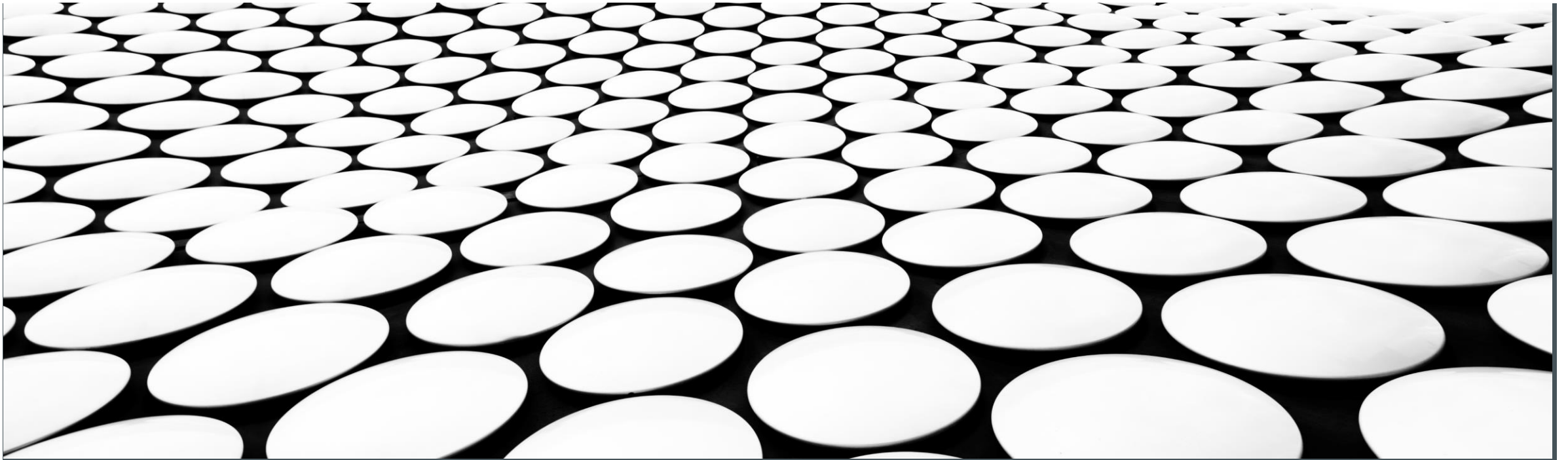


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# INDIAN ACCOUNTING STANDARDS

