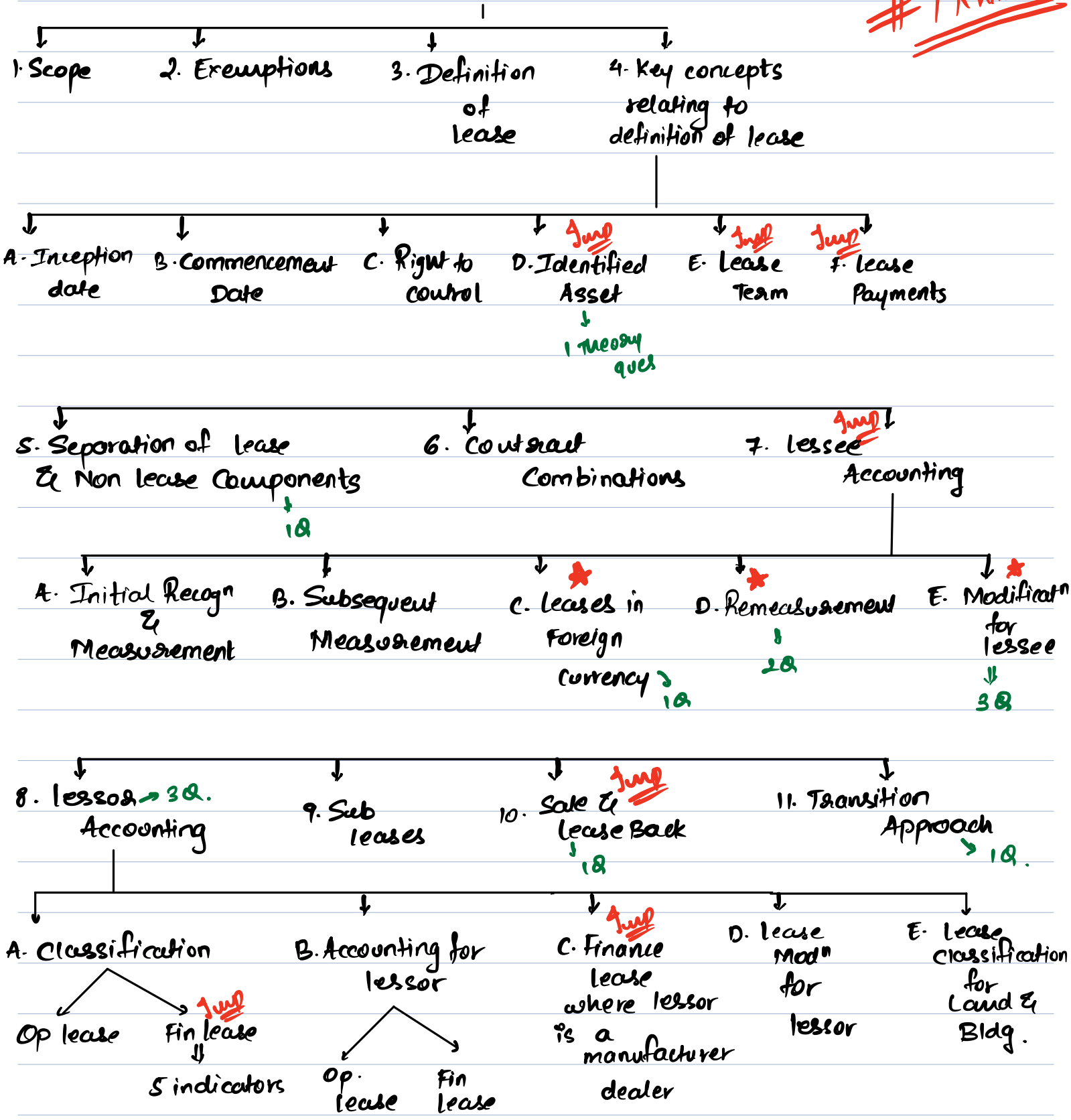


Ind AS 116 - Leases

FR with AK



Ind AS 116 - Leases

Two Parties

lessor
(O.G. owner)

lessee
(Tenant) → Customer

AS 19 → leases

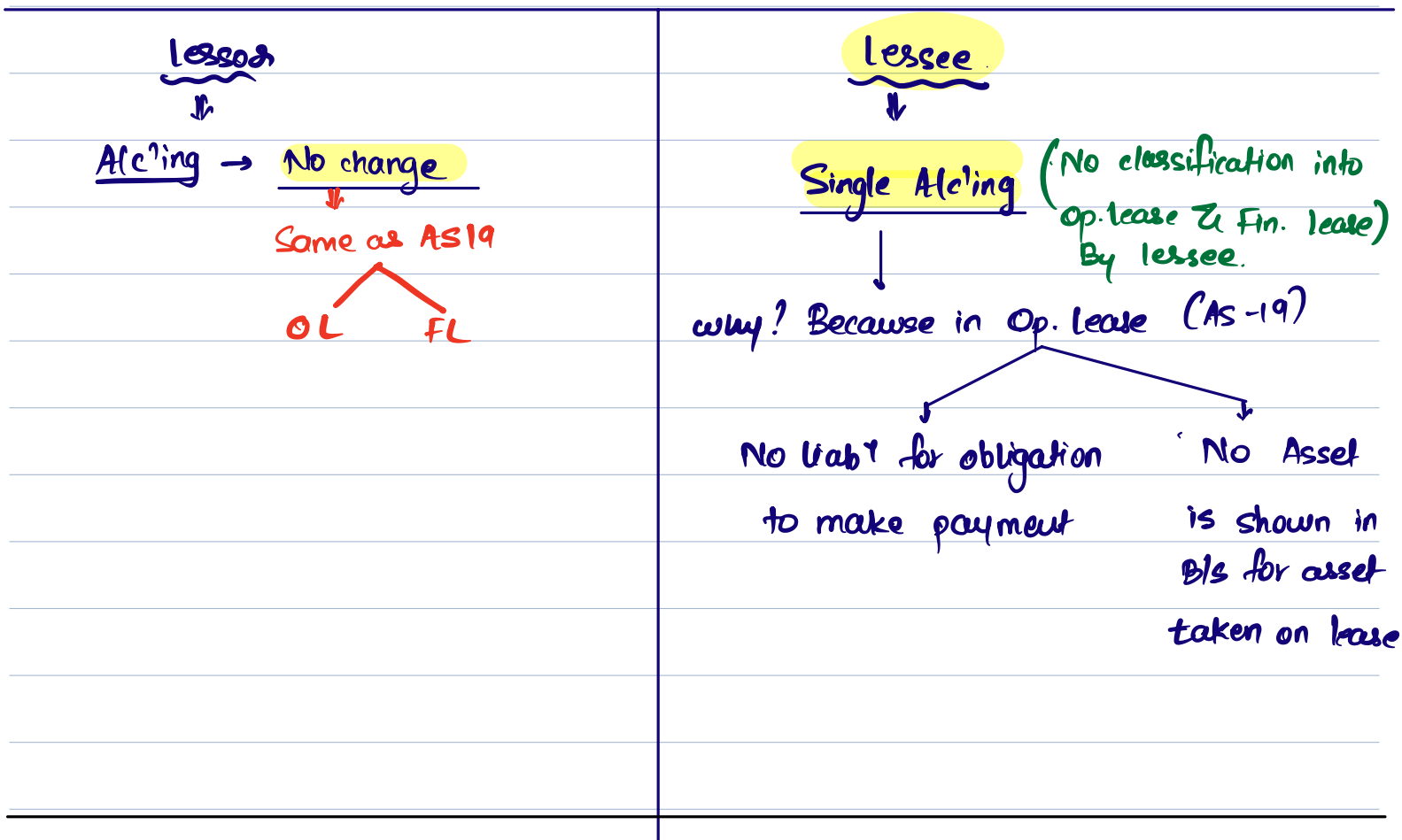
Rent Income

lessor [O.G. owner]

lessee [Tenant] → Customer

	lessor [O.G. owner]	lessee [Tenant]
<u>Op lease</u>	<u>Finance lease</u>	<u>Op. lease</u>
<u>Alc'ing</u> ↓ ownership of asset not trf.	↓ ownership of Asset is getting trf	<u>Alc'ing</u>
<u>yr end</u>		<u>yr end</u> → (PIL)
ClB Alc Da	<u>Day 1</u> <u>Reable [FA]</u>	Rent Exp. Alc Da
To Rent Inc (PIL)	TO PPE Alc	TO ClB
<u>yr end</u> Deprn	<u>yr end</u> → No Deprn.	<u>yr end</u> - No Deprn.
TO PPE	<u>yr end</u> → FA (LAT)	<u>yr end</u> ↓ Deprn
	<u>yr end</u> ① FA (Reable)	TO PPE
	TO Int Inc	<u>yr end</u> → LAT
	<u>yr end</u> ② ClB Alc	① Int Exp Alc Da
	TO FA (Reable)	TO FL
		② FL
		TO ClB.

Ind AS 116 - Leases



Eg: For A/c'ing of Lessee

AK Ltd → Lessors

Jeetu Ltd → Lessee

Lease Term (5 yrs)

Lease Payments = 1 lakh p.a.

Disc Rate = 10%.

