

**Keywords:** Definition of Lease, Leasing, Hiring and Renting, Obligations of Supplier of Asset, User of Asset, Hire, Purchase Company/Lessor in cases of Loan, Supplier's Credit, Hire Purchase and Leasing, Leasing as an Instance of Bailment, Nature of the Bailment Agreement, Features of Bailment, Contracts Law on Bailment, Leasing Rules, Types of Leases and their characteristics, Steps in the structuring of a Lease Contract, Leasing from point of view of Lessor/Lessee, Treatment of Leased Assets in Company Accounts - Accounting Practice for Leased Plant and Machinery as per Indian Accounting Standard, Assessment of Lease related risk

**1 One difference between a financial lease and operating lease is that...**

- A There is often a call option in a financial lease
- B There is often an option to buy in an operating lease
- C An operating lease is often cancellable by the lessee**
- D A financial lease is often cancellable by the lessee.

**2 The type of lease that includes a third party, a lender, is called a(n)...**

- A Sale and leaseback
- B Direct leasing arrangement
- C Leveraged lease**
- D Operating lease

**3 A direct lease, a sale and leaseback, and a leveraged lease are all examples of...**

- A Operating lease
- B Financial lease**
- C full-service leases
- D Off-balance sheet methods of financing.

**4 How should the minimum lease payments ('MLP') of a land and building lease get apportioned?**

- A Treat entirely as building
- B Treat entirely as land
- C Apportion MLP between land and buildings based on fair value of leasehold interests**
- D Apportion MLP between land and buildings based on management's judgement

**5 What type of lease is presumed, when the present value of minimum lease payments is approximately equal to the fair value of the lease assets?**

- A Operating lease
- B Financial lease**
- C Sale and leaseback
- D Leveraged lease

**6 Which of the following is not an indication a lease is a finance lease?**

- A The lease transfers ownership of the asset to the lessee at the end of the lease
- B The lease term is for a short part of the economic life of the asset**
- C The leased assets are specialized in nature
- D The present value of minimum lease payment amounts to substantially all of the fair value of the asset

**7 Operating leases are mostly \_\_\_\_\_ agreements.**

- A Long term
- B Medium term
- C Short term**
- D Verbal

**8 When a lease transfers substantially all the risks and rewards of ownership to lessee, this is called...**

- A Sale and leaseback

- B Leveraged lease
- C Operating lease
- D Financial lease**

**9 In a land lease, if title does not pass at the end of a lease to the lessee, it is normally treated as:**

- A Sale and leaseback
- B Leveraged lease
- C Operating lease**
- D Financial lease

**10 Finance leases are accounted for in a similar manner to...**

- A Credit transactions**
- B Cash transactions
- C Sale and leaseback
- D Loan forgiveness

**11 A leased asset should be depreciated over the...**

- A Shorter of the lease term and the asset's useful life**
- B Longer of the lease term and the asset's useful life
- C Entire lease term
- D Useful life of the asset

**12 Which of the following would not make a distinction between a 'hire purchase' and a 'normal purchase'?**

- A Purchaser pays for item by installments over a period of time
- B Normally trade discounts are not offered on hire purchase**
- C Cost to buyer is likely to be higher than it would be for a normal purchase
- D Asset does not belong to purchaser when delivery is received from supplier

**13 Nature of hire purchase agreement is...**

- A Agreement of sale
- B Option to transfer
- C Option to buy**
- D Option to sell

**14 The buyer of goods on hire purchase basis is known as...**

- A Seller
- B Hire sales
- C Hirer**
- D Hire vendor

**15 In hire purchase, the title of the property or goods is transferred to the hire purchaser...**

- A At the time of agreement of hire purchase
- B At the time of first installment paid by hire purchaser
- C At the time of last installment paid by hire purchaser**
- D Any time

**16 Which of the following statements characterizes an operating lease?**

- A The lessee records depreciation and interest.
- B The lessee records the lease obligation related to the leased asset
- C The lessor records depreciation and lease revenue**
- D The lessor transfers title of the leased property to the lessee for the duration of the lease term

**17 The major advantage of leasing is that it \_\_\_\_\_.**

- A Provides flexible financing
- B Provides lower payments
- C Avoids risks of obsolescence
- D All of the above