## LEASES – IND AS 116

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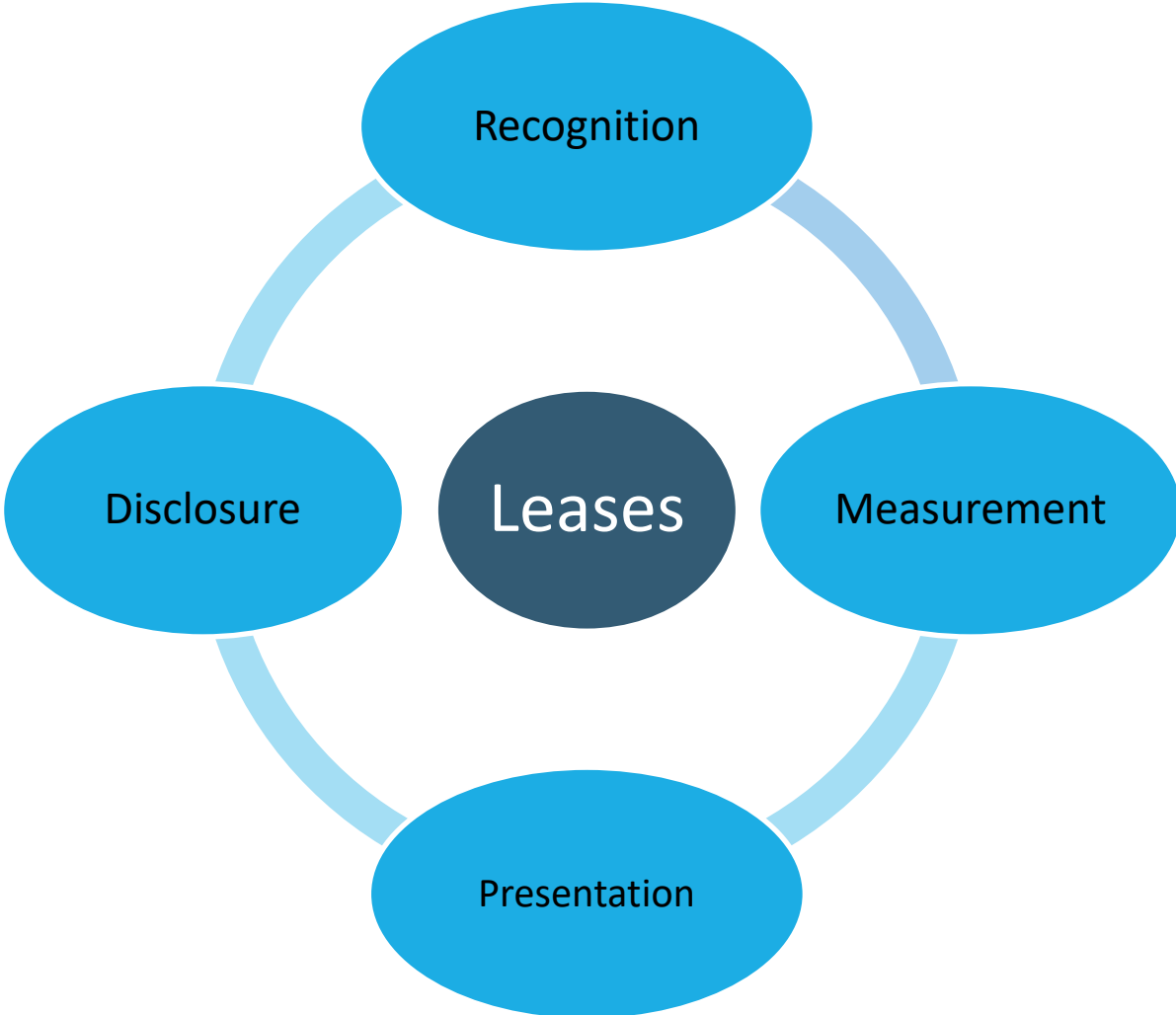
# **INDIAN ACCOUNTING STANDARDS LEASES – IND AS 116**

# LEASES – IND AS 116

## Objectives

- This Standard sets out the principles for the recognition, measurement, presentation and disclosure of *leases*.
- The objective is to ensure that *lessees* and *lessors* provide relevant information in a manner that faithfully represents those transactions.
- This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance, and cash flows of an entity.

