

IFRS AT A GLANCE

IAS 40 *Investment Property*



IAS 40 Investment Property

Effective Date
Periods beginning on or after 1 January 2005

| CLASSIFICATION | DEFINITION | |
|---|---|---|
| <p>Property held under an operating lease A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:</p> <ul style="list-style-type: none"> The rest of the definition of investment property is met The operating lease is accounted for as if it were a finance lease in accordance with IAS 17 <i>Leases</i> The lessee uses the fair value model set out in IAS 40 for all investment properties (see subsequent measurement). | <p>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.</p> | |
| <p>Partial own use</p> <ul style="list-style-type: none"> If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately under a finance lease, they are accounted for separately. The part that is rented out is investment property If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied (property, plant and equipment) portion is insignificant. | INCLUDES | EXCLUDES |
| <p>Provision of ancillary services to occupants If those services (e.g. security or maintenance services) are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property. Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied property, plant and equipment.</p> | <ul style="list-style-type: none"> Land held for long-term capital appreciation Land held for indeterminate future use Building leased out under an operating lease Vacant building held to be leased out under an operating lease Property being constructed/developed for future use as investment property. | <ul style="list-style-type: none"> Property held for use in the production or supply of goods or services or for administrative purposes (IAS 16 <i>Property, Plant and Equipment</i> applies) Property held for sale in the ordinary course of business or in the process of construction or development for such sale (IAS 2 <i>Inventories</i> applies) Property being constructed or developed on behalf of third parties (IAS 11 <i>Construction Contracts</i> applies) Owner-occupied property (IAS 16 applies) Property leased to another entity under a finance lease (IAS 17 applies). |
| <p>Interrelationship between IFRS 3 and IAS 40 Judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 <i>Business Combinations</i>. The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IFRS 3. Judgements needed to distinguish investment property from owner-occupied property are based on the guidance in IAS 40.</p> | <p>Transfers to or from investment property can be made only when there has been a change in the use of the property.</p> | |
| <p>Inter-company rentals Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group. Such property will be investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.</p> | RECOGNITION | |
| <p>Transfers Only permits assets to be reclassified into or out of the investment property category when there is a change in use and provides examples. In isolation, a change in management's intention does not provide evidence of a change in use.</p> | MEASUREMENT | |
| | <p>Initial measurement Investment property is initially measured at cost, including transaction costs. Cost does not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.</p> | <p>Subsequent measurement An entity can choose between the fair value and the cost model. The accounting policy choice must be applied to all investment property. <i>Fair value model</i></p> <ul style="list-style-type: none"> Investment properties are measured at fair value, which is the price that would be received to sell the investment property in an orderly transaction between market participants at the measurement date (see IFRS 13 <i>Fair Value Measurement</i>) Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises In rare exceptional circumstances if fair value cannot be determined, the cost model in IAS 16 is used to measure the investment property. <p><i>Cost model</i></p> <ul style="list-style-type: none"> Investment property is measured in accordance with requirements set out for that model in IAS 16. |

CONTACT

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

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.

EUROPE

| | | |
|-----------------------|----------------|--|
| Anne Catherine Farlay | France | annecatherine.farlay@bdo.fr |
| Jens Freiberg | Germany | jens.freiberg@bdo.de |
| Teresa Morahan | Ireland | tmorahan@bdo.ie |
| Ehud Greenberg | Israel | ehudg@bdo.co.il |
| David Cabaleiro | Spain | david.cabaleiro@bdo.es |
| Reidar Jensen | Norway | reidar.jensen@bdo.no |
| Maria Sukonkina | Russia | m.sukonkina@bdo.ru |
| René Krügel | Switzerland | rene.kruegel@bdo.ch |
| Moses Serfaty | United Kingdom | moses.serfaty.co.uk |

ASIA PACIFIC

| | | |
|-----------------|-------------------|--|
| Aletta Boshoff | Australia | aletta.boshoff@bdo.com.au |
| Zheng Xian Hong | China | zheng.xianhong@bdo.com.cn |
| Fanny Hsiang | Hong Kong | fannyhsiang@bdo.com.hk |
| Keyur Dave | India | keyurdave@bdo.in |
| Khoon Yeow Tan | Malaysia | tanky@bdo.my |
| Wayne Basford | Western Australia | wayne.basford@bdo.com.au |

LATIN AMERICA

| | | |
|----------------------|-----------|--|
| María Eugenia Segura | Argentina | msegura@bdoargentina.com |
| Luis Pierrend | Peru | lpierrend@bdo.com.pe |
| Ernesto Bartesaghi | Uruguay | ebartesaghi@bdo.com.uy |

NORTH AMERICA & CARIBBEAN

| | | |
|--------------------|--------|--|
| Armand Capisciolto | Canada | acapisciolto@bdo.ca |
| Wendy Hambleton | USA | whambleton@bdo.com |

MIDDLE EAST

| | | |
|----------------|---------|--|
| Arshad Gadit | Bahrain | arshad.gadit@bdo.bh |
| Antoine Gholam | Lebanon | agholam@bdo-lb.com |

SUB SAHARAN AFRICA

| | | |
|----------------|--------------|--|
| Nigel Griffith | South Africa | ngriffith@bdo.co.za |
|----------------|--------------|--|

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/ or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2018 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved..

www.bdo.global

1808-01