



# #2 Reclassification



## Types of property

## Classification:

1) Hotel

as PPE, since tariff includes significant cost of service attached to it.  
if any property let out w/o significant cost of serv then I.P.

2) lease

Lessee  $\rightarrow$  ROU

$\therefore$  PPE OR I.P. depends on usage by lessee.

Lessor  $\rightarrow$  O.L.  $\rightarrow$  I.P.

F.L.  $\rightarrow$  N.A.

$\therefore$  asset is derecognised.

3) lease within group.

SFS  $\rightarrow$  same as point 2)

CFS  $\rightarrow$  PPE

4) Property under  
Construction



Should be classified based  
on intentions of its  
future use, else  
I.P.



5) Staff Quarters

PPE

6) Dual usage  
(property used as  
PPE & I.P. both)

Ist

if separate title deeds are  
there & each part can be  
sold independently then  
bifurcate b/w PPE & I.P.

II<sup>nd</sup> check

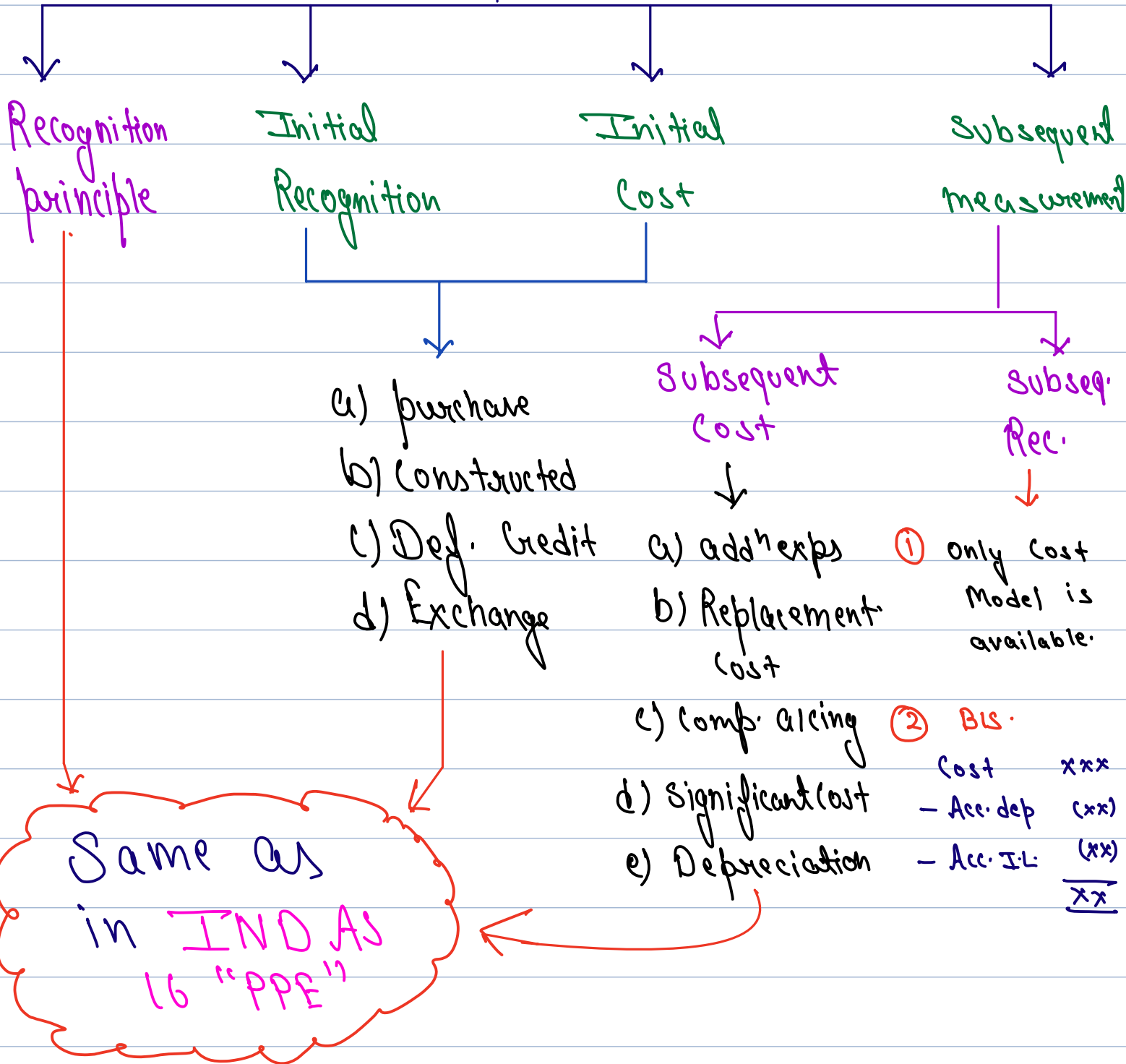
owner occupied portion is  
significant

Yes → PPE.

or insignificant → I.P.

or cannot be determined  
↳ PPE.

