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Exposure Draft

Amendments to Ind AS 40, *Investment Property*

(Last date for the comments: July 11, 2018)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Reinstating Fair Value Option (Amendments to Ind AS 40, *Investment Property*)

Following is the Exposure Draft of changes proposed in Ind AS 40, *Investment Property*, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. 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.

How to Comment

Comments should be submitted using one of the following methods, so as to receive not later than **July 11, 2018**:

1.	Electronically:	Click on the below mentioned option to submit a comment letter or visit at the following link (Preferred method): **http://www.icai.org/comments/asb/**
2.	Email:	Comments can be sent at commentsasb@icai.in
3.	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.

Indian Accounting Standard (Ind AS) 40

Investment Property

Ind AS 116, Leases, has been proposed to be effective for accounting periods beginning on or after 1st April, 2019, i.e., on or before applicability of amendments to Ind AS 40. Accordingly, amendments are made in Ind AS 116 consequent to amendments in Ind AS 40.

Paragraphs 30, 32, 53-55, 59, 68, 74-75, 79 are amended and paragraphs 31, 32A-32C, 33-35, 41, 50-52, 60-65, 75(f)(iv), 76-78, 80-84A are added.

Measurement after recognition

Accounting policy

30. With the exception noted in paragraph 32A, ~~A~~an entity shall choose ~~adopt~~ as its accounting policy either the fair value model in paragraphs 33-55 or the cost model ~~prescribed~~ in paragraph 56 and shall apply that policy to all of its investment property.

31. ~~[Refer Appendix 1]~~ Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

32. This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if entity uses the fair value model) or disclosure (if it uses the cost model)~~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.

~~32A-32C [Refer Appendix 1]~~

32A An entity may:

(a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and

(b) **choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).**

32B Some ~~insurers and other~~ entities operate, either internally or externally, an investment ~~internal property~~ fund that provides investors with benefits determined by units in the fund ~~issues notional units, with some units held by investors in linked contracts and others held by the entity~~. Similarly, some entities issue insurance contracts with direct participation features, for which the underlying items include investment property. For the purposes of paragraphs 32A–32B only, insurance contracts include investment contracts with discretionary participation features. Paragraph 32A does not permit an entity to measure ~~the~~ property held by the fund (or the property that is an underlying item) partly at cost and partly at fair value. (see Ind AS 17, *Insurance Contracts*[1], for terms used in the paragraph that are defined in that Standard)

32C If an entity chooses different models for the two categories described in paragraph 32A, sales of investment property between pools of assets measured using different models shall be recognised at fair value and the cumulative change in fair value shall be recognised in profit or loss. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Fair value model~~measurement~~

33. After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.

34. [Refer Appendix 1]

35. A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

~~33-35 [Refer Appendix 1]~~

36-39 [Refer Appendix 1]

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40A When a lessee uses the ~~measures~~ fair value model to measure ~~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.

[1] Ind AS 117, Insurance Contracts, is under formulation.

41. ~~[Refer Appendix 1]~~ Ind AS 116 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 33 requires the investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the fair value model. When lease payments are at market rates, the fair value of an investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognised lease liabilities), should be zero. Thus, remeasuring a right-of-use asset from cost in accordance with Ind AS 116 to fair value in accordance with paragraph 33 (taking into account the requirements in paragraph 50) should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition

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49~~-52~~ [Refer Appendix 1]

50. In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

(a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.

(c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.

(d) the fair value of investment property held by a lessee as a right-of-use asset reflects expected cash flows (including variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the carrying amount of the investment property using the fair value model.

51. [Refer Appendix 1]

52. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies Ind AS 37, *Provisions,*

Contingent Liabilities and Contingent Assets, to determine whether to recognise a liability and, if so, how to measure it.

