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IFRS Foundation: Training Material for the *IFRS® for SMEs*

Module 16 – Investment Property

IFRS™

IFRS Foundation: Training Material for the *IFRS® for SMEs*

including the full text of
Section 16 *Investment Property*
of the International Financial Reporting Standard (IFRS)
for Small and Medium-sized Entities (SMEs)
issued by the International Accounting Standards Board on 9 July 2009

with extensive explanations, self-assessment questions and case studies

IFRS Foundation®
30 Cannon Street
London EC4M 6XH
United Kingdom

Telephone: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Email:info@ifrs.org

Publications Telephone: +44 (0)20 7332 2730
Publications Fax: +44 (0)20 7332 2749
Publications Email: publications@ifrs.org
Web: www.ifrs.org

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IFRS Foundation®
30 Cannon Street | London EC4M 6XH | United Kingdom
Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: ww.ifrs.org

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Telephone: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
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Contents

Module 16 – Investment Property

This training material has been prepared by IFRS Foundation education staff and has not been approved by the International Accounting Standards Board (IASB). The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

INTRODUCTION

This module focuses on the accounting and reporting of investment property in accordance with Section 16 *Investment Property* of the *IFRS for SMEs*. It introduces the learner to the subject, guides the learner through the official text, develops the learner's understanding of the requirements through the use of examples and indicates significant judgements that are required in accounting for investment property. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case studies to develop the learner's ability to account for and disclose investment property in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the financial reporting requirements for investment property in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, you should have enhanced your competence to account for investment property in accordance with the *IFRS for SMEs*. In particular you should, in the context of the *IFRS for SMEs*, be able:

- to distinguish investment property from other assets of an entity
- to identify when items of investment property qualify for recognition in financial statements
- to measure items of investment property on initial recognition and subsequently
- to present and disclose investment property in financial statements
- to identify when an item of investment property is to be derecognised or transferred to another classification of asset, and account for that derecognition or transfer
- to demonstrate an understanding of significant judgements that are required in accounting for investment property.

Module 16 – Investment Property

IFRS for SMEs

The *IFRS for SMEs* is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* includes mandatory requirements and other material (non-mandatory) that is published with it.

The material that is not mandatory includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* and explains its purpose, structure and authority.
- implementation guidance, which includes illustrative financial statements and a disclosure checklist.
- the Basis for Conclusions, which summarises the IASB's main considerations in reaching its conclusions in the *IFRS for SMEs*.
- the dissenting opinion of an IASB member who did not agree with the publication of the *IFRS for SMEs*.

In the *IFRS for SMEs* the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* there are appendices in Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* Those appendices are non-mandatory guidance.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. The objective of Section 16 is to prescribe the accounting treatment and disclosure requirements for investment property so that users of the financial statements can see information about an entity's investment property and the changes in such investment.

Information about the fair value of investment property, and about changes in its fair value, is highly relevant to users of general purpose financial statements (ie rental income and changes in fair value are inextricably linked as integral components of the financial performance of an investment property).

One of the main issues in accounting for investment property is estimating the fair value of investment property, especially in countries where the valuation profession is less well established. When the fair value of an investment property can be determined reliably without undue cost or effort on an ongoing basis, it is accounted for using the fair value model. Otherwise, investment property is accounted for using the cost-depreciation-impairment model.

Investment property is property 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 (see Section 17 *Property, Plant and Equipment*) or sale in the ordinary course of business (see Section 13 *Inventories*).

The section requires an entity to account for all items of investment property at its cost at initial recognition. An entity that purchases investment property measures its cost on the basis of the purchase price and any directly attributable expenditure, such as legal and brokerage fees, property transfer taxes and other transaction costs. The cost of self-constructed investment property is determined in accordance with the requirements of paragraphs 17.10–17.14.

Measurement after initial recognition is driven by circumstances rather than an accounting policy choice between the cost and fair value models. If an entity can measure the fair value of an item of investment property reliably without undue cost or effort on an ongoing basis, it must use the fair value model. Otherwise, the item of investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17.

When an entity determines the fair value of investment property it applies the guidance in paragraphs 11.27–11.32 that apply to the measurement of investments in ordinary shares or preference shares at fair value (see Section 11 *Basic Financial Instruments*). Changes in fair value are recognised in profit or loss at each reporting date.

When investment property is measured at cost (ie when its fair value cannot be determined reliably without undue cost or effort on an ongoing basis) the main issues are determining the initial cost of the asset, its expected useful life and depreciation period, and also assessing whether any impairment losses should be recognised on that asset. Such an item of investment property is depreciated over its expected useful life.

The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (ie the fair value today less costs to sell of an equivalent older asset) (see the definition of residual value in the Glossary). It follows that if an entity cannot determine the fair value of an investment property, then it also cannot determine the residual value of that property. In developing its accounting policy for determining the residual value of property in these circumstances, an entity may (but is not required to) consider the requirements in full IFRSs dealing with the same issue. In these circumstances full IFRSs require the residual value of the property to be assumed to be nil (see IAS 40 *Investment Property* paragraph 53 and the Basis for Conclusions on IAS 40 paragraph B67(a)(viii)).

The depreciation method and depreciation rate are reviewed annually. Furthermore, at each reporting date an entity shall assess whether there is any indication that any item of investment property that is accounted for as property, plant and equipment may be impaired (ie carrying amount exceeds the recoverable amount). If any such indication exists, that item of investment property is tested for impairment (ie the recoverable amount of the property is determined and an impairment loss, if any, is recognised). Recoverable amount is the higher of fair value less costs to sell and value in use. The undue cost or effort rule applied in the classification of an investment property does not exempt the entity from calculating the fair value of an investment property for which there are indications that it might be impaired. A higher ‘hurdle’ applies for impairment testing.

When an item of investment property is disposed of, the gain or loss on disposal is included in profit or loss. For investment property measured at fair value, the gain or loss on the fair value of the property is recognised in profit or loss in the reporting period in which the change in fair value happens.

Module 16 – Investment Property

REQUIREMENTS AND EXAMPLES

The contents of Section 16 *Investment Property* of the *IFRS for SMEs* are set out below and shaded grey. Terms defined in the Glossary of the *IFRS for SMEs* are also part of the requirements. They are in **bold type** the first time they appear in the text of Section 16. The notes and examples inserted by the IFRS Foundation education staff are not shaded. The insertions made by the staff do not form part of the *IFRS for SMEs* and have not been approved by the IASB.

Scope of this section

16.1 This section applies to accounting for investments in land or buildings that meet the definition of **investment property** in paragraph 16.2 and some property interests held by a lessee under an operating lease (see paragraph 16.3) that are treated like investment property. Only investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through profit or loss. All other investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.

Notes

Some incorrectly think that investment property appears only in the financial statements of property investment entities. However, many entities whose main business is not that of a property investment entity (eg some manufacturers and retailers) also hold property for rental to others and for capital appreciation.

An entity does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort on an ongoing basis, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model in Section 17 for investment property if it cannot reliably measure the fair value without undue cost or effort on an ongoing basis.

The management of an entity applies judgement in determining whether the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis. The *IFRS for SMEs* does not define 'ongoing basis'. In the context of paragraph 16.1 an 'ongoing basis' implies now and in the future (ie at present and for the foreseeable future). For example, a one-off non-binding offer does not in itself constitute an ongoing basis. Paragraphs 11.27−11.32 provide guidance on determining fair value.

If circumstances change and a reliable measure of fair value is no longer available for an item of investment property without undue cost or effort on an ongoing basis, the property is thereafter accounted for using the cost-depreciation-impairment model. The property's fair value on the date of transfer is deemed to be its cost (see paragraph 16.8).

If circumstances change and a reliable measure of fair value becomes available for an item of investment property that is accounted for using the cost-depreciation-impairment model, the property will thereafter be carried at its fair value. The gain recognised in profit or loss on remeasuring the property to its fair value on the date of transfer is separately disclosed (see paragraphs 3.2 and 16.10(e)).

Definition and initial recognition of investment property

16.2 Investment property is 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:

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

(b) sale in the ordinary course of business.

Notes

Property held for the purposes described in paragraph 16.2(b) are inventories (see Section 13 *Inventories*).

Provided that the owner-occupied property described in paragraph 16.2(a) is expected to be used during more than one period, it is property, plant and equipment (see Section 17 *Property, Plant and Equipment*).

Investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. 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. See paragraph 16.4 for the classification of mixed use property.

Judgement is sometimes needed to determine whether a property qualifies as investment property. For example, when an entity provides ancillary services to the occupants of a property it holds, it treats the property as investment property if the services are insignificant to the arrangement as a whole.

The *IFRS for SMEs* does not specify how to classify land that is held for an undetermined purpose. In developing its accounting policy for land acquired for an undetermined purpose an entity may (but is not required to) look to the requirements of full IFRSs (see paragraph 10.6 of *IFRS for SMEs*). IAS 40 *Investment Property* (as issued at 9 July 2009) specifies that land acquired for an undetermined purpose is classified as investment property (see IAS 40 paragraph 8(b)) because a subsequent decision to use such land as inventory or for development as owner-occupied property would be an investment decision (see the Basis for Conclusions on IAS 40 paragraph B67(b)(ii)).

