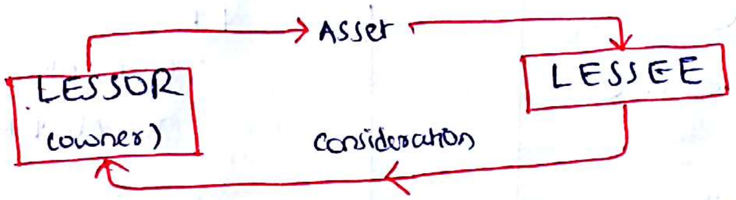
AS 19 LEASES

Applicability	Mandatory in Nature. Appl to all enterprises in respect of Assets leased ~~during~~ during the period commencing on (or) after 1/4/2001.
Objective	To provide A/cing treatment of lease transaction in the books of lessor & lessee.
Non-Applicability	Lease Agreements for : i. exploration (or) use of Natural Resources. ii covered by AS 26 (motion picture films, patents, copyrights etc.) iii. Use of land. It doesn't apply to services which do not transfer the Right to use the Asset Eg:- Taxi, cab hiring
Lease	
AS-19 cover's	Types of leases i. finance lease ii. Operating lease Sale & lease back.

Types of Lease's

Operating Lease		Finance lease
X	Lessee will get Ownership of leased Asset at the end of lease Term	✓
X	L'EE has an option to buy the leased Asset at the end of the term @ price less than expected FV	✓
X	The lease term covers the major part of life of Asset	✓
X	PV of MLPs substantially equals the FV of Asset at the date of inception of the lease.	✓
X	The Asset given on lease to L'EE is of specialized nature & can only be used by L'EE without major modification	✓

Accounting for Operating Lease
In the book's of

LESSOR

* Recog. as an Asset

* Charge Dep as per AS-6

* Recognise lease Income in P&L A/c using straight line method (SLM)

Machine given on OL (Asset value)
  To, Purchase

Bank A/c 40,000
LR Receivable 12,500
  To, Lease Rent 52,500

Lease Rent 52,500
  To P&L 40,000
  To LR R/ble 12,500

Depreciation
  To machine given on OL

P&L
  To Depreciation

* Asset's leased on OL should be shown in B/s as per AS 10.
* Dep. should be shown in FS
* Lease rentals " " P&L on SLM basis.
* Cost including Dep. incurred in earning the lease income are recog as exp of the period

Eg.

Y_1	40K
Y_2	90K
Y_3	30K
Y_4	50K

2,10,000
÷ 4
= 52,500 (SLM)

LESSEE

* Recog lease payment's in P&L A/c pattern - SLM

Entries:

Lease Rent 52,500
  To, Bank 40,000
  To LR payable 12,500

Lease Rent 52,500
LR payable 12,500
Adv. LR 25,000
  To, Bank 90,000

LR 52,500
  To Bank 30,000
  To Adv LR 22,500

LR 52,500
  To Bank 50,000
  To Adv. LR 2,500

DISCLOSURES

* Lease payment's should be recog as Exp.
* Total of Future MLP for each of the following periods:
  i) Not later than 1 year
  ii) Later than 1 yr & upto 5 yrs
  iii) Later than 5 yrs.
* Total of Future Min. sub-lease payment's expected to be received.
* Lease payment's recog. in the statement of P&L for the period

Accounting for Finance Lease in the books of

LESSOR

* Recognize as "Receivables" @ = Net inv. in lease

L'ee Account
TO, Asset A/C

[Net Inv in Lease = PV of MLP + PV of UGRV]

* Recog finance Income in P&L

Key term's & Formulas

L'EE BOOKS.

PV of MLP = (ALP + GRV) × AF

Lease payments 'MLP

Int. Rate of Implicit shall be used

IRR i.e. Rate at which (ALP + GRV + UGRV) if discounted equals to FV of Asset

Residual value = GRV + UGRV

L'OR BOOKS.