# # 3 Recognition & measurement



# # 4 Reclassification

↳ should be done @ C.A. of old asset as on



date of Reclassification.

{ C.A. of old asset will become cost of New asset. }

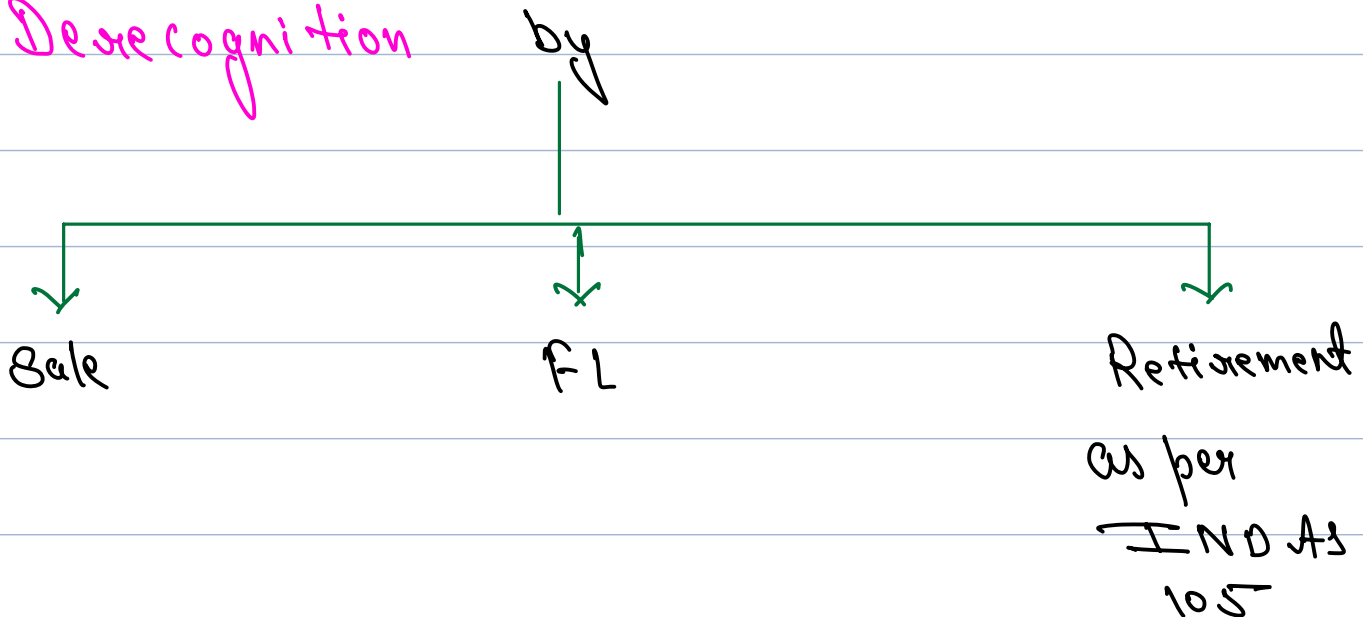


except.

(C.A - R.R.) of old PPE will become cost of New asset.

eg → PPE to I.P. & vice versa.  
IP to PPE & vice versa.

#5 Derecognition



#6 Disclosures

- i) entity is required to disclose FV of I.P. in notes to ac.
- ii) if entity is not able to determine F.V. of I.P. then



If I.P. is  
under  
Construction  
↓

Determine FV when it is  
reliably measurable or  
Construction is  
Completed.

whichever is earlier

Otherwise.



Disclose the facts  
& reasons  
there of.



3) Disclosures of valuation technique & key inputs used should be made.

### Question# 2

### ILL 3 ICAI STUDY MATERIAL

X Limited purchased a building for ₹ 30,00,000 in May 1, 20X1. The purchase price was funded by a loan. Property transfer taxes and direct legal costs of ₹ 1,00,000 and ₹ 20,000 respectively were incurred in acquiring the building. In 20X1-20X2, X Limited redeveloped the building into retail shops for rent under operating leases to independent third parties.

Expenditures on redevelopment were:

₹ 2,00,000 planning permission.

₹ 7,00,000 construction costs (including ₹ 40,000 refundable purchases taxes).

The redevelopment was completed and the retail shops were ready for rental on September 2, 20X1.

What is the cost of building at initial recognition?

