

AS 19 - Leases

1) Lease meaning :-

A Lease is a **Contract** (agreement) between Lessor & Lessee, Under which Lessor transfers "**Right to Use the Asset**" For Specified period against Consideration (Lease Rent).

2) Types of Lease :-

a) Operating Lease :-

↳ is a lease which not a Finance Lease.

10yrs. Vishal Sir Car → Lease 9yrs. Jai Sir

b) Finance Lease :-

↳ is a lease Under which **Substantial Risk & Rewards** of Ownership of Asset are transferred to Lessee

3) Indications of Finance Lease :- If any of below Indicator is satisfied then lease will be treated as F/L

a) **Ownership** of Asset will be transferred to Lessee at the end of Lease Term.

Vishal Sir Car $\rightarrow$ Life 15yr.
 $\rightarrow$ Lease 2yr. $\rightarrow$ I purchase the Car from Vishal Sir

- b) Lessor has given an option to Lessee to Purchase the Asset after Lease Term at Very Reduced price Compare to Fair Value, & it is Certain that Lessee will Buy.
- c) When Lease Term Covers major Economic life of Asset. (approx 75% or more)
- d) When Asset is of Specialised Nature & made for Lessee only as per Lessee's Specification.
- e) When Sum of Present Values of Total Lease Payments is equal to (or) Substantially Covers the Cost of Asset $\rightarrow$ (Fair Value) approx 90% or more

EX:- Asset (Car) = 25,00,000 Cost/Fair value

Car taken on Lease For 5 years Useful life 15 yr.

Annual Lease Rent = 600000

Dis. Rate = 7%.

Sol):-

<u>Year</u>	<u>Lease Rent</u>	<u>PrF 7% $\frac{1}{1.07}$</u>
1	600000	0.935
2	600000	0.873
3	600000	0.816
4	600000	0.763
5	600000	0.713
		<u>4.10</u>

$$600000 \times 4.10 = 24,60,000$$

$$100 \times \frac{24,60,000}{25,00,000}$$

98.4%

4) Important Terms:-

- a) Fair Value = Cost of Newly purchase Asset of Asset
- b) Down Payment = Initial Payment at the time OF agreement (DP)
- c) Initial Direct Cost = Expense incurred on Asset at the time OF Lease agreement by lessor/lessee (IDC)
- d) Residual Value = Estimated amount to be recovered by sale of Asset at the end of Useful life. (Total Rv) (3 Jan)

e) Guaranteed Residual = Amt. of RV guaranteed Value (GRV) 2nd am. by Lessee to Lessor

f) Unguaranteed Residual Value (from Lessor pov) = Total RV - GRV

5) Accounting for Financial Lease (Books of Lessee)

MLP = Minimum Lease Payments



Lessee = Deemed buyer → Asset shall be recorded

Initial Recognition

Asset Dr. (Lower of P_o of MLP (or) FV + IDC)

Lower of :-

P_o of MLP (or) Fair value

(+) IDC incurred by Lessee

To Bank (DP)

To Bank (IDC)

To Lease Liability (BIF)

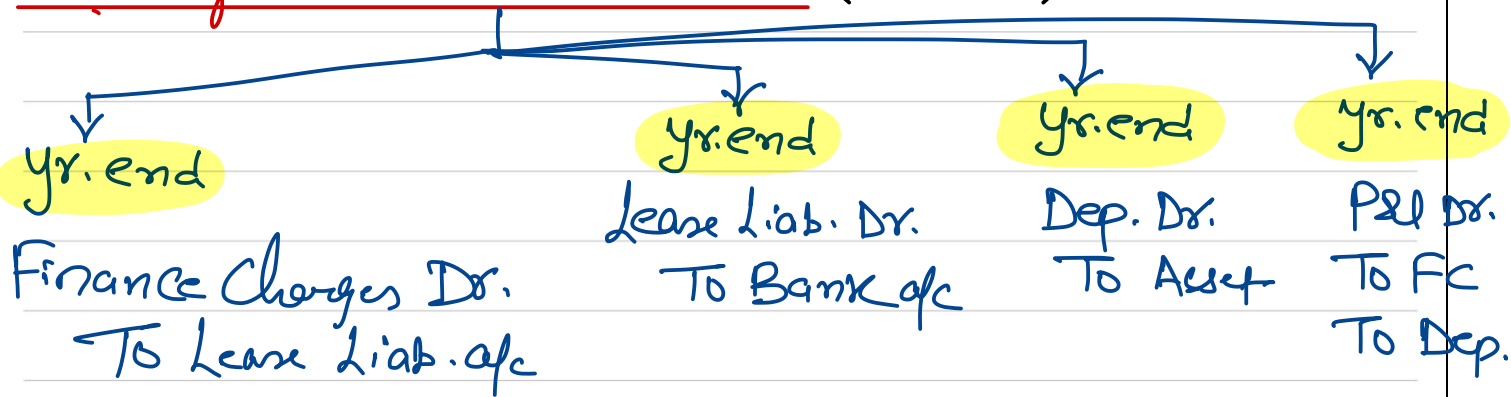
Loan

Initial

1st yr.

