

Ind AS 40: Investment Property (“Ind AS 40”)

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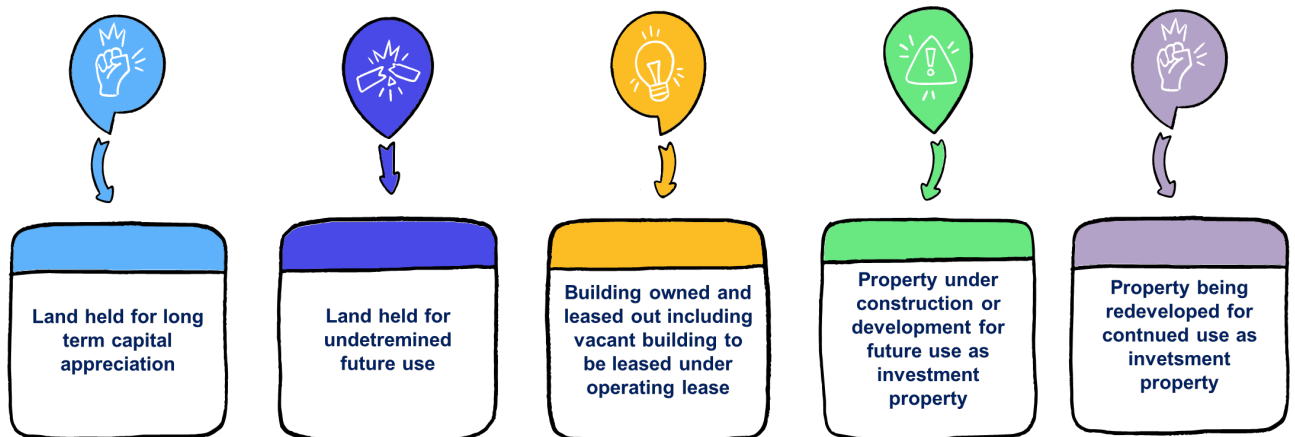
Objective of the standard and background

- Prescribe the accounting treatment for investment property including the related disclosures
- Ind AS 40 is not a specialised industry standard. Therefore, determining whether a property is investment property depends on the use of the property rather than the type of entity that holds the property
- Classification as investment property is mandatory if the criteria of Ind AS 40 are met

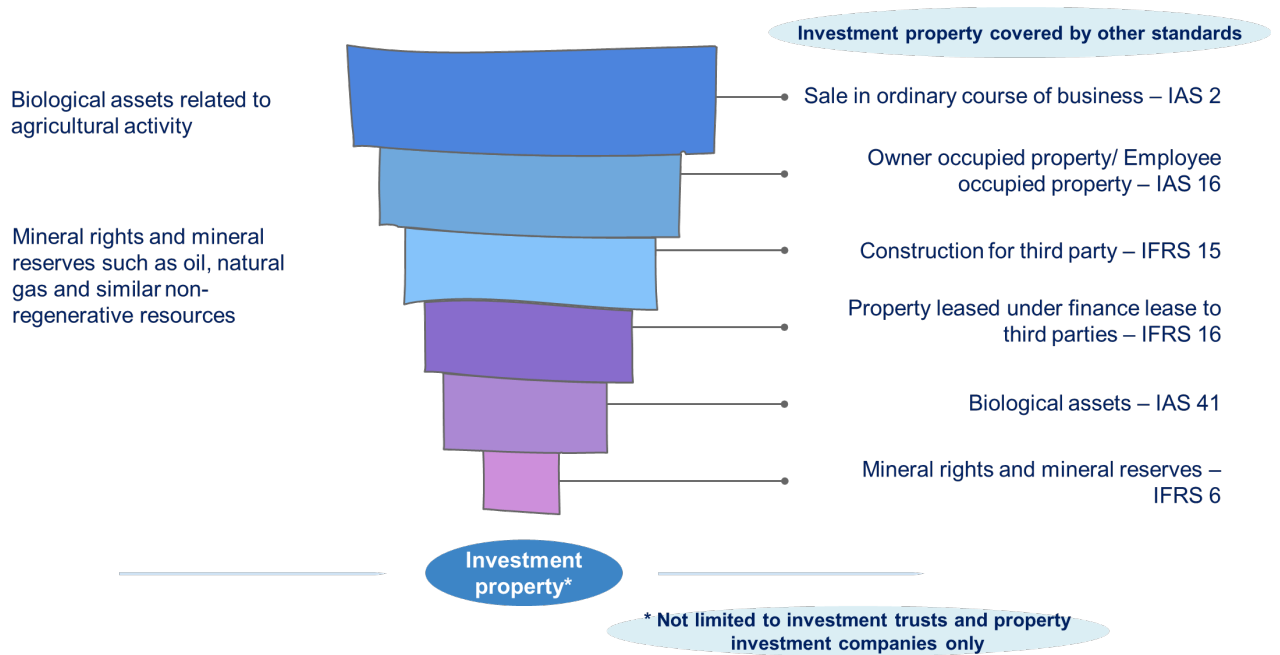
What is investment property?

