DIGITAL CFO SOLUTIONS • IFRS SERIES

ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 40

Investment Property

Recognition, fair value, transfers and disclosure — updated for recent amendments and IFRS 18

BD

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ROADMAP

What We Will Cover

Foundations & Scope
What makes property "investment property," and what falls outside IAS 40 entirely

Recognition & Initial Measurement
The two-part recognition test, cost components, and leased property interests

Subsequent Measurement
The fair value model and cost model — an entity-wide accounting policy choice

Transfers Between Categories
When property moves to or from investment property, and how each direction is accounted for

Disposal & Derecognition
Retirement, disposal, and the treatment of gains and losses

Disclosure Requirements
What every investment property portfolio must show in the notes

Worked Illustrations
Three institutional-grade examples covering fair value gains and transfers

Amendments, IFRS 18 & IFRIC Guidance
The 2018 transfers amendment, IFRS 16 interaction, IFRS 18 presentation, and the telecom-tower question

PART I — FOUNDATIONS

What Is Investment Property?

IAS 40 applies to land or buildings held to earn rentals or for capital appreciation, or both — a purpose test, not a physical-asset test.

FOUNDATIONS

The Definition

Investment property is property (land or a building — or part of a building — or both) held by the owner or by a lessee (as a right-of-use asset) to earn rentals or for capital appreciation, or both.

1

Independent cash flows

Investment property generates cash flows largely independent of the other assets held by the entity — the defining test that separates it from owner-occupied property.

2

Not owner-occupied

Property used in the production or supply of goods or services, or for administrative purposes, is owner-occupied property under IAS 16, not investment property.

3

Not held for sale

Property held for sale in the ordinary course of business, or in the process of construction for such sale, is inventory under IAS 2, not investment property.

Examples — What IS Investment Property

Land held for capital appreciation

Long-term capital appreciation rather than short-term sale in the ordinary course of business

Land held for a currently undetermined future use

If the entity has not determined whether it will use the land as owner-occupied property or sell it short-term, it is treated as held for capital appreciation

A building leased out under an operating lease

Owned by the entity, or held by the entity as a right-of-use asset, and leased out to third parties

A vacant building held to be leased out

Under one or more operating leases, even before a tenant is found

Property being constructed or developed for future use as investment property

Property under construction or development for future investment property use falls within scope

FOUNDATIONS

Examples — What Is NOT Investment Property

Held for sale in the ordinary course of business

Or in the process of construction/development for such sale — this is inventory (IAS 2)

Property being constructed for third parties

Under a construction contract — within the scope of IFRS 15

Owner-occupied property

Held for use in production or supply of goods/services, or for admin purposes — IAS 16 applies

Property leased to another entity under a finance lease

Property leased out under a finance lease is not investment property for the lessor

Property held for future development as owner-occupied

Property being constructed or developed on behalf of third parties, or intended for future owner-occupation

Owner-managed hotels and similar property

Where the owner provides significant ancillary services, the property may be owner-occupied rather than investment property

FOUNDATIONS

Mixed-Use Property & Ancillary Services

Portions Held for Different Purposes

If portions of a property can be sold, or leased out under a finance lease, separately, an entity accounts for the portions separately.

If the portions could NOT be sold separately, the property is investment property only if an insignificant portion is held for use in production/supply of goods or services, or for administrative purposes.

Ancillary Services to Occupants

When an entity provides ancillary services to occupants and those services are a relatively insignificant component of the arrangement as a whole (e.g. security and maintenance for office lessees), the property is investment property.

Where services provided are significant (e.g. an owner-managed hotel), the property is owner-occupied — the owner is providing hospitality services, not merely investing.

Judgement required

An entity develops criteria to consistently judge borderline cases, and discloses those criteria when classification is difficult — IAS 40 does not provide a bright-line test for "insignificant."

