GN(A) 10 (Revised 1995)

Guidance Note on Accounting for Leases[1]

Foreword

Leasing is a unique form of intermediate term financing. It is also a major form of 'off balance sheet' financing, though disclosures of leased assets and corresponding obligations in financial statements are now increasingly required, internationally. In India, the accounting principles regarding lease transactions were laid down by the Research Committee of the Institute of Chartered Accountants of India in the Guidance Note on Accounting for Leases which was published in 1988. Subsequent to its issuance, in view of various developments, it was felt that the revision of the Guidance Note was altogether necessary. Such need has been met by this revised Guidance Note.

The revised Guidance Note on Accounting for Leases, like its predecessor, is based on the rationale of matching costs with revenues so that the periodic net income from a finance lease is true and fair. This matching is achieved by measuring periodic costs related to the lease (in the form of statutory depreciation and lease equalization charge/credit) with the lease rentals. The revised Guidance Note now recommends that the Lease Adjustment Account balance be shown as a deduction from the net book value (that is gross block minus accumulated statutory depreciation) of the leased asset concerned, with separate disclosure, in the balance sheet of the lessor.

The revised Guidance Note clarifies that the specific treatment of taxable income would have to be in accordance with the provisions of taxation laws, which may differ from the recommendations contained in the Guidance

[1] This revised Guidance Note replaces the Guidance Note on Accounting for Leases issued by the Institute in 1988. The recommendatory status of the latter was kept in abeyance following grant of stay order by the Hon'ble High Court of Madras (Announcement in this regard was published in the July, 1990, issue of 'The Chartered Accountant'). The said case was dismissed as withdrawn by the Hon'ble High Court on July 14, 1995.

This Guidance Note is not applicable in respect of assets leased during accounting periods commencing on or after 1.4.2001. In respect of such assets Accounting Standard (AS) 19, 'Leases',which is mandatory in nature, is applicable.

Note since the latter is meant for preparation of financial statements for accounting purpose only, such as under the Companies Act, 1956.

I hope that the guidance note will be useful — both for our members as well as the leasing companies.

New Delhi
September 20, 1995

Y. M. Kale
President

Preface

Leasing has become an important industry in our country. With the number of players in the industry ever increasing, its contribution to our economic development is significant. To establish sound accounting practices in leasing industry in India, the Reasearch Committee of the Institute of Chartered Accountants of India had issued a Guidance Note on Accounting for Leases in 1988. The Committee has now revised the Guidance Note keeping in view various developments. Like the earlier edition of the Guidance Note, this revised Guidance Note is also based on the matching principle, i.e., the periodic costs comprising statutory depreciation and lease equalisation charge/ credit are recommended to be matched with the lease rentals to determine the net income from a finance lease. This Guidance Note now, inter alia, recommends that the Lease Adjustment Account balance which was titled as Terminal Lease Adjustment Account in the previous edition, should be deducted from the Net Book Value of the leased asset concerned.

I am confident that the revised Guidance Note will be useful to our members and others concerned.

M.M. Khanna
Chairman
Research Committee

New Delhi
25 August, 1995

GN(A) 10 (Revised 1995)

Guidance Note on Accounting for Leases

INTRODUCTION

1. This Guidance Note deals with accounting for leases, except for the following specialised types of leases :

    (a) Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights.

    (b) Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

    (c) Hire Purchase Agreements as defined under the Hire Purchase Act 1972.[2]

2. The Council of the Institute of Chartered Accountants of India recognizes the need for issuance of an accounting standard on the subject of accounting for leases with a view to establish sound accounting principles and practices in the leasing industry. The matter is under consideration of the Council, but it is recognised that issuance of such a standard will take some time. It is also recognised that the existing accounting practices in the leasing industry have mainly resulted keeping in view the relevant provisions of the Income-tax Act, 1961, regarding permissibility of the depreciation allowance only to the owners of the assets. In this context, this Guidance Note is being issued only as an interim measure. In making the recommendations in the Guidance Note, the Committee recognizes that they do not preclude accounting for lease transactions in accordance with International Accounting Standard - 17 (IAS- 17) on Accounting for Leases, even during the interim period.

DEFINITIONS

3. The following terms are used in this Guidance Note with the meanings specified:

    Lessor: A person, who under an agreement, conveys to another person (the lessee) the right to use, in return for rent, an asset for an agreed period of time.

