



Agenda

- Definition and scope
- Accounting for investment property
- Disclosure
- The closing

SLFRS Baseline 2011 – Investment Property 3



Definition

Property that is land or a building (or part of a building) or both

is

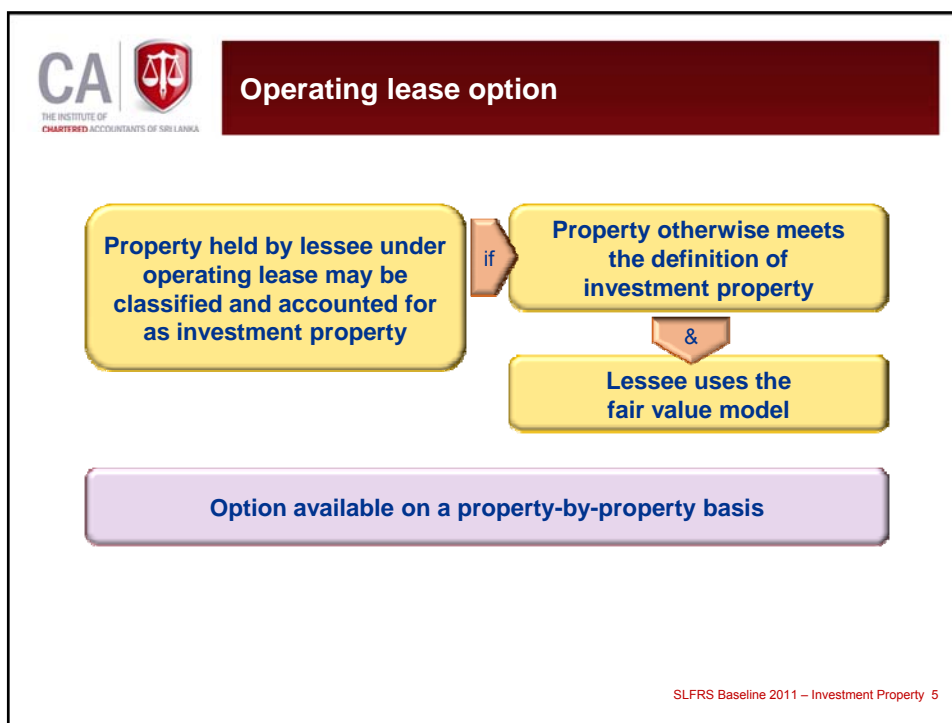
- ♦ Held for rental, or
- ♦ Held for capital appreciation

not

- ♦ Held for use in production, supply of goods / services or for administration
- ♦ Held for sale in the ordinary course of business

Classification as investment property is **mandatory**
if the criteria of LKAS 40 are met

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Not investment property

Not in the definition	
Sale in the ordinary course of business	Inventory: LKAS 2
Owner occupied	Property: LKAS 16
Constructed for third party	Contract: LKAS 11
Property under finance lease	Lease: LKAS 17
Employee occupied	Property: LKAS 16
Biological assets	LKAS 41
Mineral rights, exploration / extraction	SLFRS 6

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Examples of investment property



- Land held for long-term capital appreciation
- Land held for undetermined future use
- Building owned (or held under a finance lease) and leased out under operating lease
- Property under construction or development for future use as investment property


