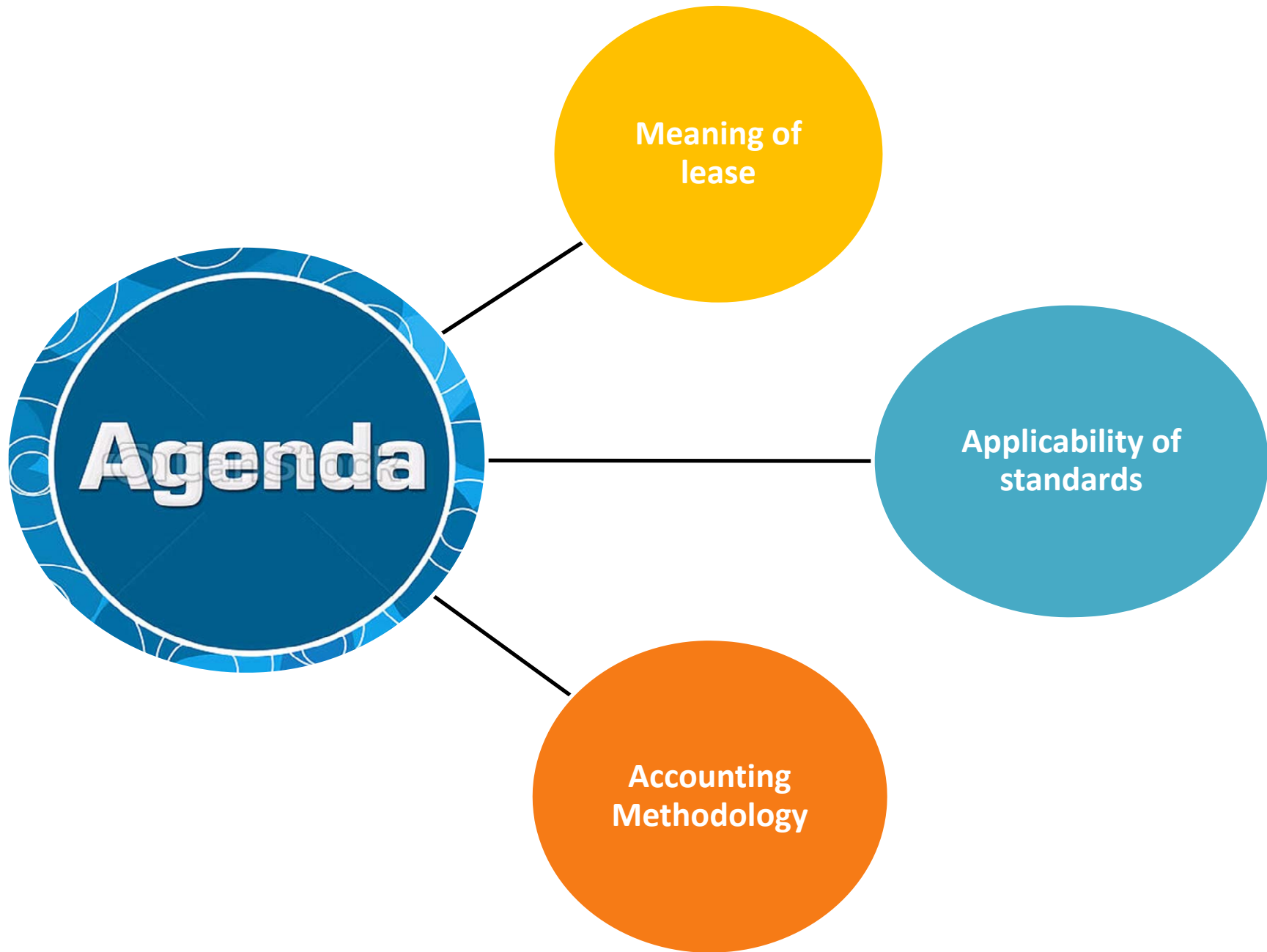




LEASE ACCOUNTING





MEANING OF LEASE

General Meaning



**Transfer Of
Property Act
1882**

Section 105

“A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.”

