

Indian Accounting Standard (Ind AS) 17

Leases

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Indian Accounting Standard (Ind AS) 17

Leases

(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

- 1 The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

Scope

- 2 **This Standard shall be applied in accounting for all leases other than:**
- (a) **leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and**
 - (b) **licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.**

However, this Standard shall not be applied as the basis of measurement for:

- (a) **property held by lessees that is accounted for as investment property (see Ind AS 40 *Investment Property*);**
 - (b) **investment property provided by lessors under operating leases (see Ind AS 40 *Investment Property*);**
 - (c) **biological assets held by lessees under finance leases (see Ind AS 41 *Agriculture*¹); or**
 - (d) **biological assets provided by lessors under operating leases (see AS 41 *Agriculture*).**
- 3 This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the

¹ Indian Accounting Standard (Ind AS) 41, *Agriculture*, is formulation.

operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Definitions

4 The following terms are used in this Standard with the meanings specified:

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.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

A non-cancellable lease is a lease that is cancellable only:

- (a) upon the occurrence of some remote contingency;**
- (b) with the permission of the lessor;**
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or**
- (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.**

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- (a) a lease is classified as either an operating or a finance lease; and**
- (b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.**

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the

lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or**
- (b) for a lessor, any residual value guaranteed to the lessor by:**
 - (i) the lessee;**
 - (ii) a party related to the lessee; or**
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.**

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Economic life is either:

- (a) the period over which an asset is expected to be economically usable by one or more users; or**
- (b) the number of production or similar units expected to be obtained from the asset by one or more users.**

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.

Guaranteed residual value is:

- (a) **for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and**
- (b) **for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.**

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

Gross investment in the lease is the aggregate of:

- (a) **the minimum lease payments receivable by the lessor under a finance lease, and**
- (b) **any unguaranteed residual value accruing to the lessor.**

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Unearned finance income is the difference between:

- (a) **the gross investment in the lease, and**
- (b) **the net investment in the lease.**

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over

a similar term, and with a similar security, the funds necessary to purchase the asset.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, future market rates of interest).

- 5 A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.
- 6 The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Classification of leases

- 7 The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.
- 8 **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.**
- 9 Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.
- 10 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.* Examples of situations that

* See also Appendix B *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

individually or in combination would normally lead to a lease being classified as a finance lease are:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

11 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

12 The examples and indicators in paragraphs 10 and 11 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

13 Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 7-12 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new

agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

14.15 [Refer to Appendix 1]

15A When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with paragraphs 7–13. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

16 Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

17 For a lease of land and buildings in which the amount that would initially be recognised for the land element, in accordance with paragraph 20, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 7-13. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

18-19 [Refer to Appendix 1]

Leases in the financial statements of lessees

Finance leases

Initial recognition

20 At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any

initial direct costs of the lessee are added to the amount recognised as an asset.

- 21 Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.
- 22 If such lease transactions are not reflected in the lessee's balance sheet, the economic resources and the level of obligations of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee's balance sheet both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the balance sheet at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.
- 23 It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets. If for the presentation of liabilities in the balance sheet a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.
- 24 Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Subsequent measurement

- 25 **Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.**
- 26 In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.
- 27 **A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in**

accordance with Ind AS 16 *Property, Plant and Equipment* and Ind AS 38 *Intangible Assets*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

- 28 The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.
- 29 The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is, therefore, inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.
- 30 To determine whether a leased asset has become impaired, an entity applies Ind AS 36 *Impairment of Assets*.

Disclosures

- 31 Lessees shall, in addition to meeting the requirements of Ind AS 107 *Financial Instruments: Disclosures*, make the following disclosures for finance leases:
- (a) for each class of asset, the net carrying amount at the end of the reporting period.
 - (b) a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - (c) contingent rents recognised as an expense in the period.
 - (d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.

