

This extract has been prepared by IASC Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.

IAS 40 *Investment Property*

The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Investment property is 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, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:

- (a) the rest of the definition of investment property is met;
- (b) the operating lease is accounted for as if it were a finance lease in accordance with IAS 17 *Leases*; and
- (c) the lessee uses the fair value model set out in this Standard for the asset recognised.

Investment property shall be recognised as an asset when, and only when:

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

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

The Standard permits entities to choose either:

- (a) a fair value model, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss; or
- (b) a cost model. The cost model is specified in IAS 16 and requires an investment property to be measured after initial measurement at depreciated cost (less any accumulated impairment losses). An entity that chooses the cost model discloses the fair value of its investment property.

The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.