

IPSAS 16—INVESTMENT PROPERTY

Acknowledgment

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The standards, which have been set in bold type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

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

Scope

1. **An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investment property.**
2. **This Standard applies to all public sector entities other than Government Business Enterprises.**
3. This Standard deals with accounting for investment property including the measurement in a lessee’s financial statements of investment property held under a finance lease and with the measurement in a lessor’s financial statements of investment property leased out under an operating lease. This Standard does not deal with matters covered in International Public Sector Accounting Standard (IPSAS) 13, “Leases,” including:
 - (a) Classification of leases as finance leases or operating leases;
 - (b) Recognition of lease revenue earned on investment property (see also IPSAS 9, “Revenue from Exchange Transactions”);
 - (c) Measurement in a lessee’s financial statements of property held under an operating lease;
 - (d) Measurement in a lessor’s financial statements of property leased out under 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) Forests and similar regenerative natural resources; and
 - (b) Mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.
5. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International

Accounting Standards Committee. The Public Sector Committee's Guideline No. 1, "Financial Reporting by Government Business Enterprises" notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

Definitions

6. The following terms are used in this Standard with the meanings specified:

Carrying amount is (for the purpose of this Standard) the amount at which an asset is recognized in the statement of financial position.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Investment property is property (land or a building — or part of a building — or both) held 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 operations.

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.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Investment Property

7. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity (other than a GBE) may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the

ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

8. Investment property is held to earn rentals or for capital appreciation or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process. IPSAS 17, “Property, Plant and Equipment” applies to owner-occupied property.
9. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognizes the property in its financial statements.
10. 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 operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future;
 - (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);

- (c) A building owned by the reporting entity (or held by the reporting entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties; and
 - (d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
11. The following are examples of items that are not investment property and therefore fall outside the scope of this Standard:
- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, “Inventories”). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory;
 - (b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see (see IPSAS 11, “Construction Contracts”));
 - (c) Owner-occupied property (see IPSAS 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
 - (d) Property that is being constructed or developed for future use as investment property. IPSAS 17 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard does apply to existing investment property that is being redeveloped for continued future use as investment property (see paragraph 61);
 - (e) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and

rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with IPSAS 17; and

- (f) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17.
12. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold certain property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), 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 the production or supply of goods or services or for administrative purposes.
13. In certain cases, an entity provides ancillary services to the occupants of a property held by the entity. An entity treats such a property as investment property if the services are a relatively insignificant component of the arrangement as a whole. An example would be where a government agency owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.
14. In other cases, the services provided are a more significant component. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are a significant component of the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.
15. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency which is the owner of a hotel may transfer certain responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end

of the spectrum, the government's or government agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced certain day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

16. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7 to 15. Paragraph 75(a) requires an entity to disclose these criteria when classification is difficult.
17. Under IPSAS 13, a lessee does not capitalize property held under an operating lease. Therefore, the lessee does not treat its interest in such property as investment property.
18. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements that include both entities, because the property is owner-occupied from the perspective of the economic entity as a whole. However, from the perspective of the individual entity that owns it, the property is investment property if it meets the definition in paragraph 6. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government the property would be accounted for as property, plant and equipment in accordance with IPSAS 17.

Recognition

19. **Investment property should be recognized as an asset when, and only when:**
 - (a) **It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**
 - (b) **The cost or fair value of the investment property can be measured reliably.**
20. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available

evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

21. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 23 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

Initial Measurement

22. **Investment property should be measured initially at its cost (transaction costs should be included in this initial measurement).**
23. **Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.**
24. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.
25. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IPSAS 17. At that date, the property becomes investment property and this Standard applies (see paragraphs 59(e) and 69 below).
26. The cost of investment property is not increased by start-up costs (unless they are necessary to bring the property to its working condition), initial operating losses incurred before the investment property achieves the planned level of occupancy or abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.
27. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.
28. An investment property may be gifted or contributed to the entity. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent.

