EXPOSURE DRAFT

Accounting Standard for Local Bodies (ASLB) 16

Investment Property

(Based on corresponding IPSAS 16)

(Last date of comments: July 31, 2015)

Issued by

The Committee on Accounting Standards for Local Bodies

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Exposure Draft Accounting Standard for Local Bodies (ASLB) 16 —

INVESTMENT PROPERTY

CONTENTS

Exposure Draft

Accounting Standard for Local Bodies (ASLB) 16
Investment Property

INVITATION TO COMMENT

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of the Accounting Standard for Local Bodies (ASLB) 16, 'Investment Property'. 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 be received not later than July 31, 2015:

1. *Electronically: Click on http://www.icai.org/comments/caslb/ to submit comments online.*
2. *Email: Comments can be sent to caslb@icai.in*
3. *Postal: Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.*

Exposure Draft
Accounting Standard for Local Bodies (ASLB) 16
Investment Property

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 16, *'Investment Property'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

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

---

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investment property.**

3. **This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[3].**

4. [Refer to Appendix 1]

5. This Standard applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) 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 ASLB 13, *Leases*, including:

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

   (b) Recognition of lease revenue from investment property (see also ASLB 9, *Revenue from Exchange Transactions*);

   (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.

6. This Standard does not apply to:

   (a) Biological assets related to agricultural activity ; and

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

Definitions

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

   <u>Carrying amount</u> (for the purpose of this Standard) is the amount at which an asset is recognised in the balance sheet.

   <u>Cost</u> 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.

   <u>Investment property</u> is property (land or a building – or part of a building – or both) held 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 operations.

---

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'.*

<u>Owner-occupied property</u> 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.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Property Interest Held by a Lessee under an Operating Lease

8. **[Refer to Appendix 1]**

Investment Property

9. There are a number of circumstances in which entities may hold property to earn rental and for capital appreciation. For example, an entity may be established to manage a local body's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other entities may also hold property for rentals or capital appreciation, and use the cash generated to finance their other (service delivery) activities. For example, a municipal school may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the supply or production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. ASLB 17, *Property, Plant, and Equipment*, applies to owner-occupied property.

11. In some cases, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a local body may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognises the property in its financial statements.

12. 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 operations. For example, land held by a municipal dispensary for capital appreciation that may be sold at a beneficial time in the future.

    (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, including occupation to provide services such as those provided by municipal parks to current and future generations, or for short-term sale in the ordinary course of operations, 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 on a commercial basis. For example, a municipal school may own a building that it leases on a commercial basis to external parties.

(d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

(e) Property that is being constructed or developed for future use as investment property.

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see ASLB 12, Inventories). For example, a local body may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

b) Property being constructed or developed on behalf of another governmental body. For example, a housing department may enter into construction contracts with another governmental body (see ASLB 11, Construction Contracts).

c) Owner-occupied property (see ASLB 17), 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 such as housing for local body's personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

d) [Deleted]

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

f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with ASLB 17.

g) Property held for strategic purposes which would be accounted for in accordance with ASLB 17.

14. In many cases, entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property. However, where an entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, entities hold some property that comprises (a) a portion that is held to earn rentals or for capital appreciation rather than to provide services, and (b) another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a municipal dispensary or a municipal school may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. 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.

15. 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 a local body agency (a) owns an office building that is held exclusively for rental purposes and rented on a commercial basis, and (b) also provides security and maintenance services to the lessees who occupy the building.

16. In other cases, the services provided are significant. For example, a local body may own a guest house that it manages through its general property management agency. The services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed guest house is owner-occupied property, rather than investment property.

17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a local body or local body agency that is the owner of a guest house may transfer some responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the local body's or local body agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the local body or local body agency may simply have outsourced day-to-day functions, while retaining significant exposure to variation in the cash flows generated by the operations of the guest house.

18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property, and with the related guidance in paragraphs 9–17. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a local body establishes a property management entity to manage local body's office buildings. The buildings are then leased out to other controlled entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the local body, the property would be accounted for as property, plant, and equipment in accordance with ASLB 17.

Recognition

20. **Investment property should be recognised as an asset when, and only when:**

  (a) It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and

  (b) The cost or fair value of the investment property can be measured reliably.

21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset, and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognised.

22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 27 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

23. 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.

24. Under the recognition principle in paragraph 20, 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 surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor 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.