# LEASES – IND AS 116



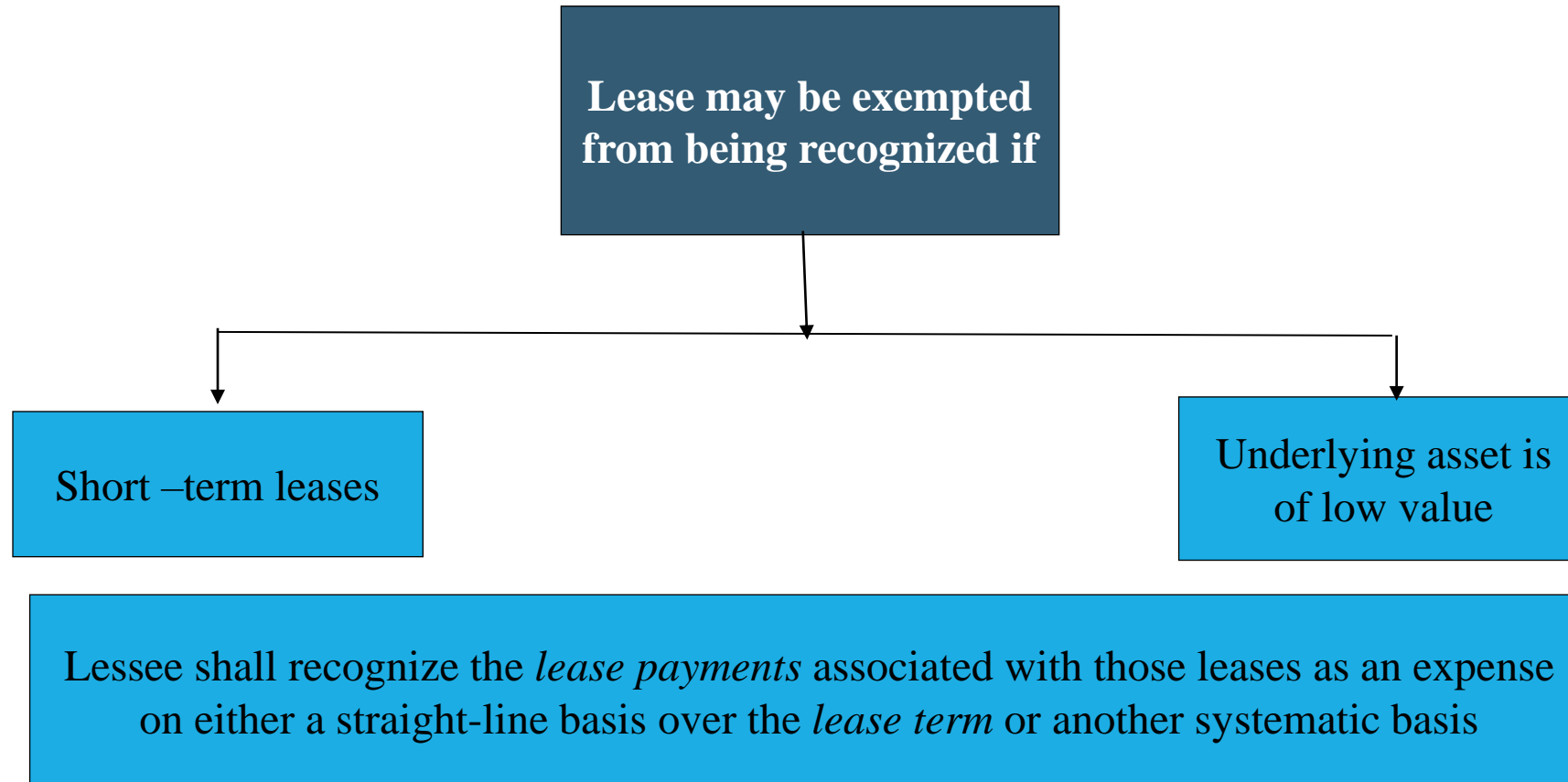
# LEASES – IND AS 116

## SCOPE AND EXCLUSION

- ❑ An entity shall apply this Standard to all leases, including leases of *right-of-use assets* in a *sublease*, except for:
  - (a) leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources,
  - (b) leases of biological assets within the scope of Ind AS 41, *Agriculture*, held by a lessee,
  - (c) service concession arrangements within the scope of *Service Concession Arrangements*, of Ind AS 115,  
*Revenue from Contracts with Customer*,
  - (d) Licences of intellectual property granted by a lessor within the scope of Ind AS 115, *Revenue from Contracts with Customers*; and
  - (e) rights held by a lessee under licensing agreements within the scope of Ind AS 38, *Intangible Assets*, for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

# LEASES – IND AS 116

## RECOGNITION EXEMPTIONS



# LEASES – IND AS 116

## IDENTIFYING LEASES

- ❑ At inception of a contract, an entity shall assess whether the contract is, or contains, a lease.
- ❑ A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

if the contract conveys

- the right to control
- the use of an identified asset

For a period of time

In exchange for consideration.

