

Example 2: (Finance Lease - Books of Lessee)

Lease Term = 5 Years; Fair Value = 25,00,000; Down Payment = 3,00,000; Annual Lease Payment = 5,00,000;

Guaranteed Residual Value = 4,00,000 & Discount Rate is 12%. Show Accounting for Lessee.

Solution: -

Step 1:- Fair value of Asset = 25,00,000

Step 2:- PV of MLP (MLP = DP + Annual Rent + GRV)

<u>Year</u>	<u>MLP</u>		<u>PvF@12%</u>	<u>Pv (Amt.)</u>
0	300000	DP	1	300000
1	500000	ALP	0.893	446500
2	"	"	0.797	398500
3	"	"	0.712	356000
4	"	"	0.636	318000
5	"	"	0.567	283500
5	400000	GRV	0.567	226800
				<u>23,29,300</u>

Conclusion:- Lessee shall record the Asset Under F/L at lower of :-

- a) Step 1 (Fv) = 25,00,000
- (or) b) Step 2 (Pv) = 23,29,300

Journal Entry at Commencement of Lease :-

Leased Asset a/c Dr. 2329300

To Bank a/c 300000

To lease liab. a/c 2029300
↳ opng a/c

Step 3:- Calculation of Interest (Finance Charges)

<u>Year</u>	<u>Opng. a/c</u>	<u>F/c @ 12.1.</u>	<u>MTLP</u>	<u>Closg a/c</u>
1	2029300	243516	(500000)	1772816
2	1772816	212738	(500000)	1485554
3	1485554	178266	(500000)	1163820
4	1163820	139658	(500000)	803478
5	803478	96522 (BIF)	(900000)	0

1) PV of ALP @ 12%. For 50000 Pa =

2) PV of GRV @ 12%. For 400000 = 0

3) DP = 0

500000 13% \Rightarrow 1758615

5yr

$\frac{500000}{1.13} = = = = =$ GT

1 500000

PV 13%

2 400000

3 600000

PV 1600890

4 700000

$$500000 \div 1.13 = M+$$

$$400000 = = M+$$

$$600000 = = = M+$$

$$700000 = = = = M+$$

1600889

Q101

As per AS 19 (Lease), Under F/L Lessee shall record the Asset & Lease Liability at lower of :-

- Fair value at Inception
or
- PV OF Minimum Lease Payments

Note:- $MLP = DP + ALP + GRV$

Step 1:- Fair value = 20,00,000

Step 2:- PV OF MLP at 15%.

<u>Year</u>	<u>MLP Amt</u>	<u>PvF</u>	<u>Pv (Amt)</u>
1	625000	0.8696	
2	"	0.7561	

3 " 0.6575

4 750000 0.5718

18,55,850

Conclusion :- Hence lease liability shall be recognised at 18,55,850/-

Steps:- Calculation of Finance Charges :-

<u>Year</u>	<u>OP. A/c</u>	<u>Fc @ 15%</u>	<u>MLP</u>	<u>Closg A/c</u>
1	1855850	278378	(625000)	1509228
2	1509228	226384	(625000)	11,10,612
3	11,10,612	166592	(625000)	652204
4	6,52,204	97796	(750000)	0

at Beginning of 4th year :-

Case 1:- Ownership is transferred to Lessee
(GRV has to be paid)

4th year
F/c a/c Dr. 97786
 TO LL a/c 97786

LL a/c Dr. 75000
 TO Bank 75000

(No other entry is required except Dep.)

Case 2:- Ownership is not transferred to Lessee
(GRV is not required to be paid)

Asset A/c

Begin of 4th year.
To Bal. b/d 463963 By Dep 463963

assuming
4 year life

LL a/c

<p>4th End</p> <p>To Bank 625000 (ALP)</p> <p>To P&L 125000 (B/F)</p> <p>Reversal of liability</p>	<p>4th Beg By Bal. 652204</p> <p>By FC 97796</p>
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Case 3

Life = 5 yrs.
For Depreciat.

