

The background of the slide is a composite image. The left half is a solid dark blue. The right half features a view of Earth from space, showing the horizon and a bright, hazy atmosphere. Several stars are visible in the upper right corner.

CHAPTER SIX

Investment Property: IAS 40

Investment Property

- Related standards
- IAS 40
- Current GAAP comparisons
- IFRS financial statement examples
- Looking ahead
- End-of-chapter practice

Related Standards



- FAS 153 Exchanges of nonmonetary assets
- APB 29 Accounting for nonmonetary transactions
- FAS 144 Accounting for the impairment on disposal of long-lived assets

Related Standards



- IAS 2 Inventories
- IAS 16 Property, plant and equipment
- IAS 17 Leases
- IAS 23 Borrowing costs
- IAS 36 Impairment of assets
- IFRS 5 Non-current assets held for sale and discontinued operations

IAS 40 - Overview

- Objective and scope
- Recognition
- Measurement at recognition
- Measurement after recognition
- Transfers
- Derecognition
- Disclosures

IAS 40 – Objective and Scope

- IAS 40 identifies what an investment property is, how it differs from property, plant and equipment (owner-occupied property); and what recognition, measurement and disclosure standards apply to investment properties

IAS 40 – Objective and Scope

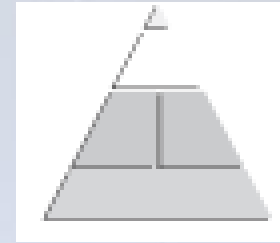


Investment property is defined as:

property held to earn rentals or for capital appreciation or both, rather than for

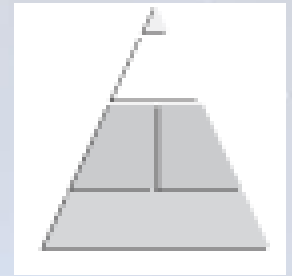
- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business

IAS 40 - Recognition



- Investment property is recognized as an asset when:
 - it is probable that its future economic benefits will flow to the entity, and
 - its cost can be measured reliably

IAS 40 – Measurement at Recognition



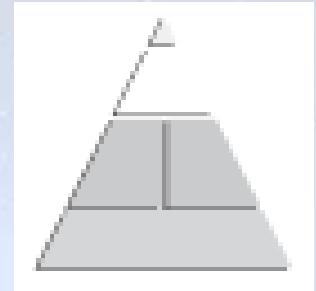
- Investment property is recognized initially at cost – applying the cost model of IAS 16 *Property, Plant and Equipment* – including what is capitalized in cost and the principles for non-monetary transactions
- Leased investment property is measured according to IAS 17 *Leases*

IAS 40 – Measurement after Recognition ✨

- After initial recognition, an entity has a choice of methods to account for investment property:
 - Fair value model (FVM), or
 - Cost model (CM)
- Must apply one model to all of its investment property

IAS 40 – Measurement after Recognition

Fair value model (FVM):



- Assets are measured at fair value
- Changes in fair value are recognized in profit or loss in period of change
- No depreciation is recorded
- Fair values continue to be used even if difficult to measure reliably

IAS 40 – Measurement after Recognition



Fair value:

- Price at which property could be exchanged between knowledgeable, willing parties in an arm's length transaction, without any special concessions or deductions for transaction costs
- Best evidence is current prices in an active market for similar property in the same location and condition
- If not available, other methods can be used to determine

IAS 40 – Measurement after Recognition ✨

FVM example:

Investment property is acquired August 11, 2008, at a cost of \$200.

Fair values:

December 31, 2008 - \$190

December 31, 2009 - \$198

December 31, 2010 - \$205

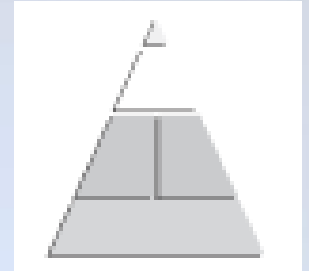


IAS 40 – Measurement after Recognition

FVM example:

Dec.31/08	Loss in value	\$10	
	Investment property		\$10
Dec.31/09	Investment property	\$ 8	
	Gain in value		\$ 8
Dec.31/10	Investment property	\$ 7	
	Gain in value		\$ 7

IAS 40 – Measurement after Recognition



Cost model (CM)

- Applies cost model described in IAS 16
- Assets reported at cost less accumulated depreciation and accumulated impairment losses
- Depreciation expense recognized each period

IAS 40 – Measurement after Recognition



Do companies use the FVM or the CM?

- KPMG: *The Application of IFRS: Choices in Practice – International Financial Reporting Standards*, December 2006

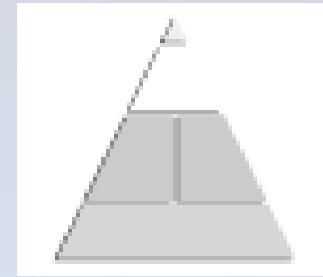
http://www.kpmg.co.uk/pubs/304574_ifrg.pdf

See pages 18 and 19 of 44

IAS 40 - Transfers

Change in Use	Situation	Accounting
From investment property (FVM) to owner-occupied property or to inventory	Owner occupies the property or begins to develop it for sale	Deemed cost in IAS 16 or IAS 2 is FV at the date of change in use
From owner-occupied property in IAS 16 to investment property (FVM) in IAS 40	End of owner-occupation	Depreciate to the date of change; the difference between carrying amount and FV is accounted for according to the revaluation model in IAS 16
From inventory in IAS 2 to investment property (FVM) in IAS 40	Owner enters into an operating lease with a third party	Difference between IAS 2 carrying amount and IAS 40 FV is recognized in profit or loss
In progress investment property (CM) in IAS 40 to investment property (FVM) in IAS 40	Owners finish construction or development	Difference between carrying amount and FV is recognized in profit or loss