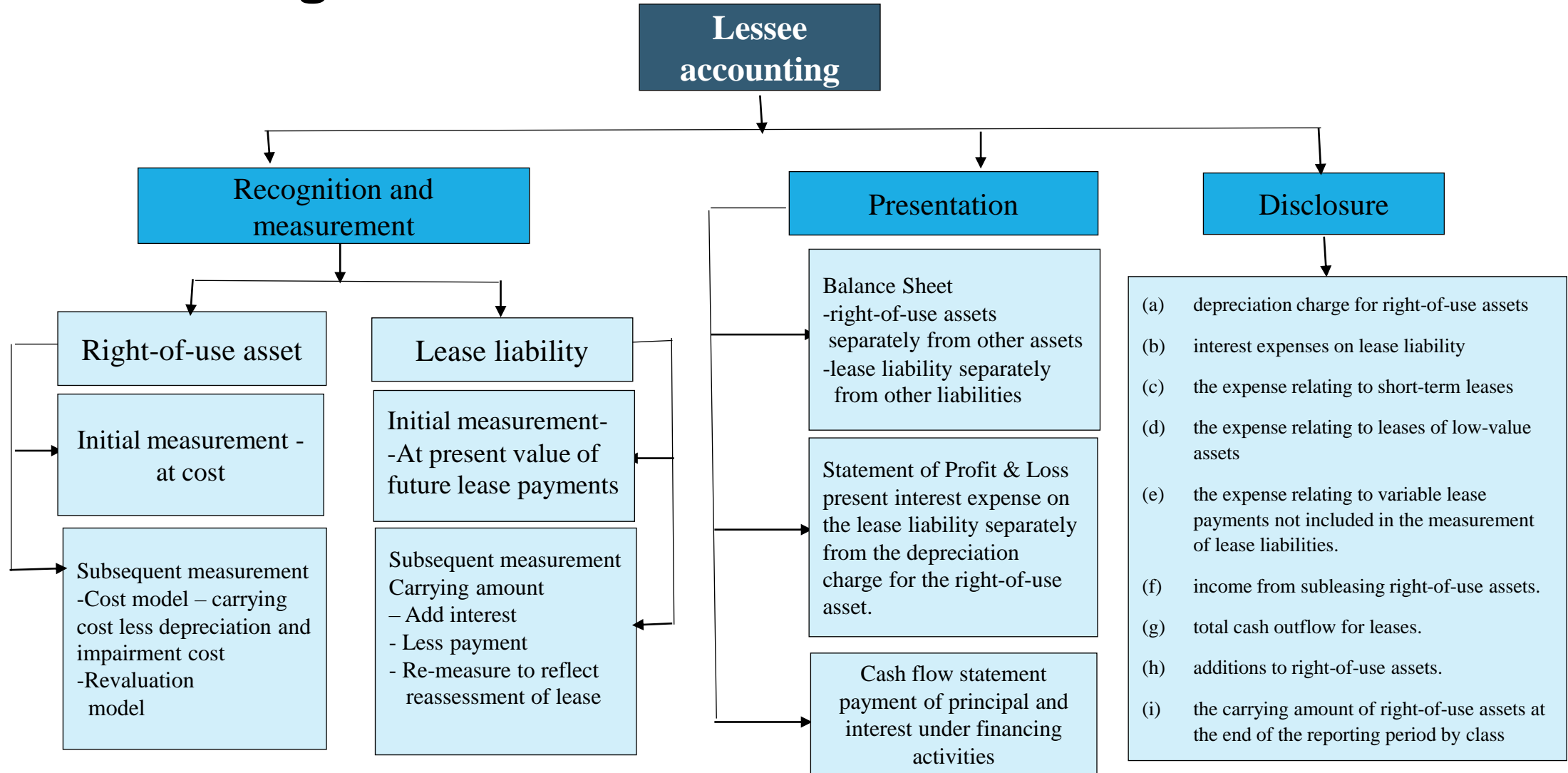


# LESSEE ACCOUNTING



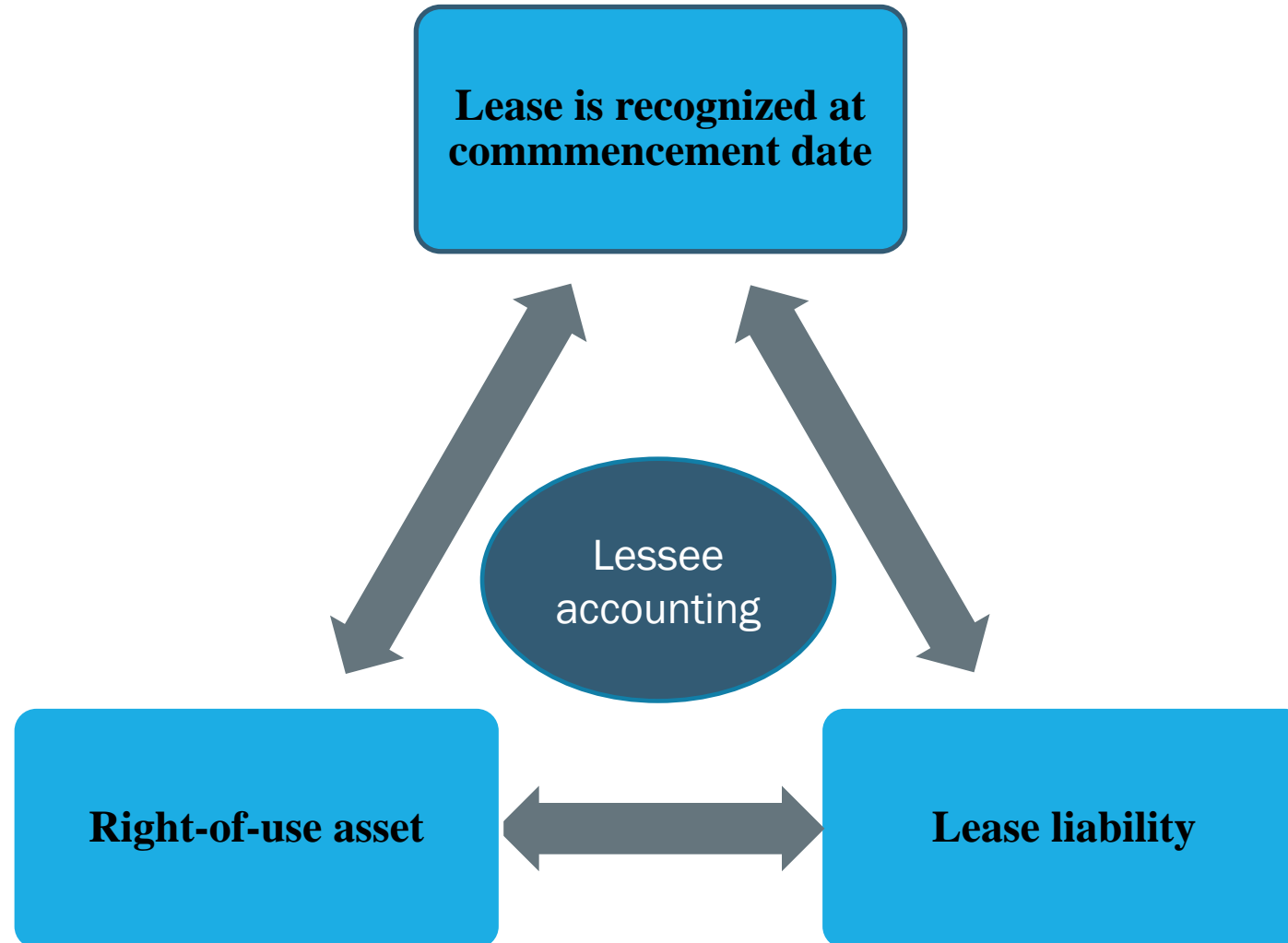
# LEASES – IND AS 116

## Lessee Accounting – A schematic



# LEASES – IND AS 116

## Lessee Accounting - Recognition



# LEASES – IND AS 116

## Lessee Accounting - Initial Measurement – Right-of-use asset

The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability, as described in paragraph 26,
- (b) any lease payments made at or before the commencement date, less any lease incentives received,
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee shall recognize the costs described in paragraph 24(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies Ind AS 2, Inventories, to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this Standard or Ind AS 2 are recognised and measured applying Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

# LEASES – IND AS 116

## Lessee Accounting - Initial Measurement – Right-of-use assets: example

Right-of-use Asset	Amount
a) Lease liability as described in the Standard	XX
b) Add: (lease payments in advance minus any initial lease incentive to be received)	XX
c) Add: Initial direct costs	XX
d) Add: Cost of dismantling and restoration	XX
<b>Total cost</b>	<b>XX</b>

## LEASES – IND AS 116

### Lessee Accounting - Initial Measurement – Lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the *interest rate implicit in the lease* if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the *lessee's incremental borrowing rate*.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) *fixed payments* (including in-substance fixed payments as described in paragraph B42), less any lease incentives receivable;
- (b) *variable lease payments* that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 28);
- (c) amounts expected to be payable by the lessee under *residual value guarantees*;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate described in paragraph 27(b) include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

# LEASES – IND AS 116

## Lessee Accounting - Initial Measurement – Lease liability

### Example

Right-of-use Asset	Amount
a) Lease liability as described in para 26	XX
b) Add: (Fixed lease payments minus lease incentive receivable)	XX
c) Add: Variable lease payments	XX
d) Add: Amount payable under residual value guarantees	XX
e) Add: Exercise price of a purchase option if lessee is reasonably certain to exercise that option	XX
f) Payments of penalties for terminating lease	XX
<b>Total cost</b>	<b>XX</b>

# LEASES – IND AS 116

## Lessee Accounting - Subsequent Measurement – Right-of-use asset

### Subsequent measurement of the right-of-use asset

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies the measurement model described in paragraph 35. (Para 29)

#### **Cost model**

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any remeasurement of the lease liability specified in paragraph 36(c). (Para 30)

A lessee shall apply the depreciation requirements in IAS 16, Property, Plant and Equipment, in depreciating the right-of-use asset, subject to the requirements in paragraph 32. (Para 31)

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. (Para 32)

