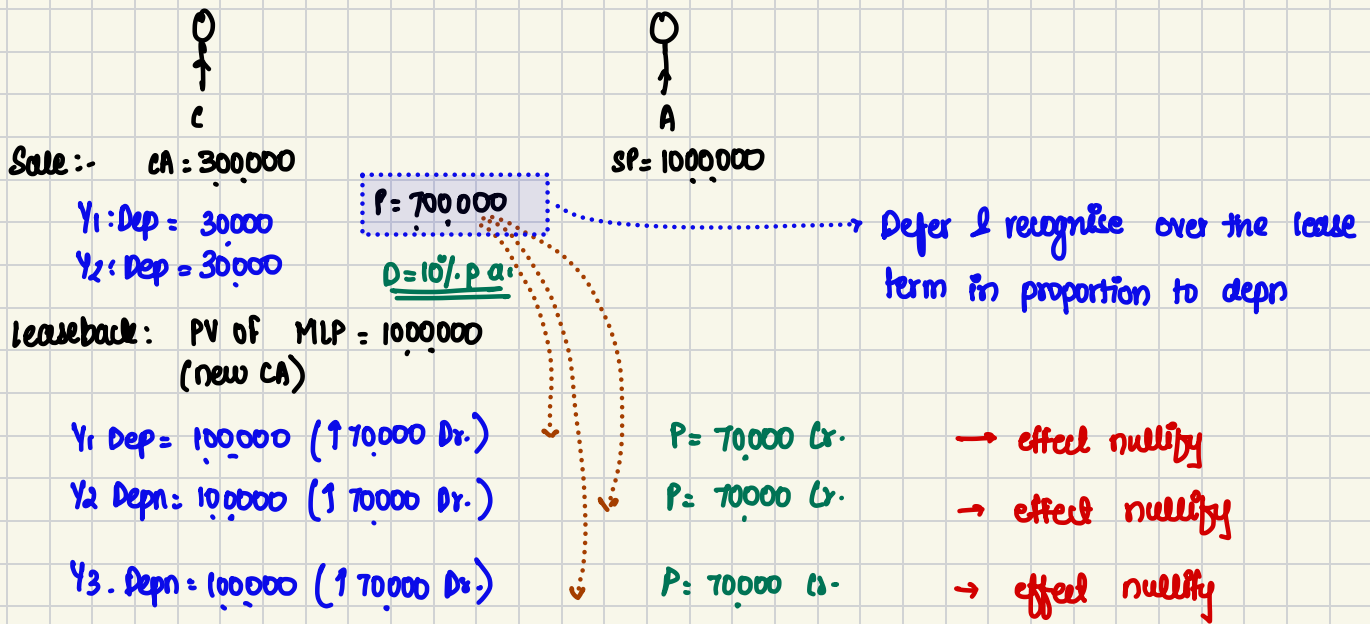
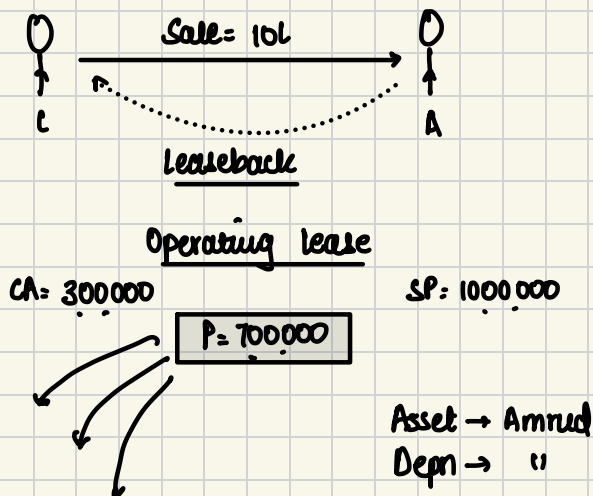


Sale & leaseback : Finance lease

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 & amortise

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 & amortise

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

Chinku

P=5 Cr.

LR= 1st Dr.

1st Dr.

1st Dr.

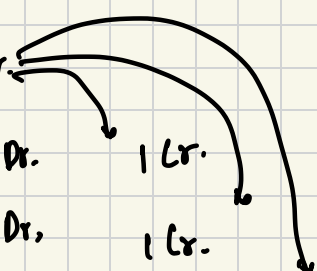
1st Dr.

1st Dr.

1 Cr.

1 Cr.

1 Cr.



Question 10: Indicator of Finance lease

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PV of MLP "almost = " fair value at the inception
652190 almost = 700000

Calculation of PV of MLP

At inception ; fair value = Net Investment in lease

$$\begin{aligned} \text{Net Investment in lease} &= \text{PV of MLP} + \text{PV of UGRV} \\ 700000 &= x + (70000 \times 0.683) \\ 700000 &= x + 47810 \\ 652190 &= x \end{aligned}$$

Since the PV of MLP is almost equal to the fair value at the inception of lease, the lease constitutes finance lease.

