

Chapter 1
IND AS 16 PPE
SOLUTIONS

Illustration 1

Solution

1. Added to Asset.
2. Deducted from Purchase Price.
3. Credited to Profit and Loss directly.
4. Expense to Profit and Loss as it is not qualifying asset.
5. Asset assuming non-creditable.
6. Added to Asset
7. Added
8. Credited to deferred grant A/c under IND AS 20.
9. Ignored. (Assuming Creditable)
10. Added to Cost
11. Added to Cost
12. Added
13. Added
14. Added
15. expensed to Profit and Loss (Admin in Nature)
16. Added
17. Expensed to Profit and Loss
18. Expensed to Profit and Loss (Cost incurred after asset is ready) for use.

Illustration 2

Solution

In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the asset should be:

Particulars	Amount
List price	80,00,000
Less: Trade discount (10%)	(8,00,000)
	72,00,000
Import duty	5,00,000
Delivery fees	1,00,000
Electrical installation costs	10,00,000

Pre-production testing	4,00,000
Total amount to be capitalised at 1st April, 2011	92,00,000

Maintenance contract is a separate contract to get service, therefore, the maintenance contract cost of 7,00,000 should be taken as a prepaid expense and charged to the profit or loss over a period of 5 years.

In addition the settlement discount received of 3,60,000 ($72,00,000 \times 5\%$) is to be shown as other income in the profit or loss.

Illustration 3

Solution

As per IND AS 16, the cost of an asset should include all the directly attributable expenditure in constructing the asset as well as the present value of dismantling obligations, if any. Therefore in the given case, the lease hold improvements will appear at $25,00,000 + 10,00,000 = 35,00,000$.

Illustration 4

Solution

Calculation of Cost of Building:

Particulars	Rs.
Purchase price of land	30,00,000
+ Stamp duty and legal Fees	2,00,000
+ Architect's Fees	2,00,000
+ Site Preparation	50,000
+ Materials (Note 1)	7,50,000
(10,00,000 – 1,00,000 – 1,50,000)	
+ Direct labour Cost	3,78,000
(4,00,000 – 22,000)	
+ Borrowing Cost (Note 2)	2,40,000
($40,00,000 \times 8\% \times \frac{9}{12}$) (01 st April to 01 st January)	
Cost of Building	48,18,000

Note 1: We have assumed that materials worth 250,000 have been wasted due to abnormal factors and hence should not be a part of cost. We cannot assume the same to be normal in absence of info. Labour cost of 22,000 is also considered to be abnormal hence should not form part of cost

Note 2: In absence of information, we have assumed that the interruption of 2 weeks is not considered to be an interruption for an extended period and hence capitalization of borrowing cost during these 2 weeks is not suspended

Reference Note:

Suspension of borrowing cost is only allowed if interruption is for an extended period. The principles of extended period needs to be applied to borrowing cost as it is specifically provided under IND AS 23, As a general reference, an interruption is considered to be extended if it is greater than 10% of project life.

As 9 months is period of construction in which 2 weeks suspension is not considered to be an interruption for an extended period.

Note 3: General overheads are not directly attributable and hence should not be capitalized.

Illustration 5

In the given case, the entity is under a constructive obligation to restore and hence a provision for site restoration is required.

Extract of Balance sheet as at 31st March, 2018

	<u>Assets</u>	
	i. <u>Non-Current Assets</u>	
01/10/17	P.P.E. (Power Facility) Construction Cost	2,00,00,000
	+ P.V. of site restoration (1,00,000,000 × 0.142) PVF (5%, 40 th)	14,20,000
01/10/17	Total Cost	2,14,20,000
	(-) Depreciation $\left(\frac{2,14,20,000}{40} \times \frac{6}{12}\right)$	(2,67,750)
31/03/18	Balance	2,11,52,250
	ii. <u>Non-Current Liabilities</u>	
	<u>Provisions for site Restoration</u>	
01/10/17	Balance	14,20,000
	(+) Financial Cost $1420000 \times 5\% \times \frac{6}{12}$	35,500
31/03/18	Balance	14,55,500

Extract of Income Statement for the year ended 31st March, 2018.