Examples – investment property

Ex 1 **An entity owns a building that it rents out to independent third parties under operating leases in return for rental payments.**

The building is classified as an item of investment property by the entity (lessor). It is a property held to earn rentals.

Ex 2 **An entity owns a building that it rents out to independent third parties under operating leases in return for rental payments. The entity provides cleaning, security and maintenance services for the lessees of the building.**

If the services provided by the entity are insignificant to the arrangement as a whole, then the property is investment property. In most cases cleaning, security and maintenance services will be insignificant and hence the building would be classified as investment property.

When the services provided are significant the property should be classified as property, plant and equipment. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole.

Ex 3 **An entity owns a building that it rents out to an independent third party (the lessee) under an operating lease in return for fixed rental payments. The lessee operates a hotel from the building including a range of services commonly provided by boutique hotels. The entity does not provide any services to hotel guests and its rental income is unaffected by the number of guests that occupy the hotel (ie the entity is a passive investor).**

The building is an investment property of the entity. The entity is not engaged in the business of operating a hotel business (ie the entity is a passive investor).

Ex 4 **An entity (parent) owns a building that it rents out to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products.**

In the consolidated financial statements of the parent the building is not classified as an item of investment property. The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore the building is accounted for by the consolidated group as an item of property, plant and equipment (see paragraph 17.2).

In the separate financial statements of the parent (if prepared, see paragraph 9.24) the building is classified as investment property. It is a property held to earn rentals.

In the individual financial statements of the subsidiary the arrangement is accounted for as an operating lease in accordance with Section 20 *Leases* (ie Section 16 is not relevant to the subsidiary's accounting for this item).

Ex 5 **An entity acquired a tract of land as a long-term investment because it expects its value to increase over time. No rentals are expected to be generated from the land in the foreseeable future.**

The land is classified as investment property. It is property held for capital appreciation. The land is not held for sale in the ordinary course of business.

Ex 6 **An entity holds land for an undetermined future use.**

The *IFRS for SMEs* does not specify how to classify land that is held for an undetermined purpose. In developing its accounting policy for land acquired for an undetermined purpose an entity may (but is not required to) look to the requirements of full IFRSs (see paragraph 10.6). IAS 40 (as issued at 9 July 2009) specifies that land acquired for an undetermined purpose is classified as investment property (see IAS 40 paragraph 8(b)) because a subsequent decision to use such land as inventory or for development as owner-occupied property would be an investment decision (see the Basis for Conclusions on IAS 40 paragraph B67(b)(ii)).

Examples – not investment property

Ex 7 **An entity owns a building that it rents out to an independent third party under a finance lease in return for rental payments.**

The building is not classified as an investment property by the entity (lessor). The entity has a receivable in respect of the finance lease. The entity would have derecognised the property at the commencement of the lease term (see Section 20).

Ex 8 **An entity acquired a tract of land to divide it into smaller plots to be sold in the ordinary course of business at an expected forty per cent profit margin. No rentals are expected to be generated from the land.**

The land is not classified as investment property. It is classified as inventory. It is held for sale in the ordinary course of business (see paragraph 13.1).

Ex 9 **An entity owns a building from which it operates a hotel (ie it rents out hotel rooms to independent third parties under an operating lease in return for rental payments). The entity provides hotel guest with a range of services commonly provided by boutique hotels. Some of the services are included in the room daily rate (eg breakfast and television); other services are charged for separately (eg other meals, room bar, gymnasium facilities and guided tours of the surrounding area).**

The building is not an investment property. The entity is actively engaged in operating a hotel business in the building. The entity must classify the building as property, plant and equipment—its cash inflows (rental income and income from the other services provided) are dependent on the manner in which it operates the hotel business.

16.3 A property interest that is held by a lessee under an **operating lease** may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. This classification alternative is available on a property-by-property basis.

Notes

In accordance with Section 20 *Leases*, a lessee under an operating lease does not recognise a leased asset and does not recognise the related lease obligation in its statement of financial position (see Section 20). Furthermore, if the lessee makes an upfront payment relating to a property interest held under an operating lease, the lessee accounts for that payment as a prepaid expense, not as an item of property.

However, paragraph 16.3 allows for such an entity (as the lessee) to elect, on a property-by-property basis, to account for the operating lease of investment property as if it were a finance lease in accordance with Section 20, provided that the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis.

Examples – operating leasehold property interest

Ex 10 **An entity (as the lessee) rents a building (building 1) under an operating lease from an independent third party. Furthermore, the entity (as the lessor) subleases building 1 under operating leases to various independent third parties. The entity profits from its leasehold interest in building 1 by charging higher rent to its tenants than it is charged by its landlord.**

If, and only if, the entity can measure reliably the fair value of the property interest, it may, but is not required to, classify its leasehold interest in the building as an item of investment property. This classification is allowed as the leasehold interest in the building otherwise meets the definition of investment property (ie it is held to earn rentals). If the entity elects to account for the property interest as an investment property it must account for it in accordance with paragraph 16.6 (ie recognise an asset (investment property) and a liability (obligation to make lease payments).

If the entity cannot measure reliably the fair value of the property interest it is prohibited from electing to account for its leasehold interest in the building as an item of investment property. The requirements in Section 20 pertaining to operating leases would apply.

Ex 11 **The facts are the same as in example 10. However, in this example the entity elected to account for its interest in building 1 as an investment property.**

In a subsequent reporting period the entity (as the lessee) leases another building (building 2) under an operating lease from an independent third party and once again (as the lessor) subleases building 2 under an operating lease to an independent third party.

The entity can measure reliably the fair value of its interest in building 1 and building 2.

The entity wishes to account for this new lease as an operating lease, not as investment property carried at fair value.

The entity may account for this new lease as an operating lease. The special election allowed by paragraph 16.3 is permitted on a property-by-property basis.

Ex 12 **Assume the entity in example 11 can measure reliably the fair value of the property interest. In a subsequent reporting period the entity purchases another building (building 3) and (as the lessor) leases building 3 under an operating lease to an independent third party. The entity can determine the fair value of building 3 without undue cost or effort on an ongoing basis and elects to account for it at fair value.**

The entity accounts for its interests in buildings 1 and 3 as investment property at fair value. Its interest in building 2 is accounted for as an operating lease.

16.4 Mixed use property shall be separated between investment property and property, plant and equipment. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.

Examples – mixed use property

Ex 13 **An entity owns a building that it rents out to independent third parties under operating leases in return for rental payments. However, the entity's building administration and maintenance staff occupy offices in the building that measure less than 1 per cent of the floor area of the building.**

The building is classified as an investment property by the entity (lessor). It is a property held to earn rentals. The portion of the building occupied by the owner (owner-occupation) is insignificant and can therefore be ignored.

Ex 14 **An entity owns a building that it rents out to independent third parties under operating leases in return for rental payments. The entity's building administration and maintenance staff are located in the building in offices that occupy 25 per cent of its floor area.**

The entity (owner) occupies a significant part (25 per cent of the floor area) of the building.

If the portions (ie the portion held to earn rentals or for capital appreciation or both and the portion held for use in the production or supply of goods or services) could be sold separately (or leased out separately under a finance lease), the entity should account for the portions separately (ie separate the investment property portion from the property, plant and equipment portion).

However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort on an ongoing basis, the entire property should be accounted for as property, plant and equipment, using the cost-depreciation-impairment model in Section 17.

Ex 15 **An entity owns a two-storey building. Floor 1 is rented out to independent third parties under operating leases in return for rental payments. Floor 2 is occupied by**

the entity's administration and maintenance staff. The entity can measure reliably the fair value of each floor of the building without undue cost or effort.

Floor 1 of the building is classified as an item of investment property by the entity (lessor). It is a property held to earn rentals (see paragraph 16.2). It is accounted at fair value at each reporting date.

Floor 2 of the building is classified as property, plant and equipment. It is a property held for use in the production or supply of goods or services or for administrative purposes (see paragraph 16.2(a)). It is accounted for at cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 17.15).

Note: If the fair value could not be measured reliably without undue cost or effort on an ongoing basis, floors 1 and 2 would be accounted for as property, plant and equipment as in accordance with Section 17.

Measurement at initial recognition

16.5 An entity shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10–17.14.

Example – measurement at initial recognition

Ex 16 **On 1 January 20X1 an entity purchased an office block (building) for CU1,000,000[(1)]. The purchase price was funded by a loan of CU1,010,000 (including CU10,000 loan raising fees). The loan is secured against the building. Non-refundable property transfer taxes and direct legal costs of respectively CU50,000 and CU10,000 were incurred in acquiring the building.**

In 20X1 the entity redeveloped the building into upmarket residential apartments for rent under operating leases to independent third parties. Expenditures on redevelopment were:

- **CU100,000 planning permission**
- **CU1,500,000 construction costs (including 60,000 refundable purchase taxes).**

The redevelopment was completed and the apartments ready for rental on 1 October 20X1.

The local government charged the entity property service taxes of CU1,000 per month on the building.

What is the cost of the building at initial recognition?

