Practical Insights on Ind AS and SAs: Lease Accounting and Transition Relief on First-time Adoption of Ind AS

The transition to **Indian Accounting Standards (Ind AS)** requires entities not only to determine whether Ind AS is applicable but also to apply the transition framework prescribed under **Ind AS 101**. One of the most significant areas affected during transition is **lease accounting**, due to the introduction of **Ind AS 116**, which requires lessees to recognize **lease liabilities** and **right-of-use (ROU) assets** for most leases.

Why Transition Relief Is Necessary

Applying Ind AS 116 retrospectively would require entities to reconstruct historical lease information, determine historic discount rates, assess lease modifications, evaluate extension and termination options, and calculate depreciation and finance costs from lease commencement. For entities with large lease portfolios, this exercise could be highly complex and expensive.

To ease implementation, **Ind AS 101 provides optional exemptions and practical expedients** that allow entities to transition based largely on facts and circumstances existing at the date of transition.

Key Transition Reliefs

1. **Identification of Leases**
   Entities may determine whether a contract contains a lease **based on conditions existing on the transition date**, rather than reassessing the arrangement from inception. This significantly reduces the effort involved in reviewing older contracts.

2. **Segregation of Land and Building Components**
   For composite lease arrangements involving both land and buildings, entities may classify the land and building separately **using information available on the transition date**, without reconstructing historical valuations or assessments.

3. **Lessee Transition Accounting**

   Measurement of Lease Liability
   Lease liabilities are measured at the **present value of remaining lease payments**, discounted using the **incremental borrowing rate (IBR) on the transition date**. Historical discount rates need not be determined.

Measurement of Right-of-Use (ROU) Asset

Entities may choose either of the following methods:

- **Approach 1:** Measure the ROU asset as if Ind AS 116 had always been applied, adjusted for accumulated depreciation up to the transition date.
- **Approach 2 (Simplified Method):** Measure the ROU asset at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The second approach is generally preferred because of its simplicity.

4. **Impairment Assessment**

Regardless of the measurement method selected, all recognized ROU assets must be tested for impairment on the transition date in accordance with **Ind AS 36**.

Practical Expedients Available

Ind AS 101 also allows entities to:

- Apply a **single discount rate** to a portfolio of similar leases.
- Treat leases with **less than 12 months remaining** as short-term leases.
- Continue recognition exemptions for **low-value assets**.
- Exclude **initial direct costs** from ROU asset measurement.
- Use **hindsight** when assessing extension and termination options to determine the lease term.

Practical Significance

The lease-related exemptions under Ind AS 101 strike a balance between **compliance and practicality**. They enable entities to adopt Ind AS 116 efficiently without reconstructing years of historical lease data, while still ensuring reliable and transparent financial reporting.

Conclusion

The transition reliefs under Ind AS 101 substantially simplify first-time adoption of **Ind AS 116** by allowing entities to identify leases, classify lease arrangements, and measure lease liabilities and ROU assets based largely on circumstances existing on the transition date. These provisions reduce implementation costs, simplify compliance, and facilitate a smoother migration from previous GAAP while preserving the quality and usefulness of financial statements.