



PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®

IAS® Standard 40 Investment Property



Co-funded by the
Erasmus+ Programme
of the European Union

OBJECTIVE AND SCOPE

An entity shall apply IAS Standard 40 for the accounting treatment of investment property

Except for

biological assets related to agricultural activity within the scope of IAS Standard 41 Agriculture and IAS Standard 16 Property, Plant and Equipment



mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

KEY DEFINITIONS

Investment property

- held to earn rentals or for capital appreciation or both;
- generates cash flows largely independently of the other assets held by an entity.

KEY DEFINITIONS

Investment property

- held to earn rentals or for capital appreciation or both;
- generates cash flows largely independently of the other assets held by an entity.

Owner-occupied property

- held for use in the production or supply of goods or services or for administrative purposes;
- generates cash flows that are attributable not only to the property, but also to other assets used in the production or supply process.

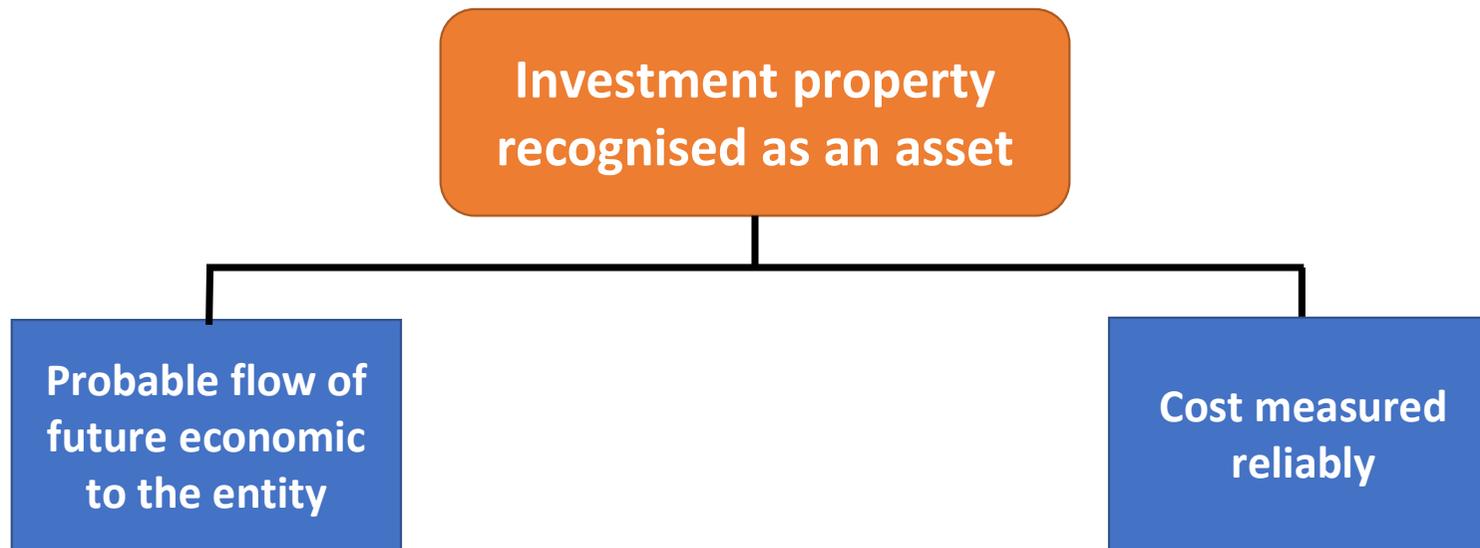
KEY DEFINITIONS - EXAMPLES

Items
A building or land intended for rental / held to be leased out under operating lease(s)
A building used by the entity to conduct its operating activities
A building acquired exclusively for development and resale in the ordinary business cycle
Land or a building held for long-term capital appreciation
A building being constructed for future rental or capital appreciation
A building being constructed for future sale in the ordinary course of business
A building that is occupied by the entity's employees
Land held for a currently undetermined future use (such property is regarded as held for capital appreciation)

