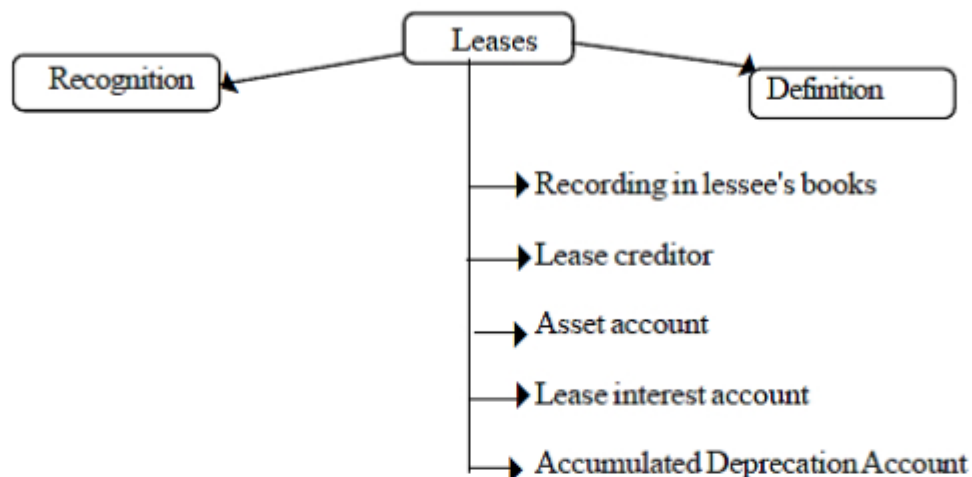


**11.7 | Leases**

- Definition as per LKAS 17 / SLFRS 16
- Recording leases in books of purchaser
- Accounting for interest on lease
- Showing lease creditors in SFP

**Concept map****Leases**

- A lease is an agreement where the lessor (the legal owner of the asset) conveys to the lessee (the user of the asset), the right to use an asset for an agreed period of time in return for a payment or a series of payments.

**Accounting for leases in the books of the lessee**

- Lower of fair value or present value of right of use of lease property  
*DR Relevant asset a/c*  
*CR Lease creditor a/c*
- Initial deposit value / Down payment value  
*DR Lease creditor a/c*  
*CR Cash a/c*
- Interest on lease at the end of the period  
*DR Interest on lease a/c*  
*CR Lease creditor a/c*
- Payment of installment  
*DR Lease creditor a/c*  
*CR Cash a/c*

**Calculation if interest is not given**

- If interest is not given

Interest at the end of 1<sup>st</sup> year

Fair value of the asset (or less amount)	xxx
Initial deposit	(xx)
	<u>xxx</u>

(Interest should be calculated based on this value)

**Depreciation**

**Adjustment of depreciation at the year end balance of the asset:**

Calculation of depreciation = If title transferred at the end of the lease period  
 =  $\frac{\text{fair value} - \text{Residual value}}{\text{useful economic life}}$

If title not transferred at the end of the lease period

=  $\frac{\text{fair value} - \text{residual value}}{\text{Lease period}}$

**Accounting for depreciation:**

- DR Relevant depreciation a/c
- CR Relevant accumulated depreciation a/c

**Presenting lease creditor value on SFP**

Current liabilities – annual installment	xx
Next year lease interest	(xx)
Current position of lease	<u>xx</u>
Non current liabilities	
Closing lease creditor value	xxx
Current position of lease creditor value	(xx)
Lease creditor	<u>xx</u>

**LKAS 17**

- A lease is an agreement where the lessor (the legal owner of the asset) conveys to the lessee (the user of the asset), the right to use an asset for an agreed period of time in return for a payment or a series of payments.
- Under the old standard (LKAS 17), leases were classified into two categories. The classification of leases was based on the extent to which the risks and rewards incidental to the ownership of the leased asset lie with the lessor or the lessee.

**Risks and rewards**

- Rewards are represented by the revenue or cost savings resulting from the use of asset over its economic life and the gains from increases in value of the asset or realization of residual value.
- Risks include the repair and maintenance, insurance costs, losses from idle capacity, or technological obsolescence.

Risks	Rewards
<ul style="list-style-type: none"> <li>• Idle capacity</li> <li>• Technical obsolesces</li> <li>• Maintenance and repair</li> </ul>	<ul style="list-style-type: none"> <li>• Generating of economic benefits</li> <li>• Increases in asset value</li> <li>• Gain from appreciation in value</li> </ul>

Whether risk and rewards  
are transferred to lessee

Yes

Finance Lease

No

An operating lease

**Application of LKAS 17 and reasons for amendments**

- LKAS 17 required lessees to recognize rights and obligations under leasing arrangements in the case of finance leases but not in the case of operating leases.
- The distinction between finance leases and operating leases in LKAS 17 was very subjective. Generally, classifying leases as operating leases led to financial statements of lessees reporting a more favorable picture than classifying leases as finance leases.
- This incentive to treat leases as operating leases, together with the subjective nature of lease classification, meant that the requirements in LKAS 17 needed amending.