25. Parts of investment property 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

26. **Investment property should be measured initially at its cost (transaction costs should be included in this initial measurement).**

27. **Where an investment property is acquired through a non-exchange transaction, its cost should be measured at its fair value as at the date of acquisition[4].**

28. 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.

29. [Deleted]

30. The cost of 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, labor or other resources incurred in constructing or developing the property.

[4] The corresponding credit head will be determined as per the principles of the ASLB 23 *'Revenue from Non-exchange Transactions'* which is under formulation. Till the time the aforesaid ASLB is issued, guidance may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *' Accounting Policies, Changes in Accounting Estimates, and Errors'* .

31. If payment for 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.

32. An investment property may be acquired through a non-exchange transaction. For example, a local body may transfer at no charge a surplus office building to another entity, which then lets it out at market rent. An investment property may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

33. Where an entity initially recognises its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. Subsequent to initial recognition, the entity should recognise investment property at cost (paragraph 65).

34. **The initial cost of a property interest held under a lease and classified as an investment property should be as prescribed for a finance lease by paragraph 28 of ASLB 13[5], i.e., the asset should be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount should be recognised as a liability in accordance with that same paragraph.**

35. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out in paragraphs 42–61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

36. 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.

---

[5] This ASLB is under formulation.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is 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 or service potential of the asset received differs from the configuration of the cash flows or service potential 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 should reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating 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

39. **With the exception noted in paragraph 43, an entity should adopt as its accounting policy the cost model prescribed in paragraph 65, and should apply that policy to all of its investment property.**

40. [Refer to Appendix 1]

41. This Standard requires all entities to measure the fair value of investment property, for the purpose of disclosure . 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[6] and has recent experience in the location and category of the investment property being valued.

[6] A valuer should be a person having such qualification, experience and registered as a valuer in such manner as prescribed in the Companies Act, 2013 or any other act/rules applicable to local bodies in India.

Fair Value Measurement

42-44. [Refer to Appendix 1]

45. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

46. An entity measures fair value without any deduction for transaction costs it may incur on sale or other disposal.

47. **The fair value of investment property should reflect market conditions at the reporting date.**

48. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (e.g. periodic payments such as contingent rents).

50. [Refer to Appendix 1]

51. The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.

52. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

53. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

54. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

55. In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:

(a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 62).

58. Fair value differs from value in use, as defined in ASLB 21, Impairment of Non-Cash-Generating Assets and ASLB 26, Impairment of Cash-Generating Assets[7]. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

a) Additional value derived from the creation of a portfolio of properties in different locations;

b) Synergies between investment property and other assets;

c) Legal rights or legal restrictions that are specific only to the current owner; and

d) Tax benefits or tax burdens that are specific to the current owner.

[7] The formulation of these ASLBs is yet to be taken up.

59. In determining the fair value, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

a) Equipment such as elevators 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 recognized 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 revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.

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

d) The fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is 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 recognized lease liability, to arrive at the carrying amount of the investment property using the fair value model.

60. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized liabilities) will exceed the present value of the related cash receipts. An entity applies ASLB 19, *Provisions, Contingent Liabilities and Contingent Assets*[8] to determine whether to recognize a liability and, if so, how to measure it.

Inability to measure Fair Value Reliably

62. **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, comparable market transactions are infrequent and alternative reliable measurement 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 should measure the fair value of that investment property 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 should make the disclosure required by paragraph 90 (e) (i), (ii) and (iii) . .**

[8] This ASLB is under formulation.

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction for which fair value was not previously measured, it should measure the fair value of that property . Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the entity should make disclosures in required by paragraphs 90(e)(i), (ii) and (iii). .

63. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured the fair value of an item of investment property under construction may not conclude that the fair value of the completed investment property cannot be measured reliably.

64. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to make disclosures required by paragraph 90(e)(i), (ii) and (iii), it should measures the fair value all of its other investment property, including investment property under construction. In these cases, although an entity may make disclosures required by paragraph 90(e)(i), (ii), and (iii) for one investment property, the entity should continue to measure the fair value of each of the remaining properties for disclosures required by paragraph 90(e).

65. **If an entity has previously measured the fair value of an investment property , it should continue to measure the fair value of the property until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost Model

66. **After initial recognition, an entity should measure all of its investment property in accordance with ASLB 17's requirements for cost model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.**

Transfers

67. **Transfers to or from investment property should be made when, and only when, there is a change in use, evidenced by:**

- **(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;**
- **(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; or**
- **(d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.**
- **(e) [Deleted]**

68. A local body's use of property may change over time. For example, a local body may decide to occupy a building currently used as an investment property, or to convert a building currently

used for administrative purposes into a guest house and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant, and equipment until its occupation ceased and it is reclassified as an investment property.