Soln :-

Calc<sup>n</sup> of cost of I.P. for I.R.



purchase cost	3000000
- Refundable taxes	(40000)
+ property tax	<u>100000</u>
	3060000
+ D. Cost	20000
+ Planning cost	20000
+ Cost. Cost	<u>700000</u>
	<u>3980000</u>



### Question# 3

### Q.3 TYK ICAI STUDY MATERIAL

In financial year 20X1-20X2, X Limited incurred the following expenditure in acquiring property consisting of 6 identical houses each with separate legal title including the land on which it is built.,

The expenditure incurred on various dates is given below:

On April 1, 20X1 - Purchase cost of the property ₹ 1,80,00,000.

On April 1, 20X1 - Non-refundable transfer taxes ₹ 20,00,000 (not included in the purchase cost).

On April 2, 20X1- Legal cost related to property acquisition ₹ 5,00,000.

On April 6, 20X1- Advertisement campaign to attract tenants ₹ 3,00,000.

On April 8, 20X1 - Opening ceremony function for starting business ₹ 1,50,000.

Throughout 20X1-20X2, incurred ₹ 1,00,000 towards day-to-day repair maintenance and other administrative expenses.

X Limited uses one of the five houses for office and accommodation of its few staffs.

The other five houses are rented to various independent third parties.

How X Limited will account for all the above mentioned expenses in the books of account?

Sol<sup>n</sup> :-

(₹ in lakhs)

1) Cal<sup>n</sup> of cost of I.P. (IND AS 40)

Purchase cost	180
+ Non refundable tax	20
+ legal cost	<u>5</u>
	<u>205</u>



2) following exps should not be charged to I.P.  
 ∴ they are not D.A.C. to I.P.  
 Incurred for it RTU.



Advertisement	3
+ Op. Ceremony	1.5
+ day to day repair exps	1
Exps. Charged to P/L	<u>5.5</u>

Cost of I.P.

Cost of 6 houses	205 lacs
- staff Quarters ( $\frac{205}{6}$ )	(34.17)
	<u>170.83</u>

Journal

I.P.	Dr	170.83	
PPE	Dr	34.17	
	To Bank		205

Question# 1

ICAI STUDY MATERIAL

S.NO	PROPERTY	Does it meet definition of Investment Property	Which Ind AS is Applicable
1.	Owned by a Company and leased out under an Operating Lease	Yes	40
2.	Held Under Finance Lease and Leased out under an Operating Lease	Yes	40

3.	Held under Finance Lease and Leased out under Finance Lease	No	116
4.	Property acquired with a view for development and resale	No	2
5.	Property developed on behalf of 3 <sup>rd</sup> party	Depends	16/40
6.	Property partly owner occupied and partly leased out under Operating Lease	Yes	40
7.	Land held for currently undetermined use	Yes	40
8.	Property occupied by Employees paying rent at less than market rate	No	16
9.	Investment Property held for sale	No	105
10.	Existing Investment Property that is being redeveloped for continued use as Investment Property	Yes	40

### Question# 6

### TYK Q. 5 ICAI STUDY MATERIAL

Shaurya Limited owns Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 20X2:

Building A was purchased 5 years ago at the cost of ₹ 10 crore and building life is estimated to be 20 year. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 20X1 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 20X1-20X2, the company earned / incurred following direct operating expenditure relating to Building A and Building B

	₹ in lakhs
Rental income from Building A	75 ✓
Rental income from Building B	25 ✓
Sales promotion expenses	5 ✓
Fees & Taxes	1 ✓
Ground rent	2.5 ✓
Repairs & Maintenance	1.5 ✓
Legal & Professional	2 ✓

The company does not have any restrictions and contractual obligations against buildings - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee.

Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. It is further expected to grow at the rate of 10 percent per annum for each of 3 year. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crore on 31st March, 20X2.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet.

Final Nov 24. (8m)

- Sol<sup>n</sup> :-
- i) Any building / land / both held for rentals, Capital appreciation or both shall be classified as I.P. under IND AS 40.
  - ii) I.P. should be measured at cost & thereafter at cost model only. as per IND AS 40.
  - iii) I.P. shall be disclosed in B/S as Under

Particulars	Amount (₹ in lacs)	
	Amount	Amount
Op. bal. (building A)	1000	
+ purchase (building B)	<u>200</u>	1200



→ Acc. dep.

$$\left( \text{op. bal.} = \frac{1000}{20} \times 5 \right) \quad 250$$

$$\left\{ \text{Dep. for c.y.} = \frac{200}{40} + \frac{1000}{20} \right\} \quad \underline{55} \quad (305)$$

Carrying Amount

845

iv) Amount to be recognised in So. P/L.

