116 – LEASES

## IMPORTANT CONCEPT BUILDER EXAMPLES ON LEASES

(Compiled by CA. Jai Chawla)

### Example 1: (Accounting for Lessee's Books)

Lease Term = 6 years

IRI = 9% p.a.

Down Payment = 2,50,000 at Beginning

Initial Direct Cost = 1,20,000

Fixed Lease Payments = 5,00,000 For 1<sup>st</sup> year, further increased by 10% every year.

Annual Payments to be made at the end of every year.

Other Information:

Guaranteed Residual Value (GRV)	4,50,000
Purchase Price option	25,00,000
Penalty for termination if terminated before 6 years	1,80,000

- It is reasonably certain that the lease term will not exceed 5 years and the lessee has to terminate and will pay the penalty.
- PV of decommissioning cost after 5<sup>th</sup> year is 3,00,000/-.

Show the Accounting in the books of Lessee as per INDAS 116.

### Solution:

1. Lease Term is 5 Years

2. Calculation of Lease Liability:

Year	Lease Payment	Amount	PV factor @9%	PV Amount
1	Fixed LP	5,00,000	0.917	4,58,500
2	Fixed LP	5,50,000	0.842	4,63,100
3	Fixed LP	6,05,000	0.772	4,67,060
4	Fixed LP	6,65,500	0.708	4,71,174
5	Fixed LP	7,35,050	0.650	4,75,833
5	GRV	4,50,000	0.650	2,92,500
5	Penalty	1,80,000	0.650	1,17,000
<b>Initial Measurement of Lease Liability</b>				<b>27,45,507</b>

3. Calculation of ROU Asset:

Initial measurement of Lease Liability	27,45,507
Add: Down Payment	2,50,000
Add: Initial Direct Cost	1,20,000
Add: PV Of Decommissioning Cost	3,00,000

## INDAS 116 – LEASES

<b>Cost Of ROU</b>	<b>34,15,507</b>
--------------------	------------------

**4. Journal Entry for Initial Recognition:**

ROU asset a/c Dr.	34,15,507
To Lease Liability a/c	27,45,507
To Lessor / Bank a/c	2,50,000
To Bank / Creditor a/c	1,20,000
To Provision for decom. Liability a/c	3,00,000

5. Annual Depreciation on ROU =  $34,15,507 / 5 = 6,83,101$

**6. Schedule of Interest on Lease Liability:**

Year	Opening O/s	Interest @ 9%	Lease payment	Closing O/s
1	27,45,507	2,47,096	(5,00,000)	24,92,603
2	24,92,603	2,24,334	(5,50,000)	21,66,937
3	21,66,937	1,95,024	(6,05,000)	17,56,961
4	17,56,961	1,58,127	(66,55,000)	12,49,588
5	12,49,588	1,12,462	(13,62,050)	0

**Example 2: (Accounting for Lessee's Books with remeasurement due to changes)**

Lease period = 5 years (2 years renewal period certain to exercise by lessee)

Fixed Payment = 1,20,000 p.a. payable at the end of each year.

Incentive of 20% in 1<sup>st</sup> year payment only.

Above payment shall be increased based on Current Price Index.

Current Index = 1,000

Guaranteed Residual Value = 50,000

Payment for 2 years renewal period = 1,50,000 p.a.

Purchase option at Rs. 12,00,000 (It is certain to exercise after 7<sup>th</sup> year)

Discount Rate = 10%

Initial Direct Cost = 25,000

Down Payment = 1,00,000

Estimated cost of decommissioning after 15 years = 1,30,000

Consumer Price Index at the 4<sup>th</sup> year beginning = 1,200

Calculate Lease Liability & ROU Asset at the beginning & any changes due to change in Index.

