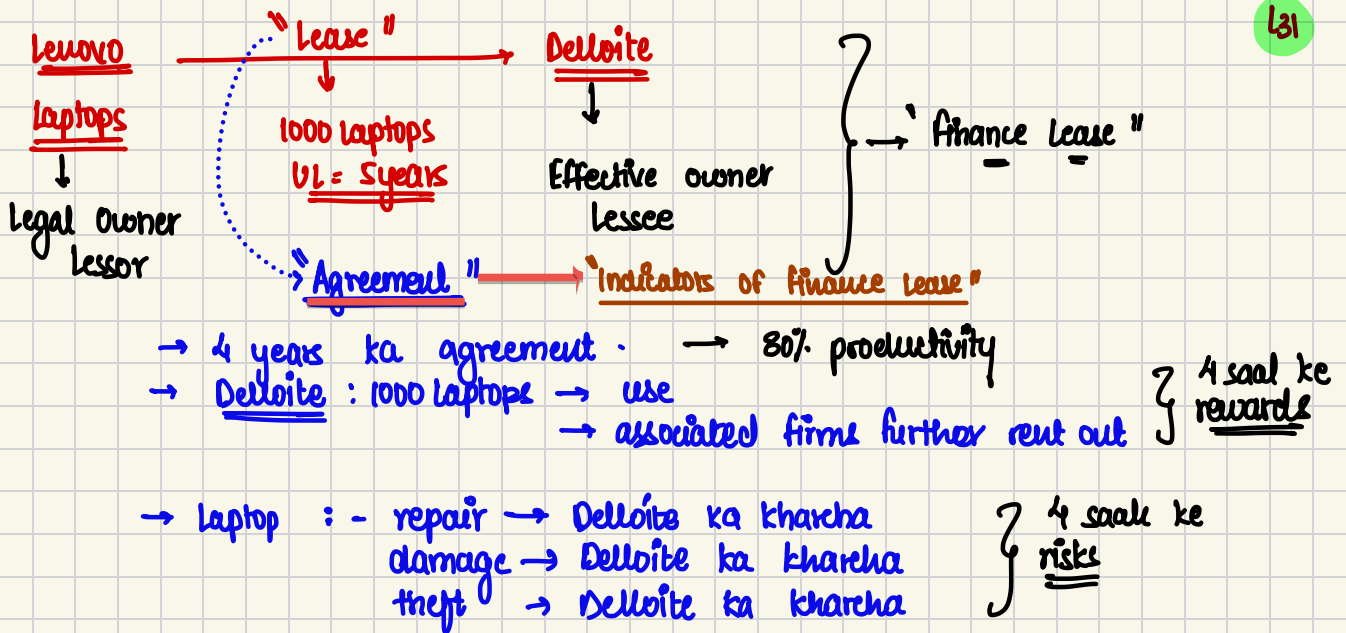




Substantially all Risk & Reward → Delloite ← effective owner
 ↓
Almost ← not the legal owner

Finance Lease :-

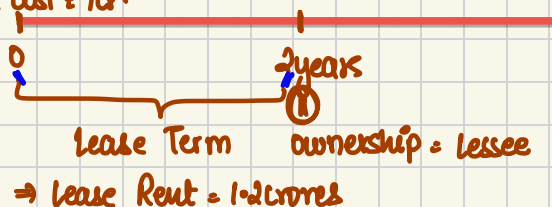
1. Right to use the asset.
2. Substantially all risks & rewards related to the ownership of that asset vest with the lessee.

↓
 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.