FOUNDATIONS

Scope Exclusions

Bearer plants & biological assets

Biological assets related to agricultural activity are within IAS 41, not IAS 40

Mineral rights & reserves

Mineral rights, oil, natural gas and similar non-regenerative resources are outside IAS 40

Inventory & assets held for sale

Property held for sale in the ordinary course of business is within IAS 2, or IFRS 5 once held-for-sale criteria are met

Property leased out under a finance lease

The lessor's interest in property leased out under a finance lease is derecognized, not accounted for under IAS 40

PART II — RECOGNITION & INITIAL MEASUREMENT

Getting Investment Property Onto the Balance Sheet

Investment property is recognised as an asset only when it clears the same probability and reliability tests as any other asset, then measured initially at cost.

Recognition Criteria

Investment property shall be recognised as an asset only when BOTH of the following are met:

Probable future economic benefits

It is probable that future economic benefits associated with the investment property will flow to the entity.

Cost measured reliably

The cost of the investment property can be measured reliably.

This recognition principle applies to all investment property costs at the time they are incurred — including costs incurred initially, and costs incurred subsequently to add to, replace part of, or service a property. Day-to-day servicing costs are expensed as incurred, consistent with IAS 16.

Initial Measurement — Cost

An investment property is measured initially at cost, including transaction costs.

Purchased Investment Property

Cost comprises the purchase price and any directly attributable expenditure, such as professional fees for legal services, property transfer taxes, and other transaction costs.

The cost of a self-constructed investment property is its cost at the date construction or development is complete — IAS 16 applies until that date.

Deferred Payment & Exchanges

If payment is deferred, cost is the cash price equivalent; the difference between this and total payments is recognised as interest expense over the credit period.

Where investment property is acquired in exchange for a non-monetary asset, the same fair-value principles used in IAS 16 for exchange transactions apply.

Costs Excluded from Initial Cost

The following are NOT part of the cost of investment property, and are expensed as incurred:

Start-up costs

Unless necessary to bring the property to the condition needed for it to be capable of operating as intended

Operating losses before planned occupancy

Losses incurred before the investment property achieves the planned level of occupancy

Abnormal waste

Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property

Investment Property Interest Held Under a Lease

Since IFRS 16 Leases, a lessee's right-of-use asset can itself be investment property. A lessee may elect to classify a property interest held under a lease as investment property if it meets the IAS 40 definition.

Election is by property

The classification election is made on a property-by-property (right-of-use asset) basis.

But applied consistently

Once ANY property interest held under a lease is classified as investment property carried at fair value, ALL of the entity's investment property — owned and leased — must be carried at fair value.

PART III — SUBSEQUENT MEASUREMENT

Fair Value Model vs Cost Model

An entity chooses one measurement model as its accounting policy and applies it to all its investment property, except where the lease-election rule above requires fair value.

SUBSEQUENT MEASUREMENT

Choosing an Accounting Policy

An entity chooses either the fair value model or the cost model for ALL of its investment property, and applies that policy consistently — a change is permitted only if it results in a more appropriate presentation, which is highly unlikely for a switch away from fair value.

Fair Value Model

Investment property is remeasured to fair value at the end of each reporting period. Changes in fair value are recognised in profit or loss as they occur — there is no depreciation and no separate impairment test.

Cost Model

Investment property is carried at cost less accumulated depreciation and accumulated impairment losses, following the same approach as IAS 16. Fair value must still be determined for disclosure purposes.

Whichever model is chosen for measurement, an entity determines fair value for EVERY investment property — either for measurement (fair value model) or for disclosure (cost model).