69. Paragraph 66(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. 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 treat 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.

70. A local body housing department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the local body decided to hold the building for its ability to generate rent revenue and its capital appreciation potential, it would be reclassified as an investment property on commencement of any subsequent operating lease.

71. 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.

71-76. [Refer to Appendix 1]

Disposals

77. **An investment property should be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.**

78. 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 ASLB 9 for recognising revenue from the sale of goods and considers the related guidance in the Implementation Guidance to ASLB 9. ASLB 13 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, 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.

80. **Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and should be recognised in surplus or deficit (unless ASLB 13 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**

81. The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with ASLB 9, using the effective interest method.

82. An entity applies ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*' or other standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

83. **Compensation from third parties for investment property that was impaired, lost, or given up should be recognised in surplus or deficit when the compensation becomes receivable.**

84. 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 ASLB 21 or ASLB 26, as appropriate;

   b) Retirements or disposals of investment property are recognised in accordance with paragraphs 77–82 of this Standard;

   c) Compensation from third parties for investment property that was impaired, lost, or given up is recognised in surplus or deficit when it becomes receivable; and

   d) The cost of assets restored, purchased, or constructed as replacements is determined in accordance with paragraphs 26–38 of this Standard.

Disclosure

85. The disclosures below apply in addition to those in ASLB 13. In accordance with ASLB 13, 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 or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

86. **An entity should disclose:**

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

   (b) [Refer to Appendix 1];

   (c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner- occupied property and from property held for sale in the ordinary course of operations;

   (d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;

   (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 should be disclosed;

(f) The amounts recognised in surplus or deficit for:

(i) Rental revenue from investment property;

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

(iii) Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.

(g) The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and

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

87. **[Refer to Appendix 1]**

88. **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 recognized as separate assets and liabilities as described in paragraph 59, the entity should disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease obligations that have been added back, and any other significant adjustments.**

89. **[Refer to Appendix 1]**

90. **In addition to the disclosures required by paragraph 86, an entity should 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) The 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 entity combinations;

(iii) Disposals;

(iv) Depreciation;

(v) The amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with ASLB 21 or ASLB 26, as appropriate;

(vi) 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;

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

(viii) Other changes; and

(e) The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot measure the fair value of the investment property reliably, the entity should disclose:

(i) A description of the investment property;

(ii) An explanation of why fair value cannot be measured reliably; and

(iii) If possible, the range of estimates within which fair value is highly likely to lie.

Transitional Provisions

Initial Adoption of Accrual Accounting

91. **An entity that adopts accrual accounting for the first time in accordance with ASLBs should initially recognise investment property at cost. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.**

92. **The entity should recognise the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with ASLBs.**

93. Prior to first adoption of accrual accounting in accordance with IPSASs, an entity (a) may recognize investment property on a basis other than cost as defined in this Standard, or (b) may control investment property that it has not recognized. This Standard requires entities to initially recognise investment property at cost as at the date of first adoption of accrual accounting in accordance with ASLBs. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an investment property is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

94-97. [Refer to Appendix 1]

98. Prior to first application of this Standard, an entity may recognise its investment property on a basis other than cost, for example fair value or some other measurement basis. ASLB 3 applies to any change in accounting policies that is made when an entity first applies this Standard and recognises the investment property at cost. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

99. ASLB 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognises investment property at cost in accordance with this Standard, it should be recognised net of any accumulated depreciation and any

accumulated impairment losses that relate to that property, as if it had always applied those accounting policies.

100. [Refer to Appendix 1]

Effective Date

101. [Refer to Appendix 1]