## INDAS 116 – LEASES

**Solution:**

**1) Calculation of Lease Liability**

Year	Lease Payments	PV @ 10 %
1	96,000	
2	1,20,000	
3	1,20,000	
4	1,20,000	
5	1,20,000	
6	1,50,000	
7	1,50,000 + 12,00,000	
	<b>Total PV</b>	<b>12,10,134</b>

**2) Calculation of ROU Asset**

Down Payment	1,00,000
Lease Liability	12,10,134
Initial Direct Cost	25,000
PV of Decommissioning Cost	31,121
<b>ROU ASSET</b>	<b>13,66,255</b>

**3) Interest Schedule**

Year	Opening O/S	Interest@10%	Lease Payment	Closing O/S
1	12,10,134	1,21,013	96,000	12,35,147
2	12,35,147	1,23,515	1,20,000	12,38,662
3	12,38,662	1,23,866	1,20,000	12,42,528

Carrying amount at 4<sup>th</sup> year beginning = 12,42,528

**4) Re-measurement of LP and LL due to change in consumer price index**

Calculation of Revised Lease Liability:

Year	Lease Payment	PV @ 10%
4	1,20,000/1,000*1,200	
4	1,44,000	
5	1,44,000	
6	1,80,000	
7	1,80,000 + 12,00,000	
		<b>13,27,714</b>

Increase in Lease Liability = 13,27,714 - 12,42,528 = 85,186

## INDAS 116 – LEASES

### 5) Journal Entry for Increase in LL:

ROU Asset a/c	Dr	85,186
To Lease Liability a/c		85,186

### Example 3: (Calculation of Interest Rate Implicit in Lease)

Initial Direct Cost = 50,000

Lease Term = 4 years

Annual Lease Payment = 1,50,000 p.a.

Guaranteed Residual Value = 75,000

Unguaranteed Residual Value = 25,000

Fair value at Beginning at Lease term = 5,00,000

Calculate IRR

#### Solution:

- Fair value + IDC = 5,50,000
- Take two rates on trial basis as under:

1<sup>st</sup> rate 10 % = 5,43,781/-

2<sup>nd</sup> rate 9% = 5,56,800/-

- IRR = 9% + (6,800 ÷ 13,019)% = 9.52%

### Example 4: (Foreign Currency)

Lease term is 4 years.

Annual lease payment is \$ 10,000, payable at end of each year.

Discount rate is 10%.

Dollar Rupee Rates are as under:

- Spot Rate as on Beginning of Lease = ₹82/- Per \$
- Avg. Rate = ₹82.18/- per \$
- Closing Ex. Rate = ₹82.5/- per \$

Show the accounting treatment for the above.

#### Solution:

##### 1) INITIAL RECOGNITION

PV of \$10,000 @ 10% for 4 years	\$ 31,698.65
Lease liability (in ₹)	\$ 31698.65 × 82 = 25,99,290

##### 2) Subsequent measurement of Lease Liability

At Beg. - lease liability	\$31,69,8.65	82.00/-	25,99,290
---------------------------	--------------	---------	-----------

## INDAS 116 – LEASES

At End - Interest @ 10%	\$ 3,16,9.87	82.18/-	2,60,500
At End - Lease Payment	\$ 10,000	82.50/-	8,25,000
<b>At End - Closing Bal.</b>	<b>\$24,86,8.52</b>		<b>20,34,790</b>
			<b>Carrying Amt.</b>
At End - Closing Bal. as per Closing Ex. Rate	\$24,86,8.52 x 82.5		<b>20,51,653</b>
			<b>Remeasured Amt.</b>
<i>Change in Lease Liability (Increase)</i>			16,863/-

### 3) Journal entry for change in lease liability:

Profit & loss A/c	Dr.	16,863
To Lease Liability A/c		16,863

### Example 5 (Case 1 Lease modification due to change in lease term)

#### Original terms:

Lease Term = 4 years

Discount Rate = 10%

Annual Lease Payment = 2,50,000 (at year end)

Guaranteed Residual Value (GRV) = 1,20,000

#### After 2 years:

Lease Term increased by 3 more years

Lease Payment for such 3 more years would be 3,00,000 p.a.

Estimated GRV is now = 90,000

Discount rate = 9%.

