



# IAS 40 Investment Property

## Objective

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

## Scope

This Standard does not deal with matters covered in IAS 17 *Leases*, including:

- (a) classification of leases as finance leases or operating leases;
- (b) recognition of lease income from investment property (see also IAS 18 *Revenue*);
- (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
- (d) measurement in a lessor's financial statements of its net investment in a finance lease;
- (e) accounting for sale and leaseback transactions; and
- (f) disclosure about finance leases and operating leases.

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.

Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease.

## Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

## Defined terms

*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.

*Owner-occupied property* is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

## Classification of property as investment property or owner-occupied property

### Property held under an operating lease

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, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model for the asset recognised.

This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures.

### Partial own use

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an 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. IAS 16 *Property, plant and equipment* applies to owner-occupied property.

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.

### Provision of ancillary services to occupants

In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building. In other cases, the services provided are significant.

### Inter-company rentals

Property leased to, and occupied by, its parent or subsidiary does not qualify as investment property in consolidated financial statements 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.

## Measurement at initial recognition

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease, i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability.

## Measurement after recognition

An entity may:

- (a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and
- (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

### Cost model

- After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with IFRS 5

### Fair value model

- After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value,
- When a property interest held by a lessee under an operating lease is classified as an investment property is not elective; the fair value model shall be applied.
- A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.
- Requirements relating to the inability to measure fair value reliably

## Transfers

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

For a transfer from investment property carried at fair value to owner-occupied property or inventories:

- the property's deemed cost for subsequent accounting in accordance with IAS 16 *Property, plant and equipment* or IAS 2 *Inventories* shall be its fair value at the date of change in use. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IAS 16 *Property, plant and equipment* up to the date of change in use.
- the entity shall treat any difference at that date between the carrying amount of the property in accordance with IAS 16 *Property, plant and equipment* and its fair value in the same way as a revaluation in accordance with IAS 16 *Property, plant and equipment*.

For a transfer from inventories to investment property:

- that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

When an entity completes the construction or development of a **self-constructed** investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

## Disposals

An investment property shall be de-recognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss.

Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

## Presentation and disclosure

An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of investment property held in accordance with either the cost model or the fair value model.

### Cost model and fair value model

#### In the Notes to the financial statement:

An entity that applies either the cost model or the fair value model shall disclose:

- (a) whether it applies the fair value model or the cost model;
- (b) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business;
- (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and
- (d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

#### In the Statement of Comprehensive Income:

- (a) the amounts recognised in profit or loss for:
  - (i) rental income from investment property;
  - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;
  - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; and
  - (iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used.

### Cost model

The following are disclosure requirements for investment property held in accordance with the cost model:

#### In the Notes to the financial statement:

An entity that applies the cost model shall disclose:

**In the Notes to the financial statement:**

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
  - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
  - (ii) additions resulting from acquisitions through business combinations;
  - (iii) assets classified as held for sale or included in a disposal group classified as held for sale and other disposals;
  - (iv) depreciation;
  - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period;
  - (vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
  - (vii) transfers to and from inventories and owner-occupied property; and
  - (viii) other changes.
- (e) the fair value of investment property. In the exceptional cases, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:
  - (i) a description of the investment property;
  - (ii) an explanation of why fair value cannot be measured reliably; and
  - (iii) If possible, the range of estimates within which fair value is highly likely to lie.

## Fair value model

The following are disclosure requirements for investment property held in accordance with the fair value model:

**In the Notes to the financial statement:**

An entity that applies the fair value model shall disclose:

- (a) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
  - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;
  - (ii) additions resulting from acquisitions through business combinations;
  - (iii) assets classified as held for sale or included in a disposal group classified as held for sale and other disposals;
  - (iv) net gains or losses from fair value adjustments;
  - (v) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
  - (vi) transfers to and from inventories and owner-occupied property; and
  - (vii) other changes.

**In the Notes to the financial statement:**

- (b) when a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease liabilities that have been added back, and any other significant adjustments.
  
- (c) 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 category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.