

"Ind-AS 17"

"Leases"

Mere Pyare Pyare Baccho, Sabse Pahli Baat Hamare
 Mind Mai ye aana chahiye, ki ye Ind AS-17
 Hame Kya Sikhaega.

So, the one line answer is, "Accounting for
 Lease transaction"

Objective Of this Standard is to guide us how,
 Lease transactions are Accounted for.

Now, First we should understand,

What is Lease ?

Lease is an
agreement

Jisme, there
are two parties

Lessor and lessee.

Lessor transfer Right
to use asset to lessee

In Return, lessee
makes Payment to lessor

Now, Consider a Very General Example:

Guddu is the Owner of Machinery.
Right to use machinery is transferred
by Guddu to Ruchi, under a proper
agreement. Ruchi will make Payment
to Guddu, say ₹ 40,000 per annum.

So, Baccho, In this transaction, Guddu
is Lessor and Ruchi is lessee.

This is lease transaction between Guddu
and Ruchi

Baccho, Ab thoda, detail mai Analysis Karte
hai.

Thoda, Sawaal-Jawaab

①

Kya, Guddu Ne
Asset, Ruchi Ko
Rent Pardi.

Yes, Lease transaction
Ko, HUM, Rent
transaction Kah
Sakte hai.
Lease transactions
are similar
to Rent Transactions.

(2)

Guddu Ne Ruchi
Ko, Asset, Kitne
Period Ke Liye di

For, Any Period, Say
One year, More than
One year, Maximum
Upto life of asset.
It may be for less
than one year also.

(3)

Agar ye, Lease transaction
3 years, Ka hota, then
Payment by Lensee
 $\text{₹} 40000 \times 3 = \text{₹} 1,20,000$ Hota.
Kya ye Zaroori hai ki,
hence Annual Payment,
or Part Payment Kare.
Kya, Lensee, EK Saath,
Single Payment Kar
Sakta hai.

Yes, Lensee
can make
Entire Payment
in one
instance

(4)

Ruchi, Ne jo ₹ 40000 p.a.
Payment Kiya tha,
USS, Ke Liye, Specific
Term Kya hai.

₹ 40,000 p.a
is called
Lease Rental

Conclusion:



"Guddu"
"THE LESSOR"

Lease is an agreement
in which, lessor Convey
to the lessee, Right to
use asset, for agreed
Period, in return of
Payment or Series of
Payments.



"Ruchi"
"THE LESSEE"

Mere, Rajkumar, Aur Rajkumariyo ye yaad
Rakhna,

lessor, transfers only Right to use Asset
Matlab, Asset Ki Ownership transfer
Nahi hui Hai.

legal owner of Asset is always
"Guddu", "THE LESSOR"

Now, we Should Consider,

lease Transaction

Kitne Tarah ke
Hote hai.

Matlab, Classification
of Lease.

Finance
Lease

Mere Do
ANMOL RATAN

Operating
Lease

Finance Lease
Transaction

Aisa, Lease transaction,
in which, Asset se
Related, Maximum Risk,
And Maximum Reward

lessee ko Transfer
Ho Jata hai

Risk: Matlab, Cost, Losses.

Reward: Matlab, Benefits, Profit

Ab, ye Kaise Pata Chalga ki, Asset se Related
Maximum/Substantial, Risk and Reward,
lessee, ko Transfer Ho Gaye.

Mere Baccho, For this, In IND-AS 17, Situations
are Given. Such situations are called

"
Finance Lease Situations.
"

Agar, ye Situations Exist Hogi, then Lease
transaction is Finance lease. Matlab, ye maan

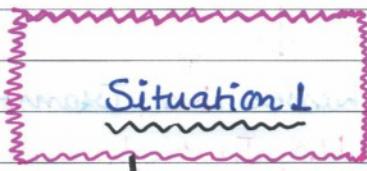
Liya Jaage ki, maximum Risk and Rewards, are transferred to lessee.

Sir, Sir, Sir.....

What are Such Finance Lease Situations?

Bachho, Abhi Batata hun.

Ready, Steady, Go.



Ownership of Asset is transferred to lessee at the End of lease term.

Example: Guddu, is the Owner of Asset, say, machinery. Life 10 years. Right to use transferred to Ruchi 4 years. It is mentioned in the agreement that after 4 years, Ruchi, will become owner of Machine i.e. Legal ownership is transferred to Ruchi. As per this, Standard this is Finance lease transaction.

Sir kyon... ?

Because, Lessees will use the Asset for 4 years + 6 years means, maximum Risk and Rewards related to Asset are transferred to Lessee.

Sir, Lesser NC Aisa, Aakash Offer Kyo diya.

Actually, lessor will Recover his Entire investment along with Interest from lessee in 4 years itself.

For Example:

Cost of Machine to Guddu: ₹ 10,00,000
Lease Rent: ₹ 3,00,000 p.a.
So, Total Lease Rent: ₹ 3,00,000 × 4
= ₹ 12,00,000.

Lessor, will get ₹ 2,00,000 Extra. (Interest).
(₹ 12,00,000 - ₹ 10,00,000)

Sir, why licensee is paying more?

Lessee Requires
the Asset

Zaroorat insaan
se kya kuchh //
nahi Karwati

Lessee has insufficient
Funds or no Funds

"MAJBOORI",
"Ye Paisa Boltahai"

Lessee is not getting loan from any institution.

"Garib Ka iss
duniya mai
koi Nahi yaar"

Lessees, Marta Kya Na Karta, Asset tou,
 Chaiye, Tou, Lessor Uski Zindagi Mai
 Aaya, and Substance of Transaction
 is that Lessor has Financed the Asset to
 lessee, and therefore it is Finance lease
 Transactions.



Situation 2

Lessees has option
 to Purchase the
 Asset after Lease
 Term.

Example: Guddu gives option to Ruchi that
 after 4 years she can purchase
 Asset.

option price after 4 years: ₹5,70,000

Fair market value after 4 years: ₹6,20,000.

Ye, option, Lease Ke Starting Mai diya.

Situation 1 Mai Asset purchase Karna, Lensee
 ko Compulsory tha, In Situation 2, it is
 optional.

Under Situation 2, Hum Hamesha ye Assume Karenge ki Lessee will avail option if

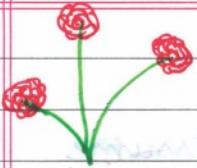
Option price is less than Fair market Value

So, if option is availed, it means, Asset se Related maximum Risk and Return, Lessee ko Transfer Ho Gaye, So Finance Lease.

Sir, Sir, Agar Lessee Ne Option Avail Nahi Kiya, then

Beta, then also, we will treat this transaction as Finance lease transaction, Because, Lease Finance lease hai ya operating lease hai, ye Starting/inception, mai hi decide karna hota hai.

Therefore, Agar transaction ke Starting mai hi clear hai, ki option price < Fair value, then Maan lenge ki, Lessee option avail Karega.
So, it is Finance Lease Transaction.



