

LEASES

AS
19

1. A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs (Fair value ₹ 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be
 - a. A Ltd. should amortise the profit of ₹ 10 lakhs over lease term.
 - b. A Ltd. should recognise the profit of ₹ 10 lakhs immediately.
 - c. A Ltd. should defer the profit of ₹ 10 lakhs.
 - d. B Ltd. should recognise the profit of ₹ 10 lakhs immediately.
2. In case of an operating lease – identify which statement is correct:
 - a. The lessor continues to show the leased asset in its books of accounts.
 - b. The lessor de-recognises the asset from its Balance Sheet.
 - c. The lessor discontinues to claim depreciation in its books.
 - d. The lessee recognises the asset in its Balance Sheet.
3. In case of finance lease, if the asset is returned back to the lessor at the end of the lease term – the lessee always claims depreciation based on which of the following:
 - a. Useful life.
 - b. Lease term.
 - c. Useful life or lease term whichever is less.
 - d. Useful life or lease term whichever is higher.
4. AS 19 lays down 5 deterministic conditions to classify the lease as a finance lease. To classify the lease as an operating lease – which statement is correct?
 - a. Any 1 condition fails.
 - b. Majority of the 5 conditions fail.
 - c. All 5 conditions fail.
 - d. Any 2 conditions fail.
5. The basis of classification of a lease is:
 - a. Control Test.
 - b. Risk and reward Test.
 - c. Both control test and risk and reward test.
 - d. Only reward Test
6. Which of the following is the primary criterion used to classify a lease under AS 19?
 - a. Ownership of the asset
 - b. Length of the lease term
 - c. Transfer of risks and rewards
 - d. Maintenance responsibilities
7. According to AS 19, a lease that transfers substantially all the risks and rewards incidental to ownership is classified as
 - a. Finance Lease
 - b. Operating Lease
 - c. Sales-Type Lease
 - d. Direct Financing Lease
8. What is the recognition criteria for a finance lease under AS 19 by the lessee at the commencement of the lease term?
 - a. Recognize the lower of fair value of the leased asset or present value of

- minimum lease payments as an asset and a liability.
 - b. Recognize only the fair value of the leased asset as an asset.
 - c. Recognize the present value of minimum lease payments as an expense.
 - d. Do not recognize anything until the lease term ends.
9. Which of the following statements regarding an operating lease, as per AS 19, is true?
- a. It is capitalized on the lessee's balance sheet.
 - b. It usually involves transferring ownership of the asset at the end of the lease term.
 - c. It includes finance charges.
 - d. It is expensed over the lease term.
10. In case of a finance lease, which statement regarding the lessee's profit and loss account is correct under AS 19?
- a. A portion of the total lease payment is recognized as interest expense, and the rest is recorded as depreciation.
 - b. Total lease payment is recognized as interest expense.
 - c. Total lease payment is recognized as depreciation.
 - d. No expense is recorded until the lease term ends.
11. As per AS 19, what is the basis for recognizing lease payments for an operating lease?
- a. Ratio of benefit obtained and if not available then Straight-line basis.
 - b. Reducing balance method
 - c. Annuity method
 - d. No specific basis is required for recognition.
12. Which financial statement should disclose the information about lease liabilities and assets recognized under AS 19?
- a. Income Statement
 - b. Statement of Changes in Equity
 - c. Balance Sheet
 - d. Cash Flow Statement
13. Under AS 19, what happens if a lease agreement includes an option for the lessee to purchase the asset at a price significantly below its fair market value?
- a. It qualifies as a finance lease.
 - b. It is recognized as an operating lease.
 - c. It has no impact on lease classification.
 - d. It is considered a direct financing lease.
14. In a finance lease, how is the interest component of the lease payment calculated by the lessee under AS 19?
- a. It remains constant throughout the lease term.
 - b. It decreases over the lease term.
 - c. It increases over the lease term.
 - d. It is equal to the lease payment.
15. As per AS 19, a leased asset should be depreciated over the?
- a. Shorter of the lease term and the assets useful life
 - b. Longer of the lease term and the assets useful life
 - c. Entire lease term
 - d. Useful life of the asset.
16. In the books of seller-lessee, If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount is?

- a. immediately recognised as income or loss in the financial statements.
 - b. deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
 - c. If there is loss, then immediately recognized in P&L statement and if there is gain, then amortised over the lease term.
 - d. Either (a) or (b)
17. If Sale and leaseback transaction results in an operating lease and sale price is more than fair value, the excess amount is?
- a. credited to Profit and Loss statement
 - b. deferred and amortized over expected period of use of the asset
 - c. deferred and amortized over period of five years
 - d. amortized in proportion to lease payments
18. If Sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount should be?
- a. credited to Profit and Loss statement.
 - b. deferred and amortized over the lease term in proportion to the depreciation of the leased asset.
 - c. deferred and amortized over period of five years.
 - d. amortized in proportion to lease payments
19. N Limited has entered into lease agreement for machinery from S Limited for 10 years for ₹ 1 lakh per year. Guaranteed scrap value of machinery after 10 years is ₹ 0.5 lakh unguaranteed scrap value is ₹ 0.2 lakh. Present Value of ₹ 1 lakh for 10 years is ₹ 7 lakh, Present value of ₹ 0.5 lakh after 10th year is 0.18 lakh & of ₹ 0.2 lakh is ₹ 0.07 lakh. Calculate Unearned Finance Income for S Limited.
- a. ₹ 3.45 lakh
 - b. ₹ 3 lakh
 - c. ₹ 3.32 lakh
 - d. ₹ 3.13 lakh

Answers:

1. (b)
2. (a)
3. (c)
4. (c)
5. (b)
6. (c)
7. (a)
8. (a)
9. (d)
10. (a)
11. (a)
12. (c)
13. (a)
14. (b)
15. (a)
16. (b)
17. (b)
18. (b)
19. (a)