IAS 40 - Derecognition



Derecognize investment property

- On disposal – when sold or transferred under a finance lease, or
- On retirement – when permanently removed from use and no benefits are expected from its disposal

Gains and losses on disposal generally recognized in profit or loss

IAS 40 - Disclosures

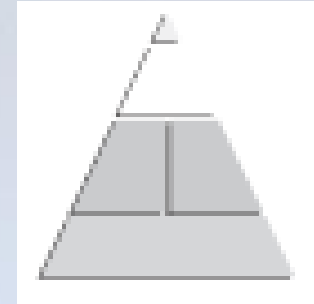
General disclosures:

- whether the FVM or the CM is applied
- if FVM, whether and when any operating leases are classified as investment property
- criteria used to distinguish between owner-occupied investment property and property held for sale where judgment is needed
- methods and assumptions underlying fair value measurements, including extent to which market-related evidence is used
- extent to which the fair values were determined by an experienced, professional, and independent appraiser
- existence of restrictions and contractual obligations related to the properties
- amounts and specific types of income and expense recognized in profit or loss

IAS 40 - Disclosures

Fair Value Model	Cost Model
A reconciliation between the carrying amounts at the beginning of the period and the end of the period, separately indicating the following:	
(a) additions from acquisitions and from subsequent expenditures and from business acquisitions	(a) additions from acquisitions and from subsequent expenditures and from business acquisitions
(b) assets classified as held for sale (see IFRS 5) and other disposals	(b) assets classified as held for sale (see IFRS 5) and other disposals
(c) foreign exchange effects on translation	(c) foreign exchange effects on translation
(d) transfers to and from inventories and owner-occupied property	(d) transfers to and from inventories and owner-occupied property
(e) net gains/losses from FV adjustments	(e) depreciation, and information about impairment losses
(f) other changes	(f) other changes
A reconciliation between the valuation received and the adjusted valuation used on the financial statements, with details	The depreciation methods used, and the useful lives or depreciation rates used
If property is measured using the cost model because of an inability to reliably measure FV, additional descriptions and explanations	The gross carrying amount and the accumulated depreciation at the beginning and end of the period
	The fair value of investment property, or if unable to determine reliably, additional descriptions and explanations

End-of-Chapter Practice

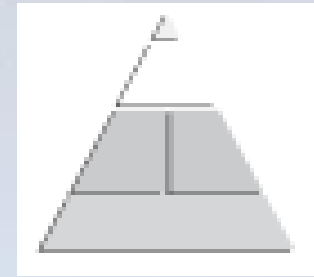


11-1 IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property* both provide a choice between using cost-based or fair value accounting.

Instructions

Prepare a comparison of the fair value model of IAS 40 and the revaluation model of IAS 16.

End-of-Chapter Practice



11-2 Saan Corp. (SC) is engaged in a variety of business ventures, including the following:

1. SC leases out the bottom two floors of its 10-floor office building under an operating lease. Within five years, SC expects to have grown to such an extent that it will need that space and will no longer rent it out.
2. Although SC is not a manufacturer, the company owns two manufacturing plants in a growing industrial park. SC signed a contract last year with a local food processing company to rent one of the plants under a five-year operating lease. SC maintains the outside of the building, the landscaping, and the parking lot. The other plant is not rented yet, but SC is actively searching for a tenant.
3. SC owns eight exclusive resorts across the country that are managed by a well-known hotel management company. The management company directs all day-to-day operations including advertising, food, maid and ancillary services, and routine maintenance. SC is responsible for all capital investment decisions related to the resorts and their financing. The management company guarantees SC a minimum fixed return each year, as well as 15% of its operating profit.

Instructions

Indicate whether the ventures described in (1) to (3) above are investment properties, and provide an explanation for your answer.



End-of-Chapter Practice

11-3 Cicol Inc. (CI) purchased a rental property as an investment in early January 2008 for \$100. Legal costs to transfer title to the land and building were \$2. A review of municipal records indicates that the property was appraised at \$75–\$50 for the building and \$25 for the land. The building is expected to have a useful life of 25 years and a residual value of \$10, although the land value is expected to double every 10 years. In valuing the property, CI determines that the roof's fair value in its present condition is \$8 and it will have to be replaced in another 8 years.

The rental property is appraised at the end of each December 31 fiscal period and the fair values of the property as a whole are determined to be \$104, \$110, and \$111 respectively at December 31, 2008, 2009, and 2010.

Instructions

- (a) Assume CI applies the cost model in accounting for its investment property. Prepare all journal entries necessary to account for the acquisition of the property in 2008 and any adjusting entries required at December 31, 2008, 2009, and 2010.
- (b) Continuing with the assumption in part (a), prepare the entry required in January 2015 when the roof is replaced at a cost of \$13.
- (c) Assume CI applies the fair value model in accounting for its investment property. Prepare all journal entries necessary to account for the acquisition of the property in 2008 and any adjusting entries required at December 31, 2008, 2009, and 2010.
- (d) Continuing with the assumption in part (c), what entry would be required in January 2015 when the roof is replaced at a cost of \$13? Comment on any choices that are available.
- (e) Compare the amounts reported on CI's statement of financial position at December 31, 2008, 2009, and 2010 and the amounts and type of income and expenses reported on the income statements for each year under parts (a) and (c).

End-of-Chapter Practice

11-4 In this chapter, flag icons identify areas where there are GAAP differences between IFRS requirements and national standards.

Instructions

Access the websites(s) identified on the inside back cover of this book, and prepare a concise summary of the differences that are flagged throughout the chapter material.