Incomes:

Rentals income (B. A)	75	
Rentals income (B. B)	<u>25</u>	100

Expenses:

Sales promotion	5	
fees & taxes	1	
ground Rent	2.5	
Rep. & maintenance	1.5	
legal & prof.	2	
Commis. & brok	1	
Depr.	<u>55</u>	(68)
Net. earnings		<u>32</u>

## V) Disclosures:



- a) I.P. Consist of 2 buildings.
- b) FV of I.P. = ₹ 105 lac.
- c) Valuation is done by independant valuer.
- d) Valuation Model is used as recommended by I.V.S.C.
- e) factors considered.

↳ mgmt intention.

↳ terms of rental agreement

↳ Area let out.

↳ life of asset.

f) Valuation technique: → Dis. C.F. technique

g) Inputs:

↳ estimated rentals

↳ ₹ 50 - ₹ 60 per sq. feet.

↳ Dis. rate = 12% to 13%.

↳ growth Rate = 10% every year.

## Question# 7

On 1<sup>st</sup> April 2019, an entity purchased an office block (building) for Rs. 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of Rs. 2,50,000 and Rs. 50,000 respectively while acquiring the building.

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- Rs. 1,00,000 Building plan approval;
- Rs. 10,00,000 construction costs (including Rs. 60,000 refundable purchase taxes); and
- Rs. 40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1<sup>st</sup> October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account?

Also, discuss how the above building will be shown in Consolidated financial state ment of the entity as a group and in its separate financial statements as per relevant Ind AS.

(5 Marks)(JAN 21)

Sol<sup>n</sup> :-

Cost of property	
Purchase price	5000000
+ Non Refundable tax	250000
+ Direct legal cost	50000
+ Building plan app.	100000
+ Const. cost (10L - 60K)	<u>940000</u>
	Cost.
	<u>6340000</u>
Cost of Gr. F ( $\frac{1}{2}$ )	3170000
Cost of F. F. ( $\frac{1}{2}$ )	<u>3170000</u>

Gr F

In. SFS of S  $\rightarrow$  PPE



In SFS of P → I.P

In CFS → PPE



FF

In SFS of P → PPE

In CFS → PPE

### Question# 8

Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1<sup>st</sup> April, 2020. The following details were furnished:

Particulars	Property 1	Property 2	Property 3
Purchase Price	Rs. 7,50,000	Rs. 10,50,000	Rs. 12,00,000
Estimated life	10 years	15 years	15 years
Fair value as on 31 <sup>st</sup> March, 2021	Rs. 8,00,000	Rs. 9,50,000	Rs. 13,00,000

The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the Company has rented the property.

It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 for the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties are shown under the head property, plant and equipment in the Balance Sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31<sup>st</sup> March 2021.

(JULY21)(8 Marks)

Sol<sup>n</sup> :- i) P<sub>1</sub>, P<sub>2</sub> are held for use & are classified as PPE. & However P<sub>3</sub> is held for rental purpose, so it will be classified as I.P.



ii) Rev. Model is for P1 & P2 as per IND AS 16, however IND AS 40 does not permit Rev. model rather it allows cost model only.



iii) Dep. should be charged for all 3 properties irrespective of their FV.

iv) Particulars                      P1                      P2                      P3.

Relevant IND AS                      16                      16                      40

1-4-2020	Cost	75000	105000	120000
31-3-2021	Dep.	(75000)	(70000)	(8000)
		$\left( \frac{75000}{10} \right)$	$\left( \frac{10.5L}{15} \right)$	$\left( \frac{12L}{15} \right)$
31-3-2021	C.A.	675000	98000	112000
"	FV	80000	95000	—
"	$\Delta$ in FV	125000	(30000)	—
		↓	↓	
		R.R.	PIL	

v) Extracts of BIS:



# Assets.

Non C.A.

a) PPE

i) P<sub>1</sub>

80000

ii) P<sub>2</sub>

95000

175000

b) I.P. (P<sub>3</sub>)

112000

Equity & Liabilities

1) O.E.

R.R.

125000



## Question# 9

X Ltd owned a land property whose future use was not determined as at 31<sup>st</sup> March 20X1. How should the property be classified in the books of X Ltd as at 31<sup>st</sup> March 20X1? **I.P.**

During June 20X1, X Ltd commenced construction of office building on it for own use. Presuming that the construction of the office building will still be in progress as at 31<sup>st</sup> March 20X2

- (a) How should the land property be classified by X Ltd in its financial statements as at 31<sup>st</sup> March 20X2? **I.P. to owner occupied.**
- (b) Will there be a change in the carrying amount of the property resulting from any change in use of the investment property? **C.A on D.O.Reel. ∴ No Δ.**
- (c) Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors? **No**
- (d) Would your answer to (a) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31<sup>st</sup> March 20X2? **Yes it will be still I.P.**

Refer Volume III. Q.