CA - FINAL

SF M
STRATEGIC FINANCIAL MANAGEMENT

LEASING

By GAURAV JAINN
[FCA, B.COM(HONS), CFAL2]
(More than 10 years of Practical Experience in Trading Equity Currency & Commodity Derivatives in U.S. and Indian Markets)

100% Conceptual Coverage With Live Trading Session
Complete Coverage of Study Material, Practice Manual & Previous year Exam Questions

For Batch details Logon to www.sfmclasses.com
Registrations Open at: 1/50, Lalita Park, Laxmi Nagar, Delhi-110092
Mob. # 8860017983
OUR ALL INDIA RANKS & HIGHEST MARKS HOLDERS

Nov. 2015
Shreshta Tayal
AIR 20
Roll No. 141557
68 Marks
(AIR/CA/CS 20th)

Nov. 2015
Payal Bansal
AIR 27
Roll No. 137808
70 Marks

May 2015
Shailee Chaudhary
AIR 1
Roll No. 130814
88 Marks

May 2017
Naman Jain
AIR 14
Roll No. 133759
94 Marks

Nov. 2014
Anish Gupta
AIR 22
Roll No. 188172
68 Marks

May 2014
Pravek Khandelwal
AIR 13
Roll No. 123761
85 Marks

Nov. 2014
Keshav Goel
AIR 18
Roll No. 132485
83 Marks

Nov. 2013
Nishant Gupta
AIR 17
Roll No. 162871
77 Marks

May 2016
Harsh Garg
AIR 17
Roll No. 408489
74 Marks

May 2016
Kunal Somani
AIR 14
Roll No. 438272
88 Marks

May 2016
Prashu Goyal
AIR 36
Roll No. 480693
81 Marks
Best result in Delhi NCR 60+ Exemptions in May 2017 Exams

Many congratulations to my shining Star Naman Jain for scoring 94 marks (Roll No. 133759 NRO 0336585) in CA Final SFM