(e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:

- (i) the basis on which contingent rent payable is determined;**
- (ii) the existence and terms of renewal or purchase options and escalation clauses; and**
- (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.**

32 In addition, the requirements for disclosure in accordance with Ind AS 16, Ind AS 36, Ind AS 38, Ind AS 40 and Ind AS 41 apply to lessees for assets leased under finance leases.

Operating leases

33 **Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.***

34 For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

Disclosures

35 **Lessees shall, in addition to meeting the requirements of Ind AS 107, make the following disclosures for operating leases:**

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

not later than one year;

later than one year and not later than five years;

later than five years.

(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.

* See also Appendix A *Operating Leases-Incentives*.

- (c) **lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.**
- (d) **a general description of the lessee's significant leasing arrangements including, but not limited to, the following:**
 - (i) **the basis on which contingent rent payable is determined;**
 - (ii) **the existence and terms of renewal or purchase options and escalation clauses; and**
 - (iii) **restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.**

Leases in the financial statements of lessors

Finance leases

Initial recognition

- 36 **Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.**
- 37 Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.
- 38 Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable 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 finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are

recognised as an expense when the selling profit is recognised, which for a finance lease is normally at the commencement of the lease term.

Subsequent measurement

- 39 The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.**
- 40 A lessor aims to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.
- 41 Estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.
- 41A An asset under a finance lease that is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations* shall be accounted for in accordance with that Standard.
- 42 Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.**
- 43 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:
- (a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and
 - (b) finance income over the lease term.

- 44 The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognised in accordance with the entity's policy for outright sales.
- 45 Manufacturer or dealer lessors sometimes quote artificially low rates of interest in order to attract customers. The use of such a rate would result in an excessive portion of the total income from the transaction being recognised at the time of sale. If artificially low rates of interest are quoted, selling profit is restricted to that which would apply if a market rate of interest were charged.
- 46 Costs incurred by a manufacturer or dealer lessor in connection with negotiating and arranging a finance lease are recognised as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or dealer's selling profit.

Disclosures

- 47 **Lessors shall, in addition to meeting the requirements in Ind AS 107, disclose the following for finance leases:**
- (a) **a reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:**
 - (i) **not later than one year;**
 - (ii) **later than one year and not later than five years;**
 - (iii) **later than five years.**
 - (b) **unearned finance income.**
 - (c) **the unguaranteed residual values accruing to the benefit of the lessor.**
 - (d) **the accumulated allowance for uncollectible minimum lease payments receivable.**
 - (e) **contingent rents recognised as income in the period.**

(f) a general description of the lessor's material leasing arrangements.

48 As an indicator of growth it is often useful also to disclose the gross investment less unearned income in new business added during the period, after deducting the relevant amounts for cancelled leases.

Operating leases

49 **Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.**

50 **Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.***

51 Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

52 **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.**

53 **The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Ind AS 16 and Ind AS 38.**

54 To determine whether a leased asset has become impaired, an entity applies Ind AS 36.

55 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

56 **Lessors shall, in addition to meeting the requirements of Ind AS 107, disclose the following for operating leases:**

* See also Appendix A *Operating Leases-Incentives*.

(a) **the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:**

- (i) **not later than one year;**
- (ii) **later than one year and not later than five years;**
- (iii) **later than five years.**

(b) **total contingent rents recognised as income in the period.**

(c) **a general description of the lessor's leasing arrangements.**

57 In addition, the disclosure requirements in Ind AS 16, Ind AS 36, Ind AS 38, Ind AS 40 and Ind AS 41 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

58 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

59 **If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.**

60 If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as income. Such excess is deferred and amortised over the lease term.

61 **If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.**

62 If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately.

- 63 **For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.**
- 64 For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with Ind AS 36.
- 65 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.
- 66 Sale and leaseback transactions may trigger the separate disclosure criteria in Ind AS 1 *Presentation of Financial Statements*.