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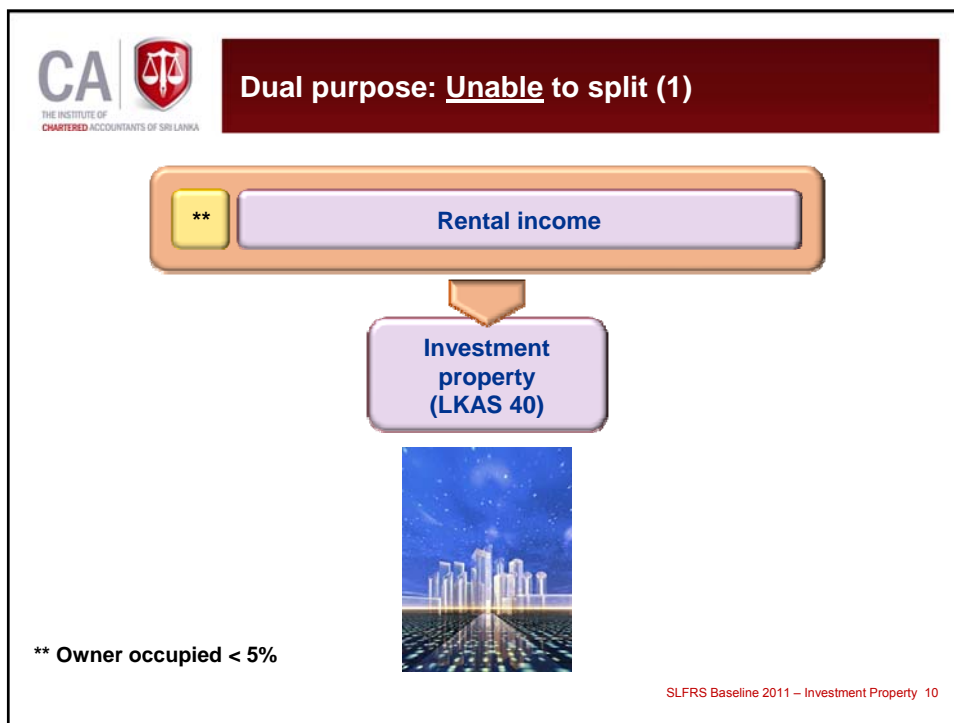
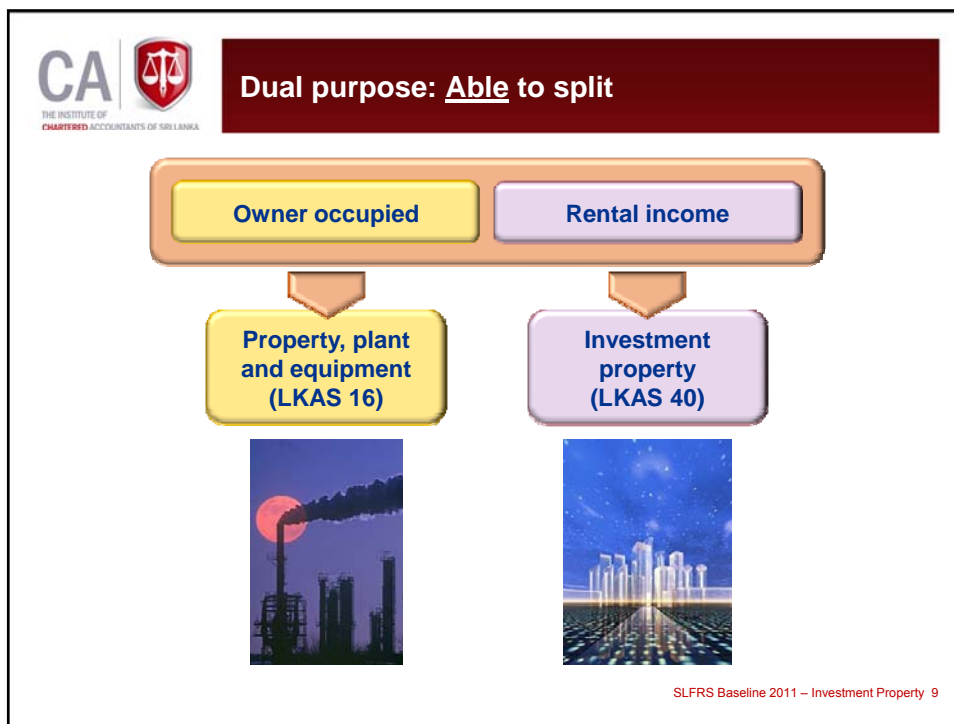
A question for you: Classification (1)

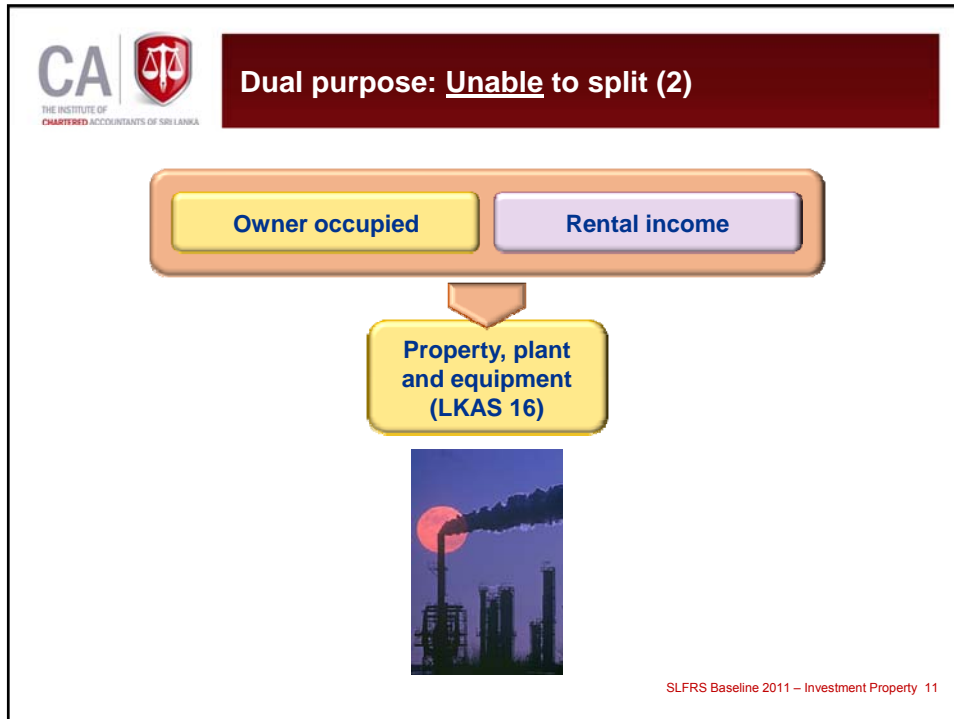
- Lila-Rent leases a building to Lila-Industrial under an operating lease
- Lila-Rent accounts for the building as investment property in its separate financial statements
- Lila-Industrial uses the building as its Corporate Headquarters