Naman Jain
Roll No. 133759
Scoring 94 Marks in SFM

Ashish Srivastava
Roll No. 139873
Scoring 87 Marks in SFM

Mandeep Sheoran
Roll No. 116856
Scoring 85 Marks in SFM

Priya Mittal
Roll No. 143857
Scoring 81 Marks in SFM

Vibhor Gupta
Roll No. 134496
Scoring 78 Marks in SFM

Aakash Gupta
Roll No. 129975
Scoring 78 Marks in SFM

Shubham Bansal
Roll No. 144692
Scoring 76 Marks in SFM

Shishir Agarwal
Roll No. 134713
Scoring 76 Marks in SFM

Rahul Kanojia
Roll No. 130808
Scoring 76 Marks in SFM

Ayush Rustagi
Roll No. 148226
Scoring 75 Marks in SFM

Vikalp Agarwal
Roll No. 182919
Scoring 75 Marks in SFM

Vaishali Gupta
Roll No. 125020
Scoring 75 Marks in SFM

Arpit Singh Chaudhary
Roll No. 199538
Scoring 75 Marks in SFM

Saurabh Geswami
Roll No. 131998
Scoring 74 Marks in SFM

Navdeep Rastogi
Roll No. 138706
Scoring 74 Marks in SFM

Saurabh Gupta
Roll No. 147915
Scoring 73 Marks in SFM

Rohit Goel
Roll No. 119653
Scoring 73 Marks in SFM

Lokesh Garg
Roll No. 197464
Scoring 73 Marks in SFM

Jyoti Goyal
Roll No. 197967
Scoring 73 Marks in SFM

Suraj kumar
Roll No. 127638
Scoring 72 Marks in SFM

Tarun Gulati
Roll No. 208542
Scoring 70 Marks in SFM

Rahul Talwar
Roll No. 134011
Scoring 70 Marks in SFM

Nitin Kumar
Roll No. 130158
Scoring 70 Marks in SFM

Aakriti Jain
Roll No. 133732
Scoring 70 Marks in SFM

Saurav Pandit
Roll No. 107206
Scoring 68 Marks in SFM

Prachi Singh
Roll No. 197694
Scoring 68 Marks in SFM

Aditya Wadhwa
Roll No. 143621
Scoring 68 Marks in SFM

Dheeraj Sharma
Roll No. 139999
Scoring 67 Marks in SFM

Bhuvan Grover
Roll No. 208068
Scoring 67 Marks in SFM

Rajneesh Verma
Roll No. 193208
Scoring 65 Marks in SFM

Divyansh Jain
Roll No. 168563
Scoring 65 Marks in SFM

Anjali Asha Jain
Roll No. 130380
Scoring 64 Marks in SFM

Suni Kashyap
Roll No. 130446
Scoring 62 Marks in SFM

Bhuvi Ahuja
Scoring 60 Marks in SFM

ARIHANT CA
Registrations Open at : 1/50, Lalita Park, Laxmi Nagar, Delhi-110092
Mob. # 8860017983

Reach us at:
www.sfmclasses.com
www.arihantca.com
Best result in Delhi NCR 70+ Exemptions in Nov 2017 Exams

