IAS 40 INVESTMENT PROPERTY

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 40 is applicable for annual reporting periods commencing on or after 1 January 2005.

SCOPE

IAS 40 shall be applied in the recognition, measurement and disclosure of investment property, except:

- biological assets related to agricultural activity (see IAS 41 *Agriculture*)
- mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources

While IAS 40 applies to the measurement in a lessee's financial statements of investment property interests under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease, it does not deal with other matters covered in IAS 17 *Leases*.

Investment property includes

- 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 (if an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation).
- Building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
- Building that is vacant but is held to be leased out under one or more operating leases.
- Property that is being constructed or developed for future use as investment property.

RECOGNITION

Investment property is recognised as an asset when, and only when:

a. it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
b. the cost of the investment property can be measured reliably.

Measurement at initial recognition

An investment property is initially measured at cost, including transaction costs.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease in IAS 17. The asset shall be recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with IAS 17 as well.

Subsequent measurement

After initial recognition, investment property shall be measured using either:

- The fair value model, with changes in fair value recognised in profit or loss in the period that they arise.
- The cost model, measured by depreciated cost less any accumulated impairment losses in accordance with IAS 16 *Property, plant and equipment*, other than those that meet the criteria to be classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations.*

IAS 40 requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

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.

If the fair value model is chosen, there is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis.

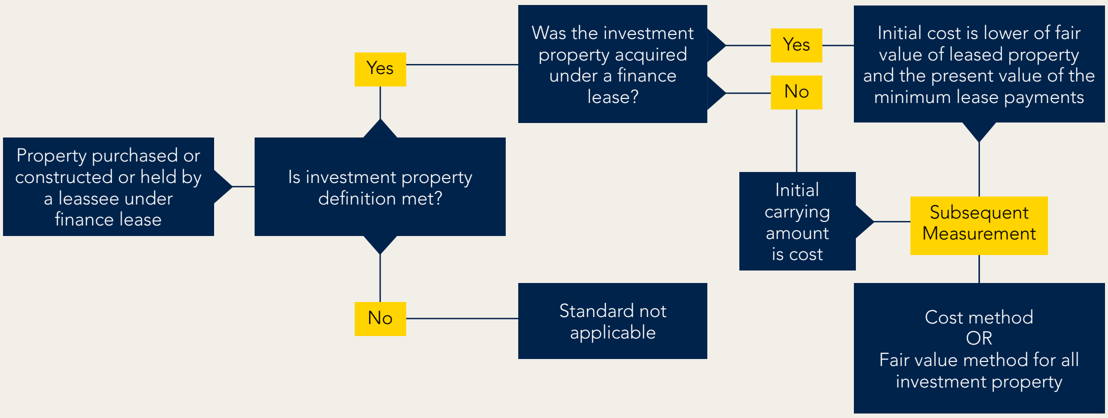
Derecognition

An investment property shall be derecognised (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.

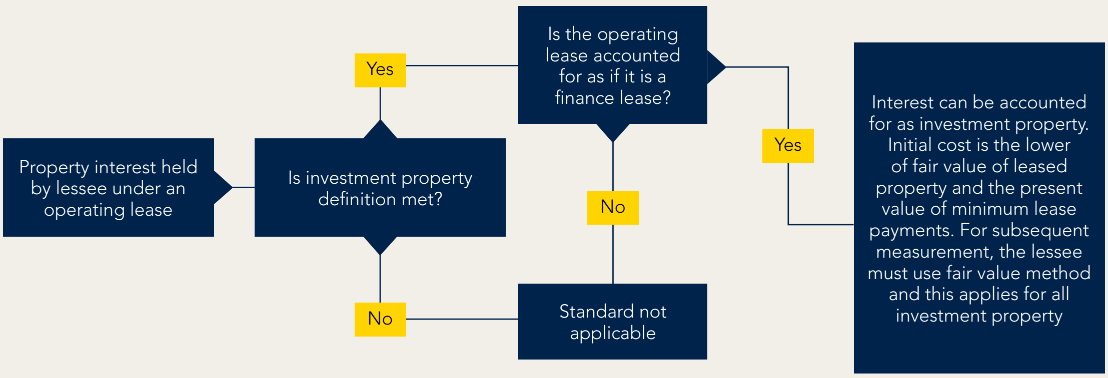
An investment property may be disposed through sale or by entering into a finance lease. The consequent gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit and loss, subject to any provisions in IAS 17 *Leases* relating to sale and leaseback arrangements in the period of the retirement or disposal.

