

AASB 140 “INVESTMENT PROPERTY”

INTRODUCTION

AASB 140 *Investment Property* is an Australian Equivalent International Financial Reporting Standard (AIFRS) applicable to financial years beginning on or after 1 January 2005. There is currently no Australian Accounting Standard that deals with investment properties, therefore all the requirements in this standard will be new.

The key requirements of this standard are:

- AASB 140 does not apply to investment property of not-for-profit agencies where the property is held to provide social services or held for strategic purposes;
- investment property is initially measured at cost, then subsequently measured at either cost or fair value;
- assets measured at fair value do not have to be depreciated;
- increments or decrements in the fair value of investment property are recognised in the profit and loss. This is different to current practice where an asset revaluation reserve can be used for property, plant and equipment (which currently encompasses investment property); and
- where investment property is held at cost, the fair value must also be disclosed.

This Policy Summary summarises the main requirements in AASB 140.

NEW REQUIREMENTS

Application

The standard applies to investment property, which is defined as land and/or buildings held by an entity to earn rental income or for capital appreciation or both. Investment property includes land and/or buildings held by a lessee under a finance lease.

Property held for strategic purposes or property held to provide a social service by not-for-profit entities will not meet the definition of investment property and will be accounted for under AASB 116 *Property, Plant and Equipment*. This includes, for example, property which generates cash inflows where the rental revenue is incidental to the purpose for holding the property.

The standard does apply to the measurement of investment properties held by a lessee under a finance lease and the measurement of investment properties under an operating lease held by a lessor.

This standard does not apply to land and/or buildings that:

- are held for sale in the ordinary course of business (this is covered by AASB 102 *Inventories*);
- are in the process of being constructed or developed for future use as investment property (it becomes investment property when completed). However, this Standard does apply to existing investment property that is being redeveloped for continued future use as investment property;
- are used in the production or supply of goods or services, or used for administration (ie owner-occupied);
- are held by a lessee under an operating lease (this is covered by AASB 117 *Leases*). However, where a property is under an operating lease that:
 - meets the definition of an investment property;
 - is accounted for as a finance lease; and
 - the fair value is used for that property and all other investment property;this property can be classified as an investment property; and
- are leased to another entity under a finance lease.

Also, this standard does not apply to:

- biological assets attached to land related to agricultural activity (this is covered by AASB 141 *Agriculture*); and
- mineral rights and mineral resources including oil, natural gas, and similar non-regenerative natural resources.

Recognition

Investment property is recognised when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
- the cost of the investment property can be reliably measured.

Measurement

Initial Measurement

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement of cost. Transaction costs include:

- professional fees (eg legal fees); and
- property transfer taxes.

Costs not included in the carrying amount of investment property include:

- start-up costs;
- operating losses before the investment property achieves planned occupancy; and

- abnormal amounts of waste in construction or developing the property.

Where an investment property is acquired for no or nominal consideration by a not-for-profit entity, the initial cost of the investment is its fair value at the date it was acquired. The initial cost of leased property (under a finance lease) classified as an investment property is measured in accordance with AASB 117 *Leases*.

Subsequent Measurement

Subsequent to initial recognition, entities must measure investment properties at either fair value or cost. All investment properties of an entity must be measured using the same methodology. Once determined, the methodology can only be changed if the change will result in a more appropriate presentation. The standard states that it is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.

Fair Value Method

Fair value is measured using the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best indication of fair value is current market price in an active market for similar property in the same location. Fair value does not include transaction costs on disposal of the investment property.

Where fair value is used, any adjustment to the carrying amount of investment property is taken to the Profit and Loss. Investment property measured at fair value does not have to be depreciated.

Determining the fair value of an investment property should be (but is not required to be) undertaken by an independent valuer who holds a recognised professional qualification and has had recent experience in the location and type of investment property being valued.

In very rare cases an investment property may not be able to be reliably measured using fair value where an investment property is first acquired. This only occurs where:

- comparable market transactions are infrequent; and
- alternative estimates of fair value are not available.