?

Subsequent Measurement ^{on} (B/s date)



Interest Schedule :-

Year	OP. Bal (Lk)	Interest	Payment	Closg Bal.
	(a)	(b) = $a \times \%$	(c)	$a + b - c$

$$MLP = DP + \text{Annual L. Rent} + GRV$$

6) Accounting For Finance Lease (Lessor's Books)

GIL = Gross Investment in Lease

Expected
Delivery

↳ MLP + UGRV

↓
Deemed
Seller

$$UGRV = \frac{\text{Total Residual Value}}{\text{Value}} - GRV$$

NIL = Net Investment in Lease

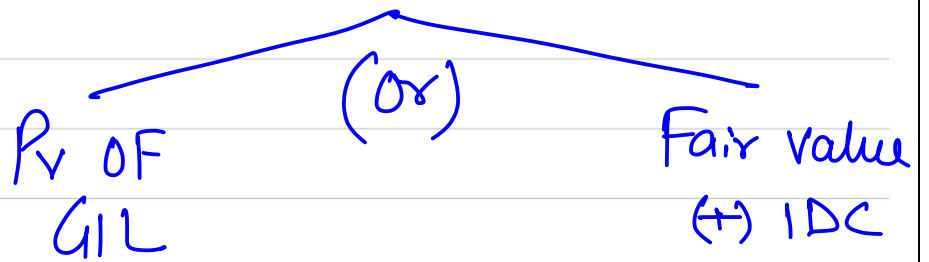
↳ Pr of GIL or $(FV + IDC)$

$$\text{Unearned Finance Income} = GIL - NIL$$

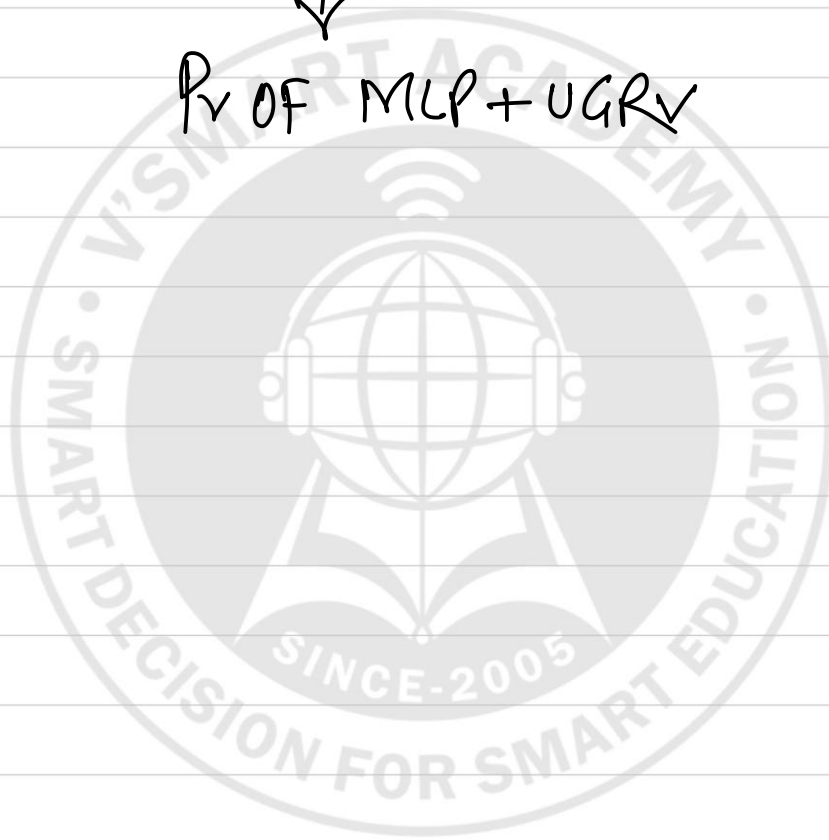
Net Investment in Lease (NIL)



How to Calculate ?