Summary

Investment property acquired by purchase or property interest held under a finance lease



Investment property interest acquired under an operating lease



Transfers

Transfers to, or from, investment property shall be made when there is a change in use.
The consequential accounting treatment depends on the new categorisation; refer paragraphs 57 to 65 of IAS 40.

DISCLOSURES

Refer Appendix 1 for a checklist to assist with IAS 40 disclosure requirements.

DEFINITIONS

Carrying amount	The amount at which an asset is recognised in the statement of financial position.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to the asset when initially recognised in accordance with the specific requirements of other standards.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Investment property	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, rather than for: • use in the production or supply of goods or services or for administrative purposes • sale in the ordinary course of business.
Owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 140 I*nvestment Property*.

Definition

In respect of not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116, for example:

a. property held for strategic purposes; and

b. property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

Measurement at initial recognition

Not-for-profit entities that acquire an investment property at no cost or for nominal cost shall deem its cost to be its fair value at the date of acquisition.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a ‘reporting entity’ as defined in SAC 1 *Definition of the Reporting Entity* that does not have ‘public accountability’ as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 40.75	Has the entity disclosed the following: a. Whether it applies the fair value model or the cost model; b. 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; c. When classification is difficult, the criteria the entity uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business; d. The extent to which the fair value of investment property (as measured or disclosed in the financial statement) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no valuation by an independent valuer, that fact; e. The amounts included in the profit or loss for: • rental income from investment property; • direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; • direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; and • the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph IAS 40.32C); f. The existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and g. Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 40.76	If the entity applies the fair value model, has it disclosed a reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following: a. Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset; b. Additions resulting from acquisitions through business combinations; c. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals; d. Net gains or losses from fair value adjustments; e. The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; f. Transfers to and from inventories and owner-occupied property; and g. Other changes?		
IAS 40.77	When a valuation obtained for an investment property is adjusted significantly for the purpose of the financial statements, has the entity disclosed a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately: a. The aggregate amount of any recognised lease obligations that have been added back; and b. Any other significant adjustments?		
IAS 40.78	In the exceptional cases when the entity's policy is to account for investment properties at fair value, but because of the lack of a reliable fair value, it measures investment property at cost less any accumulated depreciation and any accumulated impairment losses, has the entity disclosed: a. A reconciliation – relating to that investment property separately – of the carrying amount at the beginning and end of the period; b. A description of the investment property; c. An explanation of why fair value cannot be determined reliably; d. If possible, the range of estimates within which fair value is highly likely to lie; e. On disposal of investment property not carried at fair value: • the fact that the entity has disposed of investment property not carried at fair value • the carrying amount of that investment property at the time of sale; and • the amount of gain or loss recognised?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 40.79	If the entity applies the cost model, has it disclosed: a. The depreciation methods used; b. The useful lives or the depreciation rates used; c. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; d. A reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following: • additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset; • additions resulting from acquisitions through business combinations; • assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals; • depreciation; • the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36 Impairment of Assets; • the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity; • transfers to and from inventories and owner-occupied property; and • other changes. e. The fair value of investment property f. In the exceptional cases (see IAS 40.53 for guidance) when the entity cannot determine the fair value of the investment property reliably, has the entity disclosed: • a description of the investment property; • an explanation of why fair value cannot be determined reliably; and • if possible, the range of estimates within which fair value is highly likely to lie?		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 140 RDR76.1	An entity applying RDR is not required to disclose the reconciliation specified in paragraph 76 for prior periods.		

OTHER MATTERS

CPAH1814 07/16