Where an investment property cannot be reliably measured using fair value when first acquired, an agency should measure it at depreciated cost less any accumulated impairment losses, in accordance with AASB 116 *Property, Plant and Equipment*. The residual value of the property is then assumed to be zero. Cost should continue to be applied until the investment property is sold. All other investment properties continue to be measured at fair value.

Cost Method

Where the cost method is chosen, all an agency's investment property is measured at depreciated cost less any accumulated impairment losses in accordance with AASB 116 *Property, Plant and Equipment*.

Subsequent Expenditure

Subsequent expenditure on an investment property should be added to the carrying amount when it is probable that the future economic benefits in excess of those initially assessed will flow to the entity. For example, when the carrying amount of an investment property already takes into account a loss in future economic benefits, subsequent expenditure to restore the future economic benefits expected from the asset is capitalised.

Transfers

Once initially recognised, land and buildings may need to be reclassified if the use of these assets changes. For example, management may decide that an investment property will now be used as owner-occupied property. Therefore this property will need to be transferred from investment property to property, plant and equipment and be accounted for under AASB 116 rather than AASB 140.

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

- investment property being transferred to owner-occupied property (therefore subsequently accounted for under AASB 116);
- investment property being transferred to inventory (therefore subsequently accounted for under AASB 102);
- owner-occupied property being transferred to investment property (therefore subsequently accounted for under AASB 140);
- inventory being transferred to investment property (therefore subsequently accounted for under AASB 140); and
- property under construction moving to investment property (therefore subsequently accounted for under AASB 140).

Where land and buildings are held at cost, there will be no change to the carrying amount of these assets if they are transferred between investment property, owner-occupied property or inventory. However, where land and buildings are held at fair value, the carrying amount of these assets will need to be adjusted when transferred between investment property, owner-occupied property or inventory.

When a property carried at fair value is transferred from investment property to owner-occupied property or inventories, the fair value is deemed cost for subsequent accounting under AASB 116 or AASB 102.

When an owner-occupied property becomes an investment property that will be carried at fair value, AASB 116 is applied up to the date of change in use. Any

difference between the carrying amount under AASB 116 and its fair value under AASB 140 is accounted for in the same way as a revaluation under AASB 116.

When there is a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in the profit and loss for the period.

Disposal

When investment property is disposed of, the difference between the carrying amount of the asset and the net proceeds shall be recognised in the profit and loss.

Disclosure

Disclosures for All Investment Properties

An entity shall disclose the following:

- whether it applies the fair value or cost model;
- if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
- when classification is difficult, the criteria used by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business;
- the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
- the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;
- the amounts recognised in the profit and loss for:
 - rental income from investment property;
 - direct operating expenses (including repairs and maintenance) for both investment property that generated rental income and for investment property that did not generate rental income during the period;
- the existence and amount of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal; and
- contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Additional disclosures for Investment Properties measured at Fair Value

An entity that applies the fair value model, shall disclose a reconciliation between the carrying amount of investment property at the beginning and end of the period showing the following:

- additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
- additions resulting from acquisitions through business combinations;
- disposals;
- net gains or losses from fair value adjustments;
- transfers to and from inventories and owner-occupied property; and
- other changes.

In the exceptional circumstance where an entity measures investment property using the cost model in AASB 116 *Property, Plant and Equipment* (because of the lack of a reliable fair value), the reconciliation required above shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

- a description of the investment property;
- an explanation of why fair value cannot be determined reliably;
- if possible, the range of estimates within which fair value is highly likely to lie; and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value;
 - the carrying amount of that investment property at the time of sale; and
 - the amount of gain or loss recognised.

Additional disclosures for Investment Properties measured at Cost

An entity that applies the cost model shall also disclose:

- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- a reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following:
 - additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
 - additions resulting from acquisitions through business combinations;
 - disposals;

- depreciation;
 - the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with AASB 136 *Impairment of Assets*;
 - transfers to and from inventories and owner-occupied property; and
 - other changes; and
- the fair value of investment property. In exceptional cases, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:
 - a description of the investment property;
 - an explanation of why fair value cannot be determined reliably; and
 - if possible, the range of estimates within which fair value is highly likely to lie.