# Ind AS 116 – Leases [8-12mks]

V. Imp

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# IndAS 116 leases

Two parties

- lessor [o-f-owner]
- lessee [tenant] → customer.

## AS-19 leases

lease studio → Sys
- Asset-use - Right Sys.
- Payment - obligation (liab)

| Normal Rental contract: lessor (o-f-owner) | | lessee (Tenant) | |
|---|---|---|---|
| Op. lease (ownership of asset not trf.) | Fin lease (ownership of Asset is getting trf.) | Op. lease | Fin. lease |
| Alc'ing<br>Day① No entry | Day① ~~CIB~~ Receivable [FA]<br>TO PPE | Alc'ing<br>yr end | Day① PPE Alc Dr<br>TO Payable [FL] |
| yr end<br>CIB<br>TO Rent Inc (PIL) | yr end<br>↳ No Depn<br>yr end → FA (LAF)<br>① FA (Receivable)<br>TO Int Inc | Rent Exp Alc Dr xx<br>TO CIB xx<br>yr end → No Depn. | yr end<br>↳ Depn<br>TO PPE<br>yr end FL (LAF)<br>① Int Exp<br>TO FL |
| yr end Depn<br>TO PPE | ② CIB<br>TO FA } lease Rent rec'd. | | ② FL<br>TO CIB |

LAF [FA] → Int Rec'd
yr opn Int Repay cr

# Ind AS 116 leases Alcing

## lessor

Alcing - No change
Same as AS 19

OL FL

## lessee

Single Alcing

[No classification into OL & FL]

Why? Because in op. lease (AS-19)

- No liab for obligation to make payment
- No Asset is shown in Bls for Asset taken on lease.

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Eg: Alcing for lessee — AK ltd → lessor

Pawan ltd - lessee

Lease Term = 5yrs

Lease Payments = 1 lakhs p.a

Disc Rate = 10%.

Day ① J.E (Pawan ltd) Right of use Asset (RoU Asset) 379079

To lease Liab' (LL) 379079

↳ Just like FL.

(PV of future lease Payments = LL × AF of 5yrs @ 10%) = 379079

| | | | |
|---|---|---|---|
| 4rend | Depr^n | 75816 | |
| | To RoU Asset | | 75816. |

[379079 / 5yrs]

↓

lease Term.

| | | | |
|---|---|---|---|
| 4rend | Int Exp | 37908 | |
| | To L.L | | 37908 |
| 4rend | LL | Alc | 100000 |
| | To CIB | | 100000 |

WN① LAT (L) → FL → Exp → Pay

| Yr | Opn | Int @ 10% | Repay | CB |
|---|---|---|---|---|
| 1 | 379079 | 37908 | (100000) | 316987 |

Eg: Identified Asset

lessor (Raj)

① 5 floor's

lessee (AK)

→ 2nd floor AK took on lease for 5 yrs → Id Asset ✓

→ 5 floor → Any 1 floor (lessor can shift lessee anytime to any floor).

↓

Id Asset ✗

② Supplier

Jio (Fibre Net) Mumbai

Customers

- Rawan → 5 mbps
- Navit → 100 mbps
- Raj → 2 mbps
- Vijay
- Madhav
- Jafar
- Harsh
- ⋮

Not identified.

Eg ③

Jio Fibre Centre (Mumbai)

↓

Full Bandwidth

↓

exclusively for AK Hai Bhaichaho

Id · Asset → YES

Eg ④

Raj

↓

Supplier (lessor)

→ AK (lessee) Customer

↓

2nd floor lease

Shift to 3rd floor as fire occurred.

Id Asset ✓ (YES)

## * lease Term (L.T.)

Eg① L.T = 5yrs → Non-cancellable period.

(+) 3yrs Renewal Option

- If on Day ① reasonably certain to exercise the option = 8yrs
- If on Day ① NOT reasonably certain to exercise the option = 5yrs.

L.T

Eg② L.T = 10yrs

⇓

There is an option to terminate the lease after 8yrs

↓

Non cancellable period.

- On Day ① if expects that Co. will terminate the lease after 8yrs = 8yrs.
- On Day ① it expects that Co. will (NOT) terminate = 10yrs.

L.T

# #lease Payments

## 1] Fixed L·P

eg: Audi fixed (Devi)

| qr | L·P |
|---|---|
| 1 | 1 |
| 2 | 1·2L |
| 3 | 1·4L |

} Fixed L·P. (Fixed does not mean same as equal L·P).

## eg② In Substance fixed Payments

machine lease → lease Term - Same

Lease Rental → Depends on usage

| usage | L·P |
|---|---|
| 0 - 10k units | 10L |
| 10k - 15k units | 20L |
| 15k units or units | 25L. |

minimum pay (In Subs fixed L·P) only 10L will form partial lease Rental

**Note:** If paid excess over 2 above in subs fixed payment → P/C (Exp) 15L

eg paid 25L

10L → In Subs Fixed L·P.

15L → 10 L/B 15L (as Z when paid)

variable lease Payments.

Eg ③ Exercise price of Purch. option

eg: AK entered into a lease with Mr. Panku for a period of 5yrs.
(lessor) (lessee)

Lease Rentals = 1.5 p.a.

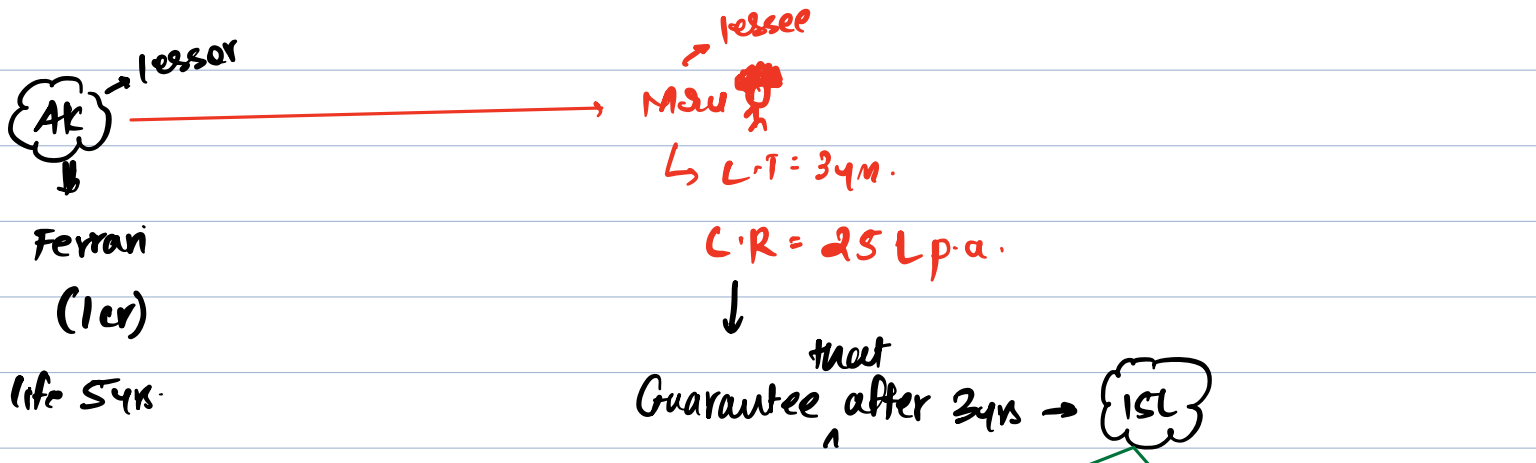
AK ltd also gave Mr. Panku an option to purchase the leased asset @ the end of L.T of 5yrs. ⟶ for ₹ 10L.

It is reasonably certain that Mr. Panku will exercise the option.