Appendix A

Operating Leases—Incentives

This appendix is an integral part of Ind AS 17

Issue

- 1 In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.
- 2 The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

Accounting Principles

- 3 All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.
- 4 The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.
- 5 The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

- 6 Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

Example application of Appendix A

The following examples accompany, but are not part of, Appendix A.

Example 1

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are Rs. 1,000. The new lease has a term of 10 years, at a fixed rate of Rs. 2,000 per year.

The accounting is:

The lessee recognises relocation costs of Rs.1,000 as an expense in Year 1. Net consideration of Rs. 19,000 consists of Rs. 2,000 for each of the 10 years in the lease term, less a Rs.1,000 incentive for relocation costs. Both the lessor and lessee would recognise the net rental consideration of Rs.19,000 over the 10 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of Appendix A.

Example 2

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to a rent-free period for the first three years as incentive to the lessee for entering into the new lease. The new lease has a term of 20 years, at a fixed rate of Rs. 5,000 per year for years 4 through 20.

The accounting is:

Net consideration of Rs.85,000 consists of 5,000 for each of 17 years in the lease term. Both the lessor and lessee would recognise the net consideration of Rs. 85,000 over the 20 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of Appendix A.

Appendix B

Evaluating the Substance of Transactions Involving the Legal Form of a Lease

(This appendix is an integral part of Ind AS 17.)

Issue

- 1 An Entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an Investor) that involves the legal form of a lease. For example, an Entity may lease assets to an Investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the Investor that is shared with the Entity in the form of a fee, and not to convey the right to use an asset.

- 2 When an arrangement with an Investor involves the legal form of a lease, the issues are:
 - (a) how to determine whether a series of transactions is linked and should be accounted for as one transaction;

 - (b) whether the arrangement meets the definition of a lease under Ind AS 17; and, if not,
 - (i) whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the Entity (eg consider the example described in paragraph A2(a) of ‘Examples for linked transactions’ given at the end of this appendix);

 - (ii) how the Entity should account for other obligations resulting from the arrangement; and

 - (iii) how the Entity should account for a fee it might receive from an Investor.

Accounting Principles

- 3 A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence. (Examples for linked transactions given at the end of this appendix provide illustrations of application of this appendix.)
- 4 The accounting shall reflect the substance of the arrangement. All aspects and implications of an arrangement shall be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect.
- 5 Ind AS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under Ind AS 17 include (The discussion under ‘The substance of an arrangement’ at the end of this appendix provides illustrations of application of this appendix):
 - (a) an Entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;
 - (b) the primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset; and
 - (c) an option is included on terms that make its exercise almost certain (eg a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).
- 6 The definitions and guidance in paragraphs 49–64 of Framework for the Preparation and Presentation of Financial Statements, issued by the Institute of Chartered Accountants of India, shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the Entity include:
 - (a) the Entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments. This occurs when, for example, a prepaid amount is placed in a separate investment account to protect the Investor and may only be used to pay the Investor, the Investor agrees that the lease payment obligations are to be paid from funds in the investment account, and the Entity has no ability to withhold payments to the Investor from the investment account;

- (b) the Entity has only a remote risk of reimbursing the entire amount of any fee received from an Investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations (eg a guarantee). Only a remote risk of payment exists when, for example, the terms of the arrangement require that a prepaid amount is invested in risk-free assets that are expected to generate sufficient cash flows to satisfy the lease payment obligations; and
 - (c) other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.
- 7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*, Ind AS 39 *Financial Instruments: Recognition and Measurement* or Ind AS 104 *Insurance Contracts*, depending on the terms.
- 8 The criteria in paragraph 20 of Ind AS 18 *Revenue* shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an Entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:
- (a) obligations either to perform or to refrain from certain significant activities are conditions of earning the fee received, and therefore execution of a legally binding arrangement is not the most significant act required by the arrangement;
 - (b) limitations are put on the use of the underlying asset that have the practical effect of restricting and significantly changing the Entity's ability to use (eg deplete, sell or pledge as collateral) the asset;
 - (c) the possibility of reimbursing any amount of the fee and possibly paying some additional amount is not remote. This occurs when, for example,
 - (i) the underlying asset is not a specialised asset that is required by the Entity to conduct its business, and therefore there is a possibility that the Entity may pay an amount to terminate the arrangement early; or

