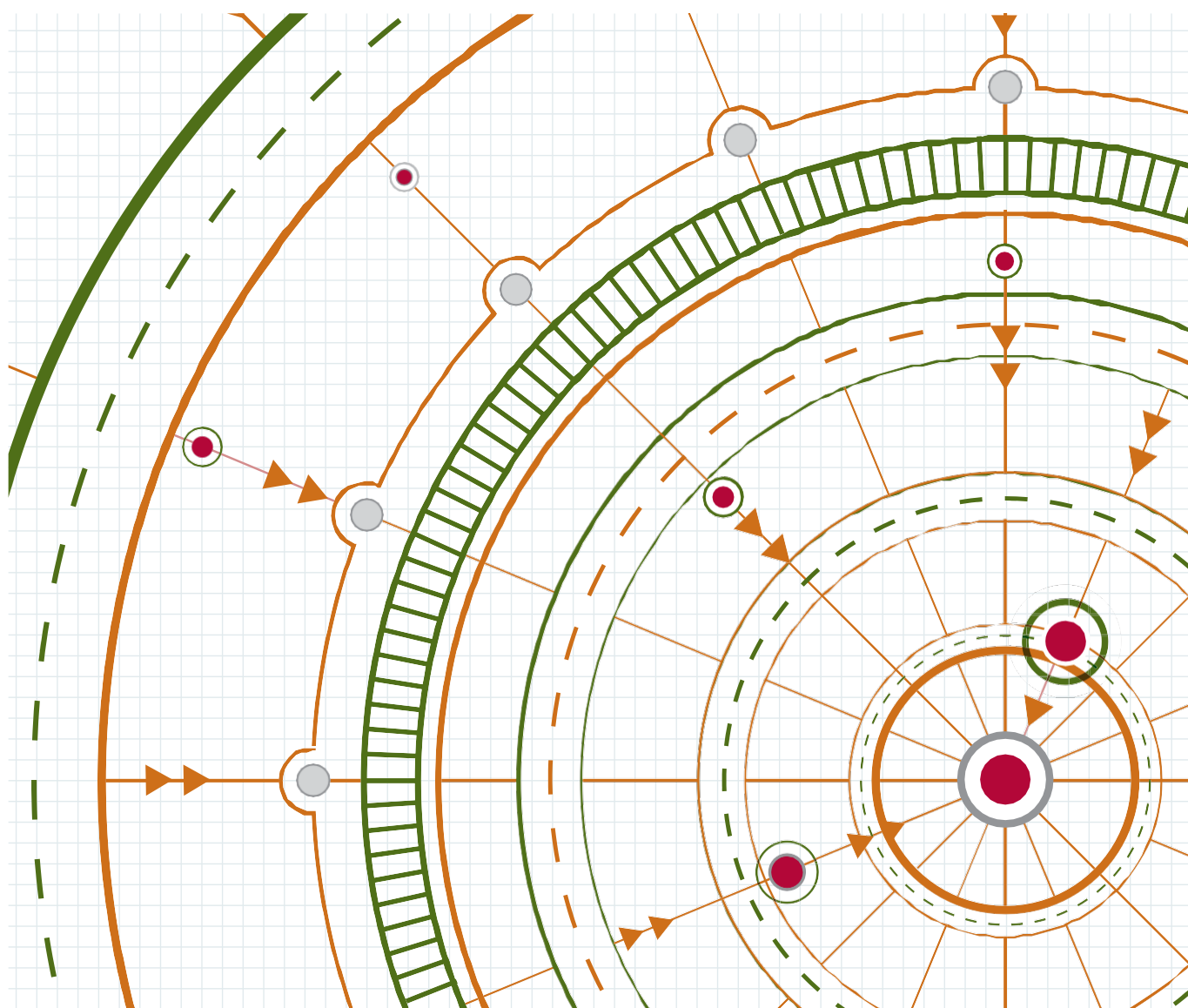


Module 16—Investment Property



IFRS[®] Foundation

Supporting Material

for the *IFRS for SMEs*[®] Standard

including the full text of
Section 16 *Investment Property*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case studies

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Module 16—Investment Property

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015. This module has been prepared by IFRS Foundation education staff. The contents of Section 16 *Investment Property* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 16. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs*® Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on the general requirements for accounting and reporting of investment property applying Section 16 *Investment Property* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in accounting for investment property. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provide a practical opportunity to apply the requirements to account for and disclose investment property applying the *IFRS for SMEs* Standard.

Module 16—Investment Property

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

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

IFRS for SMEs Standard

The *IFRS for SMEs* Standard 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* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

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

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (January 2019) the SMEIG has not issued any Q&As relevant to this module.

Module 16—Investment Property

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. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 16 is to prescribe the accounting treatment of, and the presentation and disclosure requirements for, investment property so that users of financial statements are informed about an entity's investment property and the changes in such investment.

Investment property is defined by paragraph 16.2 as property 'held by the owner, or by the lessee under a finance lease, to earn rentals or for capital appreciation or both'. The definition goes on to exclude property held for 'use in the production or supply of goods or services or for administrative purposes' (see Section 17 *Property, Plant and Equipment*) or for 'sale in the ordinary course of business' (see Section 13 *Inventories*).

Section 16 requires an entity to account for all items of investment property at initial recognition at their cost. Measurement after initial recognition will either be the cost or fair value models. The approach taken depends on circumstances rather than being an accounting policy choice. If an entity can measure the fair value of an item of investment property reliably on an ongoing basis without undue cost or effort, it must measure the property at fair value through profit or loss. Otherwise, the item of investment property is accounted for using the cost model in Section 17.

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

What has changed since the 2009 *IFRS for SMEs* Standard?

The changes made to Section 16 by the 2015 Amendments are a result of the new requirements to present investment property measured under the cost model separately in the statement of financial position and to disclose the use of the model separately in the notes. Previously, investment property measured under the cost model was required to be included within property, plant and equipment.

In addition, this module reproduces other editorial changes.

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REQUIREMENTS AND EXAMPLES

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 using the cost 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

Property-investment entities are not the only entities that hold investment property. Many entities whose main business is not property investment (eg some manufacturers and retailers) hold property for rental to others and for capital appreciation. Such property meets the definition of investment property.

The accounting for investment property is not an accounting policy choice. Instead, it 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 measure that property at fair value through profit or loss. An entity must use the cost model in Section 17 for any investment property for which the entity cannot reliably measure that property's fair value on an ongoing basis without undue cost or effort. Section 4 *Statement of Financial Position* requires investment property carried at cost less accumulated depreciation and impairment to be presented in the statement of financial position separately from investment property carried at fair value through profit or loss and separately from property, plant and equipment (see paragraphs 4.2(e), 4.2(ea) and 4.2(f)).