KEY DEFINITIONS – EXAMPLES SOLUTION

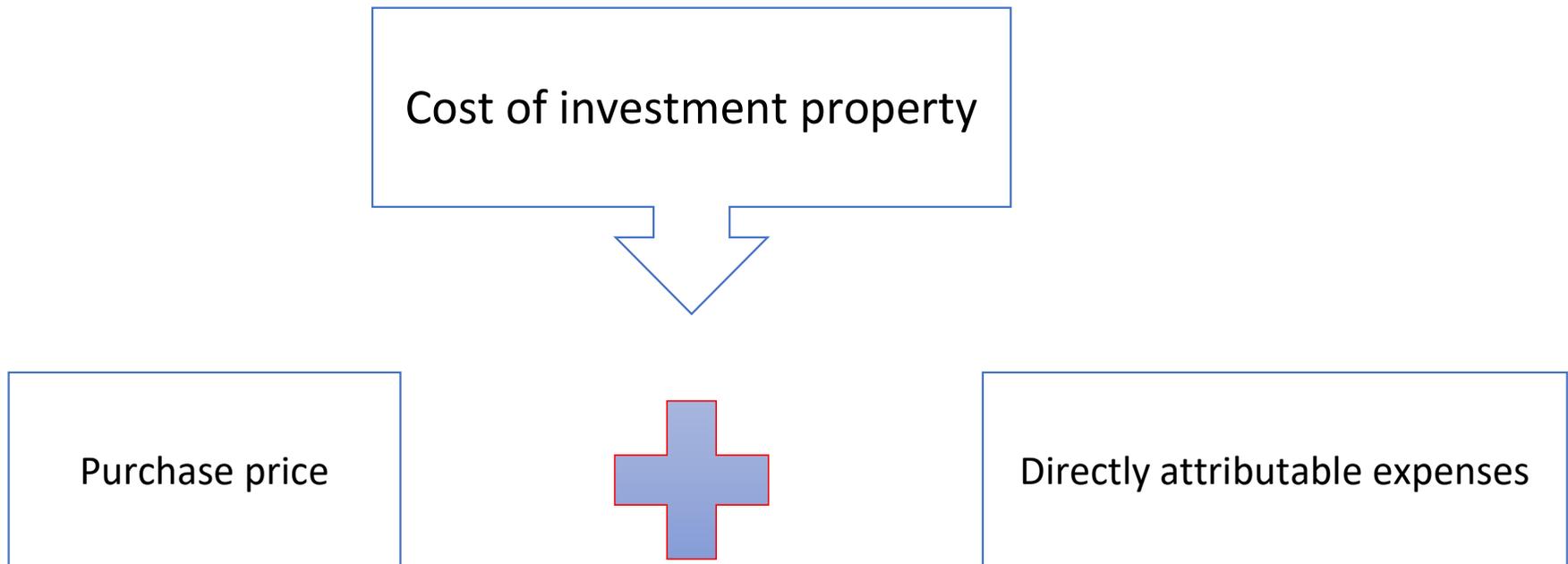
Items	Classification	Applicable standard
A building or land intended for rental / held to be leased out under operating lease(s)	Investment property	IAS 40
A building used by the entity to conduct its operating activities	Owner-occupied property	IAS 16
A building acquired exclusively for development and resale in the ordinary business cycle	Inventory / Merchandise	IAS 2
Land or a building held for long-term capital appreciation	Investment property	IAS 40
A building being constructed for future rental or capital appreciation	Investment property	IAS 40
A building being constructed for future sale in the ordinary course of business	Inventory / Finished goods	IAS 2
A building that is occupied by the entity's employees	Owner-occupied property	IAS 16
Land held for a currently undetermined future use (such property is regarded as held for capital appreciation)	Investment property	IAS 40

FUNDAMENTAL ISSUES - RECOGNITION



FUNDAMENTAL ISSUES - MEASUREMENT

Determining the cost of investment property for *initial recognition*



FUNDAMENTAL ISSUES - MEASUREMENT

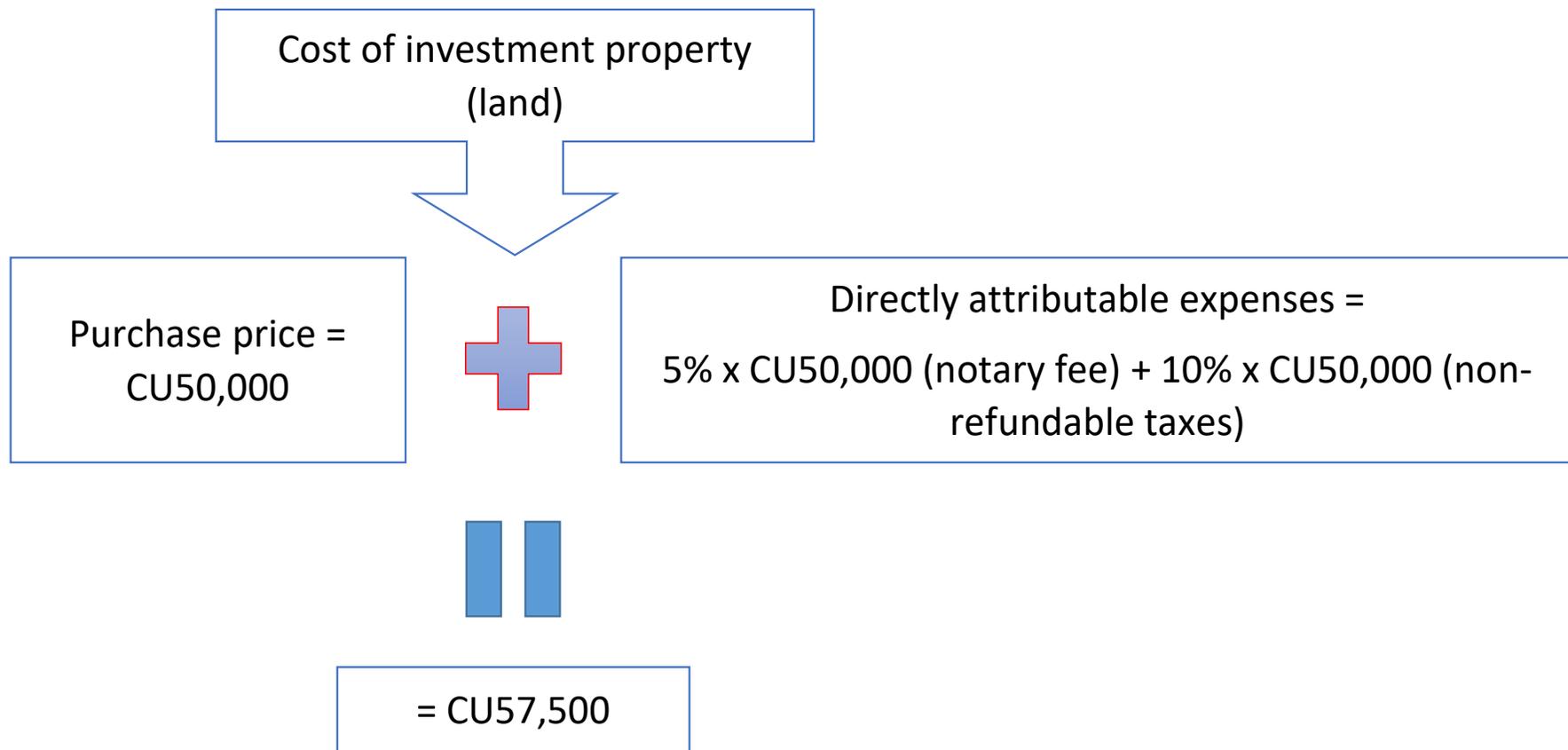
Determining the cost of investment property for *initial recognition* – example:

An entity purchases a piece of land for CU50,000 with the purpose of renting it as a parking lot to a local hypermarket. The contract is drafted by a notary office for a fee of 5% of the land's price. The property transfer is also bearing non-refundable taxes paid to the state authorities for 10% of the transaction's amount.

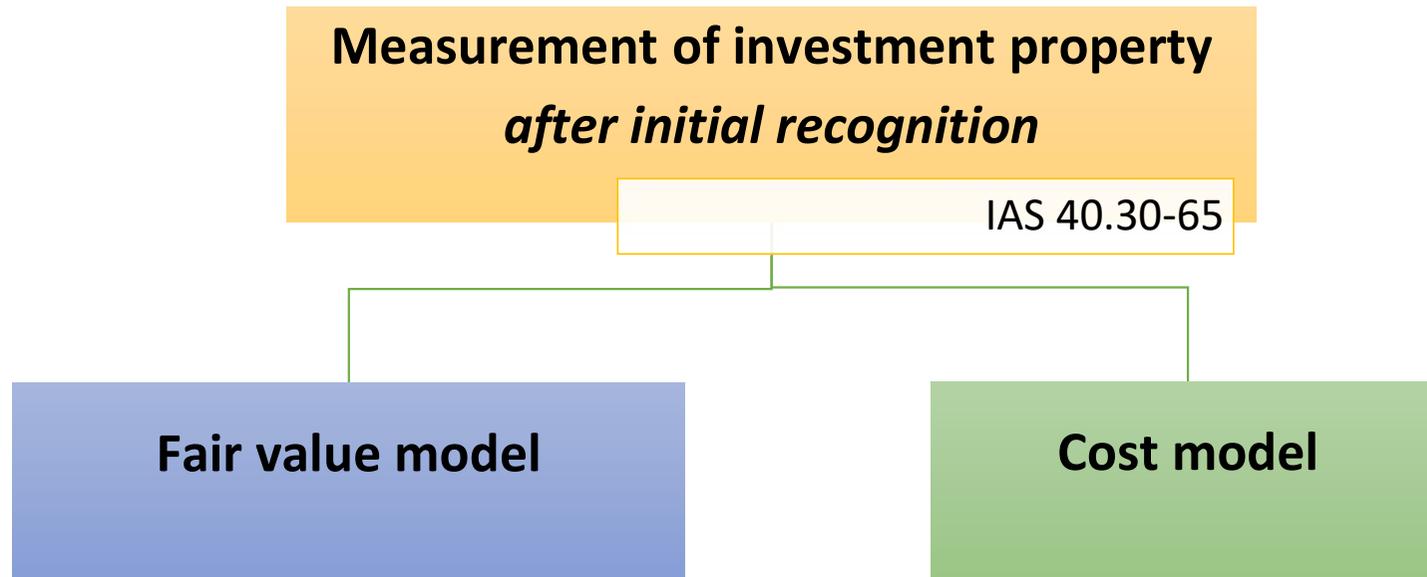
What is the value of the investment property recognised by the entity?

FUNDAMENTAL ISSUES - MEASUREMENT

Determining the cost of investment property for *initial recognition* – example:



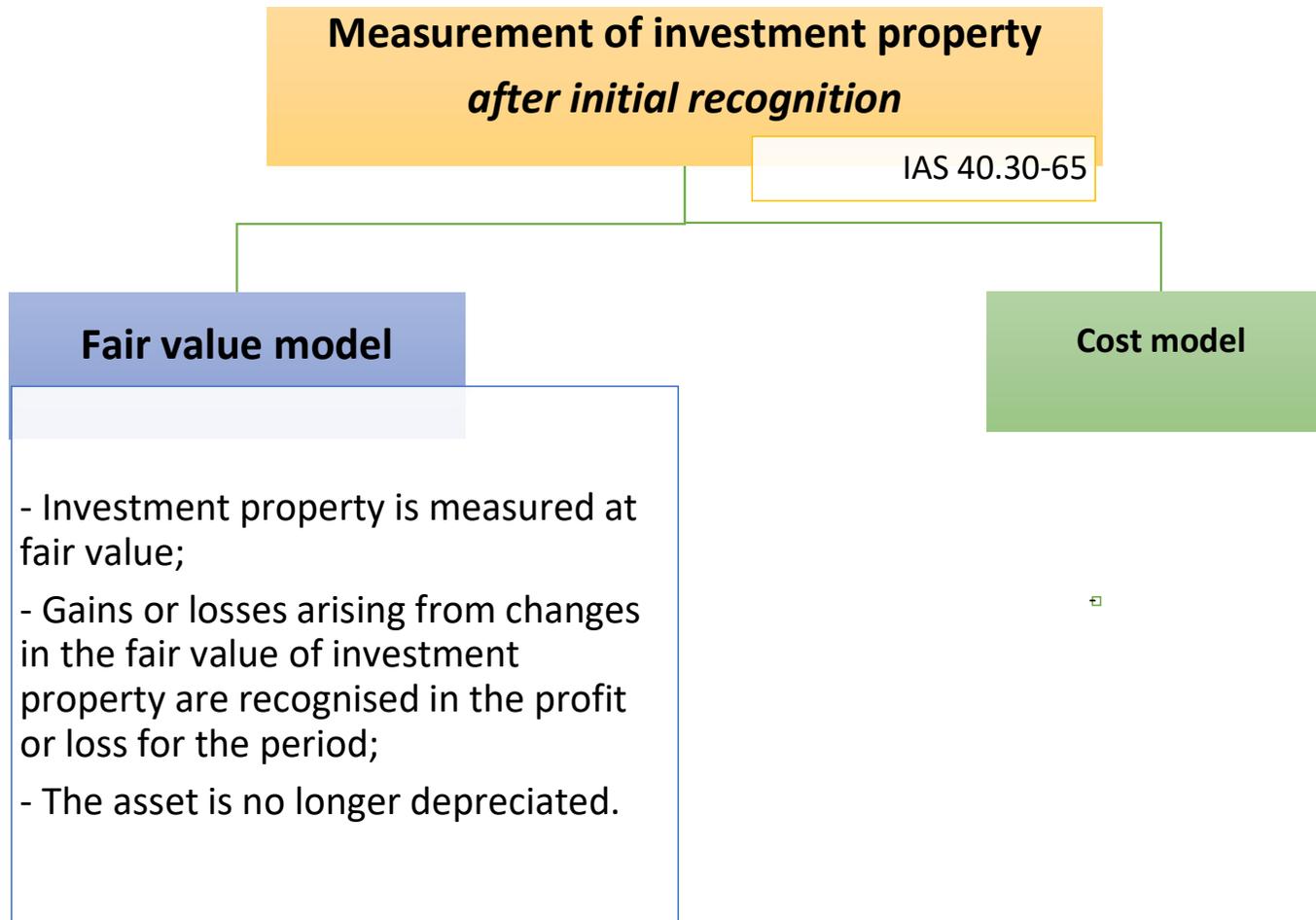
FUNDAMENTAL ISSUES - MEASUREMENT



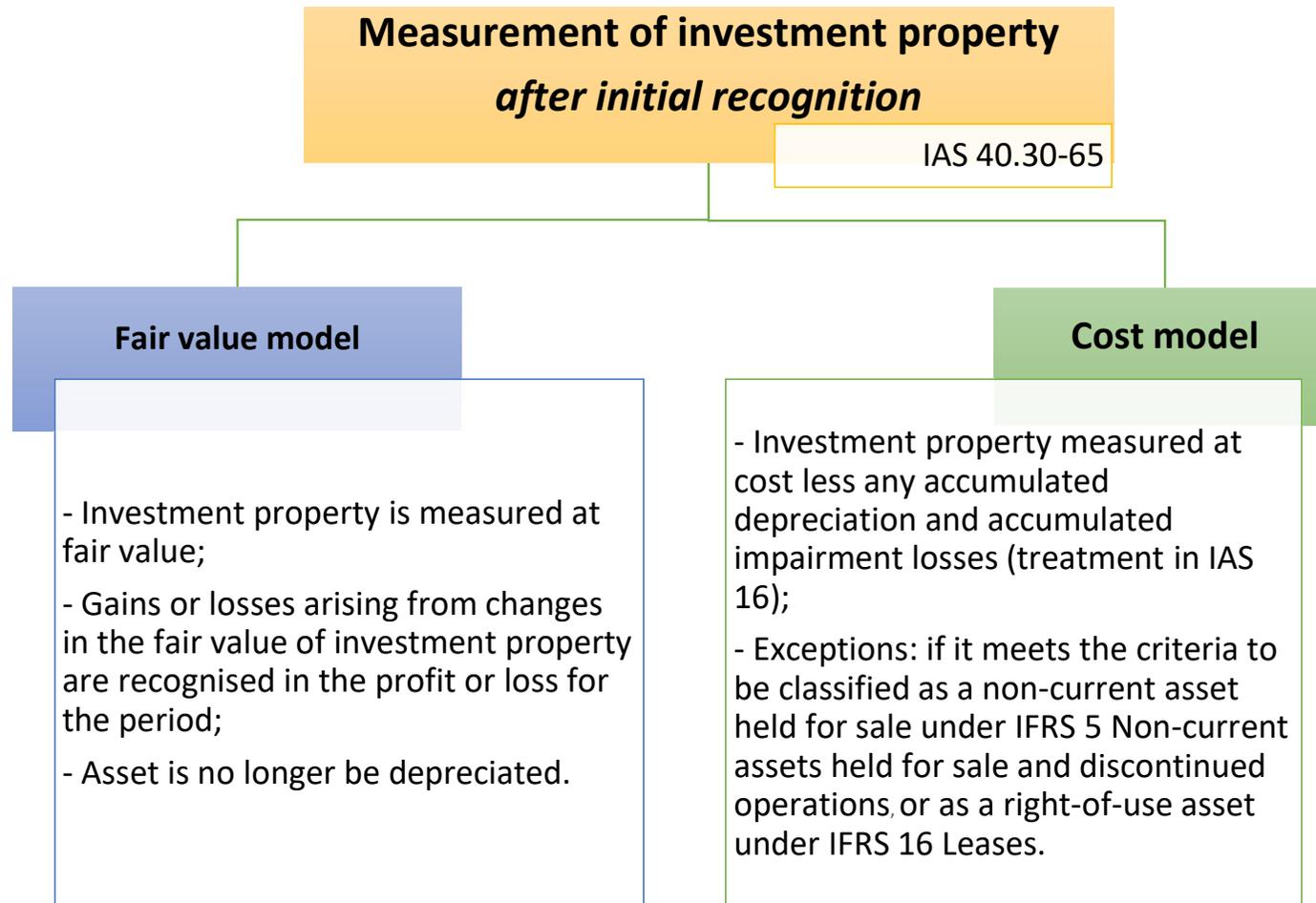
□

□

FUNDAMENTAL ISSUES - MEASUREMENT



FUNDAMENTAL ISSUES - MEASUREMENT



FUNDAMENTAL ISSUES - MEASUREMENT

Measurement of investment property after recognition – example:

- Investment property purchased for CU100,000 on 01.02.2020
- Fair value of the asset on 31.12.2020 is CU150,000
- Fair value of the asset on 31.12.2021 is CU80,000
- The entity carries its investment properties at fair value in accordance with IAS 40

How will these changes in the fair value of the asset be presented in the entity's financial statements, by using the fair value model in IAS Standard 40?