Lease Rentals

| Yr | L.R |
|---|---|
| 1 | 1.5L |
| 2 | 1.5L |
| 3 | 1.5L |
| 4 | 1.5L |
| 5 | 1.5L + 10L → Exercise price of purch. op. |

* GRV (Guaranteed Residual value)




| yr | L·R |
|---|---|
| 1 | 25L |
| 2 | 25L |
| 3 | 25L + GRV (15L) |

⇓
Payment expected.

Day ①
Mau Expects to not make any payment for GRV
⇓
Do not add in L·R.

Day ①
Mau Expects to make full payment under GRV.
⇓
Add 15L in L·R.
⇓
In exam if GRV is given & Nothing is mentioned then consider in lease Rent

Illus 28

i) Lease liab = 850000 (Given)

(PV of future lease Payments)

ii) ROU

PV of lease Payment = 850000

(+) Advance Rental on inception date 10000

(-) lease incentive (50000)

(+) Initial direct cost 1000

811000

these are not impacting lease liab as they are Not future lease Payments/ receipts.

OFC

ROU A/c Dr 811000

CIB A/c Dr 50000

To LL 850000

To CIB 11000

(10K + 1K)

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Assume in above eg: there was PV of Decomm on ROU = ₹2000

ROU Amt = 811000

(+) PV of Decomm 2000

813000

ROU A/c Dr 813000

CIB A/c Dr 50000

To LL 850000

To CIB 11000

To PV of Decomm 2000

Illus 31 (LDR)

Lease Payments → Adv (Begn of yr)

Day ① ROU Asset 50,00,000

TO Lease Liab 50,00,000

(1.0904) (1.0904)

WN ①

| yr (Begn) | Lease Payments | D.F @ 9.04% | PV |
|---|---|---|---|
| 1 | 5,00,000 (lease incentive) | ~~0.917~~ 1 | |
| 2 | 315000 (5L + 3% ⊖ 2L) | 0.917 | |
| 3 | 530450 (5·15L + 3%) | 0.841 | |
| 4 | 546364 | 0.771 | |
| 5 | 562754 | | |
| 6 | 579637 | | |
| 7 | 597026 | | |
| 8 | 614937 | | |
| 9 | 633385 | | |
| 10 (Begn) | 652387 | 0.459 | |
| 10th (yr end) | 30,00,000 (Purch op.) | ~~0.459~~ 0.421 | |

50,00,000 approx

yr end Depn 1·25L p.a.

To ROU Asset 1·25L p.a.

Journal (50L / ~~10 yrs~~ 40 yrs)

Lease Liab (LAT)

~~Yr end | opn | Int @ 9.04% | Repay | CL~~
~~1 | 50L~~

↳ Follow this format when lease payments (@ Begn of yr)

| Yr | Opn | Repayment (Begn) | Bal | Int @ 9.04% | CB |
|---|---|---|---|---|---|
| 1 | 50,00,000 | (5,00,000) | 45,00,000 | 406800 | 4906800 |
| 2 | 4906800 | (315000) | 4591800 | 415099 | 5006899 |
| 3 | 5006899 | (530450) | 4479449 | | |

H.W.

I.E (OFa)

Dep① Rou 50L
To LL 50L

Dep① LL SL
(Repay) To CB SL

Imp → we are used to passing this entry on yr end.

Yr end Depn 12SL
To Rou 12SL

Yr end Int Exp 406800
(Int) To LL 406800

* Variable lease payments that depend on an Index or Rate

Eg① Ak ltd — lessee  Umesh ltd — lessor.

Lease Term = 5yrs

Lease Payments = 10L p.a. (Payable @ the end of each yr)

DF @ 10%

Incremental clause → Lease payments will increase from 3rd yr Based on CPI Index

Consumer Price Index

No need to estimate the future CPI.

Day ① CPI = 100

↳ Base.

In Year 3 CPI Index = 110

Soln:

Day ① ROU Asset 37,90,787

TO lease Liab$^{y}$ 37,90,787

| Yr end | Lease Rent | DF @ 10% | PV |
|---|---|---|---|
| 1 | 10L × 100/100 (Day ① CPI / Base) | | |
| 2 | 10L | | |
| 3 | 10L | | |
| 4 | 10L | | |
| 5 | 10L | | |

37,90,787.

Yr 1 end  Depn  758157

TO RoU  758157

(3790787/5yrs)

Yr 1 end  Int  379079

TO LL  379079

Yr 1 end  LL  10L

TO CIB  10L

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LAT [LL]

| Yr end | Opn | Int @ 10% | Repay | Cls |
|---|---|---|---|---|
| 1 | 3790787 | 379079 | (10L) | 31,69,866 |
| 2 | 3169866 | 316987 | (10L) | 24,86,853 |

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Yr 2 end  Depn  758157

TO RoU  758157

(3790787/5yrs)

"  Int  316987

TO LL  316987

"  LL  10L

TO CIB  10L

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Before Remeasurement (LP change) @ the Begn of Yr 3 (Yr 2 end)

RoU Asset - 2274473 [Day 1 RoU (-) 2yrs Depn]

LL - 2486853 (LAT Yr 2 end Cls)

↑ in lease liab

Old LL — 2486853

New LL (bal) - 2735537

↑ in LL 248684

I.E. (for Remeasurement)

RoU Asset Dr. 248684

TO L.L 248684

After Remeasurement @ the Begn of 4r 3 — Depn over 3yrs. (2523157/3yrs) = 841052

ROU Asset = 2274473 + 248684 = 2523157

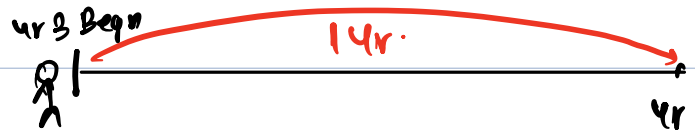
LL = 2486853 + 248684 = 2735537 ← New LAT

| 4r | opn | Int@10% | Repay | Cls |
|---|---|---|---|---|
| 3 | 2735537 | | (11L) | |
| 4 | | | (11L) | |
| 5 | | | (11L) | |

WN① New (Revised) lease liab

4r 3 Begn / 4r 2 end.

| 4r end | | Revised Lease Rentals | D.F@10% | PV |
|---|---|---|---|---|
| 3 | 11L | (10L × 110/100) | ~~0.751~~ 0.909 | |
| 4 | 11L | (10L × 110/100) | 0.826 | |
| 5 | 11L | (10L × 110/100) | 0.751 | |
| | | | | 27,35,537 |



Remeasurement → Lease Rent Change.

Steps to solve

Day ① ROU
TOLL

Assume L·R change in Yr 3

Before Remeas. @ Begn of Yr 3

ROU (Day ① ROU - 2 yrs Deprn)

LL (LAST CLS - 2nd yr end)

↑ in LL

Old LL

Jump → New LL → (WN) → Based on New Rentals

↑ in LL → D·E ROU
TOLL

After Remeas

ROU

LL

Eg 2 Alk ltd → lessee  Umesh ltd → lessor.

L.T = 5yrs

L. Payments = 10L p.a. (Payable @ end of each yr)

Incremental clause - In 4r 2 the lease payments will increase Based on LIBOR in 4r 2.

Day 1 LIBOR = 5%  D.F @ 10%.