Inability to measure fair value reliably

53. **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, 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 investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg 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. 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 shall measure ~~the fair value of~~ that investment property under construction at cost until either ~~when~~ its fair value becomes reliably measurable or construction is completed (whichever is earlier). 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 shall measure the investment property using cost model in Ind AS 16 for owned investment property or in accordance with Ind AS 116 for investment property held by lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply Ind AS 16 or Ind AS 116 until disposal of the investment property~~make the disclosures required by paragraphs 7 9(e)(i), (ii) and (iii)~~.**

53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its ~~for which the~~ fair value ~~was not previously measured, it shall 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, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with Ind AS 16 for owned assets or Ind AS 116 for investment property held by a lessee as a right-of-use asset~~entity shall make the disclosures required by paragraphs 79(e)(i), (ii) and (iii)~~.

53B 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 at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

54. In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to measure an investment property using the cost model in accordance with Ind AS 16 or Ind AS 116 ~~make the disclosures required by paragraphs 79(e)(i), (ii) and (iii)~~, it measures at ~~shall determine the~~ fair value ~~of~~ all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model ~~make the disclosures required by paragraphs 79(e)(i), (ii) and (iii)~~ for one investment property, the entity shall continue to account for ~~determine the fair value of~~ each of the remaining properties using the fair value model~~for disclosure required by paragraph 79(e)~~.

55. If an entity has previously measured ~~the fair value of~~ an investment property at fair value, it shall continue to measure the ~~fair value of that~~ property at fair value 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.

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Transfers

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59. Paragraphs 60-65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, 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]**~~

60. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with Ind AS 16, Ind AS 116 or Ind AS 2 shall be its fair value at the date of change in use.

61. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply Ind AS 16 for owned property and Ind AS 116 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with Ind AS 16 or Ind AS 116 and its fair value in the same way as a revaluation in accordance with Ind AS 16.

62. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or the right-of-use asset) and recognises

any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with Ind AS 16 or Ind AS 116 and its fair value in the same way as a revaluation in accordance with Ind AS 16. In other words:

(a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.

(b) any resulting increase in the carrying amount is treated as follows:

  (i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

  (ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

63 For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

64 The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

65 When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Disposals

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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. For investment property accounted using cost model, ~~A~~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. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

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Disclosure

Fair Value model and cost model

74. The disclosures below apply in addition to those in Ind AS 116~~17~~. In accordance with Ind AS 116~~17~~, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee~~An entity~~ that holds an investment property as a right-of-use asset~~under a finance lease~~ provides lessees' disclosures as required by Ind AS 116 ~~for finance leases~~ and lessors' disclosures as required by Ind AS 116 for any operating leases into which it has entered.

75. An entity shall disclose:

(a) whether its applies the fair value model or the cost model~~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) the extent to which the fair value of investment property (as measured or 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.

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

(i) rental income from investment property;

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

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

(iv) ~~[Refer Appendix 1]~~ the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).

(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]~~

Fair Value model

76. In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts 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 in the carrying amount of 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) net gains or losses from fair value adjustments;

(e) 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;

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

(g) other changes.

77 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or

liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease liabilities that have been added back, and any other significant adjustments.

78 In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in Ind AS 16 or in accordance with Ind AS 116, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

(a) a description of the investment property;
(b) an explanation of why fair value cannot be measured reliably;
(c) if possible, the range of estimates within which fair value is highly likely to lie; and
(d) on disposal of investment property not carried at fair value:

(i) the fact that the entity has disposed of investment property not carried at fair value;
(ii) the carrying amount of that investment property at the time of sale; and
(iii) the amount of gain or loss recognised.

Cost model

79. In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:

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Transitional Provisions

~~80-84A [Refer Appendix 1]~~

Fair Value model

80. **An entity that has previously applied Ind AS 40 (cost model) and elects for the first time to ~~classify and~~ account for some or all ~~eligible~~ investment property at fair value ~~interests held under operating leases as investment property~~ shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:**

(a) if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property ~~interests~~ in earlier periods

(measured on a basis that satisfies the definition of fair value in Ind AS 113), the entity is encouraged, but not required:

(i) to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and

(ii) to restate comparative information for those periods; and

(b) if the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.

81-84A [Refer Appendix 1]

Effective date

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85GA As a consequence of allowing the fair value option in Ind AS 40, paragraphs 30, 32, 53-55, 59, 68, 74-75, 79 are amended and paragraphs 31, 32A-32C, 33-35, 41, 50-52, 60-65, 75(f)(iv), 76-78, 80-84A are added. An entity shall apply these amendments for annual periods beginning on or after 1st April, 2020.