Siddharth Jain  
Roll No. 427697  
Scoring 85 Marks in SFM

Anusha Mittal  
Roll No. 426936  
Scoring 82 Marks in SFM

Akash Balodi  
Roll No. 426633  
Scoring 81 Marks in SFM

Vishesh  
Roll No. 442468  
Scoring 79 Marks in SFM

Mohit Aggarwal  
Roll No. 425878  
Scoring 79 Marks in SFM

Prateek Mittal  
Roll No. 424994  
Scoring 78 Marks in SFM

Bhumika Vohra  
Roll No. 423168  
Scoring 77 Marks in SFM

Praveen Goyal  
Roll No. 464137  
Scoring 76 Marks in SFM

Himanshu Khurana  
Roll No. 442687  
Scoring 75 Marks in SFM

Ashish Kr. Shukla  
Roll No. 437496  
Scoring 75 Marks in SFM

Neetu Rani  
Roll No. 437454  
Scoring 74 Marks in SFM

Deepak Sardana  
Roll No. 443510  
Scoring 74 Marks in SFM

Sumit Singh  
Roll No. 0  
Scoring 73 Marks in SFM

Kanika Garg  
Roll No. 433227  
Scoring 73 Marks in SFM

Samridhi Chanana  
Roll No. 424331  
Scoring 72 Marks in SFM

Rakesh Kr. Thakur  
Roll No. 426946  
Scoring 72 Marks in SFM

Himanshu Aggarwal  
Roll No. 432897  
Scoring 72 Marks in SFM

Ritu Sachdeva  
Roll No. 427387  
Scoring 71 Marks in SFM

Ritika Raheja  
Roll No. 442437  
Scoring 71 Marks in SFM

Mohd. M. J. Ansari  
Roll No. 431584  
Scoring 71 Marks in SFM

Aayush Kr. Jain  
Roll No. 438696  
Scoring 71 Marks in SFM

Yogita Jain  
Roll No. 442968  
Scoring 70 Marks in SFM

Nidhi Kansal  
Roll No. 444601  
Scoring 70 Marks in SFM

Harshita Monga  
Roll No. 434152  
Scoring 70 Marks in SFM

Nitesh Kumar  
Roll No. 430153  
Scoring 69 Marks in SFM

Zainab  
Roll No. 437492  
Scoring 68 Marks in SFM

Rohit Kumar  
Roll No. 432364  
Scoring 68 Marks in SFM

Pridhi Khanna  
Roll No. 442997  
Scoring 68 Marks in SFM

Monika Singh  
Roll No. 425642  
Scoring 68 Marks in SFM

Aditya  
Roll No. 434127  
Scoring 68 Marks in SFM

Aakash Agarwal  
Roll No. 444427  
Scoring 68 Marks in SFM

Pankaj Gaur  
Roll No. 442969  
Scoring 68 Marks in SFM

Tushar Agarwal  
Roll No. 425796  
Scoring 64 Marks in SFM

Kirti Goyal  
Roll No. 432969  
Scoring 64 Marks in SFM

Aadarsh Pratap  
Roll No. 485363  
Scoring 64 Marks in SFM

Pooja Garg  
Roll No. 432481  
Scoring 63 Marks in SFM

Varun Grover  
Roll No. 430026  
Scoring 63 Marks in SFM

Tanveer Akhtar  
Roll No. 430038  
Scoring 63 Marks in SFM

Harshit Gupta  
Roll No. 433961  
Scoring 63 Marks in SFM

Himanshu Garg  
Roll No. 480402  
Scoring 62 Marks in SFM

Aditi Dadnichi  
Roll No. 495051  
Scoring 62 Marks in SFM

Kimi Pawha  
Roll No. 434211  
Scoring 61 Marks in SFM

Yonish Kumar  
Roll No. 432139  
Scoring 61 Marks in SFM

Shivani Aggarwal  
Roll No. 433954  
Scoring 61 Marks in SFM

Prateek Joshi  
Roll No. 410989  
Scoring 61 Marks in SFM

Pallavi Singh  
Roll No. 424452  
Scoring 61 Marks in SFM

Gaurav Chauhan  
Roll No. 437530  
Scoring 61 Marks in SFM

Anu Jain  
Roll No. 436013  
Scoring 61 Marks in SFM

Yashank Garg  
Roll No. 40  
Scoring 60 Marks in SFM

Shivansh Garg  
Roll No. 444199  
Scoring 60 Marks in SFM

Nisha Gupta  
Roll No. 442675  
Scoring 60 Marks in SFM

Mohit Singh  
Roll No. 438616  
Scoring 60 Marks in SFM

ARIHANT CA
Registrations Open at : 1/50, Lalita Park, Laxmi Nagar, Delhi-110092  
Mob. # 8860017983

Reach us at:
www.sfmclasses.com  
www.arihantca.com
Leasing is an important source of medium-term financing or leasing is the process of financing the cost of an asset.

It is an arrangement under which an asset is financed and owned by one party but possessed and used by the other.

**Parties to the lease agreement:**

1. **LESSOR:**
   The OWNER of the asset is known as lessor-who gives assets on lease.

2. **LESSEE:**
   The USER of the asset is known as lessee-who takes asset on lease.

The lease agreement details out the specified period and timing of the sequential payments to be made by the lessee to the lessor as consideration for the use of the asset. It also incorporates repayment schedule.

**LOS 2: Evaluation from the Point-of-view of Lessee/ Lease or Borrow & Buy Decision(A Financing Decision)**

<table>
<thead>
<tr>
<th>Loan Option</th>
<th>Lease Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outflows</td>
<td>Outflows</td>
</tr>
</tbody>
</table>
### 1.2 LEASING

<table>
<thead>
<tr>
<th>Interest Net of Tax</th>
<th>Lease Rentals Net of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Repayment</td>
<td>Repair &amp; Maintenance Net of Tax</td>
</tr>
<tr>
<td>Expense Net of Tax</td>
<td>Repair &amp; Maintenance Net of Tax</td>
</tr>
<tr>
<td>Inflows:</td>
<td>Inflows:</td>
</tr>
<tr>
<td>Tax Saving on Depreciation</td>
<td>Nil</td>
</tr>
<tr>
<td>Salvage value adjusted for Tax</td>
<td></td>
</tr>
<tr>
<td>Calculation of Discount Rate</td>
<td>Calculation of Discount Rate</td>
</tr>
<tr>
<td>Kd = Interest Net of Tax</td>
<td>Kd</td>
</tr>
<tr>
<td>Ke</td>
<td>Leasing is an alternative of Loan Option</td>
</tr>
<tr>
<td>Ko</td>
<td>Ke</td>
</tr>
<tr>
<td>Present Value of outflow under Loan option</td>
<td>Present Value of outflow under Lease option</td>
</tr>
</tbody>
</table>