Actual LIBOR in (4r 2) = 8%

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Day ① ROU

TO LL

| 4r end | L.R. | D.F @ 10%. | PV |
|---|---|---|---|
| 1 | 10L | | |
| 2 | 10.5L (10L+5%) | | |
| 3 | 1102500 (10.5L+5%) | | |
| 4 | 1157625 (1102500+5%) | | |
| 5 | 1215506 (1157625+5%) | | |

4150591 approx

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Before Remeasurement @ Begn of 4r 2

ROU Asset = 3320473 (Day① ROU - 1 4r Depn) [4150591 - 830118]

Lease Liab = 3565650 (LAT - CLS 4r 1 era) WN ①

WN ①

| LAT 4r | Opn | Int @ 10% | Repay | CLS. |
|---|---|---|---|---|
| 1 | 4150591 | 415059 | (10L) | 3565650 |

## ↑ in lease Liab

Old LL = 3565650 — D:E Row 255808

New LL = 38,21,458 — To LL 255808

(WN) ↑ in LL 255808

## After Renewal

↳ Depn over 4 yrs

Row = 3320473 + 255808 = 3576281

LL = 3565650 + 255808 = 3821458

↳ New LAF

| Yr | Opn | Int @ 10% | Repay | CB |
|---|---|---|---|---|
| 2 | 3821458 | | | (0.8L) |

## WN Revised Lease Liab (PV standing @ Yr 2 Begn)

New Lease Rentals

| Yrend | Lease Rentals | | D·F @ 10% | PV |
|---|---|---|---|---|
| 2 | ~~1080000~~ 1010000 | (10L + 1%) | 0·909 | |
| 3 | 1166400 | (10.8L + 8%) | 0·826 | |
| 4 | 1259712 | | 0·751 | |
| 5 | 1360489 | | 0·683 | |

38,21,458 approx.

## OFU Notes

When ↑ in lease Payments in Based on Index

↳ Day ① Index is taken as Base ∴ No compounding is Done in Lease Payments

When ↑ in lease Payments is Based on Rate

↳ Day ① Rate is applied for compounding each Year's Lease Rental.

Illus 32 (LDR)

Hint/Assumption:- Lease Payments [Begn of the yr].

| | | | |
|---|---|---|---|
| 01/01/2017 | ROU | 454595 | |
| | TO LL | | 454595 |

WN① Calⁿ of LL (Day 1) (Day① CPI → Base) (120)

old Rate

| Sl.No | yr (Begn) | L.P | | | D.F @ 5% | PV |
|---|---|---|---|---|---|---|
| | 01/01/17 | 1L | ~~(1L × 120/100)~~ | (1L × 120/120) | 1 | |
| | 01/01/18 | 1L | | | 0.952 | |
| | 01/01/19 | 1L | | | 0.907 | |
| | 01/01/20 | 1L | | | 0.863 | |
| | 01/01/21 | 1L | | | 0.823 | |
| | | | | | | 454595 |

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01/01/2020

Before Remeasurement

1) ROU Asset on 01/01/2020 = 181838

2) Lease Liab on 01/01/2020 195238
(WN2)

WN 1

ROU Day① 01/01/17 = 454595

Less: 3yrs Depn = (272757)
(454595 × 3/5)

01/01/20 181838

WN② LAT (Begn of yr)

| yr | Opn | Repayment | Cls | Int @ 5% | Cls. |
|---|---|---|---|---|---|
| 01/01/17 | 454595 | (100000) | 354595 | 17730 | 372325 |
| 01/01/18 | 372325 | (100000) | 272325 | 13616 | 285941 |
| 01/01/19 | 285941 | (100000) | 185941 | 9297 | 195238 |
| 01/01/20 | 195238 | | | | |

## ↓/↑ in L.L

Old LL ⟶ 195238

New LL 491382

↑ in LL 296144

J.E. 01/01/20

ROU 296144

TOLL 296144

## After Renewal

ROU = 181838 + 296144 = 477982 ↳ Depr Sys.

LL = 195238 + 296144 = 491382 ↳ New LAT (Sys)

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CW③ New (Revised LL)

① Based on change in CPI 120 – 125) → L.P change

② Renewal option exercise (Est L.T chang) → L.T change)

Rental = 110000

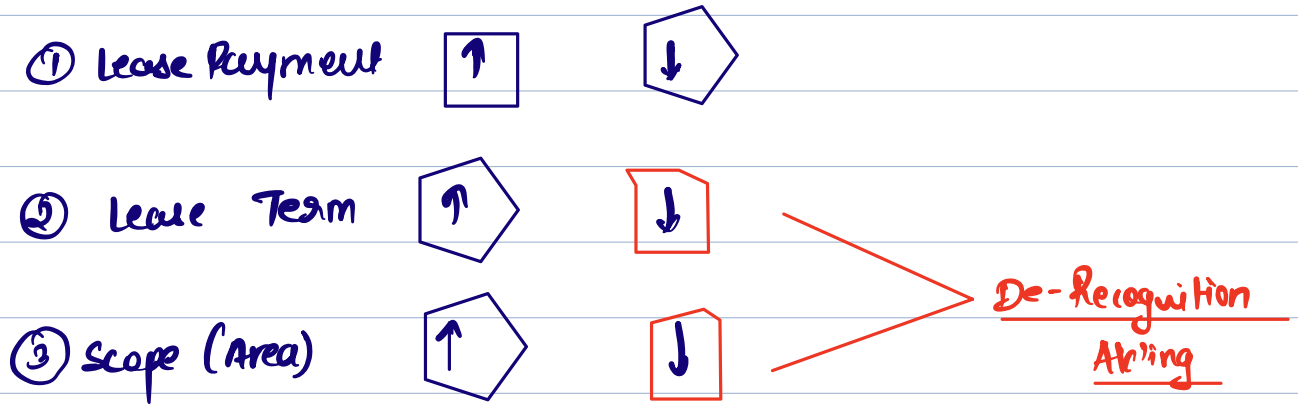
New Rate.

| Yr | Begn | Lease Payments | | D.F @ | PV |
|---|---|---|---|---|---|
| 01/01/20 | Original Term | 104167 | (1L × 125/120) | 1 | |
| 01/01/21 | | 104167 | | 0.943 | |
| 01/01/22 | Renewal Term | 114583 | (110000 × 125/120) | 0.890 | |
| 23 | | 114583 | | 0.840 | |
| 24 | | 114583 | | 0.792 | |

491382 approx.

New Rate Why? L.T & L.P Both Est change ∴ New Rate.

* Lease Modification → (Terms Amendment / lease Amendment) — It is diff from change in Est.




Blue Box → Accounting is same as Remeasurement

[In Modification we use Revised Disc Rate (New)]

Illus 34 (LDR) L-P @ the end

Day ① ROU 736009

TO LL 736009

(1L x AF of 10yrs @ 6%)

Before Modification (@ the Begn of yr 7) 736009 x 6/10

① ROU = 294404 (736009 (-) 6yrs Deprn)

② LL = 346511

(WN①)

WN① LAT @6%.

| Yr end | opn | Int | Repmt | Cl |
|---|---|---|---|---|
| 1 | 736009 | | (1L) | |
| ⋮ | | | | |
| 6 yr end | | | | 346511 |

Increase / Decrease in LL (on Modn) Begn of yr 7

Old LL = 346511

New LL = 597130

(WN) ↑ in LL 250619

ROU 250619

TO LL 250619

After Modn (@ the Begn of yr 7)

① ROU = 294404 + 250619 = 545023 ↳ Deprn 6yrs

② LL = 346511 + 250619 = 597130

↳ LAT for 6yrs @ 7%.

| LAT opn | Int @ 7% |
|---|---|
| 47 597130 | |

| CON | Yr end | C.F | DF @ ~~6%~~ 7% → (Modn (New Rate) | PV |
|---|---|---|---|---|
| | 7 | 1L | 0.935 | |
| | 8 | 1L | 0.873 | |
| | 9 | 1L | | |
| | 10 | 1L | | |
| | 11 | 1L | | |
| | 12 | 1L | | |
| | 13 | 1L | | |
| | 14 | 1L | | |

597130

Q2 (MTP | RTP | PP)

Day ① ROU 351613

TO LL 351613

(Given)

Begn of 4r 3 (Not following all steps as only J.E for change in lease i.e. ↑ | ↓ in L.P is asked)

| | | |
|---|---|---|
| Old LL (WN1) | 304273 | |
| New LL (WN2) | 327127 | |
| ↑ in LL | 22854 | |

J.E Begn of 4r 3

| | | |
|---|---|---|
| ROU | 22854 | |
| TO LL | | 22854 |

only this was asked.

