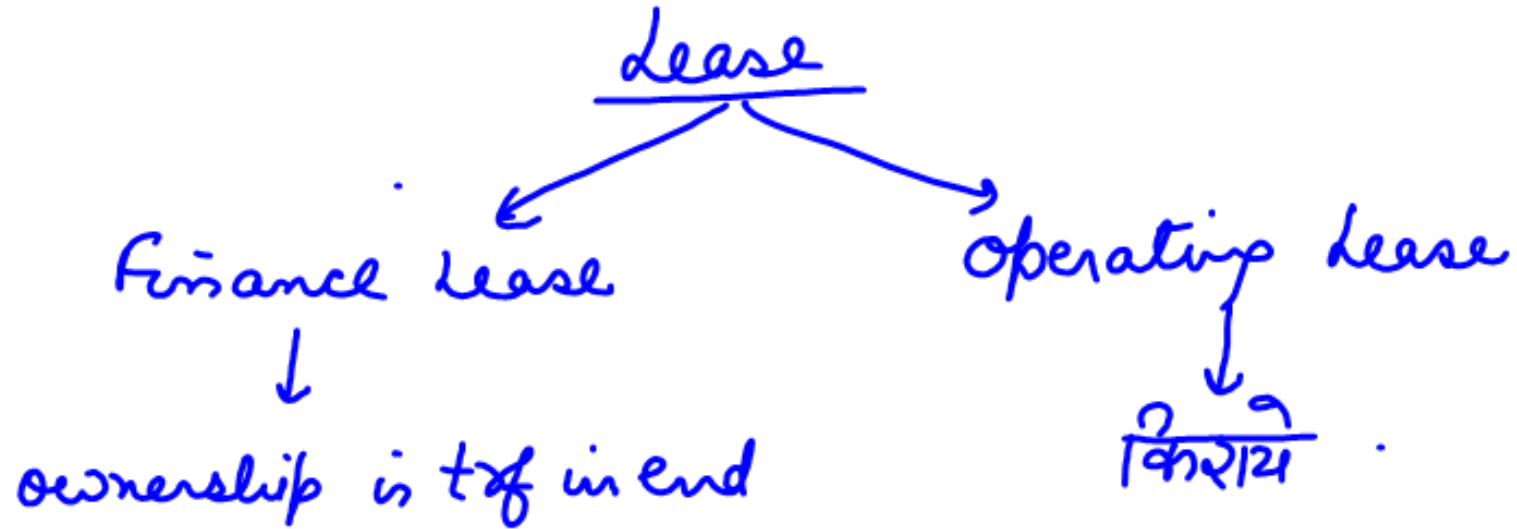


AS-19  
Leases



Rent  
↓  
fixed amt

Royalty → criteria

$$\begin{aligned} \text{MLP} &= \underline{\text{Minimum lease Payment}} - \text{(5000)} \\ &= \text{Lease payments} + \text{Guaranteed RV} . \end{aligned}$$

$$\text{Unguaranteed RV} = \text{Total RV} - \text{Guaranteed RV} .$$

$$\text{Gross Invt} = \text{MLP} + \text{Unguaranteed RV} .$$

$$\text{Net Invt} = \text{PV of MLP} + \text{PV of Unguaranteed RV} .$$

$$\text{Unearned finance Income} = \text{Gross Invt} - \text{Net Invt} .$$

**Contingent Rent :** Lease payment based on some factor like production or sale.



**Exp / Income in P & L**

**Finance Lease :** If it transfers all risks and rewards regarding ownership to lessee.

**Feature:**

- 1) Transfer ownership in the end.
- 2) Lessee has option to purchase asset at a price lower than Fair value in the end.
- 3) Lease term is economic life.
- 4) PV of MLP is FV (in beginning)
- 5) Asset is of specialised nature and only lessee can use it.

# Accounting

hire purchase

Finance lease

I Entry  
on asset  
purchase

Asset Dr (Cash price)  
to Hire Vendor

Asset on lease Dr  
to Lease Vendor  
(PV of MLP or FV w/e)

down  
payment

HV Dr  
to Cash.

