



IFRS Reporting on Investment Property

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IFRS Reporting on Investment Property- IAS 40

Definition of the term Investment Property?

As per IAS 40 -Investment property is 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:

(a) use in the production or supply of goods or services or for

administrative purposes; or

(b) sale in the ordinary course of business.

How to differentiate Investment Property, plant and equipment and Inventories?

	IAS 40- INVESTMENT PROPERTY	IAS 16- PPE	IAS 2- Inventories
Use	Investment property is held for the purpose for earning rental income, capital appreciation or both.	PPE are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and	Inventories are held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Cash Flow	An investment property generates cash flows largely independently of the other assets held by an entity.	The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process.	The inventory generates cash flow basically from purchase and sales.

Which all are investment property?

Land held for long-term capital appreciation as opposed to short-term purposes like land held for sale in the ordinary course of business;

- Land held for a currently undetermined future use;
- A building owned by the reporting entity (or held by the reporting entity under a finance lease) and leased out under one or more operating leases;
- A vacant building held by an entity to be leased out under one or more operating leases;
- Property under construction or being developed for future use as investment property.

Which all are not investment property?

- Property employed in the business (i.e., held for use in production or supply of goods or services or for administrative purposes, the accounting for which is governed by IAS 16)
- Property held for sale in the ordinary course of business or in the process of construction or development for such sale, the accounting for which is specified by IAS 2;
- Property that is leased to another entity under a finance lease.
- Biological Assets- IAS 41.
- Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources. – IFRS 6.

RECOGNITION

Investment property is recognised as an asset when, and only when, it becomes probable that the entity will enjoy the future economic benefits which are attributable to it, and when the costs of the investment property can be reliably measured.

Initial measurement – Initial measurement of Investment Property will be at its cost. Cost that are directly attributable such as Purchase cost, legal fees etc., if there is any borrowing included for the purchase then IAS 23- Borrowing cost will apply whereby an entity can capitalize actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.

Costs that cannot be capitalized:

- 1) start-up costs (unless they are essential in bringing the property to its working condition),
- 2) initial operating losses (incurred prior to the investment property achieving planned level of occupancy)
- 3) If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

SUBSEQUENT RECOGNITION

An entity can either use Cost Model or Fair Value Model.

Cost Model

After initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16, Property, Plant and Equipment—cost less accumulated depreciation and less accumulated impairment losses.

Fair Value Model

After initial recognition, an entity that chooses the fair value model shall measure all its investment property at fair value, i.e., market price. When measuring the fair value of investment property in accordance with IFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises. Unlike in Property, plant and equipment where by gain on revaluation is measure in Statement of Other comprehensive income.

If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the cost model in IAS 16 for owned investment property or in accordance with IFRS 16 for investment property held by a lessee as a right-of-use asset.

If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

Transfers

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

From Property, plant and Equipment to Investment Property (IAS 16-IAS 40)

If property first classified as owner-occupied property and treated as property, plant and equipment under the benchmark treatment of IAS 16 is later redeployed as investment property, it is to be measured at fair value at the date of the change in its usage. If the value is lower than the carrying amount (i.e., if there is a previously unrecognized decline in its fair value) then this will be reflected in profit or loss in the period of redeployment, as a loss in investment property. On the other hand, if there has been an unrecognized increase in value, the accounting will depend on whether this is a reversal of a previously recognised impairment.

If the increase is a reversal of a decline in value, the increase should be recognised in profit or loss; the amount so reported, however, should not exceed the amount needed to restore the carrying amount to what it would have been, net of depreciation, had the earlier impairment not occurred. If, on the other hand, there was no previously recognised impairment which the current value increase is effectively reversing (or, to the extent that the current increase exceeds the earlier decline), then the increase should be recognised in other comprehensive income. If the investment property is later disposed of, any surplus in equity should be transferred to retained earnings without being recognised through profit or loss.

Transfer from Investment Property to Property, plant and Equipment

In some instances, property that at first is appropriately classified as investment property under IAS 40 may later become property, plant and equipment as defined under IAS 16. For example, a building is obtained and leased to unrelated parties, but at a later date the entity expands its own operations to the extent that it now chooses to utilize the building formerly held as a passive investment for its own purposes, such as for the corporate executive offices. The amount reflected in the accounting records as the fair value of the property as of the date of change in status would become the cost basis for subsequent accounting purposes. Previously recognised changes in value, if any, would not be reversed.

Transfers from Inventories to Investment Property

When reclassified, the initial carrying amount should be fair value as of that date. Any difference between the fair value and the carrying amount of the property at the date of transfer would be reported in profit or loss. This is consistent with the treatment of sales of inventories.

