

$$IRI = 10\%$$

$$GRV/UGRV = 0$$

$$FV = 12,00,000$$

$$\text{Annual Lease Rent} = X$$

(equal)

$$\text{Term} = 4 \text{ year}$$

$$X \times 0.909$$

$$X \times 0.8226$$

$$X \times 0.761$$

$$X \times 0.683$$

$$= 12,00,000$$

$$3.169 X = 12,00,000$$

$$X = \frac{12,00,000}{3.169}$$

$$= 378,668$$

$$= 378,668/-$$

$$2.64\%$$

IRI = 12% Profit

ALP = ?
(equal)

FV = 2500000

GRV = 400000

IDC = 200000

UGR = 200000

Term = 5 yrs.

	<u>412</u>
1	x
2	x
3	x
4	x
5	x
5	400000 + 200000

Sum of PV @ 12% = 27 lacs.

$$3.605x + (600000 \times 0.567) = 27,00,000$$

$$3.605x = 2700000 - 340200$$

$$x = 654591$$

EXAMPLE 6: (Calculation of Annual Lease Rent)

Fair Value of Asset = 15,00,000; Lease Term = 4 Years; IRI 12%; Down Payment = 1,00,000;
GRV = 0 & UGRV = 1,25,000

Annual Lease Rent = Not Known (But it is equal every year)

Calculate Annual Lease Rent

<u>Year</u>	<u>GIL</u>	<u>PVF</u>
0	100000	1
1	x	0.893
2	x	0.797
3	x	0.712
4	x	0.636
4	125000	0.636

$$100000 + (3.037 \times x) + 79500 = 1500000$$

$$x = 434804$$

Q203

Given Information :-

- 1) Lease Term = 3 yrs.
- 2) FV = Cost = 17,00,000
- 3) UGRV = 133500
- 4) IRI = 10%.
- 5) Annual L. Rent = x

Calculation of Annual Lease Rent :-

<u>Year</u>	<u>GIL</u>	<u>RF</u>
1	x	0.909
2	x	0.826
3	x	0.751
3	133500	0.751

$$\underline{2.486x + 100259}$$

At 10%, $2.486x + 100259$ should be equal to
 1700000

Hence $\Rightarrow x = 643500 = \text{Annual L. Rent}$

Calculation of Unearned F. Income

$$\text{GIL} - \text{NIL}$$
$$\left[(643500 \times 3) + 133500 \right] - 1700000 = 364000$$

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Exam Question (May '24)

As per AS 19 Leases, a lease will be treated as finance lease when PV of MLP substantially covers the initial fair value of asset.

For this purpose, Annual Lease payment is not given. Assuming it is Rs. x per annum.

Although, IRR of 12% is given. It is a rate at which sum of PV of MLP + UGRV should be equal to Fairvalue + IDC.

Considering above IRR of 12%, Annual Lease Rent can be calculated as under:-

$$\text{PV of MLP} + \text{UGRV} = \text{Fair Value}$$

$$\text{PV of Annual Lease Payment (ie } x) @ 12\% = 2.4018x$$

$$(+)\text{ PV of UGRV } (200000 \times 0.7118) = 142360$$

$$\text{FV} = \underline{\underline{1800000}}$$

$$2.4018x + 142360 = 1800000$$

$$x = 690,166/-$$

$$\text{Annual Lease Payment} = 690,166/-$$

To check is it a F/L or not, the Pv of Annual Lease Payment should be equal to or covers atleast 90% of Fair Value

$$\begin{aligned} \text{Pv of } 690166 \text{ for } 3\text{yrs} &= 16,57,641 \\ &\text{@ } 12\%. \\ &(690166 \times 2.4018) \end{aligned}$$

$$\text{Fair Value} = 1800000$$

Pv of LP covers more than 90% of the Fair Value Hence it is a F/L.

Unearned FI

$$\text{GIL} - \text{NIL}$$

$$\begin{aligned} &0 \\ &+ 2070498 - 1800000 = 470498/- \end{aligned}$$

+ 0

$$+ 200000$$

$$2270498$$

Class Example For F/L :- BV of Asset (Lessor) = 20 Lakhs.

Lease Term = 5 yrs., DP = ~~250000~~, 0

Annual Lease Rent = 500000

GRV = 300000, ERV = 450000

IRI = 10%

1 DC by Lessee = 50000

1 DC by Lessor = 60000

Fair Value = 25,00,000

Required :- 1) Show A/c for Lessee
also calculate F/c

2) Show A/c for Lessor
& calculate FI

Sol) :-

Books of Lessee

Step 1 :- Fair Value = 2500000

Step 2 :- Sum of PV of MLP @ 10%.

a) PV of Annual L. Payment for 5 yrs. = 1895500
 500000×3.791

b) PV of GRV at 5th yr. = 186300
 300000×0.621

c) DP = 250000

Conclusion:- Lessee shall record Asset on Lease at lower of FV & PV of MLP
i.e 23,31,800/-

IDC incurred by Lessee shall be Capitalised to Asset.

Journal entry at Beg.:-

1) Asset on Lease a/c Dr. 2381800

To Bank a/c 300000

To Lease Liab. a/c 2081800

Finance Cost Every Year

Year	OPn Bal.	FC@10%.	MLP	Clos. Bal.
1	2081800	208180	(500000)	1789980
2	1789980	178998	(500000)	1468978
3	1468978	146898	(500000)	11,15,876
4	11,15,876	1,11,588	(500000)	7,27,464
5	7,27,464	72,536	8,00,000	0
		<u>718200</u>		

Books of Lessors

1) Gross Investment in Lease (GIL)

$$DP = 250000$$

$$ALP = 2500000$$

$$GRV = 300000$$

$$UGR = 1,50,000$$

$$\underline{\underline{32,00,000}}$$

<u>Year</u>	<u>GIL</u>	<u>Amnt</u>	<u>Pr @ 10%</u>
0	DP - IDC	190000	} BLS
1	ALP	500000	
2	"	"	
3	"	"	
4	"	"	
5	GRV + UGR	150000	
			<u><u>23,64,808</u></u>

Journal entry at Beg. :-

Bank a/c Dr. 190000 }
 Lease Receivable Dr. 2174808 } 2364808
→ DP - IDC

→ To Asset a/c 20,00,000
 → To Gain (P21) a/c 364,808

Calculation of FI :-

<u>Year</u>	<u>OP. Bal</u>	<u>FI @ 10%</u>	<u>GL</u>	<u>Closg</u>
1	2174808	217481	(500000)	1892289
2	1892289	189229	(500000)	1581518
3	1581518	158152	(500000)	1239670
4	1239670	123967	(500000)	863637
5	863637	86363	950000	0
		<u>775193</u>		

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