Solⁿ: PV of Future lease payments = (1 lakh x Af of 5 yrs @ 10%) = 379079

Day 1 J-E (Jeetu) → Right of Use Asset (ROU Asset) A/c Dr 379079

TO Lease Liab [LL] 379079.

↳ Just like F.L.

↓

[LAT]

4rend Deprn Alc Dr 75816
 To ROU Asset 75816

[379079 / Sys
 ↓
 Lease Term]

4rend Int Exp 37908
 To Lease Liab 37908

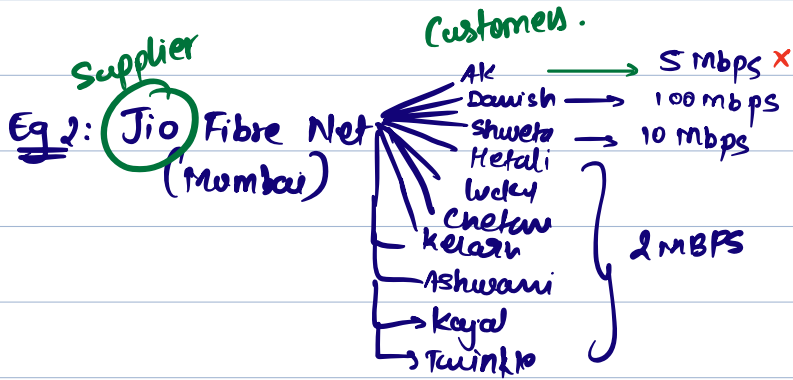
4rend Lease Liab Alc Dr 1,00,000
 To ClB 1,00,000

WN① LAT [F.L.] → lease liability

4r	op ⁿ	Int @ 10% ^{Exp}	Repayment ^{Pay.}	clB
1	379079	37908	(1,00,000)	316987

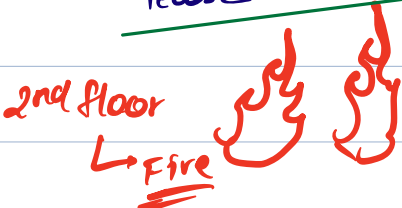
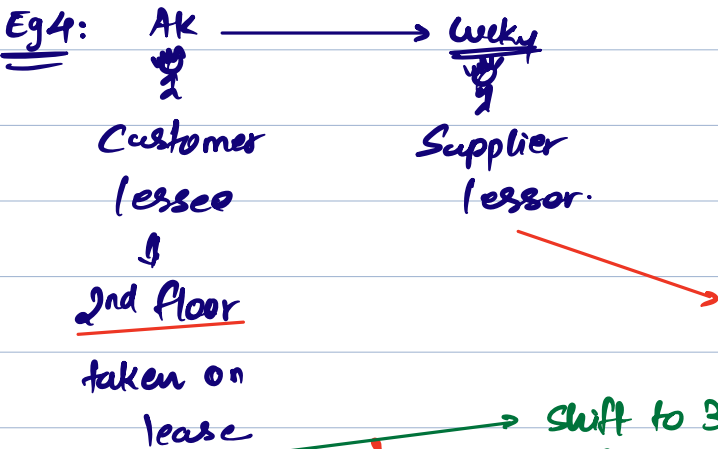
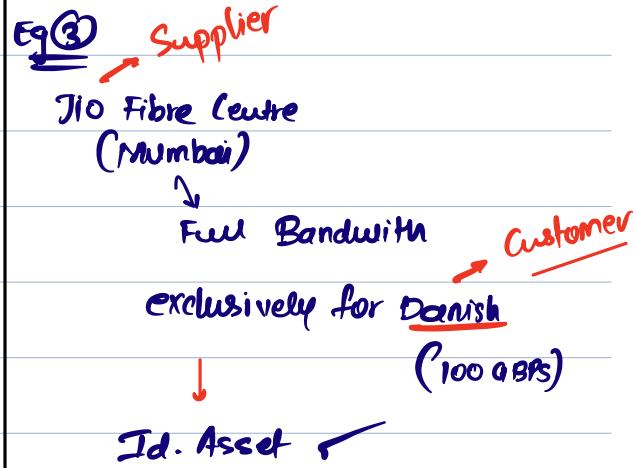
Identified Asset

Eg 1



No Identified Asset

Supplier shifts the Internet supply to anyone as per his convenience



Id Asset → YES ✓

↳ still Identified Asset as shifting is done due to fire & not for Benefit of lessor.

* Lease Term

Eg

① Lease Term = **5yrs**
 (+) 3yrs Renewal option

Non cancellable period

If on Day ① Reasonably certain to exercise the option =

Lease Terms

↓
8yrs

If on Day ① NOT reasonably certain to exercise the option = 5yrs.

② Lease Term = 10years

Lease Term

There is an option to terminate the lease after **8years**

↓
Non-Cancellable period

On Day ① it estimates that Co. will terminate the lease after 8yrs

→ 8yrs.

On Day ① it estimates that Co. will **NOT** terminate the lease

→ 10yrs.

lessor → pays to → lessee

* Lease Payments (Lease Rentals)

① Fixed Lease Payments

eg. Amt Fixed (Day 1)

yr	L.P
1	1L
2	1.1L
3	1.22
4	1.3L
5	1.4L

Fixed Lease Payments

Does Not mean same or equal L.P

② In Substance Fixed Lease Payment

Machinery → Lease Term = 5 yrs
 ↓
 Leased Asset

Lease Rental → Depend on usage

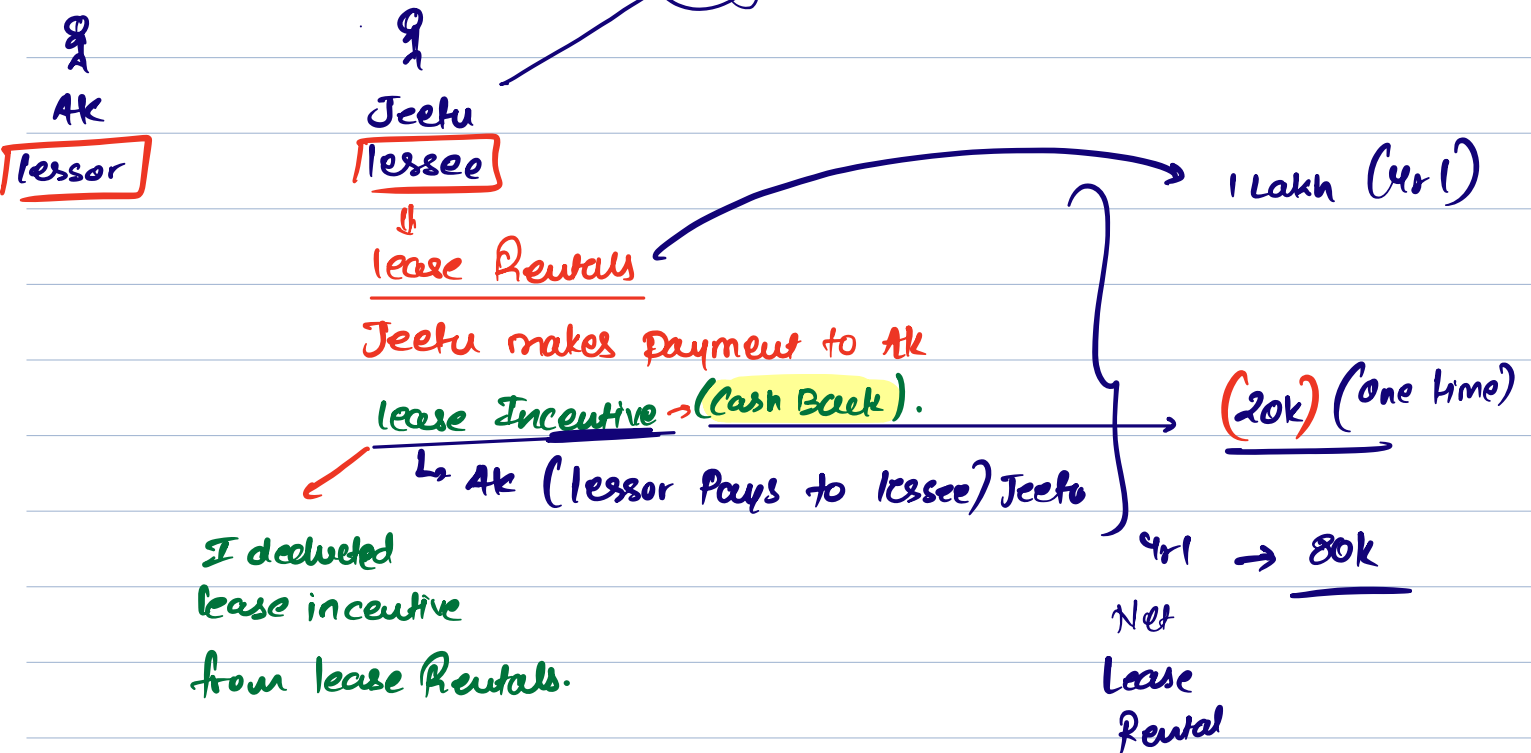
	(Case 1) L.R	(Case 2) L.R
0 - 10k units	10L	0
10k - 15k units	20L	30L
15k units or more	25L	50L

minimum pay (In substance fixed Lease Rentals)

Note: If paid excess over Z above in substance
 Variable lease payment → Excess payment → Accounting → PL TO e/B (as Z when paid?)
 fixed payment →

Variable lease payment → Trf to P/L

3) Lease Incentive



* Exercise Price of a Purchase option

eg. AK entered into a lease with Mas. Veema for a period of 5 yrs.
(lessor) (lessee)

Lease Rentals are 1.5 lakhs p.a. AK Ltd also gave Mas. Veema an option to purchase the leased asset @ the end of lease Term for ₹ 10L.