**Decision:** Select the option which gives the least outflow.

**Adjustment No. 1**

*Common items under lease option and loan option can be ignored.*

**Exception to this rule:**
1. Timing Difference.
2. If discount rate is different in both options.

**Note:**
Repair and Maintenance Expenses are always borne by the user of the Asset unless otherwise specifically stated.
Insurance expenses are always borne by the owner of the Asset unless otherwise specifically stated.

**Adjustment No. 2**

**Loan / Principal Repayment**

1. **Bullet Payment:** Principal will be repaid in one shot at the end of Loan term, in this case interest is calculated for each year.
2. **Principal amount of loan repayment:** Interest is calculated on Balance amount.
3. **Equated Annual Installments:** It includes Interest and Principal both.

**Adjustment No. 3: Equated Annual Installment (EAI)**

*(When installment is paid at the end of each year)*

**Step 1:** Equated annual loan repayment inclusive of interest (paid at the end of each year)

\[
EAI = \frac{\text{Amount of loan}}{\text{PVAF}(r\%, n \text{ years})}
\]
Where,
\( r\% = \) rate of interest before Tax (Charged by bank)
\( n = \) Period of Loan

**Step 2:** Calculate Principal Repayment amount and interest amount from the total equated Annual Installment

**Step 3:** Calculate Interest Net of Tax.

*When installment is paid from beginning of each year/ annuity due*

\[
EAI = \frac{\text{Amount of Loan}}{1 + \text{PVAF} (r\% (n-1)\text{years})}
\]

❖ If silent, we will assume those rentals are paid at the end of each year.

**LOS 3: Evaluation from the point of view of Lessor (Investment Decision)**

**Decision:** “Whether to purchase asset and give asset on lease rent or Not"

**Step 1:** Calculate all cash inflows and all cash outflows of lessor. TABLE

<table>
<thead>
<tr>
<th>Inflows of Lessor:</th>
<th>Out Flows for Lessor:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Lease Rent received net of Tax.</td>
<td>Cost of Asset Purchased</td>
</tr>
<tr>
<td>(ii) Tax Savings on Depreciation.</td>
<td></td>
</tr>
<tr>
<td>(iii) Salvage Value adjusted for Tax.</td>
<td></td>
</tr>
</tbody>
</table>

**Step 2:** Compute a suitable Discount Rate.

\( K_0 = \text{Cost of Capital} \)

Or

\( K_0 = \text{WACC} = K_e W_e + K_d W_d + K_r W_r + K_p W_p \)

**Step 3:** Compute NPV (Net Present Value)

**Decision:** If NPV is Positive, lessor should lease the asset.

**LOS 4: Treatment of Depreciation**

➢ Depreciation is always charged by the owner of the Asset.
➢ In case of Loan Option, depreciation is charged by borrower.
➢ Depreciation is a non-cash item, it should not be considered while calculating cash flows.
➢ Tax savings on depreciation should be taken as cash inflows.

\[
\text{Tax Saving on Depreciation} = \text{Depreciation Amount} \times \text{Tax Rate}
\]

**Methods of Depreciation:**

1. **Straight-line Depreciation Method:**
   Straight-line depreciation allocates an equal amount of depreciation each year over the asset's useful life.

\[
\text{Depreciation p.a.} = \frac{\text{Original Cost} - \text{Salvage Value/Residual Value}}{\text{Life of the asset}}
\]
Note: If question is silent, always use straight-line method of depreciation.

2. Written-down value Depreciation Method:-

    \[ \text{WDV Depreciation} = [\text{Cost} - \text{Accumulated Depreciation}] \times \% \text{ of Depreciation} \]

Note:
If Rate of Depreciation is given use WDV Method

❖ We recognize more depreciation expense in early years of the asset’s life and less depreciation expense in the later years of life.

