IPSAS 16 Investment Property - as adopted by the Maltese Government

Guidelines

IPSAS Implementation Team

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Introduction

1. IPSAS 16 Investment Property – as adopted by the Maltese Government

1.1 These guidelines refer to the Investment Property accounting standard **as adopted by the Maltese Government.** This version is very similar to the original IPSAS 16 developed by the International Public Sector Accounting Standards Board (IPSASB), with some changes more applicable in the local context.

2. Scope

2.1 These guidelines were prepared to enable the users to:

2.1.1 Develop a working-level knowledge of the principles contained in the accounting standard and

2.1.2 Understand and appreciate the major challenges and benefits resulting from the implementation of IPSAS 16.[1]

3. Target Audience

3.1 These guidelines are designed for finance and non-finance employees working in Central Government entities.

4. Guidelines Structure

4.1 This document provides guidance on how an entity should account for investment property. This guideline also includes examples providing further explanations on the concepts described in IPSAS 16.

[1] References to IPSAS 16 or any other IPSAS shall be taken as meaning 'as adopted by the Maltese Government'.

A. Investment Property Defined

1. Almost all property held by ministries/departments is used for a considerable length of time. Property may either be held to carry out the day-to-day operation of the ministry or department (owner-occupied), in which case such property is defined under *IPSAS 17 Property, Plant and Equipment (PP&E)*, or else it may be used as an investment, that is, to earn income/rentals through lease contract agreements, or for capital appreciation or both. These guidelines refer to the latter category.

1.1 Example

A Government ministry owns three buildings which are used as follows:

- As office premises;
- As a warehouse to store inventory items;
- Leased to third parties.

How does the ministry account for these buildings on its books of account?

Solution

- The office premises is used for administrative purposes – accounted for based on IPSAS 17, PP&E;
- The warehouse is used for operational purposes - accounted for based on IPSAS 17, PP&E;
- The other property is used to earn income through a lease agreement - accounted for based on IPSAS 16, Investment Properties.

IPSAS Team Note:

Rent earned does not have to be as per market rates for a property to be classified as investment property.

2. Investment Property refers to land or a building ***owned*** by a ministry or department ***for investment purposes*** rather than for **business use**. It may therefore generate cash flows independently of other assets which the entity holds. In general, investment property will entail ***property leased under an operating lease to a lessee***, where the central Government entity acts as lessor.

IPSAS 16 defines **Investment Property** as property (land or a building – or part of a building – or both) held to <u>earn rentals or for capital appreciation</u>, 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.

3. The standard includes investment property held under a finance lease or leased out under an operating lease. However, this standard does not deal with matters dealt with under *IPSAS 13 Leases*.

B. Impact of IPSAS 16 Implementation

1. One of the major differences between the ***current cash-based accounting system*** and the ***accruals-based accounting*** is the fact that currently investment property expenses are expensed when there is **a cash outlay**. In **accruals-based accounting** investment property expenses are expensed **in the period to which they relate.**

2. The implementation of this standard compliments the Property, Plant and Equipment standard; in fact, the benefits associated with the implementation of both these standards, the required changes and processes, and the challenges foreseen as a result of this implementation, are very similar (*please refer to 'IPSAS 17 PP&E as adopted by MG' Guidelines*).

C. Classification of Investment Property

1. **Investment property** is land or building (or part of a building) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

2. **Property Interest held by a lessee under an Operating Lease**

2.1 Property interest held by a lessee under an operating lease, may be classified and accounted for as investment property if, and only if:

2.1.1 It can meet the rest of the definition of investment property; and
2.1.2 The fair value model is used to account for the property interest.

2.2 Example of **property interest**

Government ministry A is leasing a property from a third party (lessor). Ministry A (lessee) has a property interest, as the property it is leasing is sub-leased to another Government Department B, from which it receives rental income.

Ministry A has an option to recognise the property interest as an investment property if

- the property meets the definition of an investment property (e.g. being held to earn rentals) and
- the entity uses the fair value model.

If the property interest satisfies the above two conditions, Ministry A will recognise this property interest as an investment property at fair value. As a result, this ministry will now have a finance lease obligation which will be treated as a finance lease (and not an operating lease). Further guidance on IPSAS 13 Leases is provided in the related guidelines.

This alternative classification is available on a property-by-property basis. However, once this classification is selected, all property classified as an investment property by the ministry should be accounted for using the fair value model.