WN① LAT (L.P end of the year)

| 4r | Opn | Int @ 9.5% | Repay | Cls. |
|---|---|---|---|---|
| 1 | 351613 | 33403 | (56000) | 329016 |
| 2 | 329016 | 31257 | (56000) | 304273 |

↓ 4r 2 end / 4r 3 Begn

WN② Revised (New L) [Index 280 → 301]

↦ (Old) → No change in Est of L.T only est of L.P. has changed.

| 4r | L.P (C-F) | | DF @9.5% | PV |
|---|---|---|---|---|
| 3 | 60200 | $(56000 \times \frac{301}{280})$ | 0.913 | |
| 4 | 60200 | | 0.834 | |
| 5 | 60200 | | | |
| 6 | 60200 | | | |
| 7 | u | | | |
| 8 | u | | | |
| 9 | u | | | |
| 10 | u | | | |

327127

Illus 35 (LOR)

Day ① ROU Alc Dr 368004

To LL 368004

(50K × AF of 10yrs @6%)

↳(use this shortcut when lease payments are made @ the end of each yr)

same

Mod No.1 → De-Recogn

Before Modn (@the Begn of 4yr 6)

① ROU = 184002 (368004 - 5yrs Deprn)

② LL = 210618 (WN①)

WN① LAT (LL)

| Yr | Opn | Int@6% | Repayment | Cls |
|---|---|---|---|---|
| 1 | 368004 | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | 210618 |

OR

Modn Before 5000 sq ft → ₹50,000

De-Recog 2500 sq ft → (₹25000) → proportionately

Bal 2500 sq ft ₹25,000

## De-Recognition Acctng (↓ in RoU & LL Proportionately) → 6th yr Begn.

| Particulars | Before (5000 sq.ft) | → De-Recog (2500 sq ft) |
|---|---|---|
| ① RoU Asset | 184002 | 92001 (184002 × 50%) |
| | | De-Recogn always @ carrying Amt. |
| ② Lease Liab | 210618 | 105309 ~~(210618 × 50%)~~ (WN2) |

WN ② De-Recog portion of LL (C.F that should be reduced proportionately)

| 6th yr Begn | yr end | C.F (Reduce) | DF @6% | PV |
|---|---|---|---|---|
| | 6 | 25000 | 0.943 | |
| | 7 | 25000 | | |
| | 8 | 25000 | | |
| | 9 | 25000 | | |
| | 10 | 25000 | | |

~~NPV~~/old.

105309

J.E for De-Recogn

LL A/c Dr 105309

To RoU A/c 92001

To P/L 13308

After Modn (Begn of Yr 6)

RoU = 184002 (-) 92001 = 92001

LL = 210618 (-) 105309 = 105309

Modn No.2: Retained Portion → Expensive → ↑ in L.P (Modn)

Before Modn No.2 (After Modn No:1)

RoU = 92001

LL = 105309

↑ in LL

Old LL = 105309

New LL 129884

(WN3) ↑ in LL 24575

| J.E (Mod No.2) | |
|---|---|
| ROU | 24575 |
| To LL | 24575 |

WN3 (New) Revised LL

| Yr | L.P (Revised) | D.F @5% (New Rate) | PV |
|---|---|---|---|
| 6 | 30k | | |
| 7 | 30k | | |
| 8 | 30k | | |
| 9 | 30k | | |
| 10 | 30k | | |

129884

After Mod No.2 (Begn of yr 6)

RoU = 92001 + 24575 = 116576 → Depn over 5 yrs

LL = 105309 + 24575 = 129884 → LAT @ New rate (5%) for Bal 5 yrs.

**Illus 35** (LDR) → Multiple Modn → Always Do De-Recog 1st.

**Steps**

Day 1 < ROU / TO LL

Mod No. 1 (De-Recog)

Bef Mod < ROU / LL

De-Recog < ROU → Prop
LL → (Prop - But find P.V from table @ Old Rate) } Diff PIL

After Mod < ROU / LL

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Mod No 2: L.D (Expensive)

Before Modn < ROU / LL

↑ in LL < old LL / New LL

After Modn < ROU / LL

Illus 37 (LDR)

Day ① ROU 736009

TO LL 736009

(ILx AF of 10yrs @ 6%)

Modn No. 1 De-Recog (Begn of Yr 6)

Before Modn

① ROU = 368004 (736009 (-) 5yrs Deprn)

② LL = 421236

↓ LAT

| Yr | Opn | Int @ 6% | Repay | Cl |
|---|---|---|---|---|
| 1 | 736009 | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | 421236 |

↳ (last 2yrs i.e. Yr 9 & Yr 10 lease cancelled)

De-Recogn A/c'ing

| | Before (Remaining 5yrs) | De-Recog |
|---|---|---|
| ① ROU | 368004 | (147202) (368004 x 2/5) |
| ② LL | 421236 | (153935) |

↓

LOAN → Yr 6 Begn

| Yr end | C.F | @10% D.F @ 6% | PV |
|---|---|---|---|
| 9 (4th Yr end) | 100000 | 0.792 | |
| 10 (5th Yr end) | 100000 | 0.747 | |
| | | | 153935 |

J.E (for De-Recogn)

LL A/c Dr 153935

To ROU 147202

To PL 6733

After Modn No.1 (After De-Recog)

① ROU = 368004 (-) 147202 = 220802

② LL = 421236 (-) 153935 = 267301

---

Modn No.2 (↑ in Scope + ↑ in L.P)

Before Modn

ROU = 220802

LL = 267301

↑ in LL

Old LL : 267301

New LL : 393647

↑ in LL 126346

↳ ROU To LL

| | CWN | yrend | L.R | (New) D.F@7% | PV |
|---|---|---|---|---|---|
| | | 6 | 150000 | | |
| | | 7 | 150000 | | |
| | | 8 | 150000 | | |

After Modn No.2

ROU = 220802 + 126346 = 347148 (↳ Depn over 2yr)

LL = 267301 + 126346 = 393647 (↳ LAT @ 7%)

393647

# FR with AK exclusive

## Old Disc Rate vs New Disc Rate ?

### Remeasurement (Est Change)

- Lease Term Est changes ⇓ → New LL Based on New Disc Rate
- Lease Payment Est changes ⇓ → New LL Based on Old Disc Rate
- Lease Term & Lease Pay (Both Est change) ⇓ → New Disc Rate

### Modification (Terms Amendd ddd)

- De-Recog (L.T ↓ Scope ↓) ⇓ → LL to be De-Recog ⇓ → Old Disc Rate
- All Other Modn ⇓ → New LL @ New Disc Rate.

Illus 60 (LDR)

AS 11 / Ind AS 21 → Yr end

'₹'

Day① ROU 2944044

TO LL 2944044

($10000 x AF of 5yrs @5%)

= $43294.77

Day① Exch. Rate (*) ₹68/$

₹ 2944044

ROU Asset
↓
Non-Monetary (Historical Rate)

lease liab (Remeasure @ CB Rate)
↓
Monetary

Jul Exp (P/L) → Avg Rate.