Pv OF MLP + UGRV



V'Smart Academy

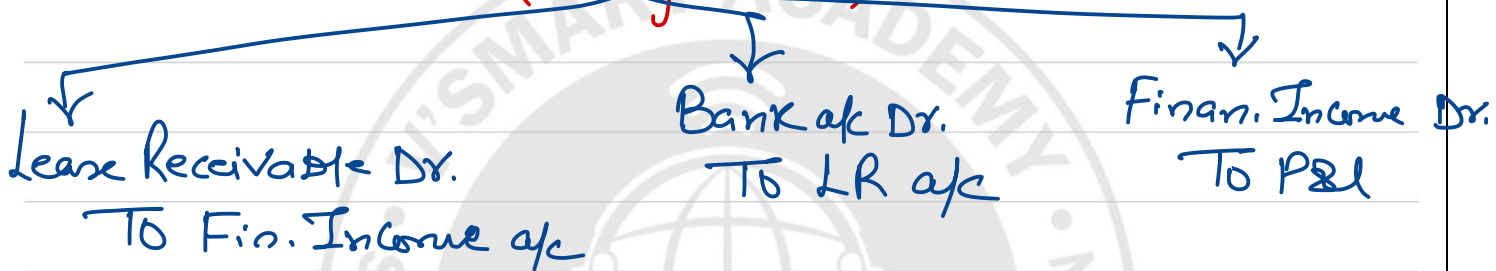
Initial Recognition (Non Dealer Lessor)

Bank a/c Dr. (DP)

Lease Receivable Dr. (NIL)

To Asset a/c (Book Value)
(Difference in P&L)

Subsequent Recognition (at yr. end)



Note! - Interest Schedule Same format

7) If Annual Rent is Missing But it is equal for every year :- V. Imp.

Think & Calculate from Lessor's Pov

Assume Annual Lease Rent = x

We already know that $NIL = Fr + IDC$

Year	GIL	Pv
1	LR x	} = Fair value + IDC

2	LR x
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3	LR x
---	--------

= Fair value + IDC

3	GRV $\neq 0$
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3 UGRV ₹)
GIL

On Solving above equation, we will get Value of X = Annual Lease Rent.

(Refer Ex 6 & Q201)

8) Operating Lease :- Other than Finance Lease

Both Lessor & Lessee shall record Lease Rent as Income (Lessor) & Expense (Lessee) on SLM Basis, Unless any other Basis is given in the Question