Example: Can a property under construction classified as inventory be reclassified as an investment property if the disposal plans no longer exist? No, a property under construction that has to date been classified as inventory is not to be reclassified solely on the basis of its intended use being changed. This requires for example an operating lease agreement to be commenced.

Transfers from investment property to inventories

Transfer can be done only when there is a change of use. For investment property recognized in Fair value model, the property's deemed cost for subsequent accounting in accordance with IAS 2 Inventories is its fair value at the date of change in use.

When the entity determines that property held as investment property is to be sold, that property should be classified as a non-current asset held for sale in accordance with IFRS 5. It should not be derecognised (eliminated from the statement of financial position) or transferred to inventories.

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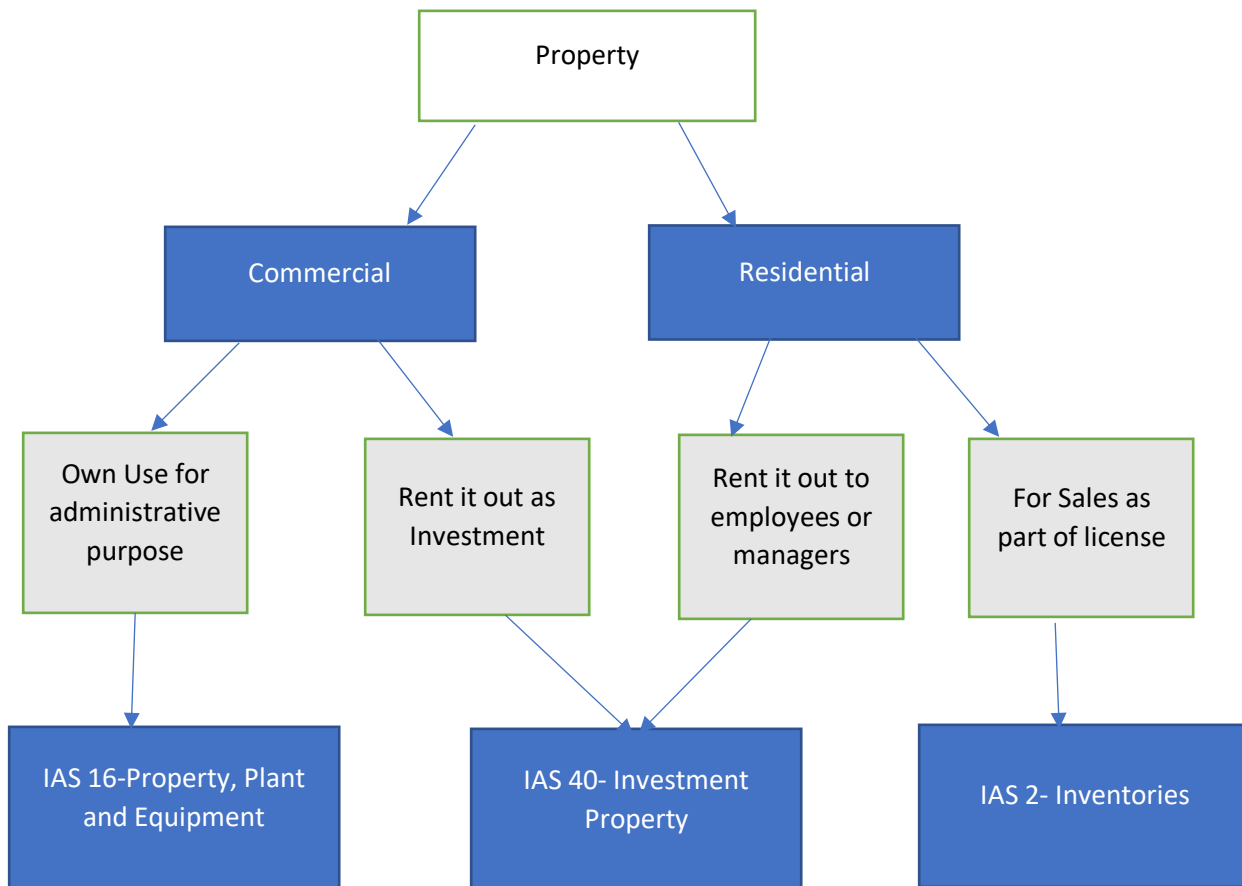
Example: Can a property that has previously been classified as an investment property be reclassified as inventory if it is renovated to create sale ability?

Yes, if the renovation is a development that significantly increases the value of the property. This may be the case when a significantly higher rental standard is achieved through renovation or when the lettable area is significantly increased. However, if the renovation only serves to maintain the property at its current level, then in accordance with IAS 40.57(b), there is no development with the aim of sale.

DERECOGNITION OF INVESTMENT PROPERTY

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its 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 and shall be recognised in profit or lost in the period of the retirement or disposal.



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