



FINANCIAL ANALYSIS

Off-balance-sheet items

Real obligations that do not show up as debt on the balance sheet, and how to find them

Accounting rules in force on 16 October 2026

For training and education only. Not investment advice.

A balance sheet does not always show everything a company owes.

Some real obligations, from leases to guarantees, have at times sat outside it. You find them in the notes to the accounts, not on the face of the statement.

What counts as off-balance-sheet



Operating leases

Rented assets used for years. Until 2019, under Ind AS, rent was only an expense, with no asset or debt on the books.



Guarantees

A promise to pay if someone else defaults. Often only noted, not booked, unless the other party actually fails.



Group vehicles

Debt or risky assets parked in a subsidiary or special purpose vehicle, outside the parent's own balance sheet.



Securitisation

Selling a pool of loans or receivables for cash now, moving them off the seller's balance sheet.

These are real commitments. The question is whether they show as debt, or only in the notes.

What an off-balance-sheet lease hides

THE SET-UP

A company reports debt of ₹400 crore and equity of ₹200 crore.

It also uses assets under a long operating lease. The payments are worth ₹200 crore today. These figures are invented.

- 1 Reported debt-to-equity = $\text{₹}400 \div \text{₹}200 = 2.0$.
- 2 Under the old rules the lease was off the balance sheet, so it did not count as debt.
- 3 Count the lease as debt: total = $\text{₹}400 + \text{₹}200 = \text{₹}600$ crore. Debt-to-equity = $\text{₹}600 \div \text{₹}200 = 3.0$.
- 4 The obligation to pay the rent was always real. The accounting simply did not show it as debt.

Off-balance-sheet items can make leverage look lower than it is, as Ind AS 116 changed for leases.

Illustration with invented, round figures. Not a forecast and not a view on any company.

Why companies use off-balance-sheet items

1

Lower reported gearing

Keeping debt off the books makes the debt-to-equity ratio look smaller than the full set of obligations would.

2

Stay within loan covenants

Loan agreements often cap a borrower's debt ratios. Off-balance-sheet funding can keep a company inside those caps.

3

Move risk to a separate entity

A subsidiary or special purpose vehicle can hold a risky project, so its debt sits apart from the parent's books.

4

Flatter return ratios

Fewer assets on the books can make return on assets look higher for the same amount of profit.

Some of this is ordinary, legitimate financing; some hides the true position. Check the notes.

A documented lesson: Enron



The structure

Enron placed debt and weak assets in special purpose entities treated as outside the group, so they did not appear on its balance sheet.



The collapse

When the hidden obligations surfaced, the company filed for bankruptcy in December 2001. Investors had not seen the true debt.



The response

The US enacted the Sarbanes-Oxley Act in 2002. Section 401(a) requires disclosing material off-balance-sheet arrangements.

The lesson: a real obligation kept off the balance sheet is still a real obligation.

Sources: Report of the Special Investigative Committee of Enron's board (Powers Report), filed with the SEC, Feb 2002; Sarbanes-Oxley Act of 2002, s.401(a).

An Indian example: off-budget borrowing

1

How it worked

The Centre funded part of its food-subsidy bill through loans an agency took from the National Small Savings Fund, keeping the cost off the Budget.

2

What the auditor found

The CAG found Rs 7.63 lakh crore of Public Account liabilities left out. Counting it, total liability was 50.5% of GDP for 2016-17, not 45.5%.

3

What changed

From the 2021-22 Budget the government brought the food-subsidy cost back on to the Budget and began repaying those loans.

Off the budget is not the same as off the hook. The borrowing was always the government's.

Sources: CAG Report No. 20 of 2018 (FRBM compliance, 2016-17), tabled 8 Jan 2019; Union Budget 2021-22 documents.

If you learnt this from older material

What older decks say

- Operating leases are off the balance sheet; you see only a rent expense and a note.
- A company's lease commitments do not count as debt.
- To find lease obligations, you dig through the notes to the accounts.

What holds now

- From 1 Apr 2019 Ind AS 116 puts most leases over 12 months on the balance sheet (Ind AS firms).
- A right-of-use asset and a lease liability now appear on the statement itself.
- Lease liabilities now sit on the balance sheet, apart from borrowings. Check ratio definitions.

The obligation to pay rent never changed. Where it is shown did, from 1 April 2019.

Source: Ind AS 116 Leases, notified by the Ministry of Corporate Affairs on 30 Mar 2019, effective 1 Apr 2019.

Four things people get wrong



'Off-balance-sheet means hidden or illegal.'

Much of it is legitimate and disclosed in the notes. The concern is only when a structure is used mainly to mislead.



'Not shown as debt, so not a risk.'

A guarantee or a lease is a real commitment. It can become a cash outflow whatever the accounting happens to show.



'The balance sheet shows all debts.'

Contingent liabilities, many guarantees and some commitments sit in the notes, not on the face of the balance sheet.



'Ind AS 116 ended off-balance-sheet items.'

It moved most leases on to the balance sheet. Guarantees, contingent liabilities and some structures are still off it.

Check yourself

Q1

A company reports debt of ₹400 crore and equity of ₹200 crore, plus a ₹200 crore off-balance-sheet operating lease. How does counting the lease change debt-to-equity?

Q2

What did Ind AS 116 change, and from when?

Q3

Where on a company's accounts would you look for guarantees and contingent liabilities?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Ind AS 116 (MCA, 30 Mar 2019, effective 1 Apr 2019): lessees book a right-of-use asset and lease liability for leases over 12 months, except short-term and low-value ones.
- Understated Public Account liabilities (Rs 7,63,280 crore) put the Centre's total liability for 2016-17 at 50.5% of GDP (Rs 76,69,545 crore), not 45.5%: CAG Report 20 of 2018, 8 Jan 2019.
- Government brought the food-subsidy cost on to the Budget and began repaying the loans: Union Budget 2021-22 documents (Feb 2021).
- Enron used special purpose entities to keep debt off its balance sheet and filed for bankruptcy in December 2001: Powers Report, filed with the SEC, Feb 2002.
- The US enacted the Sarbanes-Oxley Act in 2002; s.401(a) requires disclosing material off-balance-sheet arrangements.
- All figures in the worked example are invented for illustration and refer to no real company.

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