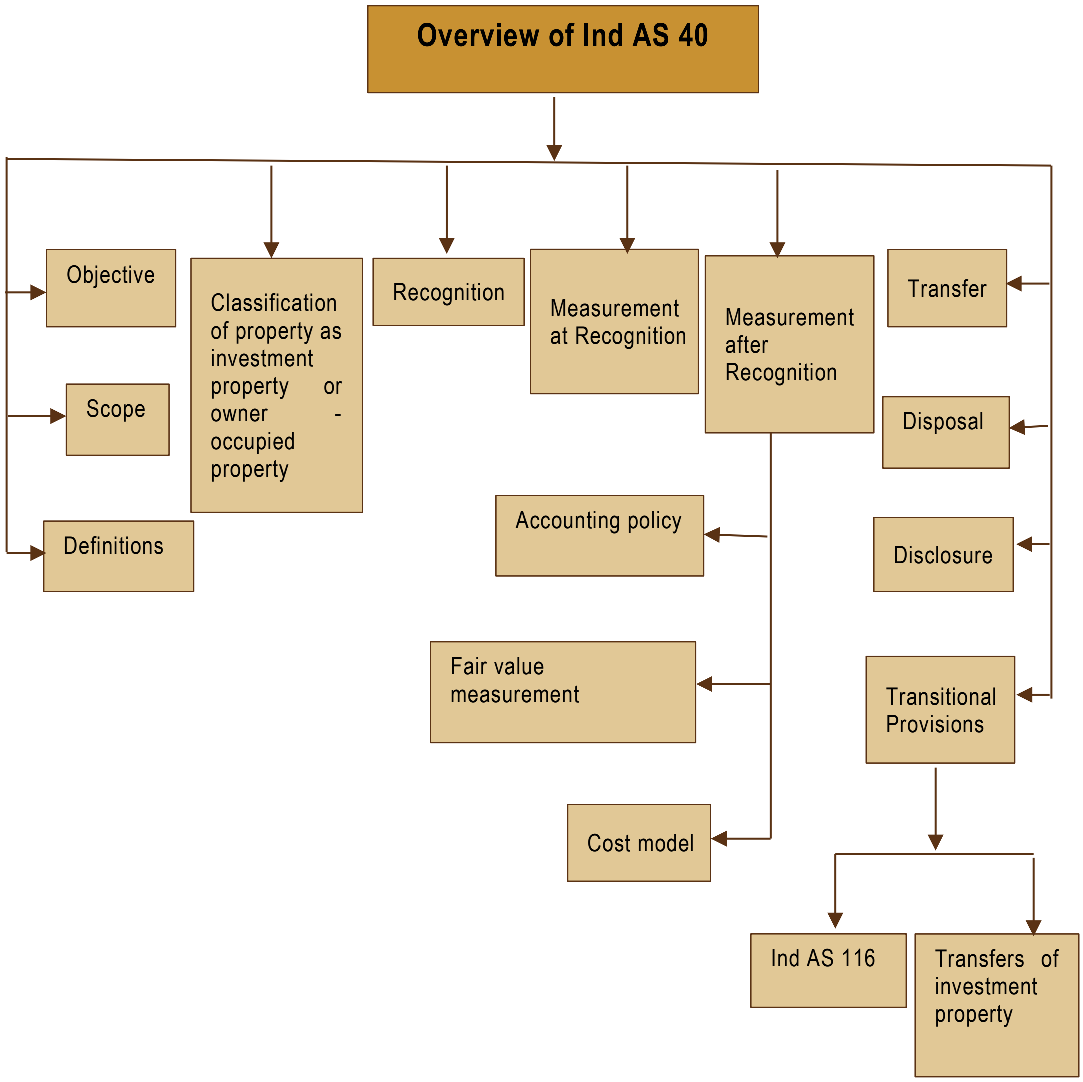
UNIT 6 : INDIAN ACCOUNTING STANDARD 40 : INVESTMENT PROPERTY

LEARNING OUTCOMES

After studying this unit, you will be able to

- ❑ List the objective and scope of this standard.
- ❑ Define the terms like investment property and owner-occupied property.
- ❑ Identify and recognize an investment property.
- ❑ Measure the investment property in accordance with the standard.
- ❑ Comply with disclosure requirements.

UNIT OVERVIEW



6.1 OBJECTIVE

The objective of this standard is to prescribe the accounting treatment for property (land and/or buildings) held to earn rentals or for capital appreciation (or both) and related disclosure requirements. Ind AS 40 prescribes the cost model for accounting for investment property.

6.2 SCOPE

1) Ind AS 40 should be applied in the recognition, measurement and disclosure of investment property.

2) This Standard does not apply to:

   a) biological assets related to agricultural activity (see Ind AS 41 '*Agriculture*' and Ind AS 16 '*Property, Plant and Equipment'*); and

   b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

6.3 RELEVANT DEFINITIONS

The following are the key Investment Property-related definitions:

1) **Investment property** is property (land or a building — or part of a building — or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

   a) use in the production or supply of goods or services or for administrative purposes; or

   b) sale in the ordinary course of business.

   Property mentioned in (a) above would be covered under Ind AS 16 '*Property, Plant and Equipment'* and property specified in (b) above would be dealt with under Ind AS 2 '*Inventories*'.

2) **Owner-occupied property** is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes.

Ind AS 16 '*Property, Plant and Equipment'* applies to owner-occupied property and Ind AS 116 '*Leases'* applies to owner-occupied property held by a lessee as a right-of-use asset.

3) **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113 '*Fair Value Measurement'*).

4) **Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other Ind AS, e.g. Ind AS 102, *Share Based Payment*.

5) **Carrying amount** is the amount at which an asset is recognized in the balance sheet.