Yr end Deprn 588809

TO ROU Asset 588809

(2944044 / 5yrs)

Yr end Int Exp 149385

TO LL 149385

LL 700000

TO CB 700000

Jun Ex Diff (P/L) 88771

TO LL 88771

WN ① LAT (LL) → $

| Yrend | Opn ($) | Interest ($) | Repay ($) (→ Yr end) | Cls ($) |
|---|---|---|---|---|
| 1 | 43295 | 2165 | (10000) | 35460 |
| | ↓ Opn Rate ₹68/$ | ↓ Avg Rate ₹69/$ | ↓ Cls Rate ₹70/$ | ↓ Cls Rate ₹70/$ |
| | ₹ 2944044 | ₹ 149385 | (₹700000) | ₹ 2482200 |

→ 2393429

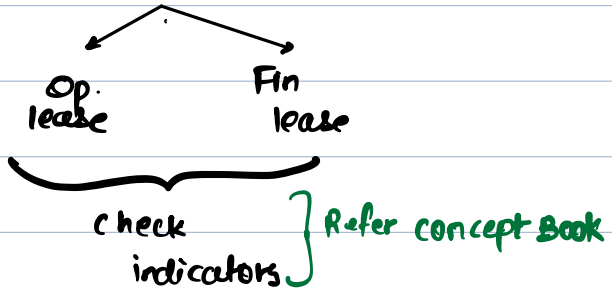
Actual LL 2482200

↑ in LL 88771 → Exch. Diff

U·E Ex loss (P&L) 88771

TOLL 88771

* Lessee Books




* Fin lease → Accounting (lessee)

Day ① F.A lease Receivable Dr. (xx) ? [Net Invst = PV of L.R + PV of UGRV (includes GRV)]

TOPPE (@ Carrying Amt)

(Diff → Trf to PIL)

* Important Terms

① Gross Investment (without Present value) = Lease Rentals (includes GRV) + UGRV (Unguaranteed Residual Value)

Residual value = GRV → 80 ; Blt (UGRV) → 20

Residual value → 100

② Net Investment (PV of Gross Investment) = L.R (with PV) + UGRV (with PV)

③ Unearned Finance Income = Gross Invst (-) Net Invst

At 10 CY's = 50

80k

+ 20k

Eg① lease Rentals = 10L p.a (excluding GRV) N.T. SL

⇓

Finlease lease Term = 5yrs

Residual Value = 1L, GRV = 80K, UGRV - 20K.

D.F@ 10%.

PPE (Carrying Amt) = 45,00,000

Pass J.E on Day ① & Yr end. Also calculate the Amt of Unearned Fin. Inc.

---

lessor Books FA UAT.

Day① Lease Receivable A/c Dr 3852874 (Net Invt)

P/L A/c Dr (BH) 6,47,121

To PPE (@ Carrying Amt) 45,00,000

CAN

① Gross Invst (without PV) = Lease Rentals (incl. GRV) + UGRV

= (10L × 5yrs + 80000) (+) 20000

= 51,00,000

② Net Invst = PV of Gross Invst = 3852879

| Yr end | L·R | D·F @ 10% | PV |
|---|---|---|---|
| 1 | 10L | 0·909 | |
| 2 | 10L | 0·826 | |
| 3 | 10L | 0·751 | |
| 4 | 10L | 0·683 | |
| 5th | 10L | 0·621 | |
| 5th yr end (GAV) | 80000 | 0·621 | |
| 5th yr end (UGAV) | 20000 | 0·621 | 38,52,879 |

10L × AF of 5 yrs @ 10%
(+) 80k × D·F of 5th yr @ 10%
(+) 20k × D·F of 5th yr @ 10%.

3) Unearned Finance Income = G·I (-) N·I

= 51,00,000 (-) 3852,879

= 1247121

Not recorded on Day① → Recorded OTP of 5 yrs.

Computed on Day① for disclosure purpose

LAT (FA) - Lease Receivable

| Yr | Opn | Int Inc @ 10% | Repay (receive) | Cls |
|---|---|---|---|---|
| 1 | 3852879 | 385288 | (10,00,000) | 32,38,167 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |

Yr end (J.E.) Lease Receivable (FA) A/c Dr 385288
To Int Inc 385288

Yr end CIB A/c Dr 10,00,000
To Lease Receivable 10,00,000

Illus 38 (LDR)

Lessor < OL / FL

Check indicators

① Ownership → No

② Purchase op → No

③ Lease Term → (15 yrs × 75% = 11.25 yrs, But L.T = 10 yrs) → 66.6 %
(Major life) → NO

④ PV of L.P = Refer wn Below (condition met) ∴ Fin. lease
(substantially covers fair value)

⑤ Specialised Nature → No

L.P (should include lease rentals (+) GRV)
~~GRV~~

wn PV of LP = (15000 × AF of 10 yrs @ 10.078% (+) 30,000 × D.F of 10th yr @ 10.078%)
= 103345
Lease Rent (+) GRV

= 103345 / FV → 111000 × 100 = 93.10% approx.

It is a Fin. lease.

Case ① where lessor is NOT a dealer / manufacturer. → Not Ws code Dun.
↳ Not asked (extra part).

Day ① Lessor Books

Lease Rebable A/c Dr 1,11,000 (Net Invst)
To PPE A/c (@ carrying Amt) 100000
To PIL (Bal) A/c 11,000

WN ② Net Invst = PV of G.I → PV of L.P (incl. GRV) + PV of UGRV

15K × AF of 10yrs @ 10.078%.
(+) 30000 × DF of 10th yr @ 10.078%. } L.P
(+) 20000 × [redacted] } PV of UGRV
= 1,11,000

WN ③ LAT (Lease Rebable)

| yr | Opn | Int @ 10.078% (→ Int) | Repay (→ Receive) | Cls |
|---|---|---|---|---|
| 1 | 1,11,000 | 11187 | (15000) | 107187 |

Yr end Lease Rebable 11187
To Int Inc 11187

Yr end CIB 15000
To Lease Rebable 15000

## Case 2: where lessor is a Dealer/manufacturer

main sell

It's his Busn.

Trading A/c

| | |
|---|---|
| Purch 100 | Sales 120 |
| GP 20 | |

J-E- Lease Receivable A/c Dr. 1,11,000

COGS A/c Dr. 92344 (CA of PPE (-) PV of UGRV) IL (-) 7656

To PPE/Inventory (@CA) 1,00,000

To Sales (Revenue) 103344

└ (Net Invst (-) PV of UGRV)

1,11,000 (-) 7656

20k × D.F of 10% 4yr @ 10.078%

Trading

| | |
|---|---|
| COGS 92344 | Rev 103344 |
| GP 11,000 | |

4rend A/c'ing is same as case (1)

LAT (Lease Receivable)

Int → Receive

| yr | Opn | Int @ 10.078% | Repay | CB |
|---|---|---|---|---|
| 1 | 1,11,000 | 11187 | (15000) | 107187 |

4rend Lease Receivable 11187

To Int Inc 11187

4rend CB 15000

To Lease Receivable 15000

Ques 5 (CDR) Fin. lease → Specialised Nature Asset
(Given in Ques)

L.T
life = 3yrs  L.T = 34%.

Dealer / Manufacturer (lessor) ∴ Its Cic Bsn.

Day ① Lease Receivable (Net Invst) 150000

COGS A/c DR 92526 (100000 - 7474)

To Inventory 1,00,000

To Revenue (150000 - 7474) 142526

⇓ PV of UGRV

Day ① PL 2500

To CIB 2500

CON ① Net Invst = 57500 × AF of 3yr @ 10.19%.

(+) 10000 × D.F of 3rd yr @ 10.19% → UGRV

= 150000 approx.

CON ② LAT (Lease Receivable)

| Yr end | Opn | Int @ 10.19% | Repay | Cls |
|---|---|---|---|---|
| 1 | 150000 | 15285 | (57500) | 107785 |
| 2 | 107785 | 10983 | (57500) | 61268 |
| 3 | 61268 | 6243 | (57500) | 10011 approx. → UGRV |

UGRV not considered.