Expenses:

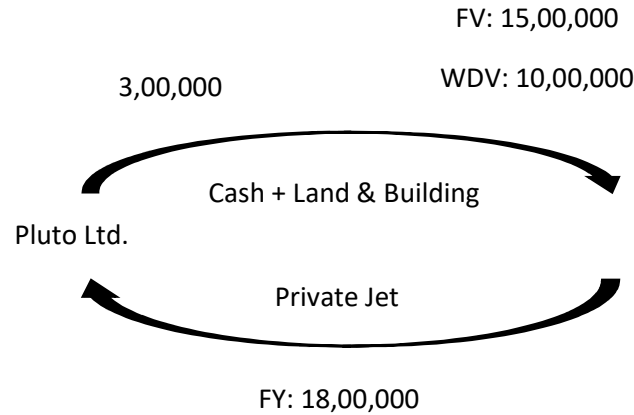
Depreciation on Power facility 2,67,750

Finance Cost:

Unwinding of Discount 35,500

Illustration 6

Solution



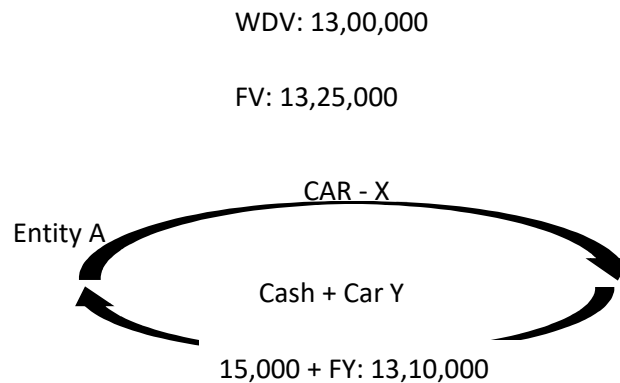
Private Jet A/c.....	Dr.	18,00,000	
To Land & Building A/c			10,00,000
To Cash A/c			3,00,000
To Gain on Barter A/c (P/L)			5,00,000

As per IND AS 16, a barter which has commercial substance is recorded at Fair Values. In this case, we have assumed that the transaction has substance and hence the entry would be as above.

Reference Note: In this case, the FV of assets given up (15 + 3) is equal to the FV of assets received (18). Therefore in this it does not matter if we take 18 based on assets given up or assets received. However, in case fair values were different, we would give first preference to FV of assets given up i.e. (15 + 3 = 18).

Illustration 7

Solution



Assets Received = Cash + Car-Y

(WDV of Car-X)

13,00,000 = 15,000 + 12,85,000

As per IND AS 16, if a transaction lacks commercial substance it should be recorded at the WDV of the assets given up. In the given case, the transaction lacks substance and hence the assets received (Cash and Car-Y) would be based on the WDV of the assets given up (i.e. Car-X)

Therefore, Cash + Car-Y = 13,00,000

i.e. 15,000 + Car-Y = 13,00,000

Therefore, Car-Y = 12,85,000

Car-Y A/c.....	Dr.	12,85,000	
Cash A/c.....	Dr.	15,000	
To Car-X A/c			13,00,000

Illustration 8

Solution

As per IND AS 16, in case payment is deferred by and normal terms (i.e. beyond 12 months) then the asset should be recorded at cash price and if the cash price is not available, then PV of future payments.

In the given case, the payment can be deferred over 2 years and hence we should record the property at the equivalent cash price i.e. Rs. 95 lakhs.