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[2] Accounting for such transactions has to be done according to the generally accepted accounting practices. Such assets are recorded at their cash value in the books of the hirer (Reference may be made to AS-10, Accounting for Fixed Assets, issued by the Institute of Chartered Accountants of India). The hirer is also entitled to depreciation under the Income-tax Act, 1961, on such assets.

Lessee: A person, who under an agreement, obtains from another person (the lessor) the right to use, in return for rent, an asset for an agreed period of time.

Lease: An agreement whereby the lessor conveys to the lessee, in return for rent, the right to use an asset for an agreed period of time.

Finance Lease: A lease under which the present value of the mininum lease payments at the inception of the lease exceeds or is equal to substantially the whole of the fair value of the leased asset.

Operating Lease: A lease other than a finance lease.

Non-Cancellable Lease: A lease that is cancellable only:

(a) upon the occurrence of some remote contingency,

(b) with the permission of the lessor,

(c) if the lessee enters into a new lease for the same or any equivalent asset with the same lessor, or

(d) upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

Inception of the Lease: The earlier of the date of the lease agreement or of a commitment by the parties to the principal provisions of the lease.

Lease Term: The non-cancellable period for which the lessee has contracted to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Minimum Lease Payments: The payments over the lease term that the lessee is or can be required to make (excluding costs for services and taxes to be paid by and be reimbursable to the lessor) together with the residual value.

Fair Value: The amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Useful Life: In the case of an operating lease either (a) the period over which a fixed asset is expected to be used by the enterprise; or (b) the number of production (or similar) units expected to be obtained from the asset by the enterprise. In the case of a finance lease, the useful life of the asset is the lease term.

Residual Value: Value estimated at the inception of lease, of the leased asset, at the expiry of the lease term.

Interest Rate Implicit in the Lease: The discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, from the standpoint of the lessor, to be equal to the fair value of the leased asset, net of any grants and tax credits receivable by the lessor.

Gross Investment in the Lease: The aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor.

Unearned Finance Income: The difference between the lessor's gross investment in the lease and its present value.

Net Investment in the Lease: The gross investment in the lease less unearned finance income.

EXPLANATION

4. A lease is classified as a finance lease if it secures for the lessor the recovery of his capital outlay plus a return on the funds invested during the lease term. Such a lease is normally non-cancellable and the present value of the minimum lease payments at the inception of the lease exceeds or is equal to substantially the whole of the fair value of the leased asset.

5. A lease is classified as an operating lease if it does not secure for the lessor the recovery of his capital outlay plus a return on the funds invested during the lease term.

6. Since the transaction between a lessor and a lessee is based on a lease agreement common to both parties, normally, the two parties will classify the lease in the same way. Nevertheless, the application of these definitions to the differing circumstances of the two parties may sometimes result in the same lease being classified differently by lessor and lessee.

7. Residual value is the value estimated at the inception of lease, of the leased asset, at the expiry of the lease term. Such estimate can be made with reference to the terms of lease agreement, type of the asset, and proportion of the lease period to the life of the asset as per the technical/ commercial evaluation and such other considerations. It may be possible for the enterprise to estimate the residual value as a fixed percentage of the value of the asset on the basis of its experience over a period of years.

8. There may be certain situations where the ability to assess the ultimate collection with reasonable certainty is lacking in respect of any lease rental. In such cases, according to the accrual basis of accounting, revenue recognition is postponed to the extent of uncertainty involved and it may be appropriate to recognise revenue, in respect of such rentals, only when it is reasonably certain that the ultimate collection will be made.

ACCOUNTING FOR LEASES IN THE BOOKS OF A LESSOR

Finance Leases

9. Assets leased under finance leases should be disclosed as "Assets given on lease", as a separate section under the head "Fixed Assets" in the balance sheet of the lessor. The classification of 'Assets given on lease' should correspond to that adopted in respect of other fixed assets. In addition to the particulars required by statute, e.g., Schedule VI to the Companies Act, 1956, particulars relating to Lease Adjustment Account should be disclosed as stated in para 11.

10. Lease rentals (those received and those due but not received) under a finance lease should be shown separately under 'Gross Income' in the profit and loss account of the relevant period.