4r 1end  Lease Rebable  15285

TO Int Inc  15285

CIB  57500

TO L-R  57500

4r 2 end  Lease Rebable

TO Int Inc

CIB

TO L-R

4r 3end  Lease Rebable

TO Int Inc

CIB

TO L-R

July

4r 3end  (Extra Entry)

Asset return to lessor

Inventory (Main) A/C Dr  10011

TO Lease Rebable  10011

Ques 1 CLDR)

↳ Lease Rentals ?

↳ lessor has to recover their in PV terms (Assumption)

Asset value = 8,00,000

PV of lease Rentals = 762435

lease Payments each yr ? ~~(762435/3yrs)~~

PV of UGRV

50K × D.F of 3rd yr = 37565

PV of L.P = lease Rentals each yr (x) AF of 3yr @ 10%.

762435 = x (x) 2.4868

$x = \frac{762435}{2.4868}$

= 306593 → lease Rentals each yr.

Check whether OL or FL?

1) Ownership x

2) Purch Op x

3) L.T (Major Part) x 5 yrs × 75% = 3.75 yrs But L.T = 3yrs

4) PV of LP = $\frac{762435}{800000} \times 100$ = 95.3% ✓ F.L. ✓

5) Specialised Nature x

II] Unearned Fin. Income = G.I (-) N.I

= 969779 (-) 8,00,000

= 169779

Gross Invst (G.I) = lease Rentals + UGRV
(incl GRV)
↳ NIL

= (206593 × 3yrs) + 50000

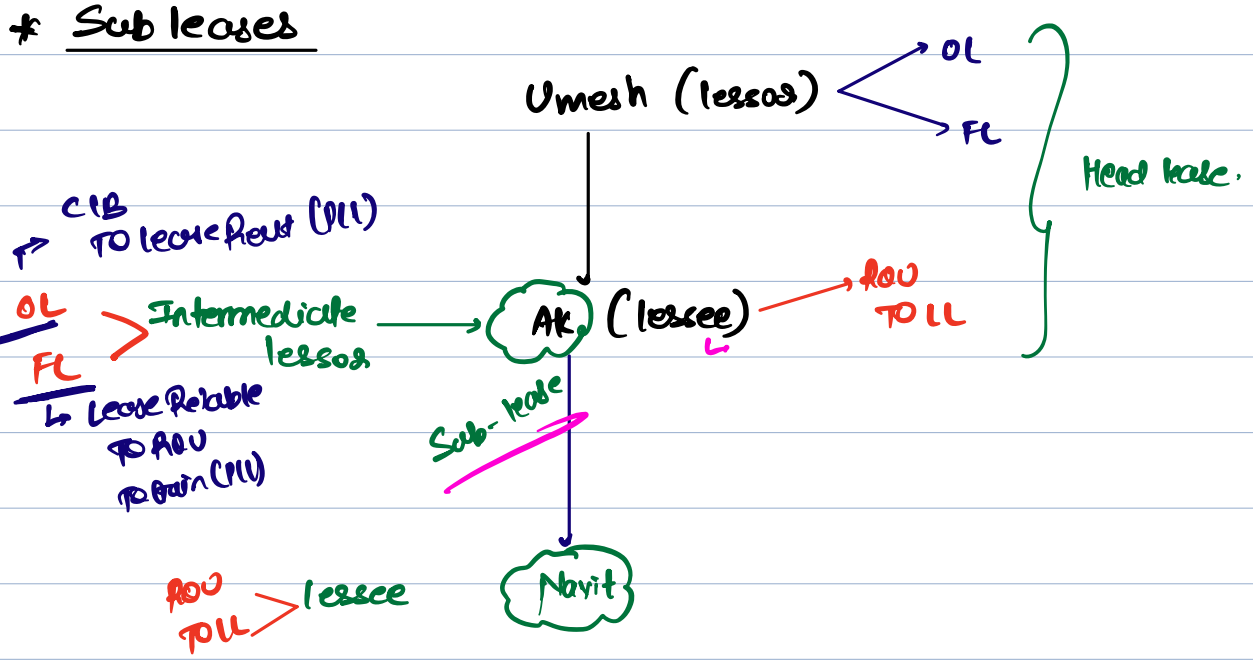
= 969779

Net Invst (N.I) = PV of L.R (+) PV of UGRV

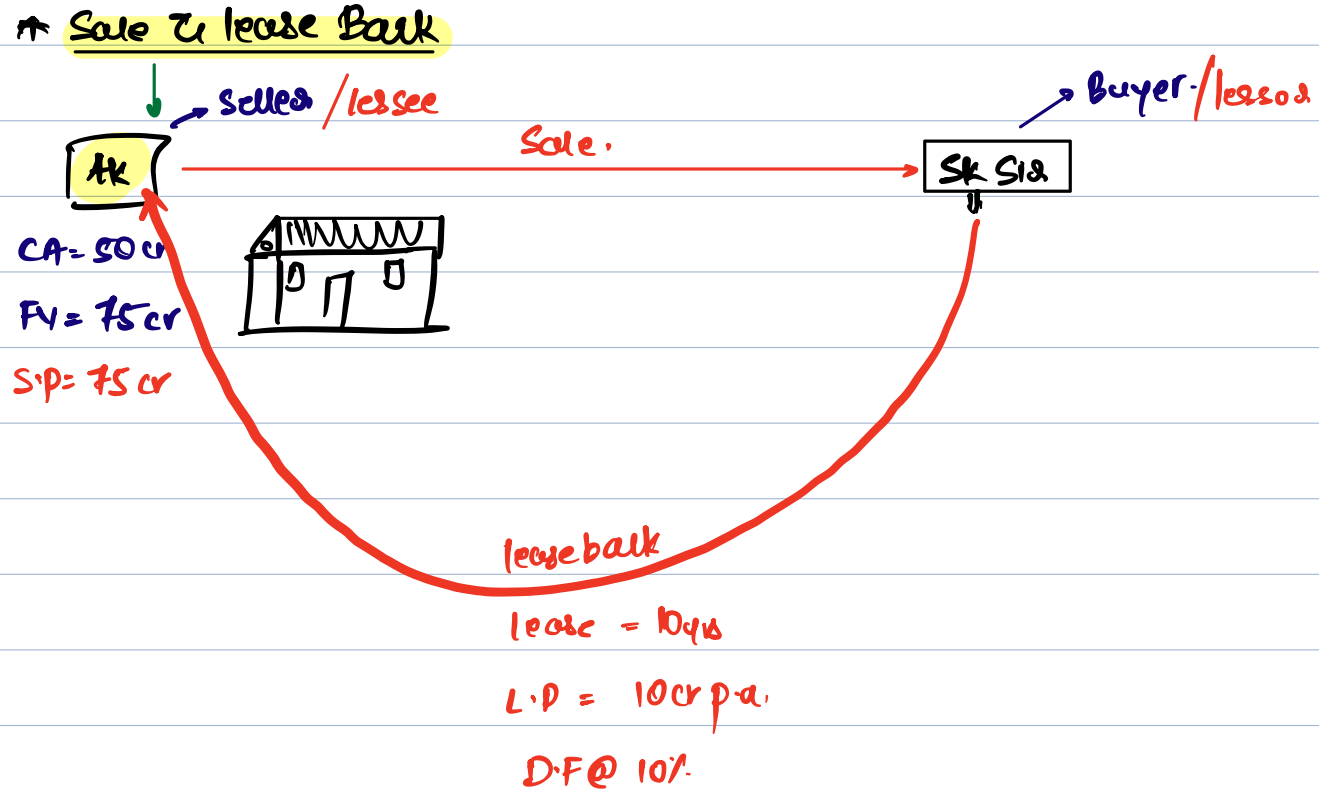
= 762435 (+) 37565

= 8,00,000

* Sub leases



# Sale & lease Back




J.E. (In the Books of Ak Ltd)

1) Sale

| | | |
|---|---|---|
| CIB A/c Dr | 75 cr | |
| To PPE (@ C.A) | | 50 cr |
| To P/L | | 25 cr |

