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Part - I

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Ind AS 40 : INVESTMENT PROPERTY

1) Definitions

a) Investment Property - 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. For Eg :- land held for long-term capital appreciation, building leased out under an operating lease, building leased out under an operating lease, property that is being constructed or developed for future use as investment property etc

b) Owner-Occupied Property – Property held(by the owner or by the lessee under a finance lease) for use in production or supply of goods or services or for administrative purpose

2) The following are not investment property and, therefore, are outside the scope of Ind AS 40 :-

a) property held for use in the production or supply of goods or services or for administrative purposes

b) property held for sale in the ordinary course of business or in the process of construction of development for such sale (Ind AS 2 Inventories)

c) property being constructed or developed on behalf of third parties (Ind AS 11 Construction Contracts)

d) owner-occupied property (Ind AS 16 Property, Plant and Equipment), including property held for future use as owner-occupied property

e) property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal

f) property leased to another entity under a finance lease

3) Recognition Criteria - Investment property should be recognised as an asset when

a) it is probable that the future economic benefits that are associated with the property will flow to the entity and

b) the cost of the property can be reliably measured

4) Ancillary Services - If the entity provides ancillary services to the occupants of a property held by the entity, the appropriateness of classification as investment property is determined by the significance of the services provided. If those services are a relatively insignificant component of the arrangement as a whole (for instance, the building owner supplies security and maintenance services to the lessees), then the entity may treat the property as investment property.

5) Initial Measurement - Investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy

6) Deferred Payment – If payment for an Investment Property is deferred, its cost is the cash price equivalent

7) **Initial Cost of Investment Property under Finance Lease –** Fair Value or Present Value of Minimum Lease Payment, whichever is lower

8) **Cost of Investment Property acquired through exchange of another asset –** Approach similar to Ind AS

9) **Accounting Policy for Measurement of Investment Property after Initial Recognition –** Cost Model prescribed as per Ind AS

10) **Transfers to or from Investment Property classification -** Transfers to, or from, investment property should only be made when there is a change in use, evidenced by one or more of the following:
    a) commencement of owner-occupation (transfer from investment property to owner-occupied property)
    b) commencement of development with a view to sale (transfer from investment property to inventories)
    c) end of owner-occupation (transfer from owner-occupied property to investment property)
    d) commencement of an operating lease to another party (transfer from inventories to investment property)

11) **Transfers between Investment Property, Owner –** Occupied Property & Inventories does not change the carrying amount of the property transferred

12) **Disposal -** An investment property should be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal should be calculated as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised in the P&L.

Ind AS 105 : NON – CURRENT ASSETS HELF FOR SALE AND DISCOUNTINED OPERATIONS

1) **Following conditions must be met for an asset (or 'disposal group') to be classified as held for sale:**
   a) management is committed to a plan to sell
   b) the asset is available for immediate sale
   c) an active programme to locate a buyer is initiated
   d) the sale is highly probable, within 12 months of classification as held for sale
   e) the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
   f) actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

2) **The assets need to be disposed of through sale.** Therefore, operations that are expected to be wound down or abandoned would not meet the definition (but may be classified as discontinued once abandoned)

3) **An entity** that is committed to a sale involving loss of control of a subsidiary that qualifies for held-for-sale classification under Ind AS 105 classifies all of the assets and liabilities of that subsidiary as held for sale, even if the entity will retain a non-controlling interest in its former subsidiary after the sale

4) **Held for distribution to owners -** The classification, presentation and measurement requirements of Ind AS 105 also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners. The entity must be committed to the distribution, the assets must be available for immediate distribution and the distribution must be highly probable

5) **Disposal Group –** It is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting impairment loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by Ind AS 36

6) **Measurement**
   a) At the time of classification as held for sale - Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable Ind AS
   b) After classification as held for sale - Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell

7) Non-current assets or disposal groups that are classified as held for sale are not depreciated.

8) Assets classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, must be presented separately on the face of the Balance Sheet

9) **Disclosures -** Following disclosures are required for assets (or disposal groups) that are held for sale

a) description of the non-current asset or disposal group
b) description of facts and circumstances of the sale (disposal) and
c) the expected timing impairment losses and reversals, if any, and where they are recognised
d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108

10) **Discontinued Operation -** A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and :-

a) represents either a separate major line of business or a geographical area of operations
b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
c) is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control

11) The net cash flows attributable to the operating, investing, and financing activities of a discontinued operation is separately presented on the face of the cash flow statement or disclosed in the notes.