SUBSEQUENT MEASUREMENT

Fair Value Model — Principles

Reflects market conditions

Fair value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, per IFRS 13

No deduction for transaction costs

Fair value is NOT reduced by estimated disposal or transaction costs the entity might incur on a future sale

Gains and losses to profit or loss

Every fair value movement, up or down, is recognised in profit or loss for the period in which it arises — unlike the revaluation model in IAS 16

No depreciation, no separate impairment

Because the asset is continuously remeasured to fair value, there is no depreciation charge and no separate IAS 36 impairment review

Independent valuation encouraged

IAS 40 encourages, but does not require, valuation by an independent valuer holding a recognised professional qualification

Applies even after a transfer

Once an entity begins using the fair value model, it continues until the property is disposed of, even if comparable market transactions become less frequent

SUBSEQUENT MEASUREMENT

When Fair Value Cannot Be Measured Reliably

There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. In exceptional cases, when an entity first acquires an investment property (or when a property first becomes investment property after a transfer) and clear evidence shows that fair value is NOT reliably measurable on a continuing basis, that item is measured using the cost model under IAS 16 until disposal.

Important carve-outs from this exception

The residual value of that one property is assumed to be zero when applying IAS 16. The rest of the entity's investment property portfolio continues to be measured at fair value — this exception can apply to a single property without disqualifying the fair value model for the rest of the portfolio. Once fair value becomes reliably measurable for that property, the entity switches to fair value for it as well.

SUBSEQUENT MEASUREMENT

Cost Model — Principles

Under the cost model, an entity measures investment property in accordance with IAS 16's requirements for that model: cost less accumulated depreciation and accumulated impairment losses — the same approach applied to owner-occupied property under the cost model.

1

Depreciation applies

Depreciable investment property is depreciated on a systematic basis over its useful life, consistent with IAS 16.

2

Impairment under IAS 36

The property is tested for impairment whenever indicators exist, following the same principles as owner-occupied property.

3

Fair value still disclosed

Even under the cost model, the fair value of every investment property must be disclosed in the notes — not optional.

PART IV — TRANSFERS BETWEEN CATEGORIES

When Property Changes Category

A 2018 amendment tightened the trigger for reclassifying property to, or from, investment property — evidence of a change in use, not a change of mind.

TRANSFERS BETWEEN CATEGORIES

The Trigger for a Transfer

An entity shall transfer property to, or from, investment property when, and only when, there is evidence of a change in use — i.e. the property meets, or ceases to meet, the definition of investment property, AND there is observable evidence of the change.

Start of owner-occupation

Or the start of development with a view to owner-occupation → transfer to owner-occupied property (IAS 16)

Start of development for sale

The start of development with a view to sale → transfer to inventories (IAS 2)

End of owner-occupation

→ transfer from owner-occupied property to investment property

Inception of an operating lease to another party

For inventory → transfer from inventories to investment property

Accounting Treatment — Into Investment Property

How a property is measured on the way IN to investment property depends on which measurement model the entity applies overall.

1

Cost model in use

The transfer does not change the carrying amount of the property, and does not change its cost for measurement or disclosure purposes — whichever category it moves into.

Owner-Occupied → Investment Property (fair value)

The entity applies IAS 16 up to the date of change in use — including any final depreciation charge.

Any difference between the carrying amount and fair value at that date is treated as a REVALUATION under IAS 16: credited to OCI/revaluation surplus, or charged to profit or loss to the extent it reverses a previously recognised revaluation deficit for that asset.

Inventories → Investment Property (fair value)

There is no revaluation-surplus mechanism available here, because inventory was never subject to IAS 16.

Any difference between the fair value of the property at the date of change and its previous carrying amount as inventory is recognised DIRECTLY IN PROFIT OR LOSS, in full.

Accounting Treatment — Out of Investment Property

How a property is measured on the way OUT of investment property again depends on the measurement model — but the fair-value case has just one rule, regardless of destination.

1

Cost model in use

As with transfers in, the transfer does not change the carrying amount of the property, and does not change its cost for measurement or disclosure purposes.

Investment Property (fair value) → Owner-Occupied Property or Inventories

A single rule applies regardless of which category the property is moving into: the property's DEEMED COST for subsequent accounting under IAS 16 (owner-occupied) or IAS 2 (inventories) is its fair value at the date of the change in use.