2) lease (lessee)

| | | |
|---|---|---|
| ROU | 61.45 cr | |
| To LL | | 61.45 cr. |

[10 cr x AF of 10yrs @ 10%]

Sale & lease Back

Seller - lessee

Combined Entry

| | | |
|---|---|---|
| CIB A/c Dr | 75 cr | |
| ROU A/c Dr | ~~61.45~~ 40.97 | |
| To PPE A/c (@ C.A) | | 50 cr |
| To L.L A/c | | 61.45 |
| To P/L (BIF) | | 4.52 |

$50 cr \times \frac{61.45}{75 cr}$

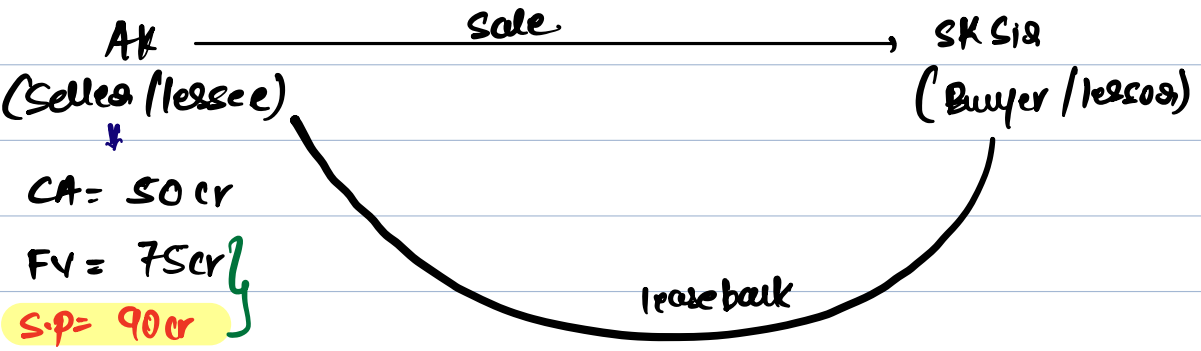
Logic

Sale 50 cr → Profit 25 cr.

Effective Sale (50 cr - 40.97) → 9.03 cr × 4.52

| CA | FV |
|---|---|
| 50 cr | 75 cr |
| 40.97 | 61.45 cr |

## Eg 2: Sale & leaseback (@ Off MKt terms)




CA = 50 cr

FV = 75 cr

S.P = 90 cr

L.T = 10 yrs D.F @ 10%

L.P: ~~10 cr p.a.~~ 12 cr p.a.

Scam Component = 15 cr

(Loan Component)

Pv of L.P = 12 cr × AF of 10 yrs @ 10%.

= 73.73 cr → 15 cr → loan Repay

→ (BIF) 58.73 (Lease Liab)

### AK Ltd (loan taken (+) Sale & lease back)

① loan taken

CIB A/C Dr 15 cr

To Fin Liab 15 cr.

CIB 75

ROU

To PPE 50

To LL 58.73

② Sale & leaseback

CIB A/C Dr ~~90~~ 75 cr

ROU A/C Dr 39.15

| CA | FV |
|---|---|
| 50 cr | 75 |
| (39.15) | ~~73.73~~ |
| | 58.73 |

| CA | FV |
|---|---|
| 50 | 75 |
| (?) | 58.73 |

To PPE 50 cr

To L.L ~~73.73~~ 58.73 cr

To P/L (BF) 5.42

Illus 45 (LDR)

In the Books of seller / lessee (off Mkt terms)

loan Component = S.P (-) F.V

= 30L (-) 27L

= 3L

J.E

① loan Comp

C/B A/C Dr 3L

TO F.L 3L

② Sale & lease back

C/B A/C Dr ~~30~~ 27L

ROU 663272 → CA 15L, FV 27L, 1193889

TO PPE (@ C.A) 15L

TO LL 1193889

↓

(2L x AF of 20yrs @12%) = 14,93,889 (loan → 3L; LL = 11,93,889)

TO P/L (B/F) 669383

Yrend Depn 33164

TO ROU Asset 33164

[663272/20yrs]

Yrend LL (LAT WN)

Jul 143267

TO LL 143267

LL 159836

TO C/B 159836

Yrend FL (LAT WN)

Jul 36000

TO FL 36000

FL 40164

TO C/B 40164

WN① LAT(LL)

| Yr | Opn | Int @ 12% | Repay | Clo |
|---|---|---|---|---|
| 1 | 1193889 | 143267 | (159836) | 1177320 |

WN② LAT (FL)

| Yr | Opn | Int @ 12% | Repay | Clo |
|---|---|---|---|---|
| 1 | 300000 | 36000 | (40164) | 295836 |

Bifurcation of Repayment = 2,00,000

LL: $200000 \times \frac{1193889}{1493889}$ = 159836

FL: $200000 \times \frac{300000}{1493889}$ = 40164

---

Buyer lessee (Op. lease)

Purchase price = 30L + 3L = 27L

(loan given)

Day ①

| | | |
|---|---|---|
| FA (loan given) | 300000 | |
| TO CIB | | 300000 |

→ Recog PPE @ cost

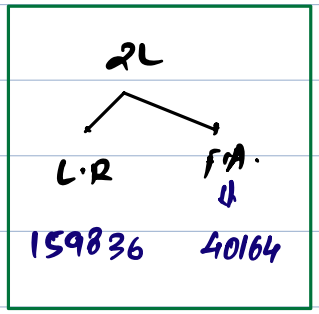
| | | |
|---|---|---|
| PPE A/c Dr | 27,00,000 | |
| TO CIB | | 27,00,000 |

Lease Acctng (lessee) → Op lease

Day ① No lease entry (this is op. lease)

Yr end CIB ~~2L~~ 159836

TO lease Rent (P/L) ~~2L~~ 159836



4rewd FA (LAT)

| FA | 36000 | CIB | 40164 |
|---|---|---|---|
| TO Jul Inc | 36000 | TO FA | 40164 |

Depn ?
TO PPE ?
O.G life X
L.T. ✓

LAT (FA)

Jul → Jul
Repair → Receive.

| Yr | Opn | Jul @ 12% | Repair | Cls |
|---|---|---|---|---|
| 1 | 3L | 36000 | (40164) | 295836 |

* **Transition Approach** [AS 19 → Ind AS 116]
(AS 19 → Ind AS 17 (leases) → Ind AS 116]

- **Lessor** → Not applicable → As no change in Accounting
- **Lessee** → 3 Approaches → Illus 46

---

**Illus 46 (LDR)** lease Date → 01.04.17, Ind AS 116 (Apply) → 01.04.19

**Soln:-**

Approach 1:- **Full Retrospective Approach** [Ind AS 116 - 01.04.19]

→ under this Approach → comparative period apply → 01.04.18

01.04.18 ROU Asset A/c Dr. 320244

To Lease Liab 338010

Transition date diff always trf to R.E. → Retained Earnings Dr. 17766

W.N① 01.04.17 →

200000 × AF of 3yrs @ 12% (D.F on 01.04.17)

= 480366 < ROU / LL } 01.04.17

**Value of ROU on 01.04.18**

480366 (-) 1yr Depr (480366 × 1/3)

= 320244

↓

2yrs Depr

**Value of LL on 01.04.18.**

W.N① 4 Parts

| | opn | Int @12% | Repay | Cls |
|---|---|---|---|---|
| 31.3.18 | 480366 | 57644 | (200000) | 338010 |

↓

2 more Yrs LAT

Approach No. 2 ⟶ Modified Retrospective Approach (Comparative period → x

Ind AS 116 → 01.04.19.

## Alternative 1

01.04.19 ROU 165790 ← Depn 1 yr

R.E. 16028

TO LL 181818 ← LAT 1 yr.

