AS 19

1. Objective:

Accounting treatment - Recognition
- measurement
- Presentation
& Disclosure for both operating & Finance lease in the books of lessor & lessee.

2. Scope

Non - Applicability.

a. Renewable & non renewable resources - Ind norms
[Agricultural Products] (like oil, gas, minerals
Forest products, live stock]

b. lease agreements for land - land lord Act

c. lease agreements / arrangements for motion pictures films - cinemas
Video recording - Short Film
Plays - Dramas
manuscripts - handwritten book

d) contract for service - not including Right to use the Asset

Contract for service
- Right to use asset ✓ - AS19 ✓
- Right to use asset × - AS 19 ×

Of service - employment ≠ lease.

3. Definitions

a. lease

- is a contractual agreement
- entred b/w 2 parties
- where in 2 party - transfers the right to use (ie possession) - lessor

• In return for a payment / consideration - from lessee [lumpsum / installment / ...]

b. Note

AS 19 - cancellable leases - x during lease term. ↳ leases can be cancelled at any time
- non cancellable leases - ✓ ↳ can't be cancelled during lease term.

Execption

• A non-cancellable lease - can also be cancelled
a. upon occurance of remote contingent event - flood, earthquake ...
b. Prior permission of lessor
c. entering into new lease agreement for the same/similar asset.
d. So decided @ inception of lease that lease can be cancelled at any time - upon payment of huge penalities.

C. Types of leases

Operating lease	Transfer of	Finance lease
x	(i) Ownership	x
✓	(ii) Possession	✓
✓	(iii) Right to use	✓
x	(iv) Risk & Reward	✓
Rent.	Similar to lessee Rentals ~~lessor~~ paid is	loan EMI (P+I)
Expense/Income		

Finance lease

★ 5 deterministic conditions + 3 suggestive conditions
any or the 5 ✓ - FL — if risk & reward - ✓ - FL
[deemed assumption - ✓ — [consider agreement]
dont bother with agreement]

★ If it is not a FL, then it is operating lease.

(5) Deterministic conditions

1. @ end (lease term) - ownership Transfed to lessee @
2. lessor - Reasonable (max-chances) certainity @ inception of lease [↳ similar to Hire purch
That lessee would exercise his option to purchase
@ price < FrV as on ~~@ end~~ DOP @ end LT
3. Present value (mini lease payments) - almost equal to - ≥90%
- FrV (lease asset)
4. major Economic life is covered under Lease term
(≥ 75%)
5. Asset is of specialised in nature - lessee can use without major modifications.

3) Suggestive conditions

1) upon cancellation of lease - loss borne by lessee
2) P/(L) - Fluctuations in Residual value - accured to lessee
3) lessee - option to Renewal the lease for a secondary period @ LR < market Rent.

Risk (components)	Rewards (components)
Probability of loss	Expectation of profit
① Idle capacity	① Residual/Scrap value
2. Technology obsolescence	2. Economic life period
3. Change in the environment	3. Sale of Asset
	4. ↑ FV

5. Other definitions

a. Inception of lease:

Date of signing the agreement
(or)
Date of fixation of terms & conditions
} which ever is earlier

[Date of confirmation of negotiations]

b. MLP - Minimum lease payments

- minimum payments made during the lease term by lessee → lessor for using the asset to the minimum extent.

Includes

- Lease rent
- Additional Amt
- Bargain Amt
- Garented residual value (GRV)

Excludes

- ungarented residual value
- Repairs & maintaince
- Taxes
- contingent rent

c. Bargain Amt:

price agreed b/w lessor and lessee to transfer the ownership @ end of lease term (LT)

d. Residual value.

Value attained / expected @ end of LT.

