Accounting Standard 19: Leases

1. This AS is mandatory in nature and applicable to all entities companies and non-companies.

2. Leases means agreement where one party agrees to give right to use assets, to another party, for consideration or series of consideration.

3. Leases are two types
   (a) Financial Leases
   (b) Operating Leases

   Financial leases means lease which is in nature of finance agreement. In these leases, right to use assets is transferred along with risk & reward incident to ownership leases other than financial leases are called operating leases.

4. Situation of financial lease can be where
   (a) Leases will become owner of assets at the end of lease term.
   OR
   (b) Where life of assets and lease term are equal.

5. Accounting Treatment (financial lease Book of leasee)
   Leasee is required to calculate value of assets and liability. Such assets liability will be lower of following two
   - Fair value of assets
   - Present value of minimum lease payment from stand point of leasee (MLP Leasee)

   NOTE: MLP Leasee:- Agreed rental + Guaranteed Residual Value

   NOTE: Agreed Rental = Sum total of all instalment

   NOTE: Present value of will be calculated as given rate of Interest.

   NOTE: Finance charges will be calculated on outstanding principal as per information given.

   NOTE: Disclosure Requirement for leasee
   - Assets are lease should be disclosed separately.
   - Instalment to be shown as follows:

Period	**Amount**	**Present Value**
0-12 months	xxxx	xxxx
12-60 months	xxxx	xxxx
Beyond months	xxxx	xxxx

6. Accounting Treatment in Books of lessor
   Lessor records its receivable at Net Investment, with corresponding sale price.

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- Net Investment means present value of gross investment
- Gross Investment means

  = Agreed lease rental +
  Guaranteed Residual value by lessee or 3rd party whichever is high +
  Unguaranteed Residual value

  OR

  = Agreed lease rental +
  Residual value

- Unearned finance Income is disclosed as NOTE
  UEFI = GI + NI
- Given discount rate will be used for discounting purpose. Its disclosed will be
  - Unearned finance Income
  - Lease Rentals

Period	**Amount**	**Present Value**
0-12 months	xxxx	xxxx
12-60 months	xxxx	xxxx
60 or more	xxxx	xxxx

7. Operating Lease

This means rent agreement where machine/assets are transferred on rental basis. Under operating lease

- Rent Paid is treated as → Expenses
- Rent Received is treated as → Income

Calculation of value of machinery, liabilities, finance charges, Gross Investment, Net Investment is not required because machine is on Rent Basis.

NOTE: How to check Financial Lease or Operating Lease?
If Present Value of lease Rental is equal or approximately equal to fair value, it is Financial Lease otherwise it is Operating Lease.

8. Disclosure Requirement

Details of Rent Payable / Receivable should be given

	Rent Payable
0-12 months	xxx
12-60 months	xxx
60-above months	xxx

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