UNIT 7:
INDIAN ACCOUNTING STANDARD 40: INVESTMENT PROPERTY

LEARNING OUTCOMES

After studying this unit, you will be able to

- Understand the Objective and Scope of this standard
- Define the terms like Investment Property and Owner-occupied property
- Identify and recognise an Investment Property
- Measure the Investment Property in accordance with the standard
- Comply with Disclosure requirements

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## UNIT OVERVIEW

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### Investment Property

**Ind AS 40**
7.1 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). Ind AS 40 prescribes the cost model for accounting for investment property.

7.2 SCOPE

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

2) This standard also deals with the measurement in the lessee’s financial statements of investment property interests held under a lease accounted for as a finance lease and with the measurement in a lessor’s financial statements of investment property provided to a lessee under an operating lease.

   The following matters are dealt with in Ind AS 17 rather than in Ind AS 40:
   a) classification of leases as finance leases or operating leases;
   b) recognition of lease income from investment property;
   c) measurement in a lessee’s financial statements of property interests held under a lease accounted for as an operating lease;
   d) measurement in a lessor’s financial statements of its net investment in a finance lease;
   e) accounting for sale and leaseback transactions; and
   f) disclosure about finance leases and operating leases.

3) 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.

7.3 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 under a finance lease) 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.

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

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 recognised in accordance with the specific requirements of other Ind ASs, eg Ind AS 102, *Share Based Payment*.

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

### 7.4 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 independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property.

   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.

2) **Examples**

   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 held by the entity under a finance lease) 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.

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), including 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.

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

### Not Investment Property

<table>
<thead>
<tr>
<th>Sale in the ordinary course of business</th>
<th>Owner-occupied property</th>
<th>Constructed for third party</th>
<th>Employee occupied property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ind AS 2</td>
<td>Ind AS 16</td>
<td>Ind AS 11</td>
<td>Ind AS 16</td>
</tr>
</tbody>
</table>

3) 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.
Example
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. According to law company could sell legal title to the 10 floors while retaining legal title to the other 5 floors.

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.

Example
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.

Example
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 on 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
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 and the health and fitness centre as investment property.

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.

4) 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

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 case, an owner-managed hotel is owner-occupied property, rather than 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. 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.

5) **Property leased to other group members**

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.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Property</th>
<th>Does it meet definition of Investment Property</th>
<th>Which Ind AS is Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Owned by a Co and leased out under an Operating Lease</td>
<td>Yes</td>
<td>Ind AS 40</td>
</tr>
<tr>
<td>2.</td>
<td>Held Under Finance Lease and Leased out under an Operating Lease</td>
<td>Yes</td>
<td>Ind AS 40</td>
</tr>
<tr>
<td>3.</td>
<td>Held under Finance Lease and Leased out under Finance Lease</td>
<td>No</td>
<td>Ind AS 17</td>
</tr>
<tr>
<td>4.</td>
<td>Property acquired with a view for development and resale</td>
<td>No</td>
<td>Ind AS 2</td>
</tr>
<tr>
<td>5.</td>
<td>Property developed on behalf of 3rd party</td>
<td>No</td>
<td>Ind AS 11</td>
</tr>
</tbody>
</table>
6. Property partly owner occupied and partly leased out under Operating Lease  | Depends | Ind AS 16, Ind AS 40
7. Land held for currently undetermined use  | Yes | Ind AS 40
8. Property occupied by Employees paying rent at less than market rate  | No | Ind AS 16
9. Investment Property held for sale  | No | Ind AS 105
10. Existing Investment Property that is being redeveloped for continued use as Investment Property  | Yes | Ind AS 40

### 7.5 RECOGNITION

1) **General principle**

Investment property shall be recognised 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 investment property and costs incurred subsequently to add to, replace part of, or service a property.

2) **Subsequent costs**

Under the recognition principle set out above, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property and costs incurred to replace parts of the original property being recognised in the investment property if they meet the recognition criteria.

When the cost of replacement parts are capitalised, the carrying amounts of the replaced parts are derecognised.

**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. How X Limited should account for the above costs?*
Solution

Under the recognition principle, an entity recognises 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 derecognised.

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.

7.6 MEASUREMENT AT RECOGNITION

1) Measurement at recognition - general

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

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).

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.

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 recognised as interest expense over the period of credit.

3) Initial cost of Investment Property held under Finance Lease

The initial cost of a property interest held under a lease and classified as an investment property should be as prescribed for a finance lease under Ind AS 17, i.e. the asset should be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount should be recognised as a liability.

Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item
accounted for at fair value is that interest and not the underlying property.

4) **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 derecognise 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.

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.
Example:

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 :

<table>
<thead>
<tr>
<th>Account</th>
<th>Dr</th>
<th>To</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Property (Building)</td>
<td>8,00,000</td>
<td>To Cash</td>
<td>2,00,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To PPE (Property Plant and Equipment) i.e. Warehouse</td>
<td>5,00,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To Gain on exchange (Profit or Loss)</td>
<td>1,00,000</td>
</tr>
</tbody>
</table>

Illustration 2

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?