- (ii) the Entity is required by the terms of the arrangement, or has some or total discretion, to invest a prepaid amount in assets carrying more than an insignificant amount of risk (eg currency, interest rate or credit risk). In this circumstance, the risk of the investment's value being insufficient to satisfy the lease payment obligations is not remote, and therefore there is a possibility that the Entity may be required to pay some amount.
- 9 The fee shall be presented in the statement of profit and loss based on its economic substance and nature.

Disclosure

- 10 All aspects of an arrangement that does not, in substance, involve a lease under Ind AS 17 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An Entity shall disclose the following in each period that an arrangement exists:
 - (a) a description of the arrangement including:
 - (i) the underlying asset and any restrictions on its use;
 - (ii) the life and other significant terms of the arrangement;
 - (iii) the transactions that are linked together, including any options; and
 - (b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the statement of profit and loss in which it is included.
- 11 The disclosures required in accordance with paragraph 10 of this appendix shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (eg power plants).

Examples of linked transactions

This portion accompanies, but is not part of, Appendix B.

- A1 Appendix B requires consideration of whether a series of transactions that involve the legal form of a lease are linked to determine whether the transactions are accounted for as one transaction.
- A2 Extreme examples of transactions that are viewed as a whole and accounted for as single transactions, include:
- (a) An entity leases an asset to an Investor (the headlease) and lease the same asset back for asset back for a shorter period of time (the sublease). At the end of the sublease period, the Entity has the right to buy back the rights of the Investor under a purchase option. If the Entity does not exercise its purchase option, the Investor has options available to it under each of which the Investor receives a minimum return on its investment in the headlease—the Investor may put the underlying asset back to the Entity, or require the Entity to provide a return on the Investor’s investment in the headlease.

The predominant purpose of the arrangement is to achieve a tax advantage for the Investor, which is shared with the Entity in the form of a fee, and not to convey the right to use an asset. The Investor pays the fee and prepays the lease payment obligations under the headlease. The agreement requires the amount prepaid to be invested in risk-free assets and, as a requirement of finalising the execution of the legally binding arrangement, placed into a separate investment account held by a Trustee outside of the control of the Entity. The fee is retained by the Entity.

Over the term of the sublease, the sublease payment obligations are satisfied with funds of an equal amount withdrawn from the separate investment account. The Entity guarantees the sublease payment obligations, and will be required to satisfy the guarantee should the separate investment account have insufficient funds. The Entity, but not the Investor, has the right to terminate the sublease early under certain circumstances (eg a change in local or international tax law causes the Investor to lose part or all of the tax benefits, or the Entity decides to dispose of (eg replace, sell or deplete) the underlying asset) and upon payment of a termination value to the Investor. If the Entity chooses early termination, then it would pay the termination value from funds withdrawn from the separate investment account, and if the amount remaining in the separate investment account is insufficient, the difference would be paid by the Entity. The underlying asset is a specialised asset that the Entity requires to conduct its business.

- (b) An entity leases an asset to another entity for its entire economic life and leases the same asset back under the same terms and conditions as the original lease. The two entities have a legally enforceable right to set off the amounts owing to one another, and an intention to settle these amounts on a net basis.

- (c) An entity (Entity A) leases an asset to another entity (Entity B), and obtains a non-recourse loan from a financier (by using the lease rentals and the asset as collateral). Entity A sells the asset subject to the lease and the loan to a trustee, and leases the same asset back. Entity A also concurrently agrees to repurchase the asset at the end of the lease for an amount equal to the sale price. The financier legally releases Entity A from the primary responsibility for the loan, and Entity A guarantees repayment of the non-recourse loan if Entity B defaults on the payments under the original lease. Entity B's credit rating is assessed as AAA and the amounts of the payments under each of the leases are equal. Entity A has a legally enforceable right to set off the amounts owing under each of the leases, and an intention to settle the rights and obligations under the leases on a net basis.