That fair value simply becomes the new opening cost going forward — there is no separate gain or loss to recognise on the transfer itself, because the property was already being remeasured to fair value through profit or loss each period under the fair value model.

Illustration — Owner-Occupied to Investment Property

Fact pattern

An entity vacates a head-office building with a carrying amount of $4,200,000 under IAS 16 (cost model) and leases it out entirely to third parties under an operating lease. On that date, the building's fair value is $5,000,000. The entity carries all investment property at fair value.

Solution

The end of owner-occupation is observable evidence of a change in use, so the transfer is required on that date.

IAS 16 applies up to the date of change: the building is treated as if revalued from $4,200,000 to $5,000,000 immediately before reclassification. The $800,000 increase is credited to revaluation surplus in other comprehensive income (or to profit or loss first, to the extent of any previous revaluation deficit recognised for this asset).

The building is then reclassified as investment property with an opening carrying amount of $5,000,000. From this point, it is remeasured to fair value each period, with all further movements recognised in profit or loss.

PART V — DISPOSAL & DERECOGNITION

Taking Investment Property Off the Balance Sheet

Investment property is derecognized on disposal, or when permanently withdrawn from use with no future economic benefits expected.

Retirement, Disposal & Gains or Losses

Investment property is derecognised on disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gain or loss = Net disposal proceeds − Carrying amount of the asset — recognised in profit or loss in the period of retirement or disposal (unless a sale and leaseback requires different treatment under IFRS 16).

Compensation from third parties

Compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when the compensation becomes receivable — not netted against the loss itself.

PART VI — DISCLOSURE

What the Notes Must Show

Disclosure requirements differ meaningfully depending on whether an entity applies the fair value model or the cost model.

DISCLOSURE

Accounting Policy, Classification & Amounts in P&L

1. The accounting policy for measurement of investment property (fair value or cost model)
2. Where classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale
3. The extent to which fair value is based on a valuation by an independent, appropriately qualified valuer with recent relevant experience — or, if not, that fact
4. Rental income from investment property recognised in profit or loss
5. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period
6. Direct operating expenses arising from investment property that did NOT generate rental income during the period

DISCLOSURE

Restrictions & Contractual Obligations

Restrictions

The existence and amounts of restrictions on:

- the realizability of investment property, or
- the remittance of income and proceeds of disposal.

These restrictions might arise from local regulation, financing covenants, or joint arrangement terms.

Contractual Obligations

Contractual obligations:

- to purchase, construct or develop investment property, or
- for repairs, maintenance, or enhancements.

These are disclosed even though they may not yet meet the recognition criteria for a liability.

DISCLOSURE

Fair Value Model — Reconciliation

Entities using the fair value model reconcile the carrying amount at the beginning and end of the period, showing:

1. Additions, separately disclosing those from acquisitions and those from subsequent expenditure
2. Additions resulting from acquisitions through business combinations
3. Assets classified as held for sale or included in a disposal group under IFRS 5, and other disposals
4. Net gains or losses from fair value adjustments
5. Net exchange differences from translating financial statements into a different presentation currency
6. Transfers to and from inventories and owner-occupied property, and other changes

DISCLOSURE

Cost Model — Additional Requirements

These requirements are IN ADDITION to the reconciliation items shown on the previous slide, which apply under both models.

Depreciation methods used

The methods applied to allocate the depreciable amount of investment property over its useful life

Useful lives or depreciation rates

Disclosed for each class of investment property under the cost model

Gross carrying amount & accumulated depreciation

Aggregated with accumulated impairment losses, at the beginning and end of the period

Fair value, even though not used for measurement

The fair value of investment property must still be disclosed — if it cannot be reliably measured, disclose why, and a range of estimates if possible

PART VII — APPLICATION

Worked Illustrations

Three institutional-grade examples covering fair value gains, transfers, and the treatment of an inventory-to-investment-property transfer.

