

IAS 40

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<b>FOR THE ACCOMPANYING DOCUMENTS LISTED BELOW, SEE PART B OF THIS EDITION</b>
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**APPROVAL BY THE BOARD OF IAS 40 ISSUED IN DECEMBER 2003**

**IASB BASIS FOR CONCLUSIONS ON IAS 40 (AS REVISED IN 2003)**

**IASC BASIS FOR CONCLUSIONS ON IAS 40 (2000)**

International Accounting Standard 40 *Investment Property* (IAS 40) is set out in paragraphs 1–86. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 40 should be read in the context of its objective and the IASB’s Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

IAS 40

## Introduction

IN1 International Accounting Standard 40 *Investment Property* (IAS 40) replaces IAS 40 *Investment Property* (issued in 2000), and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

### Reasons for revising IAS 40

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IN2 The International Accounting Standards Board developed this revised IAS 40 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For IAS 40 the Board's main objective was a limited revision to permit a property interest held by a lessee under an operating lease to qualify as investment property under specified conditions. Those conditions include requirements that the property must otherwise meet the definition of an investment property, and that the lessee must account for the lease as if it were a finance lease and measure the resulting lease asset using the fair value model. The Board did not reconsider the fundamental approach to the accounting for investment property contained in IAS 40.

### The main changes

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IN4 The main changes from the previous version of IAS 40 are described below.

IN5 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.

IN6 The classification alternative described in paragraph IN5 is available on a property-by-property basis. However, because it is a general requirement of the Standard that all investment property should be consistently accounted for using the fair value or cost model, once this alternative is selected for one such property, all property classified as investment property is to be accounted for consistently on a fair value basis.

IN7 The Standard requires an entity to disclose:

- (a) whether it applies the fair value model or the cost model; and

- (b) 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.
- IN8 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, a reconciliation is required between the valuation obtained and the valuation included in the financial statements.
- IN9 The Standard clarifies that if a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property.
- IN10 Comparative information is required for all disclosures.
- IN11 Some significant changes have been incorporated into the Standard as a result of amendments that the Board made to IAS 16 *Property, Plant and Equipment* as part of the Improvements project:
- (a) to specify what costs are included in the cost of investment property and when replaced items should be derecognised;
- (b) to specify when exchange transactions (ie transactions in which investment property is acquired in exchange for non-monetary assets, in whole or in part) have commercial substance and how such transactions, with or without commercial substance, are accounted for; and
- (c) to specify the accounting for compensation from third parties for investment property that was impaired, lost or given up.

### Summary of the approach required by the Standard

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- IN12 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.
- IN13 The choice between the cost and fair value models is not available to a lessee accounting for a property interest held under an operating lease that it has elected to classify and account for as investment property. The Standard requires such investment property to be measured using the fair value model.
- IN14 The fair value model differs from the revaluation model that is permitted for some non-financial assets. Under the revaluation model, increases in carrying amount above a cost-based measure are recognised as revaluation surplus. However, under the fair value model, all changes in fair value are recognised in profit or loss.

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- IN15 The Standard requires an entity to apply its chosen model to all of its investment property. However, this does not mean that all eligible operating leases must be classified as investment properties.
- IN16 In exceptional cases, when an entity has adopted the fair value model, there may be clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that its fair value will not be reliably measurable on a continuing basis. In such cases, the Standard requires the entity to measure that investment property using the cost model in IAS 16 until disposal of the investment property. The residual value of the investment property is assumed to be zero.
- IN17 A change from one model to the other is made only if the change results in a more relevant presentation. The Standard states that this is highly unlikely to be the case for a change from the fair value model to the cost model.
- IN18 IAS 40 depends upon IAS 17 for requirements for the classification of leases, the accounting for finance and operating leases and for some of the disclosures relevant to leased investment properties. When a property interest held under an operating lease is classified and accounted for as an investment property, IAS 40 overrides IAS 17 by requiring that the lease is accounted for as if it were a finance lease. Paragraphs 14–18 of IAS 17 apply to the classification of leases of land and buildings. In particular, paragraph 18 specifies when it is not necessary to measure separately the land and building elements of such a lease.

## International Accounting Standard 40

### *Investment Property*

#### Objective

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

#### Scope

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- 2 **This Standard shall be applied in the recognition, measurement and disclosure of investment property.**
- 3 Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IAS 17 *Leases*, including:
- (a) classification of leases as finance leases or operating leases;
  - (b) recognition of lease income from investment property (see also IAS 18 *Revenue*);
  - (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
  - (d) measurement in a lessor's financial statements of its net investment in a finance lease;
  - (e) accounting for sale and leaseback transactions; and
  - (f) disclosure about finance leases and operating leases.
- 4 This Standard does not apply to:
- (a) biological assets related to agricultural activity (see IAS 41 *Agriculture*); and
  - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

#### Definitions

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- 5 **The following terms are used in this Standard with the meanings specified:**
- Carrying amount*** is the amount at which an asset is recognised in the statement of financial position.
- Cost*** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 *Share-based Payment*.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*).

*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.

*Owner-occupied property* is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

6 *A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.*

7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 *Property, Plant and Equipment* applies to owner-occupied property.

8 The following are examples of investment property:

- (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
- (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
- (c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
- (d) a building that is vacant but is held to be leased out under one or more operating leases.
- (e) property that is being constructed or developed for future use as investment property.

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