#### Solution:

##### 1) Initial Recognition:

ROU Asset a/c	Dr	8,74,428
To Lease Liabilities a/c		8,74,428
(Present value of Lease Payment @ 10% for 4 years)		

##### 2) Lease liabilities schedule:

Year	Opening O/S	Interest@10%	Installment	Closing O/S
1	8,74,428	87,443	(2,50,000)	7,11,871
2	7,11,871	71,187	(2,50,000)	5,33,058

3) Carrying Amount of lease liability at the beginning of 3<sup>rd</sup> year = 5,33,058

4) ROU Asset at beginning of 3<sup>rd</sup> year =  $8,74,428 \div 4 \times 2 = 4,37,214$

## INDAS 116 – LEASES

### 5) Modification Accounting

New revised Lease Term (remaining) = 5 years

Year	Lease Payments	PV factor @ 9%	PV Amount
1	2,50,000	0.917	2,29,250
2	2,50,000	0.842	2,10,500
3	3,00,000	0.772	2,31,600
4	3,00,000	0.708	2,12,400
5	3,00,000	0.650	1,95,000
5	90,000	0.650	58,500
<b>Revised Lease Liability</b>			<b>11,37,250</b>

6) **Increase In Lease Liability** = 11,37,250 - 5,33,058 = 6,04,192

7) **Journal entry for change in Lease Liability:-**

ROU Asset a/c	Dr.	6,04,192
	To Lease Liability a/c	6,04,192

3<sup>rd</sup> year Interest = 11,37,250 × 9% = 1,02,350/- (Transfer to P&L)

Revised Depreciation = [(4,37,214 + 6,04,192) ÷ 5] = 2,08,281/- (Transfer to P&L)

### Example 6 (Case 3 Lease modification due to change in consideration only)

#### Original Terms:

Lease Term = 5 years

Lease payments = 3,00,000 pa. It is to be paid at the end of each year.

Discount rate = 7%

#### Leaves Modification:

Lease payments changed at the beginning of 3<sup>rd</sup> year.

Revised lease payment = 3,25,000 (for remaining period)

Revised discount rate = 8%

#### Solution:

1) **Initial Recognition of lease liability and ROU asset**

Lease liability	ROU Asset
PV of 3,00,000 p.a. for 5 years @ 7% = 12,30,059	12,30,059

2) **Subsequent measurement**

Lease Liability		ROU Asset
1 <sup>st</sup> Year Opening	12,30,059	WDV at 3 <sup>rd</sup> year beginning

## INDAS 116 – LEASES

(+) Interest	86,104	= (12,30,059 ÷ 5 × 3)
(-) Payment	(3,00,000)	
2 <sup>nd</sup> Year Opening	10,16,163	= 7,38,035
(+) Interest	71,131	
(-) Lease Payment	(3,00,000)	
<b>3<sup>rd</sup> Year Opening</b>	<b>7,87,294</b>	

### 3) Lease Modification:

Lease Payment (Revised) = 3,25,000 p.a.

Lease Term = 3 years

Revised Discount rate = 8 %

Revised Lease Liability = PV of 3,25,000 p.a. @ 8% for 3 years = 8,37,557

Change in Lease Liability:

Revised Lease Liability	8,37,557
(-) Carrying amount	7,87,294
<b>Change in Lease Liability</b>	<b>50,263</b>

Journal entry for change in lease liability:

ROU Asset a/c	Dr.	50,263
To Lease Liability a/c		50,263

Revised Carrying Amount of ROU Asset = 7,38,035 + 50,263 = 7,88,298

Revised Depreciation = 2,62,766

### Example 7 (Case 2 Lease modification due to decrease in lease term)

Original Terms:

Lease Term = 8 years

Discount rate = 8% p.a.

Annual lease rent = 1,80,000 pa. It is to be paid at the end of each year.

Guaranteed Residual Value (GRV) = 1,00,000

Modification after 3 years:

Revised Lease Term (Remaining) = 3 Years

Revised discount rate = 9% p.a.