Residual value

Guaranted Residual value (GRV)

- To lessee
  - lessee (or) on behalf of lessee
- Guarantee given by
- To lessor
  - lessee (or) on behalf of leessee (or) Independent 3rd party

ungaranted Residual value (UGRV)

- belongs only to lessor
- no gurantee extended by lessee

→ UGRV = RV - GRV.

e. Lease term

- Period of non-cancellable lease +
- Renewal Period (reasonable certainity)

(3rd suggestive cond)

In other words,

TOTAL period of asset used by a particular lessee).

d. Economic life

- TOTAL life period of Asset for which it is capable of generating Future Economic benefits (FEB) [i.e used by 1/more users)

f. useful life

- TOTAL period of asset which is used by all the lessees.

Contingent rent:

- Fixed
- but Payment upon happening/non happening of an event.

Reclassification of lease:

- Not Permitted

classification @ inception of lease is final

If needed - it can be a different lease for new lease agreement.

★ not being a renewal.

↓

For renewal lease agreement - same classification

7. Accounting treatment — FL ~ Loan

Repayment = LR ~ EMI

① In LESSOR BOOKS

Lessee

TO ASSET A/C

@ NIL = GIL - UEFI

UEFI = GIL - PV(GIL)

★ GIL = MLP + UGRV

NIL = Net investment in lease

GIL = GROSS investment in lease

UEFI = unearned finance income.

Lessee A/C Dr

TO Financial income A/C

C/B Dr

TO Lessee A/C

NA

FI

TO P&L A/C

② IN LESSEE BOOKS

1. Inception of lease Asset

"

Asset transfers

TO lessor A/C

@ PV(MLP) @(r)

F.V (LA)

2) Installment

(i) Due . Int Fin EXP

TO lessor A/C

(ii) Payment lessor Dr

TO C/B A/C

3) Provide dep

[only by lessee
∵ risk & rewards with lessee]

Dep
TO LA

4) Close nominal A/Cs P&L A/C Dr
TO Fin EXP
TO Dep

5) Initial direct exp

• (+) leased asset

2. OPTIONS

(i) Wloff in P&L A/C

Totally in first year

(ii) Amortisation to P&L A/C

over LT

b. Which rate has to be used? (For PV computations)

Lessor Books

- IRR → where NPV = 0
  i.e PV (cash inflows) = PV (cash outflows)

Lessee books

- IRR (or) IBR ↓
  - rate at which similar funds are available in the outside market

IF's | OF's | What? | IF's | OF's

or
- LR
- AR
- GRV
- BA
- UGRV

CQ7 Computation of IRR (Trial & Error method)

Yr	Amount (₹)	PV @ 10%	PV (₹)
1-5 (LR)	50,000 P.a	3.0791	1,89,550
5 (GRV)	25,000	0.621	15525
5 (UGRV)	15,000	0.621	9315
GIL	2,90,000	PV (GIL)	2,14,390

Yr	Amount (₹)	PV @ 15%	PV ₹
1-5 (LR)	50,000 P.a	3.352	167,600
5 (GRV)	25,000	0.497	12,425
5 (UGRV)	15,000	0.497	7,455
		PV (GIL)	187,480

+2.67%

10% — 2,14,390

15% — 187 488

-2.32%

2,00,000

Diff

rates %	Amount
5%	26902
?	14390
2.67%	

rates %	Amt
5%	26902
?	12512
2.32%	

II Recognition Table

yr	Amt ₹	IRR PV@ 12.67%	PV
1-5(LR)	50,000 Pa	3.546	177 300
5 (GRV)	25,000	0.551	13775
MLP	2,75,000		191075
5(VGRV)	15000	0.551	8265
GIL	2,90,000	PV (GIL)	199340

Lessor BOOKS

Lessee 199340

TO Asset 199340

@ NIL

↓

GIL - UEFI

↓

GIL - ~~PV(GIL)~~

290000 - 199340

Lessee BOOKS

Asset 191075

TO lessor 191075

↓ PV (MLP)