**Indian Contract
Act 1872**

Section 148

“A bailment is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them.”

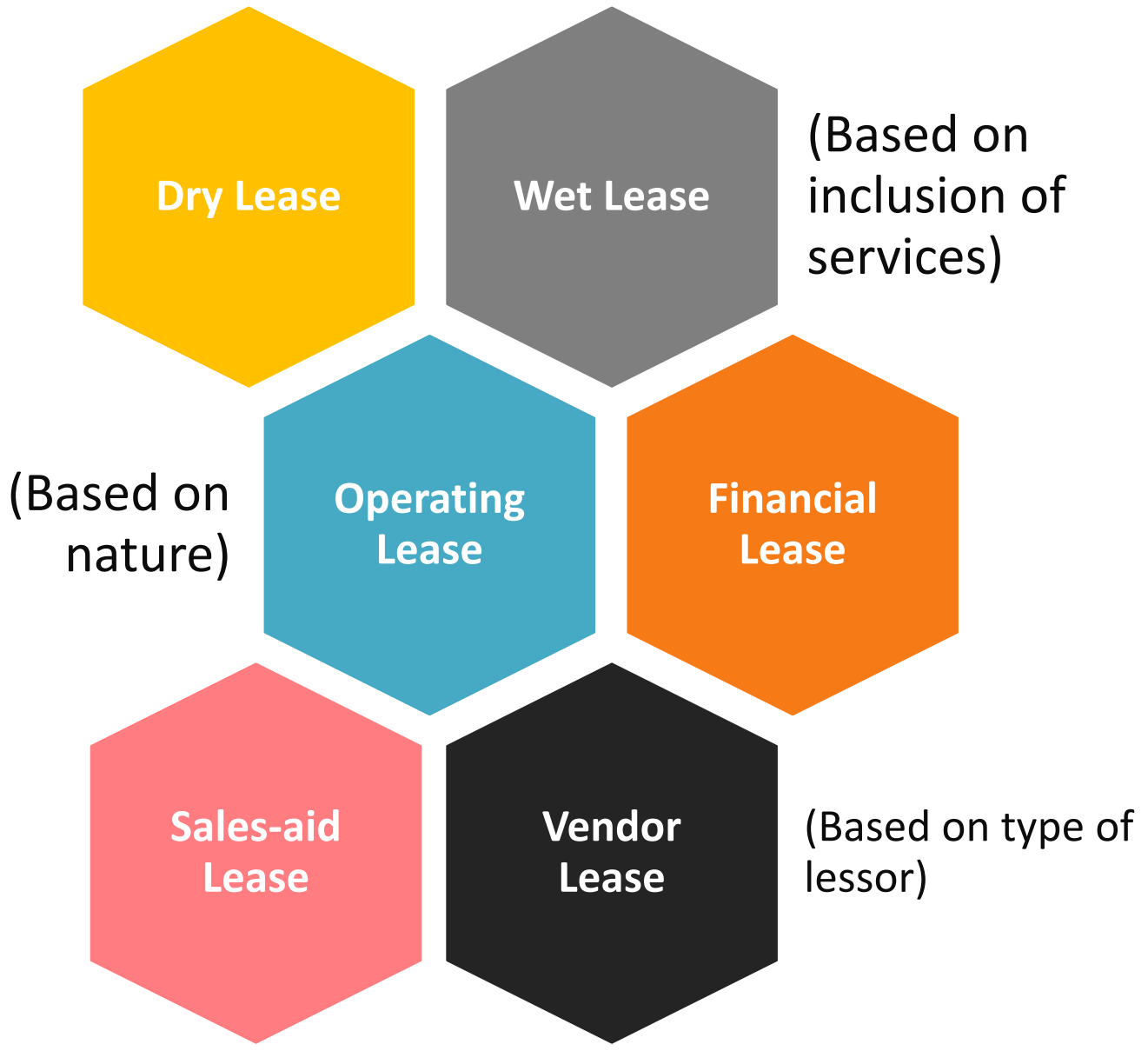
Ind AS

Ind AS 116

“An agreement whereby the lessor conveys to the lessee, the right to control the use of an identified asset, for a period of time, in exchange for consideration.”



