MEANING OF LEASE

An 0rganization incurs capital expenditure on various assets such as plant and machinery

Vehicle, buildings equipment land etc. that are carrying 0n its business operations ,such expenditure may be financed through various ways such as arranging loans, raising capital , utiliza deferred facilities ,using internal finances ,ect.

Classification of leases;

Lease may be classified in to three types

1]Financial lease 2]Operating lease 3] Leveraged lease.

1]Financial lease -A lease is classified as a finance lease if it transfers substantially all

The risks and rewards incidental to owner ship from less or to the lessee.

2]operating lease As per as- 19, lease other than a finance is an operating lease A lease .A lease is classified as an operating lease if it the finance is anable to recover its capital outlay plus a return on the funds invested meaning the lease is less than the full expected useful life of the asset.

3]leveraged lease –in case of a leveraged coming from a third lessor is only from.

Ending the lease deal , with bulk of financing coming from a third party lessee .the lessor approaches a third party lender , who finances the major portince the asset cost . the lessor finances only arelativels small part of the lesser investment . just like any other lease, the third party lender is usually a bot or a financial institution.

DIFFERENCES BETWEEN FINANCIAL 1] CAPITAL ] VS OPERATING LEASE- the differences are explained with the help of the following table against variouse aspects of both operating and financial leases

DEFINITION Operating lease Financial lease A lease in which all risks and rewards related to asset ownership remain with the lessor for the leased

asset is called an operating lease.

Financial capital lease In a financial lease known as capital leased the risks and rewards related to ownership of the asset being leased are transferred to the lessee.

Ownership the ownership of the asset remains with the lessor for the entire lease period .

Financial capital lease the ownership transfer option at the end of the lease period is available to the lessee ACCOUNTING TREATMENT OF A FINANCE LEASE IN THE BOOKS OF LESSES The lessor is entitled to receive royalty from the lessee here royalty would be an income to the lessor. The entries would therefore be the reverse of those made in the in the lessee’ books.