

Lease Accounting



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- A lease is an arrangement under which a lessor agrees to allow a lessee to control the use of identified property, plant, and equipment for a stated period of time in exchange for one or more payments.
- There are several types of lease designations, which differ if an entity is the lessee or the lessor.
- The two most common types of leases are operating leases and financing leases (also called capital leases). In order to differentiate between the two, one must consider how fully the risks and rewards associated with ownership of the asset have been transferred to the lessee from the lessor.





**GAAP Variances on
leases**

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Particulars	AS 19	IND AS 116
Scope & Coverage	<ul style="list-style-type: none"> The scope of standard specifically excludes lease agreement to use land. 	<ul style="list-style-type: none"> Land is covered by the following standard
	<ul style="list-style-type: none"> No specific provisions relating to sub-lease. 	<ul style="list-style-type: none"> The standard covers specific provisions relating to the right to use assets in a sub-lease as well.
	<ul style="list-style-type: none"> No provision relating to measurement of property 	<ul style="list-style-type: none"> Provision related to investment property provided by lessors under operating leases is removed.
Definition of lease	<ul style="list-style-type: none"> A lease is 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. No specific guidance to determine such arrangement given. 	<ul style="list-style-type: none"> A lease is the contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Specific guidance relating to assessment of contract is provided in the standard.
Definition of residual value	<ul style="list-style-type: none"> Para 3.11 defines residual value as estimated fair value of the asset at the end of the lease term 	<ul style="list-style-type: none"> Not defined in standard

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Particulars	AS 19	IND AS 116
Sale & Leaseback Transactions of Finance Lease	<ul style="list-style-type: none"> Para 48 of the standard states with Profit/Loss arising from such transactions must be deferred and amortized over the lease term in proportion to the depreciation of the leased asset 	<ul style="list-style-type: none"> It states that the gains/loss should be deferred and amortized over the lease term. The ratio is not defined.
Treatment of Initial Direct Cost – Operating Leases	<ul style="list-style-type: none"> Para 42 states that the lessor has an option to either defer the booking of cost and allocate to income over the lease term in proportion to the recognition of rent income, or are recognised as an expense in the statement of profit and loss in the period in which they are incurred. 	<ul style="list-style-type: none"> Para 52 states that Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.
Treatment of Initial Direct Cost – Finance Leases	<ul style="list-style-type: none"> Para 31 mentions that the initial direct costs are either recognized immediately in the statement of profit and loss or allocated against the finance income over the lease term. 	<ul style="list-style-type: none"> Para 69 mentions that it is included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.
Lease Incentives	<ul style="list-style-type: none"> No specific discussion of lease incentives. 	<ul style="list-style-type: none"> The incentives are recorded as deduction from rentals.

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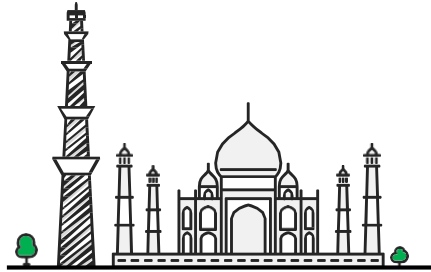
Particulars	AS 19	IND AS 116
Classification of Lease in hands of lessee	<ul style="list-style-type: none"> Leases were recorded as per their classification into Operating and Finance Lease 	<ul style="list-style-type: none"> Lessee will follow Single Lease Accounting. There is no classification as operating or finance Lease for lessee.
Accounting and Presentation in financial Statement by lessee by lessee	<ul style="list-style-type: none"> Under Operating lease, asset was not recorded in books and recognized lease payments as expense in the profit and loss account. 	<ul style="list-style-type: none"> Lessee will recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lessee would recognize depreciation expense on the right of use asset and interest expense on the lease liability, classify the lease payments into principal and interest component.
Lease modification	<ul style="list-style-type: none"> No treatment mentioned in the standard. 	<ul style="list-style-type: none"> Para 44 and Para 79 specifically deal with lease modification and its accounting.
Disclosures Requirements of lessor	<ul style="list-style-type: none"> Exemption granted to small and medium sized companies for certain disclosures. 	<ul style="list-style-type: none"> Additional Requirements of disclosure for lessor such as disclosure of maturity analysis of lease payments; quantitative and qualitative explanation of significant changes in carrying amount of new investment in finance lease.
Disclosures Requirements of lessee	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Additional requirements as disclosure of maturity analysis of lease payments; quantitative and qualitative explanation of significant changes in carrying amount of new investment in finance leases.

Contact us



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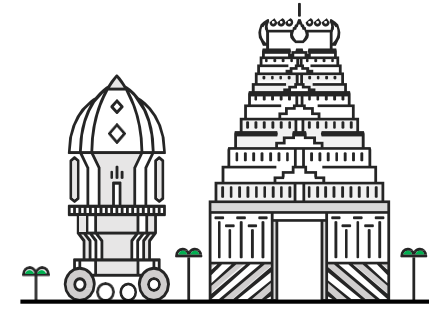
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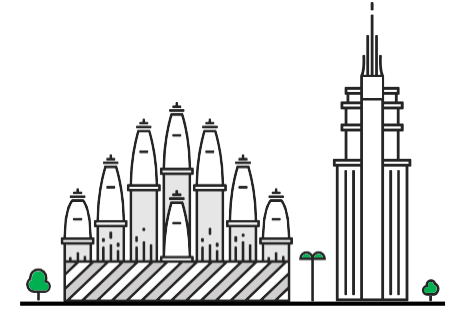
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Thank You



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