Exposure Draft

Accounting Standard (AS) 40
Investment Property

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Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 40, *Investments property*

(The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, have been applicable to the specified class of companies. For other class of companies, i.e., primarily the unlisted entities having net worth less than Rs. 250 crores, Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, has been applicable. However, the Ministry of Corporate Affairs has requested the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) to update Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, to bring them nearer to Indian Accounting Standards. Accordingly, the Accounting Standards Board, ICAI, initiated to update these standards which will be applicable to all companies having net-worth less than Rs. 250 crores and non-company entities. While formulating these Accounting Standards, the Accounting Standards Board, ICAI, decided to maintain the consistency with the paragraph numbers and with the numbering of Standards of the Indian Accounting Standards.

Ind AS 40 notified by MCA has been taken as the base for formulating the upgraded Standard on Investment Property. There is no corresponding Standard on Investment Property in the existing Accounting Standards. However, AS 13, Accounting for Investments, provides limited guidance on investment properties. An appendix covering major differences between draft AS 40 and provisions of AS 13 in context of Investment Property is included in the draft Standard. Major differences between draft AS 40 and Ind AS 40 are given in another appendix included in this draft Standard.

In this direction, following is the Exposure Draft of the updated Accounting Standard (AS) 40, *Investment Property*, issued by the Accounting Standards Board of the ICAI, for comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be submitted using one of the following methods so as to receive not later than November 10, 2018:

Electronically:	*click on* ***http://www.icai.org/comments/asb/*** *to submit comments online*
Email:	*Comments can be sent at commentsasb@icai.in*
Postal:	*Secretary, Accounting Standards Board,* *The Institute of Chartered Accountants of India,* *ICAI Bhawan, Post Box No. 7100,* *Indraprastha Marg, New Delhi – 110 002*

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 40

Investment Property

*(This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2 This Standard shall be applied in the recognition, measurement and disclosure of investment property.

3 Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in AS 17, *Leases*, including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease income from investment property (see also AS 18, *Revenue*);

(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.

4 This Standard does not apply to:

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

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

Definitions

5 **The following terms are used in this Standard with the meanings specified:**

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

***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 ASs, eg AS 102, *Share-based Payment*.**

***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.

***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.**

Classification of property as investment property or owner-occupied property

6 **[Refer Appendix 1]**

7 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. AS 16 applies to owner-occupied property.

8 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.

9 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 AS 2, *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) property being constructed or developed on behalf of third parties (see AS 11, *Construction Contracts*)

(c) owner-occupied property (see 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.

(d) [Refer Appendix 1]

(e) property that is leased to another entity under a finance lease.

10 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.

11 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.

12 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.

13 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.

14 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 in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

14A Judgement is also needed 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 AS 103, *Business Combinations*. Reference should be made to AS 103 to determine whether it is a business combination. The discussion in paragraphs 7–14 of this Standard 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 AS 103. Determining whether a specific transaction meets the definition of a business combination as defined in AS 103 and includes an investment property as defined in this Standard requires the separate application of both Standards.

15 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 in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

16 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.

17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

18 Under the recognition principle in paragraph 16, 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. Rather, these costs are recognised in 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.

19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. 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. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at recognition

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

21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22 [Refer Appendix 1]

23 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.

24 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.

25 The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of AS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

26 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.

27 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 following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. 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.

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

29 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.

Measurement after recognition

Accounting policy

30 An entity shall adopt as its accounting policy the cost model prescribed in paragraph 56 to all of its investment property.

31-55[Refer Appendix 1]

Cost model

56 After initial recognition, an entity shall measure all of its investment properties in accordance with AS 16's requirements 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 AS 105, *Non-current Assets Held for Sale and Discontinued Operations*. Investment properties 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) shall be measured in accordance with AS 105.

Transfers

57 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;

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

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

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

(e) [Refer Appendix 1]*;

58 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. 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.

59 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.

60-65 [Refer Appendix 1]

Disposals

66 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.

67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in AS 18 for recognising revenue from the sale of goods. AS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. A replaced part may not be a part that was depreciated separately. 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.

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

70 The consideration receivable on disposal of an investment property is recognised initially at transactions cost. If payment for an investment property is deferred, the consideration received is recognised initially at cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest income in accordance with AS 18 using effective interest method.

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

72 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.

73 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:

(a) impairments of investment property are recognised in accordance with AS 36;
(b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;

(c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and

(d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

Disclosure

74 The disclosures below apply in addition to those in AS 17. In accordance with AS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

75 An entity shall disclose:

(a) its accounting policy for measurement of investment property.

(b) [Refer Appendix 1]

(c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

(d) [Refer Appendix 1]

(e) [Refer Appendix 1].

(f) the amounts recognised in profit or loss for:

(i) rental income from investment property;
(ii)-(iv) [Refer Appendix 1]

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

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

76-78 [Refer Appendix 1]

79 In addition to the disclosures required by paragraph 75, an entity shall 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;**

(d) **a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**

- **(i)** **additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;**

- **(ii)** **additions resulting from acquisitions through business combinations;**

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

- **(iv)** **depreciation;**

- **(v)** **the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with AS 36;**

- **(vi)** **the net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 21, The Effects of Changes in Foreign Exchange Rates;**

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

- **(viii)** **other changes.**

(e) **[Refer Appendix 1]**

Appendix 1

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 40 and the corresponding Indian Accounting Standard (Ind AS) 40, Investment Property.

Comparison with Ind AS 40, *Investment Property*

1 Ind AS 40 requires disclosure of fair values of investment property when cost model is used. This requirement is not retained in AS 40. Accordingly, paragraph 26 of Ind AS 40 has been amended and following paragraphs have been deleted:

(i) Paragraph 31-32
(ii) Paragraph 40
(iii) Paragraph 48
(iv) Paragraphs 53-55
(v) Paragraph 75(e)
(vi) Paragraph 79(e)

2 The following paragraphs appear as 'Deleted' in Ind AS 40. In order to maintain consistency with paragraph numbers of Ind AS 40, the paragraph numbers are retained in AS 40:

(i) Paragraph 6
(ii) Paragraph 9(d)
(iii) Paragraph 22
(iv) Paragraphs 32A-32C
(v) Paragraphs 33-39
(vi) Paragraphs 41-47
(vii) Paragraph 49-52
(viii) Paragraph 57(e)
(ix) Paragraphs 60-65
(x) Paragraph 75(b) and (d)
(xi) Paragraph 75(f) (iv)
(xii) Paragraph 76-78

3. Due to differences between the provisions of Accounting Standard and Ind AS on Revenue, following paragraphs in AS 40 have been amended:

(i) Paragraph 9(b)
(ii) Paragraph 67
(iii) Paragraph 70

4. AS 40 requires less disclosure since it is considered to be too onerous to disclose the provisions contained in Ind AS 40. Accordingly, paragraphs 75(f)(ii)-(iii) are deleted. However, in order to maintain consistency with Ind AS 40, paragraph numbers have been retained in AS 40.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard (AS) 40. The purpose of this Appendix is only to bring out the major differences, if any, between AS 40, Investment Property and provisions of AS 13, Accounting for Investments, given in context of Investment Property.

Comparison with AS 13, *Accounting for Investments*

AS 13 provides limited guidance on investment properties. As per AS 13, an enterprise holding investment properties should account for them as per cost model prescribed in AS 10, *Property, Plant and Equipment*. However, AS 40 is a detailed standard dealing with various aspects of investment property accounting.