

# IAS 40 INVESTMENTS

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Effective date periods beginning on or after 1<sup>ST</sup> January 2005

## Definition

### Investment Property

Investment property is the property {Land building or a part of it or both (immovable or tangible assets.)}

And is held either to-

- Earn Rentals.
- For capital appreciation or
- Both.

#### Includes

1. Land held for long-term capital appreciation.
2. Land held for currently undetermined future use.
3. Building leased out under an operating lease.
4. Vacant building leased out under operating lease.
5. Building constructed or developed for future use as an investment property.]

#### Excludes

1. Production or supply of goods or services
2. Administrative purposes
3. Not held for sale in ordinary course of business.
4. Property being constructed or developed on behalf of third parties.
5. Property held to another entity under finance lease.

## Some Classification Issues

### PROPERTY HELD UNDER AN OPERATING LEASE-

A property held by a lessee under an operating lease can be classified for as an investment property when following conditions are met:

- The definition of investment property is met.
- The operating lease is treated as if it were a finance lease in respect with IAS 17.
- The lessee uses fair value modal for recognition of assets.

### PARTIAL OWN USE-

- If the owner uses property for its own use/earn rentals / for capital appreciation, and the portions can be sold or leased out separately. The rented out part is investment property.
- However if the owner occupies portion is insignificant and the portion cannot be sold or leased out separately then the property is investment property.

### INTRACOMPANY RENTALS-

- Property is not an investment property if it is rented to parent or subsidiary or fellow subsidiary.
- However such property could be investment property in the books of lessor if the conditions are met.

### ANCILLARY SERVICES-

- If the ancillary services provided by the entity are relatively insignificant. The property can be treated as investment property.
- The property is classified as owner-occupied if the property is significant.

## RECOGNITION

Investment property should be recognized as an asset

- When it is probable that the future economic benefits that are associated with the property will flow to the entity.
- Cost of property can be reliably measured.

## INITIAL MEASUREMENT

Investment property is initially measured at cost, including transaction cost. Such cost should not include-

- Start-up cost.
- Abnormal waste, or
- Initial operating losses.

## SUBSEQUENT MEASUREMENT

Subsequent Measurement can be done by either of the following two-

- Fair Model.
- Cost Model.

### Fair Model-

- Investment property is measured at the price that would be received to sell an asset or paid to transfer a liability in a transaction.
- Gains or losses arising from change in fair value of investment property must be included in the net profit or loss for the period in which it arises.

### Cost Model-

- Investment property is accounted for in accordance with the cost model as set out in IAS 16.

## DERECOGNITION

An investment property should be derecognized when-

- The asset is permanently withdrawn from use.
- No future economic benefits are expected from its disposal.

The gain or loss on disposal should be calculated as the difference between the net disposal and the carrying amount of the asset and should be recognized as income or expense in the income statement.

Compensation from third parties is recognised when it becomes receivable.

## REBUTTATION PRESUMPTION ON A CONTINUING BASIS

- When the property is under construction and the fair value cannot be reliably measured it would be measured at cost until its fair value is reliably or the construction is completed.
- When the fair value of the investment property (other than an investment property under construction) is not reliably measured than the fair value should be measured with compliance of IAS 16V

## DISCLOSURES

The following disclosures are to be made-

- If the fair value or cost model is used.
- If fair value is used then property held under operating lease is accounted as investment property.
- If the classification is reliably done the distinguish criteria between investment property from owner occupied and property held for sale.
- If the extent to which the valuation of fair value of investment property is valued by a qualified independent valuer if not then such a fact must be disclosed.

Amount recognized in profit and loss for:

- Rental income from property.
- Direct operating expenses arising from investment.
- Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
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## ADDITIONAL DISCLOSURES FOR FAIR VALUE

- Reconciliation between the carrying amount of the investment property at the beginning and end of the period.
- If an entity using fair value model uses cost model for the measurement of investment property.

## ADDITIONAL DISCLOSURES FOR COST MODAL

- Depreciation method, rates and useful life of assets.
- Gross carrying amount and accumulated depreciation.
- Fair value of the investment property if fair value is not reliably measured then additional disclosures stating the possibility where fair value estimates within which the fair value is likely to lie.

## ILLUSTRATIVE DISCLOSURE

Entity A started construction of investment property ABC IN 2017 and investment property EFG IN 2018. ABC was completed in the first quarter of 2019 and EFG was completed in 2020.

The cost of construction as of 31<sup>st</sup> December 2018 amounts to 10 million for ABC and 5 million for EFG

During 2018 A incurred additional 1 million costs for the completion of ABC during the first quarter and 3 million for EFG.

As part of 2018 end procedures A performed a valuation of the property under construction. This revealed the fair value of the property at 31December 2018 amounts to 14 million for ABC and 8 Million for EFG.

At December 2019 the fair value of ABC is 18 Million and EFG is 10 Million.

Entity A measures its investment properties at fair value and does not early adopt IAS 40.

How does ABC account for the investment property?

ABC accounts for the investment properties in its financial statements at 31<sup>st</sup> December 2018 at cost in accordance with IAS 16. In 2019, the investment properties are fair valued.

The fair value gain of 7 million (fair value of 18 million less cost of 10 million and additional 1 million ) on ABC relates to gain in the period since commencement of construction. It is recognized as profit/loss for 2019.

The fair value gain of 2 million(fair value of 10 million less cost of 5 million and 3 million) on EFG relates to the gain in the period since commencement of construction. It is recognized in profit or loss for 2019.

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