[(1)] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

Description	*Calculation or reason*	*CU*	*Reference to* IFRS for SMEs
Purchase price	Purchase price	1,000,000	16.5 & 17.10(a)
Mortgage fee	Included in the mortgage liability	-	11.6
Transfer taxes	Directly attributable expenditure	50,000	16.5 & 17.10(a)
Legal fees	Directly attributable expenditure	10,000	16.5 & 17.10(a)
Planning permission	Directly attributable expenditure	100,000	16.5 & 17.10(b)
Construction costs	CU1,500,000 - CU60,000 refund	1,440,000	16.5 & 17.10(b)
Services taxes:			
-in construction	CU1,000 x 9 months in redevelopment	9,000	16.5 & 17.10(b)
-after construction	Operating cost, in profit or loss	-	16.5 & 5.6
Borrowing costs	Recognised as expenses in profit or loss	-	25.2
Cost of building		**2,609,000**	

16.6 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 by paragraph 20.9, even if the lease would otherwise be classified as an operating lease if it was in the scope of Section 20 *Leases*. In other words, the asset is recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability in accordance with paragraph 20.9.

Example – operating leasehold property interest

Ex 17 **An entity (as the lessee) rents a building under an operating lease from an independent third party. Furthermore, the entity (as the lessor) subleases the building under operating leases to various independent third parties. The entity profits from its leasehold interest in the building by charging higher rent to its tenants than it is charged by its landlord. It classifies its interest in the leasehold building as investment property and after initial recognition measures the property interest at fair value. When the interest in the property was first recognised, the lower of the fair value of the property interest and the present value of the minimum lease payments is CU10,000.**

The entity initially recognises the property interest and a corresponding lease liability at CU10,000, as follows:

Dr	Investment property (asset)	CU10,000	
	Cr Finance lease obligation (liability)		CU10,000

To recognise the interest in the property and the obligation to pay the lease payments.

Measurement after recognition

16.7 Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27–11.32 provide guidance on determining fair value. An entity shall account for all other investment property as property, plant and equipment using the cost-depreciation-impairment model in Section 17.

Notes

In applying the guidance in paragraphs 11.27−11.32 to an investment property, the reference to ordinary shares or preference shares in paragraph 11.27 should be read to include investment property.

Measurement after initial recognition is driven by circumstances rather than an accounting policy choice between the cost and fair value models. If an entity can measure the fair value of an item of investment property reliably without undue cost or effort on an ongoing basis, it must use the fair value model. Otherwise, it must use the cost model.

When there is evidence that the fair value of a property cannot be measured reliably without undue cost or effort on an ongoing basis then the property is accounted for in accordance with Section 17 (ie a cost-depreciation-impairment model). This arises, for example, when the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current, observed transaction prices indicate that the seller was forced to sell) and alternative reliable estimates of fair value (eg based on discounted cash flow projections) are not available.

Investment property accounted for using the cost-depreciation-impairment model is subject to impairment testing in accordance with Section 27 *Impairment of Assets*. When, at the reporting date, there is an indication that the property might be impaired the entity is required to estimate the recoverable amount of the investment property. The recoverable amount of a property is the higher of its fair value less costs to sell (see paragraph 27.14) and its value in use (see paragraphs 27.15−27.20). Unless the property's value in use is greater than its carrying amount (in which case there would be no impairment), the entity must estimate the property's fair value less costs to sell. This is so even though the entity has already established that it cannot measure the property's fair value on without undue cost or effort on an ongoing basis (ie the 'hurdle' is higher for impairment testing).

If the recoverable amount is less than the carrying amount of the property, its carrying amount is reduced to the recoverable amount by recognising a corresponding impairment loss in profit or loss for the period.

If, as the result of an impairment test, no impairment is necessary (ie the property's carrying amount is less than its recoverable amount) the entity must then review the remaining useful life and depreciation method of the property.

The property-by-property classification alternative is available only for certain property interests that are accounted for as investment property in accordance with paragraph 16.3.

Examples – measurement after recognition

Ex 18 **An entity cannot measure reliably the fair value of any of its investment properties without undue cost or effort on an ongoing basis. After initial recognition, it measures investment property at cost less any accumulated depreciation and any accumulated impairment losses.**

The entity's accounting policy is in compliance with the *IFRS for SMEs*. It accounts for all of its investment property as property, plant and equipment in accordance with Section 17 using a cost-depreciation-impairment model (see paragraph 17.15). It also follows the disclosure requirements in that section.

Ex 19 **An entity can measure reliably the fair value of any of its investment properties on an ongoing basis. The entity measures all its investment properties, after initial recognition, at fair value.**

The entity's accounting policy is in compliance with the *IFRS for SMEs*. It measures all of its investment property at fair value at each reporting date with changes in fair value recognised in profit or loss.

Ex 20 **An entity has many investment properties. Its accounting policy is to measure investment property whose fair value can be determined reliably without undue cost or effort on an ongoing basis at fair value after initial recognition. All other investment properties are, after initial recognition, measured at cost less accumulated depreciation and accumulated impairment, if any.**

Except for a remote building, management can determine the fair value of its investment properties reliably without undue cost or effort on an ongoing basis. Management cannot estimate reliably the fair value of the remote building.

The entity's accounting policy is in compliance with the *IFRS for SMEs*—if an entity can measure the fair value of an item of investment property reliably without undue cost or effort on an ongoing basis, it must use the fair value model. Otherwise, it must use the cost model.

The remote building is accounted using the cost-depreciation-impairment model, in accordance with Section 17. The residual value of the remote building is assumed to be nil (given that fair value cannot be determined reliably) and the entity uses the cost-depreciation-impairment model until the remote building is disposed of or its fair value can be measured reliably on an ongoing basis.(2)

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(2) In this example, and all other examples in this module where investment property is accounted for using the cost-depreciation-impairment model because the fair value of an investment property cannot be determined reliably on an ongoing basis, the residual value of investment property is assumed to be nil (ie in the absence of explicit guidance in the *IFRS for SMEs* it is assumed that in accordance with paragraph 10.6 the entity chose to developed its accounting policy for the determination of the residual value of such property in accordance with the requirements of full IFRSs—see IAS 40 paragraph 53 (as issued at 9 July 2009) and the Basis for Conclusions on IAS 40 paragraph B67(a)(viii)).

Ex 21 **Despite its best efforts, the entity is unable to find a tenant for the remote building referred to in example 20. The entity has made a decision to dispose of the remote building but has not found a buyer. The circumstances indicate that the building might be impaired. Therefore, in accordance with Section 27 *Impairment of Assets*, the entity performs an impairment test. Accordingly the entity writes the building down to its estimated recoverable amount (measured in accordance with paragraphs 27.11–27.20) and recognises an impairment loss (in accordance with paragraphs 27.5 and 27.6). The entity's ordinary course of business does not include the sale of this or any other property.**

The entity continues to account for the property in accordance with the requirements of Section 16 (ie at cost less accumulated depreciation and accumulated impairment).

Ex 22 **On 1 January 20X1 an entity acquired an investment property (building) for CU1,000,000. The entity cannot measure the fair value of investment property reliably without undue cost or effort on an ongoing basis.**

Management estimates the useful life of the building as 20 years measured from the date of acquisition. The residual value of the building is presumed to be nil (given that the fair value cannot be determined reliably).

Management believes that the straight-line depreciation method reflects the pattern in which it expects to consume the building's future economic benefits.

The value of the land on which the building is situated is immaterial.[(3)]

What is the carrying amount of the building on 31 December 20X1?

Because management cannot estimate the fair value of the property without undue cost or effort on an ongoing basis the investment property is measured at cost less accumulated depreciation and accumulated impairment, if any.

Description	Calculation or reason	CU	Reference to *IFRS for SMEs*
Cost	Purchase price	1,000,000	16.5 & 17.10(a)
Residual value		nil	16.1 & 17.18
Depreciable amount	Cost less residual value	**1,000,000**	16.1 & 17.18
Depreciation per year	Depreciable amount ÷ 20-year useful life	50,000	16.1 & 17.16
Carrying amount	CU1,000,000 cost less CU50,000 accumulated depreciation	**950,000**	16.1 & 17.15

[(3)] In this example, and other some other examples in this module, the value of land is for simplicity assumed to be nil. In reality, this assumption is unlikely to hold true.

Transfers

16.8 If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item as property, plant and equipment in accordance with Section 17 until a reliable measure of fair value becomes available. The carrying amount of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in accounting policy.

Notes

Changes in accounting policies and the correction of prior period errors result in the restatement of comparative figures (see Section 10 *Accounting Policies, Estimates and Errors*). Similarly, when the presentation or classification of items in the financial statements is changed, an entity reclassifies comparative amounts (see paragraphs 3.11–3.13). These retrospective treatments are necessary to provide users of financial statements with comparable information that faithfully represents the entity's financial position, performance and cash flows.