↓ FV (or) Asset

Amortisation table (lessor)

year	MLP/LR P+I = Installment	OIS principal
	- - -	
y_0		1,99,340
y_1 (BIF)	24744 + 25 256 = 50000 [199340 × 12.673)	174596 (199340 - 24744)
y_2 (BIF)	27879 + 22121 = 50000 [174596 × 12.67%	146717 [174596 - 146717)

formalities for formation of a company

	(BIF)		
y_3	31411 + 18589 = 50000		1,15,306
	[146717 × 12.67%]		(146717 - 31411)
y_4	35391 + 14609 = 50000		79915
	[115306 × 12.67%]		(115306 - 35391)
y_5	39915 + 10085 = 50000		40,000
	(BIF)		GRV 25K, UGR 15K

Amortisation table for lessee

Year	MLP/LR P + Int = Installment	OISPn
y_0	- - - -	1,91,075
y_1	(BIF) 25,791 + 24209 = 50,000	1,65,284
	[1,91,075 × 12.67%]	[191075 - 25791]
y_2	29059 + 20941 = 50000	1,36,225
y_3	32740 + 17260 = 50000	1,03,425
y_4	36,889 + 13111 = 50,000	66,596
y_5	41,596 + 8404 = 50,000	25,000
	(66596-25000) (BIF)	GRV

In Books of lessor

y_1 lessee A/c Dr 25,216
To Finance Income 25216
(Being int due)

CIB A/c 50,000
To lessee A/c 50,000
(Being Installment received)

Finance Income Dr 25,256
To P&L A/c 25,256

In the Books of lessee

y_1 Finance Exp A/c 24209
To lessor A/c 24209

lessor A/c Dr 50K
To CIB A/c 50K

Dep A/c Dr 33215
To Leased Asset 33215

$\frac{191075 - 25000}{5}$ → RV

P&L A/c Dr 57424
To Fin Exp 24209
To Dep A/c 33215

End of lease term
@ end of 5th year
(Dep, Int, Inst)

1) A 40K
TO lessee 40K
[ERV = ARV

2) A 38K
P&L 2K
TO Lessee 40K
[If ARV = (25K - 40K)]

3. A 18K
C/B 7K
P&L 15K
TO lessee 40K
[If ARV < 25K]

1. lessor 25K
TO Asset A/C 25K
[If it is > 25K restrict to 25K

2) lessor 25K
TO Asset (<25K) 18K
TO C/B 7K.

CRD-4

Recognition table

year	Amt(₹)	PVf @16%	PV(₹)
1-4	3,50,000 P.a	2.7983	9794 05
4(GRV)	50,000	0.5523	27,615
MLP. =	14,50,000	PV(MLP) =	10,07,020

In the Books of ABC ltd

Asset A/C ⟶ Dr 10L
TO xyz ltd 10L

PV(MLP) (or) FV(A) ↓

Amortization table

Year	(B/F)P + I @16%	= Installment	O/S Principa
Yo	-	-	-

CRD-5

In the BOOKS OF ABC-ltd.

Recognition table

yr	Amt	Pf @ 12%	PV(₹)
1-3(LR)	6,00,000 P.a	2.402	14,41,200
3(GRV+UGRV)	5,00,000	0.712	3,56,000
GIL	23,00,000	PV(GIL)	17,97,200

Amortization table

yr	P + I = Install	OLS Principal
y0	- - -	17,97,200
y1	3,84,336 + 2,15,664 = 6,00,000 (bIF)	14,12,864
y2	4,30,456 + 1,69,544 = 6,00,000 (bIF)	9,82,408
y3	4,82,408 + 1,17,600 = 6,00,000 (bIF)	5,00,000

CRD-2

PV(MLP) almost equal to FV(A)

PV(MLP)

↓

LR-?