A lessee shall apply Ind AS 36, Impairment of Assets, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified. (Para 33)

#### **Other measurement models**

If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in Ind AS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment. (Para 35)

# LEASES – IFRS 16

## Lessee Accounting - Subsequent Measurement – Lease liability

### Subsequent measurement of the lease liability

A lessee shall measure the lease liability by:

- (a) increasing the carrying amount to reflect interest on the lease liability.
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39–46, or to reflect revised in-substance fixed lease payments (paragraph B42). (Para 36)

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate explained in paragraph 26, or if applicable the revised discount rate specified in paragraph 41, paragraph 43 or paragraph 45(c). (Para 37)

After the commencement date, a lessee shall recognize in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

- (a) interest on the lease liability; and
- (b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs. (Para 38)



# LEASES – IND AS 116

## Lessee Accounting - Presentation

### Statement of Financial Position

Para 47 A lessee shall either present in the Statement of Financial Position, or disclose in the notes:

(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the balance sheet, the lessee shall:

- (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
- (ii) disclose which line items in the balance sheet include those right-of-use assets.

(b) lease liabilities separately from other liabilities. If a lessee does not present lease liabilities separately in the balance sheet, the lessee shall disclose which line items in the balance sheet include those liabilities.

Para 48 The requirement in paragraph 47(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the balance sheet as investment property.

# LEASES – IND AS 116

## Lessee Accounting - Presentation

### Statement of Profit and loss

According to Para 49, in the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of Ind AS 1, Presentation of Financial Statements, requires to be presented separately in the statement of profit and loss.

### Statement of Cash flows

In accordance with Para 50, in the statement of cash flows, a lessee shall classify:

- (a) cash payments for the principal portion of the lease liability within financing activities;
- (b) cash payments for the interest portion of the lease liability within financing activities applying the requirements in Ind AS 7, Statement of Cash Flows, for interest paid; and
- (c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

# LEASES – IND AS 116

## Lessee Accounting – Disclosure Requirement

A lessee shall disclose the following amounts for the reporting period:

- (a) depreciation charge for right-of-use assets by class of underlying asset;
- (b) interest expense on lease liabilities;
- (c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the
- (d) expense relating to leases with a lease term of one month or less;
- (d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);
- (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
- (f) income from subleasing right-of-use assets;
- (g) total cash outflow for leases;
- (h) additions to right-of-use assets;
- (i) gains or losses arising from sale and leaseback transactions; and
- (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

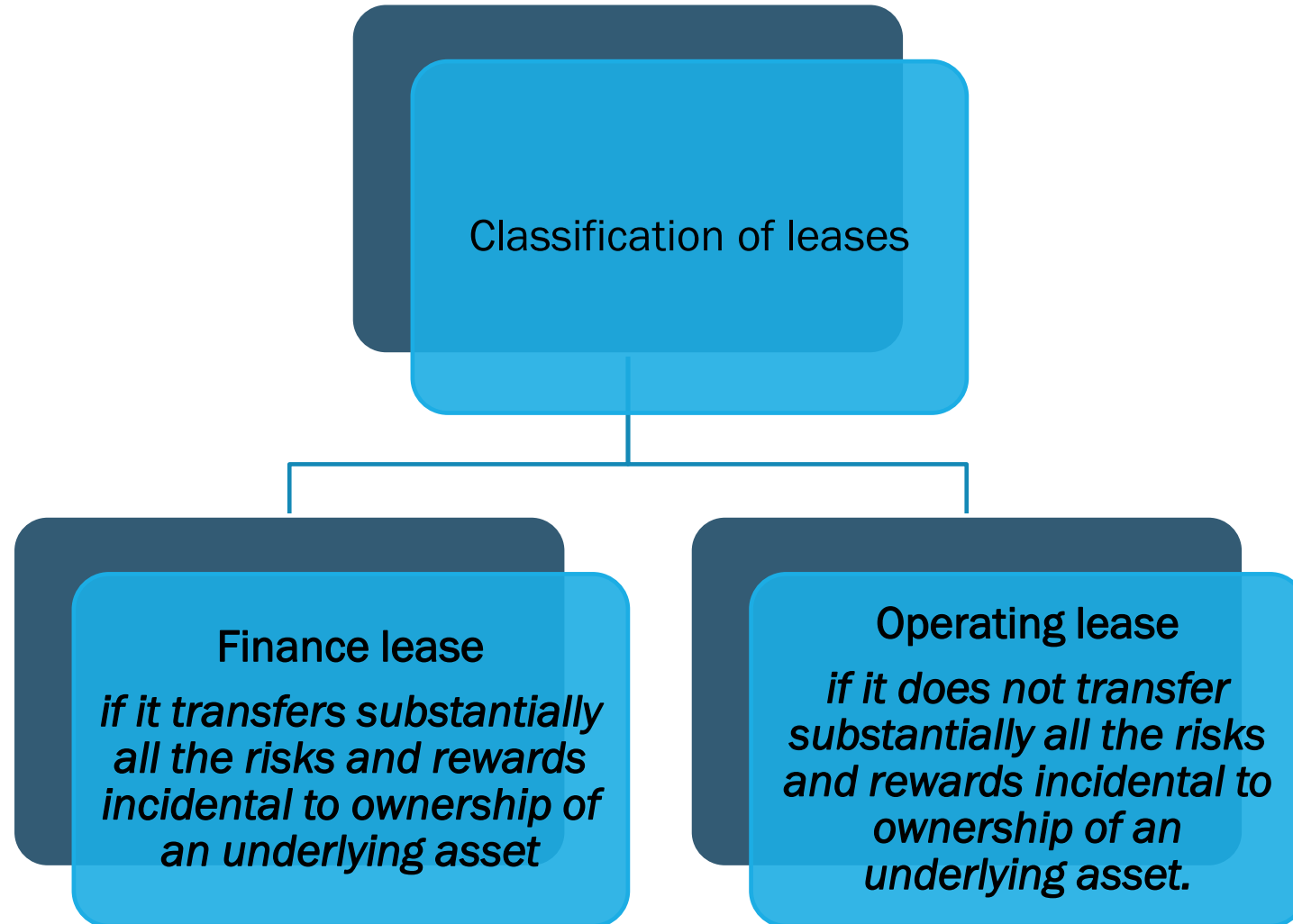
(Para 54)