Situation 3

Present Value of Lease Payment approximately Covers Fair value of Asset

Chalo Beta, Example Se Samajhte hai,

Suppose, hencee Jo lease payment

Kar Raha hai (at the End of Each year)

£ 3,15,250 hai. Lease term 4 years.

Discount Rate: 10%.

Tou, Baccho, Pahle Lease Payment ki Present Value Nikalte hai.

| Years | Lease Payment | PVf @10% | Present value |
|-------|---------------|----------|-----------------|
| 1 | 3,15,250 | • 9090 | 2,86,562 |
| 2 | 3,15,250 | • 8264 | 2,60,523 |
| 3 | 3,15,250 | • 7513 | 2,36,847 |
| 4 | 3,15,250 | • 6830 | 2,15,316 |
| | | | <u>9,99,248</u> |

Now, Suppose if Asset is purchased today its Cost £ 10,00,000. Useful life 10 years.
£ 10,00,000 is Fair value of Asset.

It means, Lessor, Lessee se, 4 years Mai hi, maximum amount Recover kar Raha hai;
 So, lessee bhi 4 years Mai hi Asset Maximum Use Karega.

So, Maximum Risk and Reward Related to Asset transfer to lessee. Therefore, Finance lease Transaction.

Different Cases

Case 1

Fair value
of Asset : ₹ 10,00,000

"Finance
lease"

Present value
of Lease Payment : ₹ 10,00,000 or More

Case 2

Fair value
of Asset : ₹ 10,00,000

"Finance
lease"
≈ 90%

Present value
of Lease Payment : Less than ₹ 10,00,000

So question arise: less than ₹ 10,00,000 ?

General assumption hai ki 10%. Scrap value Hoti hai i.e ₹ 1,00,000. So, Present value \geq ₹ 9,00,000 $<$ ₹ 10,00,000



Situation 4

Asset is of specialised nature that only hense will use it without major modification.

Example:

Lessor: Guddu Ltd.

Lessee: Ruchi Ltd.

Asset under lease: Machinery.

Useful life: 10 years

lease term: 4 years.

Now, situation ye hai, ki Machine specialised Nature ki hai, Matlab Suppose Machine is used in manufacturing of a very special Product A, (Railway coach),

For which Ruchi Ltd is authorised by the government. So, Aaj, nahi tou kal i.e. after 4 years, Machine is used by Ruchi Ltd. Means, Hum Assume Kar Sakte hai ki Lease period Extend Hota Rahega.

Note: If Lessee will not use than, Bahut Jyada modification ke baad hi koi aur use karega.

So, this is Finance Lease transaction.



Situation 5

Lease term is for
Major Part of economic
Life of Asset.

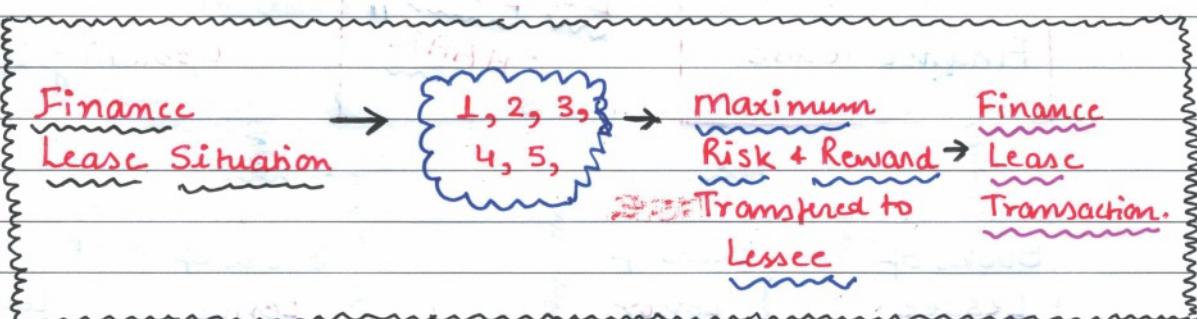
ye Situation Tabhi Consider Karna hai, when in
the problem/ Question other situations se related
information na di Ho.

Example: Asset under Lease: Machinery
life: 10 years

Lease term: > 5 years.

So, Finance lease, Transaction.

Conclusion:



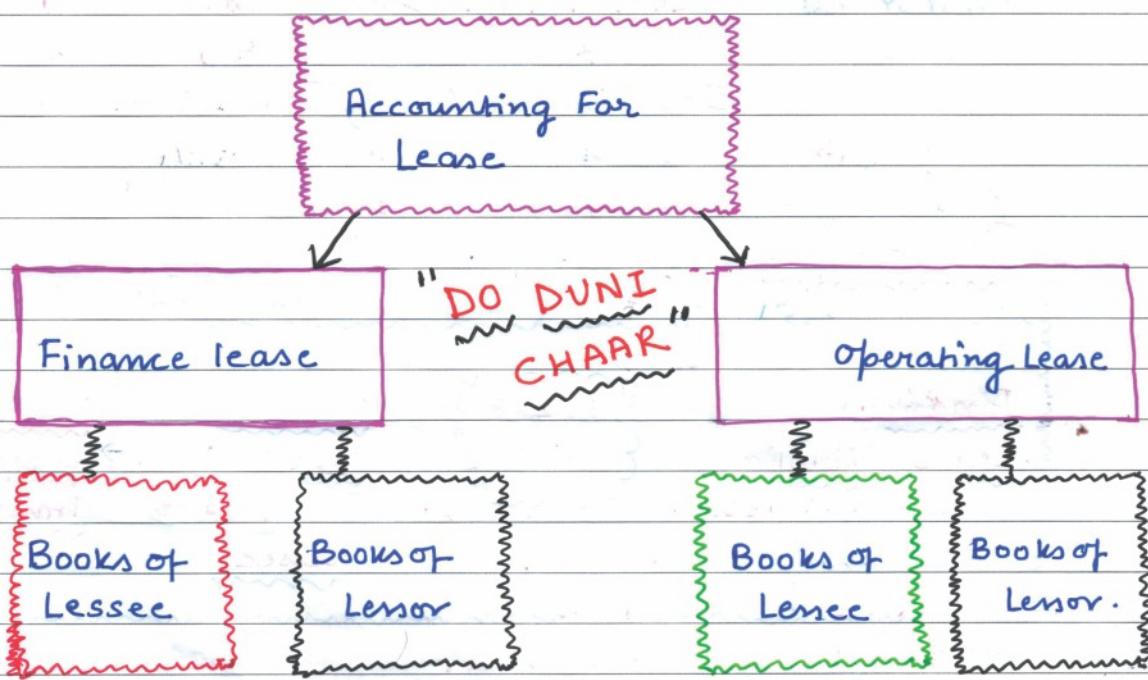
Operating Lease Transactions.

It is a transaction which is not Finance lease transaction.

Operating Lease is a lease which is not Finance lease

Matlab, Asset se Related
Maximum Risk and Rewards
Lessees Ko Transfer Nahi Honge.