How should the building be classified in the consolidated financial statements of Lila-Tech?



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A question for you: Classification (2)

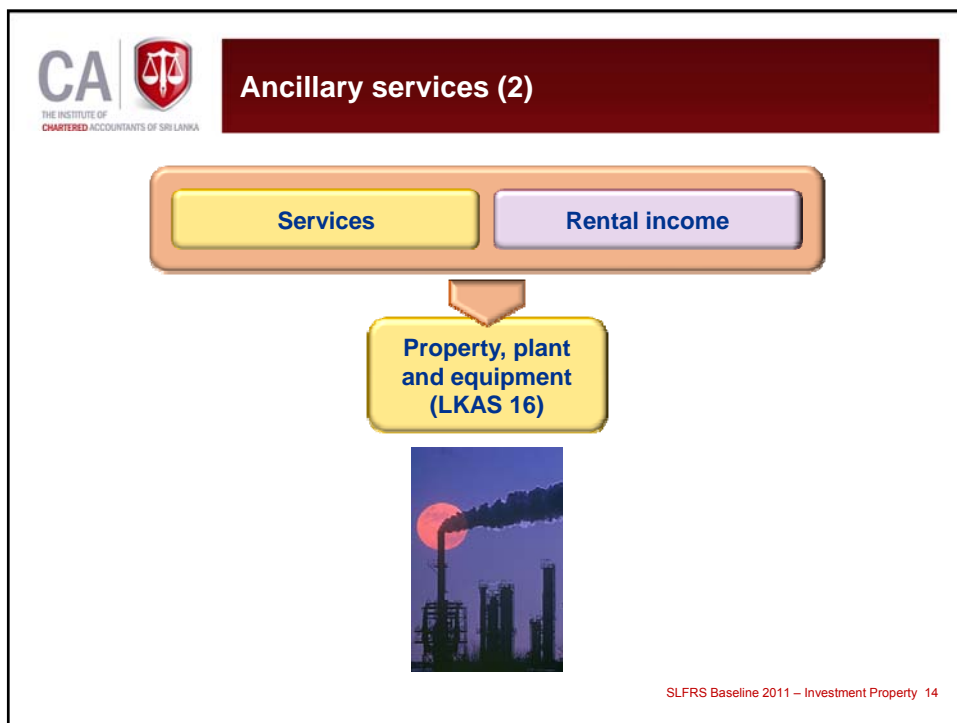
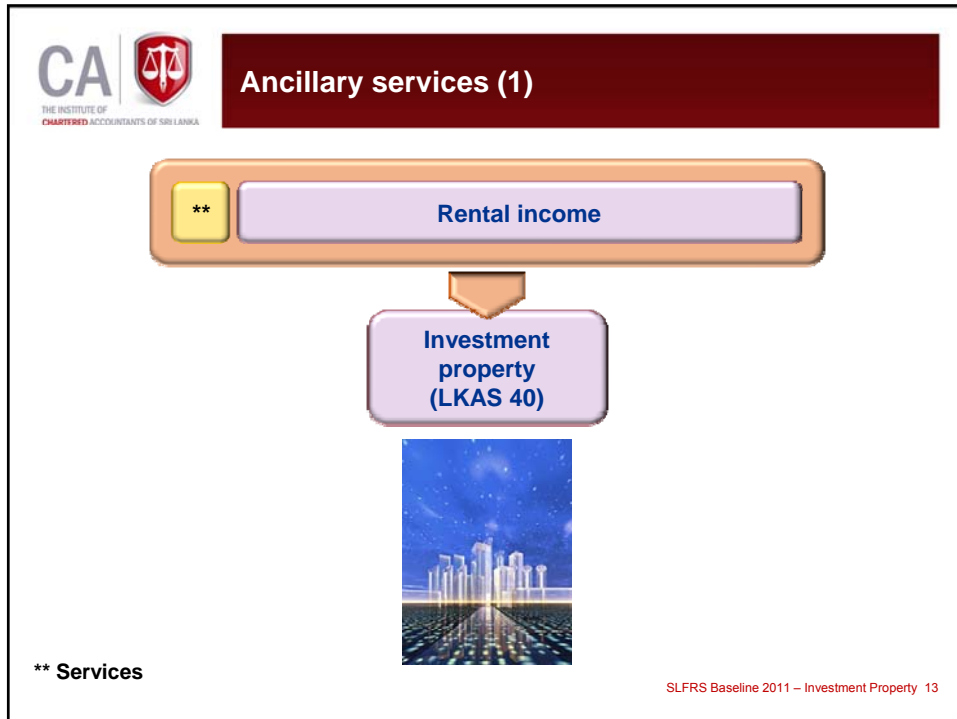
- Lila-Build accounts for its investment property at fair value
- Lila-Build constructs a 3-storey building of which it intends to rent out 1 floor
- The floors could be sold separately, but only if the legal status of the property is changed, which would require some formal procedures prescribed by the Lila Planet Council