FUNDAMENTAL ISSUES - MEASUREMENT

Measurement of investment property after recognition – example - solution:

31.12.2020

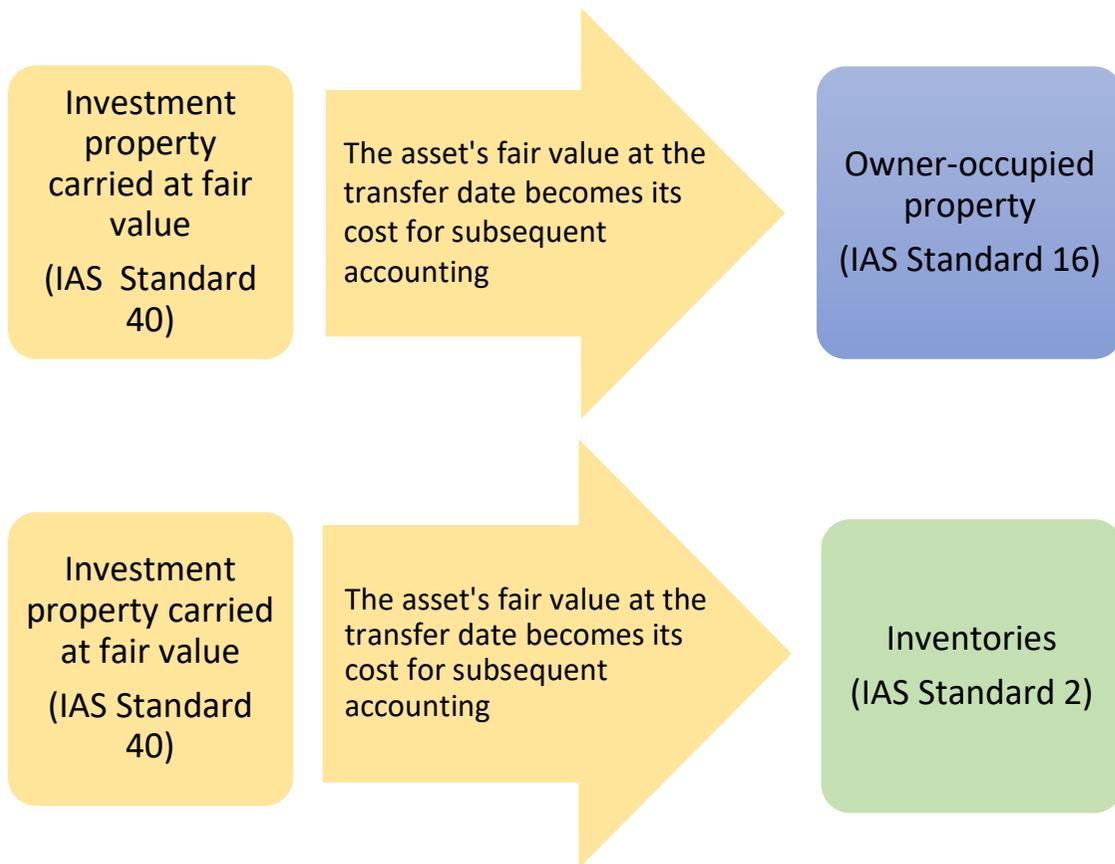
- Carrying amount of investment property = Cost of CU100,000 < fair value of CU150,000
- *a gain* of CU50,000 from fair-valuing investment property will be recognised in profit or loss for 2020

31.12.2021

- Carrying amount = fair value end of 2020 of CU150,000 > fair value 2021 of CU80,000
- *a loss* of CU70,000 from fair-valuing investment property will be recognised in profit or loss for 2021