11. It is appropriate that against the lease rental, a matching lease annual charge is made to the profit and loss account. This annual lease charge should represent recovery of the net investment / fair value of the leased asset over the lease term. The said charge should be calculated by deducting the finance income for the period (as per para 12 below) from the lease rental for that period. This annual lease charge would comprise (i) minimum statutory depreciation (e.g., as per the Companies Act, 1956) and (ii) lease equalisation charge, where the annual lease charge is more that the minimum statutory depreciation. However, where annual lease charge is less than minimum statutory depreciation, a lease equalisation credit would arise. In this regard the following acounting entries/ disclosures should be made:

(a) A separate Lease Equalisation Account should be opened with a corresponding debit or credit to Lease Adjustment Account, as the case may be.

(b) Lease Equalisation Account should be transferred every year to the Profit and Loss Account and disclosed separately as a deduction from/addition to gross value of lease rentals shown under the head "Gross Income".

(c) Statutory depreciation should be shown separately in the profit and loss account. Accumulated statutory depreciation should be deducted from the original cost of the leased asset in the balance sheet of the lessor to arrive at the net book value[3].

(d) Balance standing in Lease Adjustment Account should be adjusted in the net book value of the leased assets. The amount of adjustment in respect of each class of fixed assets may be shown either in the main balance sheet or in the Fixed Assets Schedule as a separate column in the section related to leased assets.

(e) The aggregate amount included under Lease Adjustment Account on account of lease equalisation credits should be disclosed separately.

The method of income measurement suggested in this paragraph, is in consonance with the inherent nature of a finance lease.

The above method is illustrated in the Appendix to this Guidance Note.

12. The finance income for the period should be calculated by applying the interest rate implicit in the lease to the net investment in the lease during the relevant period. This method would ensure recognition of net income in respect of a finance lease at a constant periodic rate of return on the lessor's net investment outstanding in the lease. However, some lessors use a simpler method for calculating the finance income for each of the periods comprising

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[3] 'Net book value' has been defined in the context of 'Gross book value', in Accounting Standard (AS) 10 on 'Accounting for Fixed Assets', issued by the Institute of Chartered Accountants of India, as follows:
"Gross book value of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value."

the lease term by apportioning the total finance income from the lease in the ratio of minimum lease payments outstanding during each of the respective periods comprising the lease term. (The total finance income from the lease is the difference between the aggregate minimum lease payments receivable over the lease term and the fair value of the leased asset at the inception of the lease.) This method may be used where the finance income in respect of all individual periods as per this method approximates the finance income for the corresponding periods determined according to the former method. It is however clarified that where this method is used, overdue lease rentals, i.e., lease rentals fallen due but not collected should not be taken into account for determining the amount of minimum lease payments outstanding during each of the respective periods comprising the lease term.

13. Net investment in the lease may often be equal to the capital cost/ fair value of the asset at the inception of the lease. However, as per the definition, net investment is the difference between the gross investment in the lease (i.e., the aggregate of the minimum lease payments from the standpoint of the lessor and any residual value accruing to the lessor) and the unearned finance income (i.e., the difference between the lessor's gross investment in the lease and its present value).

14. Initial direct costs, such as commissions and legal fees, often incurred by lessors in negotiating and arranging the lease should normally be expensed in the year in which they are incurred. Similarly, income on account of lease, e.g., management fees, should be recognised in the year in which they accrue.

Finance Leasing by Manufacturers or Dealers

15. Manufacturers or dealers may offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

(a) the profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

(b) the finance income over the lease term.

16. The profit or loss referred to in para 15(a) above should be recognised at the incneption of a finance lease by a manufacturer or dealer lessor. The finance income referred to in para 15(b) should be allocated on the basis

of paras 10 to 14 above. Assets given on finance lease during the year by a manufacturer or dealer lessor may be shown in the profit and loss account on credit side under the title "Assets given on finance lease transferred to Fixed Assets Account" and disclosed in the balance sheet as suggested in para 9 above.

Operating Leases

17. A lease is classified an an operating lease if it does not secure for the lessor the recovery of his capital outlay plus a return on the funds invested during the lease term. Therefore, the asset should be treated by the lessor as a fixed asset and rentals receivable should be included in income over the lease term.

18. Costs, including depreciation, incurred in earning the rental income should be charged to income. Rental income should normally be recognised on a systematic basis which is representative of the time pattern of the earnings process contained in the lease. In many cases, recognition of rental income on a straight line basis over the lease term would be representative of the time pattern.

