

(2) They shall come into force with effect from the date of their publication in the official gazette.

2. In the Companies (Indian Accounting Standards) Rules, 2015, in the 'Annexure', under heading "B. Indian Accounting Standards (Ind AS)", in "Indian Accounting Standard (Ind AS) 116", -

(i) after paragraph 102, the following paragraph shall be inserted, namely: -

"102A After the commencement date, the seller-lessee shall apply paragraphs 29–35 to the right-of-use asset arising from the leaseback and paragraphs 36–46 to the lease liability arising from the leaseback. In applying paragraphs 36–46, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease as required by paragraph 46(a).";

(ii) in Appendix C,

(a) after paragraph C1C, the following paragraph shall be inserted, namely:-

"C1D *Lease Liability in a Sale and Leaseback*, amended paragraph C2 and added paragraphs 102A and C20E. A seller-lessee shall apply these amendments for annual reporting periods beginning on or after 1 April 2024."

(b) for paragraph C2, the following paragraph shall be substituted, namely:-

"C2 For the purposes of the requirements in paragraphs C1– C20E, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard."

(c) after paragraph C20D, the following paragraph shall be inserted, namely:-

"Lease liability in a sale and leaseback"

C20E A seller-lessee shall apply *Lease Liability in a Sale and Leaseback* (see paragraph C1D) retrospectively in accordance with Ind AS 8 to sale and leaseback transactions entered into after the date of initial application.";

(iii) after Appendix C, the following Appendix shall be inserted, namely:-

"Appendix D"

Illustrative Examples

(These examples accompany, but are not part of Ind AS 116. They illustrate aspects of Ind AS 116, but are not intended to provide any interpretative guidance)

Sale and leaseback transaction with fixed payments and above-market terms

(The example illustrates the application of requirements in paragraph 99-102 of Ind AS 116 for a seller-lessee and a buyer-lessor).

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of ₹2,000,000. Immediately before the transaction, the building is carried at a cost of ₹ 1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of ₹120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of Ind AS 115, Revenue from Contracts with Customers, to be accounted for as a sale of the building. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback.

The fair value of the building at the date of sale is ₹1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 101(b) of Ind AS 116, the amount of the excess sale price of ₹200,000 (₹2,000,000 – ₹1,800,000) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of ₹120,000, discounted at 4.5 per cent per annum) is ₹1,459,200, of which ₹200,000 relates to the additional financing and ₹1,259,200 relates to the lease—corresponding to 18 annual payments of ₹16,447 and ₹103,553, respectively.

Buyer-lessor classifies the lease of the building as an operating lease.

Seller-lessee

Applying paragraph 100(a) of Ind AS 116, at the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is ₹699,555. Seller-lessee calculates this amount as: ₹1,000,000 (the carrying amount of the building) × ₹1,259,200 (the discounted lease payments for the 18-year right-of-use asset) ÷ ₹1,800,000 (the fair value of the building).

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor of ₹240,355 calculated as follows. The gain on sale of the building amounts to ₹800,000 (₹1,800,000 – ₹1,000,000), of which:

- (a) ₹559,645 ($₹800,000 \times ₹1,259,200 \div ₹1,800,000$) relates to the right to use the building retained by Seller-lessee; and
- (b) ₹240,355 ($₹800,000 \times (₹1,800,000 - ₹1,259,200) \div ₹1,800,000$) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	₹20,00,000
Right-of-use asset	₹6,99,555
Building	₹10,00,000
Lease Liability	₹12,59,200
Financial Liability	₹2,00,000
Gain on rights transferred	₹2,40,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	₹18,00,000
Financial Asset	₹2,00,000 (18 payments of ₹16,447, discounted at 4.5 per cent per annum)
Cash	₹20,00,000

After the commencement date, Buyer-lessor accounts for the lease by treating ₹103,553 of the annual payments of ₹120,000 as lease payments. The remaining ₹16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of ₹200,000 and (b) interest revenue.

Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

(The example illustrates the application of the requirements in paragraph 102A and paragraphs 29-46 of Ind AS 116 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate).

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of ₹1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of ₹1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of Ind AS 115, Revenue from Contracts with Customers to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 per cent per annum.

Applying paragraph 100(a) of Ind AS 116, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 per cent.^(a) Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

Cash	₹18,00,000
Right-of-use asset (₹1,000,000 × 25 per cent)	₹2,50,000
Building	₹10,00,000
Lease Liability	₹4,50,000
Gain on rights transferred ((₹1,800,000 – ₹1,000,000) × 75 per cent)	₹6,00,000

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 36–46 of Ind AS 116, Seller-lessee develops an accounting policy for determining 'lease payments' in a way that it would not recognise any amount of the gain that relates to the right of use it retains. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 100(a) of Ind AS 116—for determining the measurement of the right-of-use asset and the gain recognised on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 102A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 102A of Ind AS 116, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of ₹450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease Liability				Right-of-use asset		
	Beginning balance	Lease payments ^(b)	3 per cent interest expense ^(c)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	₹	₹	₹	₹	₹	₹	₹
1	450,000	(95,902)	13,500	367,598	250,000	(50,000)	200,000
2	367,598	(98,124)	11,028	280,502	200,000	(50,000)	150,000
3	280,502	(99,243)	8,415	189,674	150,000	(50,000)	100,000
4	189,674	(100,101)	5,690	95,263	100,000	(50,000)	50,000
5	95,263	(98,121)	2,858	0	50,000	(50,000)	0

In applying paragraph 102A and paragraph 38(b) of Ind AS 116, Seller-lessee recognises in profit or loss the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays ₹99,321 for the use of the building in Year 2, it recognises ₹1,197 (₹99,321 – ₹98,124) in profit or loss.

Approach 2—Equal lease payments over the lease term

Applying paragraph 102A of Ind AS 116, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of ₹450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

Year	Lease Liability				Right-of-use asset		
	Beginning balance	Lease payments ^(d)	3 per cent interest expense ^(e)	Ending balance	Beginning balance	Depreciation charge	Ending balance
	₹	₹	₹	₹	₹	₹	₹
1	450,000	(98,260)	13,500	365,240	250,000	(50,000)	200,000
2	365,240	(98,260)	10,957	277,937	200,000	(50,000)	150,000
3	277,937	(98,260)	8,338	188,015	150,000	(50,000)	100,000
4	188,015	(98,260)	5,640	95,395	100,000	(50,000)	50,000
5	95,395	(98,260)	2,865	0	50,000	(50,000)	0

In applying paragraph 102A and paragraph 38(b) of Ind AS 116, Seller-lessee recognises in profit or loss the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays ₹99,321 for the use of the building in Year 2, it recognises ₹1,061 (₹99,321 – ₹98,260) in profit or loss.

- (a) Applying paragraph 100(a) of Ind AS 116, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 100(a) does not prescribe a particular method for determining that proportion.

- (b) Applying paragraph 102A and paragraph 36(b) of Ind AS 116, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of ₹450,000.
- (c) Applying paragraph 102A and paragraph 36(a) of Ind AS 116, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.
- (d) Applying paragraph 102A and paragraph 36(b) of Ind AS 116, Seller-lessee reduces the carrying amount of the lease liability with 'lease payments' that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of ₹450,000."

[F. No. 01/01/2009-CL-V (Part. XII)]

MANOJ PANDEY, Addl. Secy.

Note.- The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), *vide* number G.S.R. 111(E), dated the 16th February, 2015, *vide* notification number G.S.R. 242(E), dated the 31st March, 2023 and last amended, *vide* notification number G.S.R. 492(E), dated the 21st August, 2024.