DIFFERENT TYPES OF LEASING



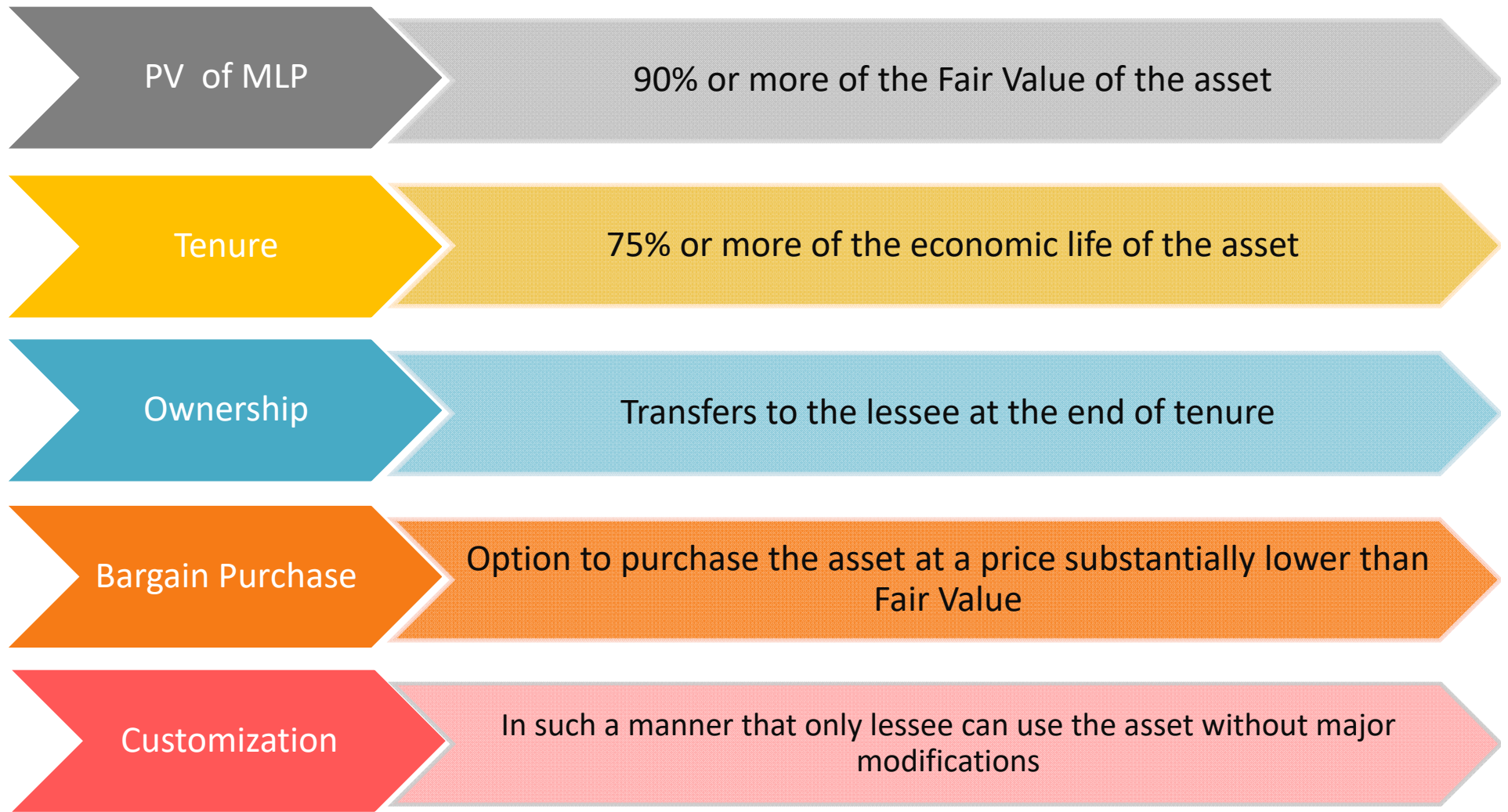
**Financial
Lease**

vs

**Operating
Lease**

Financial lease v. operating lease

A lease is said to be financial lease when substantial risks and rewards relating to the asset are transferred to the lessee.