Now, Beta Ab iss Standard Mai we Consider "Accounting For lease"



Accounting For operating lease

Books of
Lessor

Books of
Lessee.

Asset under
operating lease
Shown in B/S.

Income Recognised
in Statement of
Profit or loss.
Straight line Basis
or any other Basis
Based on Pattern of
Benefit.

Lease Payment:
Expense: P/L
on straight line
Basis or any other
Basis Based on
Pattern of Benefit

Expenses in Earning
income, Recognised
in P/L.

Initial direct cost:
Asset Ki Cost Mai add Hogi.

Depreciation/ Impairment: P/L

Example Based on Operating Lease In the Books of Lessor.

Guddu " THE LESSOR "

Ruchi " THE LESSEE "

Lease term 5 years.

Lease Rent: ₹ 10,00,000, entirely in advance.

Repairs and maintenance cost incurred

by Lessor ₹ 5000. WDV of Asset: ₹ 4,80,000

Depreciation Rate: 33.33%.

| | | |
|-----------------|----------------------------------|------------------|
| <u>Books of</u> | <u>Bank A/c dr</u> | <u>10,00,000</u> |
| <u>Guddu</u> | <u>To Advance Lease Rent A/c</u> | <u>10,00,000</u> |

(Being advance lease Rent received).

Repairs and Maintenance A/c dr 5000

To Bank A/c 5000

(Being Expense Paid)

Advance Lease Rent A/c dr 2,00,000

To Lease Rental Income A/c 2,00,000

(Being income recognised on straight line Basis ₹ 10,00,000/5).

Depreciation A/c dr 1,59,984

To Asset A/c 1,59,984

(Being depreciation provided).

Profit and loss A/c dr 1,64,984

To Depreciation A/c 1,59,984

To Repairs & Maintenance A/c 5000

(Being expense charged to P/L).

Lease Rental Income A/c dr 2,00,000

To P/L A/c 2,00,000

(Being income credited to P/L).

P/L (Extract)

B/S (Extract)

| Dr. | Credit | | Liabilities | Assets |
|---------------|------------------------------------|--|---|---|
| Dep. 1,59,984 | | | | |
| R&M 5000 | Lease Rental 2,00,000 Income | | Advance lease Rent 8,00,000 $(10,00,000 - 2,00,000)$ | Asset under Operating lease $(4,80,000 -$ $1,59,984)$ |
| | | | | ₹ 3,20,016. |

Example Based on Operating Lease In the Books of Lessee.

Guddu: THE LESSOR

Ruchi: THE LESSEE.

Asset under Lease: Machinery

Life: 20 years.

Lease Term: 8 years.

Discount Rate/^{14%}

Cost of Asset: ₹ 15,00,000

Lease Rent p.a.: ₹ 1,80,000.

Present Value of Lease Payment Calculate Karenge.

PROVE Karenge Ki ye Operating Lease Hai.

| Years | Lease Payment | PVF@14% | Present Value. |
|-------|---------------|---------|----------------|
| 1 | 1,80,000 | • 8772 | ✓ |
| 2 | " | • 7695 | ✓ |
| 3 | " | • 6749 | ✓ |
| 4 | " | • 5920 | ✓ |
| 5 | " | • 5913 | ✓ |
| 6 | " | • 4555 | ✓ |
| 7 | " | • 3996 | ✓ |
| 8 | " | • 3505 | ✓ |

$$\text{Total of PVF} = 4.7105 \quad 1,80,000 \times 4.7105$$

8,47,890

Present Value Lease Rental Ki, Cost / Fair value

Ke Comparison Mai $8,47,890 / 15,00,000 \times 100$
56.52% Hai i.e. < 90%.

So, Operating Lease.

Following Entries are passed by Ruchi (Lessee).
Each year.

Lease Rent A/c dr 1,80,000
To Bank A/c 1,80,000

(Being Lease Rent Paid).

Profit and Loss A/c dr 1,80,000

To Lease Rent A/c 1,80,000

(Being Expense charged to P/L).

Mere, Baccho, Dhyam Rakha, Discount Rate
Sirf Prove Karne Ke Liye Relevant Hai.
Ki Lease operating hai ya Finance lease hai.

Expenses, Recognise Tou, ₹ 1,80,000 Hi Hoga.

Ab, Hum Finance Lease ki Accounting
Sikhne Wale hai, Par Baccho Uske
Pahle, Kuch important terms Samajhna
Behad Zaroori hai.

①

Minimum
Lease Payment

②

Guaranteed Residual
Value for lessee

④

Contingent
Rent

?

③

Guaranteed Residual
Value for lessor

"Ye SAB KYA HAI"

Guaranteed Residual Value

For Lessee

Residual Value

Ka wo Part

Jiski Guarantee

Lessee NC Lessor

Ko di Hai, ya

Lessee Ke behalf

Par, Kisi Aur Ne

Lessor Ko Guarantee

di Hai

For Lessor

Guarantee of Residual
Value given

By lessee OR

On Behalf of lessee

OR

Independent

third Party

Financially

Capable.

Example:

Total Residual Value / scrap value

of Asset: ₹ 1,00,000 • Lease term: 3 years.

Guddu: "THE LESSOR" Ruchi "THE LESSEE"

Miku: "Scrap dealer
customer of
Guddu"

Minu: "Friend
of Ruchi"

Lease Rent: 1,00,000 p.a.