- (d) An entity (Entity A) legally sells an asset to another entity (Entity B) and leases the same asset back. Entity B is obligated to put the asset back to Entity A at the end of the lease period at an amount that has the overall practical effect, when also considering the lease payments to be received, of providing Entity B with a yield of LIBOR plus 2 per cent per year on the purchase price.

The substance of an arrangement

This portion accompanies, but is not part of, Appendix B.

- B1 Appendix B requires consideration of the substance of an arrangement to determine whether it includes the conveyance of the right to use an asset for an agreed period of time.
- B2 In each of the examples described in ‘Examples of linked transactions’, the arrangement does not, in substance, involve a lease under Ind AS 17 for the following reasons:
- (a) in the example described in paragraph A2(a), the arrangement is designed predominantly to generate tax benefits that are shared between the two entities. Even though the periods of the headlease and sublease are different, the options available to each of the entities at the end of the sublease period are structured such that the Investor assumes only an insignificant amount of asset risk during the headlease period. The substance of the arrangement is that the Entity receives a fee for executing the agreements, and retains the risks and rewards incident to ownership of the underlying asset.
 - (b) in the example described in paragraph A2(b), the terms and conditions and period of each of the leases are the same. Therefore, the risks and rewards incident to ownership of the underlying asset are the same as before the arrangement. Further, the amounts owing are offset against one another, and so there is no retained credit risk. The substance of the arrangement is that no transaction has occurred.
 - (c) in the example described in paragraph A2(c), Entity A retains the risks and rewards incident to ownership of the underlying asset, and the risk of payment under the guarantee is only remote (due to the AAA credit rating). The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset.
 - (d) in the example described in paragraph A2(d), Entity A’s risks and rewards incident to owning the underlying asset do not substantively change. The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset and repayable in instalments over the lease period and in a final lump sum at the end of the lease period. The terms of the option preclude recognition of a sale. Normally, in a sale and leaseback transaction, the risks and rewards incident to owning the underlying asset sold are retained by the seller only during the period of the lease.

Appendix C²

Determining whether an Arrangement contains a Lease

(This appendix is an integral part of Ind AS 17.)

Background

- 1 An entity may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (eg an item of property, plant or equipment) in return for a payment or series of payments. Examples of arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser), often together with related services, include:
 - outsourcing arrangements (eg the outsourcing of the data processing functions of an entity).
 - arrangements in the telecommunications industry, in which suppliers of network capacity enter into contracts to provide purchasers with rights to capacity.
 - take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services (eg a take-or-pay contract to acquire substantially all of the output of a supplier's power generator).
- 2 This appendix provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with Ind AS 17. This Appendix does not provide guidance for determining how such a lease should be classified under Ind AS 17.
- 3 In some arrangements, the underlying asset that is the subject of the lease is a portion of a larger asset. This appendix does not address how to determine when a portion of a larger asset is itself the underlying asset for the purposes of applying Ind AS 17. Nevertheless, arrangements in which the underlying asset would represent a unit of account in either Ind AS 16 or Ind AS 38 are within the scope of this appendix.

Scope

² Notification of this Appendix has been deferred. Effective date for its implementation will be announced separately.

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- 4 This appendix does not apply to arrangements that:
- (a) are, or contain, leases excluded from the scope of Ind AS 17; or
 - (b) are public-to-private service concession arrangements within the scope of Appendix A of Ind AS 11, *Service Concession Arrangements*.

Issues

- 5 The issues addressed in this appendix are:
- (a) how to determine whether an arrangement is, or contains, a lease as defined in Ind AS 17;
 - (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
 - (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

Accounting Principles

Determining whether an arrangement is, or contains, a lease

- 6 Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:
- (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and
 - (b) the arrangement conveys a right to use the asset.