—

Intt  
due

Intt Dr  
to HV

Finance Exp Dr  
to Lease Vendor.

Instalment  
payment

HV Dr  
to Bank

Lease Vendor Dr  
to Bank

depr on  
asset

depr Dr  
to asset.

depr Dr  
to Asset on lease.

DB ← lease purchase Dr  
to Asset

Lease purchase Dr  
to fin. Income

Bank Dr  
to lease purchase

PV of MLP + PV of unpledged PV

= NI



41/37

$FV = 280,000.$

$GRV = 10000.$

$TRV = 14000$

$URV = 4000.$

Yr.	Amount	PVF	PV
1	90000	0.909	81810
2	70000	0.826	57820
3	80000	0.751	60080.
4	65000	0.683	44395
5	50000	0.621	31050
5	10000.	0.621	6210
			<u>281365</u>

FV = 280000 ✓

## Lease Vendor a/c

## Asset on lease a/c.

To Bank. 90000 bal 218000	By Asset on lease 280000 By Fin. Exp. 28000	To LV 280000	By depr 42000 bal 238000
Bank 70000 bal 169800	balance 218000 Fin Exp 21800	To bal 238000.	depr 35700 bal 202300
Bank 80000 bal 106780	bal 169800 Fin Exp 16980	To bal 202300	depr 30345 bal 171955
Bank 65000 bal 52458	bal 106780 Fin Exp 10678	To bal 171955	depr 25793 bal 146162
Bank 50000 Bank 10000	bal 52458 Fin Exp 5246 P&L 2296	To bal 146162	depr 21924 bal 124238