Guarantee given by Ruchi to Guddu: ₹ 40,000

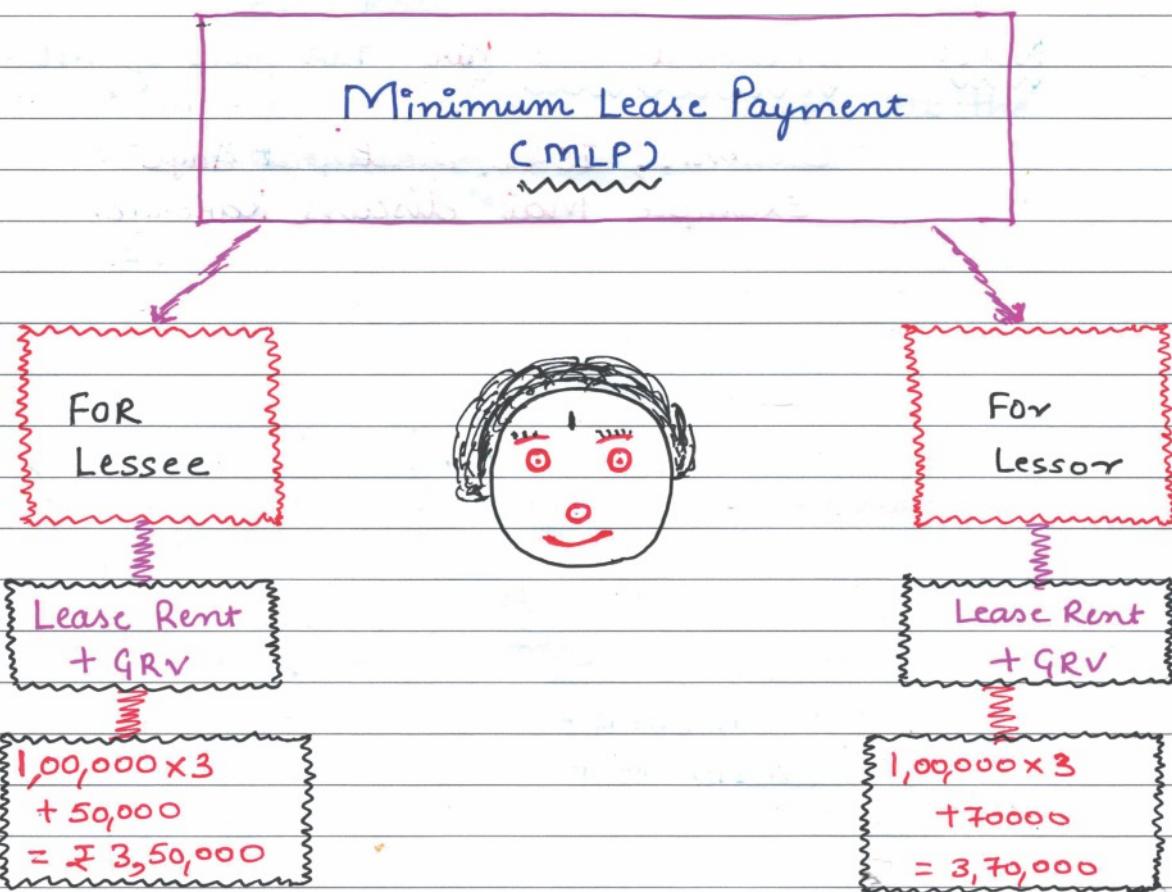
Guarantee given by Miku to Guddu
on behalf of Ruchi : ₹ 10,000

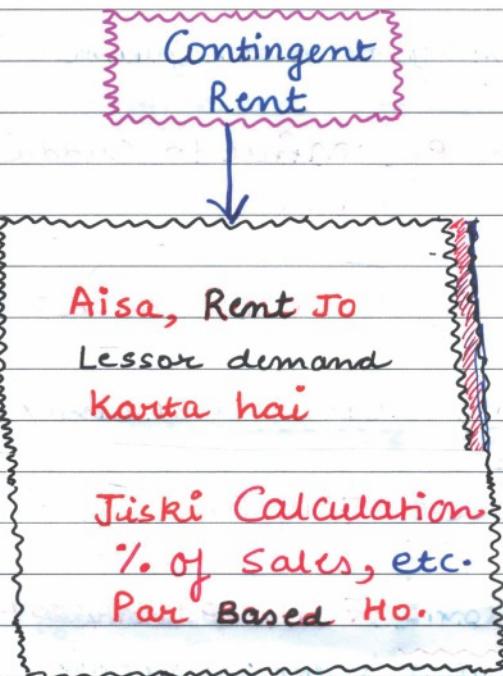
Guarantee given by Miku to Guddu: ₹ 20,000

Calculate GRV for Lessor and Lessee.

GRV for Lessee: ₹ 40,000 + ₹ 10,000 = ₹ 50,000

GRV for Lessor: ₹ 40,000 + ₹ 10,000 + 20,000 = ₹ 70,000





Note: Contingent Rent : not part of MLP.

Students, Iska Treatment Aage
Example Mai discuss Karenge.

Accounting For Finance Lease

Books of Lessee.

Baccho, Consider an Example.

Guddu "THE LESSOR" Lease Term: 4 years

Ruchi "THE LESSEE" Lease Rent: ₹ 6,25,000 p.a.

Fair value of Asset

at the Inception of lease: ₹ 20,00,000

GRV for Lessee: ₹ 1,25,000.

Total Residual Value: ₹ 3,75,000

Discount Rate 15%

Step 1: Determine Fair value of Asset at the
inception of Lease (Given).

₹ 20,00,000.

Step 2: Calculate Present Value of Minimum
Lease Payment (MLP).

| Years | (a) MLP | (b) PVF @ 15% | (a x b) | Present Value of MLP |
|-------|----------|---------------|---------|----------------------|
| 1 | 6,25,000 | • 8696 | | ✓ |
| 2 | 6,25,000 | • 7561 | | ✓ |
| 3 | 6,25,000 | • 6575 | | ✓ |
| 4 | 6,25,000 | • 5718 | | ✓ |
| 4 | 1,25,000 | • 5718 | | ✓ |
| | | | | 18,55,850. |

Lessee will Record the Leased Asset at the
Lower of Fair value at inception
 OR

Pv of MLP

Beginning of 1st year.

Asset under Finance Lease A/c dr 18,55,850
 To Lease Liability A/c 18,55,850
 (Being Asset and Liability
 Recognised).

Step 3 Apportionment of MLP into
 Finance Charge (Interest) and Reduction
 of Outstanding Liability.

| Years | MLP | Interest @ 15% on (a) | Reduction in Liability | O/S Liability |
|-------|---------------------|-----------------------|------------------------|---------------|
| 0 | - | - | - | 18,55,850 |
| 1 | 6,25,000 | 2,78,378 | 3,46,622 | 15,09,228 |
| 2 | 6,25,000 | 2,26,384 | 3,98,616 | 11,10,612 |
| 3 | 6,25,000 | 1,66,592 | 4,58,408 | 6,52,204 |
| 4 | 7,50,000 | 97,796 | 6,52,204 | Nil |
| | (6,25,000+1,25,000) | (B/F) | | |

End of 1st year

MLP A/c dr 6,25,000
 To Bank A/c 6,25,000
 (Being MLP Paid).

| | |
|------------------------|----------|
| Finance charge A/c dr | 2,78,378 |
| Lease Liability A/c dr | 3,46,622 |
| To MLP A/c | 6,25,000 |

(Being MLP Apportioned).

| | |
|--|----------|
| Depreciation A/c dr | 4,63,963 |
| To Asset under Finance Lease A/c | 4,63,963 |
| (Being depreciation provided 18,55,850/4) (SLM assumed) | |

| | |
|------------------------|----------|
| Profit and Loss A/c dr | 7,42,341 |
| To Finance charge A/c | 2,78,378 |
| To Depreciation A/c | 4,63,963 |

(Being depreciation and interest
charge to P/L).

Note: Each year similar entries are passed.

- Finance Lease: Books of Lessee
- Special Points.
- Lessee is treated as owner
of asset due to Substance Over Form
- Lessee will provide depreciation.
- Lessee will Pay MLP
- MLP is apportioned between
Finance charge and Reduction
in Liability.

Presentation in Financial statements

of Lessee

Statement of Profit and Loss.