ACCOUNTING



Accounting for financial lease as per AS 19

| Situation | Lessee | Lessor |
|---|--|--|
| At the time of inception of a financial lease | | |
| Liability | Lease rentals payable = FV or PVMLP (WEL) | - |
| Asset | Asset = FV or PVMLP (WEL) | Receivable= net investment in lease |
| Initial direct costs of the arrangement | Included in the amount recognized as asset | Recognise as expense in P/L or allocate against financial income over the lease term |
| Ongoing the lease term | | |
| Lease rental (principal component) | Reduced from the liability created | Reduced from receivable created |
| Interest | Charged to P/L as an expense | Charged to P/L as income |
| Depreciation | Charged to P/L as an expense and reduced from asset recorded | - |

BALANCE SHEET (EXTRACT) [In the books of lessee]

| Year | Equity and liabilities | | Assets | |
|-------------|-------------------------------|---------|----------------|---------|
| 0 | Lease rentals payable | 92.12 | Asset on lease | 92.12 |
| 1 | Lease rentals payable | 92.12 | Asset on lease | 92.12 |
| | Principal component of LR | (43.32) | Depreciation | (45.00) |
| | | ----- | | ----- |
| | | 48.80 | | 47.12 |
| 2 | Lease rentals payable | 48.80 | Asset on lease | 47.12 |
| | Principal component of LR | (48.80) | Depreciation | (45.00) |
| | | ----- | | ----- |
| | | 00.00 | | 2.12 |

PROFIT AND LOSS ACOUNT (EXTRACT) [In the books of lessee]

| Year | Expenses | | Income |
|-------------|---------------------------|-------|---------------|
| 1 | Interest on lease rentals | 8.72 | |
| | Depreciation | 45.00 | |
| 2 | Interest on lease rentals | 3.23 | |
| | Depreciation | 45.00 | |

BALANCE SHEET (EXTRACT) [In the books of lessor]

| Year | Equity and liabilities | Assets | |
|-------------|-------------------------------|---------------------------|---------|
| 0 | | Receivable | 92.12 |
| 1 | | Receivable | 92.12 |
| | | Principal component of LR | (43.32) |
| | | | ----- |
| | | | 48.80 |
| 2 | | Receivable | 48.80 |
| | | Principal component of LR | (48.80) |
| | | | ----- |
| | | | 0.00 |

PROFIT AND LOSS ACCOUNT (EXTRACT) [In the books of lessor]

| Year | Expenses | Income | |
|-------------|-----------------|---------------------------|------|
| 1 | | Interest on lease rentals | 8.72 |
| 2 | | Interest on lease rentals | 3.23 |

Accounting for operating lease as per AS 19

| Situation | Lessee | Lessor |
|---|--|---|
| At the time of inception of a operating lease | | |
| Liability | - | - |
| Asset | - | Owned Asset/Fixed asset = Cost of asset/ carrying amount |
| Initial direct costs of the arrangement | - | Recognise as expense in P/L or allocate against income over the lease term |
| Ongoing the lease term | | |
| Lease rentals paid | Charged to P/L as an expense on SLM basis | Recognise income in P/L as income on SLM basis |
| Interest | - | - |
| Depreciation | - | Charge to P/L as expense and reduce the same from carrying amount of the asset |

PROFIT AND LOSS ACCOUNT (EXTRACT) [In the books of lessee]

| Year | Expenses | Income |
|-------------|--------------------------|---------------|
| 1 | Lease rentals paid 45.37 | |
| 2 | Lease rentals paid 45.37 | |
| 3 | Lease rentals paid 45.37 | |

BALANCE SHEET (EXTRACT) [In the books of lessor]

| Year | Equity and liabilities | Assets | |
|-------------|-------------------------------|---------------|---------|
| 0 | | Asset | 100 |
| 1 | | Asset | 100 |
| | | Depreciation | (25.00) |
| | | | ----- |
| | | | 75.00 |
| 2 | | Asset | 75.00 |
| | | Depreciation | (25.00) |
| | | | ----- |
| | | | 50.00 |
| 3 | | Asset | 50.00 |
| | | Depreciation | (25.00) |
| | | | ----- |
| | | | 25.00 |