19. A leased asset for an operating lease should be depreciated on a basis consistent with the lessor's normal depreciation policy for similar assets.

20. Initial direct costs incurred by lessor in negotiating and arranging the lease should be expensed in the year in which they are incurred.

Sale and Leaseback

21. A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The rentals and the sale price are usually interdependent as they are negotiated as a package and may not represent fair values.

22. If in the case of a leaseback, the rentals and the sale price are established at fair value, there has in effect been a normal sale transaction and any profit or loss is normally recognised immediately. If the sale price is below fair value any profit or loss is recognised immediately, except that, if the loss is compensated by future rentals at below market price, it is deferred and amortized in proportion to the rental payments over the useful life of the asset. If the sale price is above fair value, the excess over fair value is deferred and amortized over the useful life of the asset.

Disclosures

23. Apart from the disclosures recommended in the above paragraphs, the lessor should disclose the accounting policies followed with regard to accounting for income under finance lease, valuation of assets given on lease and charge for depreciation.

ACCOUNTING FOR LEASES IN THE BOOKS OF A LESSEE

Finance Leases

24. A lessee should disclose assets taken under a finance lease by way of a note to the accounts, disclosing, inter alia, the future obligations of the lessee as per the agreement.

25. Lease rentals should be accounted for on accrual basis over the lease term so as to recognise an appropriate charge in this respect in the profit and loss account, with a separate disclosure thereof. The appropriate charge should be worked out with reference to the terms of the lease agreement, type of the asset, proportion of the lease period to the life of the asset as per the technical/ commercial evaluation and such other considerations. The excess of lease rentals paid over the amount accrued in respect thereof should be treated as prepaid lease rental and vice versa.

Operating Leases

26. Lease rentals should be accounted for on accrual basis over the lease term so as to recognise an appropriate charge in this respect in the profit and loss account with a separate disclosure thereof. In other words, aggregate of the lease rentals payable over the lease term should, unless another systematic basis is more representative of the time pattern, be spread over the term on straight line basis, irrespective of the payment schedule as per the terms and conditions of the lease. The excess of lease rentals paid over the amount accrued in respect thereof should be treated as prepaid lease rental and vice versa.

COMPUTATION OF TAXABLE INCOME

27. It is clarified that the specific treatment for determining taxable income would have to be in accordance with the provisions of the taxation laws; such treatments may differ from the recommendations contained in the Guidance Note.

EFFECTIVE DATE

28. The recommendations of this Guidance Note apply to all assets leased during accounting periods beginning on or after April 1, 1995. In respect of assets leased during accounting periods which commenced prior to the aforesaid date, the recommendations of the Guidance Note apply in respect of accounting periods beginning on or after April 1, 1996; earlier adoption of the recommendations is, however, encouraged.

Appendix

ILLUSTRATION OF ACCOUNTING FOR FINANCE LEASES IN THE BOOKS OF THE LESSOR

This Appendix does not form a part of the Guidance Note and is merely illustrative.

A. Particulars about the Lease

Lessor's cost of the leased computer	Rs. 60,000
Fair value of the leased computer at the inception of the lease (1.1.85)	Rs. 60,000

The lease term is four years.

The rental is Rs. 35,000; Rs. 16000; Rs. 8,000 and Rs. 4,500 respectively in these four years, payable in advance every year. The estimated residual value of the computer at the end of the lease term is 5 per cent of the cost of the asset to the lessor. The lessee has the right to continue the lease at the end of the aforesaid lease term at a nominal rent. The relevant statutory WDV depreciation rate is 40 per cent.

B. Whether the above lease whould be classified as a Finance Lease or an Operating Lease?

Since the present value of the minimum lease payments, at the inception of the lease, is approximately equal to the fair value of the leased asset (see calculations in section C), the lease should be classified as a finance lease.

C. Accounting for the Finance Lease where finance income is calculated as per the first method contained in para 12.

(i) Calculations of the implicit rate of interest in the lease

This rate is often known to the lessor. However, in the present case it is not given. It may therefore be calculated as follows:

Fair value of the computer at the inception of the lease. Rs. 60,000

Minimum lease payments including residual value receivable during the lease term discounted at 14% (by trial and error).