Year 1

| | |
|----------------|------------|
| Finance charge | ₹ 2,78,378 |
| Depreciation | ₹ 4,63,963 |

Year 2

| | |
|----------------|------------|
| Finance charge | ₹ 2,26,384 |
| depreciation | ₹ 4,63,963 |

Year 3

| | |
|----------------|------------|
| Finance charge | ₹ 1,66,592 |
| Depreciation | ₹ 4,63,963 |

Year 4

| | |
|----------------|------------|
| Finance Charge | ₹ 97,796 |
| Depreciation | ₹ 4,63,963 |

Balance Sheet

End of year 1 End of year 2 End of year 3

| Liability | Asset | Liability | Asset | Liability | Asset |
|--------------|-----------|-----------|--------------|-----------|----------------------|
| 15,09,228 | 18,55,850 | 11,10,612 | 13,91,887 | 6,52,804 | 9,27,924 |
| (-) 4,63,963 | | | (-) 4,63,963 | | (-) 4,63,963 |
| | 13,91,887 | | 9,27,924 | | 4,63,963 (approx) |

Suppose, In this Example, Lessee is liable to Pay

Contingent Rent (Based on Contingency)
Say ₹ 40000 in year 1, ₹ 25,000 in year 3.

Penalty : ₹ 4000 in year 4.

Also, assume that ₹ 1200 Transportation Cost
Lessor Ne Pay ki thi, Lessee iss cost ko
WAPAS DE Raha hai (Reimbursement).

Contingent Rent, Penalty, and Reimbursement
Cost Ki Separate Accounting Hogi- ye SAB
MLP Ka Part Nahi hai.

These all are treated as Expense and
charged to P/L.

"Accounting For Finance Lease"

"Books of Lessor"

Lesson Ki Books Mai Finance lease Ki Accounting Sirkhe Ke Pahe, we should understand Calculation and Meaning of Following terms.

* Gross Investment in the Lease

* Net Investment in the Lease

* Unearned Finance Income.

* Unguaranteed Residual Value.

Beta, Inn Terms Ki Pahe Hum Calculations SiRhenge.

Concentrate on Calculation only

Example:

Finance Lease Transaction

Guddu "THE LESSOR"

Lease Rent: ₹10,000 p.a.

Lease Term: 5 years

Interest Rate: 15%

Total Residual Value: ₹5000



only
Calculation

Residual value Guaranteed by lessee : ₹1000
 Residual Value Guaranteed on behalf of lessee: ₹1000
 Residual Value Guaranteed by independent third Party, who is Financially Capable : ₹1000

Calculate: Sirf Calculation Par Dhyān Do

(1) Guaranteed Residual value (GRV)
 (Lessor's point of view)

$$₹1000 + ₹1000 + ₹1000 = ₹3000.$$

(2) Unguaranteed Value/ Residual Value for Lessor (URV)

Total Residual Value - GRV (Lessor).

$$₹5000 - ₹3000 = ₹2000.$$

(3) Minimum Lease Payment (MLP)

Lease Rent + GRV (Lessor)

$$\begin{aligned} & ₹10000 \times 5 + ₹3000 \\ & ₹50,000 + ₹3000 \\ & = ₹53,000 \end{aligned}$$

(4) Gross Investment in the Lease (GIIL)

MLP + URV

$$₹ 53000 + ₹ 2000 = ₹ 55000$$

(5) Net Investment in the Lease (NIIL)

Present Value of GIIL

| Years | GIIL | PVF @ 15% | NIIL |
|-------|--------------|-----------|---------------|
| 1 | 10,000 | • 8696 | 8696 |
| 2 | 10,000 | • 7561 | 7561 |
| 3 | 10,000 | • 6575 | 6575 |
| 4 | 10,000 | • 5718 | 5718 |
| 5 | 10,000 | • 4972 | 4972 |
| 5 | 3000 | • 4972 | 1492 |
| 5 | 2000 | • 4972 | 994 |
| | <u>55000</u> | | <u>36,008</u> |

(6) Unearned Finance Income (UEFI)

GIIL - NIIL

$$₹ 55000 - ₹ 36008 = ₹ 18,992$$

Consider One more Example

Lease Rental : ₹ 6,00,000 p.a.

Lease Term : 3 years

GRV : 2,00,000

URV : 3,00,000

Interest Rate : 12%.

Calculate NIIL

| Years | GIIL | PVF@12% | NIIL |
|-------|------------------|---------|------------------|
| 1 | 6,00,000 | .8929 | 5,35,740 |
| 2 | 6,00,000 | .7972 | 4,78,320 |
| 3 | 6,00,000 | .7118 | 4,27,080 |
| 3 | 2,00,000 | .7118 | 1,42,360 |
| 3 | 3,00,000 | .7118 | 2,13,540 |
| | <u>23,00,000</u> | | <u>17,97,040</u> |

Accounting

As per 9nd AS-17, Finance Lease Kc Case Mai Lessee
is the owner of Asset, So, Asset Lessor Ki Books
Se Sale Ho Gayi. (Ye Maan Lenge).

And Entry is done on NIIL (Net Investment in the Lease)

Lease Receivable A/c dr 17,97,040

To Asset A/c 17,97,040.

C Being Asset given on
Finance Lease).

As per Ind AS-17, GIIL is apportioned between Reduction in Lease Receivable and UEFI.

| Years | GIIL | UEFI @12% | Reduction in Receivable | Outstanding Receivable. |
|-------|----------|--------------|----------------------------|----------------------------|
| 0 | | | | 17,97,040 |
| 1 | 6,00,000 | 2,15,645 | 3,84,355 | 14,12,685 |
| 2 | 6,00,000 | 1,69,522 | 4,30,478 | 9,82,207 |
| 3 | 6,00,000 | 1,17,865 | 4,82,135 | 5,00,072 |
| 3 | 5,00,000 | NIL | 5,00,000 | 72 (NIL) |

Rounding off difference.

Year 1: Bank A/c dr 6,00,000
 GIIL A/c 6,00,000
 (Being Lease Rental Received)

| | |
|-------------------------|-----------|
| GIIL A/c dr | 6,00,000 |
| To Lease Receivable A/c | 3,84,355 |
| To UEFI A/c | 2,15,645. |

(Being GIIL Apportioned).

UEFI A/c dr 2,15,645

TO Profit and Loss A/c 2,15,645

(Being Finance income

transferred to P/L).

Similar, Entries are passed in year 2, year 3.