3. Investment Property and PP&E

3.1 An important distinction between investment property and property, plant and equipment is that property, plant and equipment is used to provide goods and services. On the other hand, investment property generates cash flows largely **independent** from other assets held by a ministry/department.

When a property is used in the production or delivery of goods or services or for administrative purposes, then such property is to be identified and classified as owner-occupied property.

All ***owner-occupied property*** is to be recognised in accordance with IPSAS 17 Property, Plant & Equipment.

 **Property used to provide social services (housing)**	Land and buildings used to provide free or low cost housing are deemed to be property, plant and equipment as they are used in the provision of goods and services. Property used to provide social services is to be recognised in accordance with IPSAS 17 Property, Plant & Equipment.

3.2 Example:

An Entity owns a portfolio of properties -

- One is leased out (as lessor) to a local council under an operating lease.
- The property (building) itself is built on land that is leased by a third party to the Government for a period of 99 years.
  - Title to the land on which the property (building) is built does not pass to the Government at the end of the lease and
  - The property's (building) useful life is expected to be 50 years.
  - The terms of the lease do not require the land to be returned with the building intact at the end of the 99-year lease term.

Solution

In this scenario,

- The land element should be accounted for an as operating lease (as per IPSAS 13)
- However, it can be recognised as investment property
  - If it meets the definition of investment property and
  - The Entity has chosen the fair value model for that investment property.
- The property (building leased to the local council) meets the definition of an investment property and should be accounted for under the provisions of IPSAS 16.

3.3 IPSAS 16 cites several examples of what is and what is not an investment property which could assist a user to identify whether, a central Government entity's property should be classified as investment property.

3.4 Examples of investment property which could assist management in identifying whether an entity's property should be classified as investment property include:

3.4.1 Land held for *long-term capital appreciation (long term increases in value)* rather than for short-term sale in the ordinary course of business.
3.4.2 A building *owned by the reporting entity* (or held by the entity under a finance lease) and leased out under an *operating lease*.
3.4.3 Property that is being *constructed or developed* for *future use* as an investment property.
3.4.4 A building that is vacant but is *held to be leased out* under one or more operating leases on a commercial basis.
3.4.5 Land currently held for an *undetermined future use*.

3.5 The following table illustrates examples of property that should **not** to be defined as Investment property:

Type of non-investment property	Applicable IPSAS
Property intended for sale in the ordinary course of business	IPSAS 12 *Inventories*
Property being constructed or developed on behalf of third parties	IPSAS 11 *Construction contracts*
Owner-occupied property	IPSAS 17 *Property, Plant & Equipment*
Property leased to another entity under a finance lease	IPSAS 13 *Leases*
Property held to provide a social service and which also generates cash inflows, e.g. housing provided by the Housing Authority to low income families at below market rental	IPSAS 17 *Property, Plant & Equipment*
Property held for strategic purposes	IPSAS 17 *Property, Plant & Equipment*

4. Investment Property: partial own use

4.1 An important distinction between investment property and property, plant and equipment is that property, plant and equipment is used to provide goods and services. On the other hand, investment property generates cash flows largely **independent** from other assets held by a ministry/department.

4.2 A central Government entity can hold property, whereby:

a) a portion of the property is held to earn rentals or for capital appreciation; and
b) another portion is used by the entity itself for administrative purposes or for delivering goods and services.

4.3 In determining whether to recognise this property as Investment property under IPSAS 16 or as Property, Plant and Equipment under IPSAS 17, the entity needs to determine if the portions can be sold separately.

4.4 If the portions of property *can* be sold separately, then,

4.4.1 The portion that is being utilised by the Government for administrative purpose or for delivering goods and services is to be recognised as Property, Plant and Equipment (IPSAS 17).

4.4.2 The portion of property rented out is to be recognised as Investment property (IPSAS 16).

4.5 If the portions *cannot* be sold separately and therefore the fair value of each portion cannot be determined reliably, then the ministry/department has to identify the significant use of each portion.

4.5.1 If a *significant* portion of the property is used for rental, then the property is to be recognised as investment property and dealt with under IPSAS 16.

4.5.2 The opposite is also true. If a *significant* portion is used for administrative purposes, or for delivering goods or services, then the property is to be recognised as Property, Plant and Equipment and is to be dealt with under IPSAS 17 Property, Plant & Equipment.

4.6 Examples: Partial own use

4.6.1 A Government department occupies a building which has two floors. The ground floor is used by the department in its day-to-day operations, while the first floor is rented out to a third party. If the floors can be sold separately, the department shall recognise the ground floor as PP&E, and the first floor as an investment property.

