A note on Draft Ind AS 116 Leases

The Accounting Standard Board has issued an exposure draft on Ind AS 116, Leases, with a proposed effective date of 1st April, 2019, subject to notification by Ministry of Corporate Affairs and Ind AS 116 supersedes Ind AS 17 'Leases'. Ind AS 116, " Leases" will be applicable on the companies which are preparing their financial statements as per Ind AS. As per the IFRS convergence status dated December 19, 2018 issued by the ICAI, its already cleared by the NACAS and submitted to MCA for Notification.

1. Comparative

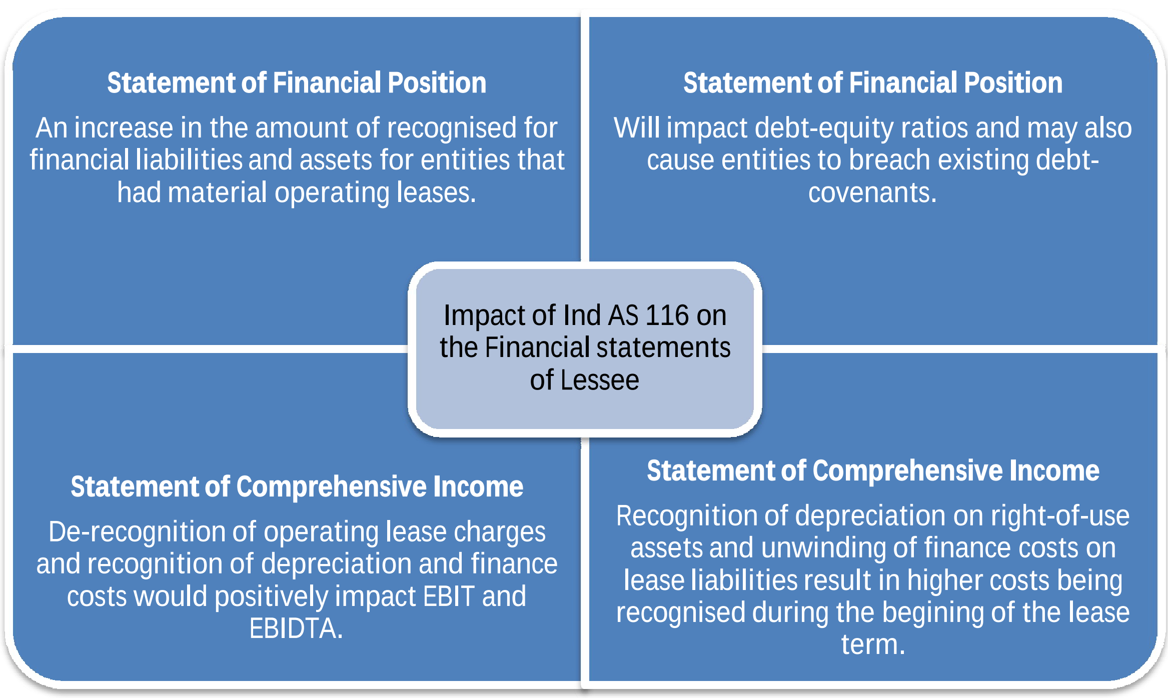
S.No.	Ind AS 116	Existing Ind AS 17
	Lessee Accounting	
1.	Ind AS 116 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.	Ind AS 17 required to classify leases as finance lease and operating lease.
2.	Under Ind AS 116, a lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying Ind AS 7, Statement of Cash Flows.	Under Ind AS 17, for operating leases, lessee is required to recognise the lease payments as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.
3.	Ind AS 116 requires detailed disclosure for lessees as compared to Ind AS 17.	Ind AS 17 requires less disclosure for lessees.
	Lessor Accounting	
4.	Requirements with regard to lessor accounting are substantially similar to accounting requirements contained in Ind AS 17. Accordingly, a lessor will continue to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.	No major change
5.	Ind AS 116 contains additional disclosure requirements for lessor as compared to Ind AS 17, such as, disclosure of maturity analysis of lease payments; quantitative and qualitative explanation of significant changes in carrying amount of new investment in finance leases etc.	Ind AS 17 requires less disclosure for Lessor.
6.	Ind AS 116 contains specific provision for lease modification for lessor and lessee.	Ind AS 17 does not specifically provide how to account for lease modification.

2. Lessee Accounting

1. Lease liability is initially recognised and measured at an amount equal to the present value of minimum lease payments during the lease term that are not yet paid.
2. Right of use asset is recognised and measured at cost, consisting of initial measurement of lease liability plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, initial estimate of the restoration costs and any initial direct costs incurred by the lessee.
3. The lease liability is measured in subsequent periods using the effective interest rate method. The right-of-use asset is depreciated in accordance with the requirements in Ind AS 16, Property, Plant and equipment.
4. Recognition and measurement exemption is available for low-value assets and short term leases. Assets of low value include IT equipment or office furniture. No monetary threshold has been defined for low-value assets. Short-term leases are defined as leases with a lease term of 12 months or less.
5. If an entity chooses to apply any one of the exemptions, payments are recognised on a straight-line basis or another systematic basis that is more representative of the pattern of the lessee's benefit.

3. Key Impact

Lessees were hitherto required to screen and distinguish each of the lease arrangement as either an operating (off balance sheet) or finance lease (on balance sheet). Ind AS 116 requires lessees to recognise a 'right-of-use asset' and a 'lease liability' for almost all of the leasing arrangements. Optional exemption is available in respect of short term leases and low-value assets.



4. Lessor Accounting

Ind AS 116 does not contain substantial changes to lessor accounting compared to Ind AS 17. The lessor still has to classify leases as either finance or operating, depending on whether substantially all of the risk and rewards incidental to ownership of the underlying asset have been transferred.

5. Transition Requirement

1. Entities are not required to reassess existing lease contracts but can elect to apply the guidance regarding the definition of a lease only to contracts entered into (or changed) on or after the date of initial application.
2. Full retrospective application is optional.
3. Lessee can elect to apply the simplified approach and not restate the comparative information. The cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings at the end of initial application.

6. Disclosure Requirements

Ind AS 116 requires enhanced quantitative and qualitative disclosures for both lessor and lessees.