# LESSOR ACCOUNTING

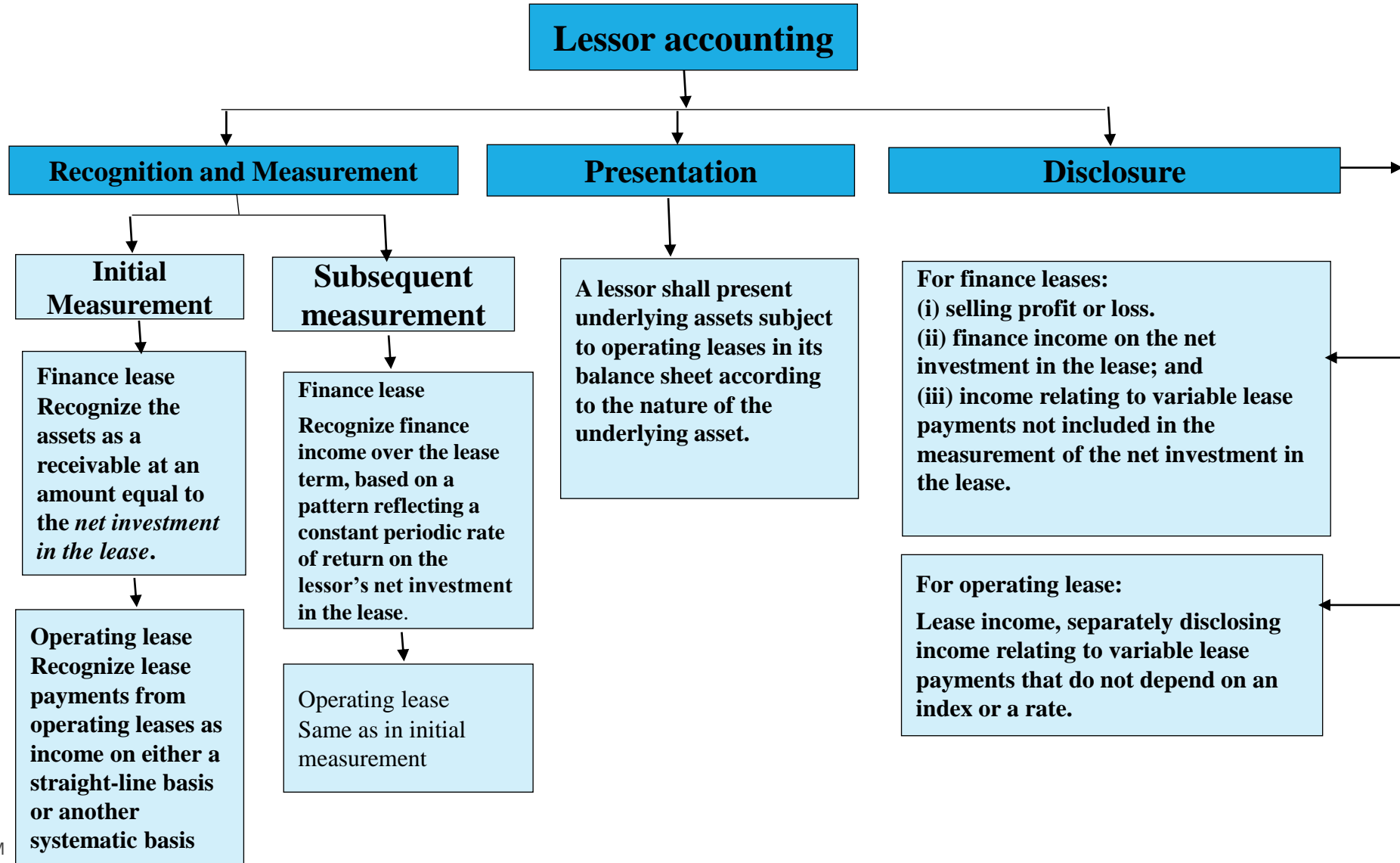
# LEASES – IND AS 116

## Lessor Accounting – Classification of leases



# LEASES – IND AS 116

## Lessor Accounting – A schematic



# LEASES – IND AS 116

## Lessor Accounting – Finance leases

### Recognition and Measurement

**A lessor shall recognize assets held under a finance lease in its Statement of Financial Position and present them as a receivable at an amount equal to the *net investment in the lease*. (Para 67)**

# LEASES – IND AS 116

## Lessor Accounting – Finance leases

### Initial Measurement

The lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- (a) fixed payments (including in-substance fixed payments as described in paragraph B42), less any lease incentives payable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph B37); and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. (Para 70)



# LEASES – IND AS 116

## Lessor Accounting – Finance leases

### Manufacturer or dealer leases

- ❑ A manufacturer or dealer lessor shall recognize the following for each of its finance leases:
  - (a) revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest;
  - (b) the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the *unguaranteed residual value*; and
  - (c) selling profit or loss (being the difference between revenue and the cost of sale) in accordance with its policy for outright sales to which Ind AS 115 applies. A manufacturer or dealer lessor shall recognize selling profit or loss on a finance lease at the commencement date, regardless of whether the lessor transfers the underlying asset as described in Ind AS 115. (para 71)

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# **LEASES – IND AS 116**

## **Lessor Accounting – Finance leases**

### **Subsequent Measurement**

**A lessor shall recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. (Para 75)**

# **LEASES – IND AS 116**

## **Lessor Accounting – Operating leases**

### **Recognition and Measurement**

**A lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.**

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# **LEASES – IND AS 116**