Transfers are different. They occur when there is a change in circumstances (see paragraph 16.8 above) or a change in use of an item that results in it being subject to different accounting and reporting requirements (eg when an owner occupies a property that was held to earn lease rentals and for capital appreciation, the property is transferred from investment property to property, plant and equipment). When a transfer takes place, the classifications in the comparative period must not be changed—it faithfully represents the circumstances and use to which the assets was put in the comparative period (ie whilst the asset is investment property it must be accounted for and reported as investment property and whilst it is property, plant and equipment it must be accounted for and reported as property, plant and equipment).

Example – transfers

Ex 23 **On 1 January 20X1 an entity acquired an investment property for CU1,000,000. At 31 December 20X2 the entity measured the fair value of the property at CU1,200,000 in its statement of financial position. By 31 December 20X3 management could no longer measure reliably the fair value of the property.**

On 31 December 20X3 management estimates the recoverable amount of the building as CU700,000 and its remaining useful life as 30 years. The residual value of the building is presumed to be nil (given that the fair value cannot be determined reliably).

Management believes that the straight-line method reflects the pattern in which it expects to consume the building's future economic benefits.

The value of the land on which the building is situated is immaterial.

At 31 December 20X3 the entity must transfer the property from investment property (carried at fair value) to property from property, plant and equipment (investment property carried using the cost-depreciation-impairment model) at its carrying amount of CU1,200,000. That amount is deemed to be the cost of the property. The entity must immediately recognise an impairment loss of CU500,000 (ie CU1,200,000 cost less CU700,000 recoverable amount) in profit or loss for the year ended 31 December 20X3. The entity must disclose the reclassification as a change of circumstances.

Note: From 1 January 20X4 the entity will depreciate the building on straight-line method over its remaining useful life of 30 years to a nil residual value.

Ex 24 **On 1 January 20X1 an entity acquired an investment property for CU1,000,000. Because the entity could not measure the fair value of the investment property reliably on an ongoing basis it accounted for the property using the cost-depreciation-impairment model.**

Management estimates the useful life of the building at 50 years measured from the date of acquisition. The residual value of the building is presumed to be nil (given that the fair value cannot be determined reliably). Management believes that the straight-line depreciation method reflects the pattern in which it expects to consume the building's future economic benefits.

On 1 January 20X1 the value of the land on which the building is situated was immaterial and was zoned as farmland.

In 20X3 the land next to the entity's property was rezoned from farmland to residential land. Following the rezoning, many buildings similar to the entity's building were developed on the land adjacent to the entity's property and most of these properties were sold in 20X3. Many more similar buildings are expected to be erected and sold in the vicinity in the years ahead.

At 31 December 20X3 (the entity's financial year-end) management is able to determine reliably the fair value of its investment property as CU2,000,000, with reference to recent arm's length sales of similar properties on the land next to the entity's property and making adjustments for factors specific to the entity's property.

The entity must recognise depreciation expense of CU20,000 in profit or loss in 20X3 while the property is accounted for using a cost-depreciation-impairment model.

At 31 December 20X3 the entity must measure the investment property at CU2,000,000 in its statement of financial position because the fair value can be measured reliably without undue cost or effort on an ongoing basis. To achieve this presentation, the entity must transfer the property from property, plant and equipment (investment property carried using the cost-depreciation-impairment model) to investment property (carried at fair value) at its carrying amount of CU940,000 (ie CU1,000,000 less CU60,000 accumulated depreciation) and recognise the increase in the fair value of the investment property (CU1,060,000) as income in profit or loss for the year ended 31 December 20X3. The income must be separately disclosed in the notes (see paragraph 3.2).

The entity must disclose the transfer as a change of circumstances.

16.9 Other than as required by paragraph 16.8, an entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

Examples – other transfers

Ex 25 **On 1 January 20X2 an entity vacated a building that it owns and had occupied for many years. The entity cannot measure reliably the fair value of the investment property without undue cost or effort on an ongoing basis. On 1 January 20X2 the building had a carrying amount of CU600 (ie CU1,000 cost less CU400 accumulated depreciation).**

Upon vacating the building the entity entered, as lessor, into a seven-year operating lease agreement over the building with an independent third party. The entity measures both property, plant and equipment and investment property using the cost-depreciation-impairment model.

As the entity measures investment property whose fair value it cannot determine reliably without undue cost or effort on an ongoing basis and property, plant and equipment using the cost-depreciation-impairment model there is no accounting effect for the change in use. Paragraphs 16.1 and 16.7 require the entity to account for its investment property as property, plant and equipment using the cost-depreciation-impairment model in Section 17. However, investment property would be disclosed as a separate class of property, plant and equipment (see paragraph 17.31). A transfer of CU600 from the class 'buildings' to the class 'investment property' will be disclosed in the note to property, plant and equipment.

Ex 26 **The facts are the same as in example 25. However, in this example, the entity can measure reliably the fair value of the investment property without undue cost or effort on an ongoing basis. On 1 January 20X2 the building had a fair value of CU6,000.**

On 1 January 20X2 the entity would transfer the property out of property, plant and equipment at CU600 (ie its carrying amount) and into investment property at CU6,000 (ie its fair value) with the difference of CU5,400 recorded as income in profit or loss for the year ended 31 December 20X2. The income would be separately disclosed in the notes.

Note: From 1 January 20X2 the entity would measure the property at fair value as long as it can be measured reliably without undue cost or effort on an ongoing basis at each reporting date. Any gain or loss would be recognised in profit or loss of the period in which the change in fair value occurs.

Ex 27 **On 1 January 20X3 an entity began redeveloping a building previously classified as an investment property for sale in the ordinary course of business. The entity cannot measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore measured it, after initial recognition, using the cost-depreciation-impairment model. On 1 January 20X3 the building had a carrying amount of CU700 (ie CU2,000 cost less CU1,300 accumulated depreciation).**

The effect of the change in use is a transfer of CU700 from property, plant and equipment (investment property using the cost-depreciation-impairment model) to inventories (see Section 13). The property's deemed cost for subsequent accounting in accordance with Section 13 is CU700.

Ex 28 **The facts are the same as in example 27. However, in this example, the entity can measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore measured it, after initial recognition, using the fair value model. On 1 January 20X3 the building had a fair value of CU8,000.**

The effect of the change in use is a transfer of CU8,000 from investment property (carried at fair value) to inventories (see Section 13). The property's deemed cost for subsequent accounting in accordance with Section 13 is CU8,000 (ie its fair value at the date of change in use).

Ex 29 **On 15 July 20X4 management began evaluating other possible uses for an investment property that the entity acquired many years ago and carries using the fair value model. On 30 September 20X4 management considered the analysis of possible uses for the building and decided that it would be redeveloped for use as a research and development centre. At that meeting management decided to give notice to all tenants that they would be required to vacate the building on or before 1 January 20X5 and that they would be compensated for vacating the premises early in accordance with the requirements of national law. Eviction notices were sent to the tenants on 15 October 20X4, after management had consulted the entity's lawyers. On 1 January 20X5 the tenants vacated the building and redevelopment of the building for use as the entity's research and development centre began. On 31 March 20X5 the redevelopment was completed and the entity's research and development team occupied the building.**

When did the building cease to be an investment property?

The building ceased to be an investment property on 1 January 20X5, when the building was occupied by the entity and the tenants were evicted from the building. On this date it became property, plant and equipment—held for use in production (see paragraph 16.2(a)).

Disclosures

16.10 An entity shall disclose the following for all investment property accounted for at fair value through profit or loss (paragraph 16.7):

(a) the methods and significant assumptions applied in determining the fair value of investment property.

(b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

(i) additions, disclosing separately those additions resulting from acquisitions through business combinations.

(ii) net gains or losses from fair value adjustments.

(iii) transfers to property, plant and equipment when a reliable measure of fair value is no longer available without undue cost or effort (see paragraph 16.8).

(iv) transfers to and from inventories and owner-occupied property.

(v) other changes.

This reconciliation need not be presented for prior periods.

Example – disclosures

Ex 30 A group could present disclosures about its investment properties as follows:

1. **XYZ Group**

[Extract from] Consolidated statement of financial position

Reference to IFRS for SMEs

	Note	at 31 December 20X2	at 31 December 20X1	
		CU	CU	
…				
Non-current assets				
Property, plant and equipment	15	5,271	4,300	4.2(e)
Investment property	16	17,000	10,000	4.2(f)
…				

XYZ Group

[Extract from] Notes for the year ended 31 December 20X2

Note 1 Accounting policies

Investment property 8.5 & 16.10

Items of investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis after initial recognition are measured at fair value with changes in fair value recognised in profit or loss. All other investment property is accounted for as property, plant and equipment.

Reference to IFRS for SMEs

Property, plant and equipment 8.5 & 17.31

Investment property whose fair value cannot be measured reliably on an ongoing basis is presented as a separate class of property, plant and equipment. Such property is, after initial recognition, measured at cost less accumulated depreciation and accumulated impairment losses. The residual value of such investment property is deemed to be nil, as its fair value cannot be measured reliably without undue cost or effort on an ongoing basis. Depreciation is charged so as to allocate the cost of the buildings over their estimated useful lives, using the straight-line method. Land has an indefinite useful life and is therefore not depreciated. The useful life of buildings is 75 years from the date of construction.

...

