



Objective

IAS 40 governs the accounting treatment for investment properties, which are real estate assets (land, buildings, or both) held by an entity to earn rentals, capital appreciation, or both. Unlike owner-occupied property or inventory, investment properties generate economic benefits primarily from external parties rather than from use in operations.

Company Goal

Investment Property ↑

Depreciation ↓

Fair Value ↑

Recognition

An asset is recognized if:

- It is probable that future economic benefits will flow to the entity AND
- The cost of the asset can be reliably measured.

Transfers/Reclassification

- Inventory → Investment Property
- PPE → Investment Property
- Investment Property → Inventory
- Investment Property → PPE

Transfers must take place at carrying value
Which becomes new "cost"



Key Risks

- **Classification**
 - Proper identification of investment properties
- **Transfers**
- **Fair Value Estimates**
- **Disclosures**

Disclosures

1. General Disclosure:

- The measurement model used.
- Restrictions on realizability or remittance of income from investment properties.
- Valuation methods and assumptions for fair value.

2. Reconciliation of Carrying Values (Movement Grid)

Financial Line Items

- Investment – Cost (BS) []
- Investment – Accumulated Depreciation (BS) []
- Depreciation (IS) []
- Impairment (IS) []
- Fair Value Movement (IS) []

Scope

IAS 40 applies to:

- Land held for capital appreciation.
- Buildings leased out under operating leases.
- Mixed-use properties (partly for own use and partly for rental or capital appreciation).

It does not apply to:

- Owner-occupied properties (covered by IAS 16).
- Property held for sale in the ordinary course of business (covered by IFRS 5 or IAS 2).

Measurement

Initial Measurement []

At cost:

- Purchase price.
- Directly attributable costs (e.g., legal fees, property transfer taxes).

Subsequent Measurement

Entities must choose between two models for subsequent measurement:

- **Fair Value Model (Preferred)** []
 - Investment property is measured at fair value, with changes recognized in profit or loss.
 - Fair value is determined by market conditions and is typically assessed by independent valuers.
 - No depreciation is recognized under this model.
- **Cost Model** []
 - The asset is carried at cost less accumulated depreciation and impairment.
 - Fair value must still be disclosed in the notes, even when using the cost model.

Investment Property Movement Grid	2023
Opening Balance	\$5,000,000
Additions	\$1,200,000
Disposals (at carrying amount)	(\$800,000)
Fair Value Adjustments	\$600,000
Transfers from Owner-Occupied Property	\$400,000
Transfers to Property Held for Sale	(\$300,000)
Foreign Exchange Gains/Losses	\$50,000
Closing Balance	\$6,150,000