AS 19 - ACCOUNTING FOR LEASES

COVID - 19

1. Common Terms

1. MLP= Total LR + GRV + DP
2. GI = MLP + UGRV
3. Unearned FI= GI less PV of GI
4. Discount rate= Implicit Interest rate

2. Types

Finance Lease

Substantial Risk & Rewards Transfer by Lessor to Lessee

Indicators - (any One)
1. Trnf. of Ownership at end of L. Term
2. Option to Purchase at Reduce Price
3. Major Economic Life Covered under L. Term
4. Specialised Asset for Lessee, can not be Used without Major Modification
5. PV of MLP = Initial FV

In The Books of

Lessee
1. Recognise Leased Asset & lease liability
2. Recognise at PV of MLP* or FV (whichever is lower)
3. Apportion Lease rent in
   - Finance Charge
   - Principle
5. Charge Depreciation
6. Initial Direct Cost- Add to Cost of Asset

Lessor

Non- Dealer
1. Recognise Lease Receivable at Net Invest. in Lease (NIL)
2. Recognise Finance Income (FI) as per Implicit Interest rate
3. Initial Direct Cost
   - trf. to SPL OR
   - Against FI over LT

Mfr./ Dealer
1. Divide Total Profit into -
   - **Selling Profit** (NIL - BV of Asset)
   - *** FI**
   - ➲ Recognise Finance Income (FI) as per Implicit Interest rate
   - ➲ Initial Direct cost - Expense in SPL

Operating Lease

Lessee
1. Lease Payment Expense in SPL
2. On SLM basis

Lessor
1. Show as Fixed Asset
2. Income - SLM Basis
3. IDC - Same as FL
4. Charge Dep.

3. Sale and Lease Back (Seller = Lessee)

Finance Lease Back

Defer & Amortise (D&A) Total P/L over Lease Term in Proportion of Depreciation

Bank a/c Dr. (Sale Value)
To Asset a/c
To Profit on Sale

Operating Lease Back

Golden Rules

1. **Loss:- (CA - SP)** Always transfer to P&L (if Loss is Compensated with future Lease Payment then D&A)

2. **Profit (SP - CA)**
   - **Upto Fair Value** → Recog. Immediately (FV- CA)
   - **above FV** → D&A (SP - FV)

3. If FV < CA then Recog. Loss Immediately in P&L

4. Disclosure Requirement

Lessee

FL
1) CA. of Each asset
2) Recog. of MLPs & PV of MLPs
3) Future MLPs

OL
1) Future LP
2) LP recognized in P&L

Lessor

FL
1) Recog. of GI & PV of MLP
2) Unearned FI
3) UGRV

OL
1) Total Dep.
2) Imp. Loss

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* ➲ MLP - Min. Lease Payment, ➲ LR - Lease Rentals, ➲ FI - Finance Income
➲ GRV / UGRV - Guaranteed / Unguaranteed Residual Value, ➲ GI - Gross Investment
➲ LT - Lease Term ➲ IMP - Impairment ➲ IDC - Initial Direct Cost

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