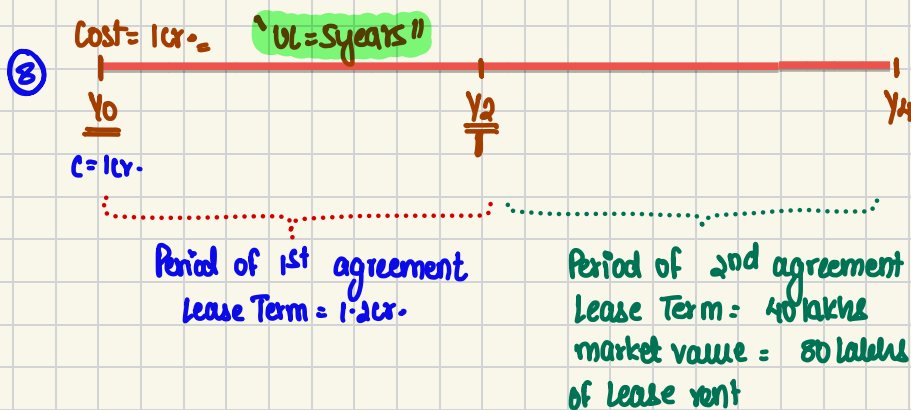
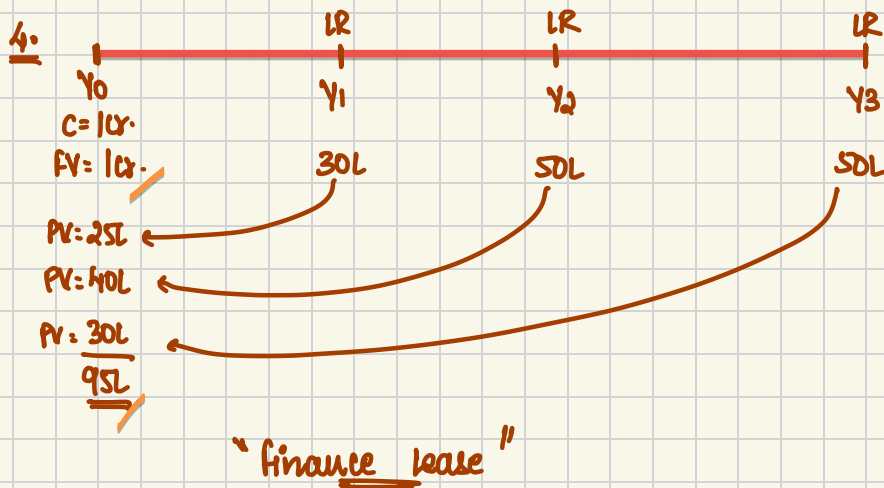
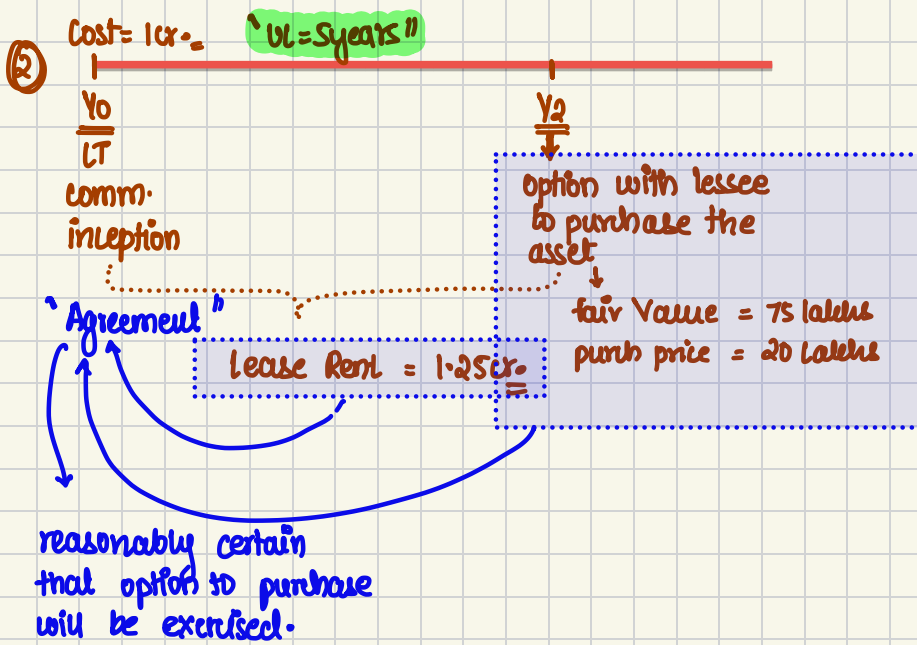
Indicators

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

Lessor: cost = 1cr.