Fulfilment of the arrangement is dependent on the use of a specific asset

- 7 Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfilment of the arrangement is not dependent on the use of the specified asset. For example, if the supplier is obliged to deliver a specified

quantity of goods or services and has the right and ability to provide those goods or services using other assets not specified in the arrangement, then fulfilment of the arrangement is not dependent on the specified asset and the arrangement does not contain a lease. A warranty obligation that permits or requires the substitution of the same or similar assets when the specified asset is not operating properly does not preclude lease treatment. In addition, a contractual provision (contingent or otherwise) permitting or requiring the supplier to substitute other assets for any reason on or after a specified date does not preclude lease treatment before the date of substitution.

- 8 An asset has been implicitly specified if, for example, the supplier owns or leases only one asset with which to fulfil the obligation and it is not economically feasible or practicable for the supplier to perform its obligation through the use of alternative assets.

Arrangement conveys a right to use the asset

- 9 An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:
- (a) The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
 - (b) The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
 - (c) Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Assessing or reassessing whether an arrangement is, or contains, a lease

- 10 The assessment of whether an arrangement contains a lease shall be made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. A reassessment of whether the

arrangement contains a lease after the inception of the arrangement shall be made only if any one of the following conditions is met:

- (a) There is a change in the contractual terms, unless the change only renews or extends the arrangement.
- (b) A renewal option is exercised or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term in accordance with paragraph 4 of Ind AS 17. A renewal or extension of the arrangement that does not include modification of any of the terms in the original arrangement before the end of the term of the original arrangement shall be evaluated under paragraphs 6-9 only with respect to the renewal or extension period.
- (c) There is a change in the determination of whether fulfilment is dependent on a specified asset.
- (d) There is a substantial change to the asset, for example a substantial physical change to property, plant or equipment.

11 A reassessment of an arrangement shall be based on the facts and circumstances as of the date of reassessment, including the remaining term of the arrangement. Changes in estimate (for example, the estimated amount of output to be delivered to the purchaser or other potential purchasers) would not trigger a reassessment. If an arrangement is reassessed and is determined to contain a lease (or not to contain a lease), lease accounting shall be applied (or cease to apply) from:

- (a) in the case of (a), (c) or (d) in paragraph 10, when the change in circumstances giving rise to the reassessment occurs;
- (b) in the case of (b) in paragraph 10, the inception of the renewal or extension period.

Separating payments for the lease from other payments

12 If an arrangement contains a lease, the parties to the arrangement shall apply the requirements of Ind AS 17 to the lease element of the arrangement, unless exempted from those requirements in accordance with paragraph 2 of Ind AS 17. Accordingly, if an arrangement contains a lease, that lease shall be classified as a finance lease or an operating lease in accordance with paragraphs 7–17 of Ind AS 17. Other elements of the arrangement not within the scope of Ind AS 17 shall be accounted for in accordance with other Standards.

13 For the purpose of applying the requirements of Ind AS 17, payments and other consideration required by the arrangement shall be separated at the inception of the arrangement or upon a reassessment of the arrangement into those for the

lease and those for other elements on the basis of their relative fair values. The minimum lease payments as defined in paragraph 4 of Ind AS 17 include only payments for the lease (ie the right to use the asset) and exclude payments for other elements in the arrangement (eg for services and the cost of inputs).

- 14 In some cases, separating the payments for the lease from payments for other elements in the arrangement will require the purchaser to use an estimation technique. For example, a purchaser may estimate the lease payments by reference to a lease agreement for a comparable asset that contains no other elements, or by estimating the payments for the other elements in the arrangement by reference to comparable agreements and then deducting these payments from the total payments under the arrangement.
- 15 If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:
- (a) in the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the underlying asset that was identified in paragraphs 7 and 8 as the subject of the lease. Subsequently the liability shall be reduced as payments are made and an imputed finance charge on the liability recognised using the purchaser's incremental borrowing rate of interest.*
 - (b) in the case of an operating lease, treat all payments under the arrangement as lease.
 - (c) in the case of an operating lease, treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of Ind AS 17, but
 - (i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and
 - (ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.

