

Course Outline

Leasing & Ijara Transactions



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Day 1

Session 1: Basic modes of asset backed financing and differences between the same:

- Leasing
- Hire purchase
- Secured lending
- Conditional sale, instalment sale etc

Session 2: Essential features of Ijara transactions:

- Key elements of ijaras that distinguish ijaras from other forms of leases
 - ◆ Variants of ijara transactions - ijara wa aqtina, and residual value fixation
 - ◆ Key legal features of ijara transactions

Session 3: Meaning of operating lease:

- Accounting standards on lease accounting
- Tests to determine whether a financial lease and operating lease
- Practical demonstration of operating leases
- Residual value risk in operating leases
- Accounting and tax implications of operating leases
 - ◆ Ijara transactions – whether operating or financial lease?

Session 4: Pricing of lease transactions (*This session will be conducted entirely on Excel*):

- Liquidity coverage ratio
- Understanding credit risk and asset risk
- Components of pricing of lease transactions -cost of capital and cost of operations
- Understanding IRRs, NPVs, expected value, risk neutral values, and so on
- Understanding nuances of IRRs in different structured transactions
- The course will provide ample Excel illustrations on IRRs and NPVs
 - ◆ Pricing of Ijara Transactions

Day 2

Session 5: Essentials of lease structuring (*This session will be conducted entirely on Excel*):

- Basic objectives of lease structures: key variables in pricing
- Credit risk and asset risk – key variables in structuring
- IRR-based pricing, NPV-based pricing, dual rate pricing, enhancing the value-addition in leases
- Various rental structures



- Understanding of lease pricing from lessee viewpoint – asymmetry in lessor and lessee consideration

Session 6: Structure of leases and asset risk (*This session will be conducted entirely on Excel*):

- Various forms of asset value risk:
 - ♦ Residual value-based leases
 - ♦ Lessor guaranteed residual value leases
- Assessment of residual values
- Pricing of residual value risk
- Asset risk as a key variable: targeting asset-risk based recoveries
- Residual value risk management and mitigation

Session 7: Quick overview of the legal fundamentals:

- Legal requisites of leases – law of bailment
- Concept of a true lease
- Rights and obligations of the lessor in case of operating leases on quality of goods

Session 8: Off balance sheet accounting and the accounting standards (*This session will be conducted partly on Excel*):

- Off balance sheet – a major motivation
- Accounting standards: IAS 17, FAS 13, and AS 19
- Defining features of operating leases and tests for determination
- Structuring of operating leases – financial features
- Disclosures in case of operating leases under new IAS 17
- Characterisation by the lessor and the lessee – achieving financial lease accounting by the lessor and operating lease accounting by the lessee
- Can there be operating hire purchase?

Session 9: Understanding of income tax implications of operating leasing:

- Post-tax returns for the lessor
- Post-tax cost for the lessee
- Situations in which a lease is beneficial
- Indirect taxes on operating lease transaction goods and services taxes
- How economics of lease transactions affected by indirect taxes
- Different international tax regimes