Annual lease rate = 2,00,000 pa. It is to be paid at the end of each year.

Guaranteed Residual Value (GRV) = 1,40,000

Show the necessary accounting treatment for lease modification.

**Solution:**

#### 1) Initial Recognition

## INDAS 116 – LEASES

Lease Liability	ROU Asset
(PV of 1,80,000 p.a. for 8 years @ 8%) + (PV of 1,00,000 p.a. for 8 <sup>th</sup> year @ 8%) = 10,88,422	10,88,422

### 2) Subsequent Measurement

ROU Asset Carrying Amount =  $10,88,422 \div 8 \times 5 = 6,80,264$   
(4<sup>th</sup> year Beginning)

Carrying amount of Lease Liability = 7,86,747 (after interest and payments)

### 3) Modification (Step 1)

Lease liability:

Revised LL at original discount rate = PV of 2,00,000 p.a. at 8% for 3 years (including GRV) = 6,26,556

Decrease in Lease Liability =  $7,86,747 - 6,26,556 = 1,60,191$

ROU Asset:

Revised ROA Carry amount =  $6,80,264 \div 5 \times 3 = 4,08,158$

Decrease in ROU =  $6,80,264 - 4,08,158 = 2,72,106$

Loss (P&L) a/c	Dr.	1,11,915
Lease liability a/c	Dr.	1,60,191
To ROV Asset a/c		2,72,106

### Step 2: Remeasure Lease Liability @ Revised Discounting Rate

(PV of 2,00,000 p.a. for 3 years @ 9%)+(PV of 1,40,000 p.a. for 3<sup>rd</sup> year @ 9%) = 6,14,364

Decreases in Lease Liability =  $6,26,556 - 6,14,364 = 12,191$

Journal entry for decrease in lease liability:

Lease Liability a/c	Dr.	12,191
To ROU asset a/c		12,191

New carrying amount of ROU =  $4,08,158 - 12,191 = 3,95,967$

### Example 8 (Case 4 Lease Modification due to decrease in ROU Scope)

Lease of a 1,500 sq ft space at 5,20,000 p.a. rent for 5 years. Discount rate = 6%.

## INDAS 116 – LEASES

After 2 years, Lessee requested to reduce the space to 1000 sq ft at revised Lease Payment = 4,00,000 p.a. Discount rate = 7%. Show the necessary accounting treatment.

**Solution:-**

1) Initial reorganization

Lease liability	ROU Asset
PV of 5,20,000 for 5 years @ 6% = 21,90,429	21,90,429

2) Subsequent Measurement

Lease liability (After Interest and Payment)	ROU Asset (after Dep)
Carrying amount at 3 <sup>rd</sup> year beginning = 13,89,996	13,14,257

3) Modification (Step 1)

Revised Lease Liability (Proportionately)	Revised ROU (Proportionately)
= 13,89,966 ÷ 1,500 × 1000	= 13,14,257 ÷ 1,500 × 1000
= 9,26,644/-	= 8,76,171
decrease in Lease Liability = 4,63,322	decrease in ROU Asset = 4,38,086

4) Journal entry for lease modification

Lease Liability a/c   Dr	4,63,322
To ROU Account	4,38,086
To Gain Account	25,236

5) Remeasure Lease Liability (Step 2)

Year	Lease Payments	PV factor @7%	PV Amount
3	4,00,000	0.935	3,74,000
4	4,00,000	0.873	3,49,200
5	4,00,000	0.816	3,26,400
			<b>10,49,600</b>

Increase in LL = 10,49,600 - 9,26,644 = 1,22,956

6) Journal entry for lease modification:-

ROU Asset a/c	Dr.	1,22,956
To Lease Liability a/c		1,22,956

## INDAS 116 – LEASES

### Example 9 (Case 5 Increase in scope of ROU Asset without Standalone SP)

Lease term = 7 years

Lease payments = 80,000 p.a.

Discount Rate original = 7% P.a.