- Investment property is land or building owned but not used, i.e. held as investment

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

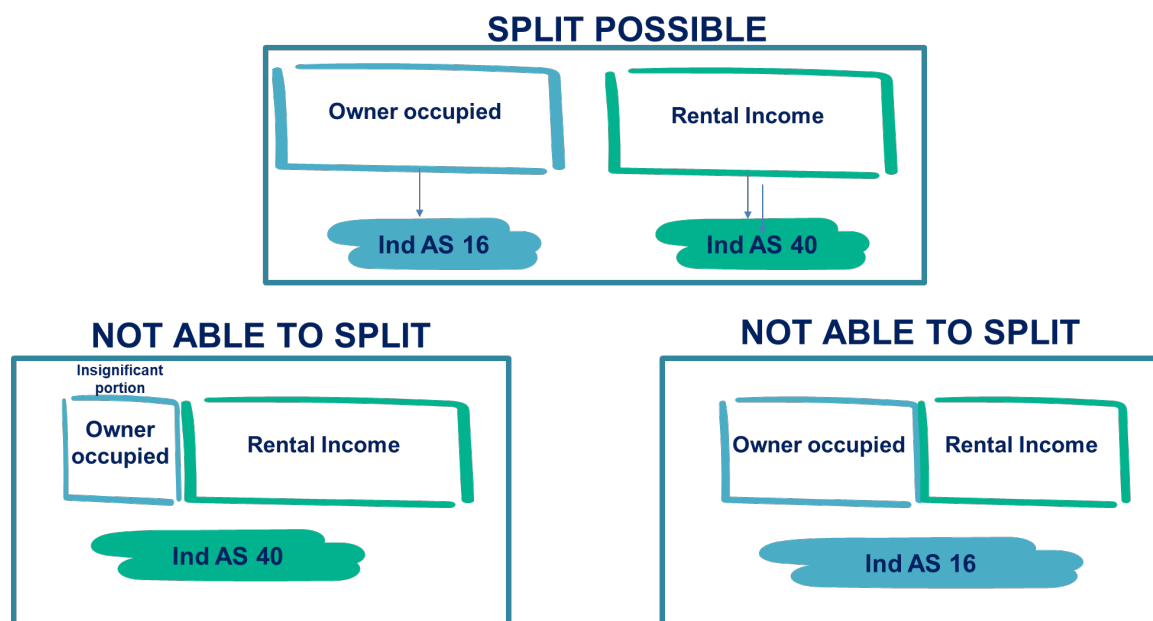


- Examples of investment property also include equipment and furnishings physically attached and integral to a building are considered to be part of the investment property (e.g. escalators, elevators, AC units, etc)
- Examples of what is not investment property include:
 - Property intended for sale in the ordinary course of business- inventories
 - Owner-occupied property (own use, use by employees)- property, plant and equipment
 - Property leased to another entity in a finance lease
 - Property being constructed for third parties
- Normally, every investment property would be a separate cash generating unit
- In summary, the scoping of filtration of all assets into investment property is as below:



What if the property has dual use?

- Property often has dual purposes whereby part of the property is used for own-use activities that would result in the property being considered to be property, plant and equipment and part of the property is used as an investment property
- A portion of a dual-use property is classified as an investment property only if the portion could be sold or leased out separately under a finance lease

