



IND AS 116 - LEASES

(effective from financial period beginning from 1 April 2019)






AGENDA

- Change from old standard.
- Applicability of IND AS 116.
- Identification of lease.
- Recognition of lease liability.
- Recognition of lease assets.
- Modification to contract.
- Other aspects
- Impact of COVID -19



1. Change from old standard

CHANGE FROM OLD STANDARD – BALANCE SHEET

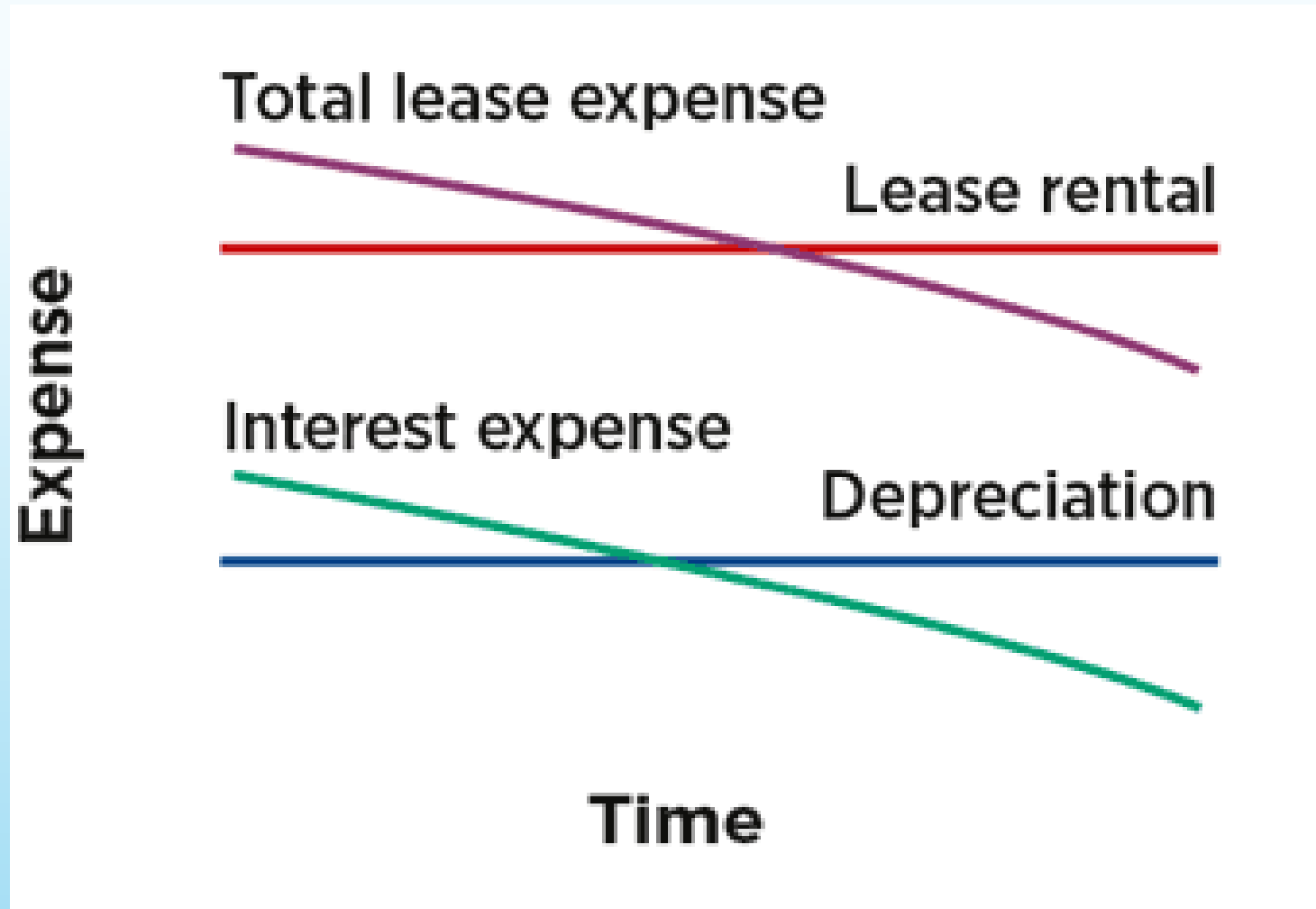
	Ind AS 17 / AS 19		Ind AS 116
	Finance lease	Operating lease	Single accounting model
Assets		-----	
Liabilities		-----	
Off balance sheet obligations	-----		-----

No change in accounting treatment in case of Lessor.

CHANGE FROM OLD STANDARD – PROFIT & LOSS

	Ind AS 17 / AS 19		Ind AS 116
	Finance lease	Operating lease	Single accounting model
Rent expense	-----	●	● ↓
Depreciation	●	-----	●
Finance Income	●	-----	●
EBITDA	-----	-----	↑
Profit before tax	-----	-----	↓

CHANGE FROM OLD STANDARD – PROFIT & LOSS



2. Applicability



APPLICABILITY

- **MANDATORY EXEMPTION**

1. Use minerals, oil, natural gas and similar nonregenerative resources
2. Biological assets within the scope of (Ind AS 41)
3. Service concession arrangements (Ind AS 115)
4. Licences of intellectual property granted (Ind AS 115)
5. Rights held by a lessee under licensing agreements (Ind AS 38)

- **OPTIONAL EXEMPTION**

1. Short term leases (< 12 months) on same class of asset.
2. Low value assets

3. Identification of lease



IDENTIFICATION OF LEASE – AS DEFINED

How to identify whether the contract contain 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 of time** in exchange for **consideration**.

Right to control the use of asset

- obtain substantially all of the economic benefits and
- direct the use of the identified asset.

Identified assets (explicitly specified or implicitly specified)

If a supplier has right to substitute an asset i.e.

- The supplier can substitute alternative assets, and
- The supplier would benefit economically from the exercise of its right to substitute the asset.

Then, no right to use an asset

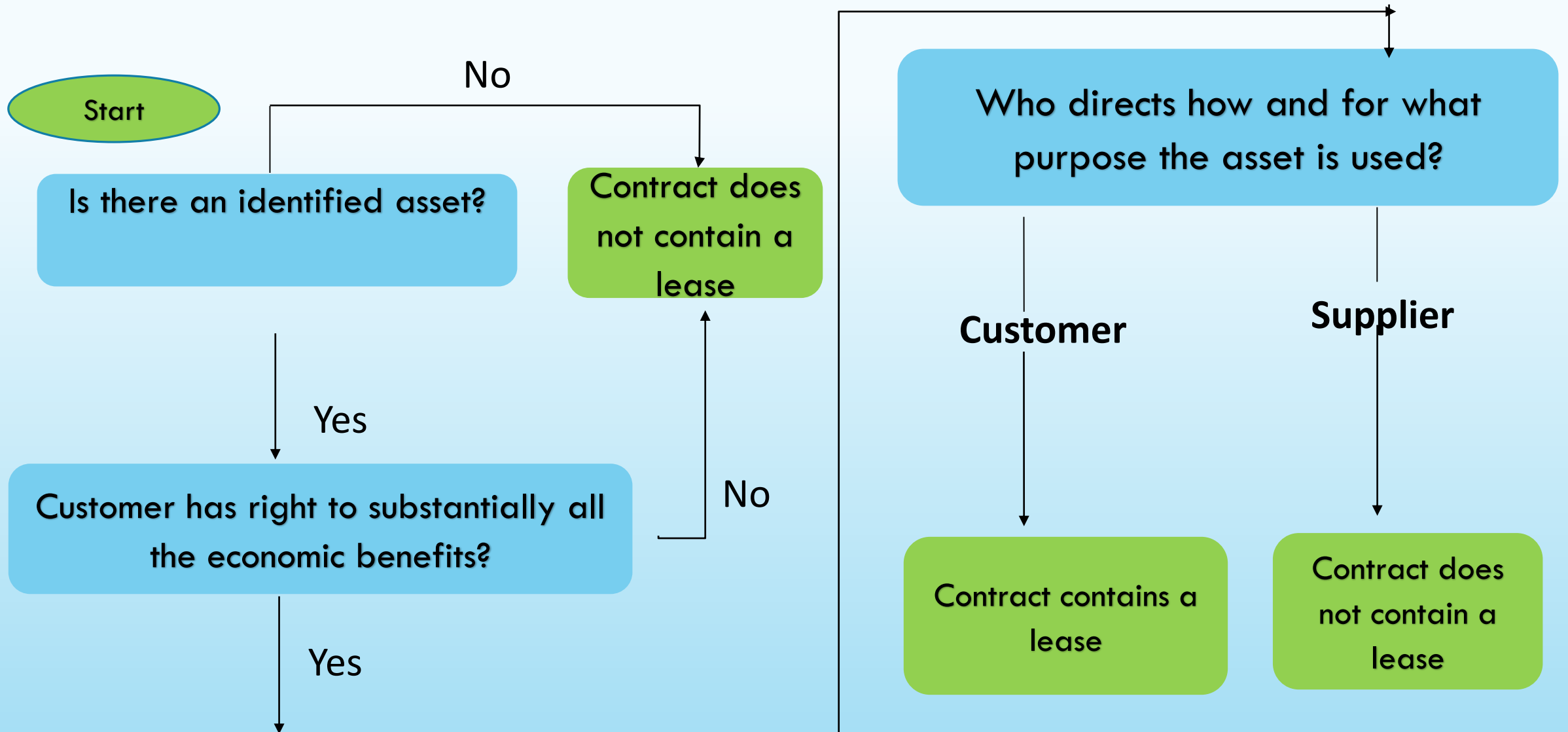
Period of time

- non-cancellable period, and
- option to extend (reasonably certain to exercise) or option to terminate (reasonably certain to not to exercise)

Consideration

- Fixed
- Based on usage, sales etc.

IDENTIFICATION OF LEASE – DECISION FLOW



IDENTIFICATION OF LEASE – EXAMPLE

Query: A customer enters into a contract with supplier for the use of a specified ship for a five year period as per the customer's discretion. Identify whether it is a contract or not?

Response: In this case, the Specified ship is identified in the contract and neither does the supplier has substantive substitution right over it. The customer occupies substantially all of the ship and therefore has the right to substantially all of the economic benefits from use of the ship during the contract period. Customer make relevant decisions about whether, where and when the ship sails (subject to contractual restrictions designed to protect supplier's investment). Although supplier operates the ship but it is in accordance with customers decision regarding how and for what purpose ship is used. Hence, it is lease of ship for the contract period.

4. Recognition of lease liability



INITIAL MEASUREMENT**Lease liability****=****PV of *lease payments*****Lease payments****Fixed payments**

- Includes in-substance fixed payments less any lease incentives receivables

Purchase option (exercise price)

- If reasonably certain to exercise

Residual value guarantees

- Amount expected to pay

Termination option penalties


- If lease term reflects termination by lessee

Variable lease payments

- Only for index or rate at commencement (not based on turnover and usage etc.)

Discount rate – Rate implicit in the lease or incremental borrowing rate

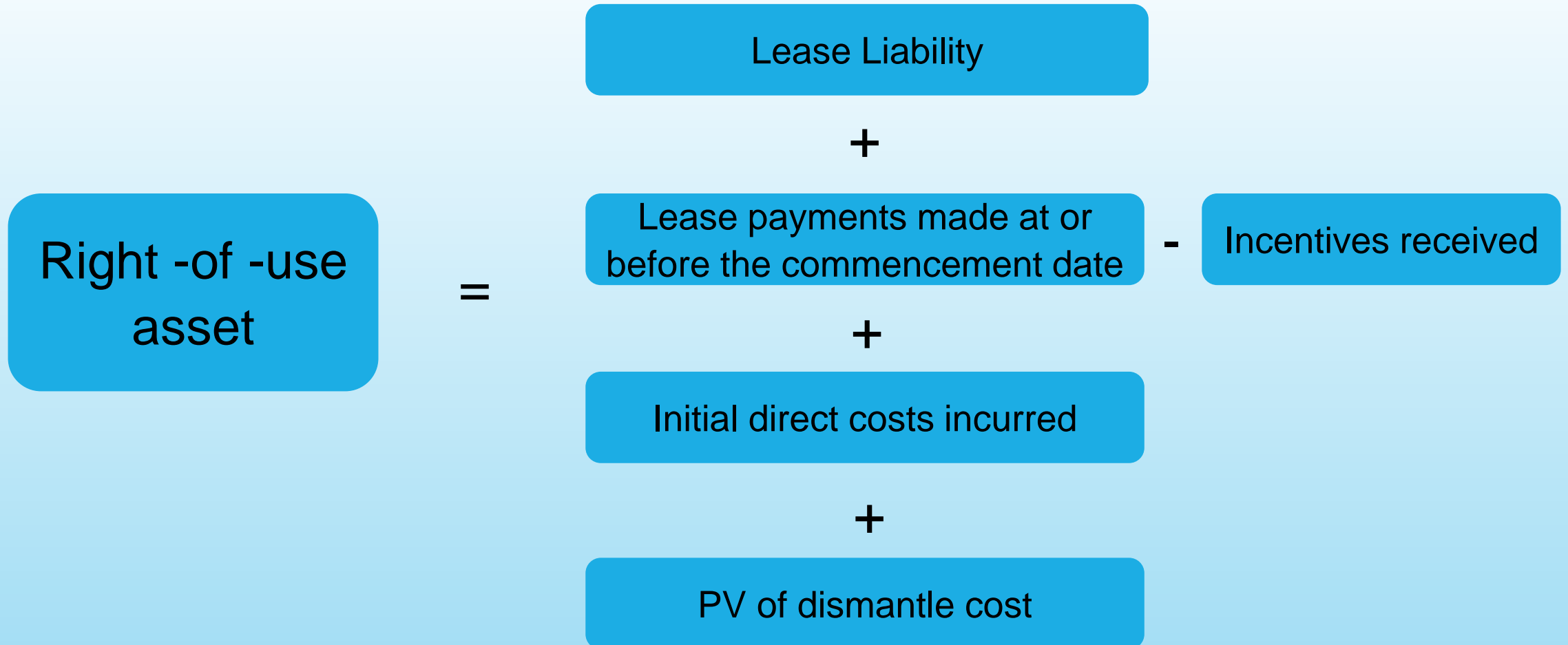
SUBSEQUENT MEASUREMENT

- Lessee should **accrete the lease liability** with **interest** and **reduce the liability** with **lease payments** made. (i.e. EIR method)
- Lessee should **remeasure the lease liability**  upon the occurrence of certain events (e.g. change in lease term, change in variable rents based on index rate), which is generally recognised as an **adjustment to the right-of-use asset**.

5. Recognition of lease asset



INITIAL MEASUREMENT



SUBSEQUENT MEASUREMENT

Initial recognition

At Cost (Ind AS 116)

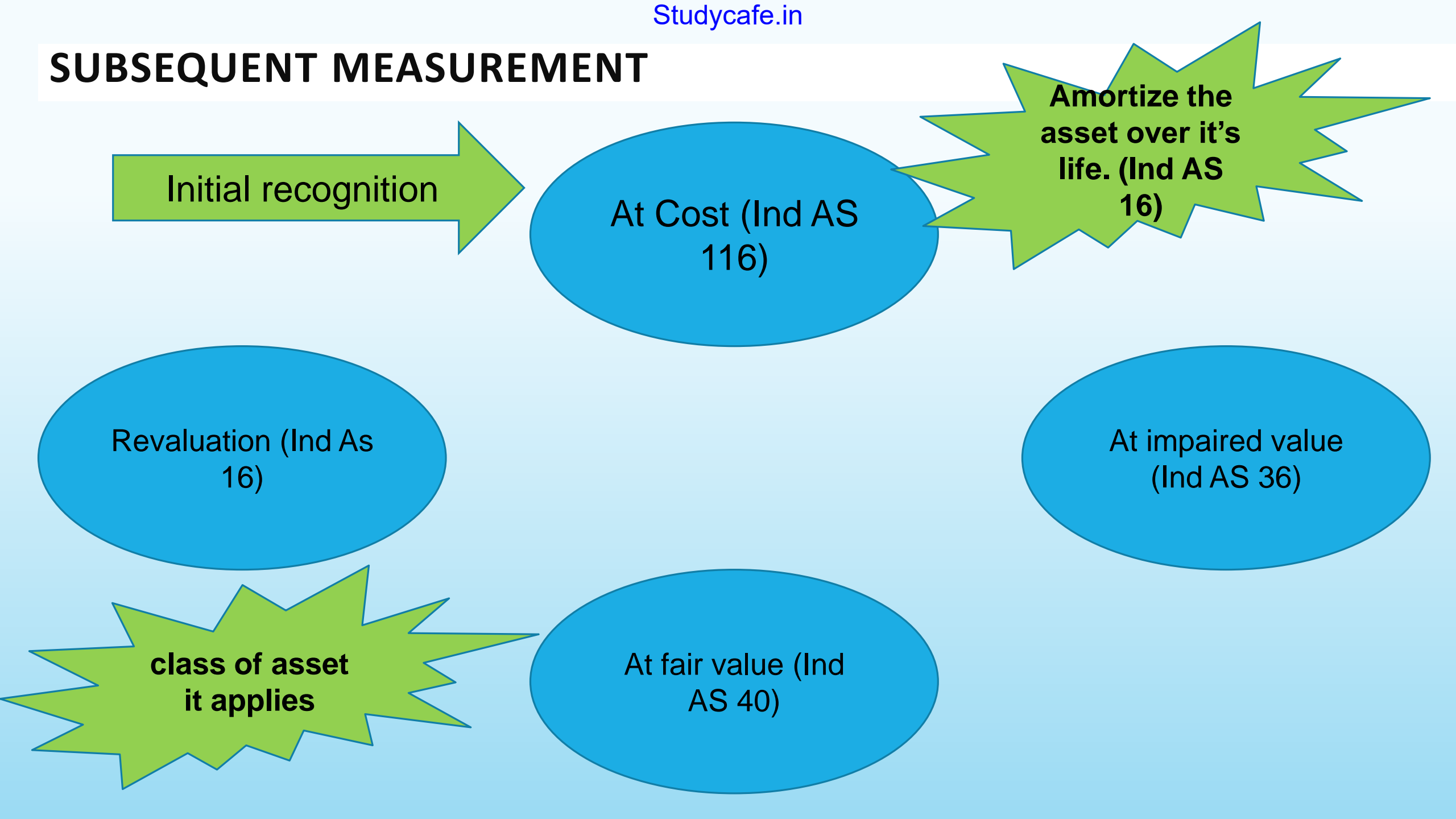
Amortize the asset over its life. (Ind AS 16)

Revaluation (Ind AS 16)

At impaired value (Ind AS 36)

class of asset it applies

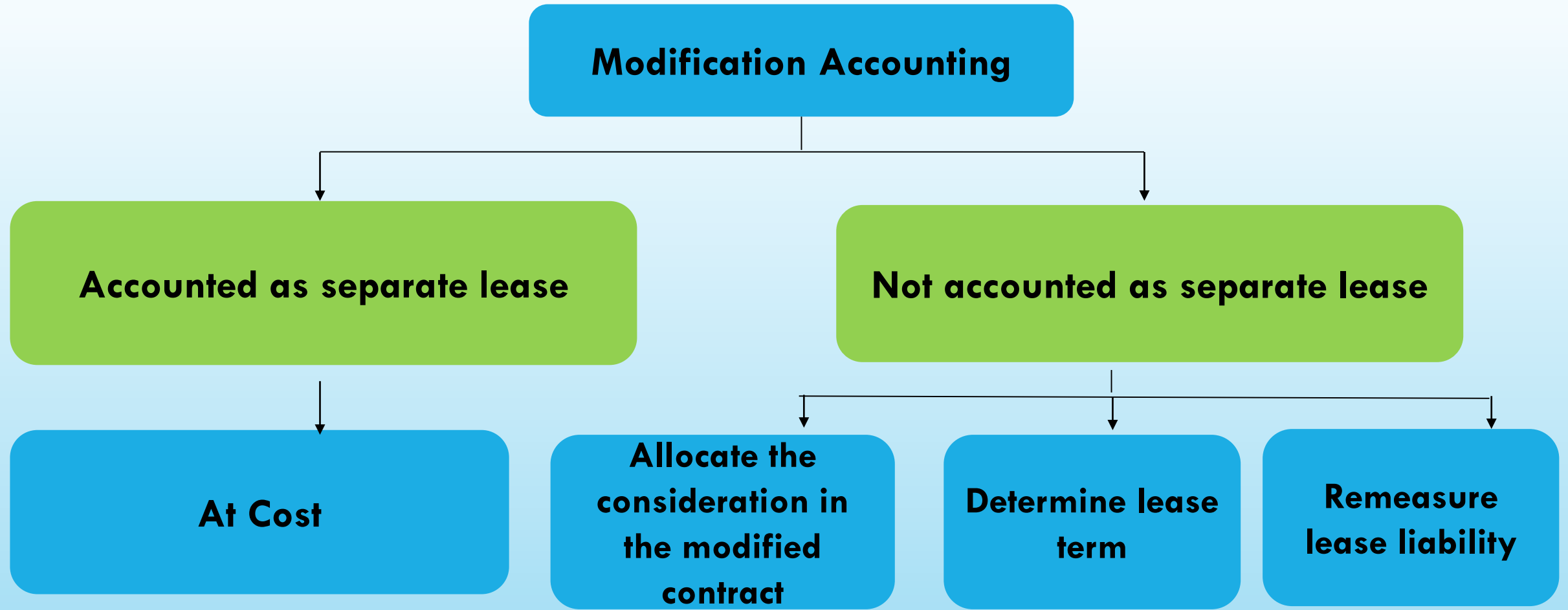
At fair value (Ind AS 40)



6. Modification to contract



MODIFICATION TO CONTRACT





7. Other aspects

OTHER ASPECTS

Composite Contract :

- Segregate the contract containing lease component and non-lease component (eg. Building insurance),
- Lessee may use practical expedient to account all component under one lease component;
- If this practical expedient is not used then the lessee must allocate the total consideration to both the component on the basis of standalone prices.
- **If standalone prices are not available, then lessee must estimate it.**

Sale or lease back:

- If the sale qualifies under Ind AS 115;
 1. Derecognise the underlying asset
 2. Recognise the sale at fair value
 3. Recognise only the gain/loss that relates to the rights transferred to buyer-lessor
 4. Recognise a ROU asset as proportion of previous carrying amount of underlying asset
 5. Recognise a lease liability
- If the sale does not qualify under Ind AS 115;
 1. Not derecognise the underlying asset.
 2. Recognise a financial liability – Ind AS 109:



8. Impact of COVID- 19

IMPACT OF COVID 19

- Changes in the terms of lease arrangements or lessor may give some concession to the lessee with respect to lease payments, rent free holidays etc. Such revised terms or concessions shall be considered while accounting for leases, which may lead to the modification of leases. However, anticipated revisions should not be taken into account.
- Variable lease payments may be significantly impacted
- Discount rate used to determine the present value of new lease liabilities may need to incorporate any risk associated with COVID-19.
- If any compensation is given/declared by the Government to the lessor for providing concession to the lessee, it should be considered whether the same needs to be accounted for as lease modification as per Ind AS 116 or whether assistance received from Government is to be accounted as government grants under Ind AS 20.

THANK YOU

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