



**IFRS AT A GLANCE**  
**IAS 40 *Investment Property***



# IAS 40 *Investment Property*

## CLASSIFICATION

### Partial own use

- ▶ If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately under a finance lease, they are accounted for separately. The part that is rented out is investment property
- ▶ If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied (property, plant and equipment) portion is insignificant.



### Provision of ancillary services to occupants

If those services (e.g. security or maintenance services) are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property. Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied property, plant and equipment.



### Interrelationship between IFRS 3 and IAS 40

Judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 *Business Combinations*. The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IFRS 3.

### Inter-company rentals

Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.

Such property will be investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.

### Transfers

Only permits assets to be reclassified into or out of the investment property category when and only when there is a change in use and provides examples. In isolation, a change in management's intention does not provide evidence of a change in use.



# IAS 40 Investment Property

## SCOPE

This Standard shall be applied in the recognition, measurement and disclosure of investment property.

This Standard does not apply to: (a) biological assets related to agricultural activity (see IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*); and (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

## DEFINITION

Property (land or a building or part of a building or both) held (by the owner or by the lessee as a right of use asset) to earn rentals or for capital appreciation or both.

### INCLUDES

- ▶ Land held for long-term capital appreciation
- ▶ Land held for indeterminate future use
- ▶ Building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.
- ▶ Vacant building held to be leased out under an operating lease
- ▶ Property being constructed/developed for future use as investment property.

### EXCLUDES

- ▶ Property held for use in the production or supply of goods or services or for administrative purposes (IAS 16 *Property, Plant and Equipment* applies)
- ▶ Property intended for sale in the ordinary course of business or in the process of construction or development for such sale (IAS 2 *Inventories* applies)
- ▶ Owner-occupied property (IAS 16 and IFRS 16 applies)
- ▶ Property leased to another entity under a finance lease (IFRS 16 applies).

## RECOGNITION

- ▶ An owned investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the enterprise, and the cost of the property can be reliably measured.
- ▶ An investment property held by a lessee as a right-of-use asset shall be recognised in accordance with IFRS 16.

## MEASUREMENT

### Initial measurement

- ▶ An owned investment property is initially measured at cost, including transaction costs. Cost does not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.
- ▶ An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with IFRS 16.

### Subsequent measurement

An entity can choose between the fair value and the cost model. The accounting policy choice must be applied to all investment property.

#### Fair value model

- ▶ Investment properties are measured at fair value, which is the price that would be received to sell the investment property in an orderly transaction between market participants at the measurement date (see IFRS 13 *Fair Value Measurement*)
- ▶ Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises
- ▶ In rare exceptional circumstances if fair value cannot be determined, the cost model in IAS 16 is used to measure the investment property.
- ▶ When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property, at fair value.

#### Cost model










- ▶ Investment property is measured in accordance with requirements set out for that model in IAS 16.

# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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