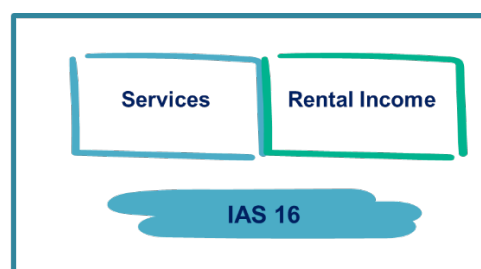
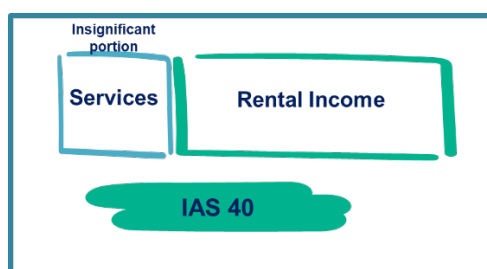


- Company M owns an office block and uses two floors as its own office; the remaining 10 floors are leased out to tenants under operating leases. Under the laws in M's country, M could sell legal title to the 10 floors while retaining legal title to the other two floors. In this example, the 10 floors would be classified as investment property

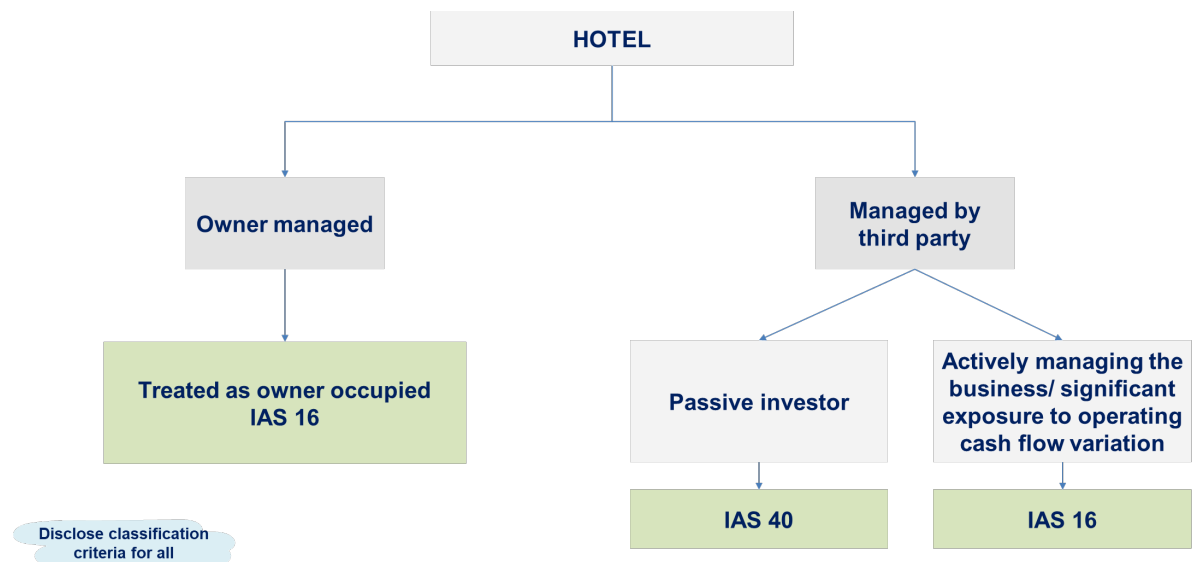
- The following are examples of dual-use properties owned by an investor that also operates the properties. The examples illustrate

Dual use property	Examples where portion is classified as investment property	Examples where portion CANNOT be classified as investment property
Hotel complex	<ul style="list-style-type: none"> Separate retail premises Office block 	<ul style="list-style-type: none"> Hotel bedrooms Restaurant facilities within the hotel complex Kiosks in the reception hall
Retail area	<ul style="list-style-type: none"> Separate retail premises with their own separate entrances or a retail area within another building - e.g. a shopping mall or a hotel 	<ul style="list-style-type: none"> Franchises within a department store

- In many cases, the owner of a property provides ancillary services to tenants. In such cases, the key to identifying investment property is to decide whether the services provided are a 'relatively insignificant component of the arrangement as a whole'.