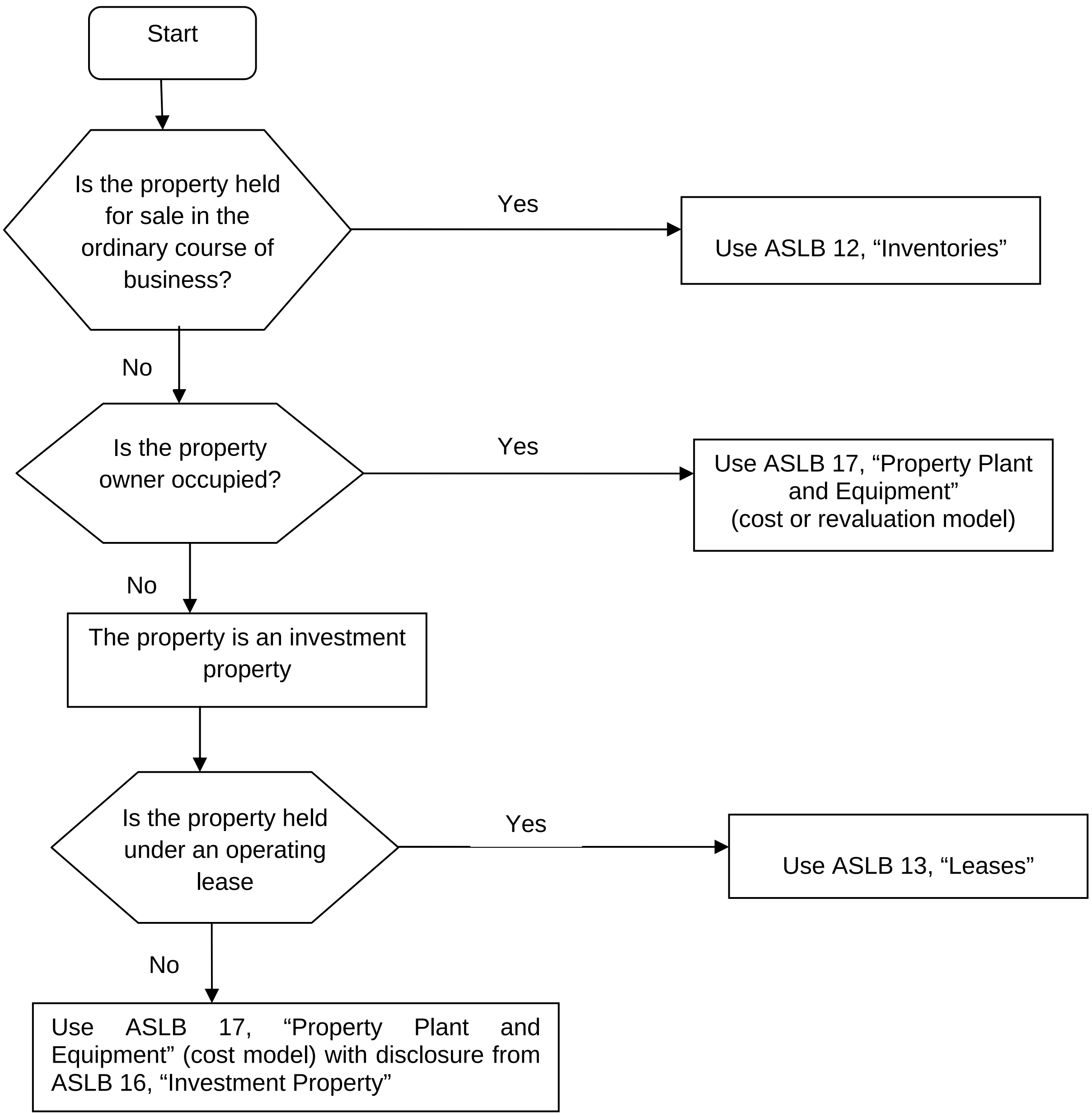
101A. [Refer to Appendix 1]

102. [Refer to Appendix 1]

103. [Refer to Appendix 1]

Illustrative Decision Tree

This decision tree accompanies, but is not part of, ASLB 16.



Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 16 and the corresponding International Public Sector Accounting Standard (IPSAS) 16, 'Investment Property'.

COMPARISON WITH IPSAS 16, *'INVESTMENT PROPERTY'*

1. Different terminology have been used in the exposure draft ASLB 16 as compared to corresponding IPSAS 16, e.g., terms 'balance sheet' has been used in place of 'statement of financial position'.

2. Paragraph 3 of IPSAS 16 which provides that Government Business Enterprises (GBEs) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.

3. IPSAS 16 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Whereas, ASLB 16 permits only the cost model for measurement. The fair value model has been removed, however, fair value may be measured for disclosure purposes. Therefore, paragraphs pertaining to fair value measurement have been retained

4. Some transitional provisions have been deleted/modified as a consequence of deletion of fair value model from the exposure draft ASLB 16

5. Paragraphs pertaining to effective date have been deleted as the exposure draft ASLB 16 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

6. Other consequential changes in exposure draft ASLB 16 have also been made due to all above changes. However, paragraph numbers have been retained to maintain consistency with the corresponding IPSAS.