6.4 CLASSIFICATION OF PROPERTY AS INVESTMENT PROPERTY OR OWNER-OCCUPIED PROPERTY

1) Nature of Investment property

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independent of the other assets held by an entity. This distinguishes investment property from owner-occupied property. Accordingly, investment properties could represent a cash generating unit since they generate cash inflows that are largely independent of the cash inflows from other assets or group of assets, thus meeting the definition of cash generating unit laid down in Ind AS 36, '*Impairment of Assets'*.

The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. Ind AS 16 'Property, Plant and Equipment' applies to owner-occupied property and Ind AS 116 applies to owner-occupied property held by a lessee as a right-of-use asset.

2) Examples of investment property

The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

3) Examples of items which are not investment property

The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see Ind AS 2, *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) owner-occupied property (see Ind AS 16 and Ind AS 116), including, (among other things)

(i) property held for future use as owner-occupied property,

(ii) property held for future development and subsequent use as owner-occupied property,

(iii) property occupied by employees (whether or not the employees pay rent at market rates) and

(iv) owner-occupied property awaiting disposal.

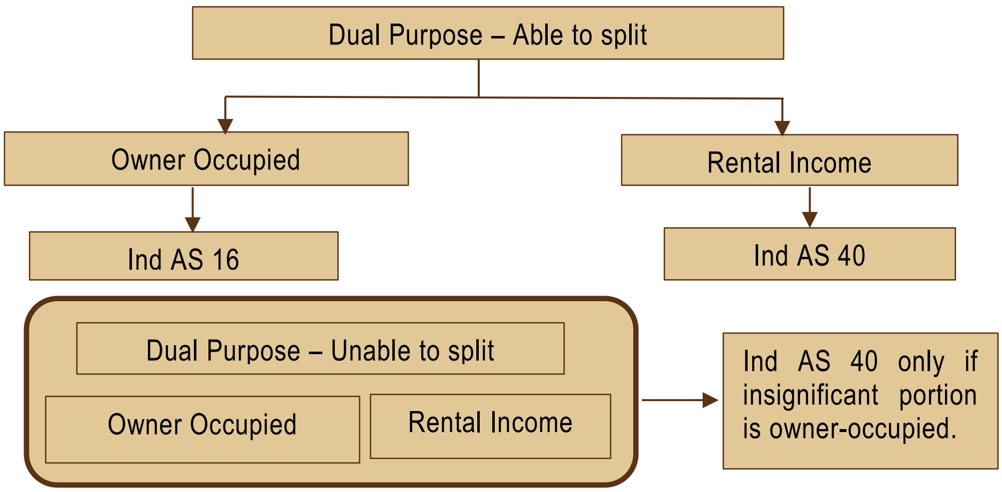
(c) property leased to another entity under a finance lease.

Not Investment Property

Sale in the ordinary course of business **Ind AS 2**	Owner - occupied property **Ind AS 16**	Employee occupied property **Ind AS 16**

4) Property held for more than one purpose

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for production or supply of goods or services or for administrative purposes, the two parts are accounted for separately if they could be sold, or leased out separately under a finance lease, separately. If they could not be sold (or leased out under a finance lease) separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.



Examples 1 - 3

1. Sun Ltd owns a building having 15 floors of which it uses 5 floors for its office; the remaining 10 floors are leased out to tenants under operating leases.

   In the given scenario, the remaining 10 floors should be classified as investment property since they are able to split the title between the floors.

2. Moon Ltd uses 35% of the office floor space of the building as its head office. It leases the remaining 65% to tenants, but it is unable to sell the tenant's space or to enter into finance leases related solely to it.

   Therefore, the company should not classify the property as an investment property as the 35% of the floor space used by the company is significant.

3. An entity owns a hotel, which includes a health and fitness centre, housed in a separate building that is part of the premises of the entire hotel. The owner operates the hotel and other facilities of the hotel with the exception of the health and fitness

centre, which can be sold or leased out under a finance lease. The health and fitness centre will be leased to an independent operator. The entity has no further involvement in the health and fitness centre. In this scenario, management should classify the hotel and other facilities as property, plant and equipment in accordance with Ind AS 16 and the health and fitness centre under Ind AS 116.

If the health and fitness centre could not be sold or leased out separately on a finance lease, then because the owner-occupied portion is not insignificant, the whole property would be treated as an owner-occupied property.

5) Ancillary services

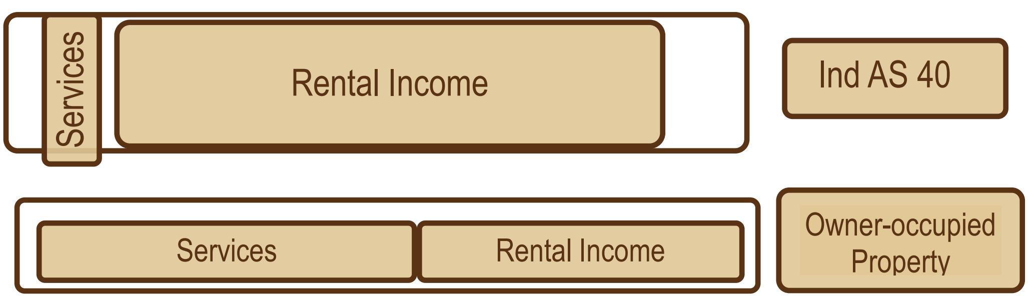
In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.

Example 4

The owner of an office building provides security and maintenance services to the lessees who occupy the building. In such a case, since the services provided are insignificant, the property would be treated as an investment property.

If an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. In such a case, an owner-managed hotel is owner-occupied property, rather than investment property.



6) Difficulty in deciding classification under investment property

It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance as discussed above. The standard requires an entity to disclose these criteria based upon which it distinguishes investment property from owner-occupied property and from property held from sale in the ordinary course of business when classification is difficult.

