

Investment Property

By: -

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Investment Property : Introduction

IAS 40 covers provisions related to Investment Property

land or a building ‘held to earn rentals or for capital appreciation or both’ (**IAS 40, para 5**), rather than for use by the entity or for sale in the ordinary course of business.

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Investment Property : Introduction

spare properties rented out to third parties, or specifically bought in order to profit from a gain in value.

Any property held by owner is excluded from the definition of investment property as these are not used by the entity in general business operations

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Investment Property : Introduction

In case, entity occupying a premises, but rents out certain floors to other entity / entities :

- part occupied will be classed as Property, Plant and Equipment per IAS 16.
- floors rented out classed as investment property per IAS 40.

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Investment Property in Consolidated Accounts

Accounting Treatment, in case, any asset held by subsidiary company, is rented out to parent company :

In the Books of Subsidiary Company : As an Investment Property in the financial statements of the subsidiary company.

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Investment Property in Consolidated Accounts

In the Books of Parent Company : As Property, Plant and Equipment, in accordance with provisions of IAS 16, in the consolidated financial statements of the parent company.

because the asset will be used by the group, hence must be accounted for as per the provisions of IAS 16.

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Investment Property : Accounting Treatment

Investment properties should initially be measured at cost.

IAS 40 then gives a choice for subsequent measurement between the following:

1. Cost Model
2. Fair Value Model.

Once the model is chosen it must be used for all investment properties.

Investment Property : Accounting Treatment

Cost Model : Under this model -

- the asset should be accounted for in accordance to the cost model laid out in IAS 16.

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Investment Property : Accounting Treatment

Fair Value Model : Under this method :

- At the commencement of each year the asset is revalued to fair value
- Gain or Loss on revaluation is shown directly in Statement of Income (not other comprehensive income)

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Investment Property : Accounting Treatment

Fair Value Model : Cont...

- No depreciation is charged on the asset.

Fair value is generally established by taking reference of the prevailing prices of the similar kind of properties in an active market in the same location and condition.

References

Financial Reporting (Fr) - Study Text, The Association Of Chartered Certified Accountants (ACCA). Kaplan Publishing

<https://www.iasplus.com/en/standards/ias/ias40>

<https://www.ifrsbox.com/ias-40-investment-property/>

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Thank You

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