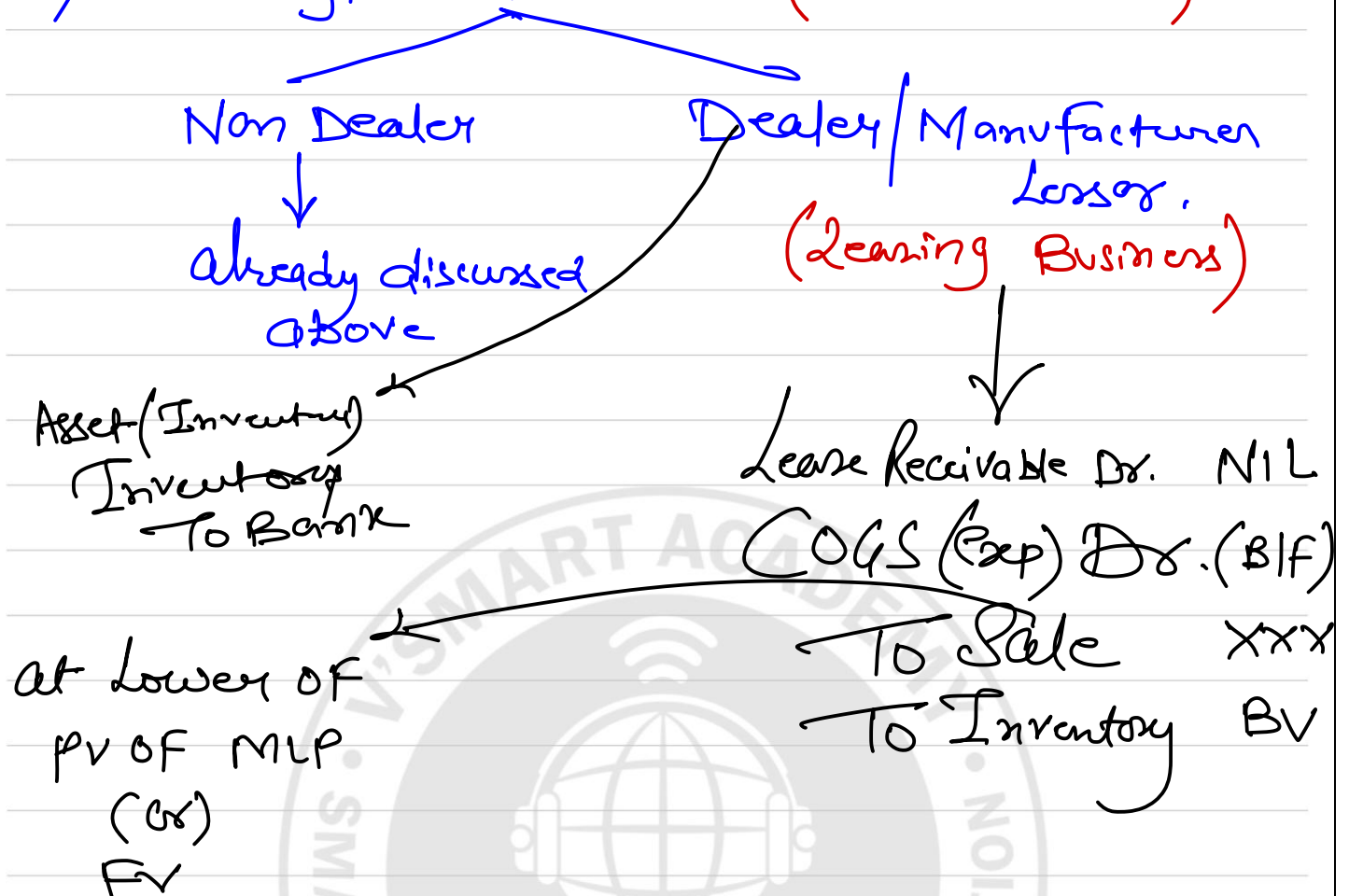
Lessor	Lessee
Every Year	Every Year
Bank a/c Dr. (Actual Receipt)	Lease Rent Exp. Dr. (SLM)
To L. Rent Income (SLM)	To Bank (Actual Payment)
(Difference in Deferred Rent a/c)	(Difference in Deferred Rent a/c)

* Depreciation shall be Hwsg. by Lessor

$$\begin{aligned} \text{3yrs. Lease (operating)} &= \begin{matrix} 1^{\text{st}} & 40000, & 2^{\text{nd}} & 6500 \\ & & & \\ & & 3^{\text{rd}} & 8000 \end{matrix} \\ &= \frac{187000}{3} \\ &= 62333 \end{aligned}$$

9) Sale & Lease Back $\Rightarrow$ Refer AS Trump Notes

10) Two Types of lessor (Finance Lease)



11) Discounting Rate = Also Called Interest Rate Implicit in Lease

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

FV = 20,00,000, Annual Lease Rent = 4,50,000 p.a., Term = 5 years, GRV = 1,00,000, UGRV = 2,00,000. Calculate Interest Rate Implicit in Lease.

