Lenovo "Lease" → Deloite

Laptops — 1000 laptops, UL = 5years — Deloite ↓ Effective owner Lessee } → "Finance Lease"

↓ Legal Owner Lessor

"Agreement" → "Indicators of Finance Lease"

→ 4 years ka agreement. → 80% productivity

→ Deloite : 1000 Laptops → use

→ associated firms further rent out } 4 saal ke rewards

→ Laptop :- repair → Deloite ka kharcha

damage → Deloite ka kharcha

theft → Deloite ka kharcha } 4 saal ke risks

Substantially all Risk & Reward → Deloite ← effective owner

↓ Almost ← not the legal owner

Finance Lease :-

1. Right to use the asset.
2. Substantially all risks & rewards related to the ownership of that asset vest with the lessee.

↓

In case of finance lease the asset taken on lease will be recorded in the books of lessee. This is based on the concept of substance over form (AS-1) which states that transactions are recorded on the basis of their actual substance rather than the legal form.

Indicators

① "4 years agr." → Lessee : ownership → Lease Term → Finance Lease

Lessor : cost = 1cr.

0 —— 2years

Lease Term — ownership = Lessee

→ Lease Rent = 1.2crores

Agr

2 years

LT : Lease Rent : Total 1.2cr.

After 2 years

Lease agr end & own hone.

L31

(2) Cost = 1cr. "UL = 5years"

Y0 — Y2

Y0
LT
comm.
inception

Y2
T

option with lessee to purchase the asset
↓
fair Value = 75 lakhs
purch price = 20 Lakhs

"Agreement"

Lease Rent = 1.25cr.

reasonably certain that option to purchase will be exercised.

4. Y0 — Y1 — Y2 — Y3

	Y0	Y1	Y2	Y3
		LR	LR	LR
	C = 1cr.	30L	50L	50L
	FV = 1cr.			

PV = 25L
PV = 40L
PV = 30L
95L

"Finance lease"

L32

(8) Cost = 1cr. "UL = 5years"

Y0 — Y2 — Y4

Y0
C = 1cr.

Y2
T

Period of 1st agreement
Lease Term = 1.2cr.

Period of 2nd agreement
Lease Term : 40 lakhs
market value of Lease rent : 80 lakhs

→ Finance Lease : meaning ✓
→ Finance lease : indicators ✓ → Minimum Lease Payment (MLP) : Pending
→ Finance lease : Accounting : Lessor ✓ → A: Lease Rec: Net Investment in Lease
Lessee ✓ → A: mach. acq: MLP : Pending

L32

Minimum Lease Payments

Lessee POV

→ Lease Rentals
→ Guaranteed Residual Value
: by lessee himself
: by thirdparty on behalf of lessee.

Contingent rent (lease payment)
↓
not included in MLP.

Lessor POV

→ Lease Rentals
→ Guaranteed Residual Value
: by lessee himself
: by thirdparty on behalf of lessee.
: by an independent third party.

→ same

Gross Investment in Lease (Lessor POV)

+ Unguaranteed Residual Value
i.e.
MLP (lessor POV) → FV
+ Unguaranteed R.V. → FV

- Interest
(Unearned finance Income)

Net Investment in Lease (PV)

₹ invest → Recover → Gr. I. Lease (Lessor POV)

→ LR (1-5)
→ GRV : lessee & Papa, Ind. T.P. } MLP (5)
→ UGRV : (5)

Gross Inv. in Lease (Recovery - Lessor : FV) — - Interest → Net Investment in Lease (Recovery - Lessor @ PV)

		Gross Inv. in Lease (FV)	Net Investment in Lease (PV)
LR	1	50000	45000
	2	50000	43000
	3	50000	42000
	4	50000	40000
	5	50000	35000
GRV	5	20000	18000
UGRV	5	10000	6000
		280000	229000

F.V. — - Interest → P.V.
↓
Unearned Finance Income

Sale & Leaseback : Finance Lease

C A

Sale :- CA : 300000 SP= 1000000

Y_1 : Dep = 30000

Y_2 : Dep = 30000

P = 700000 → Defer & recognise over the lease term in proportion to depn

D = 10% p.a.

Leaseback : PV of MLP = 1000000 (new CA)

Y_1 Dep = 100000 (↑ 70000 Dr.) P = 70000 Cr. → effect nullify

Y_2 Depn : 100000 (↑ 70000 Dr.) P = 70000 Cr. → effect nullify

Y_3 . Depn : 100000 (↑ 70000 Dr.) P : 70000 Cr. → effect nullify

Sale & Leaseback : Operating Lease

C A

Sale = 10L

Leaseback

Operating lease

CA = 300000 SP : 1000000

$\boxed{P = 700000}$

Asset → Amrtd

Depn → "

THUMB RULE

1. Compare Carrying Amount with Fair Value.

100 ≤ 150 → nothing to be done

200 > 150

Recognise loss and calculate RCA.

2. Compare Revised Carrying with Selling Price.

RCA = 150 FV = 150 SP = 250

Calculate Profit/loss on sale.

Recognise profit/loss immediately except when SP > FV or SP < FV. In such a case defer the profit/loss over lease term.

CASE I :-

1. Compare CA with FV

CA = 50 FV = 50

No loss recognised.
RCA = 50

2. Compare RCA with SP

RCA = 50 SP = 50

No P/L

CASE II :

1. Compare CA with FV.

CA = 55 FV = 50
Loss = 5 (P&L Dr.)
RCA = 50

2. Compare RCA with SP.

RCA = 50 SP = 50
No P/L

CASE III :-

1. Compare CA with FV.

CA = 45 FV = 50
No loss.
RCA = 45.

2. Compare RCA with SP
RCA = 45 SP = 50
(FV = 50)
P = 5
↓
Immediately recogn. (P&L Cr.)

CASE IV :-

CA = 50 FV = 50

No loss
RCA = 50

RCA = 50 SP = 55
(FV = 50)
P = 5
↓
Defer & amortise over lease term.

CASE V :-

CA = 55 FV = 50
loss = 5 (P&L Dr.)
RCA = 50

RCA = 50 SP = 55
(FV = 50)
P = 5
↓
Defer & amortise over lease term.

CASE VI :-

CA = 45 FV = 50

No Loss
RCA = 45

50

RCA = 45 SP = 55
(FV = 50)
P = 10

P = 5
↓
Imm. recog.
P&L Cr.

P = 5
↓
Defer & amortise

CASE VII :

CA = 50 FV = 50
No loss
RCA = 50
RCA = 50 SP = 45
(FV = 50)
L = 5
either
Imm. recog. to P&L.
Defer & amort
↓
If going ahead the lease rents are charged at a lower rate than the market rate.

CASE VIII :-

CA = 55 FV = 50
L = 5 (P&L Dr.)
RCA = 50
RCA = 50 SP = 45
(FV = 50)
L = 5
either
Imm. recog. to P&L.
Defer & amort
↓
If going ahead the lease rents are charged at a lower rate than the market rate.

CASE IX :-

CA = 45 FV = 50
L = 0
RCA = 45
RCA = 45 SP = 45
L = 0

FV SD SP=55

L33

Chinke

P=5 Cr.

LR= 1 ↑ Dr. 1 Cr.

1 ↑ Dr. 1 Cr.

1 ↑ Dr. 1 Cr.

1 ↑ Dr.

1 ↑ Dr.