Note 5 Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	20X2	*20X1*	
	CU	*CU*	
Rental income from investment property	(X)	(X)	23.30(b)(viii)
Increase in the fair value of an investment property during prior years that is recognised when management determined that the fair value of the property can be determined reliably without undue cost or effort on an ongoing basis	(800)	–	3.2
Increase in the fair value of investment property during the year	(1,000)	(X)	3.2
Gain on disposal of investment property carried using cost-amortisation-impairment model	(100)	(X)	3.2
Depreciation—investment property	40	X	3.2

Note 15 Property, plant and equipment

Description	*Land and buildings*	*Investment property*	*Total*	
	CU	*CU*	*CU*	
			CU	
Cost	2,000	3,000	5,000	17.31(d)
Accumulated depreciation	(500)	(200)	(700)	17.31(d)
Carrying amount at 31 December 20X1	**1,500**	**2,800**	**4,300**	17.31(e)
Additions	-	100	100	17.31(e)(i)
Acquired in a business combination	1,000	250	1,250	17.31(e)(iii)
Transferred to investment property as reliable measure of fair value is available		(180)	(180)	17.31(e)(iv)
Disposals		(120)	(120)	17.31(e)(ii)
Depreciation	(39)	(40)	(79)	17.31(e)(vi)
Carrying amount at 31 December 20X2	**2,461**	**2,810**	**5,271**	17.31(e)
Cost	3,000	3,020	6,020	17.31(d)
Accumulated depreciation	(539)	(210)	(749)	17.31(d)
Carrying amount at 31 December 20X2	**2,461**	**2,810**	**5,271**	17.31(e)

On 31 December 20X2 investment property accounted for as property, plant and equipment with a carrying amount of CU1,000 was pledged as security for a CU800 loan from Bank A. The loan bears interest at the fixed rate of 3 per cent per year and is repayable in full on 31 December 20X8. The group's investment property was unencumbered at 31 December 20X1. 17.32(a)

Note 16 Investment property

The fair value of investment property is determined at the end of each year by independent suitably qualified valuers using current market prices for comparable real estate, adjusted for any differences in nature, location and condition.		16.10(a) & (b)
Description	*CU*	
Carrying amount at 31 December 20X1	10,000	16.10(e)
Additions	2,100	16.10(e)(i)
Acquired in a business combination	3,020	16.10(e)(i)
Transferred from investment property carried as property, plant and equipment as a reliable measure of fair value became available on an ongoing basis	980	16.10(e)(v)
Increase in fair value during the year	1,000	16.10(e)(ii)
Disposals	(100)	16.10(v)
Carrying amount at 31 December 20X2	17,000	16.10(e)

Investment property with a carrying amount of CU6,000 was pledged as security for a CU8,000 (20X1: CU8,000) loan from Bank B. The loan bears interest at the fixed rate of 2.5 per cent per year and is repayable in full on 31 December 20X9. The group cannot dispose of the pledged property without the written consent of Bank B. 16.10(c)

On 31 December 20X2 the group had contracted Entity D to construct an office block on vacant land owned by the group. The CU4,000 fixed price contract requires construction to commence by 30 June 20X3 and to be completed by 30 June 20X5. There were no contractual commitments at 31 December 20X1. 16.10(d)

The minimum lease payments receivable under non-cancellable operating leases: 20.30(a)

	20X2	20X1
Due no later than 1 year	X	X
Due later than 1 year and no later than 5 years	X	X
Due later than 5 years	X	X
Total	X	X

16.11 In accordance with Section 20, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

Example – disclosures

Ex 31 **A group could present the disclosures required by paragraph 16.11 as follows:**

Reference to IFRS for SMEs

XYZ Group

[Extract from] Notes for the year ended 31 December 20X2

Note 16 Investment property

…

The non-cancellable fixed rate operating leases over the group's investment property land and buildings were entered into at market rates with independent third parties. 16.11 & 20.30(c)

	20X3	*20X4–20X7*	*after 20X7*	16.11 & 20.30(a)
The minimum lease payments receivable under non-cancellable operating leases	CU2,500	CU10,000	CU2,500	

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* to transactions and events often requires judgement. Information about significant judgements and key sources of estimation uncertainty are useful in assessing the financial position, performance and cash flows of an entity. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Furthermore, in accordance with paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Other sections of the *IFRS for SMEs* require disclosure of information about particular judgements and estimation uncertainties.

Classification

Investment property is held to earn rentals or for capital appreciation or both. Therefore, unlike an item of property, plant and equipment, an investment property generates cash flows largely independently of the other assets held by an entity. In most cases little difficulty is encountered in determining whether a property is an investment property. However, significant judgement is required to classify some items of property. For example:

- Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- In some cases, an entity provides ancillary services, for example security and maintenance services, to the occupants of a property it holds. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. In most cases security and maintenance services will be insignificant and hence the building would be classified as investment property. However, some companies rent out fully furnished offices including a whole range of services such as information technology systems and administration services (eg many hotels). Such arrangements are in the nature of the provision of a service and the property would be classified as owner-occupied and accounted for under Section 17. There are several instances in between these extremes where it may be difficult to judge whether the services are insignificant.

Where significant judgement is needed to determine whether a property qualifies as investment property an entity should develop criteria so that it can exercise that judgement consistently in accordance with the definition of investment property.

When the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis, after initial recognition an entity measures the investment property at its fair value. Otherwise, investment property is measured after initial recognition using the cost-depreciation-impairment model in Section 17. The management of an entity must apply judgement in determining whether the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis. Paragraphs 11.27–11.32 provide guidance on determining fair value.

Measurement

An entity shall measure investment property at its cost at initial recognition. After initial recognition an entity measures investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis at fair value at each reporting date. All other investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model in Section 17.

Significant judgements in measuring the cost of an item of investment property at initial recognition may include:

- if payment for the property is deferred beyond normal credit terms—determining the discount rate at which to discount all future payments to arrive at the present value that will be included in the cost of the property.
- if applicable—estimating the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired.

Where the cost-depreciation-impairment model is used for measurement after initial recognition, significant judgements in accounting for the depreciation of investment property may include:

- allocating the amount initially recognised in respect of an item of investment property to its significant parts that, in accordance with paragraph 17.16, are required to be depreciated separately;
- estimating the useful life of the property (or significant part of a property);
- determining the appropriate depreciation method that reflects the pattern in which the entity expects to consume the investment property (or significant part of a property).

Significant judgements in accounting for the impairment of investment property carried using the cost-depreciation-impairment model may include:

- assessing whether there is an indication that an item of investment property may be impaired; and
- if there is an indication that the investment property may be impaired—determining the recoverable amount of the investment property.

When the fair value of an investment property can be measured reliably without undue cost or effort on an ongoing basis some judgements might be necessary in estimating the fair value of the investment property. Paragraphs 11.27–11.32 provide guidance on determining fair value.

COMPARISON WITH FULL IFRSs

A high level overview of differences between the requirements as issued at 9 July 2009 of accounting and reporting investment property in accordance with full IFRSs (see IAS 40 *Investment Property*) and the *IFRS for SMEs* (see Section 16 *Investment Property*) includes:

- *IFRS for SMEs* is drafted in plain language and includes significantly less guidance on how to apply the principles.
- Full IFRSs (IAS 40) allow an accounting policy choice of either fair value through profit or loss or a cost-depreciation-impairment model (with some limited exceptions). An entity following the cost-depreciation-impairment model is required to provide supplemental disclosure of the fair value of its investment property.
- The *IFRS for SMEs* does not have an accounting policy choice but, rather, the accounting for investment property is driven by circumstances. If an entity knows or can measure the fair value of an item of investment property without undue cost or effort on an ongoing basis, it must use the fair value through profit or loss model for that investment property. It must use the cost-depreciation-impairment model in Section 17 *Property, Plant and Equipment* for other investment property. Unlike IAS 40, the *IFRS for SMEs* does not require disclosure of the fair values of investment property measured on a cost basis.
- For differences related to impairment testing of investment property accounted for using the cost-depreciation-impairment model see Section 27 *Impairment of Assets*.

Module 16 – Investment Property

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting investment property in accordance with the *IFRS for SMEs* by answering the questions below.

Once you have completed the test check your answers against those set out below this test.

Assume all amounts are material.

Mark the box next to the most correct statement.

Question 1

Investment property is defined as:

☐ (a) property (land or a building, or part of a building, or both) held for sale in the ordinary course of business.

☐ (b) property (land or a building, or part of a building, or both) held to earn rentals.

☐ (c) property (land or a building, or part of a building, or both) held for capital appreciation.

☐ (d) property (land or a building, or part of a building, or both) held to earn rentals or for capital appreciation or both.

Question 2

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if,

☐ (a) the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis. Furthermore, the entity accounts for all its qualifying operating leasehold property interests as investment property.

☐ (b) the property would otherwise meet the definition of an investment property and the lessee can measure the fair value of the property interest without undue cost or effort on an ongoing basis (irrespective of whether other qualifying operating leasehold property interests are accounted for as investment property (ie the election is available to the entity on a property-by-property basis)).