An investment property may also be acquired for no cost, or for a nominal cost, through the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

29. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 23, the fair value is the cost of the property. The entity may decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs 35 to 57) or the cost model (paragraph 58).

Subsequent Expenditure

30. **Subsequent expenditure relating to an investment property that has already been recognized should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.**
31. Subsequent expenditure on investment property is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an investment property depends on the circumstances which were taken into account on the initial measurement and recognition of the related investment and whether subsequent expenditure is recoverable. For instance, when the carrying amount of an investment property already takes into account a loss in future economic benefits or service potential, subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalized. This is also the case when the purchase price of an asset reflects the entity's obligation to incur expenditure that is necessary in the future to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount.

Measurement Subsequent to Initial Recognition

32. **An entity should choose either the fair value model in paragraphs 35 to 57 or the cost model in paragraph 58 as its accounting policy and should apply that policy to all of its investment property.**
33. IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies," states that a voluntary change in accounting policy should be made only if the change will result in a more

appropriate presentation of events or transactions in the financial statements of the entity. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.

34. This Standard requires all entities to determine the fair value of investment property for the purpose of measurement (fair value model) or disclosure (cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

Fair Value Model

35. **After initial recognition, an entity that chooses the fair value model should measure all of its investment property at its fair value, except in the exceptional cases described in paragraph 55.**
36. **A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises.**
37. The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.
38. An entity determines fair value without any deduction for transaction costs that the entity may incur on sale or other disposal.
39. **The fair value of investment property should reflect the actual market state and circumstances as of the reporting date, not as of either a past or future date.**
40. The estimated fair value is time specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

41. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent the market's view of what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current market conditions.
42. The definition of fair value refers to "knowledgeable, willing parties." In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and the state of the market as of the reporting date.
43. A willing buyer is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market, and with the current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner of an investment property is included among those who constitute the market.
44. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the investment property at market terms for the best price obtainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner.
45. The expression "after proper marketing" means that the investment property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable. The length of exposure time may vary with market conditions, but must be sufficient to allow the investment property to be brought to the attention of an adequate number of potential purchasers. The exposure period is assumed to occur prior to the reporting date.
46. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties who do not have a particular or special relationship that makes prices of transactions uncharacteristic of the market. The transaction is presumed to be between unrelated parties, each acting independently.
47. The best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and

subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

48. In the absence of current prices on an active market of the kind described in paragraph 47, an entity considers information from a variety of sources, including:
- (a) Current prices on an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
 - (b) Recent prices on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
 - (c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (where possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.
49. In some cases, the various sources listed in the previous paragraph may suggest different conclusions as to the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable fair value estimates.
50. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development, or after a change in use) that the variability in the range of reasonable fair value estimates will be so great and the probabilities of the various outcomes will be so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be determinable reliably on a continuing basis (see paragraph 55).
51. Fair value differs from value in use, as defined in IAS 36, "Impairment of Assets."¹ Fair value reflects knowledge and estimates of participants in the

¹ IAS 36, "Impairment of Assets," defines value in use as "the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life." The PSC is currently developing a Standard on impairment of assets. The PSC has issued an

market, as well as factors that are relevant to market participants in general. In contrast, value in use reflects the entity's knowledge and estimates, as well as entity-specific factors that may be specific to the entity and that are not applicable to entities in general. For example, fair value does not reflect any:

- (a) Additional value derived from the creation of a portfolio of properties in different locations;
- (b) Synergies between investment property and other assets;
- (c) Legal rights or legal restrictions that are specific only to the current owner; and
- (d) Tax benefits or tax burdens that are specific to the current owner.

52. In determining the fair value of investment property, an entity avoids double counting of assets or liabilities that are recognized in the statement of financial position as separate assets or liabilities. For example:

- (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the investment property, rather than being recognized separately as property, plant and equipment;
- (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset; and
- (c) The fair value of investment property excludes prepaid or accrued operating lease revenue, as the entity recognizes it as a separate liability or asset.

53. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

54. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized financial liabilities) will exceed the present value of the related cash receipts. Guidance on accounting for any liability that may arise in this

Invitation to Comment (ITC) "Impairment of Assets" (issued July 2000). Responses received on this ITC will assist the PSC in developing an International Public Sector Accounting Standard on the impairment of assets.

situation may be found in IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.”

Inability to Measure Fair Value Reliably

55. **There is a rebuttable presumption that an entity will be able to determine the fair value of an investment property reliably on a continuing basis. However, in exceptional cases, there is 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 the entity will not be able to determine the fair value of the investment property reliably on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity should measure that investment property using the benchmark treatment in IPSAS 17, “Property, Plant and Equipment.” The residual value of the investment property should be assumed to be zero. The entity should continue to apply IPSAS 17 until the disposal of the investment property.**
56. In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the IPSAS 17 benchmark treatment (being the cost model as explained in paragraph 58 below), the entity measures all its other investment property at fair value.
57. **If an entity has previously measured an investment property at fair value, the entity should continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost Model

58. **After initial recognition, an entity that chooses the cost model should measure all of its investment property using the benchmark treatment in IPSAS 17 “Property, Plant and Equipment,” that is, at cost less any accumulated depreciation and any accumulated impairment losses.**

Transfers

59. **Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:**

- (a) **commencement of owner-occupation, for a transfer from investment property to owner-occupied property;**
 - (b) **commencement of development with a view to sale, for a transfer from investment property to inventories;**
 - (c) **End of owner-occupation, for a transfer from owner-occupied property to investment property;**
 - (d) **Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or**
 - (e) **End of construction or development, for a transfer from property in the course of construction or development (covered by IPSAS 17) to investment property.**
60. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant and equipment until its occupation ceased and it is reclassified as an investment property.
61. Paragraph 59(b) above requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, the entity continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property and is not reclassified as owner-occupied property during the redevelopment.
62. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential it would be reclassified as an investment property on commencement of any subsequent operating lease.
63. Paragraphs 64 to 69 deal with recognition and measurement issues that apply when an entity uses the fair value model for investment property.

When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

64. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting under IPSAS 17 or IPSAS 12, "Inventories" should be its fair value at the date of change in use.**
65. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity should apply IPSAS 17 up to the date of change in use. The entity should treat any difference at that date between the carrying amount of the property under IPSAS 17 and its fair value in the same way as a revaluation under IPSAS 17.**
66. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity continues to depreciate the property and to recognize any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property under IPSAS 17 and its fair value in the same way as a revaluation under IPSAS 17. This means that:
 - (a) Any resulting decrease in the carrying amount of the property is recognized in net surplus/deficit for the period. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus; and
 - (b) Any resulting increase in the carrying amount is treated as follows:
 - (i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in net surplus/deficit for the period. The amount recognized in net surplus/deficit for the period does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized; and
 - (ii) Any remaining part of the increase is credited directly to equity under the heading of revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through the statement of financial performance.

67. **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.**
68. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.
69. **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.**

Disposals

70. **An investment property should be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.**
71. The disposal of an investment property may occur by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the Appendix to IPSAS 9. IPSAS 13 applies on a disposal by entering into a finance lease or by a sale and leaseback.
72. **Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate (unless IPSAS 13 requires otherwise on a sale and leaseback).**
73. The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue under IPSAS 9 on a time proportion basis that takes into account the effective yield on the receivable. (Guidance on accounting for liabilities such as those that the entity retains after disposal of an investment property

may be found in IPSAS 19, on “Provisions, Contingent Assets and Contingent Liabilities”).