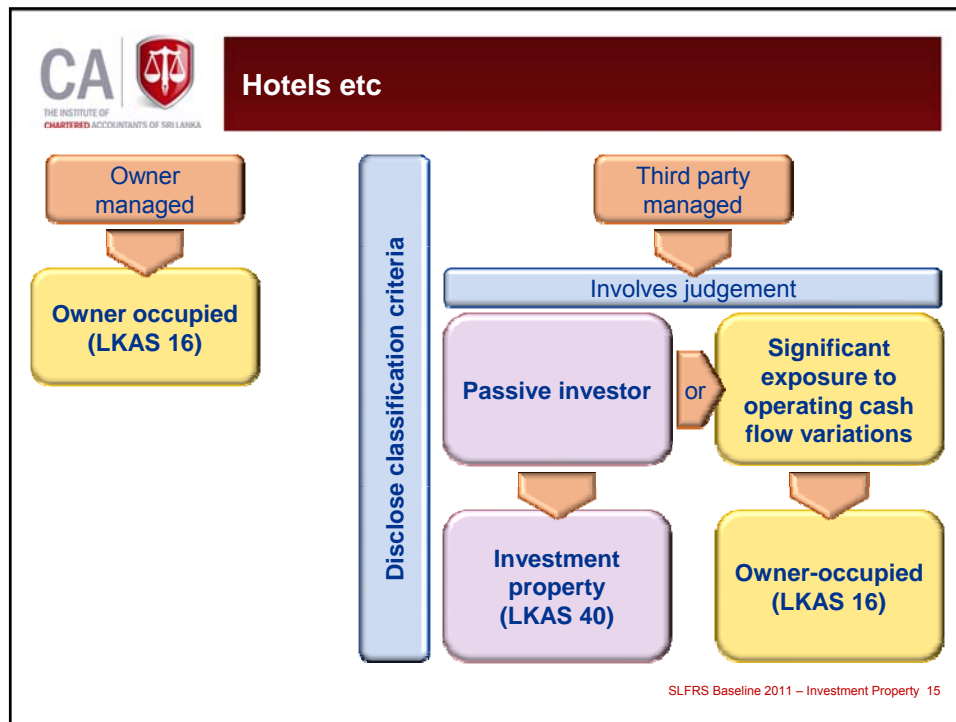
How should the building be classified?



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The slide presents a classification question for a 3-storey building where one floor is intended for rental. It lists the company's accounting policy (fair value), the building's structure, and a legal constraint on selling floors separately. An image of a hand pointing at blueprints is included.





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A question for you: Classification (3)

- **Lila-Build acquires an entertainment centre comprising a hotel (including a souvenir shop, some bars and restaurants), a casino, various shops and some more restaurants outside the hotel**
- **Only the souvenir shop and casino are managed by Lila-Build**
- **Everything else is managed by a third party**

How should the entertainment centre be classified?