Solution

The cost of a purchased investment property comprises its purchase price and any direct attributable expenditure.

So, the cost of the building = ₹ (30,00,000 + 1,00,000 + 20,000 + 2,00,000 + 7,00,000 - 40,000) = ₹ 39,80,000.

Illustration 3

X Limited purchased a land worth of ₹ 1,00,000,000. 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. What should be the cost of the building under both the payments method?

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

Illustration 4

X Limited (as the lessee) has taken a building under finance lease from the owner. It classifies its interest in the leasehold building as investment property and after initial recognition measures the property interest at fair value. The fair value is ₹ 50,000. The present value of the minimum lease payment is ₹ 40,000. At what value, X Limited will recognise its investment property?

Solution

X Limited shall initially recognise the property interest at ₹ 40,000 i.e., lower of fair value of the property and present value of minimum lease payments. A corresponding lease liability of ₹ 40,000 will be recognised as follows:

Investment Property A/c Dr. ₹ 40,000
To Finance lease obligation Dr. ₹ 40,000.

7.7 MEASUREMENT AFTER RECOGNITION

1) Accounting Policy

After initial recognition, an entity is required to measures all of its investment property in accordance with Ind AS 16’s requirement for cost model, other than those that meet the criteria to be classified as held for sale or are included in a disposal group that is classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.

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 recognised 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.

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. But in exceptional cases, when an entity first acquired (or when an existing property first becomes investment property after a change in use), there may be clear evidence that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, 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 alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available.

Above exception is available only when the investment property is first recognised as such. If an entity has previously measured the fair value of an investment property, it should 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.

If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity should make the disclosures as prescribed under Ind AS 40.

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.

4) **Investment property in the course of construction**

If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it should measure the fair value of that investment property either when its fair value becomes reliably measurable or construction is completed (whichever is earlier).

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 required by Ind AS 40.

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.

7.8 TRANSFERS

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

   a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

      Ind AS 40 \rightarrow \quad \text{Ind AS 16}

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

      Ind AS 40 \rightarrow \quad \text{Ind AS 2}

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

      Ind AS 16 \rightarrow \quad \text{Ind AS 40}

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

      Ind AS 2 \rightarrow \quad \text{Ind AS 40}

2) 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.
Solution

Carrying amount of the building after depreciation of 4 years
(10-10/10*4).
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 recognised as Investment Property
(Cost model Ind AS 40)

7.9 DISPOSALS

1) An investment property should be derecognised (eliminated from the balance sheet)
   a. on disposal or
   b. when the investment property is permanently withdrawn from use and no future
certain 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 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 18. Ind AS 17 applies to a disposal effected by entering into a
   finance lease and to a sale and leaseback.

4) Gains or losses arising from the retirement or disposal of investment property should be
   calculated as the difference between the net disposal proceeds and the carrying amount of the
   asset and is recognised in profit or loss (unless Ind AS 17 requires otherwise on a sale and
   leaseback) in the period of the retirement or disposal.

5) The consideration receivable on disposal of an investment property is recognised initially at fair
   value. In particular, if payment for an investment property is deferred, the consideration
   received is recognised initially at the cash price equivalent. The difference between the
   nominal amount of the consideration and the cash price equivalent is recognised as interest
   revenue in accordance with Ind AS 18 using the effective interest method.

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

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

<table>
<thead>
<tr>
<th>Bank</th>
<th>Dr</th>
<th>4,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To Investment Property</td>
<td>2,00,000</td>
</tr>
<tr>
<td></td>
<td>To Gain on disposal</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Lease Receivable</th>
<th>Dr</th>
<th>3,20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To Investment Property</td>
<td>2,00,000</td>
</tr>
<tr>
<td></td>
<td>To Gain on Disposal</td>
<td>1,20,000</td>
</tr>
</tbody>
</table>

7.10 DISCLOSURE

The disclosures required by Ind AS 40 are made in addition to the disclosures required by Ind AS 17 Leases for leases entered into by lessees and lessor.

An entity should disclose:

1) its accounting policy for measurement of investment property.

2) 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 recognised 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 recognised 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 recognised 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 recognised, 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.
TEST YOUR KNOWLEDGE

**Practical Questions**

1. On April 1, 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 March 31, 20X2?

2. X Limited has an investment property (building) which is carried in Balance Sheet on March 31, 20X1 at ₹ 15,00,000. During the year X Limited has stopped letting out the building and used it as its office premise. On March 31, 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 March 31, 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 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 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?

**Answers to Practical Questions**

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 March 31, 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 March 31, 20X1 is ₹ 10 Lakhs, impairment loss ₹ 5 Lakhs should be recognised in the Statement of Profit and Loss.

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.