Judgement is also required to determine whether the acquisition of Investment Property is the acquisition of an asset or a group of assets or a business combination within the scope of Ind AS 103, *Business Combinations*. Reference should be made to Ind AS 103 to determine whether it is a business combination. The discussion in the above points relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination as defined in Ind AS 103. Determining whether a specific transaction meets the definition of a business combination as defined in Ind AS 103 and includes an investment property as defined in this Standard requires the separate application of both Standards.

7) Property leased to other group members – treatment of same asset differently in the individual financial statements and the consolidated financial statements

In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition of Investment Property. Therefore, the lessor treats the property as investment property in its individual financial statements.

Tabular summarisation

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	Ind AS 40
2.	Held as a right-to-use asset and leased out under an operating lease	Yes	Ind AS 40
3.	Held as a right-to-use asset and leased out under finance lease	No	Ind AS 116
4.	Property acquired with a view for development and resale	No	Ind AS 2
5.	Property partly owner occupied and partly leased out under operating lease	Depends	Ind AS 16 Ind AS 40
6.	Land held for currently undetermined use	Yes	Ind AS 40
7.	Property occupied by employees paying rent at less than market rate	No	Ind AS 16
8.	Investment property held for sale	No	Ind AS 105
9.	Existing investment property that is being redeveloped for continued use as investment property	Yes	Ind AS 40

6.5 RECOGNITION

1) General principle

An owned investment property shall be recognized as an asset when, and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

This general principle is used to consider whether capitalisation is appropriate both in respect of the cost incurred initially to acquire or construct an owned investment property and costs incurred subsequently to add to, replace part of, or service a property.

An investment property held by a lessee as a right-of-use asset shall be recognized in accordance with Ind AS 116.

2) Subsequent costs

Day-to-day servicing costs

Under the recognition principle set out above, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in the profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

Replacement costs

Parts of investment properties may have been acquired through replacement. Under the recognition principle, an entity recognizes costs incurred to replace parts of the original property in the carrying amount of investment property if they meet the recognition criteria. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

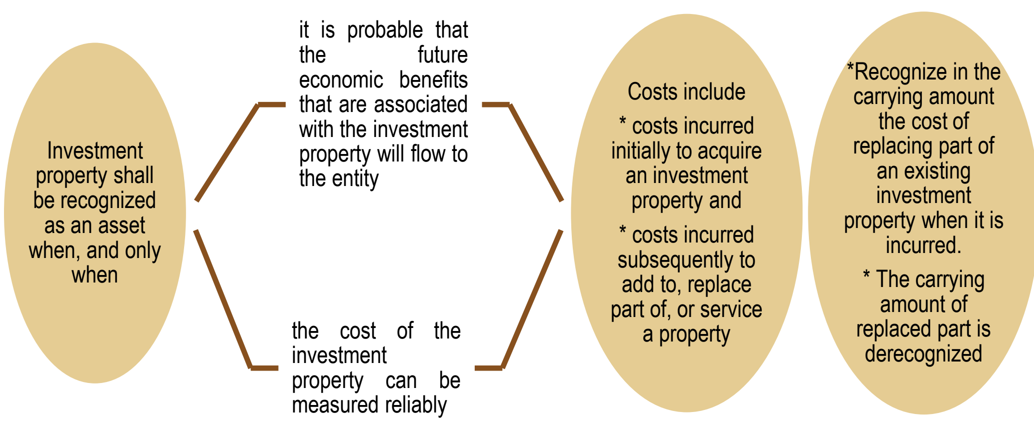


Illustration 1

X Limited owns a building which is used to earn rentals. The building has a carrying amount of ₹ 50,00,000. X Limited recently replaced interior walls of the building and the cost of new interior walls is ₹ 5,00,000. The original walls have a carrying amount of ₹ 1,00,000.

Advise, how X Limited should account for the above costs.

Solution

Under the recognition principle, an entity recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and the carrying amount of those parts that are replaced is derecognized.

So, X Limited should add the cost of new walls and remove the carrying amount of old walls.

The new carrying amount of the building = ₹ 50,00,000 + ₹ 5,00,000 – ₹ 1,00,000

= ₹ 54,00,000.

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6.6 MEASUREMENT AT RECOGNITION

1) Measurement at recognition - general

An owned investment property should be measured initially at its cost. Transaction costs are included in the initial measurement.

Cost Inclusions

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (e.g. professional fees for legal services, property transfer taxes and other transaction costs).

Cost Exclusions

The cost of an investment property is not increased by:

a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),

b) operating losses incurred before the investment property achieves the planned level of occupancy, or

c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

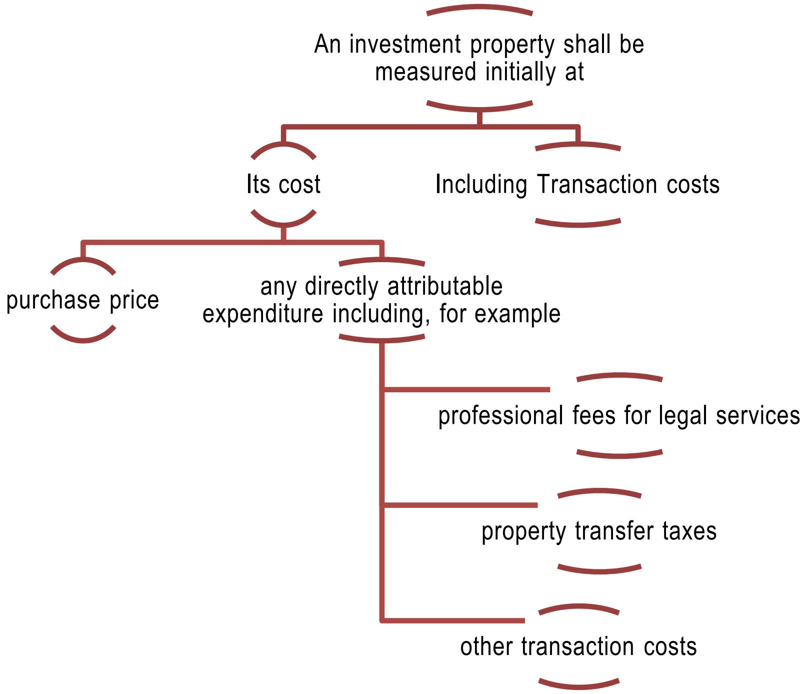

Illustration 2

Netravati Ltd. purchased a commercial office space as an Investment Property, in the Global Trade Centre Commercial Complex, for ₹ 5 crores. However, for purchasing the same, the Company had to obtain membership of the Global Trade Centre Commercial Complex Association by paying ₹ 6,25,000 as a one-time joining fee. Netravati Ltd. wants to write off the one-time joining fees paid as an expense under Membership and Subscription Charges and value the investment property at ₹ 5 crores. Advise.