		(Rs)	(Rs)
On 1 st April, 2011			
Property, Plant and Equipment (W.N. 1)	Dr.	95,00,000	33,33,333
To Bank A/c			61,66,667
To Accounts Payable (W.N. 2)			
<i>(Initial recognition of property)</i>			
On 31 st March, 2012			
Interest Expense (W.N. 2)	Dr.	3,30,533	
Accounts payable (W.N. 2)	Dr.	30,02,800	
To Bank A/c			33,33,333
<i>(Recognition of interest expense and payment of second installment)</i>			

On 31 st March, 2013			
Interest Expense(W.N. 2)	Dr.	1,69,467	
Accounts payable (W.N. 2)	Dr.	31,63,867	
To Bank A/c			33,33,334
<i>(Recognition of interest expense and payment of final installment)</i>			

Working Notes:**1. Calculation of cash price equivalent at initial recognition**

Year	Payment	Discounting factor	Present value
1.4.2011	33,33,333	1.000	33,33,333
31.3.2012	33,33,333	0.949	31,63,333
31.3.2013	<u>33,33,334</u>	0.901	<u>30,03,333</u>
Initial date cash price equivalent	<u>1,00,00,000</u>		<u>95,00,000</u>

2. Calculation of interest expenses

Year	Opening balance (a)	Interest @ 5.36% (b) = (a) x 5.36%	Total payment at year beginning (c)	Principal amount in the instalment (d) = (c) – (b)	Closing balance (e) = (a) - (d)
1.4.2011	95,00,000	-	33,33,333	33,33,333	61,66,667
31.3.2012	61,66,667	3,30,533	33,33,333	30,02,800	31,63,867
31.3.2013	31,63,867	1,69,467*	33,33,334	31,63,867	Nil

*Difference of Rs. 116 [(31,63,867 x 5.36%) – (33,33,334 - 31,63,867)] is due to approximation.

Note:

500000 Rs. is not treated as discount availed. However, as the alternative payment period was 2 years, the extra 500000 payable under deferred payment was in substance interest. If an upfront payment was made, there is no hidden loan taken and hence interest of Rs. 500000 is not paid).

In case, entity opts for upfront cash payment, the entry would be:

www.coppergateeducare.in

P.P.E. A/c Dr...	95	
To Bank A/c		95

Illustration 9

Solution

According to Ind AS 16, these costs can be capitalized:

1.	Cost of the plant	25,00,000
2.	Initial delivery and handling costs	2,00,000
3.	Cost of site preparation	6,00,000
4.	Consultants' fees	7,00,000
5.	Net present value of estimated dismantling costs to be incurred after 7 years	<u>3,00,000</u>
		<u>43,00,000</u>

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of 2,00,000 and operating losses before commercial production amounting to 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred

Illustration 10

Solution

As per IND AS 16, in case of major replacement, the cost of the new part should be capitalized and the carrying value of the old part should be deducted. In the given case, machine part appears to be a major part unless otherwise given and hence, cost of the new part should be capitalized. The accounting treatment can be explained as follows:

Statement showing revised WDV

P.P.E. (Machinery)	
Y 0 Original Cost	1,00,000
(-) Depreciation (Year 1 to Year 6)	(60,000)
$\left(\frac{1,00,000}{10} \times 6\right)$	
Y.6 WDV	40,000
(+) Cost of New Part	45,000
(-) WDV of New Old Part (Working Note 1)	(13,432)
Revised WDV	71,568

Working Note 1 – WDV of old part

Notional Cost of Old Part (45,000 × 0.7462)	33,579
PVF (5%, 6 th) (-) Depreciation $\left(\frac{33,579}{10} \times 6\right)$	(20,147)
WDV of Old Part	13,432

Extra: Journal Entries

Assuming no Scrap value is realized from old part.

P.P.E. A/c..... Dr.	45,000	
To Bank A/c		45,000

Loss on Replacement (P/L) A/c..... Dr	13,432	
To P.P.E. A/c		13,432

In case scrap value was given at year six, entry would be:

Bank A/c..... Dr.	xx	
Loss on Replacement A/c..... Dr.		
To P.P.E. A/c		13,432

Illustration 11

Solution

1. Expensed (Maintenance Expenditure)
2. Repair cost can be capitalized if the damage had resulted in impairment else it should be expensed to Profit and Loss.
3. 5), 6) Capitalized (Increasing efficiency)
4. Capitalized (Increasing life.)

