IAS 40
INVESTMENT PROPERTY
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Objective?

- to prescribe the accounting treatment for investment property and related disclosure requirements.

Investment Property?

- is property (land or a building-or part of a building-or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Scope?

- This Standard shall be applied in the recognition, measurement and disclosure of investment property.

Examples of items that are Investment Property?

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
- Land held for a currently undetermined future use.
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
- A building that is vacant but is held to be leased out under one or more operating leases.

Examples of items that are not Investment Property?

- Property intended for sale in the ordinary course of business or in the process of construction or development for such sale.
- Property being constructed or developed on behalf of third parties.
- Owner-occupied property.

Question-1:

- **What happens if an entity has a property that comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods and services or for administrative purposes?**

First;

It should be checked out whether these portions of the property can be sold separately (or leased out separately under a finance lease).

If these portions could be sold separately (or leased out separately under a finance lease);

- The entity accounts for the portions separately.
- The portion that is held to earn rentals or for capital appreciation should be considered as "Investment Property".
- The portion that is held for use in the production or supply of goods and services or for administrative purposes should be considered as "Owner-Occupied Property".

If these portions could not be sold separately (or leased out separately under a finance lease);

- The property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Question-2:

- **What happens if an entity provides ancillary services to occupants of a property it holds?**

If the services are insignificant to the arrangement as a whole?

- Entity treats such a property as "Investment Property".

If the services are significant to the arrangement as a whole?

- Entity treats such a property as “Owner-Occupied Property”.

Question-3:

- **What happens if a property of an entity that is leased to, and occupied by, its parentor another subsidiary?**

- The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group.
- However, from the perspective of the entity owns it, the property is investment property.

Recognition of Investment Property?

- Investment property shall be recognized as an asset when and only when;
  - It is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
  - the cost of the investment property can be measured reliably.

Cost of Investment Property?

- An entity recognize 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.

Cost of Investment Property is not increased by:

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

What is the cost of an investment property if it is purchased?

- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

What is the cost of an investment property if it is self-constructed?

- The cost of a self-constructed property is its cost at the date when the construction or development is complete.

What is the cost of an investment property if it is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

- The cost of such an investment property is measured at fair value unless;
  - The exchange transaction lacks commercial substance or
  - The fair value or neither the asset received nor the asset given up is reliably measurable.

  If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given-up.

What happens if payment for an investment property is deferred?

- The cost of investment property is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

What is the cost of a property that is leased and classified as investment property?

- Lower of fair value and the present value of minimum lease payments of the property.

How shall an investment property be measured after initial recognition?

- By using either;
  - FAIR VALUE MODEL

    or

  - COST MODEL

Fair Value Model?

- If there is a reputable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis, entity should choose the “fair value model” for all of its investment property.

Cost Model?

- If there is not a reputable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis, entity should choose the “cost model” for all of its investment property

- Under “Fair Value Model”, a gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises.

- Under “Cost Model”, a gain or loss arising from a change in the cost of investment property shall be recognized as in IAS-16.

An investment property shall be derecognized (eliminated from the balance sheet) when;

- it is disposed;
- it is permanently withdrawn from use;
- no future economic benefits are expected from disposal.

Gains or losses arising from the retirement or disposal of investment property shall be determined,

- as the difference between the net disposal proceeds and the carrying amount of the asset.

Gains or losses arising from the retirement or disposal of investment property shall be recognized;

- in profit or loss in the period of the retirement or disposal.

- Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in profit or loss when the compensation becomes receivable.

Disclosure?

- An entity shall disclose;
  - Whether it applies the fair value model or the cost model.
  - If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
  - When classification is difficult the criteria it uses to distinguish investment property from owner-acquired property from owner-occupied property and from property held for sale in the ordinary course of business.
  - The amounts recognized in profit or loss.

Example:1

- “A” Company decided to reclassify one of its buildings from Owner-Used to Held for Sale Property. The building was purchased for $450,000 and it has an accumulated depereciation of $18,000 as of December 31, 2004. The fair value of the building was $490,000. Journalize this transaction using “cost method”.

Example:2

- Net Carriying value of the Investment Property that “B” Company has was $ 280.000 and their fair value was $295,000 as of December 31, 2005. If the Company uses “Fair Value Model”, make necessary journal entries.