IAS 40
Investment property

1. Objective

IAS 40 defines the accounting treatment and measurement of investment property.

2. Scope

Investment property is real estate property (land, a building or part of a building, including property whose end use has not yet been determined) held to earn rentals or for capital appreciation held either by the owner or by a lessee under a lease.

Property used in the following circumstances is not within the scope of this Standard:

- production or supply of goods or services (factory or sales premises);
- administrative purposes (administrative headquarters);
- rental to the entity's employees;
- sale in the ordinary course of business (real estate broker).

Property that is being constructed or developed for future use as investment property is considered to constitute investment property if that is its ultimate purpose.

On-going judgement and consistency must be applied in order to determine whether the acquisition of investment property consists in the acquisition of an asset or a group of assets or whether such acquisition consists of a business combination - in which case IFRS 3 - Business Combinations must be referred to.

3. Accounting impact

3.1 Measurement at initial recognition

Measurement at initial recognition corresponds to the acquisition cost, i.e.:

- purchase price, including transaction costs;
- all expenditures directly attributable to the purchase (transfer taxes, fees).

3.2 Measurement after recognition

For the purpose of measurement after recognition, the entity may choose freely between the following two models, effectively an accounting policy choice:

- fair value;
- cost (historical cost price).

However, if the fair value model is used, the entity must apply this model to all investment properties it holds except for those properties whose fair value is impossible to measure reliably at the end of the reporting period.

Fair value model

The fair value of an investment property must be determined in accordance with IFRS 13. The most appropriate way to assess the fair value of investment property is to use as a basis comparable transactions for similar property in the same location and in the same condition as would be the case in an active market.
If this is impossible, the following factors are considered to be relevant alternatives:

- the market price for different real estate property adjusted to take into account specific differences in features;
- discounted cash flow projections based on the terms of leases.

When market criteria cannot be used for valuation purposes on a reliable basis (because there are few recent transactions and discounted future cash flows are unavailable), the entity must assess the value of its property in accordance with the provisions contained in IAS 16.
The change in fair value is recognized in profit or loss in the accounting period when it occurs.

Depreciated cost model

The cost of an investment property is equal to the initial cost less accumulated depreciation and impairment losses.
When an entity applies this model, it must report the fair value of each investment property in the notes to the financial statements.

Example 1: In January N, company X acquired a building for 2,000,000. The building was leased to third parties and depreciated over 20 years.
On 31 December N, the property value was assessed by a qualified property valuer at 2,200,000.

If company X opts for the fair value model, it would not depreciate the property and must record it in the assets on 31 December N at an amount of 2,200,000. The difference compared with the acquisition price of 200,000 is booked to profit or loss for the accounting period.

If company X opts for the cost model, the building would be depreciated in year N as follows: 2,000,000/20 = 100,000. The net value of the property presented in the statement of financial position (balance sheet) on 31 December N would be 1,900,000. In this case, the Company must state in the notes that the fair value as determined by the qualified valuer is 2,200,000.

- *For the purposes of simplification, the impact of deferred tax is not taken into account in the example above.*

Transfers

Transfers, i.e., incoming and outgoing assets to and from the "investment property" category have an impact on the financial statements (profit or loss) only if the entity uses the fair value model.

Four types of transfers are summed up in the table below:

Type of transfer	Original category	New category	Treatment
Commencement of owner-occupation	Investment property	Tangible fixed assets	The cost of the property is equal to its fair value at the date of the change.
Commencement of development with a view to sale	Investment property	Inventories or assets held for sale	The cost of the property is equal to its fair value at the date of the change.
End of owner-occupation, for a transfer from owner-occupied property to investment property	Tangible fixed assets	Investment property	IAS 16 up until the change.
The difference compared to fair value is considered to be a revaluation.	Stocks	Immeubles de placement	La différence entre la juste valeur à la date du transfert et sa valeur comptable est comptabilisée en résultat
Commencement of an operating lease with another party	Inventories	Investment property	The difference between the fair value on the date of transfer and the carrying value is booked to profit or loss.

Disposals

An investment property must be eliminated from the statement of financial position on the date the buyer takes over control in accordance with IFRS 15 or when the investment property is permanently withdrawn from use and no future economic benefits are expected from it. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and must be recognised in profit or loss.

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

4. Disclosure

Investment properties must be presented separately from other assets. The entity must disclose:

- the valuation model used for the investment property (fair value or cost);
- the methods and assumptions used to assess fair value;
- if used, the professional references, qualifications and extent of independence of the property valuer;
- rental income and direct operating expenses relating to the investment property;
- commitments and guarantees given regarding the investment property;
- for the cost model:
  - ✓ the depreciation methods and rates used,
  - ✓ the gross carrying amount and accumulated depreciation at the beginning and end of the period,
  - ✓ statement of the fair value of the investment property;

- for the fair value model:
  - ✓ reconciliation between the carrying amounts of investment property at the beginning and end of the period (incoming property, outgoing property, transfers, gains or losses from fair value adjustments).

Note: in the context of periodic improvements carried out by the IASB adopted by the EU on 18 and 19 December 2014, management must develop criteria so that it can exercise judgement consistently when classifying an investment property in the context of a business combination or when classification is difficult. Specific information on these criteria must be disclosed.