Lessor's POV:-

$$PV \text{ of GIL} = NIL = \text{FV} \quad 20\text{L}$$

Year	GIL
1	450000
2	450000
3	450000
4	450000

$$\frac{10\%}{\uparrow} \quad \frac{8\%}{\downarrow}$$

5 750000

1892130

20,00,894

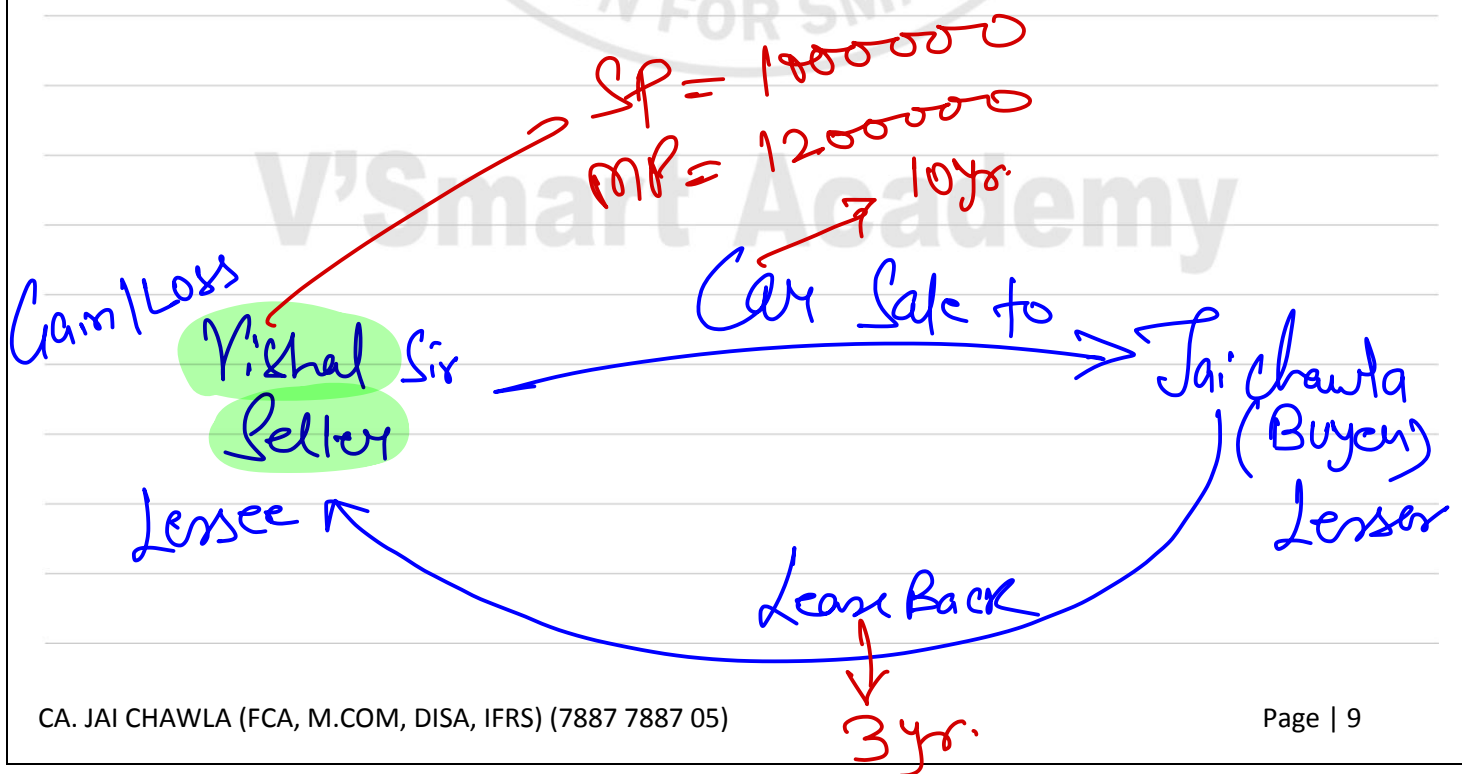
8% +

↑ in %	2	?
↓ in ₹	108764	894

8% + 0.016 ⇒ 8.016% Dis.

450000 ÷ 1.1 = = = = = GT Mt

300000 = = = = = MT
1892130



Sale & Lease Back

A/c Treatment of Gain/Loss on Sale

For Seller
Lessee

↓
depends on Nature of Lease

if Finance Lease
Back

↓
Gain/Loss should be
Deferred & Amortised
Over the Asset Life

if Operating
Lease Back

↓
 $CA = BV = \text{Carrying amt of Asset}$
1000

$SP = \text{Sale value of Asset}$
1500

$FV = \text{Fair value of Asset (Market Value)}$
1200

Seller's Books

Bank 50 lac.

To Asset 40 lac.

To Def. Gain 10 lac.

Every Year $\Rightarrow$ Defer. Gain 1 lac
To P&L 1 lac

Rule 1

Impairment (AS 28)

↓
apply Rule 1 only when
CA is more than FV

Rule-2

Loss on sale
of Asset

↓
CA & SP

900 - 750

150 (P&L)

Rule 3

Gain on sale
CA & SP

Record Loss (P&L) 100

Revised CA = 900

CA = 1000

FV = 900

Imp loss = 100 (P&L)

Revised CA = 900

↓
Loss should be recognised in P&L immediately

① Gain up to FV
P&L

② Gain above FV
D&A
Over lease Term

CA = 1000

Sp = 1500

FV = 1200

Gain = 500

Gain up to FV
200 (P&L)

300
↓ Gain
D&A

CA = 1000

FV = 900

Sp = 1100

Rule 1

Imp loss = 100 (P&L)

Revised CA = 900

Sp = 1100

Gain 200
Over & above FV

D&A