4.6.2 A department owns a property which consists of two adjoining buildings. The department uses the larger building of 800 square meters to rent out to third parties, whilst the smaller building of 200 square meters is used to store inventory. The portion used for the storing of inventory may be considered as owner occupied, however this portion is insignificant when compared with the portion occupied by the property being rented out. Therefore, in this case the department's property can be totally recognised as an investment property.

5. Ancillary services

5.1 If ancillary services are provided by the Government to the occupants of a Government property held by a lessee, the classification as investment property depends on the *significance* of the services provided to the contract as a whole.

5.1.1 If these services are relatively *insignificant* (for instance, the Government supplies security and maintenance services to the lessees) the classification of the Investment property is appropriate.

5.1.2 If the services provided are *more than insignificant*, the property should be classified as an owner-occupied property, and IPSAS 17 must be applied.

5.2 Example: Ancillary service

An Entity owns a building which is being leased out under an operating lease to one of the local councils. The department entered into an agreement with the local council to provide for the maintenance of the leased building. The office building is recognised as an investment property because the ancillary services (maintenance of the building) are *insignificant* to the rental arrangement as a whole.

6. Investment Property in the consolidated financial statements: Intra-entity leases

6.1 Property rented to the controlling entity or another controlled entity:

- Is not to be treated as investment property in consolidated financial statements that include both the lessor and the lessee. In such instance, the property is owner-occupied from the perspective of the economic entity.
- In the separate financial statements of the lessor this property may qualify as investment property, if the definition of investment property is met.

6.2 In the local context property (buildings) leased out by the Entity to other Government ministries and departments, are to be recognised as investment property in the financial statements of the Entity. In the Consolidated financial statements, these properties should be treated as Property Plant & Equipment, since they would classify as owner-occupied.

6.3 Example: Consolidated Financial Statements

The Entity owns a building which costs €2 million and which it leased out to the Agricultural Department.

During the period ending 31st December 2012, rental income of €500,000 was earned from the Agricultural Department for the rental of the building. Both entities are Central Government departments.

Solution

The classification of the building is as follows:

- 31st December 2012 – Separate financials of the **Entity**

    - The Entity held the asset as investment property as it was held to earn rental from the Agricultural department.
    - The asset is therefore an **investment property** in the books of the Entity.

- 31st December 2012 – Separate financials of the **Agricultural Department**

    - The **rental expenses** levied by the Entity will be recognised in the separate financial statements of the agricultural department.
    - The **property** will therefore **not** be recognised in the separate financial statements of the Agricultural Department, but only in the consolidated financial statements.

- 31st December 2012 – **Consolidated financial statements**

    - The central Government effectively owns the building since the Entity is part of Central Government.
    - Since the Agricultural Department is also occupying the property, the central Government is to classify this asset as owner-occupied in its consolidated financial statements.
    - In the consolidated financial statements, the property is therefore accounted for in terms of IPSAS 17 – Property, Plant and Equipment.

D. Recognition of Investment property

IPSAS 16 states that investment property shall be recognised as an asset when, and only when:

i. It is probable that future economic benefits or service potential that are associated with the investment property will flow to the entity; and

ii. The cost or fair value of the investment property can be measured reliably.