Disclosure

Fair Value Model and Cost Model

74. The disclosures set out below apply in addition to those in IPSAS 13. Under IPSAS 13 the owner of an investment property gives a lessor’s disclosures about operating leases. Under IPSAS 13 an entity that holds an investment property under a finance lease gives a lessee’s disclosures about that finance lease and a lessor’s disclosure about any operating leases that the entity has granted.
75. **An entity should disclose:**
- (a) **When classification is difficult (see paragraph 16), the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;**
 - (b) **The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;**
 - (c) **The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed;**
 - (d) **The amounts included in the statement of financial performance for:**
 - (i) **Rental revenue from investment property;**
 - (ii) **Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**
 - (iii) **Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;**

- (e) **The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and**
- (f) **Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**

Fair Value Model

76. **In addition to the disclosure required by paragraph 75, an entity that applies the fair value model in paragraphs 35 to 57 should also disclose a reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):**
- (a) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure;**
 - (b) **Additions resulting from acquisitions through entity combinations;**
 - (c) **Disposals;**
 - (d) **Net gains or losses from fair value adjustments;**
 - (e) **The net exchange differences arising on the translation of the financial statements of a foreign entity;**
 - (f) **Transfers to and from inventories and owner-occupied property; and**
 - (g) **Other movements.**
77. **In the exceptional cases when an entity measures investment property using the benchmark treatment in IPSAS (because of the lack of a reliable fair value, see paragraph 55 above), the reconciliation required by the previous paragraph should disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity should disclose:**
- (a) **A description of the investment property;**
 - (b) **An explanation of why fair value cannot be reliably measured;**
 - (c) **If possible, the range of estimates within which fair value is highly likely to lie; and**
 - (d) **On disposal of investment property not carried at fair value:**

- (i) **The fact that the entity has disposed of investment property not carried at fair value;**
- (ii) **The carrying amount of that investment property at the time of sale; and**
- (iii) **The amount of gain or loss recognized.**

Cost Model

78. **In addition to the disclosure required by paragraph 75, an entity that applies the cost model in paragraph 58 should also disclose:**

- (a) **The depreciation methods used;**
- (b) **The useful lives or the depreciation rates used;**
- (c) **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**
- (d) **A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):**
 - (i) **Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure;**
 - (ii) **Additions resulting from acquisitions through entity combinations;**
 - (iii) **Disposals;**
 - (iv) **Depreciation;**
 - (v) **The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period;**
 - (vi) **The net exchange differences arising on the translation of the financial statements of a foreign entity;**
 - (vii) **Transfers to and from inventories and owner-occupied property; and**
 - (viii) **Other movements; and**
- (e) **the fair value of investment property. In the exceptional cases described in paragraph 55, when an entity cannot determine the fair value of the investment property reliably, the entity should disclose:**
 - (i) **A description of the investment property;**

- (ii) **An explanation of why fair value cannot be determined reliably; and**
- (iii) **If possible, the range of estimates within which fair value is highly likely to lie.**

Transitional Provisions

Initial Adoption of Accrual Accounting

79. **Where, on adoption of the accrual basis of accounting for the first time, an entity initially recognizes investment property on adoption of this Standard, the entity should report the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted.**
80. **An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards may initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.**
81. When initially adopting this Standard, an entity may control investment property that it has not previously recognized. This Standard allows entities to initially recognize investment property at cost or fair value. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an investment property is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

Fair Value Model

82. **Under the fair value model, an entity should report the effect of adopting this Standard on its effective date (or earlier) as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted. In addition:**
- (a) **If the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value in paragraph 6 and the guidance in paragraphs 37 to 54), the entity is encouraged, but not required, to:**
 - (i) **Adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and**

- (ii) **Restate comparative information for those periods; and**
- (b) **If the entity has not previously disclosed publicly the information described in (a), the entity should not restate comparative information and should disclose that fact.**

83. On the initial application of this Standard an entity may choose to apply the fair value model in respect of investment property already recognized in its financial statements. When this occurs, this Standard requires any adjustment to the carrying amount of the investment property to be taken to accumulated surplus or deficit for the period in which the Standard is first applied. This Standard requires a different treatment from the benchmark and allowed alternative treatments for changes in accounting policies under IPSAS 3. IPSAS 3 requires comparative information to be restated (benchmark treatment) or additional pro forma comparative information on a restated basis to be disclosed (allowed alternative treatment) unless it is impracticable to do so.
84. When an entity first adopts this Standard, the adjustment to the opening balance of accumulated surpluses or deficits includes the reclassification of any amount held in revaluation surplus for investment property.