Comment whether your answer will change if the office space was purchased with the intention of using it as an administrative centre of the company.

Solution

Cost of Investment Property

As per Ind AS 40, the cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (e.g. professional fees for legal services, property transfer taxes and other transaction costs). Accordingly, on initial recognition, the one-time joining fee of ₹ 6,25,000 should be added to the purchase price. Therefore, the investment property should be measured at ₹ 5,06,25,000 (i.e. cost of the commercial office space + one-time joining fee). Writing off the amount of ₹ 6,25,000 to the P&L is not appropriate.

Use as Administrative Office

If the property is used as an administrative centre, it is not an investment property, but rather an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

Even under Ind AS 16, all direct costs relating to the acquisition of the asset should be added to the purchase price. Hence, cost of the asset under Ind AS 16 would be ₹ 5,06,25,000.

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Illustration 3

X Limited purchased a building for ₹ 30,00,000 on 1st May, 20X1 with an intention to earn rentals. The purchase price was funded by a loan, interest on which is payable @ 5%. Property transfer taxes and direct legal costs of ₹ 1,00,000 and ₹ 20,000 respectively were incurred in acquiring the building. 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 purchase taxes)*

The building does not qualify the substantial period criteria for redevelopment of property under Ind AS 23.

Compute the cost of the building as per Ind AS 40.

Solution

As per Ind AS 40, the cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (e.g. professional fees for legal services, property transfer taxes and other transaction costs).

Accordingly, cost of the building is arrived at as under:

Particulars	Amount in ₹	Total ₹
Purchase price		30,00,000
Add: Property transfer taxes		1,00,000

Direct legal costs		20,000
Fee for planning permission		2,00,000
Construction costs	7,00,000	
Less: Refundable purchase taxes	40,000	6,60,000
Cost of the building as per Ind AS 40		**39,80,000**

Note: Since the building does not qualify the substantial period criteria for redevelopment of property under Ind AS 23, borrowing cost of loan fund has not been capitalised.

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2) Deferred payments

If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

Illustration 4

X Limited purchased a land worth of ₹ 1,00,00,000. It has option either to pay full amount at the time of purchases or pay for it over two years for a total cost of ₹ 1,20,00,000.

Determine the cost of the building under both the payment methods.

Solution

Using either payment method, the cost will be ₹ 1,00,00,000. If the second payment option is used, ₹ 20,00,000 will be treated as interest expenses over the credit period of 2 years.

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3) Investment property acquired through exchange of another asset

One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an investment property is measured at fair value unless:

a) the exchange transaction lacks commercial substance or

b) the fair value of neither the asset received, nor the asset given up is reliably measurable.

The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or

b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and

c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction as mentioned above shall reflect the post-tax cash flows. The result of these analysis may be clear without an entity having to perform detailed calculations.

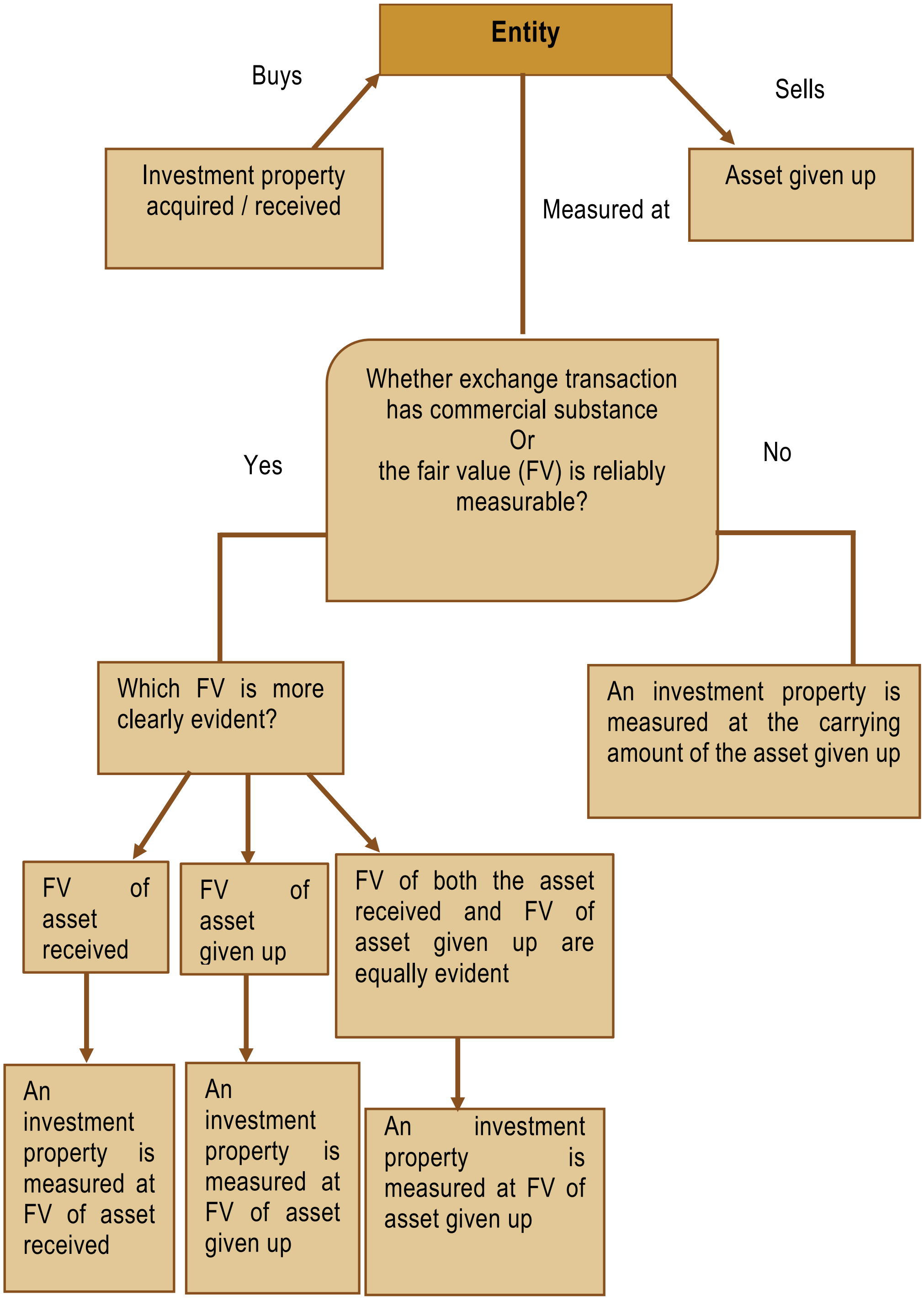
The fair value of an asset is reliably measurable if:

a) the variability in the range of reasonable fair value measurements is not significant for that asset or

b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with Ind AS 116.


Entity
Buys
Sells
Investment property acquired / received
Asset given up
Measured at
Whether exchange transaction has commercial substance Or the fair value (FV) is reliably measurable?
Yes
No
Which FV is more clearly evident?
An investment property is measured at the carrying amount of the asset given up
FV of asset received
FV of asset given up
FV of both the asset received and FV of asset given up are equally evident
An investment property is measured at FV of asset received
An investment property is measured at FV of asset given up
An investment property is measured at FV of asset given up

Example 5

Sun Ltd acquired a building in exchange of a warehouse whose fair value is ₹ 5,00,000 and payment of cash is ₹ 2,00,000. The fair value of the building received by the Company is ₹ 8,00,000. The company decided to keep that building for rental purposes.

The building is acquired with the purpose to earn rentals. Hence, it is a case of Investment Property acquired in exchange for a combination of monetary and non-monetary asset.

Therefore, **Journal entry at the time of acquisition is :**

Investment Property (Building) (5,00,000 + 2,00,000)	Dr.	7,00,000	
To Cash			2,00,000
To PPE (Property, Plant and Equipment) i.e. Warehouse			5,00,000

Note: When the fair value of both the asset given up and acquired is mentioned, it is presumed that both the fair values are equally evident. In such a case, the fair value of the asset given up is considered as the cost of the asset purchased.

However, if the fair value of property acquired is more clearly evident, then the fair value of the asset acquired is considered. In such a situation, the Journal Entry at the time of acquisition (taking information given in the above example) would be

Investment Property (Building)	Dr.	8,00,000	
To Cash			2,00,000
To PPE (Warehouse)			5,00,000
To Gain on Sale of PPE			1,00,000

6.7 MEASUREMENT AFTER RECOGNITION

1) Accounting Policy

An entity shall adopt as its accounting policy the cost model for all of its investment property.

Cost Model

After initial recognition, an entity shall measure investment property:

(a) in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);

(b) in accordance with Ind AS 116 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with Ind AS 105; and

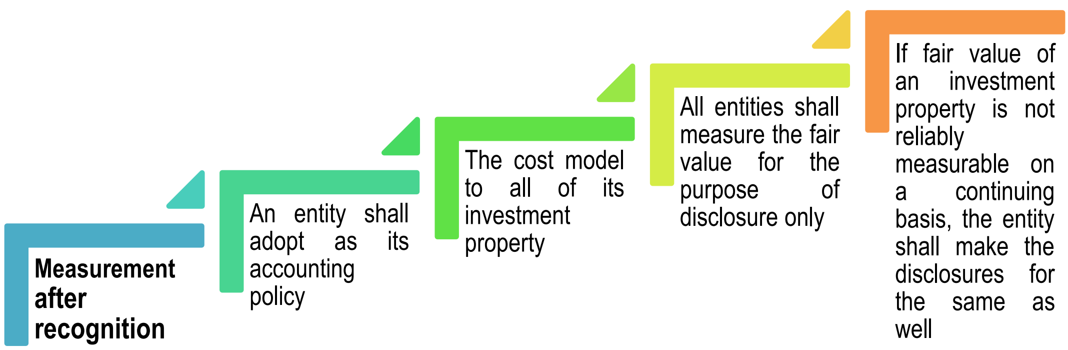
(c) in accordance with the requirements in Ind AS 16 for cost model in all other cases.

Entities are required to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model. An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

2) Fair Value Measurement

While measuring the fair value of investment property in accordance with Ind AS 113, an entity should ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

When a lessee measures fair value of an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property at fair value.



3) Inability to measure fair value reliably

There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis.

Situations when fair value is not reliably measurable:

❖ In **exceptional** cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the property will **not** be reliably measurable on a continuing basis.

❖ The usefulness of a single point measure of fair value which is required gets negated in the above exceptional cases due to – (a) great variability in the range of reasonable fair value measurements, and (b) high difficulty in the assessment the probabilities of the various outcomes.

❖ This arises when, and only when

(a) the market for comparable properties is inactive (e.g. there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and

(b) alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available.