Illustration I — Fair Value Gain Recognition

Fact pattern

An entity owns an office tower leased entirely to third parties, carried under the fair value model. At the start of the year, fair value was $40,000,000. During the year, the entity spends $1,500,000 on capital improvements. At year-end, an independent valuer assesses fair value at $44,000,000.

Solution

Opening carrying amount: $40,000,000
Add: capitalized improvements during the year: $1,500,000
Subtotal before remeasurement: $41,500,000

Closing fair value per independent valuation: $44,000,000

Fair value gain recognised in profit or loss = $44,000,000 − $41,500,000 = $2,500,000.

No depreciation is charged during the year, and no separate impairment test is performed — the fair value model absorbs both effects directly through the single remeasurement to $44,000,000.

WORKED ILLUSTRATIONS

Illustration II — Inventory to Investment Property

Fact pattern

A property developer holds a completed residential block at a carrying amount of $8,600,000 as inventory (IAS 2), originally built for sale. Market conditions weaken, and the entity begins leasing all units out under operating leases with no plan to sell. Fair value at the date leasing commences is $9,400,000.

Solution

The commencement of an operating lease to third parties, with no further intention to sell, is observable evidence of a change in use — triggering a transfer from inventory to investment property.

Because the property is transferring INTO investment property to be carried at fair value, the difference between fair value at the date of transfer and the previous carrying amount is recognised in PROFIT OR LOSS (unlike an owner-occupied-to-investment-property transfer, which goes through revaluation surplus).

Gain recognised in profit or loss = $9,400,000 − $8,600,000 = $800,000. The property is then carried forward at its new fair value basis of $9,400,000.

WORKED ILLUSTRATIONS

Illustration III — Cost Model with Fair Value Disclosure

Fact pattern

An entity applies the cost model to its investment property portfolio. A warehouse was acquired for $3,000,000, has a 30-year useful life, nil residual value, and is depreciated straight-line. At year-end, five years after acquisition, an independent valuer estimates fair value at $3,900,000.

Solution

Annual depreciation = $3,000,000 ÷ 30 years = $100,000 per year.

Carrying amount after 5 years = $3,000,000 − (5 × $100,000) = $2,500,000. This is the amount recognised on the balance sheet under the cost model — the $3,900,000 market value is NOT recognised.

However, IAS 40 still requires the $3,900,000 fair value to be disclosed in the notes, together with the valuation basis, even though it has no effect on the carrying amount or on profit or loss.

PART VIII — RECENT DEVELOPMENTS

Amendments & IFRS 18 Impact

The 2018 transfers amendment, the IFRS 16 interaction, and how IFRS 18 reshapes the presentation of investment property income from 2027.

RECENT DEVELOPMENTS

Transfers of Investment Property (2018 Amendment)

Transfers of Investment Property (Amendments to IAS 40) — issued 8 December 2016, effective for annual periods beginning on or after 1 January 2018.

1

The old ambiguity

Before the amendment, the list of circumstances evidencing a change in use (paragraph 57) was widely read as EXHAUSTIVE, and some argued a mere change in management intention could support a transfer.

2

The clarification

The Board confirmed a transfer is required when, and only when, there is evidence of an actual change in use. A change in management's intentions, by itself, is NEVER sufficient evidence.

3

Non-exhaustive examples

The list of examples of evidence of a change in use was re-characterized as non-exhaustive — other observable evidence can also support a transfer, judged consistently against the same evidence-based principle.

RECENT DEVELOPMENTS

Impact of IFRS 18 on Investment Property Presentation

IFRS 18 Presentation and Disclosure in Financial Statements replaces IAS 1 and is effective for annual periods beginning on or after 1 January 2027 (early application permitted).

1

Real estate as a main business activity

For entities whose main business activity is investing in real estate, rental income and fair value gains/losses are classified in the OPERATING category, since this is how the entity generates its principal returns.

2

Incidental investment property elsewhere

For entities where investment property is incidental to a different main business (e.g. a manufacturer leasing out a surplus building), the related income and fair value movements are more likely classified in the INVESTING category.