Computation of lease rent

Fair value (LA) = 5,00,000

Less: PV(UGRV) @ end of 3rd year = (37565) [50000 × 0.7513]

Computation of lease rent

1) Fair value (LR) = 5,00,000
Less: PV(UGRV) @ end of 3rd year = (37,565)
PV(MLP) 4,62,435

2) LR p.a = PV(MLP) / Annual factor for 3yr
= 4,62,435 / 2.4868
= 1,85,956 p.a.

PV(MLP) = 185 956 x 2.4864
= 4,62,435

Coverage = 4,62,435 / 5,00,000 x 100 = 92481

Conclusion: major economic life is 5 years is covered under lease term in 3 years.

PV(MLP) = FV of leased asset
∴ It constitutes finance lease.

3) Calculation of unearned finance income

Year	Amount	PV@ 10%	PV (₹)
1-3 yrs (LR)	1,85,956 P.a	2.4868	4,62,435
3(UGRV)	50,000	0.7513	37,565
GIL	6,07,868	PV(GIL)	5,00,000

UEFI = GIL - PV(GIL)
= 6,07,868 - 5,00,000
= 1,07,868.

8. Accounting treatment - operating lease : ~ Rent
& hence to lessor - income
lessee - Expense

In lessor books		In lessee books
No entry	a. when asset is given under lease	No entry
C/B TO lessor A/C	b. @ The time when lessor is paid	LR TO C/B A/C

Diff has to be Transferred
to DLR A/C LE A/C
which gets automatically closed once
lease term completes.

Note: lessor has to be amortised in prop to depreciation
If no method is prescribed follow SLM

Dep TO asset A/C	c. Provide Dep [only to lessor ∵ risk & rewards himself with lessor]	NA
lessor TO P&L & LR TO P&L A/C	d. close nominal A/C	PL TO lessor A/C
Same as FL e 2 options)	e) Initial direct exp	charged to PL.

Presentation of DLR ~ other CA/CL / other NCA/NCL

~~9. Sale & lease back ~ Financing a loan~~

~~AS 10 Seller~~ ~~AS 10 Buyer~~

CRD-6

Total lease Rent = 25000 + 45000 + 50000
= 120000

Production unit method

1st year	2nd year	3rd year
1,0000U	20,0000U	50000U

LR Recognition 15K 30K 75K

[120000 × 10000U / 80000U]

1yr Books of lessor

C/B 25K
To LR 15K
To DLR/LE 10K

LR 15K
To P&L A/C 15K

Books of lessee

LR 15K
DLR/LE 10K
To C/B

P&L 15K
To LR 15K

2yr

C/B 45K
To LR 30K
☆ To DLR 15K

LR 30K
To P&L 30K

LR 30K
DLR 15K
To C/B 45K

P&L 30K
To LR 30K.

3rd year

C/B	50K		
DLR	25K		
TO LR	75K	LR	75K
		TO C/B	50K
		TO DLR	25K
		P&L	75K
		TO LR	75K.

(iii)

CRD-7

Total lease Rentals = 1,50,000 + 30%.

= 195000 over 5 year

lease Rent over 3years = $\frac{195000}{\text{TOTal 5yrs units}}$ x TOTal 3 years units

$= \frac{195000 \times 150000}{3,00,000}$

= 97,500

lease Rent P.a = $\frac{97500}{3}$ = 32,500 P.a.

) Amortisation lease Rent

TOTal lease Rent = 32,500 x 3 = 97500

97500

um 40KU 50KU 60KU

Recognise 26,000 32,500 39,000

$\left[\frac{97500 \times 40}{150}\right]$

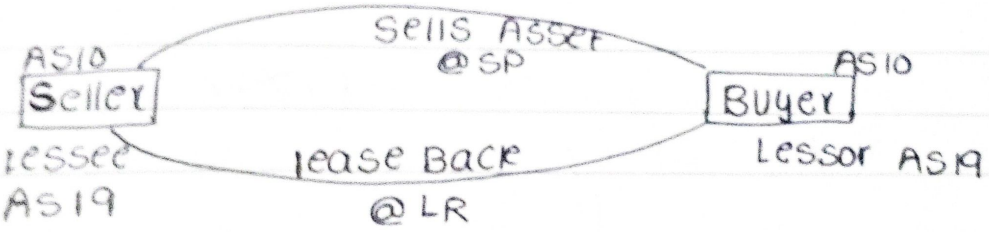
(iii) Depreciation in IGSSOO Books

Cost price (leased asset) = 1,50,000

Num	40K U	50K U	60F U	80K	70F
	20K	25F	30F	40F	35F

Depreciation [150000 × 40/300]