It is reasonably certain that Mas. Veema will exercise this purchase option.

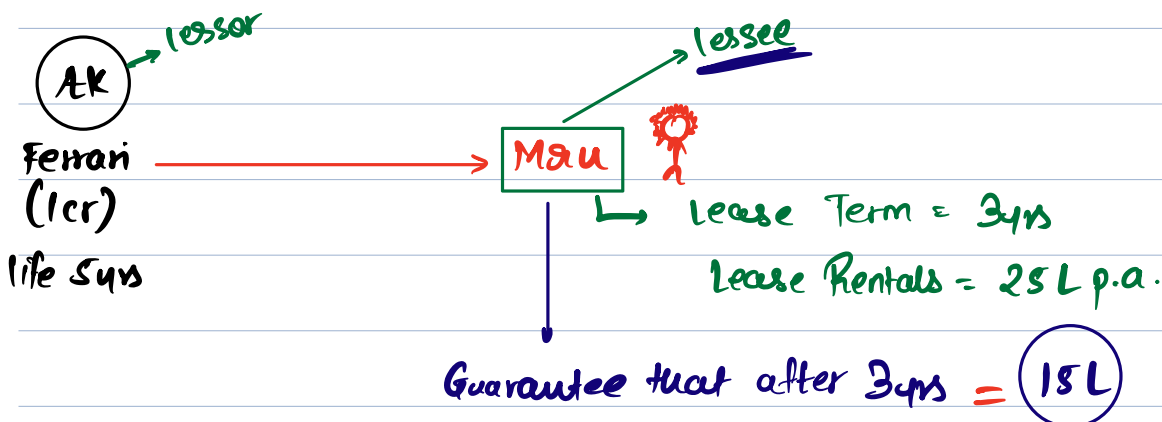
Lease Rentals

yr	L.R
1	1.5L
2	1.5L
3	1.5L
4	1.5L
5	1.5L + 10L.

↓
Exercise Price of purchase option

(This is included in L.R because it is reasonably certain that the purchase option will be exercised).

* Guaranteed Residual Value (GRV) $\left\{ \begin{array}{l} \text{Masu - Payment} \\ \text{AK - Receipt} \end{array} \right.$



Day 1 → Man Expects → Man expects

4r L.R.

to use
the
asset
properly

to make
full payment

1 2SL

i.e. expects

under
GRV

2 2SL

zero payment
under GRV

↓
Add 1SL

3 25 + GRV → 1SL
↓
Payment
expected

↓
Do Not add any

in yr 3

amt of GRV in
L.R.

Lease
Rentals.

↓

In exam

if GRV is

given, then

consider in

Lease Rentals.

Illus 30 Refer Q.B directly

Illus 28

i) Lease Liability = 850000
↓
(PV of future lease payments)

ii) ROU Asset

PV of Lease Payment	850000	
(+) Advance Rental	10000	} These are impacting ROU & NOT LL Because they are NOT future payments/receipts.
(-) lease incentive	(50000)	
(+) Initial Direct Cost	1000	
	<u>8,11,000</u>	

J-E.

Day 1
ROU Asset A/c 811000
CLB A/c DR 50000 (lease incentive)

TO Lease Liability 850000
TO CLB A/c (10000+1000) 11000 (Adv Rental + Initial Direct cost)

QF4

J-E. ROU 850000 CLB 50k ROU 11k
TO LL 850000 TO ROU 50k TO CLB 11k.

Ex 18a
Q4 Assume in above example, there was

PV of Decomm on ROU = ₹ 2000

ROU Amt (₹) = 811000 (as per above)

(+) PV of Decomm 2000
813000

J-E ROU 813000
CB 50000

TO IL 850000

TO CB 11000

TO Prov for 2000
Decomm

Illus 31 (LOR)

Lease payments → Advance (Begⁿ of each year)

L.T Purchase option } full life asset will be with lessee

Day 1 ROU Asset

50,00,000 → Depn over ~~10yrs~~ 4048

TO Lease Liability

50,00,000 →

(LAT)

WN 1

4r (Begⁿ)

L.P

~~(1.094)~~ (1.0904)

D.F 9.04%

PV

1

500000

~~0.917~~ 1

2

515000

(500000 + 3% (-) 2L) ^{lease Incentive}

0.917

3

530450

(515000 + 3%)

0.841

4

546364

(530450 + 3%)

0.771

5

562754

0.707

6

579637

0.648

7

597026

0.595

8

614937

0.546

9

633385

0.500

10 (Begⁿ)

652387

0.459

10th (end)

30,00,000

(Purchase op)

0.421

PV

50,00,000

Approx.

4r end

Depn Alc Dr 1.25L

TO ROU

1.25L

$$\left[\frac{50L}{4048} \right] = 1.25L \text{ p.a.}$$

* Variable lease payments that depend on an Index or Rate?

Eg ① Ak Ltd
↓
lessee
↓

Kelash Ltd
↓
lessor

Lease Term = 5yrs

Lease Payments = 10L p.a. (Payable @ the end of the yr)

D.F @ 10%.

Incremental clause → At the end of 2nd yr, the lease payments will increase

Based on CPI Index

↓
Consumer Price Index

↓
No need to estimate future CPI.

Day ① CPI - 100

↳ Base

Actual CPI @ the end of yr 2 = 110.

Solⁿ:-

Day ①	ROU Asset	37,90,787
	TO Lease Liability	37,90,787

yr	C.F Lease Rent	D.F @ 10%	PV
1	10L		
2	10L		
3	10L		
4	10L		
5	10L		

Yr 1 end Deprn 7,58,157
 TO ROU Asset 7,58,157
 (3790787 / 5yrs)

LAT [LL]

Yr	Opn	Int @ 10%	Repay	CB
1	3790787	379079	(10L)	31,69,866
2	3169866	316987	(11L)	23,86,853

(10L x $\frac{110}{100}$)

Yr 1 end Int Acc Dr 379079
 TO LL Acc 379079

Yr 1 end LL Acc Dr 10,00,000
 TO CB 10,00,000

Yr 2 end
 Deprn 758157
 TO ROU 758157

Yr 2 end Int 316987
 TO LL 316987

Yr 2 end LL Acc 11,00,000
 TO CB 11,00,000

Before Remeasurement @ the end of Yr 2.

ROU Asset → 22,74,473 (Day 0 - 2yrs Deprn)

Lease Liability → 23,86,853 (LAT Yr 2 end CB)

↑ in Lease Liab

Old LL - 23,86,853

New LL - 27,35,537

↑ in LL 348684

J-E (Yr 2 end)

ROU Asset Acc 348684

TO Lease Liab^y 348684

After Remeasurement @ the end of 4r 2

ROU Asset $\rightarrow 2274473 + 348684 = 2623157$

LL $\rightarrow 23,86,853 + 348684 = 2735537$

Deprn over 3yrs

New
LAT
↓

4r opn Int @ Rep Cls.

3 2735537 (11L)

4

5

WN 1 Revised Value of Lease Liability (Change in L.P @ the end of 4r 2 & for all for subsequent years)

	4r end	(C.F) Lease Rentals	DF @ 10%	RLs.
1 yr	3	11L $(10L \times 110/100)$	0.909	
2 yr	4	11L $(10L \times 110/100)$	0.826	
3 yr	5	11L $(10L \times 110/100)$	0.751	

27,35,537

Revised value of Lease Liab @ 4r 2 end.

Eg 2 Ak Hd
↓
lessee

Kelash Hd
↓
lessor

Lease Term = 5 yrs

Lease Payment = 10 Lakhs p.a. (Incremental clause)

↳ Every year Lease Payments will increase

Based on LIBOR @ the end of the yr.



Actual LIBOR (@ end of 1st yr) = 8%

Day 1 LIBOR → 5%

Day 1 ROU Asset 4357252
TO Lease Liab 4357252

Yr end	C.F (Lease Rentals)	DF @ 10%	PV
1	1050000 (10L + 5%)	0.909	
2	1102500 (10.5L + 5%)	0.826	
3	1157625 (1102500 + 5%)	0.751	
4	1215506	0.683	
5	1276281	0.621	

4357252

Yr end Depn 871450
TO ROU 871450
(4357252 / 5 yrs)

LAT (L.L)

Yr	Op ⁿ	Int @ 10%	Repay	Clb
1	4357252	435725	1050000 (1080000) (10L + 8%)	3712977

Yr end Int 435725
TO LL 435725

Yr end LL 1080000
TO CLB 1080000

Before Remeasurement

ROV @ the end of 4yr \rightarrow 3485802 [Day ① (-) 14r Depn]

LL @ the end of 4yr \rightarrow 3712977

↑ in LL

Old LL \rightarrow 3712977

New LL (WN) \rightarrow 4126058

↑ in 413081

J-E

ROV 413081

TO LL 413081

After Remeasurement @ the end of 4yr

ROV @ the end of 4yr = 3485802 + 413081 = 3898883

LL \rightarrow = 3712977 + 413081 = 4126058

\rightarrow Depn over 4yr

\rightarrow New LAT

cont ① Revised LL (at end of 14r)

Yr	4r	C.F (lease Rentals)	DF @ 10%	PV
1yr	2	1166400 (10.8L + 8%)	0.909	
2yr	3	1259712	0.826	
3yr	4	1360489	0.751	
4yr	5	1469328	0.683	

4126058

OFU

Notes

when ↑ in lease payment is based on Index - Day ① Index is taken as Base

\therefore No Compounding is Done in Lease payments

Rate - Day ① Rate is applied for compounding each year's lease Rental.