* ie the lessee's incremental borrowing rate of interest as defined in paragraph 4 of Ind AS 17.

Illustrative examples for Appendix C

These examples accompany, but are not part of, Appendix C.

Example of an arrangement that contains a lease

Facts

IE1 A production company (the purchaser) enters into an arrangement with a third party (the supplier) to supply a minimum quantity of gas needed in its production process for a specified period of time. The supplier designs and builds a facility adjacent to the purchaser's plant to produce the needed gas and maintains ownership and control over all significant aspects of operating the facility. The agreement provides for the following:

- The facility is explicitly identified in the arrangement, and the supplier has the contractual right to supply gas from other sources. However, supplying gas from other sources is not economically feasible or practicable.
- The supplier has the right to provide gas to other customers and to remove and replace the facility's equipment and modify or expand the facility to enable the supplier to do so. However, at inception of the arrangement, the supplier has no plans to modify or expand the facility. The facility is designed to meet only the purchaser's needs.
- The supplier is responsible for repairs, maintenance, and capital expenditures.
- The supplier must stand ready to deliver a minimum quantity of gas each month.
- Each month, the purchaser will pay a fixed capacity charge and a variable charge based on actual production taken. The purchaser must pay the fixed capacity charge irrespective of whether it takes any of the facility's production. The variable charge includes the facility's actual energy costs, which amount to about 90 per cent of the facility's total variable costs. The supplier is subject to increased costs resulting from the facility's inefficient operations.
- If the facility does not produce the stated minimum quantity, the supplier must return all or a portion of the fixed capacity charge.

Assessment

- IE2 The arrangement contains a lease within the scope of Ind AS 17. An asset (the facility) is explicitly identified in the arrangement and fulfilment of the arrangement is dependent on the facility. Although the supplier has the right to supply gas from other sources, its ability to do so is not substantive. The purchaser has obtained the right to use the facility because, on the facts presented—in particular, that the facility is designed to meet only the purchaser’s needs and the supplier has no plans to expand or modify the facility—it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the facility’s output and the price the purchaser will pay is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Example of an arrangement that does not contain a lease

Facts

- IE3 A manufacturing company (the purchaser) enters into an arrangement with a third party (the supplier) to supply a specific component part of its manufactured product for a specified period of time. The supplier designs and constructs a plant adjacent to the purchaser’s factory to produce the component part. The designed capacity of the plant exceeds the purchaser’s current needs, and the supplier maintains ownership and control over all significant aspects of operating the plant. The arrangement provides for the following:
- The supplier’s plant is explicitly identified in the arrangement, but the supplier has the right to fulfil the arrangement by shipping the component parts from another plant owned by the supplier. However, to do so for any extended period of time would be uneconomic.
 - The supplier is responsible for repairs, maintenance, and capital expenditures of the plant.
 - The supplier must stand ready to deliver a minimum quantity. The purchaser is required to pay a fixed price per unit for the actual quantity taken. Even if the purchaser’s needs are such that they do not need the stated minimum quantity, they still pay only for the actual quantity taken.
 - The supplier has the right to sell the component parts to other customers and has a history of doing so (by selling in the replacement parts market), so it is

expected that parties other than the purchaser will take more than an insignificant amount of the component parts produced at the supplier's plant.

