

**Task 7.62: Exercise on Revaluations and Disposal  
(Leasing)**

LANGLEY Ltd. is a production firm in Australia that is established on 1.01.20X4 with 50,000.00 AUD. The company leases for its salesperson a business car Mercedes e-class. The leasing contract commences on 1.01.20X4. The car's value is 120,000.00 AUD. The interest rate in the lease is 6.5 %/a. The lease rates are 1,950.00 AUD/m. For simplification no compound interest is considered during the Accounting period, hence, you can calculate with annual rates which are 12 times the monthly rates. At the end of the 3 years leasing period, LANGLEY Ltd. must pay a once-off fee of 3,000.00 AUD for minor repairs. Assume that LANGLEY Ltd. returns the car after 3 years to the lessor. The lessor then sells the car at 70,000.00 AUD to a Mercedes dealer. Besides of the lease, LANGLEY Ltd. earns a cash revenue of 100,000.00 AUD in 20X4.

The lessor's equity is 150,000.00 AUD and is contributed by its owners on cash.

**Required: Disclose the balance sheet and the income statement as at 31.12.20X4 on the lessee's side. Ignore VAT and IAS 1.60 (Separate disclosure of long-term and short-term liabilities). What is the value of the receivables on the lessor's side on 31.12.20X4?**

**Solution:**

- (1) Lease recognition at lessee at  $1,950 \times 12 \times ((1.065^3 - 1) / (6.5\% \times 1.065^3)) + 3,000 \times 1.065^{-3} = \mathbf{64,457.87 \text{ AUD}}$ .
- (2) Depreciation on the lease:  $64,457.87 / 3 = \mathbf{21,485.96 \text{ AUD}}$ .
- (3) Interest equals:  $6.5\% \times 64,457.87 = \mathbf{4,189.76 \text{ AUD}}$ .
- (4) Payment of the lease rate  $1950 \times 12 = \mathbf{23,400.00 \text{ AUD}}$ .

Find below the accounts and financial statements of LANGLEY Ltd.

<b>RUA</b>		<b>Lease liability</b>	
(1) 64,457.87	c/d 64,457.87	(4) 23,400.00	(1) 64,457.87
b/d 64,457.87		c/d 45,247.64	(3) 4,189.76
		68,647.64	68,647.64
		( ) 23,400.00	b/d 45,247.64
		c/d 24,788.73	( ) 2,941.10
		48,188.73	48,188.73
		( ) 26,400.00	b/d 24,788.73
		26,400.00	1,611.27
			26,400.00

  

<b>Depreciation-20X4</b>		<b>Accumulated depreciation</b>	
(2) 21,485.96	P&L 21,485.96	c/d 21,485.96	(2) 21,485.96
			b/d 21,485.96

  

<b>Interest-20X4</b>		<b>Cash/Bank</b>	
(3) 4,189.76	P&L 4,189.76	(0) 50,000.00	(4) 23,400.00
		(5) 100,000.00	c/d 126,600.00
		150,000.00	150,000.00
		b/d 126,600.00	

  

<b>Cash revenue 20X4 C/R</b>		<b>Issued capital</b>	
P&L 100,000.00	(5) 100,000.00	c/d 50,000.00	(0) 50,000.00
			b/d 50,000.00

  

<b>Profit and Loss-20X4</b>		<b>ITL</b>	
INT 4,189.76	C/R 100,000.00	c/d 22,297.28	P&L 22,297.28
DPR 21,485.96			b/d 22,297.28
EBT 74,324.28			
100,000.00	100,000.00		
ITL 22,297.28	b/d 74,324.28		
R/E 52,026.99			

  

<b>R/E</b>		<b>R/E</b>	
c/d 52,026.99	P&L 52,026.99	c/d 52,026.99	P&L 52,026.99
	b/d 52,026.99		b/d 52,026.99

Exhibit 1: Accounts

<b>Langley Ltd.</b> <b>STATEMENT of FINANCIAL POSITION</b> <b>as at 31.12.20X4</b>			
A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	42,971.91	Share capital	50,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	52,026.99
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory		Long-term liab. IBL	45,247.64
Acc. receivables A/R		Short-term liab. A/P	
Prepaid expenses		Provisions	
Cash/Bank	126,600.00	Income tax liab.	22,297.28
<b>Total assets</b>	<b>169,571.91</b>	<b>Total equity and liab.</b>	<b>169,571.91</b>

Exhibit 2: Balance sheet

<b>Langley Ltd.</b> <b>STATEMENT of PROFIT &amp; LOSS</b> <b>and OTHER COMPREHENSIVE INCOME</b> <b>for the year ended 31.12.20X4</b>	
	[AUD]
Revenue	100,000.00
Other income	
	100,000.00
Materials	
Labour	
Depreciation	(21,485.96)
Other expenses	
<b>Earnings before int. &amp; taxes (EBIT)</b>	<b>78,514.04</b>
Interest	(4,189.76)
<b>Earnings before taxes (EBT)</b>	<b>74,324.28</b>
Income tax expenses	(22,297.28)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<b>52,026.99</b>

Exhibit 3: Income statement

The lessor discloses in the first place the acquisition of the car at 120,000.00 AUD.

Thereafter, the lease and the sales proceeds are disclosed as receivables:  $64,457.87 + 70,000 \times 1.065^{-3} = 122,407.31$  AUD. The difference is the profit on derecognition PoD.

<b>DR A/R</b> .....	<b>122,407.31 AUD</b>
<b>CR PPE</b> .....	<b>120,000.00 AUD</b>
<b>CR PoD</b> .....	<b>2,407.31 AUD</b>

The receivables are increased by interest and deducted by the lease payment received:  $122,407.31 \times 1.065 - 23,400 = 106,963.78$  AUD. Find below the lessor's Accounts Receivables account:

A/R - Lessor			
D			C
(A)	122,407.31	(C)	23,400.00
(B)	7,956.48	c/d	106,963.79
	<u>130,363.79</u>		<u>130,363.79</u>
b/d	106,963.79	(b)	23,400.00
(a)	6,952.65	c/d	90,516.43
	<u>113,916.43</u>		<u>113,916.43</u>
b/d	90,516.43	(β)	23,400.00
(α)	5,883.57	(γ)	3,000.00
	<u>96,400.00</u>	(δ)	70,000.00
			<u>96,400.00</u>

**Exhibit 4:** Lessor's account