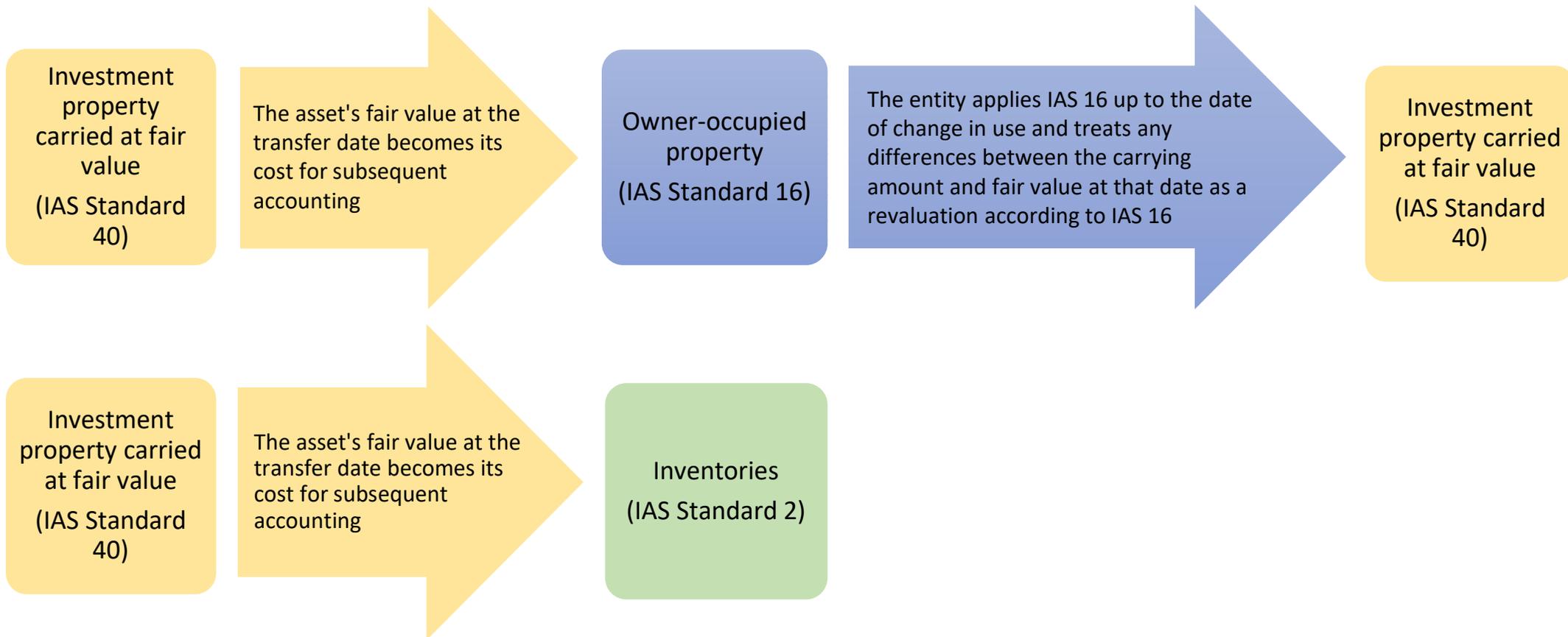
FUNDAMENTAL ISSUES - TRANSFERS

Transfers to or from the investment property category



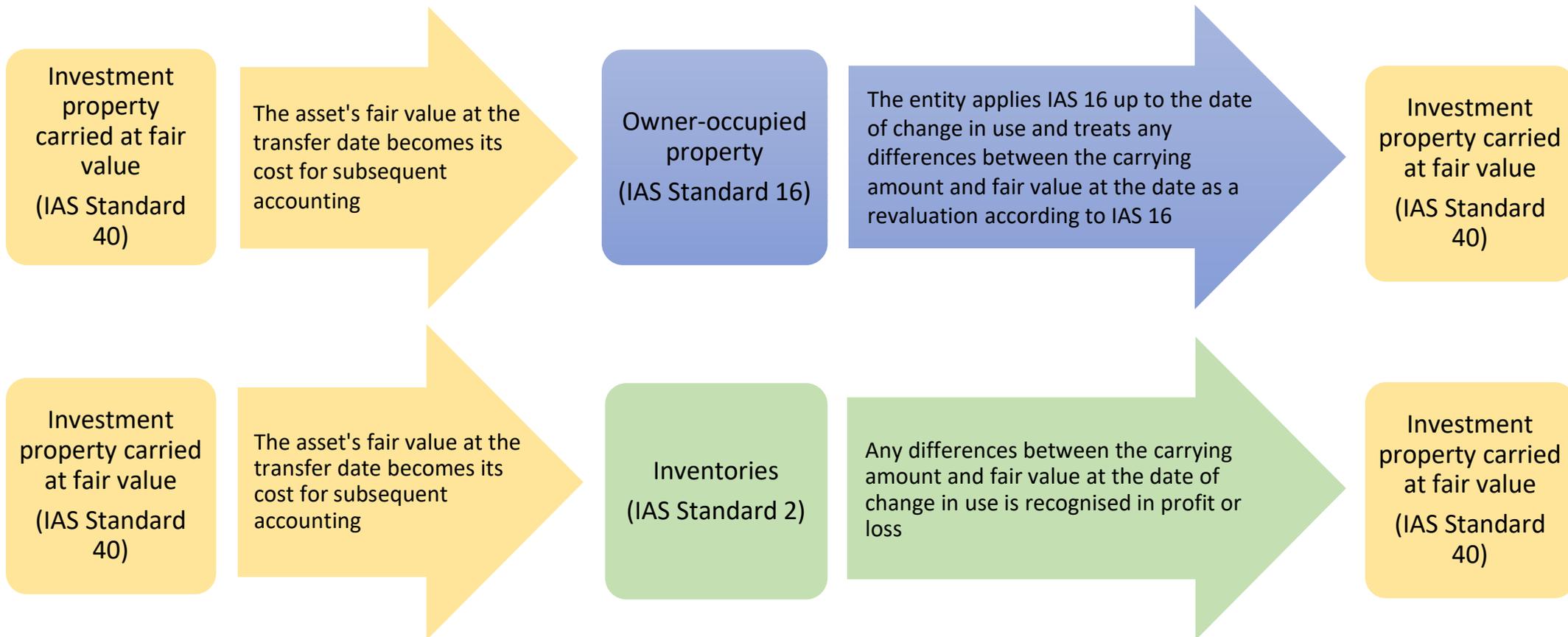
FUNDAMENTAL ISSUES - TRANSFERS

Transfers to or from the investment property category



FUNDAMENTAL ISSUES - TRANSFERS

Transfers to or from the investment property category



FUNDAMENTAL ISSUES - TRANSFERS

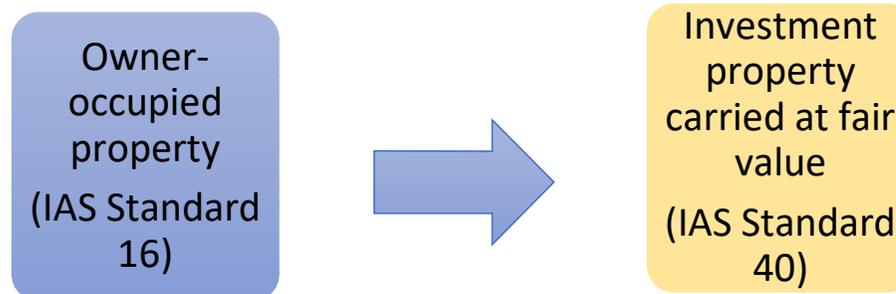
Transfers to or from the investment property category – example:

- Cleaning Services Ltd. owns as at 31.12.2019 a building which is used for the entity's *administrative purposes*;
- Cost of building is CU175,000;
- Accumulated depreciation up to date is CU25,000;