3. Sum of Years Digit Method of Depreciation:-

Example:
Cost of Asset = 100
Life = 5 Years
Salvage Value = 10
Calculate Depreciation.

Solution:
Amount to be depreciated = 100 - 10 \rightarrow 90
Life = 5 years
Sum = 1+2+3+4+5=15

\[
\begin{array}{ll}
\text{Years} & \text{Depreciation} \\
1 & 90 \times 5 / 15 = 30 \\
2 & 90 \times 4 / 15 = 24 \\
3 & 90 \times 3 / 15 = 18 \\
4 & 90 \times 2 / 15 = 12 \\
5 & 90 \times 1 / 15 = 6 \\
\end{array}
\]

LOS 5: Treatment of Salvage Value Adjusted for tax – (WDV Depreciation)

1. In Case of Profit
   = Salvage Value – Tax Paid on Profit on Sale

2. In Case of Loss
   = Salvage Value + Tax Saved on Loss on Sale

Example A (In case of Profit):
Cost of Asset 1,00,000
WDV Dep. 10%
Life 5 Years
Tax@ 50%
Salvage Value 70,000
Calculate Cash inflows & outflows for each year.

Solution:
<table>
<thead>
<tr>
<th>Year</th>
<th>Cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>1</td>
<td>+ 5000</td>
</tr>
</tbody>
</table>
1. Calculation of Depreciation:

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance</th>
<th>WDV@10%</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100000</td>
<td>10000</td>
<td>90000</td>
</tr>
<tr>
<td>2</td>
<td>90000</td>
<td>9000</td>
<td>81000</td>
</tr>
<tr>
<td>3</td>
<td>81000</td>
<td>8100</td>
<td>72900</td>
</tr>
<tr>
<td>4</td>
<td>72900</td>
<td>7290</td>
<td>65610</td>
</tr>
<tr>
<td>5</td>
<td>65610</td>
<td>6561</td>
<td>59049</td>
</tr>
</tbody>
</table>

\[ \text{Closing Balance} = 10000 + 4500 + 4050 + 3645 + (70,000 - 5476) = 67,805 \]

2. Calculation of Profit & Loss on Sale of Asset:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Cost</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>till date</td>
<td>40,951</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WDV</td>
<td>59,049</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Salvage Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit on sale</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Payment on Profit on Sale of Asset @ 50%</td>
<td>5,476</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[ \text{Profit on sale} = 10,951 \]

\[ \text{Calculation of Salvage value Adjusted for tax} = 70000 - 5476 = 64524 \]

Example B (In case of Loss):

If Salvage Value is 35,000

Solution:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flows</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(100000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>+5000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>+4500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>+4050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>+3645</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>+3280.50 + (35000 + 12024.50) = 50305</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Calculation of Profit & Loss on Sale of Asset:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Cost</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>till date</td>
<td>40,951</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WDV</td>
<td>59,049</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Salvage Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on sale</td>
<td>24,049</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Saving on Loss on Sale of Asset @ 50%</td>
<td>12,024.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LOS 6 : Treatment of Salvage Value Adjusted for tax – (SLM Depreciation)**

Example:

Cost of Asset 1,00,000

SLM Depreciation

Life 5 Years

Tax @ 50%

Salvage Value 20,000

Calculate Cash inflows & outflows for each year.

Solution:
### Working Note

1. **Calculation of Depreciation:**

   \[ \text{Depreciation p.a} = \frac{1,00,000 - 20,000}{5} = 16,000 \text{ p.a} \]

2. **Calculation of Profit & Loss on Sale of Asset:**

<table>
<thead>
<tr>
<th>Original Cost</th>
<th>1,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Depreciation till date</td>
<td>80,000</td>
</tr>
<tr>
<td>WDV</td>
<td>20,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Salvage Value</td>
<td>20,000</td>
</tr>
<tr>
<td>Profit on sale</td>
<td>0</td>
</tr>
</tbody>
</table>

**Note:**

When SLM method is used, Salvage Value should not be adjusted for tax purpose, we only considered SV as inflow unless there is a adjustment related to SV.