Year	*MLP (Rs.)*		*PV factor*		*PV of MLP (Rs.)*
1985	35,000	X	1	=	35,000
1986	16,000	X	.877	=	14,032
1987	8,000	X	.769	=	6,152
1988 Beginning	4,500	X	.675	=	3,038
End	3,000	X	.592	=	1,776
	66,500				59,998

Since minimum lease payments at the end of the lease, discounted at 14 per cent, are equal to the fair value of the leased machine at the inception of lease, the interest rate implicit in the lease is 14 per cent.

(ii) *Gross Investment in the lease*

This is equal to the aggregate of the minimum lease payments (i.e. lease rentals and residual value) accruing to the lessor.

Rs. 63,500 + Rs. 3,000 = Rs. 66,500

(iii) *Unearned finance income*

= Gross investment in the lease *minus* its present value.

Rs. 66,500 - Rs. 60,000 = Rs. 6,500

(iv) *Net investment in the lease*

= Gross investment in the lease *minus* unearned finance income.

= Rs. 66,500 - Rs. 6,500

= Rs. 60,000

In the present case therefore the cost of the leased computer to the lessor, its fair value and the net investment in the lease are same.

(v) *Profit and loss account and the balance sheet of the lessor*

(a) Lease rentals received should be shown under "Gross Income" in the profit and loss account of the respective years.

(b) The corresponding annual lease charge, statutory depreciation etc. over the lease term are calculated as below:

(1)	(2)	(3)	(4) = (2) - (3)	(5)	(6) = (3) - (5)
Year	Net Investment in the lease	MLP	Net investment outstanding during the period	Finance Income @ 14% of net investment outstanding during the period	Annual lease charge
	Rs.	Rs.	Rs.	Rs.	Rs.
1985	60,000	35,000	25,000	3,500	31,500
1986	28,500	16,000	12,500	1,750	14,250
1987	14,250	8,000	6,250	875	7,125
1988	7,125	4,500	2,625	368	4,132
	2,993	3,000	-	-	2,993
		66,500		6,493	60,000

(7)=(2) - (6)	(8)	(9)	(10)	(11)=(6) - (9)	(12)
Net investment in the lease at the end of the year	Cost/Net Book value at the beginning	Net Statutory depreciation @ 40% on WDV Basis	Book value at the end of the year	Lease Equalisation Account	Balance of Lease Adjustment A/c at the end of the year
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
28,500	60,000	24,000	36,000	7,500(Dr.)	7,500(Cr.)
14,250	36,000	14,400	21,600	150(Cr.)	7,350(Cr.)
7,125	21,600	8,640	12,960	1,515(Cr.)	5,835(Cr.)
2,993	12,960	-	-	-	-
-	-	5,184	7,776	1,941(Dr.)	7,776(Cr.)

(c) Profit and Loss Account of the lessor will appear as follows:

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1985

	Rs.		Rs.	Rs.
Statutory Depreciation	24,000	*Gross Income:*		
		Lease Rental	35,000	
		Less:		
		Lease Equalisation	7,500	
				27,500

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1986

	Rs.		Rs.	Rs.
Statutory Depreciation	14,400	*Gross Income:*		
		Lease Rental	16,000	
		Add:		
		Lease Equalisation	150	
				16,150

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1987

	Rs.		Rs.	Rs.
Statutory Depreciation	8,640	*Gross Income:*		
		Lease Rental	8,000	
		Add:		
		Lease Equalisation	1,515	
				9,515

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1988

	Rs.		Rs.	Rs.
Statutory Depreciation	5,184	*Gross Income:*		
		Lease Rental +		
		Residual Value	7,500	
		Less:		
		Lease Equalisation	1,941	
				5,559

(d) Balance Sheet of the lessor will appear as follows:

Balance Sheet of M/s. ______________________
as at 31st December, 1985

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less : Depreciation	24,000	
				36,000	
			Less : Lease Adjustment	7,500	28,500

Balance Sheet of M/s. ______________________
as at 31st December, 1986

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less: Accumulated depreciation	38,400	
				21,600	
			Less: Accumulated Lease Adjustment	7350*	14,250

* This amount is after adjustment of Lease Equalisation Credit of Rs. 150.