Some Important Points

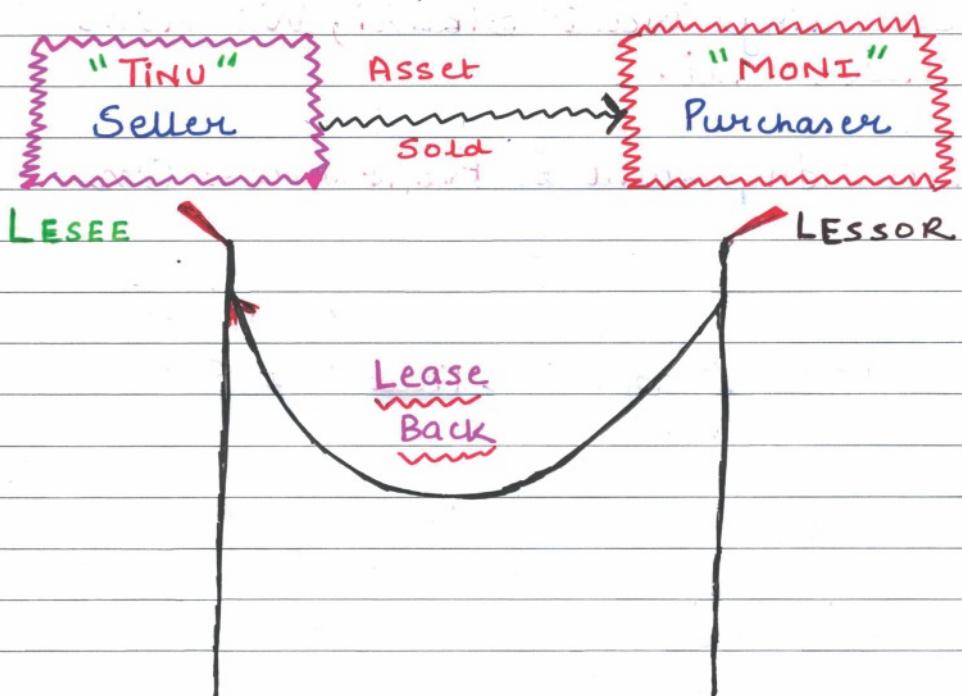
Lessor Apni Books Se Asset Ko

Derecognise Kar lega, and Entry

Net Investment in the Lease Par Hogi

UEFI is greatest income for Lessor.

"Sale and Leaseback Transactions"



Tinu Sold Asset to Moni, and Moni leased back the Asset to TINU.

So, Tinu is Seller-Lessee

And Moni is Purchaser-Lessor.

Ye, Leaseback, Finance Lease Back Bhi Ho Sakte, Hai, Aur Operating leaseback bhi ho Sakte hai.

Now, ye Baat Apne Dil mai Aur Dimag Mai
 Basaalo Ki yaha Par Home Lease Ki
 Accounting Nahi Sikhi, Wo Hum Sikh
 Chuke Hai.

Here, Important is Profit or Loss On

Sale Transaction

(ISKA Accounting Treatment Sikhna hai).

Example:

Tinu Sold Asset to Moni

Moni Leased Back the Asset to Tinu.

It is Finance lease back.

Book value of Asset : ₹ 60,000

If Sale Value : ₹ 65,000

Profit on sale: ₹ 65000 - ₹ 60000 = ₹ 5000

If Sale Value : ₹ 57000

Loss on sale: ₹ 57000 - ₹ 60000 = ₹ 3000

Asset Wapas Tinu Ke Paas Aa gayi, Aur ye
 Finance Lease Hai, So, Tinu Owner Hai

and therefore Tinu will charge Depreciation.

Suppose, Lease term 5 years **Ka Hai**, then
Tinu will use the Asset for 5 years. Since
Benefit to Tinu is for 5 years, therefore
**According to Matching Concept Profit or
Loss should be deferred Over 5 years in
Profit and Loss A/c.**

Sale and Operating Lease Back

Agar, Leaseback operating leaseback hai, tou,
what is the treatment of Profit or loss on
Sale transactions?

Iska Treatment Hum, Example Se Samjhenge.

| Particulars | Case 1 | Case 2 | Case 3 | Case 4 |
|-------------------------|----------|----------|----------|-----------|
| Fair Value | 6,00,000 | 5,00,000 | 5,50,000 | 4,50,000 |
| Sale value (a) | 6,00,000 | 4,50,000 | 6,20,000 | 4,80,000 |
| Carrying amount (b) | 5,00,000 | 5,00,000 | 5,00,000 | 5,00,000 |
| Comparison of SV and FV | SV = FV | SV < FV | SV > FV | SV > FV |
| Profit / (Loss) (a-b) | 1,00,000 | (50000) | 1,20,000 | ② 30000 |
| Impairment | - | - | - | ① (50000) |

Case 1:

Sale value and Fair value are Equal. So this is arms length transaction. Genuine transaction.

Profit immediately recognised in P/L.

Case 2:

Sale value < fair value. Seller Lensee Ko Sale transaction Par Loss hua.

Loss immediately recognised in P/L. If loss is compensated by future lease Payment then it is deferred in the proportion of lease Payment over the period.

Case 3:

Sale value > fair value, Seller lensee Ko Profit Hua ₹ 1,20,000

Profit till fair value : ₹ 50,000 immediately recognised ($5,50,000 - 5,00,000$)
Balance Profit : ₹ 70000 deferred.

Case 4:

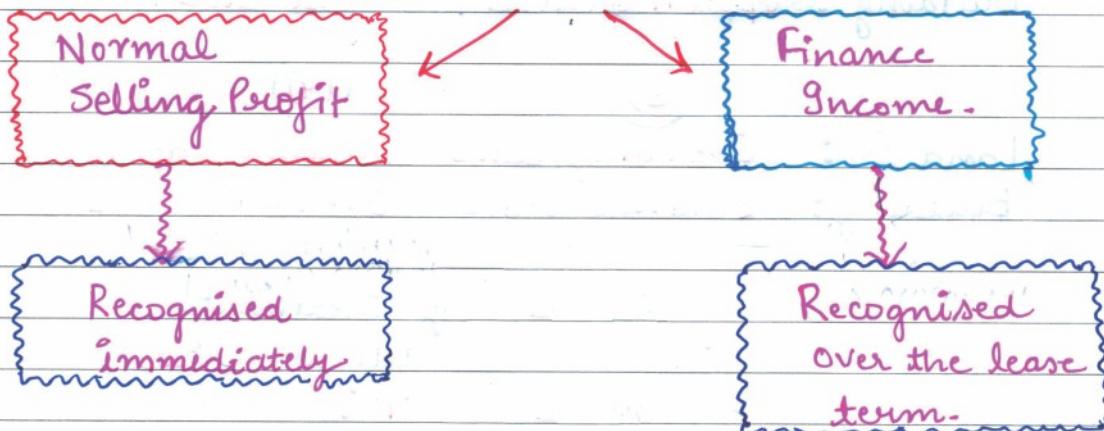
Sale value > Fair value,
but in this case CA > FV, so first impairment loss is calculated and transferred to P/L (₹ 50000)
Asset reduced to fair value. Then ₹ 30,000 Profit is deferred over the lease term.

" Manufacturer Lessor OR Dealer Lessor "

Manufacturer or Dealers
Customer Ko Asset Buy
Or Lease, Both option
dete hai.

For Example, Bajaj Auto Ltd Se Aap Vehicle
Purchase Karte hai, and Bajaj Khud uss
Vehicle Par Finance Facility dete hai
Toh, Sir Iska Kya impact hai ?

Beta, o Beta,
BAJAJ will generate two types
of Income.



Recognised
immediately

Recognised
over the lease
term.

Some Important Points.

(1)

Land and Building
Both, Lease Par di

In this Case, Land
Ka Alag, Aur, Building
Ka Alag, Classification
Hoga.

