

# ***Lease Liability in a Sale and Leaseback***

Amendments to Ind AS 116, *Leases*

## ***Review Comments***

### **Comments**

*In newly inserted para 102 A , introductory comments may be added as follows :*

1. Sale and leaseback transactions are commonly used in several industries including civil aviation, hospitality real estate, mechanized agriculture etc. A sale and leaseback transaction is a financing tool used by entities to secure long-term financing from substantial Property, Plant and Equipment (PPE) such as land ,buildings or items of machinery and equipments. Ind AS 17 covered the accounting for a sale and leaseback transaction from the perspective of the seller-lessee as against Ind AS 116 which covers the prescribed treatment additionally for buyer lessor.

2. In Appendix D, the accounting treatment by seller-lessee may be outlined as follows :

*The accounting treatment by the seller lessee depends on whether the consideration received is equal to more than or less than the fair value of the asset so transferred.*

*Case 1 : If the consideration is below the fair value, then the below market terms shall be accounted for as a prepayment of lease payments;*

*Case 2 : If the consideration is above the fair value, any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee*

3. *In Appendix D , covering the illustration, the accounting treatment specified in Para 100 of Ind AS 116 may be included as follows :*
  - a. The seller lessee will derecognise the carrying amount of asset sold from its books
  - b. The seller lessee will recognise a right of use (ROU) asset measured at the proportion of the previous carrying amount that relates to the right of use retained
  - c. The seller lessee will recognise gain/loss in relation to the rights transferred to the buyer lessor

3. In the Illustration, *the formula used for measurement of the ROU asset , arising from the leaseback transaction , may be included as :*

ROU = Carrying amount of the asset \* Present value of minimum lease payments / Fair value of the asset