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# IAS-40 INVESTMENT PROPERTY

## OBJECTIVE

To prescribe the accounting treatment and disclosures for Investment Property.

## DEFINITION OF INVESTMENT PROPERTY

Investment property is;

- a land or building (or a part of it) or both;
- that is held (by the owner or by the lessee as a right-of-use asset);
- to earn rentals / for capital appreciation or both.

## INCLUDES

- ✓ Land held for long-term capital appreciation
- ✓ Land held for undetermined future use
- ✓ Building leased out under operating lease.
- ✓ Vacant building held to be leased out under operating lease
- ✓ Property being constructed/developed for future use as investment property

## EXCLUDES

- Property held for sale in the ordinary course of business or in the process of construction or development for such sale (IAS 2);
- Owner-occupied property (IAS 16 & IFRS 16)
- Property held for future use as owner-occupied property
- Property held for future development and subsequent use as owner-occupied property
- Property occupied by employees (whether or not the employees pay rent at market rates)
- Owner-occupied property awaiting disposal.
- Property that is leased to another entity under a finance lease.

## RECOGNITION OF INVESTMENT PROPERTY

Investment property is recognized as an asset when:

It is probable that future economic benefits associated with the property will flow to the entity **AND** Cost of the property can be reliably measured.

## INITIAL MEASURMENT OF INVESTMENT PROPERTY

**COST** [including transaction cost] = Purchase Price + Directly Attributable Costs

### XXX Such cost does NOT include:

- Start-up costs;
- Operating losses incurred before investment property achieves the planned occupancy level; &
- Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

### Deferred Payment

When payment for investment property is deferred, discount it to its present value to set cash price equivalent.

Such as
- legal fees or
- professional fees,
- property transfer taxes, etc.

### Exchange of Assets

The accounting treatment for exchange of assets is same as those applied under IAS 16.

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## SUBSEQUENT MEASUREMENT OF PPE

- After initial recognition, an entity can choose between fair value and cost model.
- The accounting policy choice must be applied to all investment property.

### FAIR VALUE MODEL

- Under Fair Value Model, measure all of the investment property at fair value, except in the extremely rare cases where this cannot be measured reliably.
- Gain or loss from changes in FV of IP is recognized in P/L.
- Depreciation is NOT charged on IP kept at fair value model.

- If IP is measured at FV, it shall continue to be measured that IP at FV until disposal even if comparable market transactions become less frequent or market prices become less readily available.

### Inability to measure fair value reliably

Is Investment Property under Construction?

#### YES

- Measure that investment property at cost until either (whichever is earlier) its:
  - Fair value becomes reliably measurable or
  - Construction is completed
- When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between:
  - Fair value of the property at that date; and
  - Its previous carrying amount

  shall be recognized in profit or loss.

#### NO

- In exceptional cases, if there is clear evidence that FV of IP is not reliably measurable on a continuing basis, the entity shall measure that IP using cost model in IAS 16.
- This arises only when the market for comparable properties is inactive & alternative reliable measurements of fair value are not available.
- In such case, Residual value of such property shall be assumed to be zero.
- The entity shall apply IAS 16 until disposal of such property

### COST MODEL

Under Cost Model, Investment Property is measured in accordance with requirements set out for that model in IAS 16:

| | |
|---|---|
| Cost | xxxx |
| Less. Accumulated Depreciation | (xxxx) |
| Less. Accumulated Impairment | (xxxx) |
| **Carrying Amount** | **xxxx** |

### SWITCHING THE MODELS CHANGE IN ACCOUNTING POLICY

- Switching from cost model to fair value or vice versa is allowed but only if the change results in the financial statements providing reliable and more relevant information, and such change shall be retrospectively adjusted in accordance with the requirements of IAS 8.
- Switching from cost model to fair value model would probably meet the condition and is therefore allowed.

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# IAS-40 INVESTMENT PROPERTY


## TRANSFER TO / FROM INVESTMENT PROPERTY

Transfers to / from investment property can be made only when there is a change in the use of the property.

### FOR INVESTMENT PROPERTY AT COST MODEL

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

### FOR INVESTMENT PROPERTY AT FAIR VALUE MODEL

| Circumstance | Transfer | Accounting treatment |
|---|---|---|
| Commencement of owner occupation | From IAS 40 to IAS 16 | » Revalue the property as per IAS 40 and then transfer it to IAS 16<br>» Fair value at the date of transfer becomes the deemed cost for future accounting purposes. |
| Commencement of development with a view to sale | From IAS 40 to IAS 2 | » Revalue the property as per IAS 40 and then transfer it to IAS 2<br>» Fair value at the date of transfer becomes the deemed cost for future accounting purposes. |
| End of owner occupation & commencement of operating lease | From IAS 16 to IAS 40 | » Revalue the property to its fair value as per the rules of IAS 16 (even if policy is cost model) and then transfer it to IAS 40.<br>» On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. |
| End of inventory & commencement of operating lease | From IAS 2 to IAS 40 | » Transfer the property at carrying amount and then revalue it as per IAS 40<br>» Fair value at the date of transfer and any difference between previous carrying amount is recognized in P/L. |

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# INVESTMENT PROPERTY

## CLASSIFICATION OF INVESTMENT PROPERTY - CONECCTED CONCEPTS

### Partial Own Use

Some properties comprise a portion that is held to earn rentals or capital appreciation and a nother portion that is held for use in the production or supply of goods/services or for administrative purposes.