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Investment property recognised as an asset when

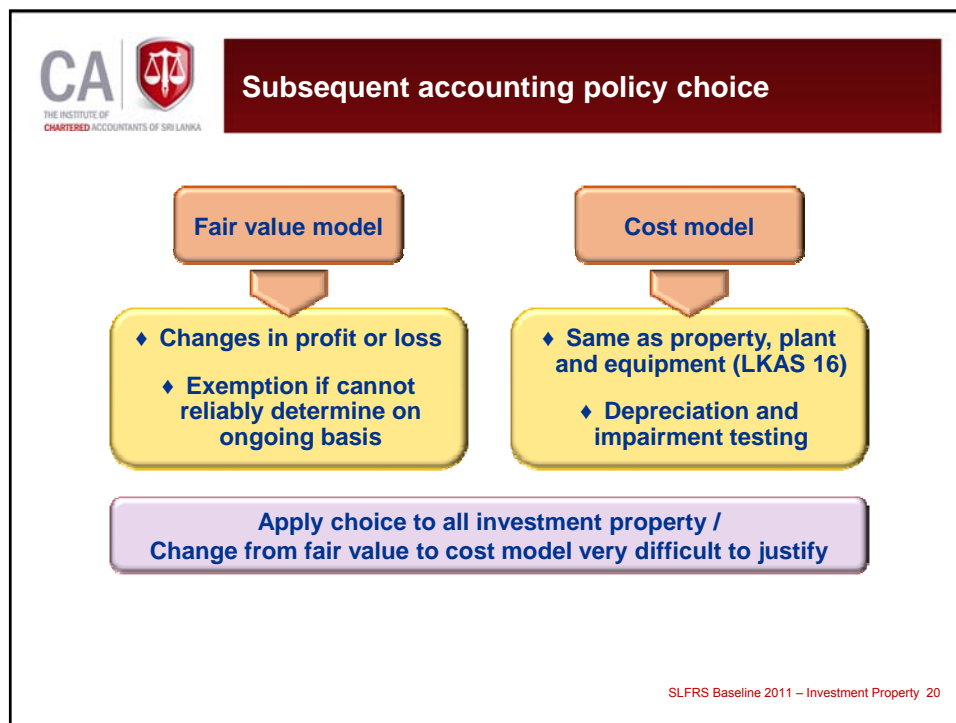
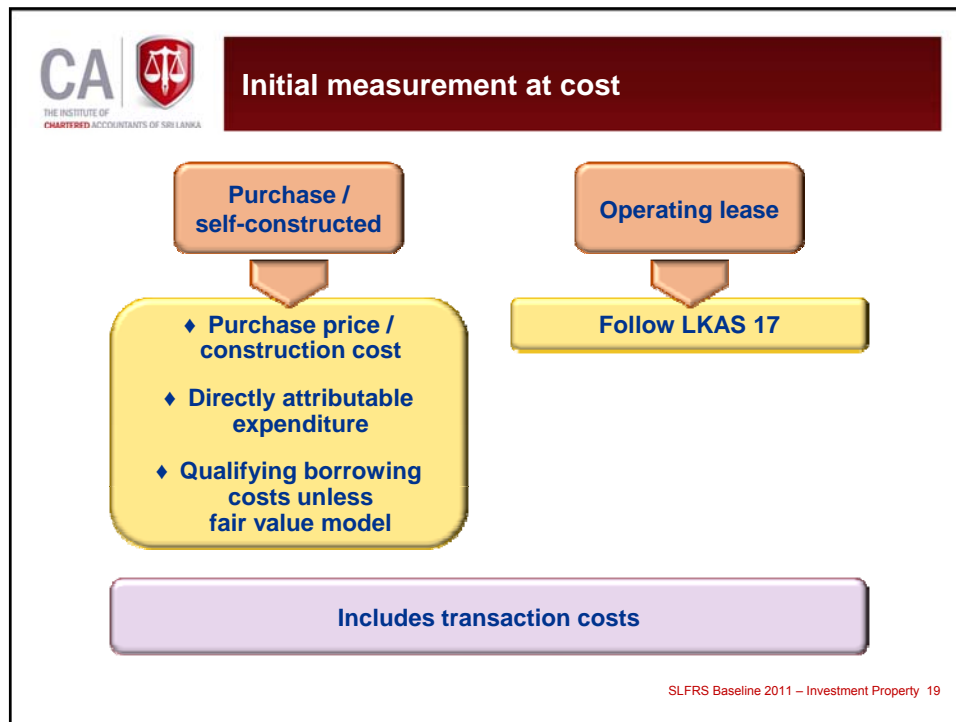
Probable that future economic benefits will flow to the entity



Cost can be measured reliably



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A question for you: Measurement model (1)

- **Lila-Build accounts for its investment property at fair value**
- **Lila-Build bought several properties in the Inner Sanctum, which it rents out**
- **One of the properties is located in a poor and neglected area and finding tenants is difficult**
- **The property has been vacant for over a year now**

Can Lila-Build account for this property using the cost model?