1. Recognition criteria of Investment Property

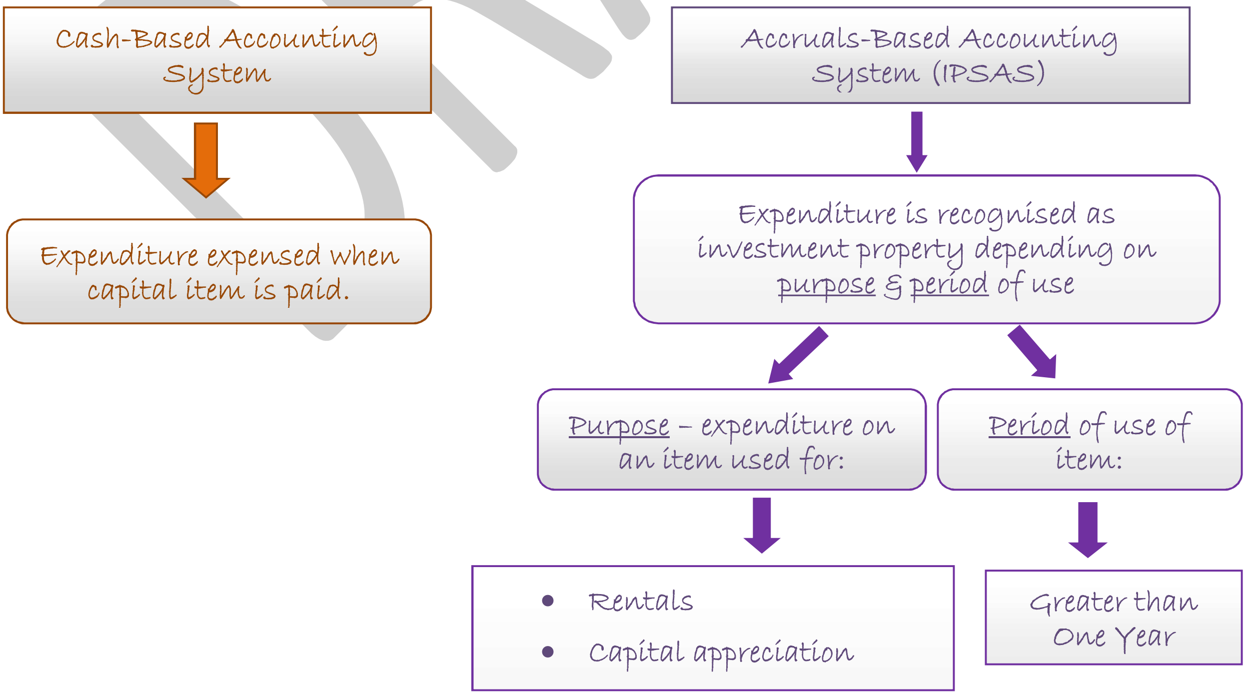
1.1 The recognition criteria for any expenditure on investment property to be capitalised as an asset shall be based on the above definition.

2. Capitalisation

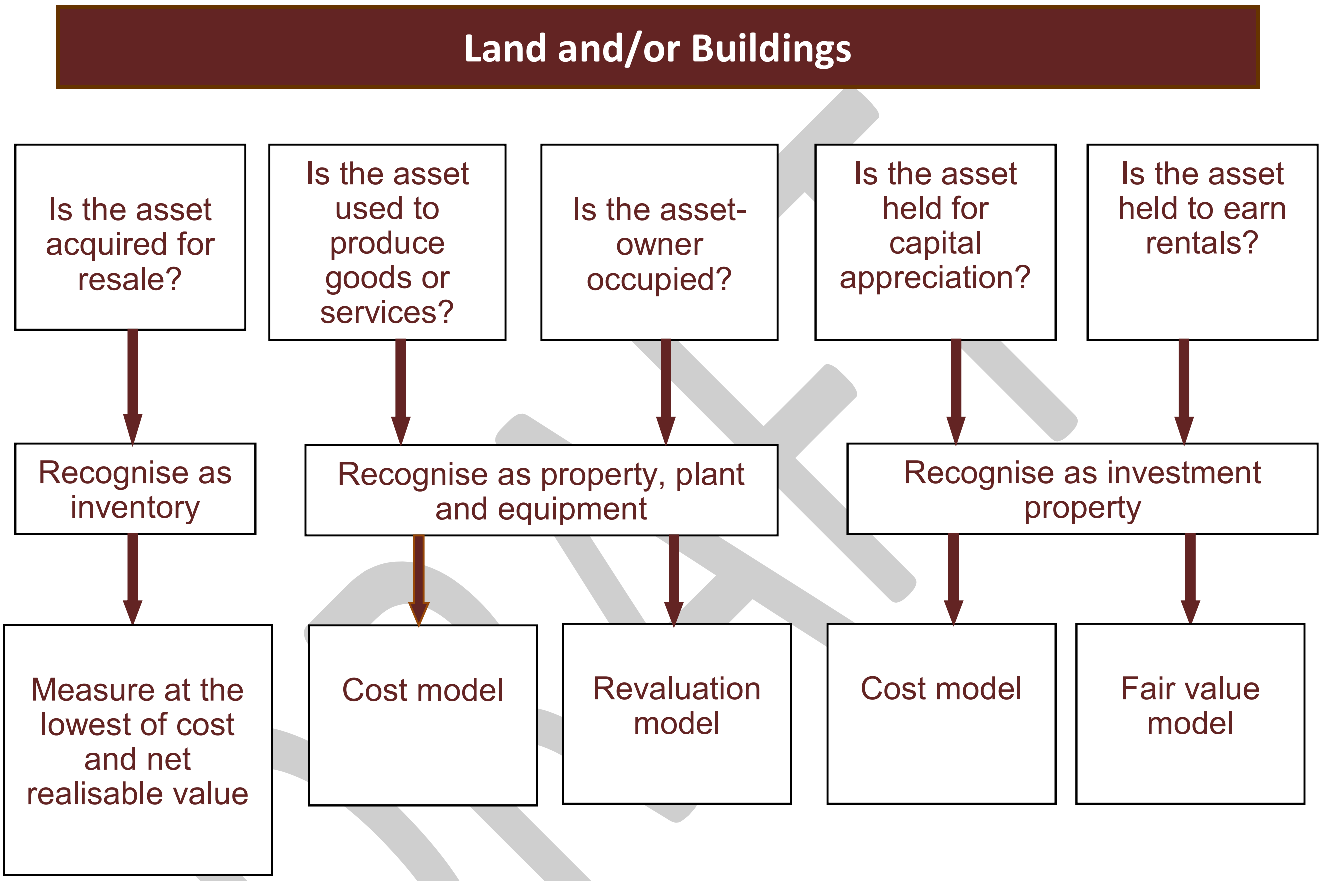
2.1 Capitalisation is the recognition of a non-current asset whose costs are systematically charged over the same period in which benefits from that item are to be received.