☐ (c) the property would otherwise meet the definition of an investment property and the lessee accounts for all of its investment property (and qualifying operating leasehold property interests) at fair value with the change in fair value recognised in profit or loss.

☐ (d) the property would otherwise meet the definition of an investment property and the lessee accounts for all of its investment property (and qualifying operating leasehold property interests) using a cost-amortisation-impairment model set out in Section 17. *Property, Plant and Equipment*.

Question 3

An entity operates a bed and breakfast from a building it owns. The entity also provides its guests with other services including housekeeping, satellite television and broadband internet access. The daily room rental is inclusive of these services. Furthermore, upon request, the entity conducts tours of the surrounding area for its guests. Tour services are charged for separately.

The entity should account for the building as:

- ☐ (a) inventory
- ☐ (b) investment property
- ☐ (c) property, plant and equipment

Question 4

An entity must measure its investment property after initial recognition:

- ☐ (a) either at fair value or using the cost-depreciation-impairment model (same accounting policy for all investment property).
- ☐ (b) either at fair value or using the cost-depreciation-impairment model (elected item by item).
- ☐ (c) at fair value.
- ☐ (d) at fair value, for those properties that fair value can be measured reliably without undue cost or effort on an ongoing basis, with all other investment property accounted for using the cost-depreciation-impairment model in Section 17.

Question 5

Investment property whose fair value cannot be measured reliably without undue cost or effort on an ongoing basis is accounted for after initial recognition:

- ☐ (a) as inventory in accordance with Section13.
- ☐ (b) as property, plant and equipment in accordance with Section 17.
- ☐ (c) as a financial asset in accordance with Section 11.
- ☐ (d) as an intangible asset with a finite useful life in accordance with Section 18.

Question 6

A building is owned by a subsidiary (lessor) to earn rentals under an operating lease from its parent (lessee). The parent manufactures its products in the rented building. The fair value of the building can be measured reliably without undue cost or effort on an ongoing basis.

The building is:

☐ (a) accounted for as an item of property, plant and equipment by the subsidiary and an investment property by the group.

☐ (b) accounted for as an investment property by the subsidiary and as an item of property, plant and equipment by the group.

☐ (c) accounted for as an investment property by both the subsidiary and the group.

☐ (d) accounted for as an item of property, plant and equipment by both the subsidiary and the group.

Question 7

On 1 January 20X1 an entity acquired a building for CU95,000, including CU5,000 non-refundable purchase taxes. The purchase agreement provided for payment to be made in full on 31 December 20X1. Legal fees of CU2,000 were incurred in acquiring the building and paid on 1 January 20X1.

The building is held to earn lease rentals and for capital appreciation.

An appropriate discount rate is 10 per cent per year.

The entity shall measure the initial cost of the building at:

☐ (a) CU88,364

☐ (b) CU97,000

☐ (c) CU102,000

☐ (d) CU107,000

Question 8

On 1 January 20X1 an entity acquired an investment property (building) in a remote location for CU100,000. After initial recognition, the entity measures the investment property using the cost-depreciation-impairment model, because its fair value cannot be measured reliably without undue cost or effort on an ongoing basis.

At 31 December 20X1 management:

- assessed the building's useful life at 50 years from the date of acquisition
- presumed the residual value of the building to be nil (given that the fair value cannot be determined reliably)
- assessed that the entity will consume the building's future economic benefits evenly over 50 years from the date of acquisition
- declined an unsolicited offer to purchase the building for CU130,000. This is a 'one-off' offer that is unlikely to be repeated in the foreseeable future.

The entity should measure the carrying amount of the building on 31 December 20X1 at:

☐ (a) CU98,000

☐ (b) CU100,000

☐ (c) CU130,000

☐ (d) CU127,400

Question 9

On 31 December 20X2 the entity reassessed the remaining useful life of the investment property described in Question 8 as 73 years. The revised assessment is supported by new information that became available in late 20X2.

The entity should measure the carrying amount of the building on 31 December 20X2 at:

☐ (a) CU130,000

☐ (b) CU96,676

☐ (c) CU126,533

☐ (d) CU97,333

Question 10

On 1 January 20X1 an entity acquired a tract of land for an undetermined purpose.

On 1 January 20X4 the entity started constructing a building on the land for use as its administrative headquarters.

On 1 January 20X5 the entity's administrative staff moved into that building.

Three years later (on 1 January 20X8) the entity's administrative staff moved into newly acquired premises. The old building was immediately rented to an independent third party under an operating lease.

On 31 December 20X9 the entity accepted an unsolicited offer from the tenant to purchase the building from the entity with immediate effect.

The fair value of the property (land and related buildings) can be measured reliably without undue cost or effort on an ongoing basis.

The entity shall account for the tract of land and the related building as:

☐ (a) investment property from 1 January 20X1 to 31 December 20X9.

☐ (b) investment property during 20X1–20X3 and 20X8–20X9 and as property, plant and equipment during 20X4–20X7.

☐ (c) investment property during 20X1–20X3 and as property, plant and equipment during 20X4–20X10.

☐ (d) property, plant and equipment during 20X1–20X7 and as investment property during 20X8–20X9.

Module 16 – Investment Property

Answers

Q1 (d) see paragraph 16.2
Q2 (b) see paragraph 16.3
Q3 (c) reason—the arrangement between the entity and the bed and breakfast guests is for the provision of services, rather than the property being a passive investment
Q4 (d) see paragraphs 16.1, 16.5 and 16.7
Q5 (b) see paragraphs 16.1 and 16.7
Q6 (b) see paragraphs 9.2 and 16.2
Q7 (a) calculation—(CU95,000 purchase price excluding refundable taxes) ÷ 1.1 = CU86,364 present value of the purchase price + CU2,000 direct costs (legal fees) = CU88,364
Q8 (a) calculation—CU100,000 cost less (CU100,000 depreciable amount ÷ 50 years useful life × 1 year in use) accumulated depreciation = CU98,000. The one-off offer does itself mean that fair value can be determined reliably on an ongoing basis.
Q9 (b) calculation—CU98,000 carrying amount (and depreciable amount as the residual value is nil) × 73 ÷ 74 years remaining useful life measured from the beginning of the current reporting period) = CU96,676 carrying amount at 31 December 20X2 (the entity would account for the change in accounting estimate prospectively by including it in profit or loss in the period of the change and future periods (see paragraph 10.16(b)).
Q10 (b) see paragraphs 16.2, 16.9 and 17.2. The *IFRS for SMEs* does not specify how to classify land that is held for an undetermined purpose. In developing its accounting policy for land acquired for an undetermined purpose an entity may (but is not required to) look to the requirements of full IFRSs (see paragraph 10.6). IAS 40 *Investment Property* (as issued at 9 July 2009) specifies that land acquired for an undetermined purpose is classified as investment property (see IAS 40 paragraph 8(b)) because a subsequent decision to use such land as inventory or for development as owner-occupied property would be an investment decision (see the Basis for Conclusions on IAS 40 paragraph B67(b)(ii)).

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting investment property in accordance with the *IFRS for SMEs* by solving the case studies below.

Once you have completed the case studies check your answers against those set out below this test.

Case study 1

In 20X1 SME A incurred (and paid) the following expenditures in acquiring property consisting of ten identical freehold detached houses each with separate legal title including the land on which it is built:

Date	CU	Additional information
1 January 20X1	200,000,000	20 per cent of the price is attributable to the land
1 January 20X1	20,000,000	Non-refundable transfer taxes (not included in the CU200,000,000 purchase price)
1 January 20X1	1,000,000	Legal costs directly attributable to the acquisition
1 January 20X1	10,000	Reimbursing the previous owner for prepaying the non-refundable local government property taxes for the six-month period ending 30 June 20X1
1 January 20X1	500,000	Advertising campaign to attract tenants
2 January 20X1	200,000	Opening function to celebrate new rental business that attracted extensive coverage by the local press
30 June 20X1	20,000	Non-refundable annual local government property taxes for the year ending 30 June 20X2
Throughout 20X1	120,000	Day-to-day repairs and maintenance, including the salary and other costs of the administration and maintenance staff. These costs are attributable equally to each of the ten units.

SME A uses one of the ten units to accommodate its administration and maintenance staff. The other nine units are rented to independent third parties under non-cancellable operating leases.

Before occupying the premises tenants pay SME A a refundable deposit equal to two months' rentals. Deposits held by SME A at 31 December 20X1 totalled CU270,000. Rentals received in the year ended 31 December 20X1 totalled CU1,550,000, of which CU50,000 relates to January 20X2.

At 31 December 20X1 SME A made the following assessments about the units:

- Useful life of the buildings: 50 years from the date of acquisition
- The entity will consume the buildings' future economic benefits evenly over 50 years from the date of acquisition.

SCENARIO 1:

Assume that the fair value of the units can be determined reliably without undue cost or effort on an ongoing basis and that the residual value of the owner-occupied unit is nil.

At 31 December 20X1 the fair value of each unit was reliably estimated as CU25,000,000.

Prepare accounting entries to record the effects of the investment property in the accounting records of SME A for the year ended 31 December 20X1.

SCENARIO 2:

Assume that the fair value of the units cannot be determined reliably without undue cost or effort on an ongoing basis.

