

LEASES AND HP CONTRACTS --- EXAMPLE 2

On 1st January 2000 Nitro Ltd leases an item of plant and machinery . The terms of the lease are that 5 equal annual installments^{of £2000} are to be paid , the first installment being due on 1st January 2000 . The fair value of the asset acquired was £7710 . The lease is to be accounted for as a finance lease

The rate of interest implicit in the lease agreement is 15%

Depreciation is to be provided at 20% on the straight line basis assuming nil residual value

REQUIREMENT

Show how the lease would be accounted for in the profit and loss account for the years ended 31st December 2000 and 2001 and also in the balance sheet at that date assuming :

- (a) the finance charge is apportioned using the actuarial method
- (b) the finance charge is apportioned using the sum of the digits method method

LEASES AND HP CONTRACTS - EXAMPLE 2

(A)

$$\begin{aligned}\text{Total finance charge} &= (5 \times 2000) - 7710 \\ &= \underline{\underline{£2290}}\end{aligned}$$

Year	START	REPAYMENT	FINANCE CHG	END
2000	7710	(2000)	857	6567
2001	6567	(2000)	685	5252
2002	5252	(2000)	488	3740
2003	3740	(2000)	260	2000
2004	2000	(2000)	-	-
			<u>2290</u>	

PROFIT AND LOSS ACCOUNT (EXTRACT)

	2001 £	2000 £
Finance charge	<u>685</u>	<u>857</u>
Depreciation	<u>1542</u>	<u>1542</u>

BALANCE SHEET (EXTRACT)

	2001 £	2000 £
Tangible Fixed Assets	<u>4626</u>	<u>6168</u>
Creditors: Amounts falling due within one year	<u>2000</u>	<u>2000</u>
Creditors: Amounts falling due after more than one year	<u>3252</u>	<u>4567</u>

(13)

Year		FINANCE CHG £
2000	$2290 \times \frac{4}{4+3+2+1}$	916
2001	$2290 \times \frac{3}{10}$	687
2002	$2290 \times \frac{2}{10}$	458
2003	$2290 \times \frac{1}{10}$	229
2004		—
		<u><u>2290</u></u>

(W)

YEAR	START	REPAYMENT	FIN CHG	END
2000	7710	(2000)	916	6626
2001	6626	(2000)	687	5313
2002	5313	(2000)	458	3771
2003	3771	(2000)	229	2000
2004	2000	(2000)	—	—

PROFIT AND LOSS ACCOUNT (EXTRACT)

	2001 £	2000 £
Finance Charge	<u>687</u>	<u>916</u>
Depreciation	<u>1542</u>	<u>1542</u>

BALANCE SHEET (EXTRACT)

	2001 £	2000 £
Tangible Fixed Assets	<u>4626</u>	<u>6168</u>
Creditors: Amounts falling due within one year	<u>2000</u>	<u>2000</u>
Creditors: Amounts falling due after more than 1 year	<u>3313</u> (W)	<u>4626</u> (W)