2.2 An asset can be capitalised, that is recognised as investment property, when it is held for:

a) Rental to others or
b) Capital appreciation.



2.3 As with property, plant and equipment, investment property is recognised in the Statement of Financial Position (Balance Sheet) when the general recognition criteria are met. In general, this will occur when the property is first acquired or constructed by the reporting entity. The following decision tree can be used when deciding which measurement model is to be applied for property owned/used by a Government entity:



3. Costs on recognition

3.1 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include:

a) Cost incurred initially to acquire an investment property; and
b) Costs incurred subsequently to add to, replace part of, or service a property.

3.2 Day-to-day servicing costs are not capitalised:

a) Under the recognition principle mentioned above, an entity does **not** recognise the **day-to-day servicing costs** of the item in the carrying amount of an investment property. These costs are recognised in surplus or deficit as incurred.

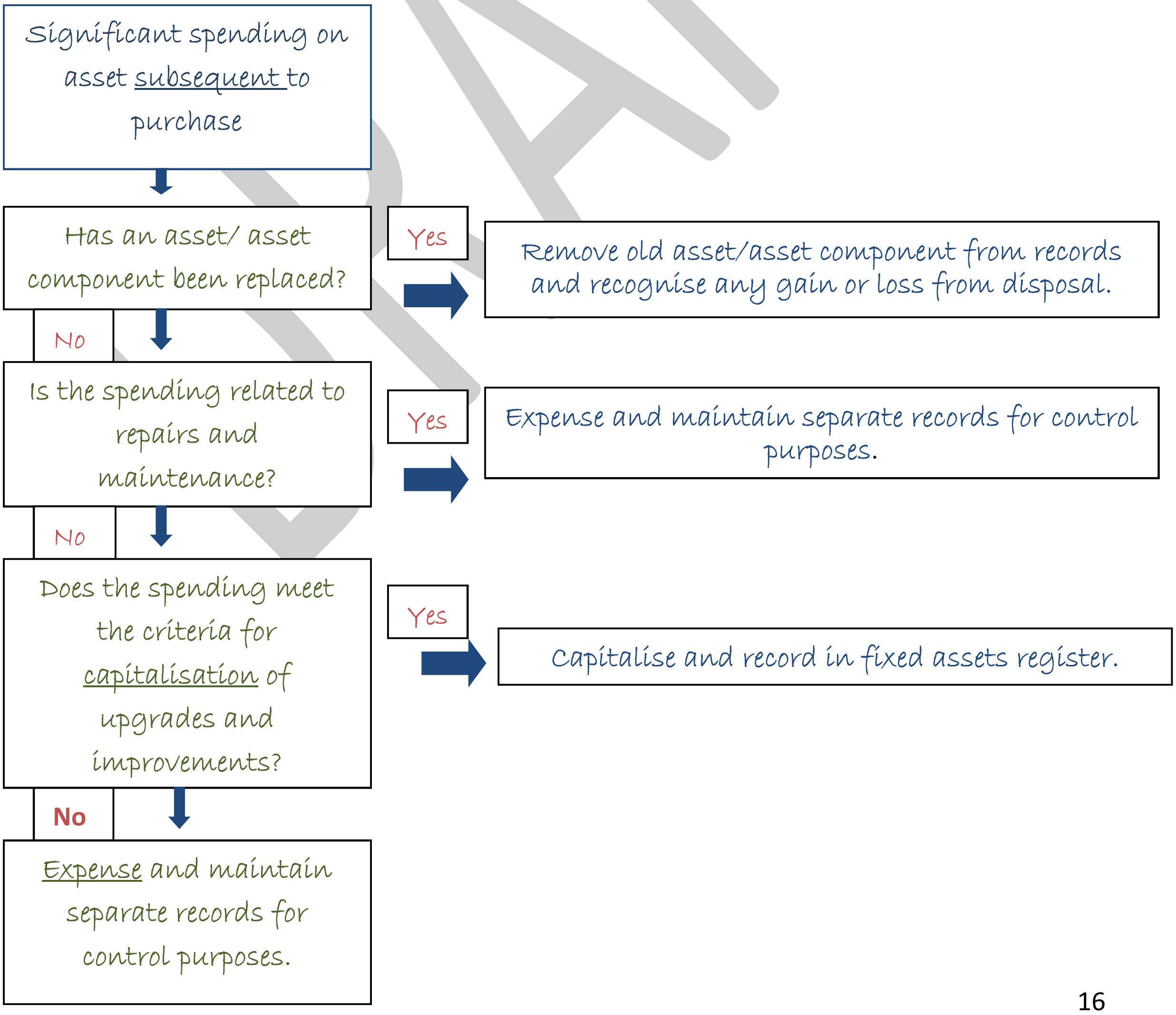
b) **Day-to-day servicing costs** mainly include repairs and maintenance costs of the property such as labour costs and consumables, including the cost of minor parts (e.g. electricity and plumbing, painting of walls, etc.).