Possible Situations

(1)

(2)

Land : Operating Lease Finance lease

Building : operating lease Finance lease

(3)

(4)

Land : Operating lease Finance lease.

Building : Finance Lease Operating Lease

Accounting Treatment

MLP Ke allocation Par

Based Hai

MLP, Allocate HO GAYI
Land Aur Building Mai
Fair Values Ke Basis Par

Separate Accounting For Both.

MLP, allocate
Nahi Hui

Situation L Other
Entire OL Entire FL

Note: Agar, Land Ki Value, immaterial hai, then Entire Land and Building Ko, Single Unit Maanege.

(2)

"Non Cancellable Lease"

Non Cancellable Lease, Aisa Lease Transaction Hai,

: Jo Following Situations Mai hi Cancel Hoga.

- Lessor Ki Permission Se

- Remote Contingency

- Agar, Lensee, same lessor Ke Saath, same Asset Ke Liye / Similar Asset Ke Liye New Lease agreement Karta hai

- Lessee, Additional amount, Lease Continue Karne ke liye, Pay Karega, Aur Starting Mai ye certain Hai ki lease Continue Hogi

Note: Lease other than non cancellable Lease is called Cancellable Lease.

Example:

Guddu "THE LESSOR"

Ruchi "THE LESSEE"

Lease term 10 years.

Condition: Lessee, Lease Cancel Kar Sakta hai

after 5 years, On payment of
2 years Lease Rental (Cancellation Penalty).

Ans:

Penalty Nominal
Hoti

Non Cancellable lease
For 5 years

Penalty Nominal
Nahi hai

Non Cancellable lease
For 10 years

(3)

Lease term

Abhi,tak, iss
Term Ka Hamne
General Meaning
Dekha, Now definition
as per this Standard

Primary
Period

Secondary
Period

Ye, Non Cancellable
Period, Hota hai,
Aur, Lessee iss
Period Ke Liye, Payment
Karta hi hai

yes, Further
Period Hota hai,
Jiske Liye Lessee
Ke Pass Option
Hota hai . ISS
Period Ke Liye,
Lessee Mayor
May not Make
Payment . Lessee
Option avail Karega ye
Starting Mai Certain Hota hai

(4)

"Inception of Lease"

Inception of Lease
Ka general Meaning
Hai, Lease Ki
Shuruat (Starting).

As per this Standard,
Inception of Lease,
Earlier of two dates

Date of Lease
agreement

Date Jis din
Parties are
Committed
to the Main
Provisions of
lease

(5)

"Non Applicability"

This Standard is Not applicable

on

Lessor Ke
Pass Koi
Land, Land and
Building Hai
(Investment
Property)
Means, Lessor
Usay Operating
Lease Par dega

Lessee Ne Koi
Asset, Lease Par
Li, Ab wo usay
Use Nahi Kar
Raha, But Held
as investment
Property.

For Earning
Income

Ind AS-40
Apply Hoga.

Ind AS-40
Apply Hoga

ALSO, Not applicable on
Biological Assets

IND AS-41
Apply Hoga

(6)

"Reclassification of Lease"

Pahle, operating lease
thi, Ab Finance
lease mai Convert
Karma hai

Pahle, Finance
Lease thi, Ab
Operating lease
Mai Convert Karma
hai

Yes, this is
Possible

If lessor and
lessee agree
to change the
provision.

Revised Agreement
is Considered as
New Agreement

(7)

"Treatment of Incentive"

Agar, Operating Lease Ka Renewal
Ho Raha Hai, Tou Lessor,
Lessee Ko Benefits/ Incentive
De Sakti hai

Incentives, For Example:

Upfront Cash Payment to Lessee
initial Kuch Period, Rent free
kar dena Etc.

Lessor Apni Rental
Income, Straight
line Basis, Par
Reduce Karega

Lessee Apna Rental
Expense, Straight
line Basis, Par
Reduce Karega.

Baccho, Example will clarify

See Next Page.

Example:

Guddu "THE LESSOR"

Ruchi "THE LESSEE"

New operating lease Entered

For 20 years. at ₹ 5,00,000 per annum.

First 3 years Rent free Period

Solution:

$$\text{Total Incentive} = ₹ 5,00,000 \times 3 \\ = ₹ 15,00,000$$

$$\text{Incentive (Average)} = ₹ 15,00,000 / 20 \\ = ₹ 75,000.$$

Lessee Jo Payment Karne wala hai.

$$₹ 5,00,000 \times 17 = ₹ 85,00,000$$

₹ 75,000 Se, lessee ka Expense Reduce Hoga, Aur
lessor ki Income Reduce Hogi

Expense For Lessee p-a : ₹ 5,00,000 - ₹ 75,000 = ₹ 4,25,000

Income For Lessor p-a : ₹ 5,00,000 - ₹ 75,000 = ₹ 4,25,000

Net Consideration Recognised by Guddu and Ruchi
in 20 years Period is ₹ 85,00,000 (4,25,000 × 20)

(8)

"Certain Structured transaction"

Tax Advantage hene ke liye, transaction hua in which, legal form tou Lease transaction ka hai, But Substance Dekhe, then it is not lease transaction, Such transactions are called structured (arranged) Transactions.

Example 1: Lease and Leaseback

Guddu "THE LESSOR"

Ruchi "THE LESSEE"

Lease term: Entire Economic Life.

Leaseback by Ruchi to Guddu
on same terms and Condition
Amount due to one, another
Set off ho Jaaega

Terms: Same

Conditions: Same

Period of Each Lease: Same

Risk and Reward

Same as before

Substance ye
hai ki Koi,
transaction
Nahi hua.

This arrangement
is "not Lease"

Example 2:

Guddu sale the asset to Ruchi, Ruchi leaseback the asset to Guddu. Transaction Ka Practical effect ye hai ki, Guddu ko Funds Ki Requirement thi, he borrow cash From Ruchi On the Security of Asset. Interest rate suppose 12% decide hua. Over the lease term, lease payment Ke naam se Interest Pay hoga, and at the end, amount of loan Repay hoga.

Form Agar dekhe: Then Lease transaction
But in Substance: "Not A lease transaction"

Conclusion: Structured Transactions are not Lease Transaction.

" Disclosure "

①

Disclosure requirement
Books of "Lessee"

Finance lease

Operating lease.