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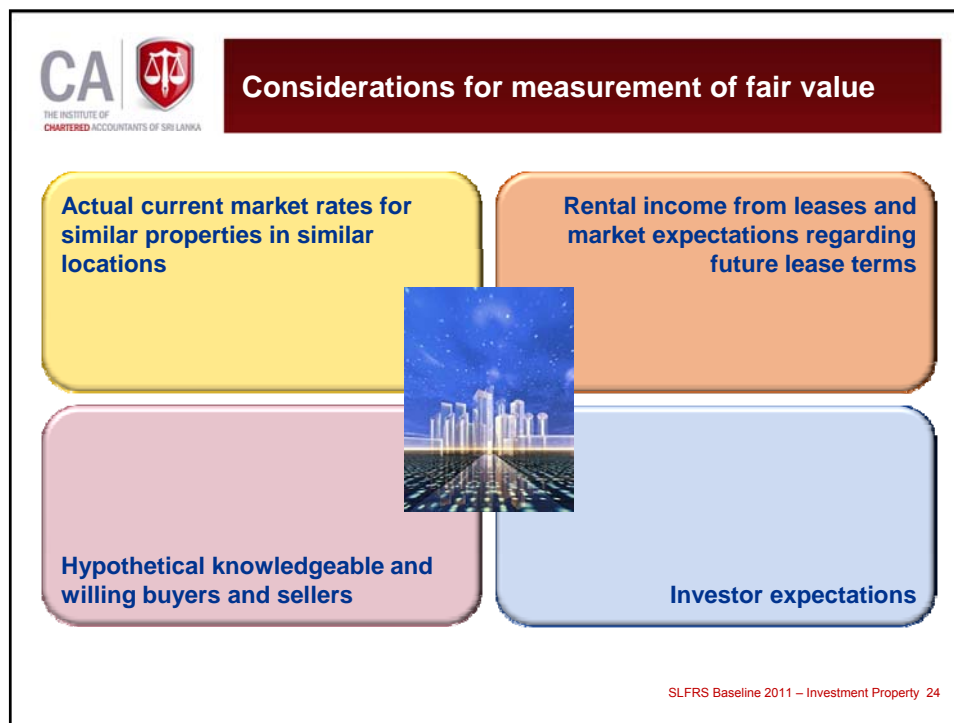
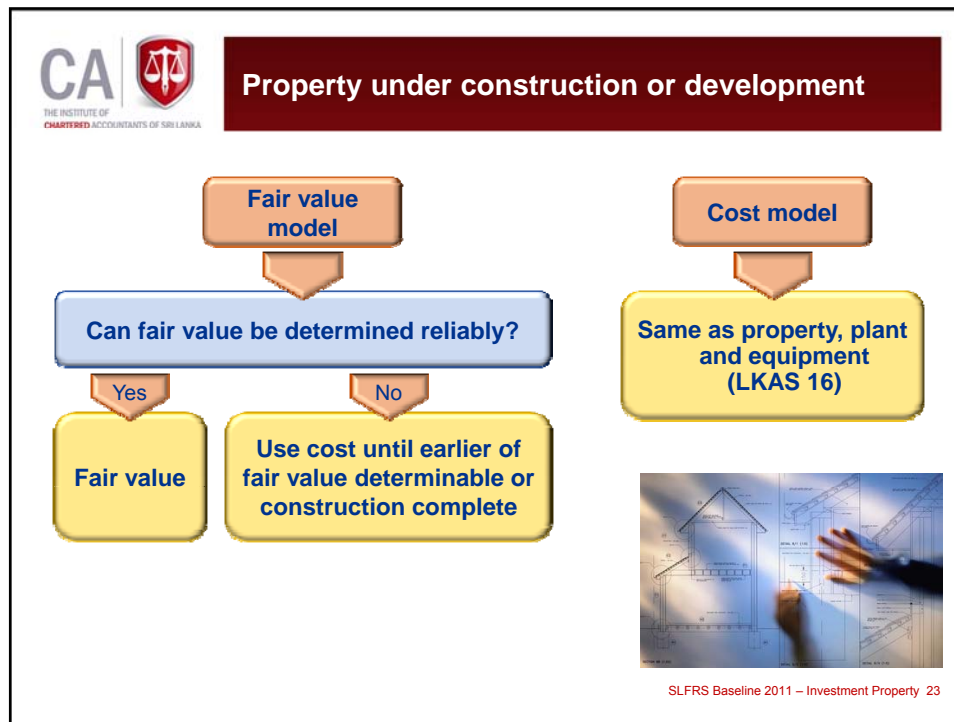
A question for you: Measurement model (2)