4. Replacement Costs – capitalise

4.1 Under the recognition principle mentioned above, an entity **does** recognise the cost of replacing part of an existing investment property at the time that cost is incurred in the carrying amount of an investment property.

4.2 Replacement costs include, for example, the cost incurred to replace the interior walls. The cost of replacing part of the existing investment property is capitalised and added to the carrying amount of the investment property. The carrying amount of those parts that are replaced is derecognised.

5. Capitalising Upgrades and Improvements



E. Measurement of Investment Property

IPSAS 16 states that investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement). Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

1. Acquisition of Investment Property

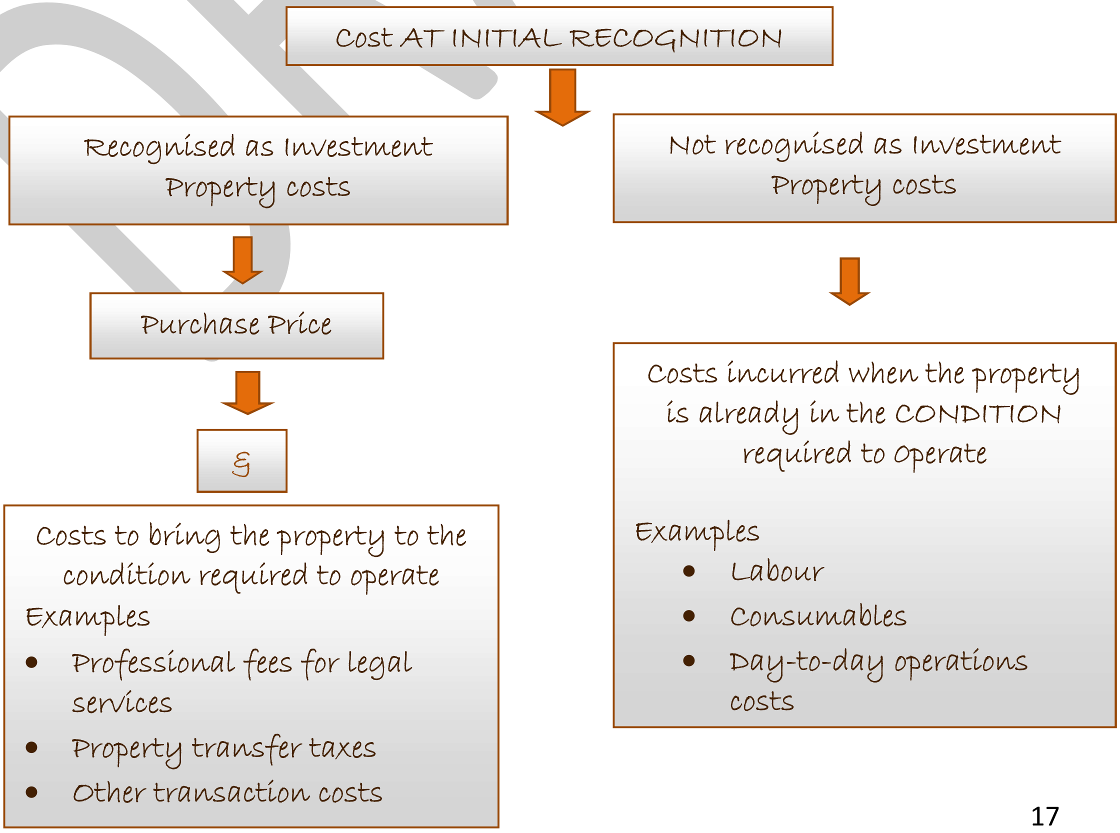
1.1 Central Government entities acquire investment property by means of:

a) Purchase
b) Self-construction
c) Donation or contribution

2. Investment Property Measurement at Acquisition

2.1 **Purchase**

2.1.1 On purchase of an investment property, the costs at initial recognition may not always be eligible for recognition as an investment property costs.



2.1.2 Investment property costs on purchase include:

a) **Purchase price**, being the initial costs incurred to acquire an investment property.

b) Any **costs** directly attributable to bring the property in the **condition** necessary for it to be capable of operating in the manner intended by management. These costs would have been avoided if the asset had not been purchased. Examples of directly attributable costs include:

   i. Professional fees for legal services;
   ii. Property transfer taxes;
   iii. Other transaction costs.

2.1.3 Costs **not recognised** as investment property costs include:

a) Start-up costs;
b) Initial operating losses incurred before the investment property achieves the planned level of occupancy;
c) Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property;
d) Labour costs;
e) Day-to-day servicing of an investment property (maintenance costs); and
f) Consumables.

2.1.4 **Capitalisation** of costs will **cease** as soon as the asset is in the condition necessary for it to be capable of operation in the manner intended by management.

2.1.5 If payment of investment property is **deferred** (deferred payment), then its cost is the cash price equivalent using the effective interest method. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

2.1.6 For example, if a Government department pays the Entity €1,000,000 over a period of 20 years for a building that it uses as an investment property, the price, paid in three equal instalments, will be equivalent to €1,100,000. The €100,000 difference (€1,100,000 – €1,000,000) is expensed as a **finance cost** over the 20 years' term from the date that the property is recognised. These finance costs are being calculated based upon the effective interest rate, as established by the pertinent government body

2.2 Self-constructed Investment Property

2.2.1 The cost of self-constructed investment property is its cost at the date when the construction or development is complete. Capitalisation of costs should cease once the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

2.3 Donated or contributed Investment Property

2.3.1 Investment property may be acquired through a non-exchange transaction, that is, either donated or contributed to an entity and therefore obtained at no cost. Such property is to be measured at its fair value as at the date of acquisition.

2.3.2 Donated property results in the recognition of income for the recipient entity equal to the amount of the fair value of the property received (e.g. donated property recognised as income, and the value is based on the market value of the same/similar property).

IFRS 13 Fair Value *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.*

3. Investment Property held under a Finance lease

3.1 The initial cost of a property interest held under a lease and classified as a finance lease shall be as prescribed for a finance lease by IPSAS 13. The asset shall be recognised at the *'lower of the fair value of the property and the present value of the minimum lease payments'*. A corresponding lease liability is also recognised on the Statement of Financial Position.

3.2 Premiums which are paid in respect of such leases are treated as part of the minimum lease payments and hence included in the asset's cost. However, these premiums are also included in the lease liability until settled (whereas these are excluded from the finance lease liability if these are settled upon lease agreement).

4. Investment Property acquired in exchange for a monetary or a non-monetary asset

4.1 An investment property may be acquired in an exchange transaction for monetary and non-monetary assets. If the investment property is exchanged with a non-monetary asset, the cost of such investment property is to be measured at fair value unless:

a) The exchange transaction lacks commercial substance[2]; or
b) The fair value of neither the asset received nor the asset given up is reliably measurable.

4.2 The asset given up for the investment property is to be derecognised from the financial statements of the entity. The acquired asset is to be measured at fair value even if the entity cannot immediately derecognise the asset given up.

4.3 If the acquired asset cannot be measured at fair value, then its cost is to be measured at the carrying amount of the asset given up.

4.4 Example: Exchange of non-monetary assets

The Entity acquired an office building which it will be using to generate rental income. The Entity acquired this property in exchange for a warehouse. At transaction date the fair value of the office building was €400,000, and the fair value of the warehouse was €350,000; the carrying amount of the warehouse was €275,000.

