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# Ind AS 116, Leases - A New Era of Accounting for Lease contracts by Lessees

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In the larger interest of the Indian economy and industries, the ICAI always endeavours to ensure that Indian Accounting Standards (Ind AS) Framework remains converged at all time with globally acceptable IFRS Standards. The ICAI continuously monitors the financial reporting developments globally and plays a critical role in the Nation's Standard-setting Framework by formulating new Ind ASs and amending the Ind ASs when required in line with IFRS Standards issued by the IFRS Foundation. The Central Government, prescribes under Section 133 of the Companies Act, the Accounting Standards recommended by the ICAI, in consultation with and after examination of the recommendations of the National Financial Reporting Authority (NFRA).

We draw the attention of various stakeholders about the latest notification of new Standard on *Leases*, viz., Ind AS 116, *Leases*, which is applicable for accounting periods beginning on or after April 1, 2019. Ind AS 116, *Leases*, replaces the existing standard Ind AS 17, *Leases*, and

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interpretation/guidance contained in its appendices. New Ind AS 116, *Leases*, is based on IFRS 16 *Leases* which is an outcome of the joint project of IASB of IFRS Foundation and FASB, US National Standard-setter.

Leasing is a well-known and long established form of obtaining finance. The new standard on leases ushers in a substantial change in the accounting for operating leases by lessees and few improvements in the disclosure related aspects for lessors accounting.

The key changes in lessees accounting relate to introduction of single lease accounting model by elimination of classification between operating and finance leases, and recognition of gain/loss for sale and lease-back transactions. In the new lease accounting model for lessees majority of leases will be recognised on balance sheet by recognising a lease liability with a corresponding 'right-of use' asset. Ind AS 116 will have an impact on all three components of the financial statements. The, extent of impact would vary for each industry depending on the financing and leasing structures prevalent in that industry.

**CA.Prafulla P. Chhajed, President, ICAI said, "This new Standard on leases ushers in path breaking reform in accounting for leases and improves the quality of financial information. It will bring substantial visibility of companies lease commitments, financing and operating model and above all better reflects economic reality. The exemptions given for short term leases and low value asset leases are expected to provide substantial relief from operational complexities to many companies."**

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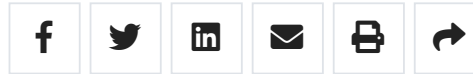
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