IND AS – 40
INVESTMENT PROPERTY

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(1) DEFINITION :

Investment property - Land or building, or part of a building, or both, held by the owner or the lessee under a finance lease to earn rentals and/or for capital appreciation, rather than for:

- use in production or supply of goods and services or
- use in administrative purposes or
- sale in the ordinary course of business.

Owner-occupied property - Property held by the owner or the lessee under a finance lease for use in production or supply of goods and services or for administrative purposes.

The following are examples of investment property

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

- ✍ A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
- ✍ A building that is vacant but is held to be leased out under one or more operating leases.
- ✍ Property that is being constructed or developed for future use as investment property.
- ✍ Property intended for sale in the ordinary course of business or in the process of construction or development for such sale (Ind AS - 2, Inventories), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
- ✍ owner-occupied property (Ind AS - 16), including (among other things)property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
- ✍ Property that is leased to another entity under a finance lease.
- ✍ Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- ✍ 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.
- ✍ 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.

(2) RECOGNITION

Investment property shall be recognized as an asset when and only when:

- It is probable that future economic benefits will flow to the entity; and
- The cost of the investment property can be measured reliably.

(3) INITIAL MEASUREMENT

Owned Investment Property that qualifies for recognition as an asset should be measured at its COST. An investment property held by a lessee as a right-of-use asset shall be measured initially at its COST as per Ind AS 116.

Initial acquisition/construction

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Asset is acquired by

Payment of Cash/for credit	Self construction	Exchange of Non-monetary assets

(A) INVESTMENT PROPERTY BY CASH / CREDIT

Cost of asset includes the following:—

Particulars	Amount Rs.
Purchase price (Basic price)	XXX
(+) Non refundable taxes, Property transfer taxes	XXX
(+) Professional fees (e.g. fees of legal services, architects and engineers)	XXX
(+) Brokerage & commission (transaction costs)	XXX
(+) Borrowing cost (If permitted by Ind AS 23)	XXX
(+) Present value of Decommissioning, restoration costs	XXX
(+) Any directly attributable cost to bring the asset to the location & condition necessary to operatefor its intended purpose	XXX
Cost of Investment Property to be capitalized	**XXX**

Deferred credit period

Deferred credit period means excess credit period over and above normal credit period. If the entity acquired Investment property on deferred credit basis, it should be recognised at **CASH PRICE equivalent on the date of recognition** (Present value). The **difference** between the cash price **and** the total payment should be recognised as interest expense over the period of credit.

(B) SELF CONSTRUCTED INVESTMENT PROPERTY :

The following costs should be capitalised when the assets are constructed by the entity-

Particulars	Amounts Rs.
All the costs which are capitalised under Cash/Credit	XXX
Any other costs of construction that directly relate to the specific asset	XXX
Any other costs that can be attributable/allocable to the construction activity	XXX
Borrowing costs (if the Investment Property is a qualifying asset as per Ind AS 23)	XXX
Cost of self constructed Investment Property	**XXXX**

Note:

(a) The entity should NOT include internal profits on any items used from its stores (one cannot sell to own). Only cost of the items should be capitalised.

Abnormal loss of material, labour or any other resources used should not be part of self constructed asset.

(C) ACQUIRED BY EXCHANGE

When investment property is acquired in exchange or part exchange for another asset, the asset received is> usually recorded at

Determination of cost of assets to be recorded is based on the following TWO conditions:—

1. Does the transaction has commercial substance (explained below)? &

2. Can fair value of the asset given or taken is measured reliably?

Yes

Recognise at
- Fair value of the asset given up; (1st preference) or
- Fair value of the asset received; Whichever is **clearly evident**

No

It should be measured at COST i.e. Carrying amount of asset given up is the Cost of asset received.

(4) SUBSEQUENT EXPENDITURE :

Does subsequent expenditure increase the future economic benefits

i.e. satisfies the recognition criteria ?

Yes
Capitalise

No
Charge to P&L Statement

Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the 'repairs and maintenance' of the property and hence these expenses should be charged to P&L immediately in the period in which it is incurred.

(5) SUBSEQUENT MEASUREMENT

An entity should measure the investment property using COST MODEL as explained in Ind AS 16. The Standard **PROHIBITS** recognising the investment property using **fair value model.**

As per Ind AS 16 - COST MODEL	
Cost	xxx
Less: Accumulated depreciation	xx
Less: Accumulated impaired loss	xx
Net carrying amount	**xxx**

As per Ind AS 16, the entity should select an appropriate method of depreciate which reflects the pattern of consumption of future economic benefits. It should review residual value and useful life at every year end.

Note:

This Standard requires all entities to **measure the fair value** of investment property, only **for the purpose of disclosure** even though they are required to follow the cost model.

(6) TRANSFERS / RECLASSIFICATION

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- commencement of owner-occupation, for a transfer from investment property to owner-occupied Property;
- commencement of development with a view to sale, for a transfer from investment property to inventories;
- end of owner-occupation, for a transfer from owner-occupied property to investment property;
- Commencement of an operating lease to another party, for a transfer from inventories to investment property.

  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.

Investment property to Inventory:

An entity to transfer a property from investment property to inventories only when, there is a change in use, evidenced by commencement of development with a view to sale.

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 derecognised (eliminated from the balance sheet) and does not reclassify it as inventory.

Investment property to Owner occupied property:

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.

(7) DISPOSAL

An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal..'

Gains or losses arising (difference between net sale proceeds and carrying amount) from the retirement or disposal of investment property shall be recognised in the statement of profit or loss in the period of disposal. If it is a sale and leaseback it should be dealt as per Ind AS 116;

QUESTIONS

Q.1. 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, 2020:

Building A was purchased 5 years ago at the cost of ₹ 10 crore and building life is estimated to be 20 years. 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, 2019 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 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

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

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 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 crore on 31st March, 2020.

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. **(Nov. 20)**