

MGT401
Financial Accounting II
Assignment #01

Due date: July 26, 2021

Marks: 10

“IAS-17 (Leases)”

Question No. 1

Marks = 2

A famous news channel suddenly needs a broadcasting equipment to efficiently manage the broadcasting services of one of its News channel “**Network**”. For this purpose, it has entered into a four year lease agreement for the equipment with MSK Leasing Limited. The lease agreement has duly signed by both organizations on following terms:

1. Annual lease rentals will be Rs.200, 000 for primary period and will be paid in advance.
2. Rentals for optional secondary period of three years will be 80%, 60% and 40% of the annual rental in the primary period.
3. It is also agreed that these rentals will represent a fair commercial rate.
4. Useful life of machine is estimated to eight years with a cash value of Rs.600, 000.

Requirement:

You are required to identify whether this lease agreement will be a finance lease or an operating lease?

Question No. 2

Marks =8

Agro Limited entered into a four-year lease agreement with Life Leasing (pvt.) Limited on 1st January, 2017 for oil purify machine with a fair value of Rs.100,000. Annual rental is agreed on Rs. 28,000 starting from 31st Dec, 2017. Agro Limited is responsible for insurance and maintenance charges. The rate of interest implicit in the lease is 8% p.a.

Required:

You are required to show the allocation of the finance charges and principal amount over the lease term?

Important Note and instructions

- To open the assignment file, you must have Adobe Acrobat Reader/ PDF Reader installed on your computer.
- For acquiring the relevant knowledge, do not rely only on handouts but watch the course video lectures and read additional material available online or in any other mode.

- **Assignment must be submitted in word format only no other format of file (Excel, PowerPoint etc.) is acceptable and students will get zero marks.**
- The solution of assignment should be to the point, relevant and logical. Only required answers will be awarded and if any student will provide unnecessary details, marks will be deducted. This will be completely student's responsibility.

Note related to load shedding: Please be proactive

Dear students,

As you know that semester activities have started and load shedding problem is also prevailing in our country. Keeping in view the fact, you all are advised to post your activities as early as possible without waiting for the due date. For your convenience; activity schedule has already been uploaded on VULMS for the current semester, therefore, no excuse will be entertained after due date of assignments, quizzes and GDBs.