Applying a requirement would involve undue cost or effort by an SME if the incremental cost (eg valuers' fees) or additional effort (eg endeavours by employees) substantially exceed the benefits that having the information would provide to those expected to use the SME's financial statements (see paragraph 2.14B). If an SME already has or could easily and inexpensively acquire the information necessary to comply with a requirement, any related exemption on the grounds of undue cost or effort would not apply. In such cases, the benefits of the information to users of the financial statements would be expected to exceed any further cost or effort by the SME. Assessing whether a requirement would involve undue cost or effort on initial recognition in the financial statements, for example, at the date of the transaction, should be based on information about the costs and benefits at that date. If the undue cost or effort exemption also applies after initial recognition to a subsequent measurement of an item, a new assessment of undue cost or effort should be made at that subsequent date, based on information available at that date (see paragraph 2.14C).

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An entity's management applies judgement in determining whether the fair value of an investment property can be measured reliably on an ongoing basis without undue cost or effort. The *IFRS for SMEs* Standard does not define 'ongoing basis'. In the context of paragraph 16.1, an 'ongoing basis' implies 'has been happening for some time and seems likely to continue for some time'. A one-off non-binding offer, for instance, does not in itself constitute an ongoing basis.

An example of where fair value cannot be measured reliably without undue cost or effort on an ongoing basis could include the following set of circumstances: there are no recent transactions for comparable properties; price quotations are not current; observed transaction prices indicate that the seller was forced to sell; and alternative reliable estimates of fair value (such as those based on discounted cash flow projections) are not available or require such significant cost or employee time to estimate that the benefits of having the fair value are substantially outweighed, and this circumstance is expected to continue for some time.

The undue cost or effort exemption may apply to only one or some of an entity's investment properties but not all of them, for example, due to the specialised nature or the location of a particular property.

Where an entity uses the undue cost or effort exemption for investment property, the entity shall disclose that fact and the reasons why applying the requirement would involve undue cost or effort (see paragraphs 2.14D and 17.32(c)).

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, instead of 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

Investment property generates cash flows largely independently of the other assets held by an entity. Independent cash flows distinguish investment property from owner-occupied property (described in paragraph 16.2(a)). Using a property for producing goods or services, as in a factory, or supply of goods or services, as in a retail outlet, or for administrative purposes, as in a head office, generates cash flows attributable not only to the property, but also to other assets used in production or supply.

Provided that owner-occupied property is expected to be used during more than one financial reporting period, it is property, plant and equipment (see Section 17 *Property, Plant and Equipment*).

In some cases, an entity owns property leased to and occupied by its parent or by another subsidiary. The property would not meet the definition of investment property in the consolidated financial statements because the property is owner-occupied from the perspective of the group. However, in the entity's individual

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financial statements, the property would be investment property because it meets the definition in paragraph 16.2.

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

See paragraph 16.4 for the classification of mixed use property.

An entity sometimes needs to use judgement to decide whether a property qualifies as investment property. For example, when an entity provides ancillary services to the occupants of a property it holds, the entity may need to use judgement to decide how to treat the property. If services are clearly insignificant to the arrangement, as a whole, the property would be investment property.

The *IFRS for SMEs* Standard does not specify how to classify land 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 IFRS Standards (see paragraph 10.6 of the *IFRS for SMEs* Standard).

IAS 40 *Investment Property* specifies that land acquired for an undetermined purpose is classified as investment property (see paragraph 8(b) of IAS 40) because an entity would have to make an investment decision about whether to use such land as inventory or for development as owner-occupied property (see the Basis for Conclusions in IAS 40 paragraph B67(b)(ii)).

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

Examples—investment property

Ex 1 An entity rents out a building it owns to independent third parties under operating leases.

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 rents out a building it owns to independent third parties under operating leases. 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, 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 it rents out to an independent third party (the lessee) under an operating lease. The lessee operates a boutique hotel from the building and provides a range of services commonly provided by such hotels. The entity does not provide any services to the hotel guests and its rental income is unaffected by the number of guests that occupy the hotel (ie the entity is a passive investor).

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

- Ex 4 An entity (parent) owns a building it rents out to its subsidiary under an operating lease. 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 group uses the building for the supply of goods. Therefore, the building is accounted for as an item of property, plant and equipment in the consolidated financial statements.

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*. The leased property is not an investment property of the subsidiary.

- 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; nor is it used in the production or supply of goods or services or for administrative purposes.

Examples—not investment property

- Ex 6 An entity owns a building that it rents out to an independent third party under a finance lease.**

The building is not classified as an investment property by the entity (lessor). Applying Section 20 the entity would derecognise the building at the commencement of the lease term. In respect of the building held under the finance lease, the entity would have recognised the asset and presented it as a receivable (see paragraph 20.17).

- Ex 7 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 40% profit margin. No rentals are expected to be generated from the land.**

The land is not classified as investment property (see paragraph 16.2(b)). It is classified as inventory. It is held for sale in the ordinary course of business (see paragraph 13.1).

- Ex 8 An entity owns a building which it operates as a hotel (ie it rents out rooms to independent third parties in return for payments). The entity provides hotel guests with a range of services commonly provided by 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, minibars, and guided tours of the surrounding area).**

Because the entity is actively engaged in operating a hotel business in the building, it should be classified as property, plant and equipment (see paragraph 17.2). Its cash inflows (income from letting out the rooms and income from the other services

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provided) are dependent on the way it operates the hotel business. Therefore, the building is not an investment property.

- 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

Applying 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. If the lessee makes an upfront payment relating to a property interest held under an operating lease, the lessee is required to account for that payment as a prepaid expense, not as an item of property.

However, subject to the following proviso, paragraph 16.3 allows an entity (as the lessee) to elect to recognise a leased asset (the property interest) and the related lease obligation, on a property-by-property basis, and account for that property interest as if it were an investment property. The proviso is that the property otherwise meets 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.

When accounting for an operating lease in this way, the entity initially recognises a leased asset (the property interest) and the related lease obligation by accounting as though the lease were a finance lease (see paragraph 16.6). Subsequently, the entity is required to account for the property interest at fair value (see paragraph 16.7).

Examples—operating leasehold property interest and other property interest

- Ex 9 **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 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 because 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 by applying paragraph 16.

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.

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- Ex 10** The facts are the same as in Example 9 but 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 in 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 11** The facts are the same as in Example 10. In a subsequent reporting period, the entity purchases another building (Building 3) and 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.

Building 3 has been purchased by the entity. Consequently, because the property is held to earn rentals, the property is classified as investment property. The entity has no choice in classification.

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

- Ex 12** The facts are the same as in Example 11. In a subsequent reporting period, the entity, as a lessee, leases another building (Building 4) through a finance lease. It leases, as lessor, Building 4 under an operating lease to an independent third party. The entity can determine the fair value of Building 4 without undue cost or effort on an ongoing basis.

The entity has acquired Building 4 through a finance lease. Consequently, because the property is held to earn rentals, the property is classified as investment property. The entity has no choice in classification.

The entity accounts for its interests in buildings 1, 3 and 4 as investment property. Its interest in Building 2 is accounted for as an operating lease.

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- 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.

Notes

Some properties comprise a portion held to earn rentals or for capital appreciation (investment property) and another portion held for use in the production or supply of goods or services or for administrative purposes (property, plant and equipment).