Calculation of Unearned Finance Income

$$\begin{aligned} &= \text{Gross Investment in lease} - \text{Net Investment in lease} \\ &= 893212 - 700000 \\ &= 193212 \end{aligned}$$

Calculation of Gross Investment in lease

⇒ Lease Rent

Guaranteed Residual Value

Unguaranteed Residual Value

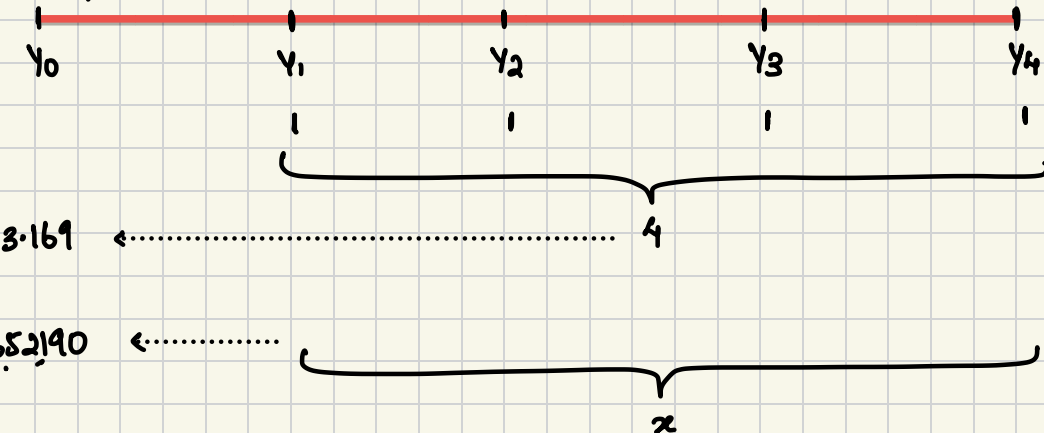
→ 823212

→ 0 → because instalments are equal.

→ 70000

893212

DR = 10%.



$$x = 652190 \times \frac{4}{3.169}$$

$$x = 823212$$

Question 15 :-

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GILL LR
RV

$$\begin{aligned}
 &= 500000 \times 3.3522 = 1676100 \\
 &= 200000 \times 0.4972 = 99440 \\
 \text{GILL} &= \underline{2100000} \quad \text{NIL} = \underline{1775540} \\
 &\downarrow \quad \quad \quad \downarrow \\
 &\text{lessor} \quad \quad \quad \text{lessor} \\
 &\quad \quad \quad \text{VFI} = \underline{924460} \\
 &\quad \quad \quad \downarrow \\
 &\quad \quad \quad \text{lessor}
 \end{aligned}$$

$$\begin{aligned}
 &SL \times (Y_1F + Y_2F + Y_3F) \\
 &SL \times \text{PVAF}
 \end{aligned}$$

lessee books → PV of MLP
FV } lower → Amount : Recog.

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$$\begin{aligned}
 \text{i) PV of MLP} &\rightarrow \text{lease Rent} \rightarrow 500000 \times 3.3522 = 1676100 \\
 &\quad \quad \quad \text{GRV} \rightarrow 100000 \times 0.4972 = \underline{49720} \\
 &\quad \quad \quad \underline{1725820} \\
 \text{2) FV} &= \underline{2000000} \quad \quad \quad \} \text{Lower}
 \end{aligned}$$

Cost of asset in lessee books → 1725820.

lessee Books → Asset record
Depreciation
lease Rental
Interest } homogenous class
↳ calculation table.

In the books of lessee

Journal Entry : Cash Price Method

Year 1

Beginning Asset
To, lessor

Dr. 1725820 ✓
1725820

End Depreciation
To, Asset

Dr. 172582 ✓
172582

Interest
To, lessor

Dr. 258873
258873 ✓

lessor
To, Bank

Dr. 500000
500000 ✓

P&L
To, Interest
To, Depreciation

Dr. 431455
258873
172582

Opening o/s + Interest = Total o/s - Installment = Closing o/s

1725820 ✓ + 258873 = 1984693 - 500000 = 1484693

1484693 + 222704 = 1707397 - 500000 = 1207397

1207397 + 181110 = 1388507 - 500000 = 888507

888507 + 133276 = 1021783 - 500000 = 521783

521783 + 78217 = 600000 - 600000 = 0

(bal.)
874180

Journal Entries by Interest Suspense Method

Y₀ Asset
To, lessor

Dr. 1725820
1725820

Y₀ Interest Suspense
To, lessor

Dr. 874180
874180

Y₁ Interest
To, Interest Suspense

Dr. 258873
258873

Y₁ lessor
To, Bank

Dr. 500000
500000

Y₁ Depreciation
To, Asset

Dr. 172582
172582

Y₁ P&L
To, Interest
To, Depreciation

Dr. 431455
258873
172582

Interest Suspense presentation

B/s → Y₁

lessor 1725820
874180
- Int sus. (615307)
1984693