Solution

The Entity is to initially recognise the office building acquired at its fair value of €400,000.

The following journal is to be recorded:

Transaction Date	Debit	Credit
	€	**€**
Investment Property (Office building)	400,000	
Warehouse		275,000
Gain on exchange of assets		125,000
Being the recognition of the Office Building at its fair value		

[2] Commercial substance: transactions will give rise to changes in the entity's future cash flows or service potential.

If the Entity is unable to reliably measure the fair value of the office building, then the office building is to be initially recognised at the fair value of the warehouse exchanged. In this case the journal entries would be as follows:

Transaction Date	Debit	Credit
	€	€
Investment Property (Office building)	350,000	
Warehouse		275,000
Gain on exchange of assets		75,000
Being the recognition of the Office Building at the warehouse's fair value		

If the Entity in not able to reliably measure the fair value of both the office building and the warehouse, then the office building is to be initially recognised at the carry amount of the warehouse exchanged. In this case the journal entries would be as follows:

Transaction Date	Debit	Credit
	€	€
Investment Property (Office building)	275,000	
Warehouse		275,000
Being the recognition of the Office Building based on the warehouse's carrying amount		

5. Investment Property measurement in periods Subsequent to Acquisition

5.1 After initial recognition, investment property is to be measured using the **fair value model.**

5.2 **Fair Value Model:** All Investment property is to be measured at fair value unless the value cannot be reliably determined on a continuing basis (refer to 5.6.2 below). The fair value of investment property is to be determined by the entities at each reporting date. Investment property carried under the fair value model is not depreciated.

5.3 The **IPSAS 16 fair value model** is *different* from the **IPSAS 17 PP&E revaluation model:**

IPSAS 16 (INVESTMENT PROPERTY) – FAIR VALUE MODEL	IPSAS 17 (PP&E) – REVALUATION MODEL
• Fair value needs to be determined at each reporting date.	• The frequency of revaluations depends upon the changes in the fair values of the items of the asset. It may be necessary to revalue the item only every three or five years.
• Fair value adjustment is recognised in surplus or deficit on the Statement of Financial Performance.	• Changes as a result of revaluations are to be recognised in the Revaluation Reserve in Net Assets/Equity.
• Investment property is not subject to depreciation.	• Property classified as PP&E is subject to depreciation.

5.4 Determining fair value

5.4.1 Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as:

a) Atypical financing;
b) Sale and lease back arrangements;
c) Special considerations or concessions granted by anyone associated with the sale; and
d) Liquidation and sequestration auctions.

5.4.2 Any fair value gains and losses under the fair value model are to be reported on the Statement of Financial Performance. The investment property is to be carried in the Statement of Financial Position at its open market value at each reporting date.

5.4.3 An entity may determine the fair value on the basis of a valuation by an independent valuer. This independent valuer is to hold the relevant recognised professional qualification (architect) and is to have recent experience in the location and category of the investment property being valued.

5.4.4 The fair value of an investment property is to reflect market conditions at the reporting date. The best evidence of fair value is given by current market prices in an active market. When an entity considers what the current market prices are in an active market, it shall look at similar properties in the same location and condition, having similar lease agreements and other contracts.

5.4.5 If the entity is not able to find what the current market prices are in an active market for a particular investment property, then the Government entity is to consider obtaining the relevant information from different sources such as:

a) Current prices in an active market, but for properties that are dissimilar in nature, condition or location. When considering these current prices, the entity should make adjustments to reflect the difference;
b) Recent prices in a less active market adjusted for any changes in economic conditions since the date the transactions occurred; 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 by external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect the current market assessments of the uncertainty in the amount and timing of the cash flows.

5.4.6 When determining the fair value of an investment property, the entity is to ensure that there is no double-counting of assets or liabilities already recognised 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 fair value of the investment property, rather than recognised 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 shall not recognise that furniture as a separate asset.

c) The fair value of investment property excludes prepaid or accrued operating lease revenue, because the entity recognises it as a separate liability or asset.

d) The fair value of investment property held under a lease is to reflect the expected cash flows. Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the carrying amount of the investment property using the fair value model.

5.4.7 When the entity (the lessor) leases an office (as an investment property) on a furnished basis, the fair value already takes into account the furniture in the office therefore the department shall not recognise separately the furniture element. However, if the furniture was recognised separately in the Statement of Financial Position (as Property, