INDIAN ACCOUNTING STANDARD 116 – LEASES

Ind AS 116 is a giant step taken by the Accounting Standard Board of The ICAI resulting in the appearance of an altogether new era in the field of lease accounting. With its applicability from accounting periods beginning on 01.04.2019, we can safely say that lease accounting has undergone a profound transformation. On March 30, 2019, the Ministry of Corporate Affairs notified the new standard to be effective for annual periods beginning on or after 1 April 2019. Ind AS 116 is the Indian form of IFRS 16 on leases, requires lessees to recognize all leases on the balance sheet, with a few exemptions. With the applicability of Ind AS 116, Ind AS 17, the old standard on leases is omitted.

In the current scenario, where the only thing that is constant is 'change', it is of paramount importance for one and all to equip themselves with the ongoing dynamics to ensure quality work. This acts as a shield for professionals like us.

Ind AS 116 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.

Although both the standards are substantially the same, the major difference lies in the accounting of leases in the books of the leases. Here, the lessee needs not to classify the lease as a financial lease or operating lease. All leases except leases for short term and leases of low-value assets as financial leases. The new accounting model recognizes leases in the balance sheet on the day of transaction in the form of right to use asset and a lease liability. This will show that there is an asset the right of use of which is with the entity in the question and at the same time the entity is obliged for making lease payments. The amount at which the right of use asset shall be recorded at comprises the advance lease payments, the initial value of lease liability, costs that are directly attributable in bringing the asset to its present location and condition as well as the initial estimated cost associated with dismantling and restoration. The right to use the asset shall be depreciated at each balance sheet date. Besides, the lease liability shall be recorded at the present value of lease payments increased by the implicit rate of return and reduced by the amount paid over the lease period. As we may do in the case of non-financial assets, the revaluation model of accounting can be adopted here as well. More or less, the accounting is similar to that of nonfinancial assets and other financial liabilities. Under Ind AS 17, for operating leases, the lessee is required to recognize 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.

Lessor accounting is not substantially changed. The number of disclosures has increased. There is stress on detailed disclosures.

Major Impact:

The leases will start to show in the balance sheet as a result of which position of assets and liabilities will get affected and financial metrics (eg. debt-equity ratio) based on that will also have some impact.

Recognition of depreciation on the right of use assets and unwinding of finance costs on lease liabilities result in higher costs being recognized during the beginning of the lease term.

The move to Ind AS is not just a technical accounting exercise. It is an exercise in change management and offers opportunities for improvement. Ind AS conversion offers companies an opportunity to improve their business in several ways.

Your company can:

- Reshape its management reporting systems to better manage both its financial accounting and its financial statement generation and provide company leadership with essential information
- Improve disclosure — to analysts, investors, regulators and other stakeholders — of your company's financial results and position and other performance indicators
- Improve the metrics used to evaluate both company and executive performance
- Benchmark itself against its global peers by following global-like standards.
- Ensure all finance team members have the training, knowledge, and skills needed to perform their roles and risks can be reduced
- Make accounting policy choices that are aligned with global industry practice.

  - "It is important to accept the change but does not let go off your value." - Dalai Lama

- Submitted by Aman Jhunjhunwala

Please feel free to contact us at contact@xactitude.in for any further queries.