Examples—mixed use property

- Ex 13 **An entity owns a building that it rents out to independent third parties under operating leases. The entity provides cleaning, security and maintenance services for the lessees of the building. To do this, the entity's building administration and maintenance staff occupy a part of the building that measures less than 1% of the floor area of the building.**

The entire 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 so the building does not need to be accounted for as a mixed use property.

- Ex 14 **An entity owns a building it rents out to independent third parties under operating leases. The entity's building administration and maintenance staff occupy 25% of the building's floor area.**

The entity (owner) occupies 25% of the floor area of the building. The mixed use building should 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 should be accounted for as property, plant and equipment by applying Section 17.

- Ex 15 **An entity owns a two-storey building. Floor 1 is rented out to independent third parties under operating leases. 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) because it is held to earn rentals (see paragraph 16.2). It is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Floor 2 of the building is classified as property, plant and equipment because it is 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 using either the cost model or the revaluation model (see paragraph 17.15).

If the fair value of floor 2 could not be measured reliably without undue cost or effort, then it is also accounted for using the cost model applying Section 17 *Property, Plant and Equipment*. It would still be disclosed separately from property plant and equipment (see Section 4 *Statement of Financial Position* paragraph 4.2(ea))

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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 building for CU1,000,000.⁽¹⁾ The purchase price was funded by a loan of CU1,000,000. The entity incurred CU10,000 loan raising fees. The loan is secured against the building. Non-refundable property transfer taxes and direct legal costs of CU50,000 and CU10,000 respectively 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; and
- CU1,500,000 construction costs (including CU60,000 refundable purchase taxes).

The redevelopment was completed and the apartments were 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?

Description	Calculation or reason	CU	Reference to IFRS for SMEs Standard
Purchase price	Purchase price	1,000,000	16.5 & 17.10(a)
Loan raising fee	Offset against the measurement of the liability	-	11.13
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	

* Amortisation of the loan raising fee would form part of the borrowing costs calculated using the effective interest method.

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

Module 16—Investment Property

- 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. The entity then 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 using the cost model in Section 17.

Notes

Measurement after initial recognition is driven by circumstances rather than being 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 measure the property at fair value through profit or loss. Otherwise, it must use the cost model in Section 17.

The notes beneath paragraph 16.1 explain the meaning of undue cost or effort on an ongoing basis.

If it is concluded that fair value for one or more properties cannot be measured reliably on an ongoing basis without undue cost or effort, the cost model is applied to those investment properties. The other investment properties would be measured at fair value through profit or loss.

Module 16—Investment Property

Investment property accounted for using the cost model is subject to impairment testing applying 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).

Similarly, investment property accounted for using the cost model will be depreciated. In order to calculate depreciation, an entity needs to estimate the residual value of property. 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. There is no undue cost or effort exemption for this estimate.

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 complies with the *IFRS for SMEs* Standard. It accounts for its investment property using the cost model in Section 17 (see paragraph 17.15A). It also follows the disclosure requirements in that section. The entity also provides the disclosure required by paragraphs 2.14D and 17.32(c) that the entity has used the undue cost or effort exemption and discloses why measuring the fair value of the investment properties would involve undue cost or effort. In the statement of financial position, the investment property would be presented separately from property, plant and equipment—see paragraph 4.2(e) and (ea).

- Ex 19** An entity can measure reliably the fair value 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 complies with the *IFRS for SMEs* Standard. It measures its investment property at fair value at each reporting date with changes in fair value recognised in profit or loss.

Module 16—Investment Property

- Ex 20** An entity has many investment properties. Management can determine the fair value of its investment properties, except that for a remote building, reliably without undue cost or effort on an ongoing basis. Management cannot estimate reliably the fair value of the remote building. Management measures all its investment properties, after initial recognition, at fair value, except for the remote building which it measures under the cost model in Section 17.

The entity's accounting complies with the *IFRS for SMEs* Standard—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 measure the property at fair value through profit or loss. Otherwise, it must use the cost model in Section 17.

When the cost model in Section 17 is applied, the investment property is recognised in the statement of financial position separately from the investment properties at fair value and separately from property, plant and equipment. The disclosures required by Section 17 would be made separately from the disclosures for property, plant and equipment accounted for using the cost model. The disclosure required by paragraph 2.14D is repeated in paragraph 17.32(c).

- Ex 21** On 1 January 20X1 an entity purchased a newly built five-storey office building for CU1,000,000. The building was purchased to earn rental income from third parties. Shortly after acquiring the building the entity had rented it out to two tenants: one occupying two floors and the other occupying three floors.

The entity is able to measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and at 31 December 20X1 the fair value was CU1,085,000. At 31 December 20X2 the fair value was CU1,206,000.

How does the entity account for the investment property?

The carrying amount for the investment property in the statement of financial position at 31 December 20X1 is its fair value of CU1,085,000; and at 31 December 20X2 is its fair value of CU1,206,000.

In addition to the rental income earned during the year, the income statement for the year ended 31 December 20X1 includes the increase in fair value of CU85,000 (CU1,085,000 less CU1,000,000). The income statement for the year ended 31 December 20X2 includes the increase in fair value of CU121,000 (CU1,206,000 less CU1,085,000) in addition to the rental income earned during that year.

Module 16—Investment Property

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 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 is required to reclassify 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 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 previously held to earn rentals, the property is transferred from investment property to property, plant and equipment). When a transfer takes place, the classifications in the comparative period are not changed because they faithfully represent the circumstances and use to which the asset was put in the comparative period (ie it is correct for the property to be classified as property, plant and equipment in the current period but as investment property in the comparative period).

If circumstances change and a reliable measure of fair value is no longer available without undue cost or effort on an ongoing basis for an item of investment property, the property is thereafter accounted for using the cost model until a reliable measure of fair value becomes available again. The property's carrying amount on the date of transfer is deemed to be its cost.

If circumstances change and a reliable measure of fair value becomes available without undue cost or effort on an ongoing basis for an item of investment property that is accounted for using the cost model, the property will thereafter be carried at its fair value (while a reliable measure of fair value remains available without undue cost or effort). The Standard is silent on how to treat any difference between: (i) the carrying amount at the date a reliable measure of fair value becomes available; and (ii) the fair value. Paragraphs 5.2(b) and 5.4 of the *IFRS for SMEs* Standard require items of income and expense to be recognised in profit or loss unless the Standard requires or permits otherwise. An entity would therefore recognise the difference in profit or loss. The gain recognised in profit or loss on remeasuring the property to its fair value on the date of transfer should be separately disclosed if it is material (see paragraphs 3.2 and 16.10(e)).

Module 16—Investment Property

Example—transfers

- Ex 22** On 1 January 20X1 an entity acquired an investment property for CU1,000,000 (which was allocated: building CU700,000; and land CU300,000). At 31 December 20X2 the entity measured the fair value of the property at CU1,200,000 (which was allocated: building CU840,000; and land CU360,000) and recognised the investment property at this amount in its statement of financial position. From 31 December 20X2 management can no longer measure reliably the fair value of the property. Management estimates the remaining useful life of the building as 30 years. The residual value of the building is estimated to be nil.