Balance Sheet of M/s. ______________________
as at 31st December, 1987

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less: Accumulated depreciation	47,040	
				12,960	
			Less: Accumulated Lease Adjustment	5,835*	7,125

* This amount is after adjustment of aggregate Lease Equalisation Credits of Rs. 1665

Balance Sheet of M/s. ______________________
as at 31st December, 1988

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less:		
			Accumulated		
			depreciation	52,224	
				7,776	
			Less:		
			Accumulated		
			Lease Adjustment A/c	7,776*	—

* This amount is after adjustment of aggregate Lease Equalisation Credits of Rs. 1665

D. Accounting for the lease where finance income is calculated as per the second method given in para 12

(i) *Calculation of total finance income*

Aggregate minimum lease payments — Fair value of the asset at the inception of the lease

= Rs. 66,500 - Rs. 60,000 = Rs. 6,500

(ii) *Profit and loss account and the balance sheet of the lessor*

(a) Lease rentals received should be shown under “Gross Income” in the profit and loss account of the respective years.

(b) The corresponding annual lease charge, statutory depreciation etc. over the lease term are calculated as below:

(1)	(2)	(3)	(4)	(5)=(2) - (4)
Year	MLP	MLP outstanding during the year	Total Finance Income allocated to the year $\frac{6{,}500 \times (3)}{57{,}500}$	Annual Lease Charges
	Rs.	Rs.	Rs.	Rs.
1985	35,000	31,500	3,561	31,439
1986	16,000	15,500	1,752	14,248
1987	8,000	7,500	848	7,152
1988	4,500	3,000	339	4,161
	3,000	-	-	3,000
	66,500	57,500	6,500	60,000

(6)	(7)	(8)	(9) = (5) - (7)	(10)
Cost/Net Book value at the beginning	Statutory depreciation @ 40% on WDV Basis	Net Book value at the end of the year	Lease Equalisation Account	Balance of Lease Adjustment A/c at the end of the year
Rs.	Rs.	Rs.	Rs.	Rs.
60,000	24,000	36,000	7,439(Dr.)	7,439(Cr.)
36,000	14,400	21,600	152(Cr.)	7,287(Cr.)
21,600	8,640	12,960	1,488(Cr.)	5,799(Cr.)
12,960	-	-	-	-
-	5,184	7,776	1,977(Dr.)	7,776(Cr.)

(c) Profit and Loss Account of the lessor will appear as follows:

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1985

	Rs.		Rs.	Rs.
Statutory Depreciation	24,000	*Gross Income:*		
		Lease rental	35,000	
		Less: Lease		
		Equalisation	7,439	27,561

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1986

	Rs.		Rs.	Rs.
Statutory Depreciation	14,400	*Gross Income:*		
		Lease rental	16,000	
		Add: Lease		
		Equalisation	152	16,152

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1987

	Rs.		Rs.	Rs.
Statutory Depreciation	8,640	*Gross Income:*		
		Lease rental	8,000	
		Add: Lease		
		Equalisation	1,488	9,488

Profit and Loss Account of M/s.________________
for the year ending 31st December, 1988

	Rs.		Rs.	Rs.
Statutory Depreciation	5,184	*Gross Income:*		
		Lease Rental +		
		Residual Value	7,500	
		Less: Lease		
		Equalisation	1,977	5,523

(d) Balance Sheet of the lessor will appear as follows:

Balance Sheet of M/s. ______________________
as at 31st December, 1985

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less: Depreciation	24,000	
				36,000	
			Less: Lease Adjustment	7,439	28,561

Balance Sheet of M/s. ______________________
as at 31st December, 1986

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less:		
			Accumulated depreciation	38,400	
				21,600	
			Less: Accumulated		
			Lease Adjustment A/c	7,287*	14,313

* This amount is after adjustment of Lease Equalisation Credit of Rs. 152.

Balance Sheet of M/s. ______________________
as at 31st December, 1987

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on lease	60,000	
			Less:		
			Accumulated depreciation	47,040	
				12,960	
			Less: Accumulated		
			Lease Adjustment A/c	5,799*	7,161

* This amount is after adjustment of aggregate Lease Equalisation Credits of Rs. 1640.

Balance Sheet of M/s. ______________________
as at 31st December, 1988

Liabilities	Rs.	Rs.	Asstes	Rs.	Rs.
			Fixed Assets		
			Computer given on Lease	60,000	
			Less:		
			Accumulated Depreciation	52,224	
				7,776	
			Less:		
			Accumulated Lease		
			Adjustment A/c	7,776*	

* This amount is after adjustment of aggregate Lease Equalisation Credits of Rs. 1640.