Appendix A

Amendments to other Indian Accounting Standards

This appendix sets out the amendments to other Standards that are a consequence of the issuing amendments in Ind AS 40, Investments Property. An entity shall apply these amendments when it applies amendments in Ind AS 40.

Ind AS 116, Leases, has been proposed to be effective for accounting periods beginning on or after 1st April, 2019, i.e., after applicability of amendments in Ind AS 40. Accordingly, amendments, consequent to issuance of amendments in Ind AS 40, have been made in Ind AS 116.

Amended paragraphs are shown with deleted text struck through and new text underlined.

Ind AS 101, *First-time Adoption of Indian Accounting Standards*

Paragraph 30 is amended.

Use of fair value as deemed cost

30 If an entity uses fair value in its opening Ind AS Balance Sheet as *deemed cost* for an item of property, plant and equipment, investment property, ~~or~~ an intangible asset, or a right-of-use asset (see paragraphs D5 and D7), the entity's first Ind AS financial statements shall disclose, for each line item in the opening Ind AS Balance Sheet:

(a) the aggregate of those fair values; and
(b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Appendix D

In Appendix D, paragraphs D7 is amended.

Deemed Cost

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D7 The elections in paragraphs D5 and D6 are also available for:

(a) ~~[Refer Appendix 1]~~ investment property, accounted for in accordance with the cost model in Ind AS 40, *Investment Property*; ~~and~~

…

D9C [Refer Appendix 1] Notwithstanding the requirements in paragraph D9B, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of transition to Ind ASs for leases that meet the definition of investment property in Ind AS 40 and are measured using the fair value model in Ind AS 40 from the date of transition to Ind AS.

Appendix 1

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~~13. IAS 40, Investment Property permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40, Investment Property permits only the cost model. As a consequence, paragraph 30 is amended and paragraph D7 (a) is deleted.~~

Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 is amended.

5. The measurement provisions of this Ind AS do not apply to the following assets, which are covered by the Ind ASs listed, either as individual assets or as part of a disposal group:

(a) ...

(d) ~~[Refer Appendix 1]~~ non-current assets that are accounted for in accordance with the fair value model in Ind AS 40, *Investment Property.*

(e) ...

Appendix 1

…

~~4 Paragraph 5(d) of IFRS 5 deals with non-current assets that are accounted for in accordance with the fair value model in IAS 40, *Investment Property*. Since Ind AS 40 prohibits the use of fair value model, this paragraph is deleted in Ind AS 105.~~

Ind AS 110, *Consolidated Financial Statements*

Paragraph B85L of Appendix B is amended.

Appendix B

Fair Value Measurement

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B85L In order to meet the requirement in B85K(a), an investment entity would:

(a) ~~[Refer Appendix 1]~~ elect to apply for any investment property using the fair value model in Ind AS 40, *Investment Property*.

(b) elect the exemption from applying the equity method in Ind AS 28 for its investments in associates and joint ventures; and

(c) measure its financial assets at fair value using the requirements in Ind AS 109.

Appendix 1

~~1. IFRS 10 requires all investments to be measured at fair value to qualify for the exemption from consolidation available to an investment entity. Since, Ind AS 40, Investment Properties requires all investment properties to be measured at cost initially and cost less depreciation subsequently, subparagraph (a) of B85L have been deleted as this deal with investment property measured at fair value which is not relevant in the Indian context.~~

...

Ind AS 116, *Leases*

Paragraphs 29 and 34 are amended.

Subsequent measurement

Subsequent measurement of the right-of-use asset

29 **After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraph 34 and 35.**

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Other measurement models

34 ~~[Refer Appendix 1]~~ If a lessee applies the fair value model in Ind AS 40, *Investment Property*, to its investment property, the lessee shall also apply that fair value model to the right-of-use assets that meet the definition of investment property in Ind AS 40.