Illus 32 (LDR)

Hint/Assumption:- Lease Payments (Begn of the yr) (Hint → Oves 1st Pmt last line)

01/01/17 ROU Asset 454595
 TO Lease Liability 454595

WN 1 Carⁿ of L.L (Day 1) (Day 1 CPI 120 → Base)

4r (Begn) L.P

CPI of 120 itself is Base. Df @ 5% ^{old Rate}

01/01/17	1,00,000	$1L \times 120/100$ $1L \times 120/120$	1
01/01/18	1,00,000		0.952
19	1,00,000		0.907
20	1,00,000		0.863
21	1,00,000		0.823

PV 454595

01/01/20 (Before Remeasurement)

① ROU Asset on 01/01/20 (WN1) = 181838

② LL on 01/01/20 (WN2) = 195238

<u>WN 1</u> ROU		<u>WN 2</u> LAT (Begn of 4r)					
01/01/17 =	454595	4r	Opn	Repay	Bal	Int @ 5%	Clb Bal.
Less: 3yrs Depn	(272757)	01/01/17	454595	(1,00,000)	354595	17730	372325
($454595 \times 3/5$)		01/01/18	372325	(100000)	272325	13616	285941
	<u>181838</u>	01/01/19	285941	(100000)	185941	9297	<u>195238</u>
		01/01/20	195238				Clb 31/12/19 01/01/20

Increase / Decrease in LL on 01/01/20

① Old LL \rightarrow 195238

② New LL (wN3) \rightarrow 491382

\uparrow in LL 296144

J-E	
<u>01/01/20</u>	
ROU Asset	296144
TO LL	296144.

After Remeasurement on 01/01/20

LL on 01/01/20 = 195238 + 296144 = 491382

ROU on 01/01/20 = 181838 + 296144 = 477982

\rightarrow New CAF (540)

\rightarrow Deprn ~~2~~ Sys

wN(3) New (Revised LL) (① Based on change in CPI from 120 to 125
 \uparrow 11/01/20 ② Renewal option exercised (Est change))

yr	L.P (Begin)	DF @ 5% 6%	PV
01/01/20	104167 $(1L \times \frac{125}{120})$	1	
01/01/21	104167	0.943	
01/01/22	114583 $(\times 1.1L \times \frac{125}{120})$	0.890	
01/01/23	114583	0.840	
01/01/24	114583	0.792	

491382 approx.

Remeasurement

Est $\left\{ \begin{array}{l} \text{L.T change} \\ \text{L.P change} \end{array} \right. \rightarrow$ New Disc Rate

Illus 32 (Steps Summary)

① ROU } Day ①
 TO LL

Remeasurement → 01/01/20

01/01/20 → Bal. Rem $\begin{matrix} \swarrow \text{ROU} \\ \searrow \text{LL} \end{matrix}$

01/01/20 \uparrow in LL (old LL) \rightarrow WN $\left. \begin{matrix} \text{J-E ROU} \\ \text{TO LL} \\ \text{(if increase} \\ \text{in LL)} \end{matrix} \right\}$

01/01/20 After Rem $\begin{matrix} \swarrow \text{ROU} \\ \searrow \text{LL} \end{matrix}$

Q2 (MTP/RTP/PP)

<u>Day ①</u>	ROU	351613
	TO LL	351613

Begin of yr 3 (↑ | ↓ in LL)

Old LL (WN1)	304273
New LL (WN2)	<u>327127</u>
↑ in LL	22854

J-E Begin of yr 3

ROU	22854
TO LL	22854

only this was asked

WN ① LAT (L.P end of the year)

yr	Op ⁿ	Int @ 9.5%	Repay	bal.
1	351613	33403	(56000)	329016
2	329016	31257	(56000)	304273
				↓ yr 2 end / yr 3 Beg ⁿ

WN ② Revised (New LL) [Index 280 → 301]

yr	L.P (C-F)
3	60200 $(56000 \times \frac{301}{280})$
4	60200
5	60200
6	60200
7	"
8	"
9	"
10	"

→ (old) → NO change in Est of L.T
only est of L.P. has changed.
DF @ 9.5% PV

327127

Illus 60 (LDR)

(in ₹)

Ind AS 21

4r end.

Day 1 ROU Asset ₹ 2944044
 TO lease liability ₹ 2944044

($\$10000 \times A\&F \text{ of } 5\&rs @ 5\%$)

= \$43294.77

Day 1
 Exch
 Rate

(x) ₹68/\$

= ₹ 2944044.

ROU Asset
 ↓
 Non Monetary (Historical Rate)

 Lease Liab (Remeasure @ c/s rate)
 ↓
 Monetary item

 Int (P/L) → Avg Rate item

4r end Deprn (₹) 588809
 TO ROU Asset 588809

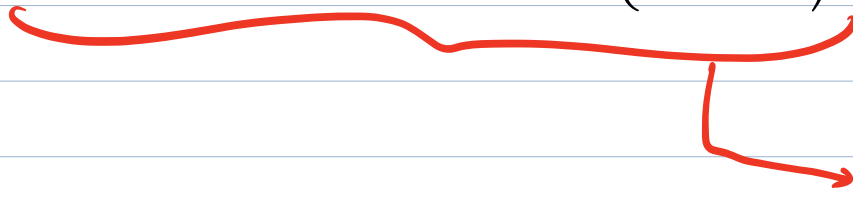
4r end Int Exp (P/L) (₹) 149385
 TO LL 149385

4r end LL (₹) 700000
 TO CB 700000

4r end Exch. loss (P/L) (₹) 88771
 TO LL 88771

WN ① LAT (LL) → in \$

yr	opn (\$)	Int @ 5% (\$)	Repayment (\$)	clb (\$)
1	43295	2165	(10,000)	35460
	↓ Opn Rate ₹68/\$	↓ Avg Rate ₹69/\$	↓ Clb Rate ₹70/\$	↓ Clb Rate ₹70/\$
	= ₹2944044	= ₹149385	= (₹7,00,000)	= 24,82,200



2393429

Actual U 24,82,200

↑ in U 88771 → Exchange Diff.

Ex loss (PIL) 88771
TO U 88771

* Lease Modification → (Terms Amendment) } If is diff from
(Lease Amendment) } change in Est.

① Consideration [lease Payments]



② Lease Term



De-Reog Aic'ing

③ Scope [Area
↳ one extra floor
taken or one
floor cancelled]



Blue Box → Accounting is same as Remeasurement

[In Modification, we use

Revised Disc Rate]

Illus 34 (LDR) L.P @ the end

Day ① ROU 736009
 TO LL 736009
 (IL x AF of 10yrs @ 6%)

At the Begin of yr 7 (Before modification)

① ROU = 294404 (736009 @ 6yrs Deprn $\rightarrow 736009 \times 6/10$)

② LL = 346511 (WN1)

WN① CAT (LL)

yr opn Jul @ 6% Repay CLS

1 736009

2

3

4

5

6

346511

Increase / Decrease in LL (on modn) Begin of yr 7

Old LL 346511

New LL (WN2) 597130

↑ in LL 250619

<u>J-E</u>	
ROU	250619
TO LL	250619

After modn (at the Begin of yr 7)

① ROU = 294404 + 250619 = 545023

② LL = 346511 + 250619 = 597130

Deprn over 8 years

CAT for 8yrs @ 7%

Q.2 Revised LL (on modⁿ) → New Disc Rate.

yr L.P DF @ ~~8%~~ 7% PV

7 1L

8 1L

9 1L

10 1L

11 1L

12 1L

13 1L

14 1L

L.T
extended

597130

Illus 35 (LOR)

Day ① ROU 368004
 TO LL 368004
 [50k x AF of 10yrs @ 6% p.a.]

Modn No: 1 (De-Recog)

At the Began of 4r 6 (Before Modn) → De-Recog. ↗ 368004 × 5/10

① ROU Asset = 184002 (368004 (5) 5yrs Deprn)

② Lease Liab = 210618 (wn1)

wn ① CAT (LL)

yr	Opn	Int @ 6%	Repayment	CLB
1	368004			
2				
3				
4				
5				210618

		L.R.p.a.
① Fu Modn	Before 5000 sq. ft	50000
	De-Recog (2500) sq. ft	(25000) → Proportionate
	Bal 2500 sq. ft	25000

De-Recognition Allocating (\downarrow in ROU & LL Proportionately) \rightarrow 6th yr Begn

Particulars	Before (5000 sqft)	De-Recog (2500 sqft)	Bal (after De-Recog)
① ROU Asset	184002	(92001)	
		(184002 \times 50%)	
		De-Recognition always at Carry Amt)	
② Lease Liab	210618	(105309)	
		(210618 \times 50%) <u>WN</u>	

WN De-Recog portion of LL \rightarrow Cashflow that should have been reduced.
 \rightarrow Prop 50%
 \rightarrow ~~Need~~ old.

Yr	C.F (Reduce)	D.F @ 6%	PV
6	25000		
7	25000		
8	25000		
9	25000		
10	25000		

105309

<u>J-E (for De-Recog)</u>	
LL Alc	Dr 105309
TO ROU Alc	92001
TO P/L Alc	(13308)
	(Gain)

\rightarrow why P/L \rightarrow Disposal pe Gain/Loss aata hai.

After modn (Begn of yr 6) \rightarrow [of De-Recog But Before change in L-P for retained space]

ROU = 184002 - 92001 = 92001

LL = 210618 - 105309 = 105309

Modⁿ NO.2: Retained Portion → Expensive → ↑ in L.P. (Modⁿ). ↷

↑ in LL

Old LL 105309 (After De-Recognⁿ)

New LL 129884 (WN3)

↑ in LL 24575

J-E (for Modⁿ NO.2)

ROU 24575

TO LL 24575

Q.3 Revised Lease Liab^y

Yr	L.P	D.F @ 5% → New Rate.	PV
6	30k		
7	30k		
8	30k		
9	30k		
10	30k		

129884

After Modⁿ NO.2 (Begⁿ of 4r6)

ROU = 92001 + 24575 = 116576 → Depⁿ over 5 yrs

LL = 105309 + 24575 = 129884 → CAT @ 5% for 5 yrs

Illus 35 (LDR) → Multiple Modⁿ → Always DO De-Recognⁿ 1st

Day 1 ROU
LL

Mod NO.1: DeRecognⁿ

Before De-Recognⁿ < ROU
LL

DeRecognⁿ value < ROU (Prop)
LL (Prop → Table ke saath @ Old Rate)

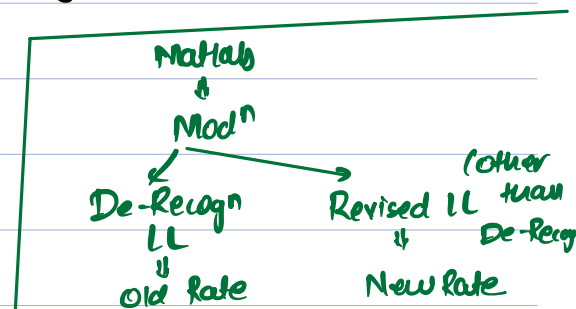
} Diff P/L

After De-Recognⁿ

Mod No.2. → L.P. Increase

↑ in LL ← Old LL
New LL → @ New Disc Rate.

After Modⁿ < ROU
LL



Illus 37 (LDR)

Day ① ROU 736009
TO LL 736009.
[IL x AF of 10yrs @ 6%]

Mod No. 1 De-Recogⁿ (Begⁿ of yr 6)

① Before Modⁿ

① ROU = 368004 (736009 (-) 5yrs Deprⁿ)

② LL = 421236
(WN1)

LAT

4r Opn Int @ 6% Repay CLR.

1 736009

2

3

4

5

421236

9 → 4r 6 Begⁿ.

② De-Recogⁿ Altering → (last 2 yrs i.e. 4r 9 & 4r 10 lease cancelled)

① ROU

Before (life
syn)

368004

De-Recogⁿ.

(147202)

(368004 × 2/5)

~~Jump~~ ② LL

421236

(153935)

(WN2)

Jul
WN ②

	4r 6th Bgn	4r end L.P	DF @ 6%	PV
4th yr		1,00,000	0.792	
5th yr		1,00,000	0.747	
				153935

old.

J-E Modn (De-Recog)

LL Alc Dr	153935
TO Row Alc	147202
TO P/L	6733

After De-Recog (4r 6 Bgn)

- Row Asset $(368004 (-) 147202) = 220802$
- LL $(421236 (-) 153935) = 267301$

Mod No.2. (↑ in Scope + ↑ in L.P) →

↑ in LL

Old LL (After DeRecog)	267301
New LL (WN 3)	393647
↑ in LL	126346

Row Alc Dr	126346
TO LL	126346

After Modn No.2

Row Asset = $220802 + 126346 = 347148$ → Depn over 3 yrs

LL = $267301 + 126346 = 393647$ → CAT @ 7%.

WEN 3

Revised LL

(New)

4r	L-P	D-F @ 7%	PV
6	1.5L		
7	1.5L		
8	1.5L		

393647

FR with AK exclusive

old Disc Rate vs New Disc Rate ?

Remeasurement (Est change)

L-T Est change

⇓
New LL
Based on
New Disc Rate.

L-P Est Change

⇓
New LL
Based on
Old Disc Rate

Note: If Both L-T & L-P Est change
then New Disc Rate

Modification (Amend)

Change Term Scope (Area)

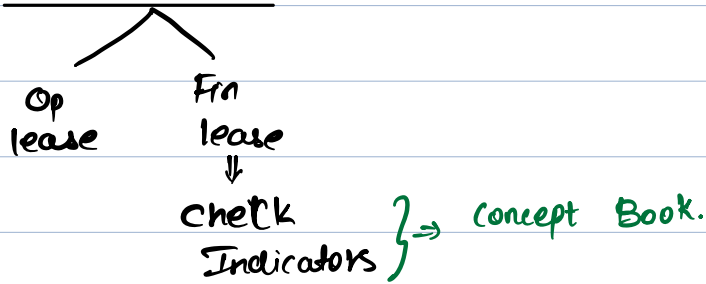
De-Recogn Modn

⇓
LL to
be De-Recogn
⇓
Old Disc Rate.

All other Modn

⇓
New LL
@ New
Disc Rate

* Lessors Books



* Finance lease (lessor)

Day 1 Lease ^{F.A.} ~~Debit~~ D_2 XX? Net Invest (PV of L.R. + PV of UGRV)
 TO PPE (@ C.A.) (include GRV)

* Important Terms.

1] Gross Investment = Lease Rentals + UGRV
 (without Present value) [includes GRV] (Unguaranteed Residual Value)
 Residual value = GRV → B/F UGRV
 100 ↓ 80 (20)

2] Net Invest = L.R. (+) UGRV
 [PV of Gross Invest] (with PV) (with PV)

3] Unearned Finance Income = Gross Invest (-) Net Invest

Day 1 → Not Recorded

↳ LAT (Int com) → OTP → Recorded

Day 1 Disclose.

Eg: Lease Rentals = 10L p.a. (excl GRV)

Lease Term = 5 yrs.

Residual Value = 1L, GRV = 80K, UGRV = 20K.

D.F @ 10%.

PPE (Carrying Amt) = 45,00,000

Pass J-E on Day ① & also pass J-E for yr end.

Show the Amt of unearned Finance Income

Day ① Lease Receivable **3852879** (Net Invest)

PIL Alc Dr **647121**

TO PPE Alc 45,00,000

WN ①

① Gross Investment = Lease Rentals + UGRV
(without PV) (incl GRV)

= 10L x 5 yrs (+) 80000 + 20000

= 51,00,000

② Net Investment = PV of Gross Invest. = **3852879**

Yr end L.R	D.F @ 10%	PV
1 10L	0.909	
2 10L	0.826	
3 10L	0.751	
4 10L	0.683	
5 th 10L	0.621	
5 th 80K (GRV)	0.621	
5 th 20K (UGRV)	0.621	
		3852879

10L x AF of 5 yrs @ 10%
 (+) 80K x D.F of 5th yr @ 10%
 (+) 20K x D.F of 5th yr @ 10%.

OK

⑧ Unearned FI = GI - NI
 = 51,00,000 (-) 3852879
 = 1247121

LAT (FA) → lease Re'able

yr	Opn	Int @ 10%	Repay	Cl.
1	3852879	385288	(10L)	3238167
2				
3				
4				
5				

J.E.

4^{end} Lease Re'able (FA) 385288
 To Int Income 385288

4^{end} CB 10,00,000
 To Lease Re'able 10,00,000

Illus 38 (LOR)

Lessors $\begin{matrix} < \\ \text{OL} \\ \text{FL} \end{matrix}$

↓
Indicators

- ① Ownership X
- ② Purch. Op X
- ③ Lease Term X $(15\text{yrs} \times 75 = 11.25\text{yrs, But Lease Term is 10yrs})$
(Major life)
- ④ PV of L.P Subs covers Fair Value \Rightarrow Condition met (Refer working Below)
- ⑤ Specialised Nature X

PV of LP = $15000 \times \text{AF of 10yrs @ } 10.078\% + 30K \times \text{DF of } 10^{\text{th}} \text{ yr @ } 10.078\%$
 [Lease Rentals = 103345
 (+) GRV ~~GRV~~]

$\frac{103345}{\text{FV} \rightarrow 1,11,000} \times 100 = 93.10\% \text{ approx.}$
 \hookrightarrow It is a Fin. Lease

NOT asked

Case ① where lessor is NOT a dealer / manufacturer \rightarrow Not his core Busⁿ.