(LL → Prospective Approach

ROU → Retrospective Approach @ New Disc Rate.]

01.04.17 2 LY AF of 3 yrs @ 10%.

= 497370

(-) 2 yrs Depn (331580)

01.04.19 165790

## Alternative 2.

(Prospective Acctng)

ROU & LL Recogd on 01.04.19 @ PV of Remaing L.P @ New Disc Rate.

01.04.19 ROU 181818 } No Diff on Day ①.

TO LL 181818

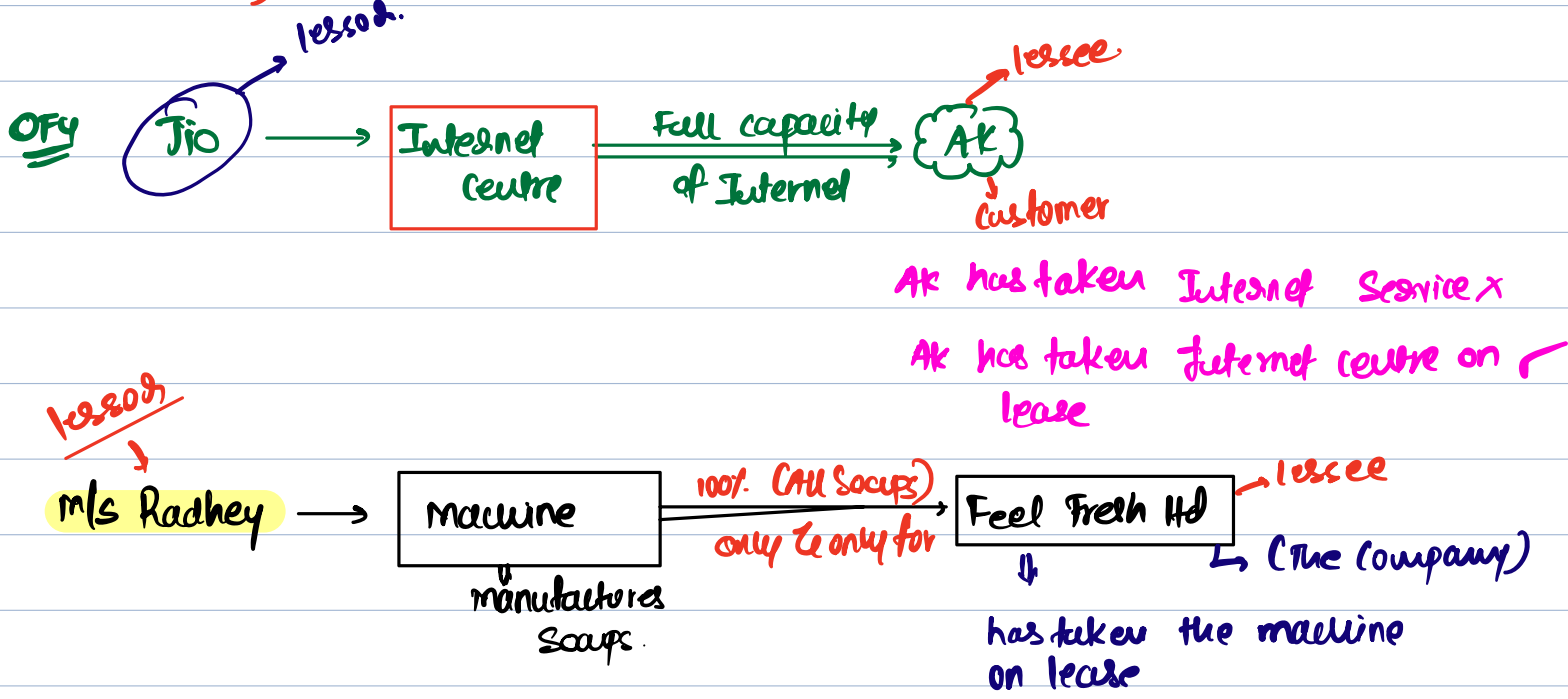
(2 LY AF of 1 yr @ 10%)

↳ New Disc Rate.

Depn for 1 yr

LAT for 1 yr.

Ques 6 (LOR)




Accting in the Books of "feel fresh" (lessee)

1st present few theory concepts → Id. Asset (Physical disting)
→ Lease Pay (include in Sub Fixed L.P)
→ Lease Terms → 10yrs.
~~8yrs~~

J.E.

Day ① ROU A/C Dr. 10,00,000

To LL 10,00,000

(174015 x AF of ~~10yrs~~ 8yrs @ 8%)

↓

In Subs Fixed L.P

Yr end Depr IL

To ROU IL

(10L/10yrs) → Depr occurs L.T of 10yrs

WN① LAT (LL)

| Yr | Opn | Int @ 8% | Repay | CLs |
|---|---|---|---|---|
| 1 | 101 | 80K | (17401.5) | 905985 |

Int Exp 80K
TO LL 80K

LL 17401.5
TO CIB 17401.5

Friend Cost of Purchase (PIL) 24,75,000
TO CIB 24,75,000
(550000 x ~~7 4.75~~ ₹4.5)

as 0.25 of machine is already considered in Insubs Fixed L.P.

---

Point of remember

① Acting was asked → "Feel Fresh" true Co.
② In Sub Fixed L.P was absorved over 8 yr
③ But L.T = 10 yr ; ∴ Depn RoU over 10 yr
④ Variable L.P for soap will be ₹4.5 & not 4.75 (as 0.25 of machine is already taken in Insub Fixed L.P).

# AKhai Bhai sahaab

# * Separation of Lease & Non Lease Components

**Eg ①** Bldg + Equipment → No practical expidient available. Separation → compulsory.

L.T = 5yrs

Lease Rentals = 20L p.a.

- Bldg - lease comp
  - Standalone L.P ⇓ 15L p.a. (20L × 15/25) ⇓ 12L p.a. ⇓ ROU (Bldg) TO LL } PV
- Equip - lease comp.
  - Standalone L.P. ⇓ 10L p.a. (20L × 10/25) ⇓ 8L p.a. ⇓ ROU (Equip) TO LL } P.V.

---

**Eg 2** Car + Drivers ⇒ L.T = 5yrs, L.P = 20L p.a. D.F @ 10%

Car → Lease comp; Drivers → Non lease comp

L.P = 20L p.a.

| | Car | Drivers |
|---|---|---|
| S.L.P. | 18L p.a. | 6L p.a. |
| Allocation | 15L p.a. (20L × 18/24) ⇓ ROU TO LL } PV. | 5L p.a. → No lease Alc'ing. (20L × 6/24) Exp TO C/B } Normal Alc'ing as & when paid. |

**Note:** Ind AS 116 gives option to apply practical expidient

↓

No need to separate lease & Non-lease comp.

↓

Assume only car was taken on lease for 20L p.a. [L.R.]

use this in exam when mentioned in ques.

---

**Illus 59 (LDR)**

| | L.R p.a. | |
|---|---|---|
| Lease Comp (Shopping Mall) | 70 K | } Allocation is irrelevant (Veda bane rahe hai) |
| Non lease Comp (facilities) | 1 L | |
| Total | 1.7L p.a | |

| | Shopping Mall | Facilities |
|---|---|---|
| Standalone L.P | 1.2 L p.a. | 80K p.a. |
| Allocation | 102000 | 68000 |
| | $\left(170000 \times \frac{120000}{200000}\right)$ | $\left(170000 \times \frac{80000}{200000}\right)$ |

Day ① ROU 587420

TOLL 587420.

L.T-Liab. [102000 x AF of 4yrs @ 10%]

Trf to P/L as & when incurred

P/L

TO CIB

**Note:** Co. has (NOT) opted for Practical expidient

If Co. has opted then full 1.7 lakhs would have been against Shopping Mall.