Treatment when Fair Value is not reliably measurable

Investment property under construction

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Entity determines that the fair value is not reliably measurable

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But entity expects that the fair value of the property will be reliably measurable when construction is complete

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Then the entity shall measure the fair value of such investment property either when it becomes reliably measurable, or construction is completed, **whichever is earlier**

Investment property (other than investment property under construction)

↓

Entity determines that the fair value is not reliably measurable on a continuing basis

↓

Entity shall disclose the following:

(i) A description of the investment property

(ii) Explanation of why fair value cannot be measured reliably; and

(iii) If possible, the range of estimates within which fair value is likely to lie

Important Points:

❖ Once an entity becomes able to measure reliably the fair value of an investment property under construction for which the fair value was not previously measured, it should measure the fair value of that property.

- Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the entity should make the disclosures as mentioned under investment property (other than investment property under construction) above.
- The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured the fair value of an item of investment property under construction may not conclude that the fair value of the completed investment property cannot be measured reliably.
- In the exceptional cases when an entity is compelled, for the reason given above to make the disclosures, it should determine the fair value of all its other investment property, including investment property under construction. In these cases, although an entity may make the disclosures as required for one investment property, the entity should continue to determine the fair value of each of the remaining properties for disclosure as required.
- If an entity has previously measured the fair value of an investment property, it shall continue to measure the fair value of that property until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

6.8 TRANSFERS

1 An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:

(a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;

Ind AS 40 → Ind AS 16

(b) commencement of development with a view to sale, for a transfer from investment property to inventories;

Ind AS 40 → Ind AS 2

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

Ind AS 16 → Ind AS 40

(d) inception of an operating lease to another party, for a transfer from inventories to investment property.

Ind AS 2 → Ind AS 40

2. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the balance sheet) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

3. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Illustration 5

Moon Ltd. has purchased a building on 1st April, 20X1 at a cost of ₹ 10 million. The building was used as a factory by the Moon Ltd. and was measured under cost model. The expected useful life of the building is estimated to be 10 years. Due to decline in demand of the product, the Company does not need the factory anymore and has rented out the building to a third party from 1st April, 20X5. On this date, the fair value of the building is ₹ 8 million. Moon Ltd. uses cost model for accounting of its investment property.

Determine the value of the building on reclassification as investment property.

Solution

	(₹ Million)
Carrying amount of the building after depreciation of 4 years (10-10/10 x 4)	6

The company has applied cost model under Ind AS 16 till now.

There is no impairment as the fair value is greater than the carrying amount of building.

Revaluation Surplus credited to Other Comprehensive Income	---
(not applicable since cost model is used under Ind AS 16)	
Building initially recognized as Investment Property	6
(Cost model Ind AS 40)	

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6.9 DISPOSALS

1) An investment property should be derecognized (eliminated from the balance sheet)

   a. on disposal or

   b. when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2) The disposal of an investment property may be achieved by:

   a. sale or

   b. entering into a finance lease.

3) The date of disposal for investment property that is sold is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in Ind AS 115. Ind AS 116 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

4) De-recognition of replaced parts:

   a. If, in accordance with the recognition principle in paragraph 16, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part.

   b. A replaced part may not be a part that was depreciated separately.

   c. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

5) Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss (unless Ind AS 116 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

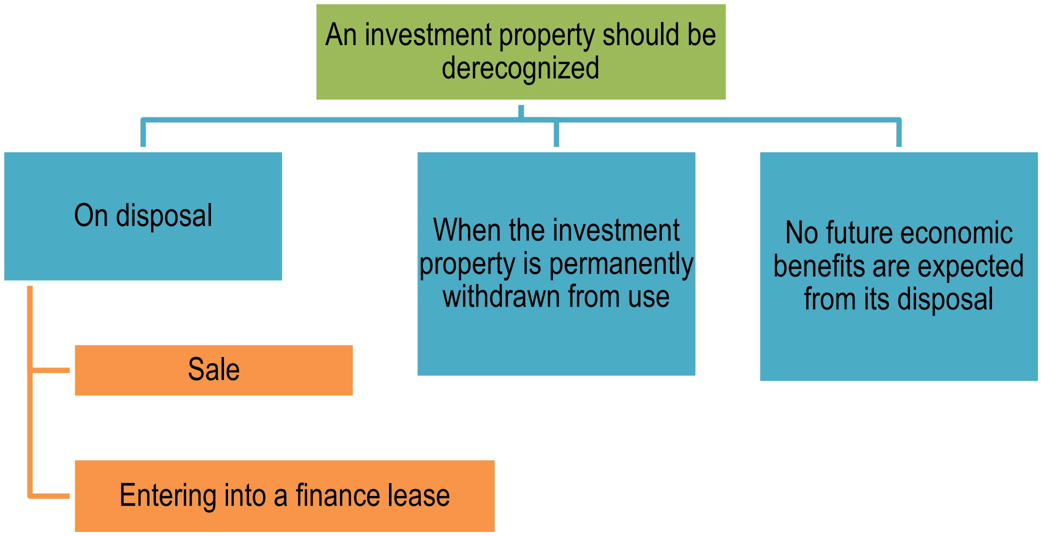
6) The amount of consideration to be included in the gain or loss arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction price as per Ind AS 115. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in Ind AS 115.

7) An entity applies Ind AS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

8) Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in profit or loss when the compensation becomes receivable.

9) Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

Items	**Treatment**
Impairments of investment property	Recognized in accordance with Ind AS 36
Retirements or disposals of investment property	Recognized in accordance with Ind AS 40
Compensation from third parties for investment property that was impaired, lost or given up	Recognized in profit or loss when it becomes receivable
The cost of assets restored, purchased or constructed as replacements	Determined in accordance with Ind AS 40



S. No.	Particular	Detail
1.	Date of disposal for investment property	• The date is when the recipient obtains control of the investment property for determining when a performance obligation is satisfied. • Ind AS 116 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.
2.	Measurement of consideration receivable on disposal	• The consideration receivable on disposal of an investment property is recognized initially **at fair value** • If payment for an investment property is deferred, the consideration received is recognized initially at the **cash price equivalent**. • The **difference** between the nominal amount of the consideration and the cash price equivalent **is recognized as interest revenue**
3.	Compensation	• Compensation from third parties for investment property that was impaired, lost or given up **shall be recognized in profit or loss when the compensation becomes receivable.**

Example 6

Sun Ltd, an aeronautics company is having a building which is given on an operating lease. The book value of such building in the books is ₹ 2,00,000.