- Net Carrying amount of asset
- Contingent Rent if any
- Basis of Contingent Rent
- Sub lease Payments, Receivable
- Renewal option, Purchase option Escalation Clause
- Restriction such as Further leasing
- Future MLP and PV for Reporting Period, also ≤ 1 year
 $> 1 \text{ year} \leq 5 \text{ year}, > 5 \text{ year}$

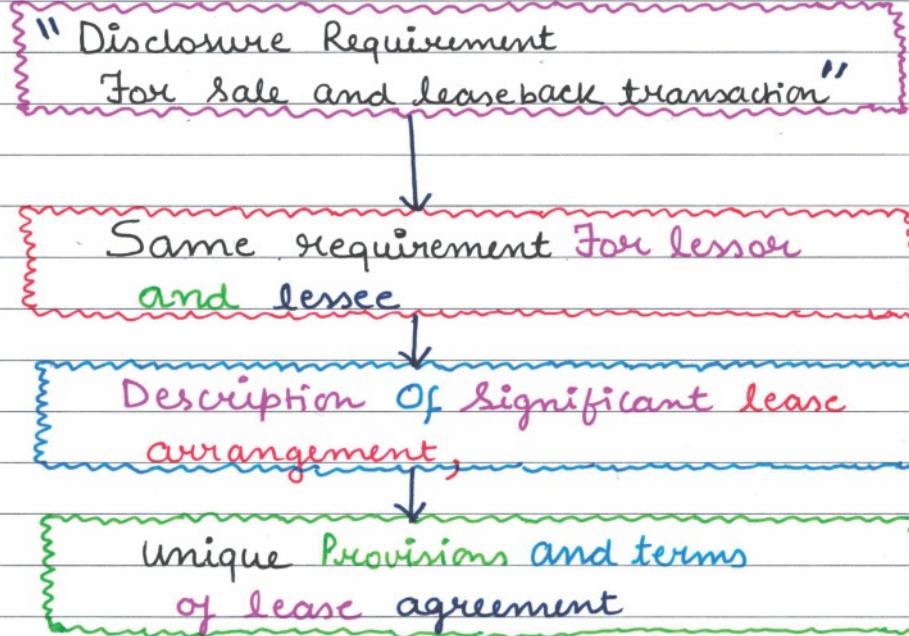
- Lease Payments
- Sublease Payments receivable
- MLP
- Contingent Rent
- Basis of Contingent Rent
- Renewal option
- Purchase option Escalation clause
- Restriction such as Further leasing
- Future Sublease Payment
- Future MLP ≤ 1 year
 $> 1 \text{ year} \leq 5 \text{ year}, > 5 \text{ year}$

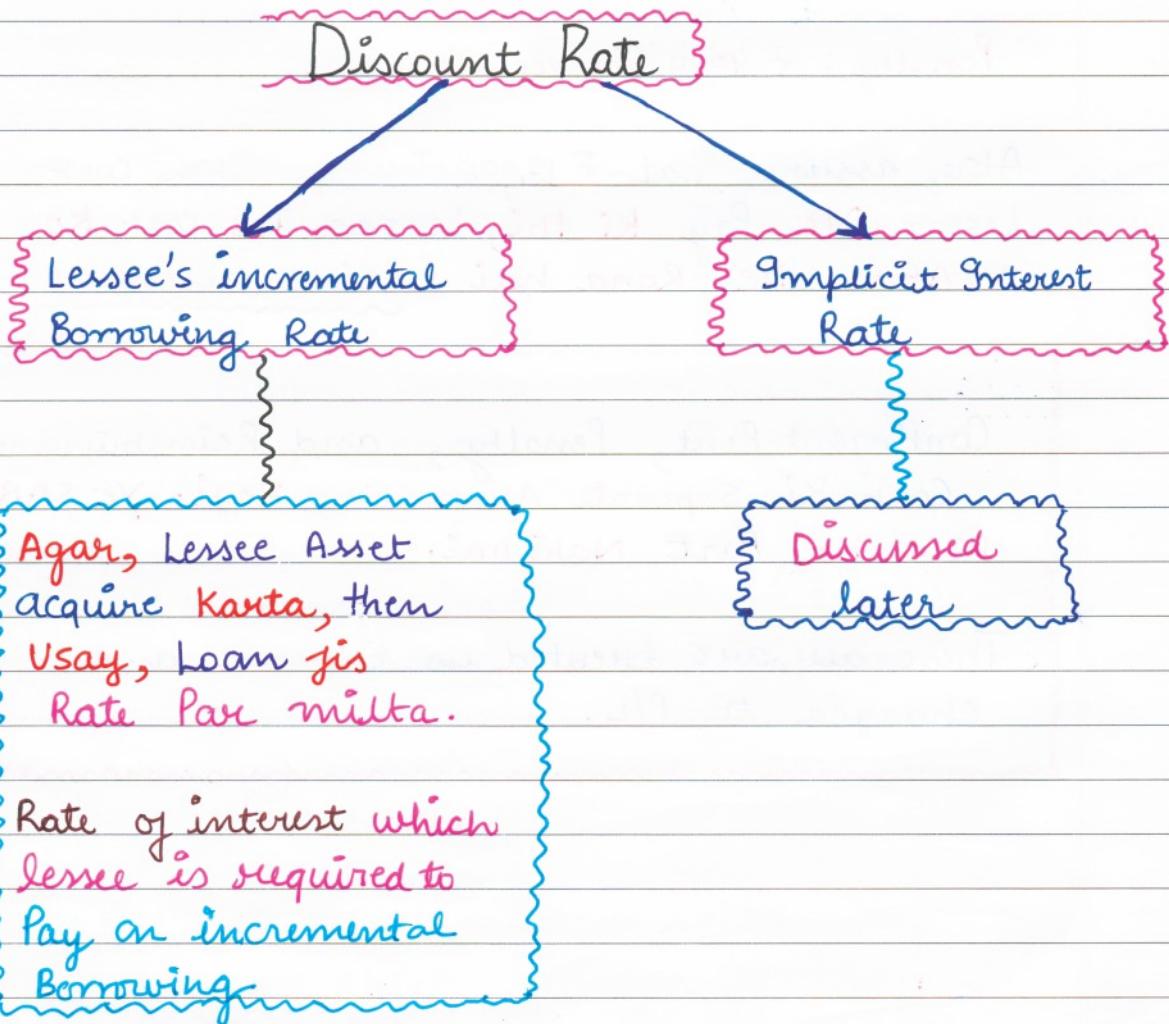
Disclosure requirement
Books of lessor "

Finance
lease

operating
lease

- | | |
|---|---|
| <ul style="list-style-type: none"> • Reconciliation of PV of MLP and GIIL • GIIL and PV of MLP <ul style="list-style-type: none"> $\leq 1 \text{ year}$ $> 1 \text{ year} \leq 5 \text{ year}$ $> 5 \text{ year}$ • UEFI • URV • Provision for uncollectable MLP • Contingent Rent • General description of lease arrangements. | <ul style="list-style-type: none"> • Future MLP <ul style="list-style-type: none"> $\leq 1 \text{ year}$ $> 1 \text{ year} \leq 5 \text{ year}$ $> 5 \text{ year}$ • Contingent Rent • General description of lease arrangements. |
|---|---|





Implicit Interest Rate

Aisa, Rate, at which Present Value of Cash Outflow and Present Value of Cash Inflow are Equal.

Note: ①

Cash
outflows

Fair value / cost of Assets
Initial direct cost



Cash inflows

Minimum lease
Payment,
Un guaranteed
Residual value.

- ② This rate is used by lessor. Lessee can use this rate if incremental borrowing rate not available.