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

At 1 January 20X3 the entity must transfer the property from investment property at fair value to investment property carried using the cost model. The transfer must be made at the property's carrying amount of CU1,200,000. That amount is deemed to be the cost of the property. From 1 January 20X3 the entity will depreciate the building using the straight-line method over its remaining useful life of 30 years to a nil residual value. The entity recognises one year of depreciation of CU28,000 (CU840,000/30 years) in profit or loss for the year ended 31 December 20X3. At 31 December 20X3 the carrying amount of the investment property is CU1,172,000 (CU1,200,000 less CU28,000). The entity must disclose the reclassification as a change of circumstances.

- Ex 23** 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 model.

Management estimated the useful life of the building at 50 years measured from the date of acquisition. The residual value of the building was estimated to be nil. 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 estimated to be CU200,000.

In 20X3 the land next to the entity's property was rezoned from farmland to residential land. After 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 December 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, without undue cost or effort, the fair value of its investment property as CU2,000,000. Management made the determination with reference to recent arm's length sales of similar properties on the land next to the entity's property and by making adjustments for factors specific to the entity's property. The entity expects that in future years it will also be able to measure reliably, without undue cost or effort, the fair value of the property.

Module 16—Investment Property

The entity must recognise depreciation expense of CU16,000 in profit or loss in 20X3 $((1,000,000 \text{ [total cost]} - 200,000 \text{ [land value]}) / 50 \text{ years})$ while the property is accounted for using the cost model.

At 31 December 20X3 the entity must remeasure 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. The entity must transfer the property from investment property carried using the cost model to investment property carried at fair value at the property's carrying amount of CU952,000 (ie CU1,000,000 less CU48,000 accumulated depreciation); and recognise the increase in the fair value of the investment property (CU1,048,000) as income in profit or loss for the year ended 31 December 20X3. If it is material, the income must be separately disclosed in the notes (see paragraph 3.2).

- 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 24 On 1 January 20X2 an entity, following a reorganisation, vacated a building that it owns and that its administrative staff had occupied for many years. The entity uses the cost model for all of its property, plant and equipment. On 1 January 20X2 the building had a carrying amount of CU600 (CU1,000 cost less CU400 accumulated depreciation).

Upon vacating the building the entity intended to rent it out and entered, as lessor, into a seven-year operating lease agreement over the building with an independent third party. The entity cannot measure reliably the fair value of the building without undue cost or effort on an ongoing basis.

Prior to 1 January 20X2 the building was classified as property, plant and equipment. However, on 1 January 20X2 the entity changed the use of the building and the building was reclassified as an investment property.

As the entity cannot determine the fair value of the building reliably without undue cost or effort on an ongoing basis, it must continue to use the cost model in Section 17. Consequently, the building is not remeasured. However, the building (carrying amount CU600) would be transferred from property, plant and equipment to investment property carried at cost less accumulated depreciation and impairment.

- Ex 25 The facts are the same as in Example 24. 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 and into investment property carried at fair value through profit or loss. The carrying amount of the building on 1 January 20X2 using the cost model was CU600. The fair value of the building on the same date was CU6,000. The entity will account for the difference of CU5,400 as income in profit or loss for the year ended 31 December 20X2. The income would be separately disclosed in the notes if material.

Module 16—Investment Property

After 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 26** On 1 January 20X3 an entity began redeveloping a building for sale in the ordinary course of business. The building was previously classified as an investment property. The entity could not measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore had measured it, after initial recognition, using the cost model. On 1 January 20X3 the building had a carrying amount of CU700 (CU2,000 cost less CU1,300 accumulated depreciation).

The effect of the change in use is a transfer of CU700 from investment property carried at cost less accumulated depreciation and impairment to inventories (see Section 13 *Inventories*). The property's deemed cost for subsequent accounting applying Section 13 is CU700.

- Ex 27** The facts are the same as in Example 26. However, in this example, the entity could measure the fair value of the investment property reliably without undue cost or effort on an ongoing basis and therefore had measured it at fair value through profit or loss after initial recognition. 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 through profit or loss to inventories (see Section 13). The property's deemed cost for subsequent accounting applying Section 13 is CU8,000 (ie its fair value at the date of change in use).

- Ex 28** On 15 July 20X4 management began evaluating other possible uses for an investment property that the entity acquired many years ago and measures at fair value through profit or loss. 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 tenants were evicted from the building. On this date it became property, plant and equipment—held for use in the production of goods (see paragraph 16.2(a)).

Module 16—Investment Property

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 and from investment property carried at cost less accumulated **depreciation** and **impairment** (see paragraph 16.8);
 - (iv) transfers to and from **inventories** and owner-occupied property; and
 - (v) other changes.
- This reconciliation need not be presented for prior periods.

Notes

In addition to the disclosures above, paragraph 8.5 requires disclosure of accounting policies used that are relevant to an understanding of the financial statements.

Where an entity uses the undue cost or effort exemption for investment property, the disclosures required by Section 17 should be provided separately from the disclosures for property, plant and equipment accounted for using the cost model. The disclosure required by paragraph 2.14D is repeated in paragraph 17.32(c).

Module 16—Investment Property

Example—disclosures

Ex 29 A group could present disclosures about its investment properties as follows:

Reference to
IFRS for SMEs
Standard

XYZ Limited

[Extract from] Consolidated statement of financial position at 31 December 20X2

	Note	20X2 CU	20X1 CU	
...				
Non-current assets				
Property, plant and equipment ⁽²⁾	14	3,118	2,125	4.2(e)
Investment property carried at cost less accumulated depreciation and impairment	15	3,838	2,763	4.2(ea)
Investment property carried at fair value through profit or loss	16	16,530	10,000	4.2(f)
...				

XYZ Limited

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

Note 1 Accounting policies (extract)

<i>Investment property</i>	8.5
Investment property is initially recognised at its cost. Subsequently it is measured at fair value with changes in fair value recognised in profit or loss. However, if the fair value of a property cannot be measured reliably without undue cost or effort on an ongoing basis, it is measured at cost less accumulated depreciation and impairment and presented separately in the statement of financial position.	17.31(a)
When investment properties are measured at cost less accumulated depreciation and impairment, depreciation is charged so as to allocate the cost less estimated residual value 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 the group's current buildings is 75 years from the date of construction.	17.31(b) 17.31(c)
When an investment property has been measured at cost less accumulated depreciation and impairment and subsequently its fair value can be measured reliably without undue cost or effort on an ongoing basis, the investment property is transferred to investment property carried at fair value. Any difference between the carrying amount and the fair value at the date of transfer is recognised in profit or loss for the period.	
...	

⁽²⁾ Neither investment property measured at fair value nor investment property accounted for using the cost model is classified as property, plant and equipment; this category has been included to emphasise that investment property is recognised separately from property, plant and equipment.

