

AS-19

Name - leases

Objective.

Prescribe for lessees & lessors, the appropriate
a/c policies & disclosures

Definition.

lease -

- a lease
- is an agreement
- whereby lessor conveys to the lessee
- in return for a payment or series of periodic payments
- the right to use an asset
- for an agreed period of time
- Non-cancellable
- Cancellable only
 - upon occurrence of some remote contingency
 - with permission of lessor
 - if lessee enters into a new lease for same asset with same lessor
 - upon payment by lessee of an additional amount such that, at inception, continuation of lease is reasonably certain.

Scope

All leases

exceptions

- explore for or use of natural resources
- licensing agreements
- use land
- contracts for services

Terms used in lease

- Minimum lease payments

Agreed value + Guaranteed lease payments

- Fair value

Asset could be exchanged for

- Economic life

- period over which economically usable

- no. of prodⁿ or similar units expected

useful life

- period over which leased expected to be used

- no. of prodⁿ or similar units expected

Residual value - FV after lease term

Guaranteed residual value

Guaranteed by lessee or a third party on behalf of lessee

Unguaranteed residual value

Amt. by which residual value exceeds guaranteed residual value

Gross investment in lease

Aggregate of

min lease payment
+ unguaranteed residual value

OR

min lease payment
+ expected residual value

Unearned finance income

$GI - PV[\text{min lease payment} + \text{unguaranteed residual}]$

i.e. $GI - PV$ @ int rate [GI]

Net investment in lease

GI - unearned finance income

OR

~~GI - PV[GI]~~ $GI - [GI - PV[GI]]$

$GI - GI + PV[GI]$

\therefore Net investment = PV of GI @ int. rate implicit

Types of leases

- ↓
- ## Finance lease
- transfers
 - substantially
 - all risk and rewards
 - incident to ownership of asset

- ↓
- ## Operating lease
- does not transfer
 - substantially
 - all risk & rewards
 - incident to ownership

Indicator of finance lease

- by ownership
- option to pur. asset sufficiently lower than FV.
- lease term is major part of economic life
- PV of min lease payment substantially all of FV of leased asset
- specialised in nature

Accounting treatment (By lessee)

(1) as an asset or liability at the amount

- FV of asset leased ; **OR**
- min. lease payment
- w.e. lower

(2) Prin. + int = install.

(3) depⁿ exp. charged

(4) directly attributable cost incl. as an asset

Date: / /

Computation of int. rate implicit on lease

$$PV \text{ of } \left[\begin{array}{l} \text{min lease payment} \\ + \\ \text{any unguaranteed} \\ \text{residual value} \end{array} \right]$$

Disclosure

- Assets acquired as lease
- Net carrying amount
- reconciliation $\left\{ \begin{array}{l} \text{Total min lease payment} \\ \text{\& their PV} \end{array} \right.$
 - for : $\left\{ \begin{array}{l} \text{Not later than 1 year} \\ \text{1 to 5 years} \\ \text{more than 5 years} \end{array} \right.$
- Contingent rents
- total future min sublease payments

Accounting treatment (By lessor)

Recognises net investment as receivable
By Dr. lessee a/c

total carrying of lessor

$$\begin{array}{l} \text{unearned finance income} \\ + \text{FV} \\ (-) \text{cost} \end{array}$$

Disclosure

- reconciliation
- unearned finance income
- unguaranteed residual value
- accumulated provision
- ~~contingent~~ contingent rent
- general description
- accounting policies

for operation lease

refer book / material / notes