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Ind AS 16 : PROPERTY PLANT & EQUIPMENT

(1) This Standard does not apply to:

(a) biological assets related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants; and

(b) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non- regenerative resources.

However, this Standard applies to PPE used to develop or maintain the assets described in (a) and (b) above.

(2) Investment property should be accounted for only in accordance with the cost model prescribed in this standard.

(3) Definitions - The following terms are used in this Standard with the meanings specified:

i. Agricultural Activity is the management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

ii. Agricultural Produce is the harvested product of biological assets of the enterprise.

iii. Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than a period of twelve months; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants: (i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber); (ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and (iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

iv. Biological Asset is a living animal or plant.

v. Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

vi. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction

vii. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

viii. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

ix. Enterprise-specific value is the present value of the cash flows an enterprise expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

x. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

xi. Gross carrying amount of an asset is its cost or other amount substituted for the cost in the books of account, without making any deduction for accumulated depreciation and accumulated impairment losses.

xii. PPE are tangible items that:
   (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   (b) are expected to be used during more than a period of twelve months.

xiii. Useful life is:
   (a) the period over which an asset is expected to be available for use by an enterprise ; or
   (b) the number of production or similar units expected to be obtained from the asset by an enterprise.

(4) Recognition

The cost of an item of PPE should be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the enterprise; and

(b) the cost of the item can be measured reliably.

(5) Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of PPE. Otherwise, such items are classified as inventory.

(6) An enterprise may decide to expense an item which could otherwise have been included as PPE, because the amount of the expenditure is not material.

(7) An enterprise evaluates under this recognition principle all its costs on PPE at the time they are incurred. These costs include costs incurred: (a) initially to acquire or construct an item of PPE; and (b) subsequently to add to, replace part of, or service it.

(8) Subsequent Costs - The costs of the day-to-day servicing of an item of PPE are not recognized in the cost. Rather, they are charged to the P&L.

(9) Parts of some items of PPE may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Similarly, major parts of conveyor system, such as, conveyor belts, wire ropes, etc., may require replacement several times during the life of the conveyor system. Items of PPE may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. An enterprise can recognise in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced should be derecognised

10) When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

(11) An item of PPE that qualifies for recognition as an asset should be measured at its cost. The cost of an item of PPE comprises:

(a) its purchase price, including import duties and non -refundable purchase taxes,, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as ‘decommissioning, restoration and similar liabilities’, the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period

(12) The cost of a self-constructed asset is determined using the same principles as for an acquired asset. The cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

(13) Bearer plants are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by management. Therefore, this Ind AS covers activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

(14) Measurement of Cost - The cost of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

(15) One or more items of PPE 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 item of PPE is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

(16) Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition. In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

(17) Measurement after Recognition - An enterprise should choose either the cost model or the revaluation model as its accounting policy and should apply that policy to an entire class of PPE.

(18) Cost Model - After recognition as an asset, an item of PPE should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(19) Revaluation Model - After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

(20) The frequency of revaluations depends upon the changes in fair values of the items of PPE being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of PPE experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of PPE with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

(21) When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount. If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued. A class of PPE is a grouping of assets of a similar nature and use in operations of an enterprise. The following are examples of separate classes: (a) land; (b) land and buildings; (c) machinery; (d) ships; (e) aircraft; (f) motor vehicles; (g) furniture and fixtures; (h) office equipment; and (i) bearer plants.

(22) The items within a class of PPE are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

(23) An increase in the carrying amount of an asset arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss. A decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(24) The revaluation surplus included in owners' interests in respect of an item of PPE may be transferred to the revenue reserves when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an enterprise. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the revenue reserves are not made through the statement of profit and loss.

(25) Depreciation - Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately.

(26) Component Based Accounting - An enterprise allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates each such part separately. However, if a significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item then such parts may be grouped in determining the depreciation charge.

(27) The depreciation charge for each period should be recognised in the statement of profit and loss However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories . Similarly, the depreciation of PPE used for development activities may be included in the cost of an intangible asset

(28) Depreciable Amount and Depreciation Period - The depreciable amount of an asset should be allocated on a systematic basis over its useful life. The depreciable amount of an asset is determined after deducting its residual value.