↓
Extra Part

Day ① Lease Forable A/c Dr 1,11,000 \rightarrow approx. (Net Invest \rightarrow wNI)

 TO PPE (@ Carry 9 Amt) 100000
 TO P/L (B/f). 11000

wNI ① [Net Invest = PV of LP + PV of UGRV]

$(15K \times \text{AF of 10yrs @ } 10.078\% + 30000 \times \text{D.F of } 10^{\text{th}} \text{ yr @ } 10.078\% + 20000 \times \text{D.F of } 10^{\text{th}} \text{ yr @ } 10.078\%)$

wNI ② CAT (lease Forable)

yr	Opn	Int @ 10.078%	Income Rep	Receive. CLs
1	111000	11187	(15000)	107187

Yr end

Lease Receivable 11187
TO Int Inc 11187

CLB 15000
TO Lease Receivable 15000

Case 2: where lessor is a Dealer / Manufacturer

Main Som.: \rightarrow It's his Busn

Trading Busn

Purchase 100 Sales 120

G.P (20)

J-E

Day 1 Lease Receivable 1,11,000

COGS Alc Dr 92344

[C.A of PPE (-) PV of UGRV] 100000 - 7656

TO Inventory 1,00,000

TO Sales (Revenue) 103344

\rightarrow [NET Invst (-) PV of UGRV]

\rightarrow 20% x DF of 10th yr @ 10.078%

1,11,000 (-) 7656

PIL

COGS 92344 Sales 103344

GP (11000)

Yr end Acting Same as Case 1

Ques 5 (WKR) Fin. Lease - Specialised Nature Asset, Dealer/Manufacture
 lessor case

Day 1 Lease Receivable (Net Invest) 150000

COGS

92526

(IL (-) PV of UGRV)
7474

TO Inventory (@ C.A) 100000

TO Revenue

142526

(Net Invest (-) PV of UGRV)
1.5L (-) 7474

PLL 2500

TO ClB 2500

WKN 1

Net Invest = 7500 x AF of 3yrs @ 10.19%

(+) 10000 x D.F of 3rd yr @ 10.19% → UGRV

= 150000 approx.

Yr 1 end Lease Receivable 15285
 TO Int Inc 15285

ClB 7500
 TO L.R 7500

Yr 2 end Lease Receivable 10983
 TO Int Inc 10983

ClB 7500
 TO L.R 7500

Yr 3 end

Lease Receivable 6243
 TO Int Inc 6243

ClB 7500
 TO L.R 7500

New

Yr 3 end (Extra Entry)

Asset return Backs to lessor

Inventory Atc DA 10012
 TO Lease Receivable 10012

LAT (Lease Payable) → Income → Receive.

yr	Opn	Int @ 10.19%	Repayment	Cl _s
1	150000	15285	(57500)	107785
2	107785	10983	(57500)	61268
3	61268	6243	(57500)	10012 approx

↳ UGRV
NOT
considered → UGRV

Ques 1 (LDR)

↳ Lease Rentals ?

lessor has to recover this in PV terms [Assumptions].

Asset Value → 8,00,000
(Day 1)

PV of Lease Rentals

PV of UGRV

(BIR)

50K × D.F of 3rd yr @ 10%.

$$= 762435$$

$$= 37565$$

Lease Payment ?
each yr

PV of L.P = Lease Rentals × AF of 3yrs @ 10%.

4yr L.R D.F @ 10%

1 306593

2 306593

3 306593

PV = 762435

$$762435 = x \times 2.4868$$

$$\therefore x = \frac{762435}{2.4868}$$

$$= 306593 \rightarrow \text{lease Rentals each yr.}$$

Check whether OL or F.L.

① Ownership ×

② Purch. Op ×

③ L.T (Major Part) ×

④ PV of L.R, Substantially = FV = $\frac{762435}{800000} \times 100 = 95.3\%$ ✓

∴ Fin. Lease.

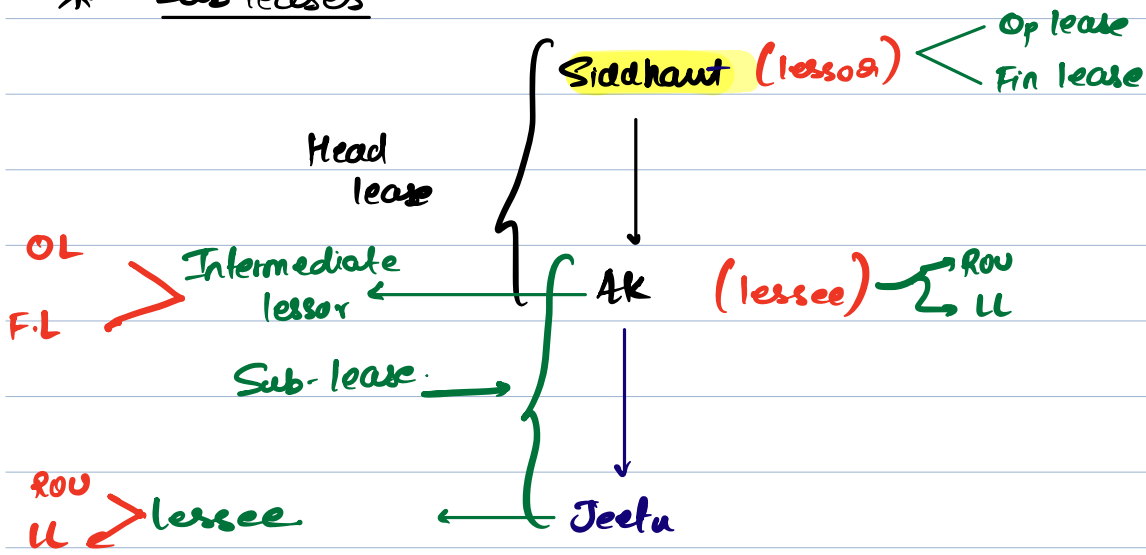
⑤ Specialized Nature ×

$$\begin{aligned}
 \text{II] } \underline{\text{Unearned Finance Income}} &= \text{GI} (-) \text{N.I} \\
 &= 969779 (-) 8,00000 \\
 &= 169779
 \end{aligned}$$

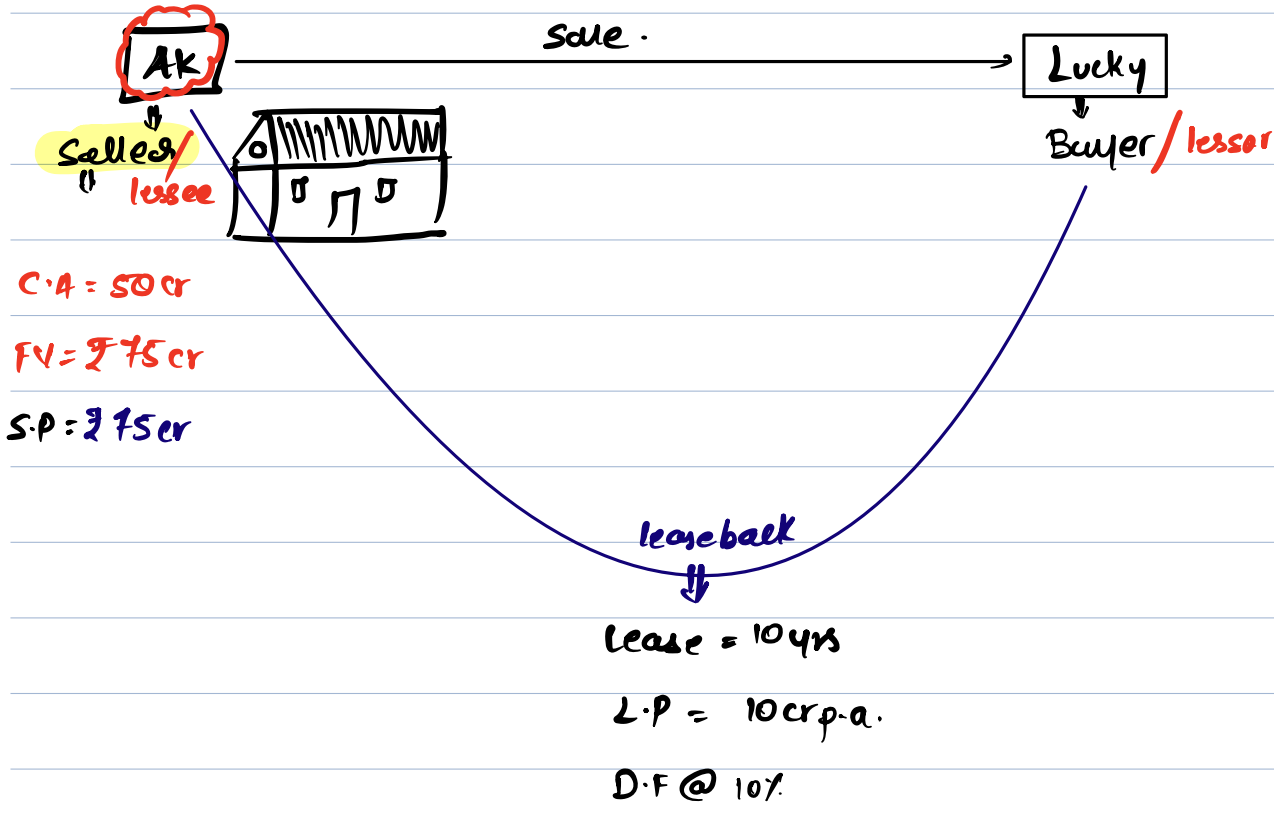
$$\begin{aligned}
 \text{Gross Invest (GI)} &= \text{L.R (incl GRV)} \quad (+) \text{UGRV} \\
 &= 306593 \times 3\text{yrs} \quad (+) 50000 \\
 &= 969779
 \end{aligned}$$

$$\begin{aligned}
 \text{Net Invest (NI)} &= \text{Pr of LR} \quad (+) \text{Pr of UGRV.} \\
 &= 306593 \times \text{AF of 3yrs @ 10\%} \\
 &\quad (+) 50000 \times \text{D.F of 3rd yr @ 10\%} \\
 &= 8,00,000
 \end{aligned}$$

* Sub leases



* Sale to lease Back



JE (In the Books of AK Ltd.)