### Confusion regarding SV

1. If question states that Profit/Loss on sale of assets should be ignored then no need to adjust SV for Tax purpose.
2. Use words like “Net SV” then no need to adjust SV for Tax purpose.
3. If SV is not given in the question then do not assume SV = 0, accordingly no adjustment of SV.

### LOS 7: Treatment of Tax

- Cash inflows & Cash outflows should be taken Net of Tax provided cash inflows & outflows are part of the profit & loss account (Tax Saving or Tax Paid only on revenue items not on Capital items).
- Tax savings should be taken as cash inflows like tax savings on depreciation, tax savings due to loss on sale of asset.
- **Treatment of Tax when Cash inflow & Cash outflow arises from the Beginning of each year.**

**Example:**

Training expense incurred at the beginning of the Year 1 or in Year 0 ₹10,000. Tax Rate@40%. Calculate Inflow & outflow for each year.

**Solution:**

**Alternative 1 (Adjust Tax in year 0 itself):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>- 10,000 + 4,000 = (-) 6,000</td>
</tr>
<tr>
<td>1</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Alternative 2: (Preferred by CA Institute) (Adjust Tax at year end 1):

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-10,000</td>
</tr>
<tr>
<td>1</td>
<td>+4,000</td>
</tr>
</tbody>
</table>

Note:
There will be difference in answer under both alternatives.

**LOS 8: Break-even lease rentals**

Break-even lease rentals are those rentals at which:

\[ \text{PV of outflow under Loan Option} = \text{PV of outflow under Lease Option} \]

**LOS 9: IRR Technique / Implied Interest Cost of Lease for Lessor**

- When discount rate is missing in the question, we use IRR technique.
- IRR is the Discount at which NPV is Zero.
- IRR is the discount rate at which PV of inflows = PV of Outflows

\[ \text{IRR} = \text{Lower Rate} + \left[ \frac{\text{Lower rate NPV}}{\text{Lower rate NPV} - \text{Higher rate NPV}} \right] \times \text{Difference in Rate} \]

**Break Even Lease Rentals (From the point of view of LESSOR)**

\[ \text{PV of Inflow} = \text{PV of Output} \]

\[ \text{PV of Lease Rentals Net of Tax} \]

\[ (+) \]

\[ \text{PV of Tax Savings on Depreciation} = \text{Cost of Asset} \]

\[ (+) \]

\[ \text{PV of SV Adjusted for Tax} \]

\[ (-) \]

\[ \text{PV of Expense Net of Tax} \]

**LOS 10: Concept of Block of Assets**

- Block of Assets means a group of assets falling within a particular class of assets.
• No depreciation shall be charged in the year in which asset is sold.
• Tax Benefit/Loss on Short Term Capital Loss/Gain shall be calculated on previous year WDV.

**LOS 11: Different Plans under lease Rentals**

Different plans are offered by lessor to lessee. Some of these are follows:

1. Equal Annual Lease Plans
   In this plan, equal amount of lease rentals are paid every year.

2. Stepped-up lease plan
   Under this plan lease rentals are increased by a particular percentage every year.

3. Deferred Payment Plan
   Under this, lease rentals are deferred for some year (i.e. not paid for few years) and after that it will be paid according to the terms of the contract.

4. Ballooned Payment plan
   Under this plan, low amount lease rentals are paid for few years
   At the end of the lease term, a huge amount is paid which is known as Ballooned Payment.

**LOS 12: Net Advantage of Leasing (NAL)**

➢ NAL is the Net Advantage/ Net Benefit of Leasing over & above the loan/ purchase option.

\[
NAL = PV \text{ of Outflow under Loan Option} - PV \text{ of Outflow under Lease Option}
\]

➢ If NAL is positive→ lease should be preferred, otherwise purchase (loan option) should be preferred.