3

What does NOT change

IFRS 18 does not alter how investment property is recognized, measured at fair value or cost, or disclosed under IAS 40 — the impact is purely about which category of the income statement it lands in.

PART IX — RELATED GUIDANCE

Where IAS 40 Gets Tested at the Edges

The clearest unresolved boundary question in IAS 40 practice: what counts as a “building” when a structure has no walls or roof.

RELATED GUIDANCE

Committee Discussion — Telecommunication Towers

The IFRS Interpretations Committee discussed (2012–2014) whether a telecommunication tower — leased out space by space to network operators — should be accounted for as investment property, given IAS 40's definition is limited to "land or a building."

1

The Committee's conclusion

The Committee concluded IAS 40's reference to "building" is clear enough that a structure lacking walls, floors and a roof — such as a tower, billboard, or storage tank — does not qualify, regardless of how similar its economics are to leasing office space.

2

Practical result

Such structures are accounted for as property, plant and equipment under IAS 16, not investment property — meaning fair value gains, if the revaluation model is used, go through OCI rather than profit or loss.

3

Status: unresolved by amendment

The IASB ultimately did not amend the definition of "property" or "building" in IAS 40 to address this — entities continue to apply judgement, informed by the Committee's discussion, rather than a formal Interpretation.

SUMMARY

Key Takeaways

It's a purpose test

Held to earn rentals or capital appreciation, generating cash flows largely independent of other assets

One policy for the whole portfolio

Fair value model or cost model — chosen once, applied consistently, rarely changed

Fair value gains hit profit or loss

Unlike IAS 16 revaluations, every fair value movement flows straight through the income statement

Evidence, not intention, triggers a transfer

Since 2018, a mere change of management's mind is never enough to reclassify a property

Leased property can be investment property too

A lessee's right-of-use asset can qualify — but electing fair value for one forces fair value for all

Not every leased structure qualifies

Towers, billboards, and tanks without walls or a roof stay in IAS 16, per Committee discussion

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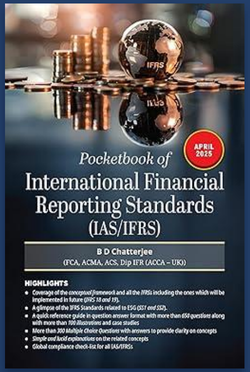
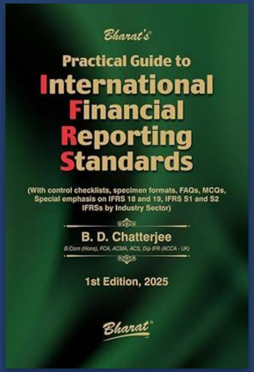
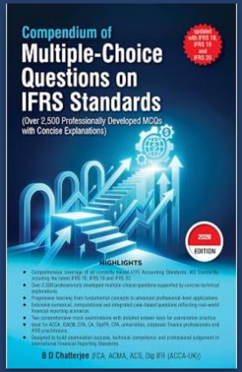


Pocketbook of International Financial Reporting Standards (IAS/IFRS)

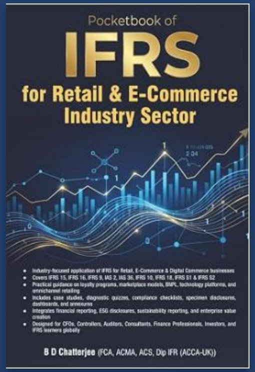


Practical Guide to International Financial Reporting Standards

Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



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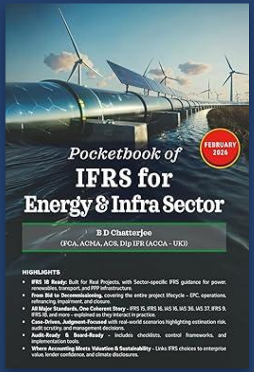

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