Scope = 2,000 sq ft space

At the beginning of 3<sup>rd</sup> year, additional space of 1000 sq ft taken from same lessor @ additional payment of 30,000/- p.a. which **doesn't represent stand-alone price**.

Revised discount rate = 8% p.a.

Show the necessary accounting treatment.

#### Solution:-

##### 1) Initial measurement

ROU Asset a/c	Dr,	4,31,143
To Lease Liability a/c		4,31,143

##### 2) Carrying amount of 3<sup>rd</sup> year Beginning

ROU Asset =  $4,31,143 \div 7 \times 5 = 3,07,959$

Lease liability = 3,28,016 (PV of 80,000 pa for 5 years)

##### 3) Lease Modification

Additional ROU @ 30000/- lease payment.

Remeasure Existing Lease liability @ Revised Discount Rate (PV of 80,000 for 5 years @ 8% = 3,19,417)	Calculate Additional Lease Liability For 30,000 @ 8% p.a. = 1,19,781
	ROU Asset Dr. 1,19,781
	To lease Liability 1,19,781

##### 4) **Reduction in lease liability** = $3,28,016 - 3,19,417 = 8,599$

Journal entry for decrease in lease liability:-

Lease Liability a/c	Dr.	8,599
To ROU Asset		8,599

##### 5) Depreciation & Interest for 3<sup>rd</sup> year

ROU Revised =  $3,07,959 - 8,599 + 1,19,781 = 4,19,141$

Depreciation = 83,828 /-

Interest @ 8% on revised LL =  $3,19,417 + 1,19,781 = 4,39,198 \times 8\% = 35,136$

## INDAS 116 – LEASES

### Example 10: on Lessor (Finance Lease) (Non-Dealer)

Lease term = 6 years

IRR = 8% p.a.

Down payment = 2,00,000

Annual lease Rent = 3,00,000 p.a. (paid at the end of each year)

Carrying Amount of Asset = 15,00,000

Estimated UGRV = 1,50,000

At the end of 2<sup>nd</sup> year:- Estimated UGRV = 1,35,000

At the end of 4<sup>th</sup> year:- Estimated UGRV = 1,60,000

Prepare Lease Receivable account for 6 years.

#### Solution:

##### 1) Initial Recognition

Lease receivable = PV. of (Lease Payment +UGRV)

Year	GIL	PV. Of @ 8%	PV Amount
0	2,00,000	1	2,00,000
1	3,00,000	0.926	2,77,800
2	3,00,000	0.857	2,57,100
3	3,00,000	0.794	2,38,200
4	3,00,000	0.735	2,20,500
5	3,00,000	0.681	2,04,300
6	4,50,000	0.630	2,83,500
(including UGRV)			
			<b>16,81,400</b>

Lease Receivable account Dr.	16,81,390
To Asset account	15,00,000
To P&L account	1,81,390

##### 2) Subsequent Measurement

Lease receivable account

Date	Particulars	Amount	Date	Particulars	Amount
Y1 Beg.	To Asset	15,00,000	Y1 Beg.	BY bank (DP)	2,00,000
	To P&L	1,81,390			
Y1 End	To finance Income	1,18,511	Y1 End	By Bank	3,00,000
				By Balance c/d	12,99,901

## INDAS 116 – LEASES

Y2 Beg	To Balance	12,99,901	Y2 Beg	By Bank	3,00,000
Y2 End	<b>To Finance Income (B/F)</b>	<b>92,966</b>	Y2 End	By Balance c/d (this balance is revised as per revised UGRV)	10,92,867