PROFIT AND LOSS ACCOUNT (EXTRACT) [In the books of lessor]

| Year | Expenses | | Income | |
|-------------|-----------------|-------|---------------|-------|
| 1 | Depreciation | 25.00 | Lease rentals | 45.37 |
| 2 | Depreciation | 25.00 | Lease rentals | 45.37 |
| 3 | Depreciation | 25.00 | Lease rentals | 45.37 |

Applicability of Indian Accounting Standards (Ind AS)



For Companies other than NBFCs, Banks and Insurance Companies

Phase III

1st April 2017 or thereafter: Mandatory Requirement

*All companies listed/in the process of listing in India/outside India on any stock exchange having net worth of less than five hundred crore;

*Unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore;

*Holding, Subsidiary, Associates and Joint Ventures of (a) and (b)

Phase II

1st April 2016 or thereafter: Mandatory Requirement

*Companies Listed/in process of listing on Stock Exchanges in India or outside India having a net worth of rupees five hundred crore or more;

*Unlisted companies having net worth of rupees five hundred crore or more;

*Holding, Subsidiary, Associates and Joint Ventures of (a) and (b).

Phase I

1st April 2015 or thereafter: Voluntary basis for all companies (with comparatives)

**Applicability for
Scheduled
Commercial Banks
(excluding RRBs) –
1st April 2018**

For NBFCs

Phase II

From 1st April, 2019

*NBFCs whose equity and/or debt securities are listed or in the process of listing on any stock exchange in India or outside India and having net worth less than rupees five hundred crore

*NBFCs that are unlisted companies, having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore

*Holding, subsidiary, joint venture and associate companies of above other than those already covered under the corporate roadmap

Phase I

From 1st April, 2018

*NBFCs having net worth of rupees five hundred crore or more (whether listed or unlisted)

*Holding, subsidiary, joint venture and associates companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date

Applicability for
Insurance
Companies
deferred till
2020-21

Accounting for financial lease as per Ind AS 17

| Situation | Lessee | Lessor |
|---|--|---|
| At the time of inception of a financial lease | | |
| Liability | Lease rentals payable = FV or PVMLP (WEL) | - |
| Asset | Asset = FV or PVMLP (WEL) | Receivable= net investment in lease |
| Initial direct costs of the arrangement | Included in the amount recognized as asset | Included in amount recognized as asset and reduce the amount of income recognised over lease term |
| Ongoing the lease term | | |
| Lease rental | Reduced from the liability created | Reduced from receivable created |
| Interest | Charged to P/L as an expense | Charged to P/L as income |
| Depreciation | Charged to P/L as an expense | - |

Accounting for operating lease as per Ind AS 17

| Situation | Lessee | Lessor |
|---|-----------------------------|---|
| At the time of inception of a operating lease | | |
| Liability | - | - |
| Asset | - | Show in balance sheet as owned asset. |
| Initial direct costs of the arrangement | - | Add to carrying amount of leased asset and recognize as expense over the lease term on same basis as lease income |
| Ongoing the lease term | | |
| Lease rentals paid | Charged to P/L on SLM basis | Recognize income in P/L on SLM basis |
| Interest | - | - |
| Depreciation | - | Charge to P/L as expense |

Before we get into accounting under Ind AS 116

- Lessee has an option to not apply provisions relating to recognition and measurement as given in Ind AS 116 in case of:
 - (a) short-term leases (period < 12 months)
 - (b) Leases for which underlying asset is of very low value (USD 5000)

- However all other requirements as provided in the standard shall be applicable.

- Further, lessor does not have such option.