9. Sale and lease back ~ Financing a loan.



* Here, we will learn, how to recognise P/(L) in books
seller-lessee

* SP & LR are independent & negotiated as a package.

(A) If lease back is FL: P/(L) on sale of asset - amortise LTC (in prop to depreciation)

(B) If lease back is OL (operation lease)

Common condition: if BV > FLV

bring down

Such diff loss → PL A/c & recgn immed

Case-1
If SP = FV
P/L - Immed recgn

case-2
If SP < FV
P - immediately recgn
- If LR compensated ✓ amortise ✓
- If LR not compensated ✗ immed recognise

case-3
If SP > F
P/L upto FV - Immerecgn
P/L > FV
↓
Increase of fair value amortise towards realisation

CRD-8

BV = 40 lakhs
SP = 50 L

(a) BV = 40L, SP = 50L, FV = 50L

(i) common condition = BV ≠ FV
(ii) P/L = SP - BV = 50L - 40L
P = 10L

(iii) Recognition
SP = FV
Profit of RS 10L recognised immediately

(b) BV = 40L
SP = 50L
FV = 60L

(i) C.C = BV ≠ FV
(ii) P/L = SP - BV = 50L - 40L = 10L = P
(iii) Recognition
SP < FV
Profit of RS 10L imme recognised.

BV = 40L
SP = 38L
FV = ~~38L~~ 45L

(i) CC = BV ≠ FV
(ii) P/L = SP - BV = 38L - 40L = Loss = 2L
(iii) Recognition
SP < FV

SP < FV

If LR compensated
loss of ₹ 2L amortised
to the lease term
If LR not compensated
loss of ₹ 2L Immediately recognise

d) BV = 40L
SP = 50L
FV = 40L

(i) CC = BV ≠ FV
(ii) P/L = SP - BV ⇒ 50L - 40L = **Profit = 10L**
(iii) Recognition

SP > FV

Profit upto FV value	Profit in excess of FV value
B/F 0 ↓	50L - 40L ⇒ 10L ↓
Immediately Recognised.	amortised over lease term

e) BV = 40L
BP = 50L
FV = 46L

(i) CC = BV ≠ FV
(ii) P/L = SP - BV ⇒ 50L - 40L = **Profit = 10L**
(iii) Recognistion

SP > FV

Profit upto FV	In excess of FV
B/F 6L (10L - 4L) ↓	SP - FV = 50L - 46L = 4L ↓
Immediatley Recognised	amortised over LT.

f) BV = 40L, SP = 39L, FV = 35L

(i) CC = BV > FV
40 > 35L
↓
5Loss immediately recognised
Revised BV = 35L

(ii) P/L = SP - BV
= 39 - 35 = Loss = 1L | Profit = 4L

(iii) Recognition
SP > FV

BIF	upto FV	In excess of FV
	0. ↓ immediately recognise.	4L. ↓ amortised towards

10. Accounting treatment - in dealer / Manufacturer lessor Books

Inventory must be converted into Asset - before giving such to lease
i.e FA
To Purchases A/c
&
continue with AS 19 normally

11. Accounting Treatment for HP ~ Finance lease

HV ~ lessor
Hire purchase
To HP S/sale
sales

when asset is traded under HP business

HP'er - iee
ASSet
TO HV A/C

Recorded @
cash Price / spot price
(without interest)