Assessment

- IE4 The arrangement does not contain a lease within the scope of Ind AS 17. An asset (the plant) is explicitly identified in the arrangement and fulfilment of the arrangement is dependent on the facility. Although the supplier has the right to supply component parts from other sources, the supplier would not have the ability to do so because it would be uneconomic. However, the purchaser has not obtained the right to use the plant because the purchaser does not have the ability or right to operate or direct others to operate the plant or control physical access to the plant, and the likelihood that parties other than the purchaser will take more than an insignificant amount of the component parts produced at the plant is more than remote, on the basis of the facts presented. In addition, the price that the purchaser pays is fixed per unit of output taken.

Appendix D

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard 17.

This appendix lists the appendices which are part of other Indian Accounting Standards and make reference to Ind AS 17, *Leases*

1. Appendix A, *Service Concession Arrangements* contained in Ind AS 11 *Construction Contracts*.
2. Appendix B, *Service Concession Arrangements: Disclosures* contained in Ind AS 11 *Construction Contracts*.
3. Appendix A, *Intangible Assets—Web Site Costs* contained in Ind AS 38 *Intangible Assets*.

APPENDIX E

Guidance on implementing Ind AS 17 Leases

This guidance accompanies, but is not part of, Ind AS 17.

Illustrative examples of sale and leaseback transactions that result in operating leases

A sale and leaseback transaction that results in an operating lease may give rise to profit or a loss, the determination and treatment of which depends on the leased asset's carrying amount, fair value and selling price. The table below shows the requirements of the Standard in various circumstances.

| Sale price at fair value (paragraph 61) | Carrying amount equal to fair value | Carrying amount less than fair value | Carrying amount above fair value |
|--|--|---|---|
| Profit | no profit | recognise profit immediately | not applicable |
| Loss | no loss | not applicable | recognise loss immediately |

| Sale price below fair value (paragraph 61) | | | |
|--|----------------------------|------------------------------|--------------------|
| Profit | no profit | recognise profit immediately | no profit (note 1) |
| Loss not compensated for by future lease payments at below market price | recognise loss immediately | recognise loss immediately | (note 1) |
| Loss compensated for by future lease payments at below market price | defer and amortise loss | defer and amortise loss | (note 1) |

| Sale price above fair | | | |
|------------------------------|--|--|--|
|------------------------------|--|--|--|

| | | | |
|-----------------------------|---------------------------|---|------------------------------------|
| value (paragraph 61) | | | |
| Profit | defer and amortise profit | defer and amortise excess profit (note 3) | defer and amortise profit (note 2) |
| Loss | no loss | no loss | (note 1) |

Note 1 These parts of the table represent circumstances dealt with in paragraph 63 of the Standard. Paragraph 63 requires the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.

Note 2 Profit is the difference between fair value and sale price because the carrying amount would have been written down to fair value in accordance with paragraph 63.

Note 3 The excess profit (the excess of sale price over fair value) is deferred and amortised over the period for which the asset is expected to be used. Any excess of fair value over carrying amount is recognised immediately.

Appendix 1

Note: This appendix is not a part of Indian Accounting Standard (Ind AS) 17, Leases. The purpose of this Appendix is only to bring out the differences, if any between this Indian Accounting Standard and the corresponding International Accounting Standard (IAS) 17, Leases.

Comparison with IAS 17, Leases

1. Paragraphs 18 of IAS 17 dealing with measurement of the land and buildings elements when the lessee's interest in both land and buildings is classified as an investment property in accordance with Ind AS 40 *Investment Property* if the fair value model is adopted and paragraph 19 of IAS 17 dealing with property interest held under an operating Lease as an investment property, if the definition of investment property is otherwise met and fair value model is applied, have been deleted, since Ind AS 40, *Investment Property*, prohibits the use of fair value model. However, paragraph numbers have been retained in Ind AS 17 to maintain consistency with paragraph numbers of IAS 17.
2. Paragraph numbers 14 and 15 appear as 'Deleted' in IAS 17. In order to maintain consistency with paragraph numbers of IAS 17, the paragraph numbers are retained in Ind AS 17.
3. The transitional provisions given in IAS 17 and IFRIC 4 have not been given in Ind AS 17, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
4. Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.