4th End

Asset (Dr) 371170

LL (Cr.) 125000

LL a/c Dr. 125000

P&L Dr. 246170

To Asset a/c 371170

Class Ex:- 2 (When FV becomes lower)

$$FV \text{ of Asset} = 20,00,000$$

$$\text{Dis. Rate} = 10\%$$

$$ALP = 500000$$

$$LT = 6 \text{ yrs.}$$

NO USE

$$\text{Step 1} \Rightarrow FV = 20,00,000 \checkmark$$

$$\text{Step 2} \Rightarrow PV = 21,77,630 \checkmark$$

Conclusion \Rightarrow Hence Asset & L2 Value = 20,00,000

Step 3 :- F/C

Year	OP	FV (10%)	MCP	Clasg
1	20,00,000	2000000	(500000)	1700000
2	17	1700000	(5)	1370000
3	1370000	1370000	(5)	10,07,000
4	10,07,000	1007000	(5)	607700
5	607700	607700	(5)	168470
6	168470	331530	(5)	0

This is Wrong Calculation

Recalculate the New Dis. Rate

New Dis. Rate

Trial & Error method

12% \Rightarrow 2055700

14% \Rightarrow 1944333

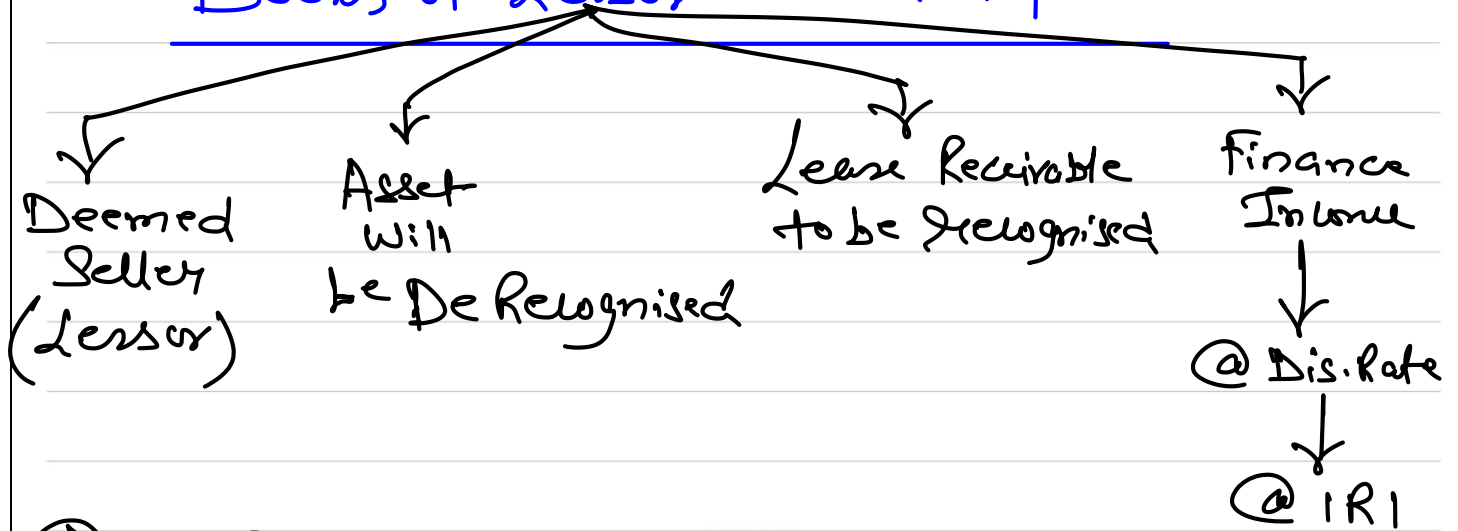
12% +

↑ in %	2	?
↓ in ₹	11367	55700

13%

V'Smart Academy

Books of Lessor Under F/L



Imp Terms for Lessor :-

- 1) ERV \Rightarrow Est. Residual Value (₹ 200000)
- 2) GRV \Rightarrow Guaranteed RV (₹ 180000)
- 3) UGRV \Rightarrow Unguaranteed RV (₹ 20000)
 - \downarrow
 - ERV - GRV
- 4) GIL \Rightarrow Gross Investment in Lease
 - \hookrightarrow GIL = MLP + UGRV
 - \Rightarrow DP + ALP + GRV + UGRV
 - \downarrow
 - itna hi Payka milega as per agreement
 - \downarrow
 - ye wala Bhi mil Sakta Hai as per Expectation