Whether these portions could be sold separately?

- **Yes** — Portions are accounted for the portions separately in accordance with applicable standards
- **No** — Whether the portion that is held for use in the production or supply of goods or services or for administrative purposes, is insignificant?
  - **Yes** — Account for the entire property under IAS 40
  - **No** — Account for the entire property under IAS 16

### Provision Of Ancillary Services

In some cases, an entity provides ancillary services to the occupants of a property it holds.

**If the Services are Significant to the arrangement as a whole**

**Classification:** Property, Plant & Equipment

**Example:** An entity owns and manages a hotel and services provided to guests are significant to the arrangement as a whole.

**If the Services are Insignificant to the arrangement as a whole**

**Classification:** Investment Property

**Example:** The owner of an office building provides security and maintenance services to the tenants who occupy the building.

### Inter-company Rentals

- Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.
- However, such property will be investment property in the separate financial statements of the lessor, if it meets the definition of investment property.


## DERECOGNITION OF INVESTMENT PROPERTY

- When an investment property is derecognized, a gain or loss on disposal should be recognized in P/L.
- This gain or loss should normally be determined as the difference between the net disposal proceeds and the carrying amount of the asset.

# IAS-40 INVESTMENT PROPERTY

## PRESENATION AND DISCLOSURE

### General disclosure (for both models)

An entity shall disclose:

- Whether it applies the fair value model or the cost model;
- When classification is difficult, the criteria used to distinguish IP from PPE and Inventory.
- The extent to which the FV of IP (as measured or disclosed in F/S) is based on a valuation by an independent valuer. If there has been no such valuation, that fact shall be disclosed.
- The existence and amounts of restrictions on the realisability of IP or the remittance of income and proceeds of disposal.
- Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance (R&M) or enhancements.
- Amounts recognised in P/L for:
  - Rental income from investment property;
  - Direct operating expenses (including R&M) arising from IP that generated rental income during the period;
  - Direct operating expenses (including R&M) arising from IP that did not generate rental income during the period; and
  - The cumulative change in FV recognised in P/L on a sale of IP from a pool of assets in which the cost model is used into a pool in which the fair value model is used.

### For Cost Model only

- An entity shall disclose:
  - Depreciation methods used;
  - Useful lives or depreciation rates used; and
  - Gross carrying amounts and accumulated depreciation at the beginning and end of period.
- A reconciliation between opening and closing values showing:
  - additions (acquisitions & subsequent expenditure separately);
  - depreciation;
  - disposals;
  - impairment losses and reversal thereof;
  - transfers; and
  - other changes.
- When the cost model is used, the FV of investment property shall also be disclosed.
- If FV cannot be estimated reliably, the same additional disclosures should be made as are disclosed under the fair value model for investment properties whose FV cannot be measured reliably

### For Fair Value Model only

- An entity shall disclose a reconciliation between the carrying amounts of IP at the beginning and end of the period, showing:
  - additions (acquisitions & subsequent expenditure separately);
  - disposals;
  - net gains or losses from fair value adjustments;
  - transfers; and
  - other changes.
- For IPs included at cost model because FV cannot be measured reliably, an entity shall also disclose:
  - Description of the IP;
  - Explanation of why FV cannot be measured reliably;
  - If possible, the range of estimates within which FV is highly likely to lie; and
  - Fact of disposal of such IP, its carrying amount and gain or loss on disposal.

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**IAS-40** **INVESTMENT PROPERTY**

**PRESENATION AND DISCLOSURE (Sample)**

**ABC Company**

**Notes to the Financial Statements**

**For the year ended 31 December 20X1**

| **40. Investment Property** | **Cost Model** | **FV Model** | **Total** |
|---|---|---|---|
| **At the start of the year** | | | |
| Cost | xxxx | - | xxxx |
| Accumulated Depreciation / Impairment | (xxxx) | - | (xxxx) |
| **Carrying Amount / Fair value** | **xxxx** | **xxxx** | **xxxx** |
| Addition during the year | xxxx | xxxx | xxxx |
| Transfer to Investment property | xxxx | xxxx | xxxx |
| Transfer from Investment property | (xxxx) | (xxxx) | (xxxx) |
| Disposal / Deletion | (xxxx) | (xxxx) | (xxxx) |
| Depreciation | (xxxx) | - | (xxxx) |
| Impairment / (Reversal) | (xxxx) | - | (xxxx) |
| Fair valuation | - | xxxx | xxxx |
| **At the end of the year** | | | |
| Cost | xxxx | - | xxxx |
| Accumulated Depreciation / Impairment | (xxxx) | - | (xxxx) |
| **Carrying Amount / Fair value** | **xxxx** | **xxxx** | **xxxx** |