Illustration 12

Solution

As per IND AS 16, an entity needs to select a valuation model, i.e. cost model or Revaluation Model for each class of P.P.E. A class of P.P.E. contains assets that have a similar nature and end use.

In the given case, industrial buildings have a separate nature and end use as compared to office buildings and hence, they represent separate class of P.P.E. Therefore we can adopt different valuation models to industrial buildings (historical cost model) and office buildings (Revaluation Model.)

Extra: Within office buildings, we need to revalue all office buildings and we cannot selectively revalue only a few buildings.

Illustration 13

Solution

Method 1:

Plant			
Original Cost:	1,00,000	(1,44,444)	? $\left(1,00,000 \times \frac{65,000}{45,000}\right)$
(+) Account Depreciation:	(55,000)	(79,444)	? $\left(55,000 \times \frac{65,000}{45,000}\right)$
WDV	45,000	- 65,000	

Plant A/c (1,44,444 - 1,00,000).....	Dr.	44,444	
To Account Depreciation A/c (79,444 - 55,000)			24,444
To Revaluation Surplus A/c (O.C.I.)			20,000

Method 2:

Account Depreciation A/c.....	Dr.	55,000	
To Plant A/c			55,000

Plant A/c (65,000 - 45,000).....	Dr.	20,000	
To Reval Surplus (O.C.I.) A/c			20,000

Illustration 14

Solution

01/04/2011	Original Cost (-) Depreciation $\left(\frac{9,00,000}{10} \times 2\right)$	(1,80,000)
01/04/2013	WDV Upward revaluation (960,000 – 7,20,000)	7,20,000 2,40,000
01/04/2013	Revised WDV	9,60,000

Upward Revaluation should be taken against Revaluation surplus (O.C.I.). Subsequent to the revaluation, depreciation for the year 13-14 = $\frac{9,60,000}{8} = 1,20,000$

Further, transfer from Reval surplus to Retained Earnings = $\frac{2,40,000}{8} = 30,000$

Extra: Amortization of Reval Surplus:

Revaluation Surplus A/c.....	Dr.	30,000	
To Retained Earnings A/c			30,000

Illustration 15

Solution

Y: 0 Original Cost	50,00,000
(-) Depreciation (Y-1):	(5,00,000)
(-) Depreciation (Y-2):	(4,50,000)
(-) Depreciation (Y-3):	(4,05,000)
WDV (Y-3)	36,45,000

Depreciation (S.L.M.) p.a. = $\frac{36,45,000}{8} = 455625$ p.a. (Prospective)

Illustration 16

Solution

	Year-1	Year-2	Year-3
Cost	10,000	10,000	10,000
Less: Accumulated Depreciation	(800)	(1,600)	(3,200)
Carrying Amount	9,200	8,400	6,800
Charges for year	10,000 - 2,000 = 800	10,000 - 2,000 = 800	8,400 - 2,000 = 1,600

	10	10	4
--	----	----	---

Illustration 17

Solution

Change in useful economic life of an asset is change in accounting estimate, which is to be applied prospectively, i.e., the depreciation charge will need to be recalculated. On 1st January, 2014, when the asset's net book value is ` 60,000. The company should amend the annual provision for depreciation to charge the unamortised cost (namely, ` 60,000) over the revised remaining life of four years. Consequently, it should charge depreciation for the next four years at ` 15,000 per annum.

Illustration 18

Solution

Original Cost (Purchase Price)	15
(+) Inspection	5
Y.0 Initial Cost	20
(-) Depreciation Y1-Y5	
$\left(\frac{15}{20} + \frac{5}{5}\right) \times 5$	8.75
Y5 WDV	11.25
(+) New inspection	6
$\left(5 - \frac{5}{5} \times 1\right)$	-
Y5 Revised WDV	17.25
(-) Depreciation $\left(\frac{11.25}{15} + \frac{6}{5}\right) \times 5$	(9.75)
Y10 WDV	7.5

This process will be continued for years 11 to 15 and years 16 to 20. By the end of year 20, the capital cost of 15 lakhs will have been depreciated plus the actual overhaul costs incurred at years 5, 10 and 15.