1] Sale

Bank A/c	Dr	75 cr
To PPE A/c (@ C.A)		50 cr
To P/L		25 cr

2] Lease (lessee)

ROU A/c	Dr	61.45 cr
To LL		61.45 cr

[10 cr x A.F of 10 yrs @ 10%]

Sale to lease Back

↓
Seller / lessee
↓
Combined Entry

clB A/c	Dr	75 cr
---------	----	-------

* ROU A/c Dr ~~61.45~~ 40.97 [50 cr x $\frac{61.45}{75}$]

To PPE	50 cr
--------	-------

To L.L	61.45 cr
--------	----------

To P/L (BIT)	4.52 cr
--------------	---------

logic Below

C.A 50 cr
FV 75
61.45
↓
WALR

? []
Prep ROU

Extra Proof (logic) of Profit (OFU)

Sale

Profit

① 50 cr

25 cr

② 9.08

4.52 approx.

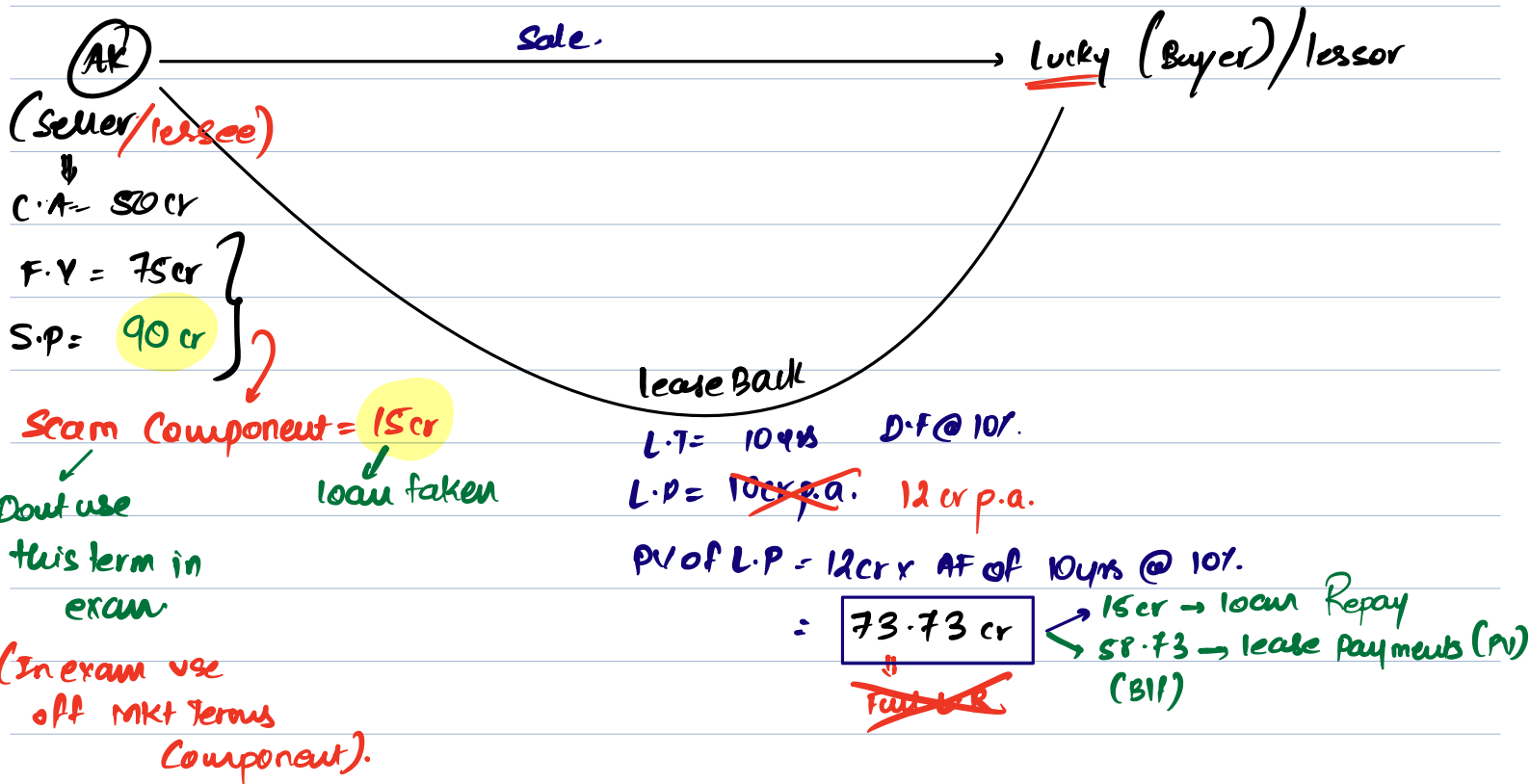
Effective Sale

[50 cr (-140.9%)]

↓
Sale

↓
Recorded again

Eq2: Sale & lease Back (@ off mkt terms)



AK Hd (Loan taken (+) Sale & lease Back).

① ClB A/c Dr 15cr } Loan Component.
 TO loan taken 15cr }
 (Fin Liab)

② ClB A/c Dr ~~70~~ 75cr
 ROU A/c Dr 39.15 →

ClA	F.V
50cr	→ 75cr
○	→ 58.73

 TO PPE 50cr

 TO LL ~~15.73~~ 58.73
 [75.73 - 15cr]

 TO P/L (BH) 5.42

Illus 45 (LDR) In the Books of Seller/Lessee

$$\begin{aligned} \text{off Mkt Term} &= S.P (-) F.V \\ \text{(loan component)} &= 30L (-) 27L \\ &= \boxed{3,00,000} \end{aligned}$$

J.E

① Loan Comp

Day ①

CIB	Dr	3,00,000
To Fin Liab		3,00,000

② Sale to Lease Back

Day ①

CIB	Dr	30L 27L		CA	F.V
ROU Asset	Dr	663272	→	15L	27L
					1193889

To PPE		15,00,000
To LL		1493889 1193889
		[2L x AF of 20yrs @ 12%] (-) 3L
To P/L		669383

4r/leud Depn

To ROU Asset		33164
		[663272 / 20yrs]

4r/leud LL (LAT UN1)

To LL		143267
LL		159836
To CIB		159836

4r/leud FL (LAT UN2)

To FL		36000
FL		40164
To CIB		40164

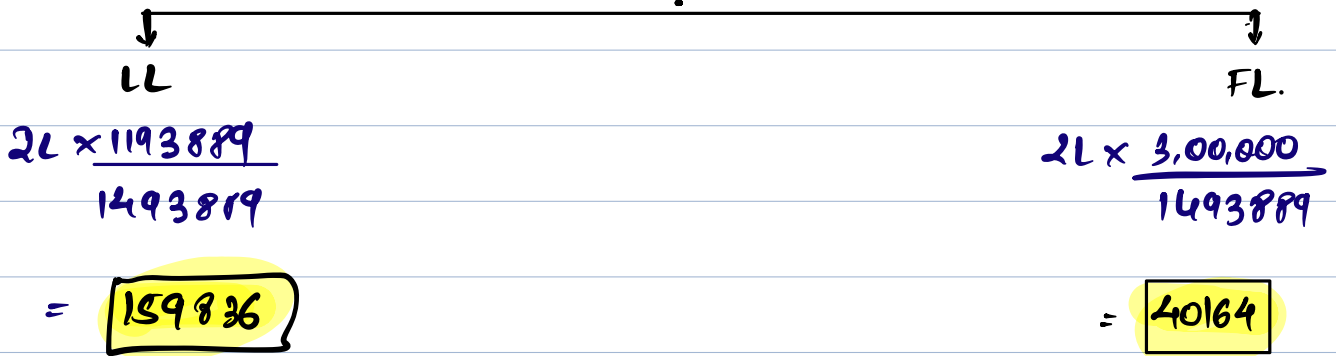
WN 1 LAT (Lease Liab)

4r Opn fut @ 12% Repay CLS
 1 1193889 143267 (159836) 1177320

WN 2 LAT (FL)

4r Opn fut @ 12% Repay CLS
 1 300000 36000 (40164) 295836

WN 3 Bifurcation of Repayment = 2,00,000



Bayer/lessor [Op. lease] → Purchase Price = 30L (-) 3L = 27L
 loan comp (loan Given)

Day 1 off Mkt Terms (loan comp)
 loan Given [FA]

① FA [loan Given] 3L
 TO ClB 3L

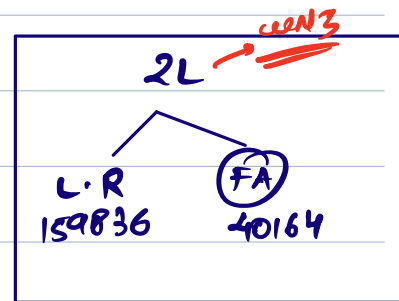
② PPE Alc Dr 27L
 TO ClB 27L

Recognise PPE @ cost.