Appendix 1

1. ~~With regard to subsequent measurement, paragraph 34 of IFRS 16 provides that if lessee applies fair value model in IAS 40 to its investment property, it shall apply that fair value model to the right-of-use assets that meet the definition of investment property. Since Ind AS 40, *Investment Property*, does not allow the use of fair value model, paragraph 34 has been deleted in Ind AS 116. Accordingly, reference to paragraph 34 has been deleted in paragraph 29. Paragraph C9(b) and paragraph C9(c) of Appendix C, *Effective Date and Transition*, given in context of fair value model of investment property have been deleted. However, paragraph numbers have been retained in Ind AS 116 to maintain consistency with paragraph numbers of IFRS 16.~~

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Ind AS 12, *Income Taxes*

Paragraph 51C-51D is added and paragraphs 20 and 51E are amended.

20 Ind ASs permit or require certain assets to be carried at fair value or to be revalued (see, for example, Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets, Ind AS 40, *Investments Property*, Ind AS 109, *Financial Instruments* and Ind AS 116, L*eases*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

...

51C ~~-51D [Refer Appendix 1]~~ If a deferred tax liability or asset arises from investment property that is measured using the fair value model in Ind AS 40, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, the requirements of paragraphs 51 and 51A shall be followed.

Example illustrating paragraph 51C

An investment property has a cost of 100 and fair value of 150. It is measured using the fair value model in IAS 40. It comprises land with a cost of 40 and fair value of 60 and a building with a cost of 60 and fair value of 90. The land has an unlimited useful life. Cumulative depreciation of the building for tax purposes is 30. Unrealised changes in the fair value of the investment property do not affect taxable profit. If the investment property is sold for more than cost, the reversal of the cumulative tax depreciation of 30 will be included in taxable profit and taxed at an ordinary tax rate of 30%. For sales proceeds in excess of cost, tax law specifies tax rates of 25% for assets held for less than two years and 20% for assets held for two years or more.

Because the investment property is measured using the fair value model in IAS 40, there is a rebuttable presumption that the entity will recover the carrying amount of the investment property entirely through sale. If that presumption is not rebutted, the deferred tax reflects the tax consequences of recovering the carrying amount entirely through sale, even if the entity expects to earn rental income from the property before sale.

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40). The tax base of the building if it is sold is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30). As a result, the total taxable temporary difference relating to the investment property is 80 (20 + 60).

In accordance with paragraph 47, the tax rate is the rate expected to apply to the period when the investment property is realised. Thus, the resulting deferred tax liability is computed as follows, if the entity expects to sell the property after holding it for more than two years:

	Taxable Temporary Difference	*Tax Rate*	*Deferred Tax Liability*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*20%*	*10*
Total	*80*		*19*

If the entity expects to sell the property after holding it for less than two years, the above computation would be amended to apply a tax rate of 25%, rather than 20%, to the proceeds in excess of cost.

If, instead, the entity holds the building within a business model whose objective is to consume substantially all of the economic benefits embodied in the building over time, *rather than through sale, this presumption would be rebutted for the building.*

However, the land is not depreciable. Therefore the presumption of recovery through sale would not be rebutted for the land. It follows that the deferred tax liability would reflect the tax consequences of recovering the carrying amount of the building through use and the carrying amount of the land through sale.

The tax base of the building if it is used is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30), resulting in a deferred tax liability of 18 (60 at 30%).

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40), resulting in a deferred tax liability of 4 (20 at 20%).

As a result, if the presumption of recovery through sale is rebutted for the building, the deferred tax liability relating to the investment property is 22 (18 + 4).

51D The rebuttable presumption in paragraph 51C also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

51E Paragraph 51B-51D do~~es~~ not change the requirements to apply the principles in paragraphs 24–33 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

Ind AS 16, *Property, plant and Equipment*

Paragraph 5 is amended.

5 An entity using the cost model ~~accounting~~ for investment property in accordance with Ind AS 40, *Investment Property*, shall use the cost model in this Standard for owned investment property.

