

IND AS

Basic Understanding of IND AS 116 – Leases



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IND AS 116 is a financial reporting standard that deals with accounting for leases. It is a part of the IND AS Framework which aligns with the International Financial Reporting Standards (IFRS) 16. IND AS 116 replaces the previous standard, IND AS 17, and became effective for annual periods beginning on or after April 1, 2019



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IND AS 116 eliminates the off balance-sheet treatment for operating leases requiring lessees to recognize both lease liabilities and right of use assets on their balancesheet.

IND AS 116 eliminates the distinction between finance leases and operating leases for lessees and introduce a single accounting model for all lessees.



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Leases



Identified Assets

and

Customer has right to control the use



Explicitly/Implicitly specified

No substantive rights to substitute

Right to obtain substantially all economic benefits

Right to direct the use



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Determining the lease term:

The determination of the lease term is a crucial aspect of applying IND AS 116. The lease term is the non cancellable period for which a lessee has the right to use an underlying asset, including any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option.



Accounting Entries:

1) Recognition of Lease Asset and Lease Liability:

Right to Use Asset a/c Dr
To Lease Liability a/c

2) Amortisation of Right to Use Asset (ROU):

Depreciation on ROU a/c Dr
To Right to Use Asset a/c

3) Charging Interest on Lease Liability recognised:

Interest on Lease Liability a/c Dr
To Lease Liability a/c

4) Reversal of Rent:

Lease Liability a/c Dr
To Rent a/c

For any further information, refer to IND AS 116 Leases