**Alternatively:**

Finance Income gross =  $12,99,901 * 8\% = 1,03,993$

Difference in above account =  $1,03,993 - 92,966 = 11,027$

Above difference is charged to P&L and deducted from finance income head

### Lease Receivable Account (Continued)

Date	Particulars	Amount	Date	Particulars	Amount
Y3 Beg.	To Balance	10,92,867	Y3 End	By Bank	3,00,000
Y3 End	To Financial income	87,429	Y3 End	By Balance	8,80,296
Y4 Beg.	To Balance	8,80,296	Y4 End	By Bank	3,00,000
Y4 End	To Financial income (bal. fig.)	83,284	Y4 End	By Balance (revised balance as per 1,50,000 UGRV)	6,63,580
Y5 Beg.	To Balance	6,63,580	Y5 End	By Bank	3,00,000
Y5 End	To Financial income	53,086	Y5 End	By Balance c/d	4,16,666
Y6 Beg.	To Balance	4,16,666	Y6 End	By Bank (only Fixed LP)	3,00,000
Y6 End	To Financial income	33,333	Y6 End	By Balance c/d (its equal to UGRV)	1,50,000

*Case 1: Lessor sold the Asset at 1,40,000*

Bank A/c Dr.	1,40,000
Profit and Loss A/c Dr.	10,000
To Lease Receivable A/c	1,50,000

## INDAS 116 – LEASES

### Case 2: Asset Taken back by lessor and not sold

Asset A/c Dr.	1,50,000
To Lease Receivable A/c	1,50,000

### Sale & Lease Back

Two Case	
Case 1 (No Transfer of Control)	Case 2 (Transfer of Control)
Sale of Asset & taken Back on Lease For lifetime (It is a Sale & Finance Lease Back)	Sale of Asset & taken Back For limited time i.e. short term) It is a Sale & Operating Lease back

**Case1:** Here control of Asset is not transferred. All substantial Risk & Rewards are retained by seller. Therefore, it is not a Sale Transaction. It is not a Lease Back. It is a Finance Arrangement. IND AS 116 will not be applicable here, IND AS 109 & 32 will be applicable.

### Example 11 on Case 1 (i.e. No transfer of Control):

Building sold by Nishant to Vishal at ₹ 50,00,000, Same Building taken as lease by Nishant for entire remaining useful life. Incremental Borrowing Rate is 7% p.a. Lease term = 7 Years. Annual lease payment = 9,27,000

Show the necessary accounting treatment.

### Solution:

In this transaction, control over the asset is not transferred by Nishant since asset is taken back by Nishant for life time Lease.

This is a **finance arrangement** where Nishant is a Borrower & Vishal is a Lender.

### Books of Nishant:

- 1) Building shall not be De-recognized.
- 2) Nishant shall Continue to Depreciate the Building.
- 3) Money received by Nishant shall be treated as Loan taken from Vishal.

Nishant Shall Book interest Exp every year.

<b>Beg.</b>	Bank A/c	Dr.	50,00,000
	To Loan A/c		50,00,000
<b>Year End</b>	Interest A/c	Dr.	3,50,000
	To Loan A/c		3,50,000

## INDAS 116 – LEASES

<b>Year</b>	Loan A/c	Dr.	9,27,000
<b>End</b>		To Bank A/c	9,27,000

Books of Vishal: Vishal shall not Recognise the Asset purchased.

<b>Beg.</b>	Loan To Nishant Dr.	50,00,000
	To Bank A/c	50,00,000
<b>Year</b>	Loan To Nishant Dr.	3,50,000
<b>End</b>	To Interest Income	3,50,000
<b>Year</b>	Bank Dr.	9,27,000
<b>End</b>	To Loan A/c	9,27,000

**Case 2: The Ownership/control of Asset is transferred & Hence this is a Sale a Lease Back Transaction**

Seller has to do following:-

- a) De-Recognise the Asset sold.
- b) Recognise the Gain/Loss on Sale.
- c) Recognise the ROU Asset & Lease liability account For Lease Term period.

**Example 12: (Fair Value = Sale Price)**

Building owned by Tina and sold to Hema. Consider following information:

Carrying Amount of Property	80,00,000
Useful Life of Building	20 Years
Property Sold at	1,00,00,000
Fair Value of Property	1,00,00,000
Same Building taken back by Tina on Operating lease	
Lease Term	6 Years
Annual Lease Payments	6,00,000
Discount Rate	8% p.a.