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Paragraph 29A will be amended and paragraph 29B will be added when new Insurance Standard corresponding to IFRS 17 will be issued. These changes were not included in Exposure Draft of Ind AS 117:

29A Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund. Similarly, some entities issue groups of insurance contracts with direct participation features and hold the underlying items. Some such funds or underlying items include owner-occupied property. The entity applies Ind AS 16 to owner-occupied properties that are included in such a fund or are underlying items. Despite paragraph 29, the entity may elect to measure such properties using the fair value model in accordance with Ind AS 40. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See Ind AS 117 Insurance Contracts for terms used in this paragraph that are defined in that Standard).

29B [Refer Appendix 1] An entity shall treat owner-occupied property measured using the investment property fair value model applying paragraph 29A as a separate class of property, plant and equipment.

Appendix 1

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~~5 Paragraphs 5 of Ind AS 16 has been modified, since Ind AS 40, Investment Property, prohibits the use of fair value model.~~

Ind AS 36, *Impairment of Assets*

Paragraphs 2 and 5 are amended.

2 This Standard shall be applied in accounting for the impairment of all assets, other than:

...

(f) ~~[Refer Appendix 1]~~ investment property that is measured at fair value (see Ind AS 40, *Investment Property)*;

...

5 This Standard does not apply to financial assets within the scope of Ind AS 109, investment property measured at fair value within the scope of Ind AS 40, or biological assets related to agricultural activity measured at fair value less costs to sell within the scope of Ind AS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other Ind ASs, such as the revaluation model in Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*. The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset.

...

Appendix 1

~~1 Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model. To maintain consistency with IAS 36, this paragraph number has been retained. Further, for this reason, paragraph 5 of Ind AS 36 has been modified by deleting reference to fair value measurement of investment property..~~

....

Appendix 1

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

Comparison with IAS 40, *Investment Property*

~~1. IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model. The following paragraphs of IAS 40 which deal with fair value model have been deleted in Ind AS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:~~

~~(i) Paragraph 31~~
~~(ii) Paragraphs 32A-32C~~
~~(iii) Paragraphs 33 and 35~~
~~(iv) Paragraph 41~~
~~(v) Paragraph 50~~
~~(vi) Paragraph 52~~
~~(vii) Paragraphs 60-65~~
~~(viii) Paragraph 75(f)(iv)~~
~~(ix) Paragraphs 76-78~~

~~2.~~1. Paragraphs 80-84A of IAS 40 which deals with the transitional provisions have not been included in Ind AS 40 since these paragraphs are not relevant in Indian context. ~~all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.~~

~~3. IAS 40 requires disclosure of fair values of investment property when cost model is used. Since this requirement is retained in Ind AS 40, paragraphs 53, 53A, 53B, 54 and 55 and certain other paragraphs of IAS 40 have been modified. The modifications include deletion of reference to use of cost model when fair value measurement is unreliable.~~

~~As a result of prohibition of use of fair value model in Ind AS 40, there are some modifications in the wording of paragraphs 30 and 32 (Accounting policy), heading above paragraph 33 ('Fair value measurement' instead of 'Fair value model'), paragraph 40A, paragraph 56, paragraph 59 (deletion of portion relating to fair value model), paragraph 68 (deletion of a portion dealing with fair value model), heading above paragraph 74 (deletion of the heading 'Fair value model and cost model'), 75(a) (disclosure of accounting policy) as~~

~~compared to the wording used in IAS 40, heading above paragraph 76 (deletion of the heading 'Fair value model'), heading above paragraph 79 (deletion of the heading 'Cost model') and paragraph 79 (deletion of the words ' that applies the cost model in paragraph 56').~~

~~4.~~2. Different terminology is used in this Standard eg, the term 'balance sheet' is used instead of 'Statement of financial position'.

~~5.~~3. The following paragraphs appear as 'Deleted' in IAS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:

(i) Paragraph 3
(ii) Paragraoh 6
(iii) Paragraph 9(b)
(iv) Paragraph 9(d)
(v) Paragraph 22
(vi) Paragraph 25-26
~~(vi)~~(vii) Paragraph 34
~~(vii)~~(viii) Paragraphs 36-39
~~(viii)~~(ix) Paragraphs 42-47
~~(ix)~~(x) Paragraph 49
~~(x)~~(xi) Paragraph 51
~~(xi)~~(xii) Paragraph 57(e)
(xiii) Paragraph 75 (b) & (d)