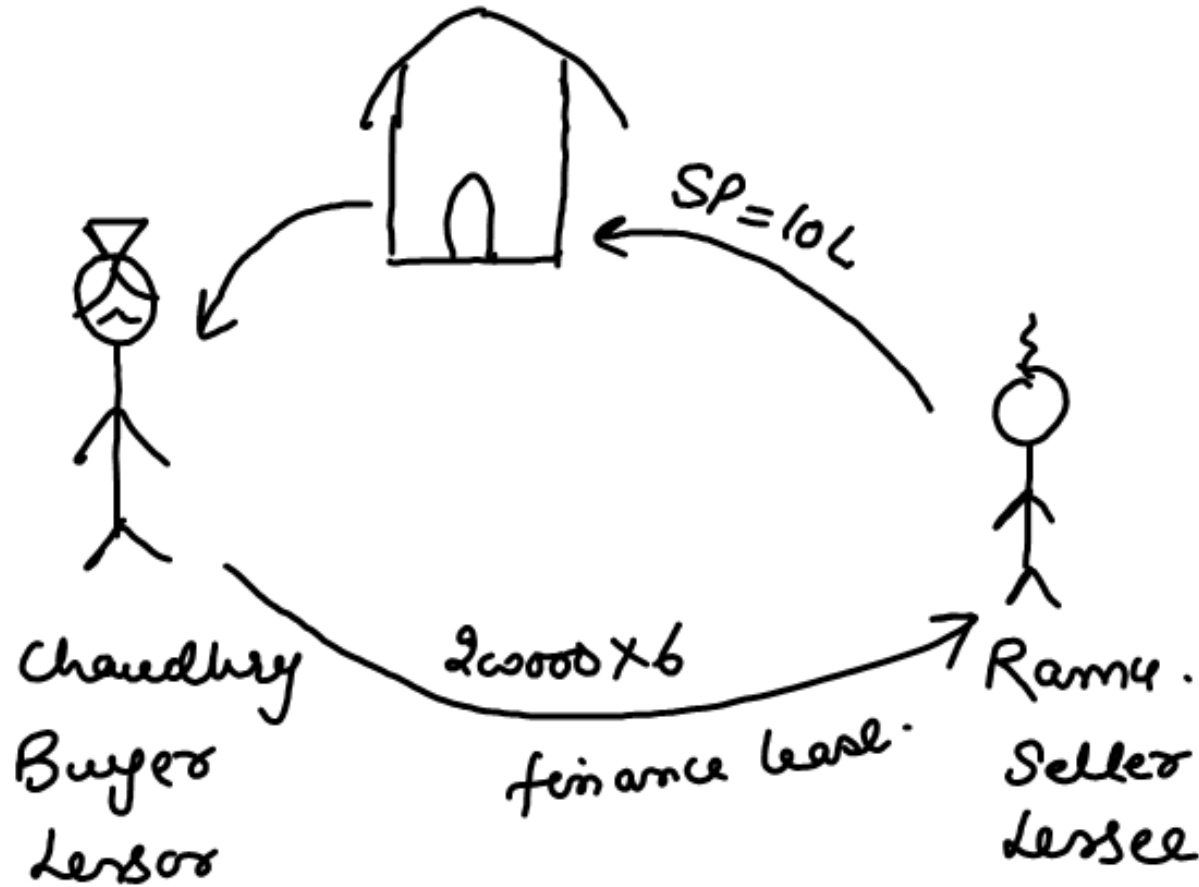
$$= 281365 + 0.621(4000) = 283849$$

### Lease Purchases

To Asset	283849	By Bank	90000 ✓
To Fin Inc	28385	By bal.	222234
To bal	222,234	Bank	70000 ✓
Fin. Inc	22223	bal	174457
To bal	174457	Bank	80000 ✓
Fin Inc	17446	bal	111903
To bal	111903	Bank	65000 ✓
Fin Inc	11190	bal	58093.
bal	58093	Bank	50000 ✓
Fin Inc	5809	Bank	10000
		P&L	3903