Lease Accounting (lessor)

Day 1 No lease entry (this is Op. lease)

4r end ClB ~~2L~~ 159836
 TO lease Rent ~~2L~~ 159836



4r end → FA (LAT) FA 36000 ClB 40164
 TO fut Inc 36000 TO FA 40164

LAT (FA)

→ Int Income Receive.

yr opn

Int @ 12%

Repay

cls

1 300000

36000

(40164)

295836

* Transition Approach

[AS 19 → Ind AS 116
Ind AS 17 → Ind AS 116]
old Ind AS

lessor

lessee

Not applicable
↓
As no change in Accounting

3 Approaches

Illustⁿ 46

Illus 46 (LDR) lease Date 1.04.17, Ind AS 116 (Apply) → 01.04.19.

Solⁿ:-

Approach 1:- Full Retrospective Approach [Ind AS 116 → 1.04.19 → 19-20]

01.04.19 ROU Asset A/c Dr 320244

Transition date diff always Ret. Earnings

Ret. Earnings A/c Dr (17766)

Ret. Earnings TO LL A/c 338010

under this approach → comparative period apply → 01.04.18 [18-19].

WN ① 01.04.17 → Ind AS 116

↓
2,00,000 x AF of 3yrs @ 12% → D.F 01.04.17

= 480366. ← ROU LL

Value of ROU on 01.04.18

↓
480366 (-) 1yr Deprn (480366 x 1/3)

= 320244
↓
2yrs Deprn

Value of LL on 01.04.18.

WN ② 4yrs Opn Int @ 12% Rep Cls.
31.3.18 480366 57644 (200000) 338010

↓
2 more yrs LAT.

Approach No. 2 → Modified Retrospective Approach [Comparative Period → x

Ind AS 116 → 1.4.19]

Alternative 1

01.04.19 ROU A/c Dr 165790
 R.E A/c Dr 16028
 TO LL 181818

[LL → Prospective Approach.

ROU → Retrospective Approach @ New Disc Rate].

01.04.17 2L x AF of 3yrs @ 10%
 = 497370

(→ 2yrs Deprⁿ (331580)

(497370 × 2/3)

01.04.19 165790

Yr end 31/3/20 Deprⁿ 165790
 TO ROU 165790

Yr end 31/3/20 Int Exp 18182
 TO LL 18182

LL 200000
 TO CB 200000

Alternative 2

(Prospective Accounting)

ROU & LL Record on 01.04.19 @ PV of Remaining L.P @ New Disc Rate.

01.04.19 ROU 181818
 TO LL 181818

} No Diff on Day 1

[2L x DF of 1yr @ 10%]
 → New Disc Rate)

31/3/20 Deprⁿ 181818
 TO ROU 181818

31/3/20 Int Exp 18182
 TO LL 18182

31/3/20 LL 200000
 TO CB 200000

LAT (LL)

WN

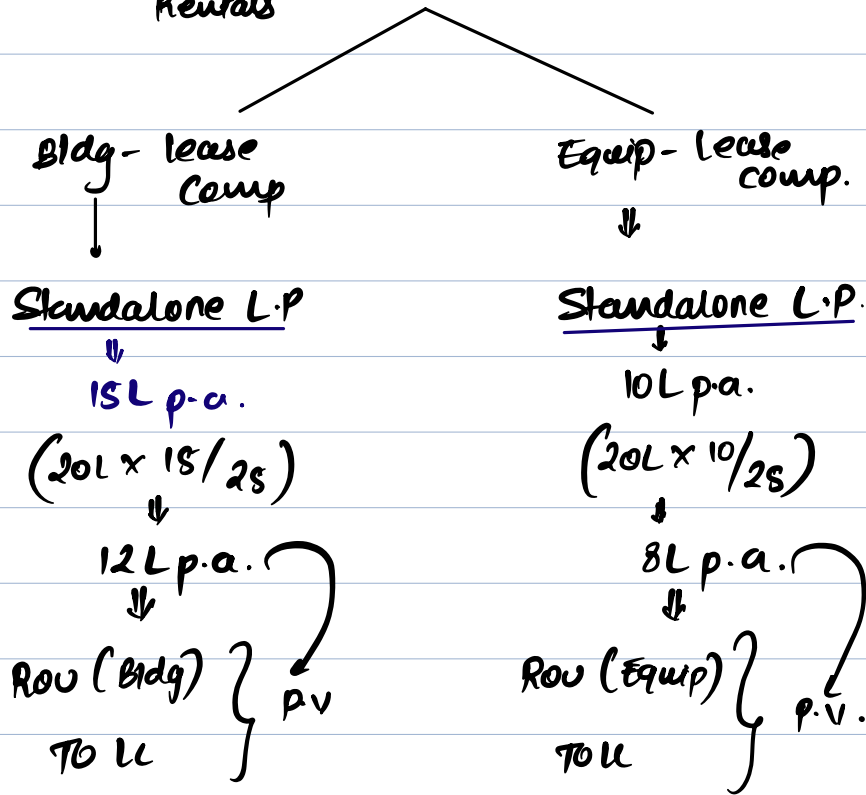
Yr Opⁿ Int @ 10% Repay CB
 31.3.20 181818 18182 (2L) 0

* Separation of Lease & Non Lease Components

Eg 1 Bldg + Equipment

L.T = 5yrs

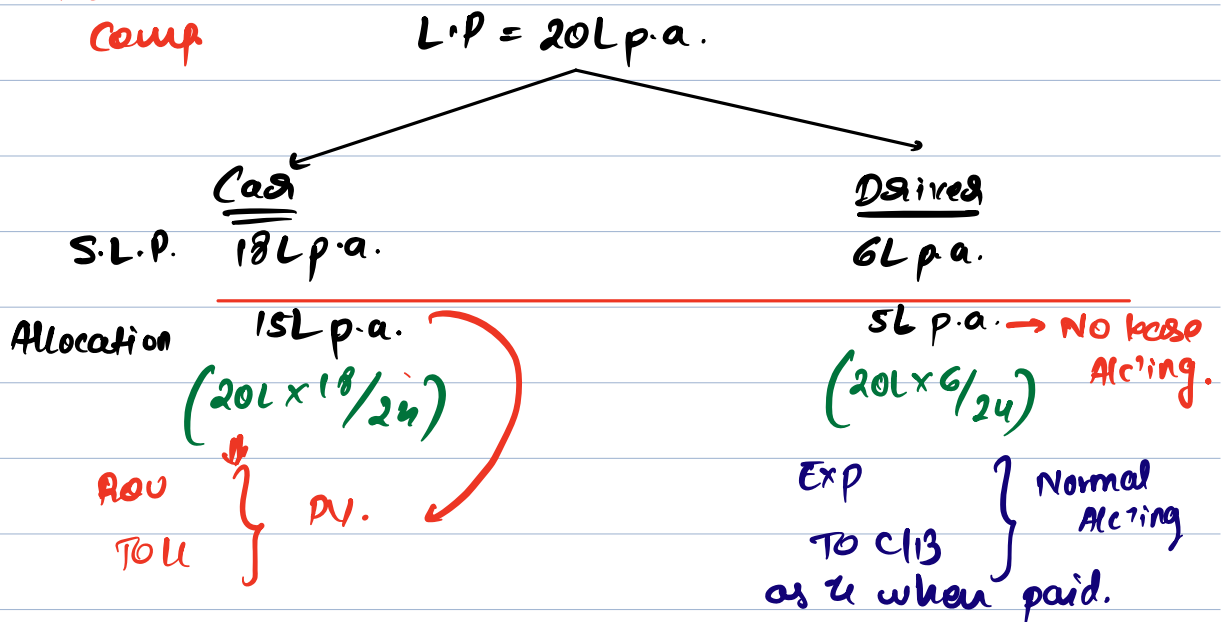
Lease = 20L p.a.
Rentals



No practical expedient available here.

Eg 2 Car + Driver ⇒ L.T = 5yrs, L.P = 20L p.a. D.F @ 10%

Car + Driver ⇒ L.T = 5yrs, L.P = 20L p.a. D.F @ 10%
 ↓
 Lease comp + Non lease comp



Note: Ind AS 116 gives option to apply practical expedient

↓
No need to separate Lease & Non lease Comp

↓
Assume only Cash was taken on lease for 20L p.a. [L.R.]

Illust 59 (LOR)

L.R p.a.

Lease Comp (Shopping Mall)

70K

Non Lease Comp (Facilities)

IL

Allocation irrelevant (yeda bana rahe hai).

Total 1.7L p.a.

Shopping mall

Facilities

SLP

1.2L p.a

80K p.a.

Allocation.

102000

68000

$$\left(\frac{170000 \times 120000}{200000} \right)$$

$$\left(\frac{170000 \times 80000}{200000} \right)$$

↓

Trf to P/L

Day ① ROU 587420

as & when incurred.

TOLL

587420

L.T = 9 yrs [102000 x AF of 9 yrs @ 10%]

HARD WORK

NEVER

DISAPPOINTS

FR with AK