- On the same date, the entity's management decides to *rent the building*;
- Fair value of the asset on 31.12.2019 is CU180,000;
- Fair value of the asset on 31.12.2021 is CU160,000.

How will these changes be reflected in the entity's financial statements?

FUNDAMENTAL ISSUES - TRANSFERS

Transfers to or from the investment property category – example - solution:

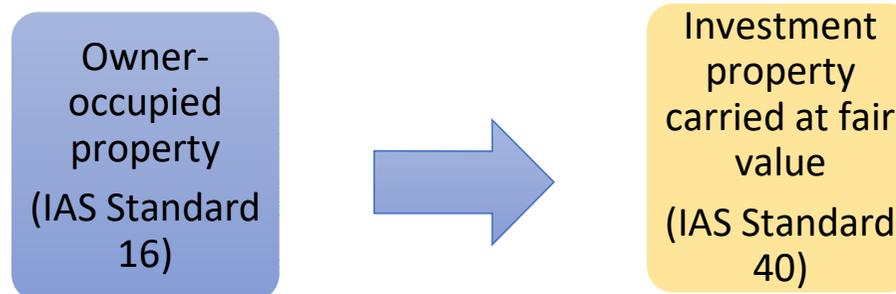


31.12.2019

- Carrying amount of the building = Cost – Accumulated depreciation =
= CU175,000 – CU25,000 = CU150,000 < fair value of CU180,000
→ Difference is treated as a revaluation and a *revaluation surplus* of CU30,000 is recognised
(= CU180,000 – CU150,000)