**18 Which of the following is not a characteristic of a financial lease?**

- A Financial leases are non-cancellable
- B Financial leases are commonly used for leasing major fixed assets
- C Financial leases are usually for all or most of the expected life of the asset
- D **The lessor is always responsible for maintenance and insurance**

**19 Which of the following is not a characteristic of an operating lease?**

- A The term of the lease is less than the useful life of the asset
- B An operating lease is cancellable
- C **An operating lease is usually for a period greater than 5 years**
- D The party responsible for maintenance, insurance and taxes is subject to negotiation

**20 Which of the following is not a type of lease?**

- A **Conditional sales agreement**
- B Operating lease
- C Leveraged lease
- D Sale-leaseback arrangement

**21 Which of the following is never included in the analysis of whether an asset should be leased or purchased?**

- A Renewal option
- B **Incremental operating income**
- C Maintenance clauses
- D Purchase option

**22 Which of the following is an advantage of leasing?**

- A Off-balance-sheet financing
- B Less costly financing
- C Flexible financing
- D **All of these**

**22 The amount to be recorded as the cost of an asset under finance lease is equal to the**

- A Present value of the minimum lease payments
- B **Present value of the minimum lease payments or the fair value of the asset, whichever is lower**
- C Present value of the minimum lease payments plus the present value of any unguaranteed residual value
- D Carrying value of the asset on the lessor's books

**23 If the residual value of a leased asset is guaranteed by a third party...**

- A It is treated by the lessee as no residual value
- B The third party is also liable for any lease payments not paid by the lessee.
- C The net investment to be recovered by the lessor is reduced.
- D **It is treated by the lessee as an additional payment and by the lessor as realized at the end of the lease term.**

**24 In \_\_\_\_\_ lease, the risk of obsolescence is assumed to the lessee.**

- A **Finance**
- B Operating
- C Both (a) & (b)
- D None of (a) & (b)

- 25 When the lessee is allowed to exchange equipment leased out whenever the original asset has to be sent to the lessor for some repair or maintenance, such type of lease is called...
- A Wrap lease
  - B Import lease
  - C Swap lease**
  - D Leveraged lease
- 25 In hire purchase depreciation can be claimed by the...
- A Hirer**
  - B Vendor
  - C Financier
  - D All of above
- 26 In hire purchase, till the payment of last installment, amount paid by hirer is treated as ...
- A Interest
  - B Rent**
  - C Cash price
  - D All of above
- 27 In \_\_\_\_\_ lease, leasing company assumes risk of obsolescence
- A Leverage
  - B Operating**
  - C Finance
  - D Cross Boarder
- 28 Which lease contracts is usually non cancellable?
- A Leverage
  - B Operating
  - C Finance**
  - D Cross Boarder
- 29 Equipment lease transaction is treated as contract of .....
- A Bailment**
  - B Pledge
  - C Guarantee
  - D Agency
- 30 \_\_\_\_\_ lease is for a short period.
- A Leverage
  - B Operating**
  - C Finance
  - D Cross Boarder
- 31 In \_\_\_\_\_ lease, maintenance expenses and taxes are born by the lessee.
- A Finance**
  - B Operating
  - C Both (a) & (b)
  - D None of (a) & (b)
- 32 In \_\_\_\_\_ lease, maintenance expenses and taxes are born by the lessor.
- A Finance
  - B Operating**
  - C Both (a) & (b)
  - D None of (a) & (b)

- 33 In hire purchase, who can be enjoying salvage value of asset?**
- A Hirer
  - B Vendor
  - C Financier
  - D All of above
- 34 Bailment means...**
- A **Delivery of goods for short period upon the contract**
  - B Delivery of goods for long period upon the contract
  - C Partly delivery of goods
  - D None
- 35 Which is a not essential element of contract of bailment?**
- A Return of goods in specific time
  - B Delivery of goods
  - C Doing contract
  - D **Purchase of goods**
- 36 In the contract of bailment the person delivering the goods is called...**
- A Bailee
  - B **Bailor**
  - C Seller
  - D Buyer
- 37 In Bailment, Lien means...**
- A Right to purchase the goods
  - B Rights to sell the goods
  - C **To retain goods in his possession**
  - D Right to destroy the goods
- 38 Which is an essential element of contract of bailment?**
- A **Transfer of possession**
  - B Transfer of goods
  - C Transfer of ownership
  - D Transfer of property
- 39 The delivery of goods by one person to another for some purpose, upon a contract and that they shall, when the purpose is accomplished, be returned or otherwise disposed of by accounting to the directions of the person delivering them, then it is called...**
- A Contingent Contract
  - B Pledge
  - C **Bailment**
  - D Contract of Indemnity
- 40 A bailment involves the transfer of**
- A Title to, but not possession of, personal property
  - B Possession of, but not title to, real property
  - C **Possession of, but not title to, personal property**
  - D Title to, but not possession of, real property
- 41 Bailment is applicable for...**
- A **Movable asset**
  - B Immovable asset
  - C Current asset