- The standard gives two examples of properties for which ancillary services are provided:
 - an owner-managed hotel is not an investment property because the ancillary services provided are a significant component of the arrangement
 - an office building for which security and maintenance services are provided by the owner is an investment property because the ancillary services are generally an insignificant component of the arrangement



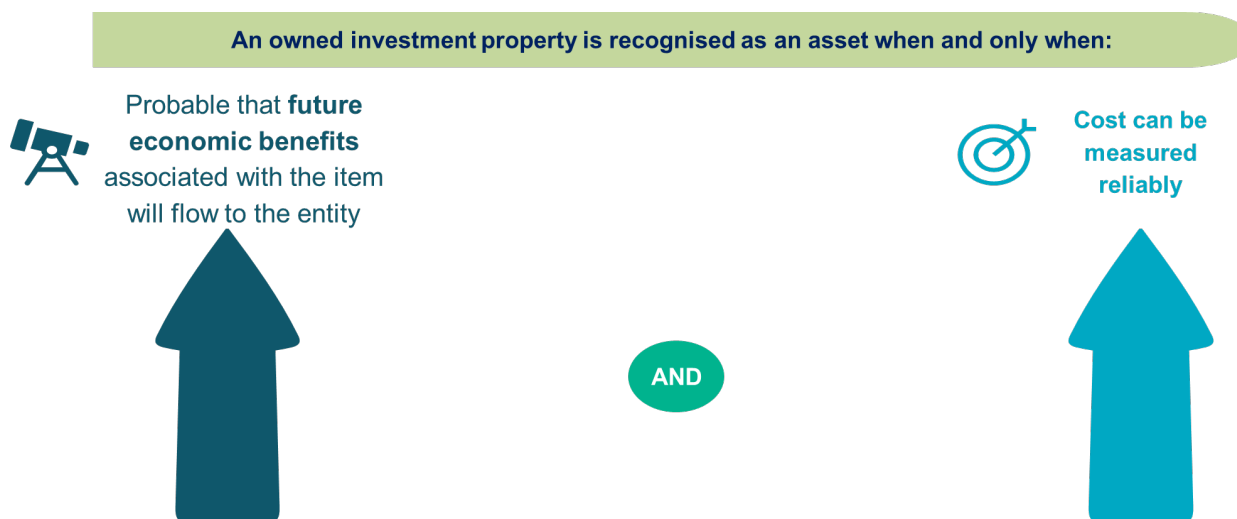
Classification in standalone and consolidated financial statements

In determining the classification of a property in consolidated financial statements, the assessment is made from the point of view of the group as a single reporting entity.

- Company G leases an office block to its Subsidiary H, which uses the offices as its administrative head office. In G's separate financial statements the property is classified as investment property (assuming that the lease is an operating lease). However, in the consolidated financial statements the property is classified as property, plant and equipment because the property is owner occupied

Recognition criteria

Investment property is recognised in the financial statements when it meets the criteria for asset recognition, i.e.:



These recognition criteria are applied to all investment property costs - initial costs to acquire an investment property and subsequent costs to add to or replace a part of an investment property- when the costs are incurred

Initial measurement

- Investment property is initially measured at cost

Cost of owned investment property includes transaction costs and directly attributable expenditure on preparing the asset for its intended use.



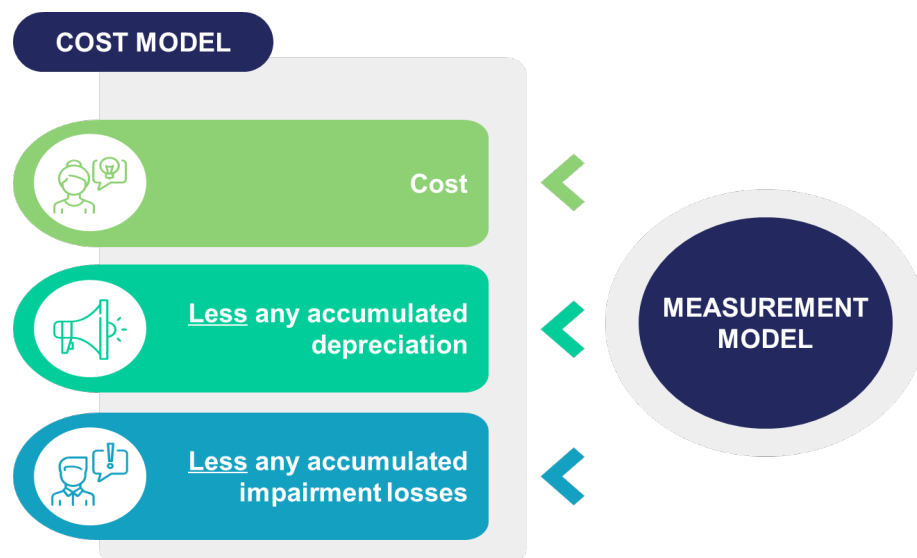
If payment is deferred, then the cost of the owned investment property is the cash price equivalent.