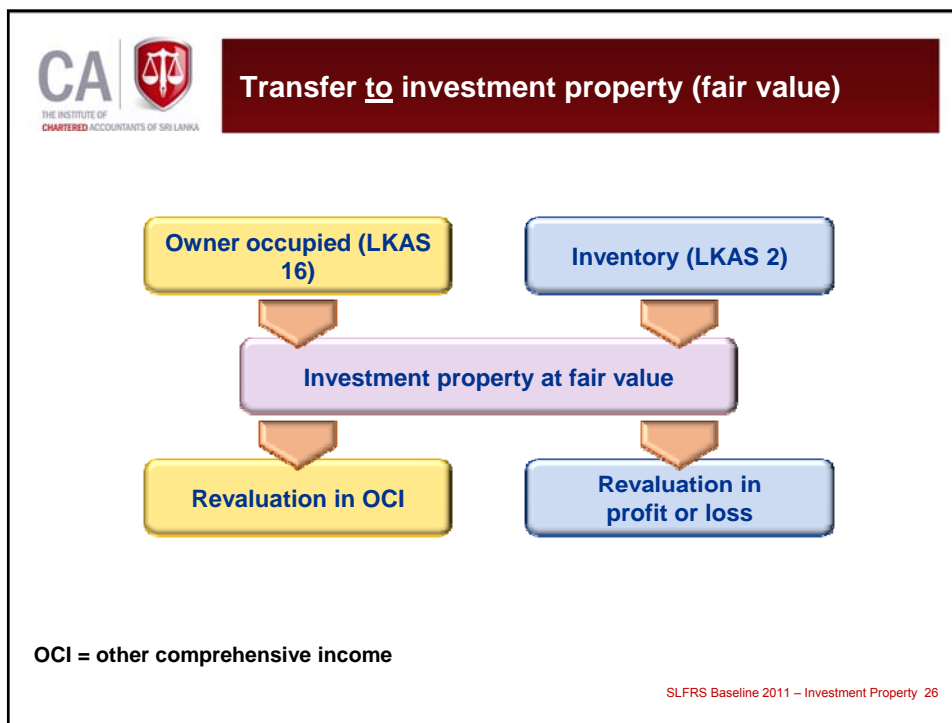
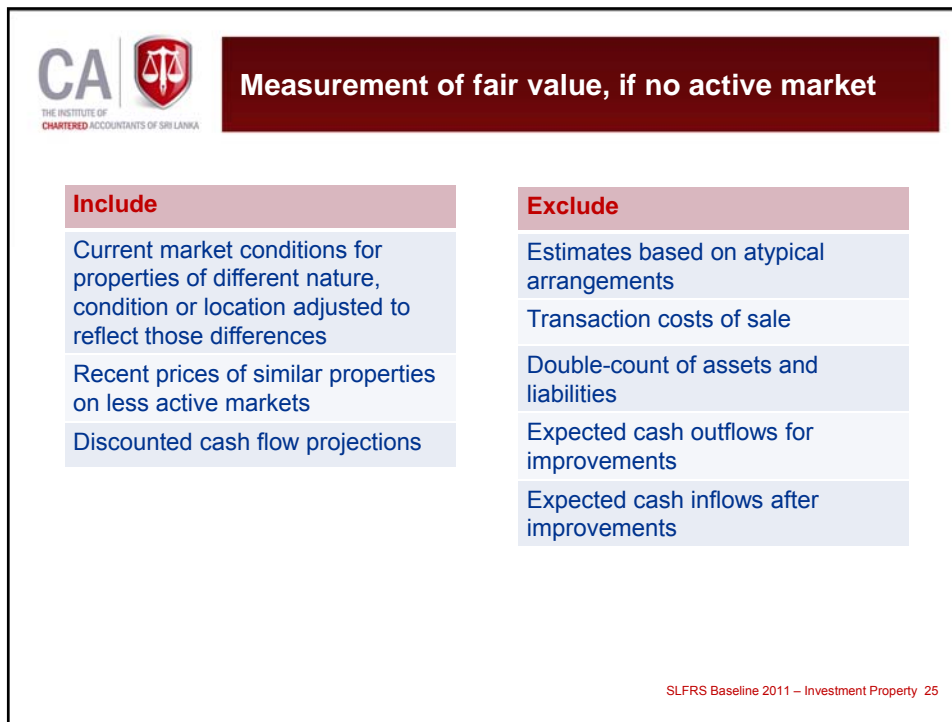
- **Lila-Build accounts for its investment property at fair value**
- **Lila-Build bought 3 properties in the Outer Regions that it intends to rent out in the future**
- **At the date of acquisition there was no active market in this area**
- **According to management it is therefore not possible to measure the fair value of the properties reliably**

Can Lila-Build account for these properties using the cost model?