Prepare accounting entries to record the effects of the investment property in the accounting records of SME A for the year ended 31 December 20X1.

Answer to case study 1: Scenario 1

At 1 January 20X1

Dr	Investment property (cost)[4]	CU180,000,000	
Dr	Property, plant and equipment (cost—land and buildings)[5]	CU20,000,000	
	Cr Cash		CU200,000,000

To recognise the acquisition of nine units of investment property and one owner-occupied property.

Dr	Investment property (cost)	CU18,000,000	
Dr	Property, plant and equipment (cost—land and buildings)	CU2,000,000	
	Cr Cash		CU20,000,000

To recognise the non-refundable transfer taxes incurred in acquiring the property.

Dr	Investment property (cost)	CU900,000	
Dr	Property, plant and equipment (cost—land and buildings)	CU100,000	
	Cr Cash		CU1,000,000

To recognise legal costs directly attributable to the acquisition of the property.

Dr	Prepaid expenses (asset)	CU10,000	
	Cr Cash		CU10,000

To recognise local government property taxes prepaid for the six months ending 30 June 20X1.

Dr	Profit or loss (operating expenses)	CU500,000	
	Cr Cash		CU500,000

To recognise expenditure on the advertising campaign to attract tenants.

At 2 January 20X1

Dr	Profit or loss (operating expenses)	CU200,000	
	Cr Cash		CU200,000

To recognise expenditure on the opening function for the investment property business.

At 30 June 20X1

Dr	Prepaid expenses (asset)	CU20,000	
	Cr Cash		CU20,000

To recognise local government property taxes paid on 30 June 20X1 for the twelve months ending 30 June 20X2.

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(4) The fair value of the units can be determined reliably without undue cost or effort on an ongoing basis. Therefore, in accordance with paragraph 16.1, SME A accounts for the units as investment property using the fair value model.

(5) Although the entity discloses buildings and the land on which they are built as a single class of asset they are accounted for separately (ie the building is depreciated and the land is not depreciated).

For the year ended 31 December 20X1

Dr	Profit or loss (operating expenses)	CU10,000	
	Cr Prepaid expenses (asset)		CU10,000

To recognise as an expense local government property taxes prepaid on 1 January 20X1 for the first six months ending 30 June 20X1.

Dr	Profit or loss (operating expenses)	CU10,000	
	Cr Prepaid expenses (asset)		CU10,000

To recognise local government property taxes paid on 30 June 20X1 for the last six months of the current reporting period. CU10,000 will remain as an asset as it relates to the first six months of the next reporting period.

Dr	Cash	CU270,000	
	Cr Rental deposits (liability)		CU270,000

To recognise rental deposits received from tenants in 20X1.

Dr	Cash	CU1,550,000	
	Cr Profit or loss (revenue—rental income)		CU1,500,000
	Cr Rental received in advance (liability)		CU50,000

To recognise rents received from tenants in 20X1.

Dr	Profit or loss (operating expenses)	CU120,000	
	Cr Cash		CU120,000

To recognise day-to-day repairs and maintenance of the building in 20X1.

Dr	Profit or loss (operating expenses—depreciation)	CU353,600[(a)]	
	Cr Accumulated depreciation (PPE—buildings)		CU353,600

To recognise depreciation of the owner-occupied building in 20X1.

Dr	Investment property	CU26,100,000[(d)]	
	Cr Profit or loss (fair value gain—investment property)		CU26,100,000

To recognise the increase in the fair value of the investment property in 20X1.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) [CU17,680,000[(c)] cost of buildings less nil residual value (assumed)] ÷ 50 years (consume future economic benefits evenly over the 50-year useful life of the building) = CU353,600 depreciation for the year

(b) Total cost of property: CU200,000,000 purchase price + CU20,000,000 non-refundable transfer taxes + CU1,000,000 legal costs = CU221,000,000. Cost of buildings = CU221,000,000 × 80% = CU176,800,000

(c) 10% (owner-occupied) of CU176,800,000[(b)] = CU17,680,000 cost of owner-occupied building (PP&E)

(d) CU225,000,000[(e)] fair value at 31 December 20X1 less CU198,900,000[(f)] cost = CU26,100,000 gain

(e) CU25,000,000 × 9 units of investment property = CU225,000,000 fair value of the 9 units of investment property at 31 December 20X1

(f) 90% (investment property) of CU221,000,000[(b)] = CU198,900,000 cost of investment property

Answer to case study 1: Scenario 2

At 1 January 20X1

Dr	Property, plant and equipment (cost—investment property)[(6)]	CU180,000,000	
Dr	Property, plant and equipment (cost—land and buildings)[(7)]	CU20,000,000	
	Cr Cash		CU200,000,000

To recognise the acquisition of nine units of investment property and one owner-occupied property.

Dr	Property, plant and equipment (cost—investment property)	CU18,000,000	
Dr	Property, plant and equipment (cost—land and buildings)	CU2,000,000	
	Cr Cash		CU20,000,000

To recognise the non-refundable transfer taxes incurred in acquiring the property.

Dr	Property, plant and equipment (cost—investment property)	CU900,000	
Dr	Property, plant and equipment (cost—land and buildings)	CU100,000	
	Cr Cash		CU1,000,000

To recognise legal costs directly attributable to the acquisition of the property.

Dr	Prepaid expenses (asset)	CU10,000	
	Cr Cash		CU10,000

To recognise local government property taxes prepaid for the six months ending 30 June 20X1.

Dr	Profit or loss (operating expenses)	CU500,000	
	Cr Cash		CU500,000

To recognise expenditure on the advertising campaign to attract tenants.

At 2 January 20X1

Dr	Profit or loss (operating expenses)	CU200,000	
	Cr Cash		CU200,000

To recognise expenditure on the opening function for the investment property business.

[(6)] The fair value of the units cannot be determined reliably without undue cost or effort on an ongoing basis. Therefore, in accordance with paragraph 16.1, SME A accounts for the units as property, plant and equipment using the cost-depreciation-impairment model in Section 17. However, in accordance with paragraph 17.31, it discloses investment property as a separate class of property, plant and equipment (see the definition of a class of assets in the Glossary).

[(7)] Although the entity discloses buildings and the land on which they are built as a single class of asset they are accounted for separately (ie the building is depreciated and the land is not depreciated).

At 30 June 20X1

Dr	Prepaid expense (asset)	CU20,000	
	Cr Cash		CU20,000

To recognise local government property taxes paid on 30 June 20X1 for the twelve months ending 30 June 20X2.

For the year ended 31 December 20X1

Dr	Profit or loss (operating expenses)	CU10,000	
	Cr Prepaid expenses (asset)		CU10,000

To recognise as an expense local government property taxes prepaid on 1 January 20X1 for the first six months ending 30 June 20X1.

Dr	Profit or loss (operating expenses)	CU10,000	
	Cr Prepaid expenses (asset)		CU10,000

To recognise local government property taxes paid on 30 June 20X1 for the last six months of the current reporting period. CU10,000 will remain as an asset as it relates to the first six months of the next reporting period.

Dr	Cash	CU270,000	
	Cr Rental deposits (liability)		CU270,000

To recognise rental deposits received from tenants in 20X1.

Dr	Cash	CU1,550,000	
	Cr Profit or loss (revenue—rental income)		CU1,500,000
	Cr Rental received in advance (liability)		CU50,000

To recognise rents received from tenants in 20X1.

Dr	Profit or loss (operating expenses)	CU120,000	
	Cr Cash		CU120,000

To recognise day-to-day repairs and maintenance of the building in 20X1.

Dr	Profit or loss (operating expenses)	CU3,536,000[(a)]	
	Cr Accumulated depreciation (PPE—investment property)		CU3,182,400[(c)]
	Cr Accumulated depreciation (PPE—buildings)		CU353,600[(d)]

To recognise depreciation of buildings in 20X1.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) [CU176,800,000[(b)] cost of buildings less nil residual value] ÷ 50 years (consume future economic benefits evenly over the 50 year useful life of the building) = CU3,536,000 depreciation for the year. Note: the residual value of the buildings is considered to be nil (given the fair value cannot be determined reliably).

(b) Total cost of property: CU200,000,000 purchase price + CU20,000,000 non-refundable transfer taxes + CU1,000,000 legal costs = CU221,000,000. Cost of buildings = CU221,000,000 × 80% = CU176,800,000

(c) 90% of CU3,536,000[(a)] (depreciation for the year) = CU3,182,400 depreciation—investment property accounted for as property, plant and equipment

(d) 10% (owner-occupied) of CU3,536,000[(a)] (depreciation for the year) = CU353,600 depreciation—PP&E

Case study 2

SME B has one item of investment property, a building held for rental and the land on which it is built. At 31 December 20X1 the carrying amount of the property was CU2,000,000, net of CU1,000,000 accumulated depreciation. SME B measures investment property using the cost-depreciation-impairment model, as the fair value cannot be measured reliably without undue cost or effort on an ongoing basis. It depreciates the building on the straight-line method over 50 years to a nil residual value. The land on which the building is situated is immaterial. The land and buildings are rented to an independent third party for CU150,000 per year. The lease expires on 31 December 20X5.