## **Lessor Accounting**

### **Presentation**

**A lessor shall present underlying assets subject to operating leases in its balance sheet according to the nature of the underlying asset.**

# LEASES – IND AS 116

## Lessor Accounting

### Disclosure Requirement

- A lessor shall disclose the following amounts for the reporting period:
  - (a) for finance leases:
    - (i) selling profit or loss;
    - (ii) finance income on the net investment in the lease; and
    - (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.
  
  - (b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

# LEASES – IND AS 116

## Lessor Accounting

### Sale and Lease back transactions

- If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103.

# LEASES – IND AS 116

## Lessor Accounting

### Assessing whether a transfer of asset is a sale

- ❑ According to Para 100, if the transfer of an asset by the seller-lessee satisfies the requirements of Ind AS 115 to be accounted for as a sale of the asset:
  - (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
  - (b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.
  
- ❑ If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
  - (a) any below-market terms shall be accounted for as a prepayment of lease payments; and
  - (b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

# LEASES – IND AS 116

## Lessor Accounting

### Assessing whether a transfer of asset is not a sale

- If the transfer of an asset by the seller-lessee does not satisfy the requirements of Ind AS 115 to be accounted for as a sale of the asset:
  - (a) the seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying Ind AS 109.
  - (b) the buyer-lessor shall not recognize the transferred asset and shall recognize a financial asset equal to the transfer proceeds. It shall account for the financial asset applying Ind AS 109.





**THANK YOU!**