Lessors Accounting as per Ind AS 116

| Situation | Operating Lease | Financial Lease |
|---|--|---|
| At the time of inception | | |
| Liability | - | - |
| Asset | Asset = cost of acquisition/ carrying amount | Receivable = net investment in lease |
| Initial direct costs of the arrangement | Add to the carrying amount of the asset and recognise as expense over lease term | Include in the initial measurement of net investment and reduce amount of income recognised over lease term |
| Ongoing the lease term | | |
| Lease rentals | Recognise income in P/L on SLM basis | Reduced from asset created |
| Interest | - | Recognise in P/L as income |
| Depreciation (on leased asset) | Recognise as expense in P/L and reduce the from carrying amount | - |

BALANCE SHEET (EXTRACT) [In the books of lessor] in case of Financial Lease

| Year | Equity and liabilities | Assets | |
|-------------|-------------------------------|---------------------------|---------|
| 0 | | Receivable | 92.12 |
| 1 | | Receivable | 92.12 |
| | | Principal component of LR | (43.32) |
| | | | ----- |
| | | | 48.80 |
| 2 | | Receivable | 48.80 |
| | | Principal component of LR | (48.80) |
| | | | ----- |
| | | | 0.00 |

PROFIT AND LOSS ACOUNT (EXTRACT) [In the books of lessor] in case of financial lease

| Year | Expenses | Income | |
|-------------|-----------------|---------------------------|------|
| 1 | | Interest on lease rentals | 8.72 |
| 2 | | Interest on lease rentals | 3.23 |

BALANCE SHEET (EXTRACT) [In the books of lessor] in case of operating lease

| Year | Equity and liabilities | Assets | |
|-------------|-------------------------------|---------------------------|---------|
| 0 | | Asset | 100.00 |
| 1 | | Asset | 100.00 |
| | | Principal component of LR | (43.32) |
| | | | ----- |
| | | | 48.80 |
| 2 | | Receivable | 48.80 |
| | | Principal component of LR | (48.80) |
| | | | ----- |
| | | | 0.00 |

PROFIT AND LOSS ACCOUNT (EXTRACT) [In the books of lessor] in case of operating lease

| Year | Expenses | Income | |
|-------------|-----------------|---------------------------|------|
| 1 | | Interest on lease rentals | 8.72 |
| 2 | | Interest on lease rentals | 3.23 |

Lessee Accounting as per Ind AS 116

| Situation | Accounting |
|---|---|
| At the time of inception | |
| Liability | Lease liability= PV of remaining lease payments |
| Asset | ROU asset = At Cost Cost= PVMLP+LP made before + initial direct cost + estimate of charges costs for disposing off |
| Initial direct costs of the arrangement | Part of ROU asset |
| Ongoing the lease term | |
| Lease rental | Recognise as expense in P/L and reduce from ROU asset |
| Interest | Recognise as expense in P/L |
| Depreciation (on the ROU asset) | Reduced from ROU Asset and recognised as expense in P/L If at the end of lease term, ownership is transferred to lessee, term= useful life If ownership is not transferred, term= useful life or lease tenure (wel) |

BALANCE SHEET (EXTRACT) [In the books of lessee]

| Year | Equity and liabilities | | Assets | |
|-------------|-------------------------------|---------|--------------------|---------|
| 0 | Lease rentals payable | 80.31 | Right-of-use Asset | 80.31 |
| 1 | Lease rentals payable | 80.31 | Asset on lease | 80.31 |
| | Principal component of LR | (37.76) | Depreciation | (40.16) |
| | | ----- | | ----- |
| | | | | 40.16 |
| 2 | Lease rentals payable | 42.55 | Asset on lease | 40.16 |
| | Principal component of LR | (42.55) | Depreciation | (40.16) |
| | | ----- | | ----- |
| | | 00.00 | | 0.00 |

PROFIT AND LOSS ACOUNT (EXTRACT) [In the books of lessee]

| Year | Expenses | | Income |
|-------------|-----------------|-------|---------------|
| 1 | Lease rentals | 45.37 | |
| | Interest | 7.61 | |
| | Depreciation | 40.16 | |
| 2 | Lease rentals | 45.37 | |
| | Interest | 2.82 | |
| | Depreciation | 40.16 | |

*Thank
You*

-Kanakprabha Jethani