

LEASE MODIFICATION



Ind AS 116 was notified by Ministry of Corporate Affairs on 30 Mar 2019 and was applicable for annual reporting periods beginning on or after 1 Apr 2019. Ind AS 116 affects primarily the accounting by lessees and results in the **recognition of all leases on balance sheet**. The standard removed the ongoing distinction between operating and finance leases and required recognition of an asset (the right-of-use the leased item) and a financial liability to pay rentals for all lease contracts.

It contains detailed guidance on how to account for lease modifications. **A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. The lease liability is required to be re-calculated using discount rate on the date of modification.**

In the wake of the pandemic, many lessors have extended rent concessions to lessees. Just after preparing the 1st set of accounts under IND AS 116, it wouldn't be an easy task for the companies to again reassess the lease conditions and accounting.

The amendment provides relief to lessees, while enabling them to continue providing useful information about their leases to users of financial statements.

AMENDMENT

“As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions of lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.”

CONDITIONS TO AVAIL THIS OPTION:

1. Rent concessions should occur as a direct consequence of the covid-19 pandemic;
2. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
3. Any reduction in lease payments affects only payments originally due on or before the **30 Jun 2021**; and
4. There is no substantive change to other terms and conditions of the lease.