Illustration – 1 (Ind AS 116 with Ind AS 109 Masala)

[Created by CA Suraj Lakhotia (AIR 1,4,2) without AI]

X Ltd. (Lessee) entered into a lease agreement with Y Ltd. (Lessor) on 1st April 20X1 for an identified asset. X Ltd. also incurred initial direct costs of ₹10,000 (legal and negotiation costs directly attributable to obtaining the lease).

As per the terms, X Ltd. is required to pay ₹1,00,000 at the end of each year as fixed lease rentals. In addition, X Ltd. must pay the higher of ₹20,000 or 5% of its annual revenue as variable lease payments, also due at the end of each year. The revenue of X Ltd. for FY 20X1-20X2 is ₹10,00,000.

At the commencement of the lease, X Ltd. paid an interest-free refundable security deposit of ₹5,00,000 to Y Ltd., refundable at the end of the lease term. The market rate of interest for a similar deposit is 8% per annum.

The non-cancellable period of the lease is 4 years. X Ltd. has an option to extend the lease by a further 1 year, and it is reasonably certain that X Ltd. will exercise this extension option. X Ltd. also has an option to purchase the underlying asset at the end of the lease term for ₹25,000, and it is reasonably certain that this purchase option will not be exercised. The interest rate implicit in the lease is 11% per annum, but this is not known to X Ltd. The incremental borrowing rate of X Ltd. is 12% per annum.

Further, X Ltd. is contractually required to restore the underlying asset to its original condition upon termination of the lease, and the expected cost of such decommissioning at the end of lease term is ₹50,000. X Ltd considers 8% as an appropriate discount rate for such liabilities. The tax rate applicable to X Ltd is 30%.

The underlying asset has a useful economic life of 8 years, and X Ltd. follows the Straight-Line Method for depreciation of its right-of-use assets.

Required: In the books of X Ltd. (Lessee), as per Ind AS 116:

Pass Journal Entries at the commencement date (1st April 20X1) and at the end of Year 1 (31st March 20X2). Show extracts of Statement of Profit and Loss and Balance Sheet as on 31st March 20X2. Ignore deferred tax considerations.

Year	1	2	3	4	5
PV Factor @ 8%	0.9259	0.8573	0.7938	0.7350	0.6806
PV Factor @ 12%	0.8929	0.7972	0.7118	0.6355	0.5674
	@ 8%	@ 12%			
PVAF for 5 years	3.9927	3.6048			

Illustration – 2 (Ind AS 36 with 16,103 & 116)

Arka Ltd ("Arka"), a listed Indian company, holds **80%** of the equity of **Vega Ltd**, acquired three years ago in a business combination. At acquisition Arka made the policy choice, permitted by Ind AS 103, to measure the **non-controlling interest at its proportionate share of Vega's identifiable net assets**. Vega is managed as a single cash-generating unit (CGU) and the goodwill on acquisition has been allocated in full to that CGU. No impairment has been recognised in any earlier year.

In the current year Vega lost its principal operating licence renewal and one of its two anchor customers. Management has concluded that impairment indicators exist at the reporting date. The carrying amounts of the components of the Vega CGU at year-end are (₹ crore):

Component of the CGU	Carrying amount	Notes
Goodwill (as recognised in Arka's consolidated FS)	40	Relates to Arka's 80% interest only
Freehold building	60	Carried under the **revaluation model** (Ind AS 16); revaluation surplus of **4** relating to this building sits in OCI. Fair value **less costs of disposal of the building alone** is reliably measurable at **54**
Plant & equipment	90	Cost model
Right-of-use asset — leased factory (Ind AS 116)	30	The related **lease liability of 26** is recognised separately in Vega's balance sheet
Developed technology (finite-life intangible)	25	Cost model
Allocated share of a shared corporate hub (a corporate asset allocated to the CGU on a reasonable and consistent basis)	20	—

Recoverable amount. Fair value less costs of disposal of the Vega CGU as a whole is reliably estimated at **₹175 crore**. Management's *draft* value-in-use projection (the CGU's licence and anchor contract both lapse at the end of Year 5, and management can support no cash flows beyond that horizon) is set out below (₹ crore):

Cash flow	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Operating cash inflows (before the items below)	60	62	64	62	60
Capital expenditure to keep the assets in their current condition	(10)	(10)	(10)	(10)	(10)
Savings from a restructuring **to be tabled for board approval next quarter**	8	10	10	10	10
One-off cost of restructuring referred above	(12)	–	–	–	–
Incremental inflows from a **new production line management intends to build**	–	6	12	15	15
Capital expenditure on that new production line	(20)	–	–	–	–
Income-tax payments	(9)	(10)	(11)	(11)	(10)
Finance costs on Vega's borrowings	(4)	(4)	(4)	(4)	(4)
Lease payments on the leased factory	(6)	(6)	(6)	(6)	(6)

Management intendes to discount the cashflows at a **post-tax rate of 10%**. The **pre-tax rate of 13%** is appropriate to the risks specific to the CGU.

Discount factors —

13%: *0.885, 0.783, 0.693, 0.613, 0.543* (Yr 1–5);

10%: *0.909, 0.826, 0.751, 0.683, 0.621* (Yr 1–5).

Required

- Perform the impairment test and allocate the loss across the CGU's assets