Module 16—Investment Property

Note 5 Profit before tax

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

	20X2 CU	20X1 CU	
Rental income from investment property	(X)	(X)	23.30(b)(viii)
Increase in the fair value of an investment property on its transfer to investment property carried at fair value through profit or loss (see note 16)	(800)	–	3.2
Gain on disposal of investment property carried at cost less accumulated depreciation and impairment	(100)	(X)	3.2

Note 15 Investment property carried at cost less accumulated depreciation and impairment

	CU	
Cost	3,000	17.31(d)
Accumulated depreciation	(237)	17.31(d)
Carrying amount at 31 December 20X1	2,763	17.31(e)
Additions	600	17.31(e)(i)
Acquired in a business combination	1,250	17.31(e)(iii)
Transferred to investment property at fair value	(710)	17.31(e)(v)
Depreciation	(65)	17.31(e)(vii)
Carrying amount at 31 December 20X2	3,838	17.31(e)
Cost	4,100	17.31(d)
Accumulated depreciation	(262)	17.31(d)
Carrying amount at 31 December 20X2	3,838	17.31(e)

On 31 December 20X2 investment property included in the above table with a carrying amount of CU853 was pledged as security for a CU600 loan from Bank A. The loan bears interest at the fixed rate of 3% per year and is repayable in full on 31 December 20X8. None of the group's investment property had been pledged as security at 31 December 20X1. 17.32(a)

On 31 December 20X2 investment property with a carrying amount of CU3,838 (20X1 CU2,763), was accounted for at cost less accumulated depreciation and impairment because fair value for these properties could not be measured reliably on an ongoing basis without undue cost or effort. Fair value for these properties cannot be measured reliably on an ongoing basis without undue cost or effort because there are no recent transactions for comparable properties and alternative reliable estimates of fair value (eg based on discounted cash flow projections) are not available, and this has been ongoing and is expected to continue for some time. 17.32(c)

Module 16—Investment Property

During the year, a reliable measure of fair value became readily available on an ongoing basis for an investment property with a carrying amount of CU710. Consequently, this property has been transferred to investment property carried at fair value (see note 16). The fair value of the property at the date of transfer was CU1,510. The difference (CU800) between the fair value and its previous carrying amount has been recognised in profit or loss. Future changes in its fair value will also be recognised in profit or loss.

Note 16 Investment property carried at fair value through profit or loss

	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)
Fair value of investment property transferred from investment property carried at cost less accumulated depreciation and impairment	1,510	16.10(e)(iii)
Increase in fair value during the year	1,700	16.10(e)(ii)
Disposals	<u>(1,800)</u>	16.10(v)
Carrying amount at 31 December 20X2	<u>16,530</u>	16.10(e)

During the year, a reliable measure of fair value became available on an ongoing basis for an investment property with a carrying amount of CU710. Consequently, this property has been transferred to investment property carried at fair value from investment property carried at cost less accumulated depreciation and impairment (see note 15). The fair value of the property at the date of transfer was CU1,510. The difference (CU800) between the fair value and its previous carrying amount has been recognised in profit or loss. Future changes in its fair value, as for changes in the fair value of all investment properties carried at fair value, will be recognised in profit or loss.

The fair value of the investment properties is determined at the end of each year by independent suitably qualified valuers, each one with relevant experience in the location and property type for the properties valued by them. The valuers used current market prices for comparable properties, adjusted for any differences in nature, location and condition.

16.10(a) &
(b)

An investment property with a carrying amount of CU4,000 (20X1: CU3,800) was pledged as security for a CU3,000 (20X1: CU3,000) loan from Bank B. The loan bears interest at the fixed rate of 2.5% 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)

At 31 December 20X2 the group had a capital commitment of CU4,000 in relation to future capital expenditure on investment properties. The commitment is from a fixed-price contract under which a third party will construct an office block on vacant land already owned by the group. The group plans to rent out the office block. The contract requires construction to commence by 30 June 20X3 and to be completed by 30 June 20X5. The group had no contractual commitments at 31 December 20X1.

16.10(d)

Module 16—Investment Property

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 30 A group could present the disclosures required by paragraph 20.30 as follows:

*Reference to
IFRS for SMEs
Standard*

XYZ Limited

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

Note 16 Investment property (extract)

...

The group leases out a number of office buildings under non-cancellable fixed-rate operating leases to independent third parties at market rates. None of the group's leases contain renewal or purchase options. Leases are subject to rent reviews after 5 years.

16.11 &
20.30(c)

	At 31 December 20X2	At 31 December 20X1
	CU	CU

The minimum lease payments receivable by the group under non-cancellable operating leases:

16.11 &
20.30(a)

Due no later than 1 year from the reporting date	2,550	2,400
Due later than 1 year and no later than 5 years from the reporting date	10,900	10,000
Due later than 5 years from the reporting date	8,460	7,850

Module 16—Investment Property

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying 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* Standard require disclosure of information about particular judgements and estimation uncertainties.

Classification

Investment property is property held to earn rentals or for capital appreciation or both. 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 held for use in the production or supply of goods or services or for administrative purposes. Such mixed use property should be separated between investment property and property, plant and equipment. Determining which portion should be classified as investment property and which portion should be classified as property, plant and equipment may require judgement.
- In some cases, an entity provides ancillary services, such as security and maintenance, to the occupants of a property it holds and rents out. In many cases, security and maintenance services will be insignificant and hence the building would be classified as investment property. In other cases, a company may rent out fully furnished offices including a whole range of services, such as information technology systems and administration. Arrangements like these are in the nature of the provision of a service and the property would be accounted for under Section 17 *Property, Plant and Equipment*. However, there are several examples 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.

Module 16—Investment Property

Measurement

An entity is required to measure investment property at its cost at initial recognition. Significant judgements in measuring the cost of an item of investment property at initial recognition might 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 the item is acquired in an exchange for a non-monetary asset—estimating the fair value of the non-monetary asset.

After initial recognition, an entity is required to measure 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 using the cost 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.

Where the cost 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, applying paragraph 17.16, are required to be depreciated separately;
- estimating the useful life of the property (or a significant part of a property);
- estimating the residual value of the property; and
- 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 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, judgement will be necessary in estimating the fair value of the investment property. Depending on the valuation technique used, judgements may include:

- estimating future rental income, occupancy/vacancy rates, rent-free periods and discount rates;
- estimating property yields for similar properties in similar locations;
- assessing how similar other properties are, adjusting for any differences in the properties, their location, how long ago and how frequent were previous transactions; and
- assessing the structural condition of the properties.

