



FINANCIAL REPORTING

*IAS 40: INVESTMENT
PROPERTY*

INVESTMENT PROPERTY DEFINED

Dfn: Property (land or a building, or part of a building, or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Owner-occupied property is excluded from the definition of investment property, so these are properties not used by the entity in general operations.

Owner-occupied property: is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes.

These could be spare properties rented out to third parties, or specifically bought in order to profit from a gain in value.

OBJECTIVE OF THE STANDARD

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

EXAMPLES OF INVESTMENT PROPERTY

- Land held for long-term capital appreciation.
- Land held for a currently undetermined future use.
- Building leased out under an operating lease.
- Vacant building held to be leased out under an operating lease.
- Property that is being constructed or developed for future use as investment property

SCOPE OF THE STANDARD

The standard is to be applied in the recognition, measurement and disclosure of investment property.

The standard does not apply to the following;

- Property held for use in the production or supply of goods or services or for administrative purposes under IAS 16.
- Property held for sale in the ordinary course of business or in the process of construction or development for such sale under IAS 2
- Property that is leased to another entity under a finance lease under IFRS 16.

RECOGNITION

An item of investment property should be recognized as an asset when:

- It is probable that future economic benefits associated with the investment property will flow to the entity; and,
- the cost of the investment property can be measured reliably.

INITIAL MEASUREMENT

- An owned investment property should initially be measured at its **cost**. Including transaction costs.
- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure as guided by IAS 16.

SUBSEQUENT MEASUREMENT

After recognition, an entity shall choose either the cost model or the fair value model to measure its investment property.

It shall apply the chosen accounting policy to all its investment property.

- **The cost model:**

Under this model, investment property should be accounted for in line with the cost model laid out in IAS 16.

Fair value is advised to be disclosed.

- **The fair value model:**

The asset is revalued to fair value at the end of each reporting period with gains or losses shown directly in the statement of profit or loss **but not** other comprehensive income.

No depreciation is charged on the asset.

Fair value will normally be established by reference to current prices on an active market for properties in the same location and condition by a qualified and independent valuer.

TRANSFER FROM OWNER-OCCUPIED TO IP

If:

- **The fair value model is used for valuing investment property:**

The asset must first be revalued as per IAS 16 (with changes in the carrying amount treated in accordance with IAS 16) and then transferred to investment property at fair value. No depreciation subsequently.

- **The cost model is used for valuing investment properties:**

The asset is transferred into investment properties at the current carrying amount and continues to be depreciated normally.

TRANSFER FROM IP TO OWNER-OCCUPIED

If:

- **The fair value model is used for valuing investment property:**

The property must first be revalued as per IAS 40 (with changes in the gains or losses taken in the statement of profit or loss) and then transferred to property, plant and equipment at fair value and subsequently depreciated.

- **The cost model is used for valuing investment properties:**

The asset is transferred into property, plant and equipment at the current carrying amount and continues to be depreciated normally.

TRANSFERS CONT'D

An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use.

A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

Examples of evidence of a change in use include:

- Transfer from investment property to owner-occupied property (at point of commencement of owner occupation or development with a view to owner occupation).
- Transfer from investment property to inventories (commencement of development with a view to sale).
- Transfer from owner-occupied property to investment property (at end of owner occupation)
- Transfer from inventories to investment property (inception of an operating lease to another party).

When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

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

DISCLOSURES

The entity shall:

- Disclose whether the fair value or the cost model is used for its investment property.
- If the fair value model is used, disclose whether property interests held under operating leases are classified and accounted for as investment property.
- If classification is difficult, disclose the criteria applied to distinguish investment property from owner-occupied property and from property held for sale.
- Disclose the extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed.

QUESTIONS

- May 2024 Qn 3
- Aug 2019 Qn 4