**LOS 13 : Treatment of Subsidy for charging Depreciation.**

Alternative 1 (Preferred by CA Institute)
Claim Depreciation on the full cost of asset.
Alternative 2
Claim Depreciation on Net Amount of Asset

**LOS 14: Evaluation of quotation from two or more Lessor**

➢ When Quotations are received from two or more lessor, lessee should select the quotation which gives least outflows.
➢ When life of two proposals/quotes are not same , we will take decision based on equated annual annuity(EAA)

\[
EAA = \frac{PV \text{ of Outflow or PV of Inflow or NPV}}{PVAF @ r\%, n \text{ years}}
\]
**LOS 15: Calculation of Cost of Asset/ Amount of Loan**

**Example:**
Equate Annual Installment = ₹ 2,65,000
Life 5 years, Interest Rate = 14%.
Payment starts from the beginning of each year.
Calculate Cost of Asset?

**Solution:**

\[
2,65,000 = \frac{\text{Cost of Asset}}{1 + \text{PVAF (14\% (5−1)\text{years})}}
\]

Cost of Asset = 2,65,000 × 3.9137 = 10,37,130

**LOS 16: Sales & Lease back Agreement**

➢ If you own an asset, you can sell it to a leasing company and take the asset back for use under a leasing arrangement. This is referred to as “Sales & Lease Back”
➢ The main advantage is that it releases cash from the sale of asset that can be put to alternate use without giving up the benefits that flow from the existing asset.

**LOS 17: Confusing regarding Discount Rate**

**Lessee & Borrower**
\[K_d = \text{Interest (1-Tax)}, \text{even if cost of capital is separately given in the question.}\]

**Lessor**
\[K_o = \text{Cost of Capital / Discount Rate / Desire Rate of Return / Target rate of return}\]

**Note:**
\[K_o, K_d, \text{discount rate & Desire rate of return given in the question are always Net of Tax.}\]

**Exception to these rules:**

- **If discount rate is separately given in the question.**
  E.g 1 : **Borrow Vs. Lease**
  \[K_d = 12\%\]
  \[K_o = 15\%\]
  Discount Rate @ 18%

- **If PVF table is given in the question for single discount rate.**
  E.g 2 : **Borrow Vs. Lease**
  \[K_d = 12\%\]
  \[K_o = 15\%\]
  PVF Table @ 18%
9 All India Ranks & 600+ Exemptions

309 Video Clips
255 Concepts
210 Questions
110 Hours

CA-FINAL
SFM
NEW COURSE

Fast Track Pen Drive

GAURAV JAINN [FCA, CFAL2]

Pricing: 6,000/-
Pricing: 6,500/-
2 Views
6 Months

http://t.me/sfmclasses
YouTube GAURAV JAINN

8860017983 www.sfmclasses.com
9 All India Ranks & 600+ Exemptions

354 Video Clips

304 Concepts

100%

250 Questions

127 Hours

CA-FINAL SFM OLD COURSE

Fast Track Pen Drive

GAURAV JAINN [FCA, CFAL2]

Pricing: 6,000/-

Pricing: 6,500/-

2 Views

6 Months

http://t.me/sfmclasses

YouTube GAURAV JAINN

8860017983 www.sfmclasses.com
Arihant CA - The Future of Finance starts with you

9 All India Ranks & 600+ Exemptions

217 Hours Main Lectures

16 Hours Revisionary Video Clips

304 100% Concepts

435 Questions

CA-FINAL SFM Old Course

Regular Batch Pen Drive

Gaurav Jainn [FCA, CFAL2]

Pricing: 10,000/-

Pricing: 10,500/-

3 Views

14 Months

http://t.me/sfmclasses

YouTube Gaurav Jainn

8860017983 www.sfmclasses.com