(29) The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change should be accounted for as a change in an accounting estimate as per Ind AS 8

(30) Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount.

(31) The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, depreciation charge of the asset is zero unless and until its residual value subsequently decreases to an amount below its carrying amount.

(32) Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

(33) Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

(34) Depreciation Method - The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

(35) A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Chosen method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or that the method is changed in accordance with the statute to best reflect the way the asset is consumed.

(36) Retirements - Items of PPE retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.

(37) Derecognition - The carrying amount of an item of PPE should be derecognised
- (a) on disposal; or
- (b) when no future economic benefits are expected from its use or disposal.

  The gain or loss arising from the derecognition of an item of PPE should be included in the statement of profit and loss

(38) Disclosure - The financial statements should disclose, for each class of PPE:
- (a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;
- (b) The depreciation methods used;
- (c) The useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;
- (d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) A reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) Additions;
  - (ii) Assets retired from active use and held for disposal;
  - (iii) Acquisitions through business combinations ;
  - (iv) Increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in revaluation surplus;
  - (v) Impairment losses recognised in the statement of profit and loss;
  - (vi) Impairment losses reversed in the statement of profit and loss;
  - (vii) Depreciation;

  The financial statements should also disclose:
  - (a) The existence and amounts of restrictions on title, and PPE pledged as security for liabilities;
  - (b) The amount of expenditure recognised in the carrying amount of an item of PPE in the course of its construction;
  - (c) The amount of contractual commitments for the acquisition of PPE; and
  - (d) The amount of assets retired from active use and held for disposal.

  Further, if items of PPE are stated at revalued amounts, the following should be disclosed:
  - (a) The effective date of the revaluation;
  - (b) Whether an independent valuer was involved;
  - (c) The methods and significant assumptions applied in estimating fair values of the items;
  - (d) The extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and
  - (e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

PROBLEMS ON Ind AS -16

Q.1. Manufacturers and Traders Ltd. purchased a conveyor system and the total amount capitalized on 01.01.2014 was for a value of ₹ 41.37 crores. The break-up of the capital cost (rupee amount being in crores) was as follows:

Civil & Mechanical structure	11.72
Driving units and planning	05.40
Rope	02.83
Belt	11.17
Safety and electrical equipments	06.15
Other accessories	04.10
	41.37

During the financial year 2017-2018 due to wear and tear, the rope used in the conveyor system was replaced by a new one at cost of ₹ 8 crores. As new rope did not increase the capacity and is a component of the total assets, the company charged the full cost of the new rope to repairs & maintenance. Old rope continues to appear in the books of account and is charged with depreciation every year.
Discuss the correctness of the accounting treatment.

Q.2. Virtual company purchased a machinery from Bharat Heavy Machines Ltd. On 30.9.2017 at a quoted price of ` 200 lakhs. GST on quoted price is 8%. The company incurred the following additional expenses.

	₹
Transit insurance	2,00,000
Transportation charges	5,00,000
Special foundation	1,50,000
Installation charges	2,50,000

The company borrowed a sum of ₹ 180 lakhs from State Financial Corporation at 16% interest per annum. The machinery was ready for use on 31.3.2018. Assume 6 months to be substantially long period of time.
Ascertain the acquisition cost of machinery.

Q.3. A company is engaged in the manufacture of electronic products and systems. As per Chief Accountant a prototype system was installed at one of the customer's locations in June 2017 for getting acceptance on the performance of the system. The Chief Accountant has stated that as the ownership of the system installed for field trials was vested with the company, for accounting & control purposes, the prototype system installed at customer's location in 2017 was capitalised in the accounts for the year 2017-18 at its bought - out cost. Whether the accounting treatment adopted by the company is correct ?

Q.4. A Ltd. had purchased a plant at a cost of ₹ 1,50,00,000. Its expected life is 10 years at the end of which it is expected to have a scrap value of ₹ 10,00,000. The company followed the written down (WDV) value method of depreciation for the first three years and decided to switch over to straight-line method in the fourth year. What is the effect on income as a result of change in the accounting policy?

Q.5. Taking the same data as in Problem 23 above and assuming the company follows WDV method of depreciation, what would be the amount of depreciation to be charged in the 4th year, if the life of the asset has been revised to 8 years (instead of 10 years) at the beginning of fourth year?

Q.6. Taking the data as in Problem 24 above what would be the depreciation charge in, the 4th year, if the company had been following straight-line method of depreciation?