Case -A

Pluto Ltd. offers to buy the building at ₹ 4,00,000.

Bank	Dr.	4,00,000	
To Investment Property			2,00,000
To Gain on disposal			2,00,000

Case-B

Pluto Ltd. offers to take the building on finance lease for 10 years at a lease rental of ₹ 80,000 p.a. The present value of minimum lease payments is ₹ 3,20,000.

Lease Receivable	Dr.	3,20,000	
To Investment Property			2,00,000
To Gain on Disposal			1,20,000

6.10 DISCLOSURE

The disclosures below apply in addition to those in Ind AS 116. In accordance with Ind AS 116, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by Ind AS 116 and lessors' disclosures as required by Ind AS 116 for any operating leases into which it has entered.

An entity should disclose:

1. its accounting policy for measurement of investment property.

2. when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

3. the extent to which the fair value of investment property (as measured for disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

4. the amounts recognized in profit or loss for:

   (a) rental income from investment property;

   (b) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and

   (c) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

5. the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

6. contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

7. In addition to the general disclosures required above, an entity is required to disclose:

   (a) the depreciation methods used;

   (b) the useful lives or the depreciation rates used;

   (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

8. An entity is also required to provide a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

   (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

   (b) additions resulting from acquisitions through business combinations;

(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(d) depreciation;

(e) the amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with Ind AS 36;

(f) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(g) transfers to and from inventories and owner-occupied property; and

(h) other changes.

9. An entity is also required to disclose the fair value of investment property. In the exceptional cases when an entity cannot measure the fair value of the investment property reliably, it should disclose:

(a) a description of the investment property;

(b) an explanation of why fair value cannot be measured reliably; and

(c) if possible, the range of estimates within which fair value is highly likely to lie.

6.11 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'GMR Infrastructure Limited' for the financial year 2021-2022 with respect to 'Investment Property' and its accounting policy thereon.

Consolidated balance sheet as at March 31, 2022

(₹ in crore)

Particulars	Notes	March 31, 2022	March 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	3	9,400.91	9,021.22
Capital work-in-progress	3	10,162.63	6,615.65
Investment properties	4	-	534.51

4. Investment property

(₹ in crore)

Particulars	Investment property		Investment property under construction	Total
	Land	Buildings		
Gross carrying amount				
As at April 01, 2020	**202.74**	**39.76**	**3,252.56**	**3,495.06**
Acquisitions during the year	1.68	-	-	1.68
Expenses capitalised during the year	-	-	291.52	291.52
Disposals (refer note 48(i))	(51.12)	(13.07)	(2,945.48)	(3,009.67)
Asset classified as held for sale (refer note 34(b) and (c))	(64.93)	-	(171.63)	(236.56)
Other adjustments	-	-	(5.00)	(5.00)
As at March 31, 2021	**88.37**	**26.69**	**421.97**	**537.03**
Acquisitions during the year	1.33	-	-	1.33
Expenses capitalised during the year	0.10	-	35.16	35.26
Disposals	(0.80)	-	-	(0.80)
Transfer on account of composite scheme of arrangement (refer note 34(d))	(89.00)	(26.69)	(457.13)	(572.82)
As at March 31, 2022	**-**	**-**	**-**	**-**

Accumulated depreciation				
As at April 01, 2020	**-**	**3.78**	**-**	**3.78**
Charge for the year	-	0.90	-	0.90
Disposals	-	(2.16)	-	(2.16)
As at March 31, 2021	**-**	**2.52**	**-**	**2.52**
Charge for the year	-	0.34	-	0.34
Transfer on account of composite scheme of arrangement (refer note 34(d))	-	(2.86)	-	(2.86)
As at March 31, 2022	**-**	**-**	**-**	**-**
Net carrying amount				
As at March 31, 2021	**88.37**	**24.17**	**421.97**	**534.51**
As at March 31, 2022	**-**	**-**	**-**	**-**

Notes :

(a) Information regarding income and expenditure of investment property **(included in discontinued operations)**:

(₹ in crore)

Particulars	**March 31, 2022**	**March 31, 2021**
Rental income derived from investment property	2.24	4.71
Less: Direct operating expenses (including repairs and maintenance) generating rental income	(0.84)	(2.53)
Less: Direct operating expenses (including repairs and maintenance) that did not generate rental income	(0.01)	(2.52)
Profit/ (loss) arising from investment property before depreciation	**1.39**	**(0.34)**
Less: Depreciation for the year	(0.34)	(0.90)
Profit/ (loss) arising from investment property	**1.05**	**(1.24)**

(b)	*Investment property under construction including land as at March 31, 2022 represents Nil acres (March 31, 2021 : 1,284 acres) of land held by the Group consisting of Nil acres (March 31, 2021 : 814 acres) of land held by GKSIR for the purpose of SEZ at Krishnagiri and Nil acres (March 31, 2021 : 470 acres) of land held by various other entities.*
(c)	*Investment property of the Group has been pledged for the borrowing taken by the Group. Refer note 18 and note 23.*
(d)	*Certain investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Refer note 40 for details on future minimum lease rentals.*
(e)	*Refer to note 39 (b) for disclosure of other commitments for investment property.*
(f)	*Fair value hierarchy disclosures for investment property have been provided in note 50.*

ACCOUNTING POLICY

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

The cost includes borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is recognized using straight line method so as to write off the cost of the investment property less their residual values over their useful lives specified in Schedule II to the Companies Act, 2013, or in the case of assets where the useful life was determined by technical evaluation, over the useful life so determined. Depreciation method is reviewed at each financial year end to reflect the expected pattern of consumption of the future benefits embodied in the investment property. The estimated useful life and residual values are also reviewed at each financial year end and the effect of any change in the estimates of useful life/ residual value is accounted on prospective basis. Freehold land and properties under construction are not depreciated.