**Solution:**

1.	Total Gain to Tina	Fair value less Carrying Amount	20,00,000 On entire building having 20 years life
2.	Tina has taken back the Asset for 6 years that means Tina has sold 14 years rights only. Hence Full Gain should not be recognised by Tina.		

## INDAS 116 – LEASES

3.	Lease Liability for Tina (6 years Lease Term)	PV of LP @ 8%	27,73,728/- (this becomes the FV of 6 years Building)
4.	ROU to be recognised By Tina (6 Years)	ROU shall be recognised From Carrying Amount of Building	$80,00,000 \div 10,000,000 \times$ $27,73,728 = 22,18,982$
5.	Ratio	(PV Of LP) $\div$ FV	<ul style="list-style-type: none"> <li>• Right retained</li> <li>• Total Rights for 2<sup>nd</sup> year.</li> </ul>
6.	Gain in Respect of Rights actually retained (not Transferred ) i.e. 6years (This gain should be ignored.)	Total Gain $\times$ (PV of LP) $\div$ FV	$20,00,000 \times 27,73,728 \div$ $1,00,00,000 = 54,746/-$
7.	Gain to be recognised		$20,00,000 - 5,54,746$ $=14,45,254$

### Journal Entry:

Bank account	Dr.	1,00,00,000
ROU asset a/c	Dr.	22,18,982
	To Building a/c	80,00,000
	To Lease Liability a/c	27,73,728
	To Gain (P&L)	14,45,254

### Fair Value is Lower than Sale Value:

IF Fair value is lower than Sale Value. i.e Amt Collected on Sale is more than its Fair market value.

Difference is treated as Loan. Lease Payment must include the repayment of Loan amount also. Loan shall be recognised as a Financial liability.

Total LP are divided into two parts:

- A) Toward Rent (Leasing)
- B) Towards Loan

## INDAS 116 – LEASES

**Example 13:** (FV lower than SP or Sale value is Higher than FV)

Sale Value	80,00,000
Fair Value	70,00,000
Carrying Amount	62,50,000
Lease Term	5 years
Annual Lease payment	5,00,000
Discount Rate	10%

Show the necessary accounting treatment.

**Solution:** Since FV is 70 lacs Hence Rs.10 lacs Collected is treated as loan

- 1) Total Gain = FV-CA = 70,00,000 - 62,50,000 = 7,50,000
- 2) PV of Agreed payment

PV of 5,00,000 p.a. @10 % for 5 years	18,95,393
---------------------------------------	-----------

18,95,393 divided into two parts	
Loan 10,00,000	PV OF Lease Payment. 8,95,395

- 3) Lease Liability to be recognised = 8,95,395  
Loan to be recognised separately = 10,00,000
- 4) Ratio = (PV of LP : Fair value) = 8,95,395 : 70,00,000
- 5) Gain to be recognised = 7,50,000 - (7,50,000 × 8,95,395 ÷ 70,00,000) = 6,54,065
- 6) ROU Asset = 6,25,000 × 8,95,395 ÷ 70,00,000 = 7,99,458/-
- 7) **Journal entry**

Bank Account	Dr.	80,00,000
ROU Asset	Dr.	7,99,458
To Asset		62,50,000
To Lease liability		8,95,395
To Loan		10,00,000
To Gain		6,54,865

## INDAS 116 – LEASES

### Fair Value is Higher than Sale Value

Difference is treated as DP & added to ROU Asset

**Example 14:** Same as above example with following Changes.

Sale	80,00,000
FV	85,00,000

**Solution:**

Total Gain	22,50,000
PV of LP	18,95,393
Ratio	$18,95,393 \div 85,00,000$
ROU Asset	$(62,50,000 \times 18,95,393 \div 85,00,000) + 5,00,000$ = 18,93,671
Gain to be recognised	$22,50,000 - (22,50,000 \times 18,95,393 \div 85,00,000)$ = 17,48,278

### Journal Entry

Bank a/c	Dr.	80,00,000
ROU Asset	Dr.	18,93,671
	To Asset	62,50,000
	To LL	18,95,393
	To Gain	17,48,278