AS 19 - Leases

Finance Lease

Substantial (Maximum) Risk and Rewards of Ownership are transferred to Lessee.

Indicators to Check F/L

1. Transfer of Ownership at end of Lease Term
2. Right to purchase at reduced price & it is certain that Lessee will Buy
3. Lease Term covers Maximum Economic Life of Asset (75% or ↑)
4. PV of MLP Substantially covers FV of Asset (atleast 90%)
5. Specialised Asset for Lessee

Books of Lessee

Step 1:- Calculate PV of MLP (MLP = DP + LP + GRV) at Discount Rate

Year	Particulars	PVF
0	DP	
1	LR	
2	LR	
3	LR	
4	LR	
4	GRV	
		PV

Step 2:- Recognise Asset & Lease Liability at Lower OF PV OF MLP (or) Fair value

Step 3:- Asset a/c Dr. (including IDC)

To Bank (IDC + DP)

To Lease Liability a/c (B/F)

IDC = Initial Direct Cost

Step 4:- Calculate Interest (Finance Cost)

Year	Op. O/s LL	Interest	Payment	Closg O/s
1	XXX	XXX	(XXX)	XXX
Last Year	XXX	(B/F)	(XXX including GRV)	0

Books of Lessor

Important Terms :-

a) MLP = DP + LR + GRV*

b) GRV of Lessor is higher of :-
guaranteed by Lessee
or
guaranteed by 3rd Party

c) UGRV = Total RV − GRV

d) Gross Investment in Lease (GIL) = MLP + UGRV

e) PV of GIL = NIL = PV of (MLP + UGRV)

f) Unearned Finance Income = Total Interest Income to be recorded in future
GIL − NIL

Step 1:- Calculate Lease Receivable at PV of GIL

Year	Particulars
1	LR
2	LR
3	LR
3	GRV + UGR
	PV

Step 2:- Recognise Lease Receivable

Non-Dealer

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Bank a/c Dr. DP-IDC
Lease Receivable Dr. (PV)
To Asset a/c (BV)
(Difference in P&L)

Dealer

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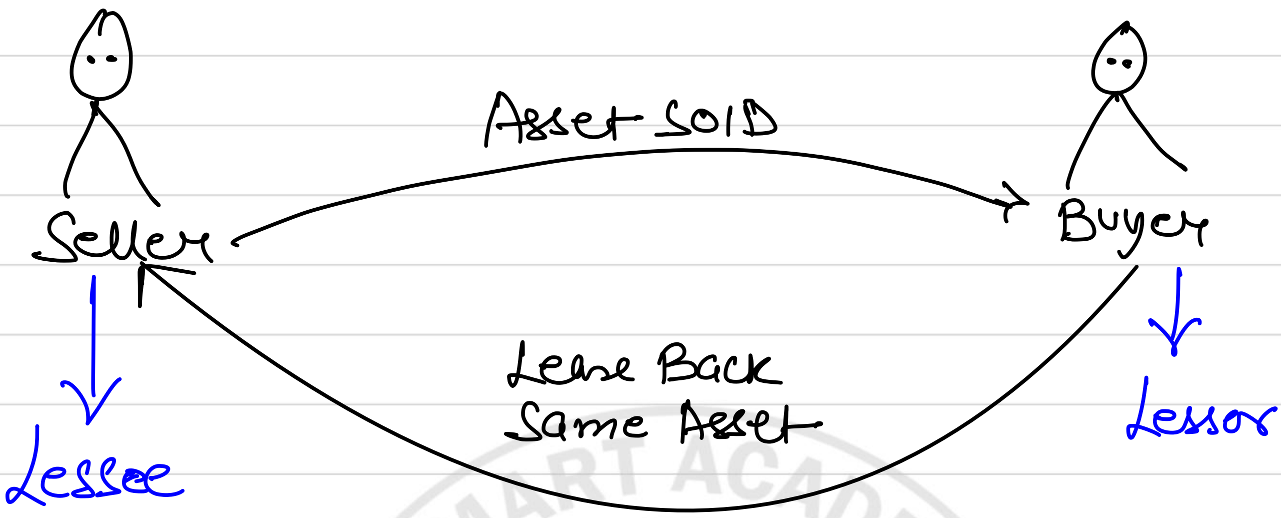
Bank a/c Dr. DP
COGS a/c Dr. (B/F)
Lease Receivable Dr. (PV)
To Inventory (BV)
To Sales a/c
(Lower of PV of MLP or FV)

Step 3:- Interest Income ⇒ Same Format of Lessee

Sales & Lease Back (AS 19)



Seller (Lessor) has Profit/Loss on Sale
Accounting Treatment

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Check Lease Nature

Finance Lease Back

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Profit/Loss on Sale is deferred & Amortised over the Life of Asset (in proportion of Depreciation)

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Bank a/c Dr. (Sale proceeds)
  To Asset a/c (Book value)
(Difference = Deferred Gain/Loss)

Operating Lease Back

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CA = Carrying Amt (BV)

FV = Fair value (Market Value)

SP = Selling Price (Actual Sale)

Sale & operating Lease

Treatment of Gain/Loss on Sale

Rule 1 — Impairment of Asset

apply only when fair value is Lower than CA of Asset

CA = 100000
FV = 80000

Impair. Loss = 20000 P&L

Revised CA = 80000

Rule 2 — Loss on Sale (CA-SP)

Loss shall always be transfer to P&L

Exception :-

Loss shall be Deferred & Amortised if such Loss is Compensated with Future Concessional Lease Rent

Rule 3 — Profit on Sale (SP & CA)

Divide Total profit in Two Parts

Profit upto FV → P&L immediately (FV - CA)

&

profit over & above FV → Deferred & Amortised Over the Lease Term (SP - FV)