Investment properties are derecognized either when they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Investment property under construction

Investment property under construction represents expenditure incurred in respect of capital projects and are carried at cost. Cost includes land, related acquisition expenses, development/construction costs, borrowing costs and other direct expenditure.

(Source: Annual Report 2021-2022 - GMR Infrastructure Limited)

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Questions

1. On 1st April, 20X1 an entity acquired an investment property (building) for ₹ 40,00,000. Management estimates the useful life of the building as 20 years measured from the date of acquisition. The residual value of the building is ₹ 2,00,000. Management believes that the straight-line depreciation method reflects the pattern in which it expects to consume the building's future economic benefits. What is the carrying amount of the building on 31st March, 20X2?

2. X Limited has an investment property (building) which is carried in Balance Sheet on 31st March, 20X1 at ₹ 15,00,000. During the year X Limited has stopped letting out the building and used it as its office premise. On 31st March, 20X1, management estimates the recoverable amount of the building as ₹ 10,00,000 and its remaining useful life as 20 years and residual value is nil. How should X Limited account for the above investment property as on 31st March, 20X1?

3. 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 1st April, 20X1 - Purchase cost of the property ₹ 1,80,00,000.

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

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

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

On 8th April, 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 six 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?

4. X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for ₹ 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were ₹ 20,00,000. On 31st March, 20X5, the fair value of the property was ₹ 2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on 30th September, 20X5. On 30th September, 20X5, the fair value of the property was ₹ 2,90,00,000. On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of ₹ 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further ₹ 40,00,000 to complete the project, after which each flat could be sold for ₹ 50,00,000.

   Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 20X6 as per Ind AS.

5. Shaurya Limited owns a 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 initially purchased at the cost of ₹ 10 crores. At that time, the useful life of the building was estimated to be 20 years; out of which 5 years have been expired as on 1st April, 20X1. 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 crores. 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:

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

The company does not have any restrictions and contractual obligations against Property - 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 estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. 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 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited and has the income generated and expenses incurred on these building be presented in P/L?

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.

Answers

1. Cost of the asset is ₹ 40,00,000.

Depreciable amount	= Cost less Residual value = ₹ (40,00,000 - 2,00,000)
	= ₹ 38,00,000
Depreciation for the year	= Depreciable amount/useful life
	= ₹ 38,00,000/20
	= ₹ 1,90,000.
Carrying amount	= Cost less accumulated depreciation
	= ₹ (40,00,000 - 1,90,000) = ₹ 38,10,000.

2. At 31st March, 20X1, X Limited must transfer the property from investment property to property, plant and equipment since there is a change in use of the said building.

The transfer should be made at its carrying amount i.e., ₹ 15,00,000.

Since recoverable amount of the property as on 31st March, 20X1 is ₹ 10,00,000, impairment loss ₹ 5,00,000 should be recognized in the Statement of Profit and Loss. So, the carrying amount of Investment property at 31st March, 20X1 would be ₹ 10,00,000.

The entity must disclose the reclassification.

From April, 20X1, X Limited will depreciate the building over its remaining useful life of 20 years.

3. The cost of the property = ₹ (1,80,00,000 + 20,00,000 + 5,00,000) = ₹ 2,05,00,000.

Since five houses out of six are being rented, so 5/6th of the property cost will be accounted for as an investment property and 1/6th of the property cost will be accounted for as owner-occupied property.

Cost of the investment property = ₹ 2,05,00,000 x 5/6 = ₹ 1,70,83,333

Cost of the owner-occupied property = ₹ (2,05,00,000 - 1,70,83,333) = ₹ 34,16,667.

All other costs, i.e., advertisement expenses, ceremony expenses and repair maintenance expenses will be expensed off as and when incurred.

4. From 1st April, 20X1, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

The property would be measured under the cost model. This means it will be measured at ₹ 2,00,00,000 at each year end.

On 30th September, 20X5, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats.

As per para 59 of Ind AS 40, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence, the carrying value of the reclassified property will be ₹ 2,00,00,000.

Since the lease of the property is an operating lease, rental income of ₹ 10,00,000 (₹ 20,00,000 x 6/12) would be recognized in P/L for the year ended 31st March, 20X6.

The additional costs of ₹ 60,00,000 for developing the flats which were incurred up to and including 31st March, 20X6 would be added to the 'cost' of inventory to give a closing cost of ₹ 2,60,00,000.

The total selling price of the flats is expected to be ₹ 5,00,00,000 (10 x ₹ 50,00,000). Since the further costs to develop the flats total ₹ 40,00,000, their net realisable value is ₹ 4,60,00,000 (₹ 5,00,00,000 – ₹ 40,00,000), so the flats will be measured at a cost of ₹ 2,60,00,000.

The flats will be shown in inventory as a current asset.

5. Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the balance sheet would be depicted as follows:

INVESTMENT PROPERTIES:	
Particulars	**Period ended 31st March, 20X2 (₹ in crores)**
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	0.55
Closing balance (F) = (D) + (E)	3.05
Net balance (C) - (F)	8.95

The changes in the carrying value of investment properties for the year ended 31st March, 20X2 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties

Particulars	**Period ending 31st March, 20X2 (₹ in crores)**
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5 + 1 + 2.5 + 1.5 + 2 + 1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87

Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist of Property A and Property B. As at 31st March, 20X2, the fair value of the properties is ₹ 10.50 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	- Estimated rental value per sq. ft. per month - Rent growth per annum - Discount rate	- ₹ 50 to ₹ 60 - 10% every 3 years - 12% to 13%