Agr 2 years
 LT : Lease Rent : Total 1.2cr
 After 2 years
 lease agr end & own hand.



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

Minimum Lease Payments

Lessee POV

- Lease Rentals
- Guaranteed Residual Value
 - : by lessee himself
 - : by third party on behalf of lessee.

Lessor POV

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

Contingent rent (lease payment)

not included in MLP.

same

Gross Investment in Lease (Lessor POV)

+ Unguaranteed Residual Value

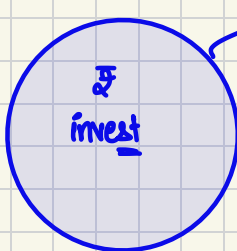
i.e.

MLP (Lessor POV) → FV

+ Unguaranteed R.V. → FV

- Interest (Unearned Finance Income)

Net Investment in Lease (PV)



Recover

→ Gr.I. Lease (Lessor POV)

→ LR

→ GRV : lessee & third party

→ UGRV :

(1-5)

(5)

(5)

Gross Inv. in Lease (Recovery - Lessor: FV)

LR	1	50000
	2	50000
	3	50000
	4	50000
	5	50000
GRV	5	20000
UGRV	5	10000
		<u>280000</u>

- Interest

Net Investment in Lease (Recovery - Lessor @ PV)