Module 16—Investment Property

COMPARISON WITH FULL IFRS STANDARDS

When accounting for and reporting investment property for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 40 *Investment Property*) and the *IFRS for SMEs* Standard (see Section 16 *Investment Property*) are:

- The *IFRS for SMEs* Standard is drafted in simpler language and includes significantly less guidance on how to apply the principles than in full IFRS Standards.
- Full IFRS Standards (IAS 40) allow an accounting policy choice between fair value through profit or loss (fair value model) and the cost model. The chosen policy is required to be applied to all investment property (with some limited exceptions—see paragraphs 32A and 53 of IAS 40). The *IFRS for SMEs* Standard does not permit an accounting policy choice but, rather, its application to the accounting for investment property depends on circumstances. If an entity can measure reliably the fair value of an investment property on an ongoing basis without undue cost or effort, the property is required to be measured at fair value through profit or loss. An entity must use the cost model in Section 17 *Property, Plant and Equipment* for other items of investment property.
- Where the fair value model has been chosen under full IFRS Standards, the test that an individual property must meet in order to be exempt from fair value measurement is stricter than that under the *IFRS for SMEs* Standard. Under full IFRS Standards, an entity must determine that the fair value of an investment property is not reliably measurable on a continuing basis. And there is no undue cost or effort exemption.
- Under full IFRS Standards an entity that applies the cost model is required to disclose the fair value of its investment property. The *IFRS for SMEs* Standard does not have an equivalent disclosure requirement.
- Under full IFRS Standards, if an entity applying the fair value model determines that the fair value of an item of investment property is not reliably measurable on a continuing basis and so uses the cost model for that item, the residual value of the investment property is assumed to be zero. The *IFRS for SMEs* Standard does not include an equivalent assumption where an investment property is accounted for under the cost model in Section 17.
- When applying the *IFRS for SMEs* Standard, mixed use property is separated into the investment property component and the property, plant and equipment component, but, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property is required to be accounted for as property, plant and equipment. Full IFRS Standards require the portions to be accounted for separately if they could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- For differences when applying the cost model in Section 17, see Module 17 *Property, Plant and Equipment* and for differences related to impairment testing of investment property accounted for using the cost model, see Module 27 *Impairment of Assets*.

Module 16—Investment Property

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting investment property in applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

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 only.
- ☐ (c) property (land or a building, or part of a building, or both) held for capital appreciation only.
- ☐ (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 property interests held under operating leases 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 property interests held under operating leases 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 property interests held under operating leases) 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 property interests held under operating leases) using a cost model set out in Section 17 *Property, Plant and Equipment*.

Module 16—Investment Property

Question 3

An entity operates a bed and breakfast business 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 model (same accounting policy for all investment property).
- ☐ (b) either at fair value or using the cost model (free choice elected item by item).
- ☐ (c) at fair value.
- ☐ (d) at fair value, for those properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis; all other investment property is accounted for using the cost model in Section 17.

Question 5

Investment property accounted for using the cost model is presented in the statement of financial position:

- ☐ (a) as part of property, plant and equipment.
- ☐ (b) as a separate line item.
- ☐ (c) aggregated with investment property carried at fair value through profit or loss as an investment property line item.
- ☐ (d) either as part of property, plant and equipment or aggregated with investment property carried at fair value through profit or loss.

Question 6

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

How is the building accounted for in the consolidated financial statements and in the subsidiary's individual financial statements?

- ☐ (a) as an item of property, plant and equipment by the subsidiary and an investment property by the group.
- ☐ (b) as an investment property by the subsidiary and as an item of property, plant and equipment by the group.
- ☐ (c) as an investment property by both the subsidiary and the group.
- ☐ (d) as an item of property, plant and equipment by both the subsidiary and the group.

Module 16—Investment Property

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. The purchase taxes are payable at the same time as the purchase price. 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 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 model, because the fair value of the property 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;
- estimated the residual value of the building to be nil;
- assessed that the entity will consume the building's future economic benefits evenly over 50 years from the date of acquisition; and
- declined an unsolicited offer from a third party that wanted 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.

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Question 10

On 1 January 20X4 an entity purchased a plot of land and began to construct a building on the land for use as its administrative headquarters. The building was completed and administrative staff moved in on 1 January 20X5. On 1 January 20X8 the entity's administrative staff moved out of the building and into newly acquired premises. The 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 building can be determined reliably without undue cost or effort on an ongoing basis.

The entity should account for the building as:

- ☐ (a) investment property from 1 January 20X4 to the date of disposal (31 December 20X9).
- ☐ (b) property, plant and equipment during 20X4–20X9.
- ☐ (c) property, plant and equipment during 20X4–20X7 and investment property during 20X8–20X9.
- ☐ (d) investment property during 20X4 and 20X8–20X9 and as property, plant and equipment during 20X5–20X7.

Module 16—Investment Property

Answers

- Q1 (d)—see paragraph 16.2.
- Q2 (b)—see paragraph 16.3.
- Q3 (c)—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 paragraph 16.7.
- Q5 (b)—see paragraph 4.2(ea).
- Q6 (b)—see paragraph 16.2. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property because it meets the definition in paragraph 16.2.
- Q7 (a)—see paragraph 16.5. Calculation— $(\text{CU}95,000 \text{ purchase price including non-refundable taxes}) \div 1.1 = \text{CU}86,364$ present value of the purchase price + CU2,000 direct costs (legal fees) = CU88,364.
- Q8 (a)—see paragraphs 16.7 and 17.15A. Calculation—CU100,000 cost less $(\text{CU}100,000 \text{ depreciable amount} \div 50 \text{ years useful life} \times 1 \text{ year in use})$ 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) $\times 73 \div 74$ 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 effect of a 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 (c)—see paragraphs 16.2, 16.9 and 17.2.

Module 16—Investment Property

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting investment property applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

Case study 1

In 20X1 SME A incurred (and paid) the following expenses in acquiring freehold legal title to ten identical detached houses. Each house, and the land on which it was built, has a separate legal title.

Date	CU	Additional information
1 January 20X1	200,000,000	Aggregate purchase price of the ten houses; 20% 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' rental. Provided the property rented is not damaged during the tenant's lease term, SME A repays the deposit to the tenant when the tenant vacates the property at the end of the lease term. 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:

- the useful life of the buildings is 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; and
- the estimated residual value is nil.

SME A uses the cost model to account for its property, plant and equipment.

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The holding of deposits is incidental to SME A's main business and does not in itself make SME A publicly accountable. Consequently, this does not preclude SME A from applying the *IFRS for SMEs* Standard.

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.

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Answer to Case study 1: Scenario 1

At 1 January 20X1

Dr	Investment property carried at fair value through profit or loss	CU180,000,000 ^(a)	
Dr	Property, plant and equipment (cost—land) ⁽²⁾	CU4,000,000 ^(b)	
Dr	Property, plant and equipment (cost—buildings)	CU16,000,000 ^(b)	
	Cr Cash		CU200,000,000

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

Dr	Investment property carried at fair value through profit or loss	CU18,000,000 ^(c)	
Dr	Property, plant and equipment (cost—land)	CU400,000 ^(d)	
Dr	Property, plant and equipment (cost—buildings)	CU1,600,000 ^(d)	
	Cr Cash		CU20,000,000

To recognise the non-refundable transfer taxes incurred in acquiring nine units of investment property and one owner-occupied property.

Dr	Investment property carried at fair value through profit or loss	CU900,000 ^(e)	
Dr	Property, plant and equipment (cost—land)	CU20,000 ^(f)	
Dr	Property, plant and equipment (cost—buildings)	CU80,000 ^(f)	
	Cr Cash		CU1,000,000

To recognise legal costs directly attributable to the acquisition of nine units of investment property and one owner-occupied 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.

⁽²⁾ Land and buildings are accounted for in separate ledger accounts to facilitate the depreciation calculation (eg the building is depreciated and the land is not depreciated).