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A question for you: Reclassification

- Lila-Build accounts for its investment property at fair value
- Lila-Build has been using one of its properties as a warehouse for storing robot parts prior to production
- Lila-Build plans to move storage to a purpose-built warehouse, and will rent out the warehouse to a third party

Should Lila-Build reclassify the warehouse to Investment property?

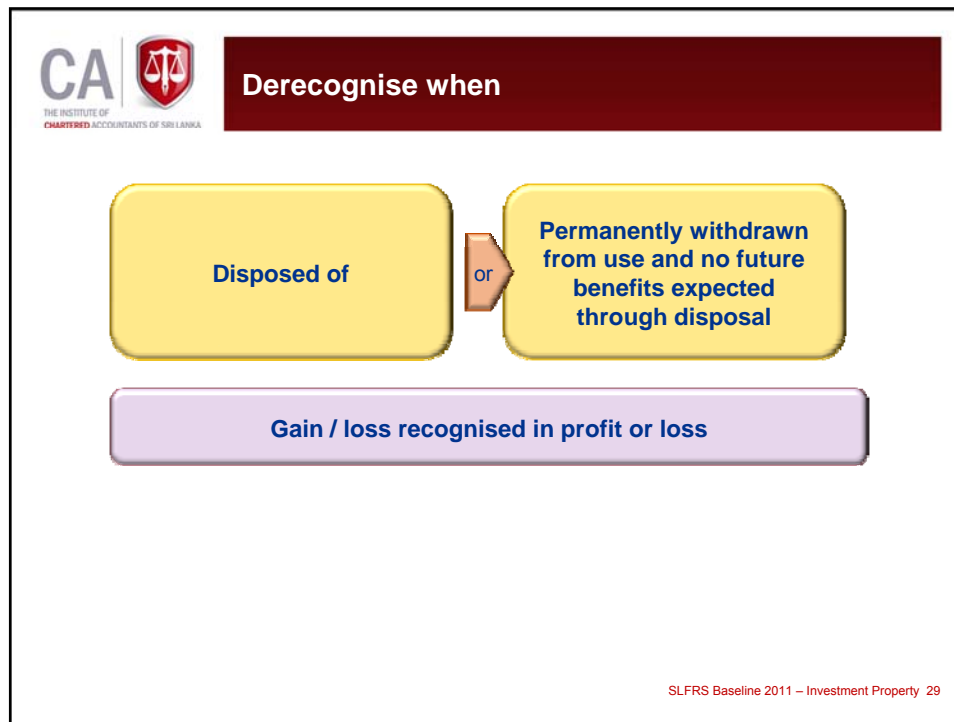




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Transfer from investment property (fair value)




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Disclosure



- Accounting policy
- Notes

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Key disclosures – Both models

- **Criteria to distinguish between investment property and owner-occupied property and inventory**
- **Methods, significant assumptions to determine fair value**
- **Extent to which independent valuer involved and any adjustments to the valuation obtained**
- **Rental income**
- **Direct operating expenses**
 - From investment property generating rental income
 - From vacant investment property
- **Material contractual obligations, including repairs, maintenance**

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Key disclosures

Fair value model

- Reconciliation
- Information on property for which fair value cannot be determined
- Whether properties held under operating leases have been classified as investment property

Cost model

- Reconciliation
- Fair value, or
- Information on property for which fair value cannot be determined

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Which statements are true?

Owner-occupied property is investment property

Property constructed for a third party is investment property

Employee-occupied property is investment property

Property held for rental or capital appreciation is investment property



Which statements are true?

LKAS 40 requires investment property to be accounted for using the fair value model

LKAS 40 allows an accounting policy election for investment property between the fair value model and the cost model

If property is dual purpose, then LKAS 40 requires the cost model to be used

LKAS 40 requires investment property to be accounted for using the cost model

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Which statements are true?


Under the fair value model for investment property, changes in fair value are recorded in profit or loss

Under the fair value model for investment property, changes in fair value are recorded in OCI

Under the fair value model for investment property, changes in fair value are recorded as an increase to the asset with an offset to a liability


Under the fair value model for investment property, changes in fair value are not reflected; rather the asset is depreciated and reviewed for impairment as necessary

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- 1) Investment property is property held for rentals or capital appreciation
- 2) Initial measurement is at cost
- 3) Accounting policy election for subsequent measurement using the fair value model or the cost model
- 4) Under the fair value model, changes in fair value go in profit or loss
- 5) Under the cost model, investment property treated like property, plant and equipment

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THANK YOU



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