D Fixed asset

**42** If ownership of the asset transfers to the lessee by the end of the lease term than it is called...

**A Finance lease**

B Operating lease

C Both (a) & (b)

D None of (a) & (b)

**43** The lease term is for the major part of the economic life of the asset even if title is not transferred than it is called...

**A Finance lease**

B Operating lease

C Both (a) & (b)

D None of (a) & (b)

**44** If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee than it is called...

**A Finance lease**

B Operating lease

C Both (a) & (b)

D None of (a) & (b)

**45** Lessees shall recognize finance leases as \_\_\_\_\_ and \_\_\_\_\_ in their balance sheets.

A Asset, debt

B Current asset, debt

**C Assets, liabilities**

D Current asset, liabilities

**46** Under an operating lease, lease payments shall be recognized by lessee as \_\_\_\_\_ on a straight-line basis over the lease term.

A Payable

B Profit

C Income

**D Expense**

**47** Lessor shall recognize assets held under a finance lease in their balance sheets and present them as a \_\_\_\_\_ at an amount equal to the net investment in the lease.

A Income

B Expense

**C Receivable**

D Payable

**48** Lessor shall present \_\_\_\_\_ subject to operating leases in their balance sheet according to the nature of the \_\_\_\_\_.

A Asset, liability

**B Asset, asset**

C Expense, liability

D Expense, asset

**49** Who can charge depreciation in the books of account under operating lease?

**A Lessor**

B Lessee

C Both

D None of above

- 50 Who can charge depreciation in the books of account under finance lease?**
- A Lessor
  - B Lessee**
  - C Both
  - D None of above
- 51 Lease income from operating leases shall be recognized by lessor as \_\_\_\_\_ on a straight-line basis over the lease term.**
- A Gain
  - B Profit
  - C Income**
  - D All of above
- 52 A \_\_\_\_\_ transaction involves the sale of an asset and the leasing back of the same asset.**
- A Contract
  - B Sale & purchase
  - C Lease
  - D Sale and leaseback**
- 54 An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time is called...**
- A Contract
  - B Sale & purchase
  - C Lease**
  - D Sale and leaseback
- 55 A lessee signs a lease agreement so that a piece of property can be used for the specified period of time. From an accounting perspective, what are the two types of leases?**
- A Fixed leases and variable leases
  - B Operating leases and finance leases
  - C Variable leases and finance leases
  - D Sale and leaseback
- 56 The minimum lease payment is defined as including all of the following components except...**
- A Bargain purchase option
  - B Guaranteed residual value
  - C The lease payments occurring over the lease term
  - D Contingent rentals**
- 57 The present value of the minimum lease payments will be equal to the fair value of the leased asset if the lease arrangement contains a bargain purchase option or ...**
- A Contingent rent
  - B 100% guaranteed residual value**
  - C Executory cost
  - D Lease incentive amount
- 58 Where a lessee does not expect to purchase a leased asset, the asset must be depreciated across...**
- A Its useful life**
  - B The full economic life of the asset
  - C Period not exceeding 5 years
  - D The shorter of the lease term or 20 years
- 59 In finance lease, at end of lease term lessor can transfer the ownership to lessee at less than the**

fair value...

- A May
- B May not
- C May or may not**
- D None of above

**60 It is an obligation of supplier of equipment in supplier's credit type leasing transaction**

- A To provide equipment**
- B To pay for principal amount
- C To pay for interest on principal amount
- D To make hypothecation of equipment

**61 A set of self-made and mutually acceptable terms of a transaction consistent with law is known as ...**

- A Lease transaction
- B Liabilities of lessee
- C Liabilities of lessor
- D Lease agreement**

# Valuation of Plant & Machinery

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