Cost Model

85. Prior to initial adoption of this Standard an entity may recognize its investment property on a basis other than cost, for example fair value or some other measurement basis. IPSAS 3 applies to any change in accounting policies that occurs when an entity first adopts this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

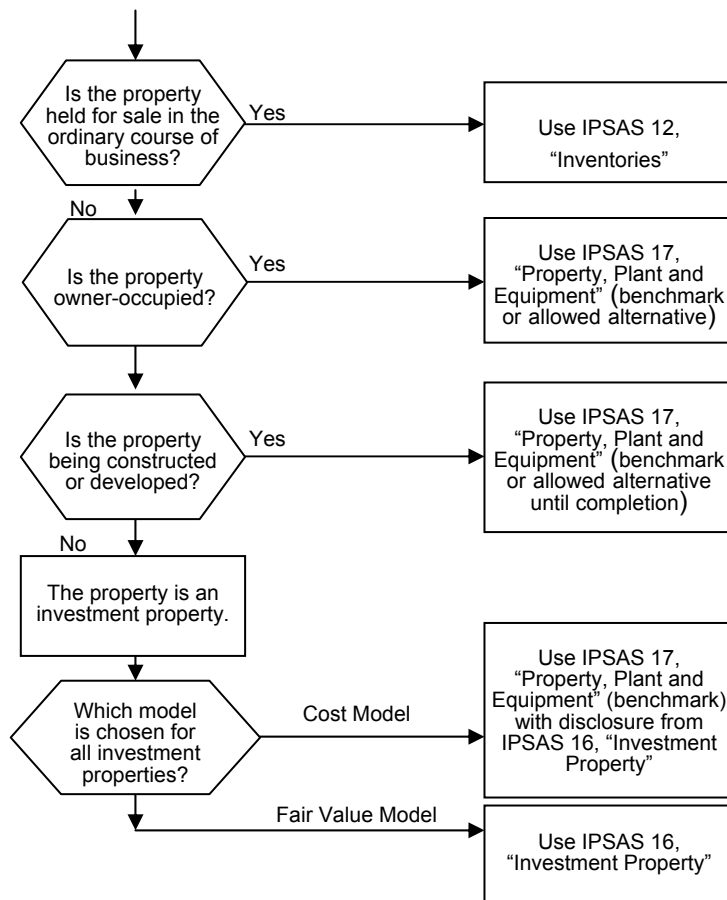
Effective Date

86. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after January 1, 2003. Earlier application is encouraged. If an entity applies this Standard for periods beginning before January 1, 2003, it should disclose that fact.**
87. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix

Decision Tree

The purpose of the following decision tree is to summarize which International Public Sector Accounting Standards apply to various kinds of property. This Appendix should be read in the context of the full standards.



Comparison with IAS 40

International Public Sector Accounting Standard (IPSAS) 16 “Investment Property” is drawn primarily from International Accounting Standard (IAS) 40 (2000), “Investment Property.” The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service which also generates cash inflows. Such property is accounted for in accordance with IPSAS 17, “Property, Plant and Equipment.”
- IAS 40 requires subsequent expenditures on investment property to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 16 adopts a similar treatment, but refers to the most recently assessed standard of performance — rather than that originally assessed — as the benchmark.
- IPSAS 16 includes additional transitional provisions which specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits. The transitional provisions also allow entities to recognize investment property at fair value on first adopting this Standard.
- At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, “Agriculture,” to public sector entities, therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issuing of International Accounting Standard IAS 41.
- Commentary additional to that in IAS 40 has been included in IPSAS 16 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant examples are the use of the terms “entity,” “revenue,” “statement of financial performance” and “statement of financial position” in IPSAS 16. The equivalent terms in IAS 40 are “enterprise,” “income,” “income statement,” and “balance sheet.”