On 30 June 20X2 SME B acquired all of the equity of SME C, when the fair value of SME C's properties were:

Description	*Business purpose*	*CU*
Factory building A	Held to earn lease rentals and for capital appreciation	1,500,000
Factory building B	Held to earn lease rentals and for capital appreciation	9,000,000
Office building A	Held to earn lease rentals and for capital appreciation	7,000,000
Land A (vacant)	Acquired with the intention of building an office building to be occupied by SME C's administrative staff	4,000,000
Land B (vacant)	Held to earn lease rentals and for capital appreciation	1,000,000
Land C (vacant)	Held to earn lease rentals and for capital appreciation	2,000,000
Total		24,500,000

The fair value of these properties can be determined without undue cost or effort on an ongoing basis.

On 30 June 20X2 SME C's investment property is leased to third parties, as follows:

Description	*Remaining period*	*Rent*
Factory building A	2.5 years	CU80,000 per year
Factory building B	1.5 years	CU450,000 per year
Office building A	3.5 years	CU350,000 per year

On 30 September 20X2, in response to an unsolicited offer, SME C disposed of Factory building B for CU9,100,000.

On 1 October 20X2, when the fair value of Land B was CU1,050,000, SME C changed the purpose for which it holds Land B. It immediately began to develop Land B as a residential housing estate for sale in the ordinary course of business.

On 12 October 20X2 SME C was granted planning permission, at a cost of CU500,000, for the development of an office block on Land C. SME C intends to use the office block to earn lease rentals from independent third parties and for capital appreciation. On 16 December 20X2 SME C contracted Entity D (an independent third party) to construct the office block. The CU10,000,000 fixed price contract provides that the construction commence by 30 June 20X3 and be completed by 30 June 20X5.

On 31 December 20X2 SME B's investment property was pledged as security for a CU3,000,000 loan from Bank A. The loan was advanced to SME B on 30 December 20X2 and bears interest at the fixed rate of 3 per cent per year. The loan is repayable in full on 31 December 20X8.

On 31 December 20X2 SME B acquired an office building—Office building B for CU3,000,000. SME B's administrative staff immediately occupied the building.

At 31 December 20X2 management employed 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 to estimate the fair value of the group's properties. The valuer assessed the fair value of the property with reference to recent arm's length sales prices of similar properties in the same area, adjusted for changes in market conditions since the sales transactions and for differences between the properties sold and the group's property.

Description	*Fair value (CU)*
SME B's building	5,000,000
Factory building A	1,700,000
Office building A	7,500,000
Office building B	3,000,000
Land A (vacant)	4,500,000
Land B (and buildings under construction)	2,200,000
Land C (vacant)	3,000,000

At 31 December 20X2 the fair value of all of the group's investment properties (including SME B's building) can be determined without undue cost or effort on an ongoing basis.

The land on which buildings are situated is immaterial.

Draft an extract showing how investment property could be presented and disclosed in the consolidated financial statements of SME B group for the year ended 31 December 20X2.

Answer to case study 2

[Extract from] SME B group consolidated statement of financial position at 31 December 20X2

Description	*Note*	*20X2*	*20X1*
Property, plant and equipment	11	CU7,000,000	CU2,000,000
Investment property	12	CU17,200,000	–

[Extract from] SME B group notes for the year ended 31 December 20X2

Note 1 Accounting policies

Investment property

Items of investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis are, after initial recognition, measured at fair value with changes in fair value recognised in profit or loss.

All other investment property is accounted for as property, plant and equipment using the cost-depreciation-impairment model.

Property, plant and equipment

Investment property whose fair value cannot be measured reliably is accounted for as property, plant and equipment, ie after initial recognition it is measured at cost less accumulated depreciation and accumulated impairment losses. The residual value of such investment property is deemed to be nil, as its fair value cannot be measured reliably without undue cost or effort on an ongoing basis. Depreciation is charged so as to allocate the cost of the buildings over their estimated useful lives, using the straight-line method. Land has an indefinite useful life and is therefore not depreciated. The useful life of buildings is 50 years from the date of construction. Investment property is disclosed as a separate class of property, plant and equipment.

Note 3 Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	20X2		*20X1*	
	CU		*CU*	
Increase in the fair value of an investment property during the past 17 years that is recognised upon its transfer from property, plant and equipment when management determined that the fair value of the property can be determined reliably without undue cost or effort on an ongoing basis	(3,060,000)	(a)	–	
Increase in the fair value of investment property during the year	(1,350,000)	(d)	–	
Rental income from investment property	(477,500)	(e)	(150,000)	(f)
Depreciation	60,000	(c)	60,000	(c)

Note 11 Property, plant and equipment

Description	*Land*	*Land and buildings*	*Investment property*		*Total (CU)*
Cost			3,000,000		3,000,000
Accumulated depreciation			(1,000,000)		(1,000,000)
Carrying amount at 31 December 20X1			**2,000,000**		**2,000,000**
Acquired in a business combination	4,000,000				4,000,000
Additions		3,000,000			3,000,000
Transferred to investment property when the fair value of the property can be measure reliably without undue cost or effort on an ongoing basis			(1,940,000)	(b)	(1,940,000)
Depreciation			(60,000)	(c)	(60,000)
Carrying amount at 31 December 20X2—cost	**4,000,000**	**3,000,000**	**–**		**7,000,000**

Note 12 Investment property

	CU	
Carrying amount at 31 December 20X1	**–**	
Transferred from property, plant and equipment when the fair value of the property could be measure reliably without undue cost or effort on an ongoing basis	5,000,000	
Additions	500,000	(g)
Acquired in a business combination	20,500,000	(h)
Transferred to inventory	(1,050,000)	(i)
Disposals	(9,100,000)	(j)
Gain in fair value during the year	1,350,000	(d)
Carrying amount at 31 December 20X2	**17,200,000**	(k)

The fair value of investment property is determined at the end of each year by independent suitably qualified valuers using current market prices for comparable real estate, adjusted for any differences in nature, location and condition of the property and any changes in market conditions since the transactions took place.

At 31 December 20X2 the group had contracted Entity D to construct an office block on vacant land owned by the group. The CU10,000,000 fixed price contract requires construction to commence by 30 June 20X3 and to be completed by 30 June 20X5. There were no contractual commitments at 31 December 20X1.

On 31 December 20X2 SME B's investment property was pledged as security for a CU3,000,000 loan from Bank A. The loan bears interest at the fixed rate of 3 per cent per year and is repayable in full on 31 December 20X8. The group's investment property was unencumbered at 31 December 20X1.

The non-cancellable fixed rate operating leases over the group's investment property land and buildings were entered into at market rates with independent third parties.

	20X3	*20X4*	*20X5*	*Total*
The minimum lease payments receivable under non-cancellable operating leases	CU580,000[l]	CU580,000[l]	CU500,000[m]	CU1,660,000

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) CU5,000,000 fair value less CU1,940,000[b] carrying amount of SME B's building on the date of reclassification = CU3,060,000 gain recognised in 20X2.

(b) CU2,000,000 carrying amount at 31 December 20X1 less CU60,000 depreciation for 20X1[c] = CU1,940,000

(c) CU3,000,000 cost ÷ 50 years = CU60,000 depreciation per year

(d) CU200,000 increase in fair value of factory building A + CU500,000 increase in fair value of office building A + CU500,000 increase in fair value of land C + CU100,000 increase in fair value of factory building B + CU50,000 increase in the fair value of land B before the change in its use = CU1,350,000 total increase in fair value of investment property accounted for using the fair value model

(e) CU40,000 factory building A (for 6 months) + CU112,500 factory building B (for 3 months) + CU175,000 office building A (for 6 months) + CU150,000 SME B's building (12 months) = CU477,500 rental income

(f) CU150,000 SME B's building (12 months)

(g) CU500,000 cost of planning permission for Land C, paragraphs 16.7 and 17.10(b)

(h) CU20,500,00 = CU17,500,000 buildings + CU3,000,000 lands (ie cost to the group is fair value at the date of acquisition, see paragraph 19.14).
Buildings: CU1,500,000 Factory building A + CU9,000,000 Factory building B + CU7,000,000 Office building A = CU17,500,000.
Lands: CU1,000,000 Land B + CU2,000,000 Land C = CU3,000,000

(i) CU1,050,000 carrying amount (ie CU1,000,000 cost + CU50,000 increase in fair value) of Land B on the date it ceased to be investment property carried at fair value and became inventory (ie held for the sale in the ordinary course of business, paragraph 13.1(a))

(j) CU9,100,000 carrying amount (ie CU9,000,000 cost + CU100,000 increase in fair value of factory building B—investment property carried at fair value)

(k) CU5,000,000 SME B's property + CU1,700,000 Factory building A + CU7,700,000 Office building A + CU3,000,000 land C = CU15,500,000 fair value of investment property on 31 December 20X2.

(l) CU150,000 SME B's property + CU80,000 Factory building A + CU350,000 Office building A = CU580,000.

(m) CU150,000 SME B's property + CU350,000 Office building A = CU500,000.