FUNDAMENTAL ISSUES - TRANSFERS

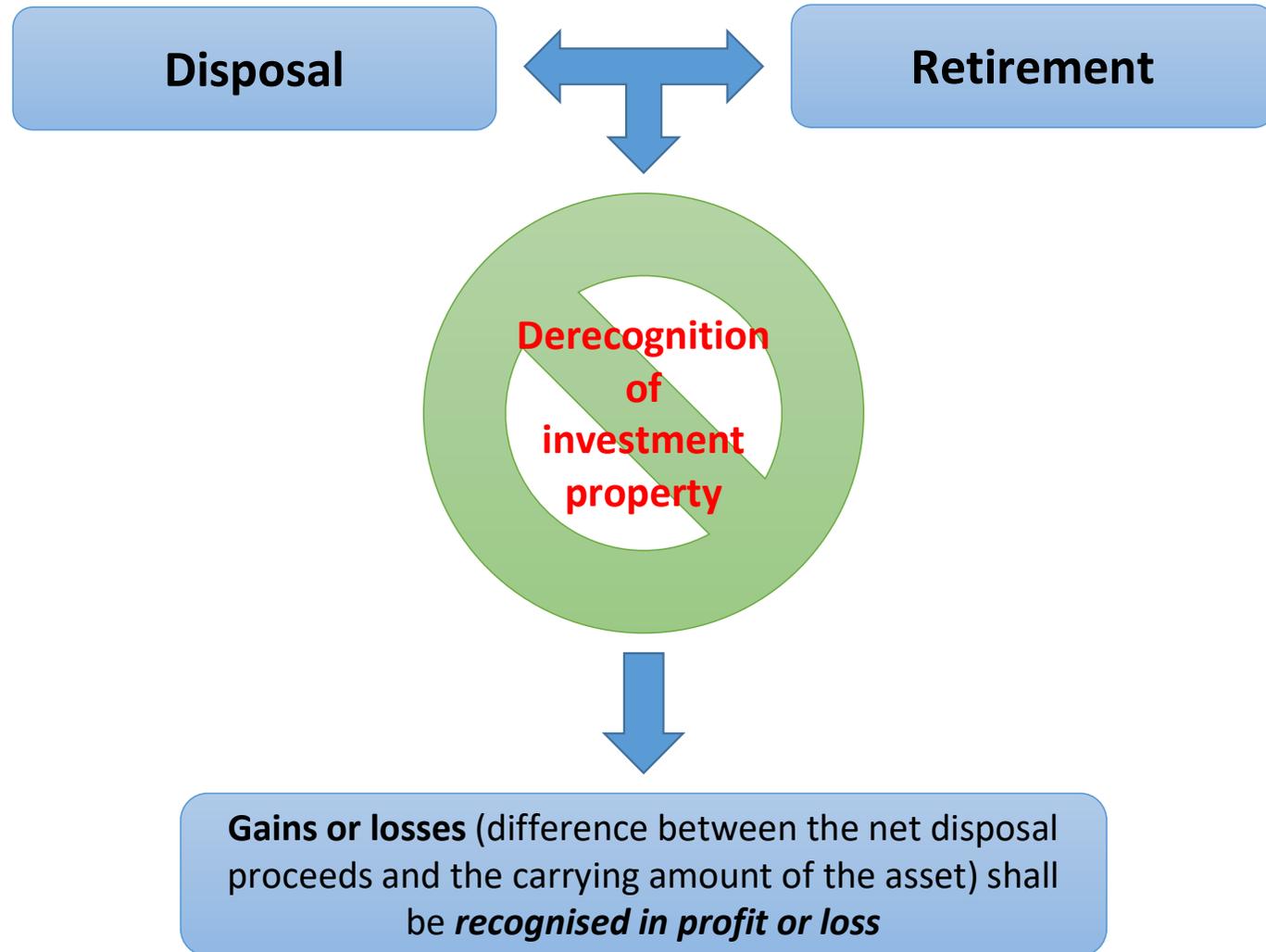
Transfers to or from the investment property category – example - solution:



31.12.2021

- Carrying amount of investment property = fair value 2019 of CU180,000
 - Fair value 2021 of CU160,000 < carrying amount of CU180,000
- Cleaning Services will recognise *a loss* of CU20,000 (= CU180,000 – CU160,000)

FUNDAMENTAL ISSUES - DERECOGNITION



FUNDAMENTAL ISSUES - DERECOGNITION

Example:

- An entity owns on 31.12.2021 a garage for rental purposes;
- The asset is classified as investment property in accordance with IAS Standard 40;
- The fair value model is applied;
- Fair value of investment property on 31.12.2021 is of CU20,000;
- On 25.01.2022, the entity decides to withdraw the property from use, as the agreement with the lessee terminated on the date and the garage can no longer be used.

How will the entity record the investment property's derecognition?

FUNDAMENTAL ISSUES - DERECOGNITION

Example - solution:

The entity will record the disposal of the garage on 25.01.2022, as the agreement with the lessee terminated on the date and the garage can no longer be used.

Journal entry:

Dr. Expenses with the disposal of investment property	20,000
Cr. Investment property	
	20,000

DISCLOSURE

Both fair value and cost models (IAS Standard 40.74-75)

- whether the fair value model or the cost model is applied;
- the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the normal course of business;
- if the fair value is based on a valuation by an independent certified valuer;
- the amounts recognised in profit or loss for rental income, direct operating expenses and the cumulative change in fair value recognised in profit or loss.

Fair value model (IAS Standard 40.76-78)

Cost model (IAS Standard 40.79)

DISCLOSURE

Both fair value and cost models (IAS Standard 40.74-75)

- whether the fair value model or the cost model is applied;
- the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the normal course of business;
- if the fair value is based on a valuation by an independent certified valuer;
- the amounts recognised in profit or loss for rental income, direct operating expenses and the cumulative change in fair value recognised in profit or loss.

Fair value model (IAS Standard 40.76-78)

- In addition to the previous disclosures (IAS Standard 40.75),
- a reconciliation between the carrying amounts of investment property at the beginning and end of the period.

Cost model (IAS Standard 40.79)

DISCLOSURE

Both fair value and cost models (IAS Standard 40.74-75)

- whether the fair value model or the cost model is applied;
- the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the normal course of business;
- if the fair value is based on a valuation by an independent certified valuer;
- the amounts recognised in profit or loss for rental income, direct operating expenses and the cumulative change in fair value recognised in profit or loss.

Fair value model (IAS Standard 40.76-78)

- In addition to the previous disclosures (IAS Standard 40.75),
- a reconciliation between the carrying amounts of investment property at the beginning and end of the period.

Cost model (IAS Standard 40.79)

- In addition to the previous disclosures (IAS Standard 40.75),
- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation and impairment losses at the beginning and end of the period;
- a reconciliation of the carrying amount of investment property at the beginning and end of the period;
- the fair value of investment property.



PASSFR.EU

A Digital Learning Platform for Generation Z:
Passport to IFRS®



Co-funded by the
Erasmus+ Programme
of the European Union