Illustration 19

Solution

As per IND AS 16, all directly attributable expenses should be capitalized in the cost of the asset. Further, in case on asset has major component with different useful lives, the depreciation would be based on the life of component or the life of the asset whichever is shorter. Also, an item can be separately shown as an asset only if an entity controls the asset due to past events and through which it expects to generate future economic benefits

In this given case,

- i. The expenditure on electric substation should be capitalized as it is directly attributable to the construction and operation of the factory.
- ii. As the electric substation is free to be used by the public at large and the entity does not have any ownership, there is no control and hence M Ltd. cannot show them as assets separately. Instead, cost incurred on these item should be capitalized along with the factory.
- iii. The factory should be depreciated over its useful life and the cost incurred for electric substation (major component) should be depreciated over the life of the factory or the life of these components whichever is shorter.

Illustration 20

Solution

1. Statement showing Cost of production line:

Particulars	Amount Rs.'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	13,260

Carrying value of production line as on 31st March, 2012:

Particulars	Amount Rs. '000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	Amount Rs. '000
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss

Particulars	Amount Rs. '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet

Particulars	Amount Rs. '000
Assets	
Non-current assets	
Property, Plant and Equipment	11,566
Equity and Liabilities	
Non-Current liabilities	
Other Liabilities	1417

Working Notes:**1. Calculation of depreciation charge**

Particulars	Amount Rs. '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years ($3,000 \times \frac{1}{4} \times 10/12$). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be : $10,260 \times \frac{1}{8} \times 10/12$	1,069
Total (To Statement of Profit & Loss for the year ended 31 st March 2012)	1,694

2. Finance costs

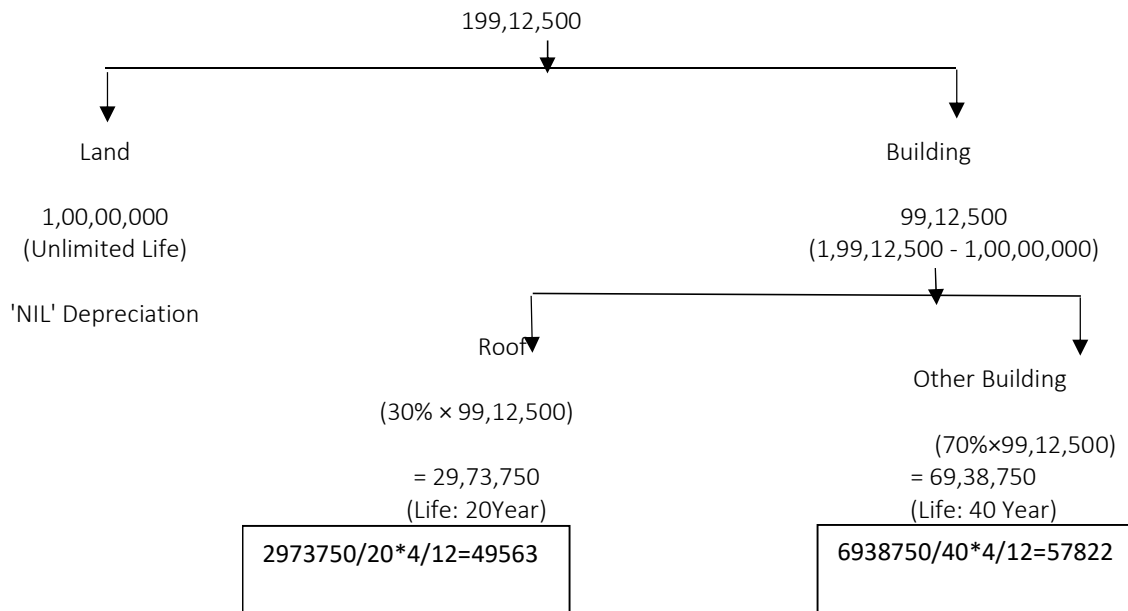
Particulars	Amount Rs. '000
Unwinding of discount (Statement of Profit and Loss – finance cost) $1,360 \times 5\% \times 10/12$	57
To Statement of Profit & Loss for the year ended 31 st March 2012	57