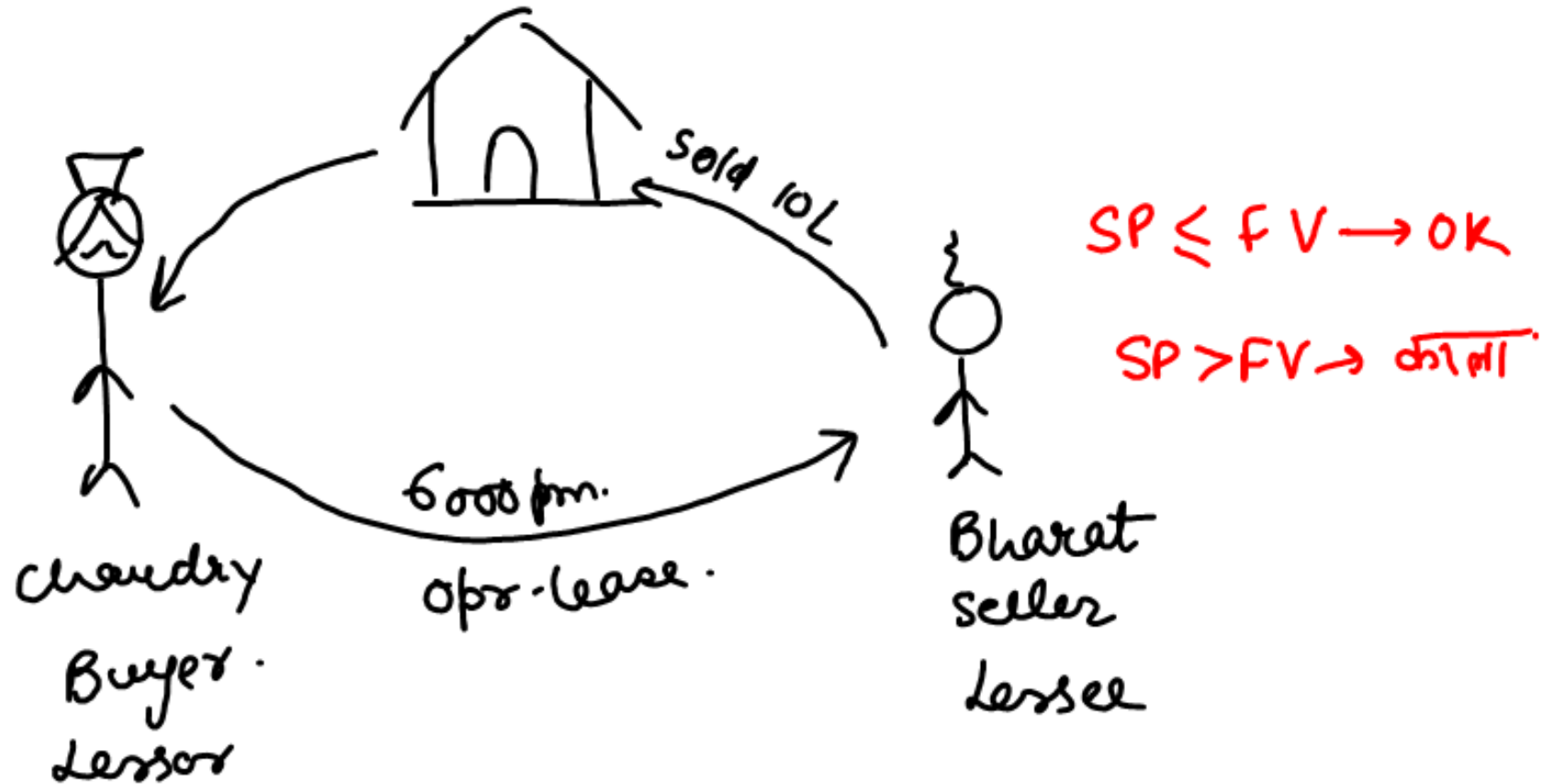
# Sale + finance lease Back



$$\begin{array}{r} SP = 100000 \\ BV = 60000 \\ \hline P = 40000 \end{array}$$

is deferred  
to P&L over  
6yrs in  
proportion of  
depr

# Sale + operating Lease Back.



45/40  
~~98b~~

$$FV = 100000.$$

$$\underline{SP = FV = 100000}$$

$$(a) \quad P = \frac{SP - BV}{100000} - 92000 = 8000 \rightarrow P\&L$$

$$(b) \quad \text{Loss} = 100000 - 104000 = (4000) \rightarrow P\&L$$

C&D

$$\underline{SP < FV}$$

$$P/L = SP - BV$$

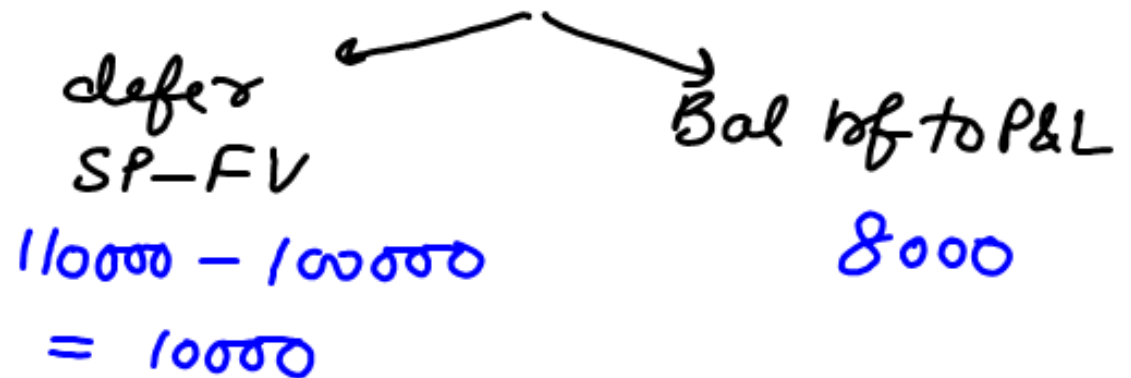
$$(c) \quad P = 96000 - 92000 = 4000 \rightarrow P\&L.$$

$$(d) \quad \text{Loss} = 96000 - 104000 = (8000) \rightarrow P\&L$$

(e & f)  $SP > FV$

$$\textcircled{e} \quad P = SP - BV$$

$$= 110000 - 92000 = 18000$$



$$\textcircled{f} \quad P = SP - BV$$

$$= 110000 - 104000 = 6000$$