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Other transactions in 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 units in 20X1.

Dr	Profit or loss (operating expenses—depreciation)	CU353,600 ^(g)	
	Cr Accumulated depreciation (PPE—buildings)		CU353,600

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

Dr	Investment property carried at fair value through profit or loss	CU26,100,000 ⁽ⁱ⁾	
	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) Investment property: $9/10 \times \text{CU}200,000,000 = \text{CU}180,000,000$.
- (b) Property, plant and equipment: $1/10 \times \text{CU}200,000,000 = \text{CU}20,000,000$.
Land element: $20\% \times 20,000,000 = \text{CU}4,000,000$.
Building element: $\text{CU}20,000,000 - \text{CU}4,000,000 = \text{CU}16,000,000$.
- (c) Investment property: $9/10 \times \text{CU}20,000,000 = \text{CU}18,000,000$.
- (d) Property, plant and equipment: $1/10 \times \text{CU}20,000,000 = \text{CU}2,000,000$.
Land element: $20\% \times 2,000,000 = \text{CU}400,000$.
Building element: $\text{CU}2,000,000 - \text{CU}400,000 = \text{CU}1,600,000$.
- (e) Investment property: $9/10 \times \text{CU}1,000,000 = \text{CU}900,000$.
- (f) Property, plant and equipment: $1/10 \times \text{CU}1,000,000 = \text{CU}100,000$.
Land element: $20\% \times 100,000 = \text{CU}20,000$.
Building element: $\text{CU}100,000 - \text{CU}20,000 = \text{CU}80,000$.

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- (g) $[\text{CU}17,680,000^{(i)} \text{ cost of buildings less nil residual value}] \div 50 \text{ years (consume future economic benefits evenly over the 50-year useful life of the building)} = \text{CU}353,600 \text{ depreciation for the year.}$
- (h) Total cost of property: $\text{CU}200,000,000 \text{ purchase price} + \text{CU}20,000,000 \text{ non-refundable transfer taxes} + \text{CU}1,000,000 \text{ legal costs} = \text{CU}221,000,000$. Cost of buildings = $\text{CU}221,000,000 \times 80\% = \text{CU}176,800,000$.
- (i) $10\% \text{ (owner-occupied) of } \text{CU}176,800,000^{(h)} = \text{CU}17,680,000 \text{ cost of owner-occupied building (PPE).}$
- (j) $\text{CU}225,000,000^{(k)} \text{ fair value at 31 December 20X1 less } \text{CU}198,900,000^{(l)} \text{ cost} = \text{CU}26,100,000 \text{ gain.}$
- (k) $\text{CU}25,000,000 \times 9 \text{ units of investment property} = \text{CU}225,000,000 \text{ fair value of the 9 units of investment property at 31 December 20X1.}$
- (l) $90\% \text{ (investment property) of } \text{CU}221,000,000^{(h)} = \text{CU}198,900,000 \text{ cost of investment property.}$

Module 16—Investment Property

Answer to Case study 1: Scenario 2⁽³⁾

At 1 January 20X1

Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—land)	CU36,000,000 ^(a)	
Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—buildings)	CU144,000,000 ^(a)	
Dr	Property, plant and equipment (cost—land)	CU4,000,000 ^(b)	
Dr	Property, plant and equipment (cost—buildings)	CU16,000,000 ^(b)	
	Cr Cash		CU200,000,000

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

Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—land)	CU3,600,000 ^(c)	
Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—buildings)	CU14,400,000 ^(c)	
Dr	Property, plant and equipment (cost—land)	CU400,000 ^(d)	
Dr	Property, plant and equipment (cost—buildings)	CU1,600,000 ^(d)	
	Cr Cash		CU20,000,000

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

Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—land)	CU180,000 ^(e)	
Dr	Investment property carried at cost less accumulated depreciation and impairment (cost—buildings)	CU720,000 ^(e)	
Dr	Property, plant and equipment (cost—land)	CU20,000 ^(f)	
Dr	Property, plant and equipment (cost—buildings)	CU80,000 ^(f)	
	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.

⁽³⁾ The fair value of the units cannot be determined reliably without undue cost or effort on an ongoing basis. Therefore, applying paragraph 16.1, SME A accounts for the units using the cost model in Section 17. Applying paragraph 4.2(ea), it discloses investment property carried at cost less accumulated depreciation and impairment as a separate line item.

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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.

Other transactions in 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 units in 20X1.

Dr	Profit or loss (operating expenses—depreciation)	CU353,600 ^(g)	
	Cr Accumulated depreciation (PPE—buildings)		CU353,600

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

Dr	Profit or loss (operating expenses)	CU3,182,400 ⁽ⁱ⁾	
	Cr Accumulated depreciation (investment property carried at cost less accumulated depreciation and impairment)		CU3,182,400

To recognise depreciation in 20X1 of the investment property accounted for at cost less accumulated depreciation and impairment.

Module 16—Investment Property

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

- (a) Investment property: $9/10 \times \text{CU}200,000,000 = \text{CU}180,000,000$.
Land element: $20\% \times 180,000,000 = \text{CU}36,000,000$.
Building element: $\text{CU}180,000,000 - \text{CU}36,000,000 = \text{CU}144,000,000$.
- (b) Property, plant and equipment: $1/10 \times \text{CU}200,000,000 = \text{CU}20,000,000$.
Land element: $20\% \times 20,000,000 = \text{CU}4,000,000$.
Building element: $\text{CU}20,000,000 - \text{CU}4,000,000 = \text{CU}16,000,000$.
- (c) Investment property: $9/10 \times \text{CU}20,000,000 = \text{CU}18,000,000$.
Land element: $20\% \times 18,000,000 = \text{CU}3,600,000$.
Building element: $\text{CU}18,000,000 - \text{CU}3,600,000 = \text{CU}14,400,000$.
- (d) Property, plant and equipment: $1/10 \times \text{CU}20,000,000 = \text{CU}2,000,000$.
Land element: $20\% \times 2,000,000 = \text{CU}400,000$.
Building element: $\text{CU}2,000,000 - \text{CU}400,000 = \text{CU}1,600,000$.
- (e) Investment property: $9/10 \times \text{CU}1,000,000 = \text{CU}900,000$.
Land element: $20\% \times 900,000 = \text{CU}180,000$.
Building element: $\text{CU}900,000 - \text{CU}180,000 = \text{CU}720,000$.
- (f) Property, plant and equipment: $1/10 \times \text{CU}1,000,000 = \text{CU}100,000$.
Land element: $20\% \times 100,000 = \text{CU}20,000$.
Building element: $\text{CU}100,000 - \text{CU}20,000 = \text{CU}80,000$.
- (g) $[\text{CU}17,680,000^{(h)} \text{cost of buildings less nil residual value}] \div 50 \text{ years (consume future economic benefits evenly over the 50-year useful life of the building)} = \text{CU}353,600 \text{ depreciation for the year—PPE}$.
- (h) Total cost of property: $\text{CU}200,000,000 \text{ purchase price} + \text{CU}20,000,000 \text{ non-refundable transfer taxes} + \text{CU}1,000,000 \text{ legal costs} = \text{CU}221,000,000$. Cost of buildings = $\text{CU}221,000,000 \times 80\% = \text{CU}176,800,000$.
10% (owner-occupied) of $\text{CU}176,800,000 = \text{CU}17,680,000 \text{ cost of owner-occupied building (PPE)}$.
90% (investment property) of $\text{CU}176,800,000 = \text{CU}159,120,000 \text{ cost of investment property buildings carried at cost less accumulated depreciation and impairment}$.
- (i) $[\text{CU}159,120,000^{(h)} \text{cost of buildings less nil residual value}] \div 50 \text{ years (consume future economic benefits evenly over the 50-year useful life of the building)} = \text{CU}3,182,400 \text{ depreciation for the year—investment property carried at cost less accumulated depreciation and impairment}$.