0	45000
0	43000
0	42000
0	40000
0	35000
0	18000
0	6000
	<u>229000</u>

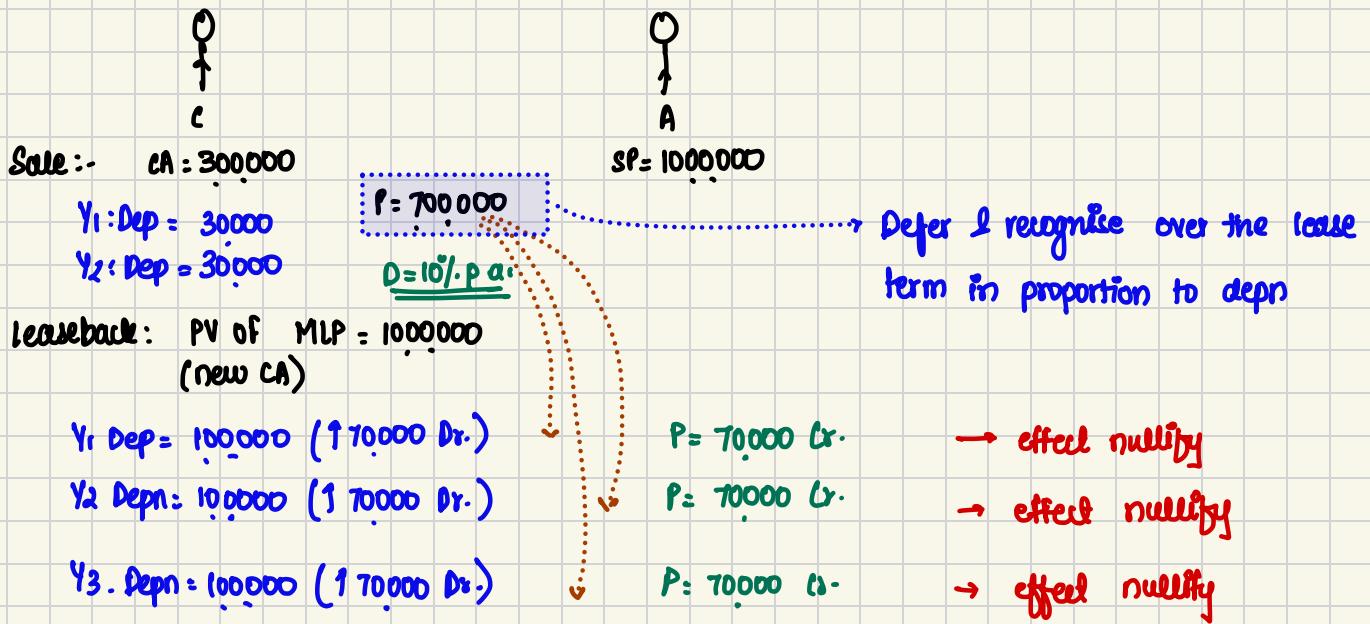
- Interest

Unearned Finance Income

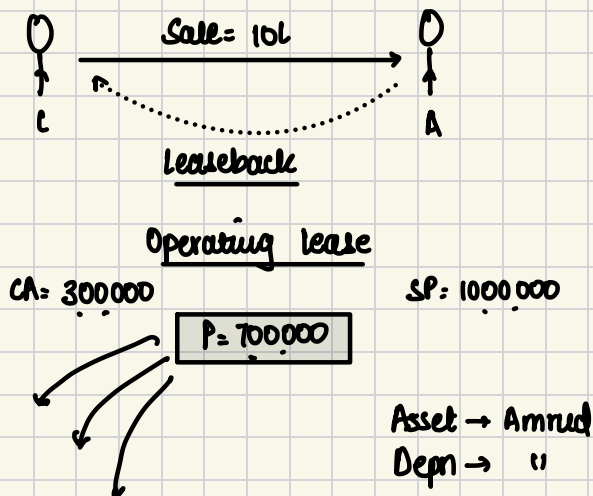
→ P.V.

Sale & leaseback : Finance lease

L33



Sale & leaseback : Operating lease



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

$$CA = SD \quad FV = SD$$

No loss recognised.
 $RCA = SD$

2. Compare RCA with SP

$$RCA = SD \quad SP = SD$$

No P/L

CASE II :-

1. Compare CA with FV.

$$CA = SS \quad FV = SD$$

$$\text{Loss} = 5 \text{ (P&L Dr.)}$$

$$RCA = SD$$

2. Compare RCA with SP.

$$RCA = SD \quad SP = SD$$

No P/L

CASE IV :-

$$CA = SD \quad FV = SD$$

No loss
 $RCA = SD$

$$RCA = SD \quad SP = SS \quad (FV = SD)$$

$$P = 5$$

Defer & amortise over lease term.

CASE VII :-

$$CA = SD \quad FV = SD$$

No loss

$$RCA = SD$$

$$RCA = SD \quad SP = 45 \quad (FV = SD)$$

$L = 5$
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 V :-

$$CA = SS \quad FV = SD$$

loss = 5 (P&L Dr.)
 $RCA = SD$

$$RCA = SD \quad SP = SS \quad (FV = SD)$$

$$P = 5$$

Defer & amortise over lease term.

CASE VIII :-

$$CA = SS \quad FV = SD$$

$L = 5$ (P&L Dr.)

$$RCA = SD$$

$$RCA = SD \quad SP = 45 \quad (FV = SD)$$

$L = 5$
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 III :-

1. Compare CA with FV.

$$CA = 45 \quad FV = SD$$

No loss.
 $RCA = 45$.

2. Compare RCA with SP

$$RCA = 45 \quad SP = SD \quad (FV = SD)$$

$$P = 5$$

Immediately recogn. (P&L Cr.)

CASE VI :-

$$CA = 45 \quad FV = SD$$

No loss
 $RCA = 45$

$$RCA = 45 \quad SP = SS \quad (FV = SD)$$

$$P = 10$$

$P = 5$ $P = 5$
Imm. recog. to P&L Cr. Defer & amortise

CASE IX :-

$$CA = 45 \quad FV = SD$$

$L = 0$

$$RCA = 45$$

$$RCA = 45 \quad SP = 45$$

$$L = 0$$

FV SD

SP=SS

L33

Chinku

P=5 Cr.

LR= 1st Dr.

1st Dr.

1st Dr.

1st Dr.

1st Dr.

1 Cr.

1 Cr.

1 Cr.