Illustration 21

Solution

Land	1,00,00,000
(+) Preparation & Leveling	3,00,000
(+) Materials	60,80,000
(+) Employment Cost $(2,00,000 \times 7)$	14,00,000
(+) Directly Attributable Overheads $(1,00,000 \times 7)$	7,00,000
(+) P.V. of site Restoration $(2,00,00,000 \times 0.046)$	9,20,000
(+) Borrowing Cost $(1,75,00,000 \times 6\% \times \frac{7}{12})$ (Note 2)	6,12,500
(-) Interest on Temporary Investment	(1,00,000)
Cost of Factory (30/11/11)	1,99,12,500

Working Note 1: Calculation of Depreciation



The factory asset can be split into three major components

Carrying Value of Factory on 31/03/12

Land		1,00,00,000
Building	99,12,500	
(-) Depreciation (48,250 + 56,292)	(1,07,385)	98,05,115
Carrying Value (31/03/12)		1,98,05,115

Note 1: The following expenditures /incomes are not included in cost as they are not considered to be directly attributable.

- i. Ongoing overhead Cost
- ii. Relocation Expenses
- iii. Cost of opening ceremony
- iv. Income generated from the use of asset for Car parking

Note 2: We have assumed that the factory is a qualifying asset and hence the net borrowing cost (Actual borrowing cost – Income on Temporary Investment) should be capitalized till the time the asset is ready for its intended use since it is from specified Borrowings

Reference Note: As per IND AS 23, borrowing cost the capitalization should commence at the **later** of

- i. Date when loan taken 1st April
- ii. Date when expenditure incurred N.A
- iii. Date when activities commence 1st May

Purchase of land would not trigger off capitalization since land is not a qualifying asset. Infact, the construction started from 1st May, 2011 and hence we capitalize the interest cost incurred in 7 month period and not from 1st April. Since the loan was acquired for construction activity and not land acquisition hence capitalisation will start from 1st May.

Illustration 22

Solution

As per IND AS 16, changes in estimate of site restoration should be adjusted against the cost of P.P.E. (in present value terms) in the year when estimates changes. In the given case, the present value of decommissioning liability decreases by 8,000. In such a case, the following entry would be passed in March, 2011.

Provision for Site Restoration A/c.....	Dr.	8,000	
To Nuclear Plant A/c			8,000

Extra: In case depreciation and finance cost for 2011-12 needs to be calculated, it can be done as follows

01/04/01	Initial Cost	1,20,000
	(-) depreciation (10 years)	(30,000)
	$\left(\frac{1,20,000}{40} \times 10\right)$	
31/03/11	WDV	90,000
	(-) Reduction in Decommissioning	(8,000)
31/03/11	Revised WDV	82,000

$$\text{Depreciation for 2011-12} = \frac{82,000}{30} = \boxed{2,733 \text{ p.a.}}$$

Provision for Site Restoration

01/04/01	Balance	10,000
	(+) Finance Cost (10 years)	6,289
	$[10,000 \times (1.05)^{10} - 10,000]$	
31/03/11	Balance	16,289
	(-) Reduction in Decommissioning	(8,000)
31/03/11	Revised Balance	8,289

$$\text{Finance Cost (2011-12)} = 8,289 \times 5\% = \boxed{414.45}$$

Illustration 23

Solution

i.