Significant costs incurred for letting of property subsequently after physical completion is dealt with by IFRS 16

- The cost of investment property includes transaction costs and directly attributable expenditure on preparing the asset for its intended use. The principles discussed in respect of attributing cost to property, plant and equipment apply equally to the recognition of investment property

Subsequent measurement

- The property is accounted for in accordance with the cost model for property, plant and equipment - i.e. at cost less accumulated depreciation and less any accumulated impairment losses. However, the property continues to be classified as investment property in the statement of financial position.



- If an entity adopts the cost model for measuring investment property, then it is also required to disclose the fair value of the investment property by applying the guidance in Ind AS 113 with respect to fair value measurements.

Transfers

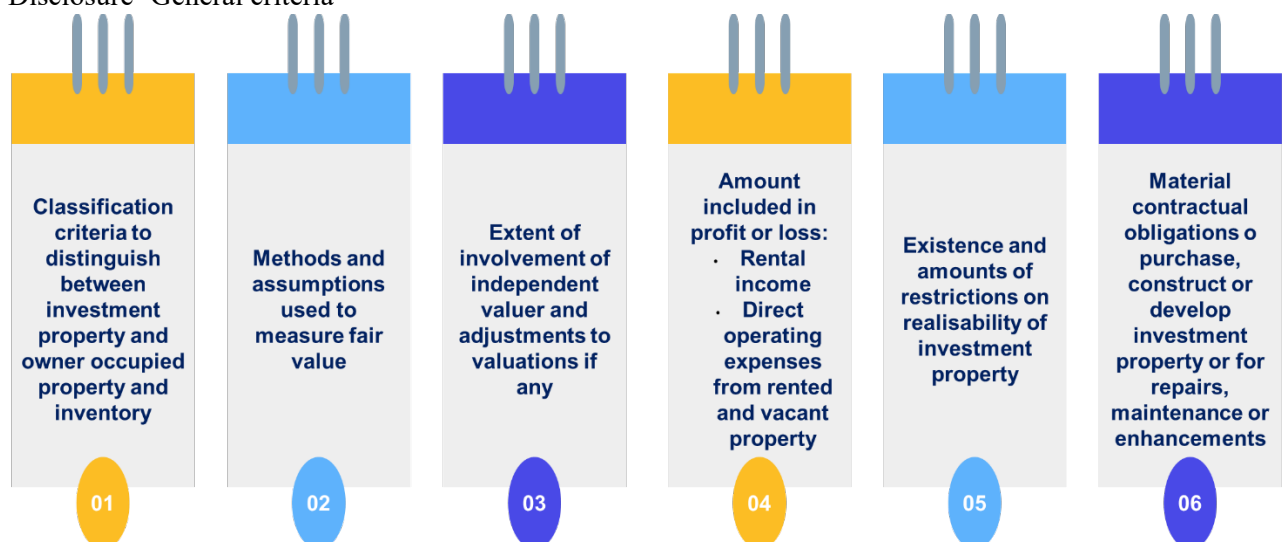
- Although an entity's business model plays a key role in the initial classification of property, the subsequent reclassification of property is based on an actual change in use rather than on changes in an entity's intentions
- A reclassification of an investment property to inventory or property, plant and equipment is performed only when an entity's use of the property has changed
- This will generally be evidenced by the commencement of an operating lease to another party
- When an entity redevelops an existing investment property, the property is not transferred out of investment property during redevelopment. This means that an investment property undergoing redevelopment continues to be measured under the cost model.

Disposals

- The gain or loss on disposal of investment property is measured as the difference between the net disposal proceeds and the carrying amount of the property
- Disposal may be achieved by sale or entering into a finance lease or when it is permanently withdrawn from use or when no future economic benefits are expected

Disclosure

- Investment property is presented separately in the statement of financial position
- In addition, Ind AS 40 itself includes a number of disclosures in respect of investment property. Because Ind AS 40 makes no reference to making disclosures on a class-by-class basis, it could be assumed that the minimum requirement is to make the disclosures on an aggregate basis for the whole investment property portfolio.
- If investment property represents a significant portion of the assets, then it is preferable to disclose additional analysis - for example analysing the portfolio into different types of investment property (e.g. retail, commercial, residential) and identifying separately any properties currently under redevelopment, vacant, whose use is undetermined and/or that are intended for sale
- Disclosure- General criteria



- Disclosure- Cost model