Net Inv in lease = PV of (ALP+RV)

(or)

= PV of (ALP + GRV + UGRV)

(or)

PV of (MLP + UGRV)

Gross Inv in lease = Undiscounted value of (ALP + RV)

Unearned fin. Income = Gross − Net

(Interest portion as per lessee)

LESSEE

* Recog as an Asset & liability & charge Depreciation

Asset A/C Dr
To Lessor

[PV of MLP (or) FV ↓]

* subsequent Lease payments should be apportioned b/w principal & interest.

Interest
To Lessor
(Interest amount)

Lessor
To Bank
(principal portion)

P&L
To Interest
(T/F Int to P&L)

Depreciation
To Asset
(charge Depreciation)

P&L
To Depreciation
(T/f dep. to P&L)

Disclosure Requirements

L'OR

a. Recon b/w GIL & PV of MLP R/ble at B/S date

b. c & d. ******* (refer pg 2)

e. unearned finance Income.

L'EE

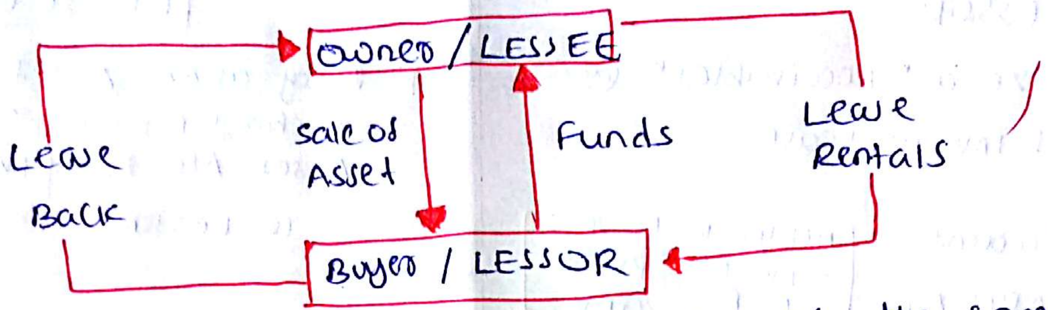
a. Asset acquired under FL are segregated from the assets owned

b. Net carrying amount of leased assets.

c. Rco b/w total of MLP & PV of MLP @ B/s date.

(above b, c, d points repeat)

Sale and Lease Back



* It involves sale of Asset by owner & leasing of the same asset back by the Buyer (lessor) to vendor (lessee).

→ Where sale & lease back results in Finance Lease.

- Excess (or) Deficiency of sales proceeds should be deferred and amortised over the lease term in proportion to the Depreciation of the leased Asset.

→ Where sale & lease back results in Operating Lease

Apply para 52

After recog of loss if any under para 52, P/L should be treated as per para 50

Example illustrating the application of Para 50 and Para 52 :

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Value at the time of Sale & Leaseback	Rs.1,00,000	Rs.1,00,000	Rs.1,00,000	Rs.1,00,000
Sale Proceeds	Rs.1,00,000	Rs. 88,000	Rs.1,15,000	Rs.1,15,000
Carrying amount of Asset	Rs.96,000	Rs.96,000	Rs.1. I 2,000	Rs.96,000
Application of Para 52 F Impairment Loss]	Not Applicable	Not Applicable	Impairment Loss = Rs. 12,000	Not Applicable
Application of Para 50 [Profit & loss is the difference between sale proceeds and carrying amount of asset]	Profit = Rs. 4,000 recognized immediately SP = FV	Loss = Rs.8,000 recognized immediately (see note) SP < FV	*Profit = Rs.15.000 deferred and amortized over period of use. SP > FV	Applicable = Rs.4,000 profit is to be recognized immediately & Rs. 15,000 shall be deferred. SP > FV

Note : If the loss is compensated by Future Lease Payments at below Market Price, it should be deferred and amortized in proportion to the Lease Payments over the period for which the asset is expected to be used.

*Since Impairment Loss of 12,000 is recognized, the Revised Carrying Amount of the Asset will be Rs.1,00.000 (by reducing the Carrying Amount to the Fair Value). Hence Profit will be Rs.1,15,000 – Rs.1,00,000 = Rs.15,000.

Vinay Reddy