01/04/01	Initial Cost	1,20,000
	(-) Depreciation	(9,000)
	$\left(\frac{1,20,000}{40} \times 3\right)$	
31/03/04	WDV	1,11,000

Provision for Site Restoration

01/04/01	Balance	10,000
	(+) Finance Cost [10,000 × (1.05) ³ – 10,000]	(1,600)
31/03/04	Balance	11,600

31/03/04	WDV	1,11,000
	(+) Revaluation Surplus	15,600
31/03/04	Revised WDV	1,26,600

Balance appearing in the Balance Sheet on 31/03/2004:

P.P.E.	1,26,600
Provision for site Restoration	11,600
Revaluation Surplus	15,600

Working Note 1 – Revaluation

FV of Asset only	1,26,600
(-) PV of site Restoration	(11,600)
FV of Asset (After Allowance/Deduction of Liability)	1,15,000

Therefore, Upward Revaluation = 1,26,600 – 1,11,000 = 15,600

ii. Adjustments on 31/03/05

P.P.E. (Nuclear Plant)

01/04/04	Balance	1,26,600
	(-) Depreciation $\left(\frac{1,26,600}{37} \times 1\right)$	(3,422)
31/03/05	Balance	1,23,178
	(-) Reduction in Decommissioning Liability	(5,000)
		1,18,178
	(-) Downward Revaluation (Working Note 2)	(3,998)
31/03/05	Revised Balance	1,14,180

Revaluation Surplus

01/04/04	Balance	15,600
----------	---------	--------

	(-) Amortization to Retained Earnings (15,600 ÷ 37) × 1	(422)
31/03/05	Balance	15,178
	(-) Downward Revaluation	(3,998)
31/03/05	Balance	11,180

Provision for site Restoration

01/04/04	Balance	11,600
	(+) Finance Cost (11,600 × 5%)	580
31/03/05	Balance	12,180
	(-) Reduction in Decommissioning Liability	(5,000)
31/03/05	Revised Balance	7,180

Working Note 2

FV of Asset only		? (1,14,180)
(-) PV of Decommissioning Liability	7,180	
FV of Net Assets	<u>1,07,000</u>	

Downward Revaluation = 1,18,178 – 1,14,180

= 3,998 → Adjusted against Revaluation surplus

Balance as on 31/03/2005:

P.P.E. -	1,14,180
Provision for site Restoration -	7,180
Revaluation Surplus -	11,180

Reference Note:

1. The downward revaluation in 04-05 is first adjusted against the balance in revaluation surplus and excess if any would be taken to Profit and Loss. As the balance in revaluation surplus is sufficient, we have not used Profit and Loss.
2. ICAI has ignored the write off from Revaluation surplus to Retained Earnings of Rs 422. In the exam, this write off needs to be considered.

Illustration 24

Solution

As per IND AS 16, the loss due to fire has to be recorded in the Profit and Loss immediately on the date of fire itself. Further, IND AS 37, requires that a contingent asset can be recorded only if it is virtually certain that it will be received. In the given case, the loss of 90,000 (1,00,000- 10,000) should be recorded on the date of fire itself

www.coppergateeducare.in

i.e. 31/01/2011. Further, we have been given that the insurance company has confirmed the claim of 50,000 and hence this should be recorded on the date we receive the confirmation. Both the transactions need to be recorded separately.

Illustration 25

Solution

Ind AS 16 states that the accounting treatment of PPE is determined on a class by class basis. For this purpose, property and plant would be regarded as separate classes. Ind AS 16 requires that PPE is measured using either the cost model or the revaluation model. This model is applied on a class by class basis and must be applied consistently within a class. Ind AS 16 states that when the revaluation model applies, surpluses are recorded in other comprehensive income, unless they are cancelling out a deficit which has previously been reported in profit or loss, in which case it is reported in profit or loss. Where the revaluation results in a deficit, then such deficits are reported in profit or loss, unless they are cancelling out a surplus which has previously been reported in other comprehensive income, in which case they are reported in other comprehensive income.

According to Ind AS 16, all assets having a finite useful life should be depreciated over that life. Where property is concerned, the only depreciable element of the property is the buildings element, since land normally has an indefinite life. The estimated useful life of a building tends to be much longer than for plant. These two reasons together explain why the depreciation charge of a property as a percentage of its carrying amount tends to be much lower than for plant.

Properties which are held for investment purposes are not accounted for under Ind AS 16, but under Ind AS 40 'Investment Property'. As per Ind AS 40, investment properties should be accounted for under a cost model. ABC Ltd. had applied the cost model and thus our investment properties are treated differently from the owner occupied property.