Module 16—Investment Property

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 CU2,010,000, net of CU990,000 accumulated depreciation. SME B measures the investment property (both the land and building) using the cost model in Section 17, as the fair value of the property cannot be measured reliably without undue cost or effort on an ongoing basis. SME B depreciates the building using the straight-line method over 50 years to a nil residual value. Of the CU3,000,000 paid for the property, CU750,000 was attributable to the land. 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:

<i>Description</i>	<i>Business purpose</i>	<i>CU</i>
Factory A	Held to earn lease rentals and for capital appreciation	1,500,000
Factory B	Held to earn lease rentals and for capital appreciation	9,000,000
Office 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		<u>24,500,000</u>

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 properties were leased to third parties, as follows:

<i>Description</i>	<i>Remaining period</i>	<i>Rent</i>
Factory A	2.5 years	CU80,000 per year
Factory B	1.5 years	CU450,000 per year
Office A	3.5 years	CU350,000 per year

In addition, Land B is leased out to a third party that uses the land to graze cattle. The lease agreement for Land B can be terminated by either party giving one month's notice and the monthly rent is CU2,800.

On 30 September 20X2, in response to an unsolicited offer, SME C disposed of Factory 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.

Module 16—Investment Property

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 with Entity D (an independent third party) for Entity D to construct the office block. The CU10,000,000 fixed-price contract provides for construction to commence by 30 June 20X3 and to 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 year. The loan is repayable in full on 31 December 20X8.

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

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.

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 properties being valued, to estimate the fair value of each of the group's properties. The valuer assessed the fair value of the properties 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.

<i>Description</i>	<i>Fair value (CU)</i>
SME B's property	5,000,000
Factory A	1,700,000
Office A	7,500,000
Office 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

Draft an extract showing how the disclosures required by paragraph 16.10 about investment property accounted for at fair value through profit or loss could be disclosed in the consolidated financial statements of SME B for the year ended 31 December 20X2.

Module 16—Investment Property

Answer to case study 2

[Extract from] SME B's notes to the consolidated financial statements for the year ended 31 December 20X2

Note 13 Investment property carried at fair value through profit or loss

	CU	
Carrying amount at 31 December 20X1	–	
Transferred from investment property carried at cost less accumulated depreciation and impairment (note 12)	5,000,000	
Additions	500,000	(a)
Acquired in a business combination	20,500,000	(b)
Transferred to inventory	(1,050,000)	(c)
Disposals	(9,100,000)	(d)
Gain in fair value during the year	1,350,000	(e)
Carrying amount at 31 December 20X2	17,200,000	(f)

The fair value of the investment property was determined by an independent suitably qualified valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the Group's properties. The valuer assessed fair value using current market prices and recent transactions for comparable real estate, adjusted for any differences in nature, location and condition of the property and for any changes in market conditions since the transactions took place.

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

On 31 December 20X2 investment property with a carrying amount of CU5,000,000 was pledged as security for a CU3,000,000 loan from Bank A. The loan bears interest at the fixed rate of 3% per year and is repayable in full on 31 December 20X8. The group's investment property was unencumbered at 31 December 20X1 (and at this date it was classified as investment property accounted for using the cost model (see note 12)).

During the year, a reliable measure of fair value became available on an ongoing basis for an investment property with a carrying amount of CU1,965,000.^(h) Consequently, this property has been transferred from investment property carried at cost less accumulated depreciation and impairment (see note 12) to investment property carried at fair value. The fair value of the property at the date of transfer was CU5,000,000. The difference (CU3,035,000^(g)) between the fair value and its previous carrying amount has been recognised in profit or loss. Future changes in its fair value, as for changes in the fair value of all investment properties carried at fair value, will be recognised in profit or loss.

Module 16—Investment Property

In addition to the disclosures above, disclosures will be required as follows:

- on the statement of financial position, the following will each be presented separately: property, plant and equipment; investment property carried at cost less accumulated depreciation and impairment; and investment property carried at fair value through profit or loss;
- an accounting policy note for investment property (as per Section 8);
- rental income from investment properties (as per Section 23);
- a note giving the Section 17 disclosures about the investment property carried at cost less accumulated depreciation and impairment;
- a note giving the Section 17 disclosures about property, plant and equipment (which will include the owner-occupied property); and
- the lessor disclosures required by Section 20 about the leases that the group has entered into to rent out the investment properties.

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

- (a) CU500,000 cost of planning permission for Land C, paragraphs 16.5 and 17.10.
- (b) CU20,500,000 = CU24,500,000 (fair value at the date of acquisition of SME C's property, see paragraph 19.14) less CU4,000,000 (fair value of Land A, which meets the definition of PPE, not investment property).
The CU20,500,000 comprises:
Buildings: CU1,500,000 Factory A + CU9,000,000 Factory B + CU7,000,000 Office A = CU17,500,000.
Land: CU1,000,000 Land B + CU2,000,000 Land C = CU3,000,000.
- (c) 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 sale in the ordinary course of business; see paragraph 13.1(a)).
- (d) 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).
- (e)

Description	FV at 31 December 20X2 or on earlier sale or change in use	FV at 30 June 20X2	FV increase
Factory A	1,700,000	1,500,000	200,000
Factory B	9,100,000*	9,000,000	100,000
Office A	7,500,000	7,000,000	500,000
Land B	1,050,000**	1,000,000	50,000
Land C	3,000,000	2,500,000***	500,000
Total increase in FV			<u>1,350,000</u>

Note:

* disposal proceeds at 30 September 20X2.

** FV before change of use on 1 October 20X2.

*** FV at 30 June 20X2 of CU2,000,000 + planning cost of CU500,000 on 12 October 20X2 = CU2,500,000

- (f) CU5,000,000 SME B's property + CU1,700,000 Factory A + CU7,500,000 Office A + CU3,000,000 Land C = CU17,200,000 fair value of investment property on 31 December 20X2.
- (g) CU5,000,000 fair value less CU1,965,000^(h) carrying amount of SME B's building on the date of reclassification = CU3,035,000 gain recognised in 20X2.
- (h) CU2,010,000 carrying amount at 31 December 20X1 less CU45,000 depreciation for 20X1⁽ⁱ⁾ = CU1,965,000.
- (i) CU2,250,000 cost ÷ 50 years = CU45,000 depreciation per year.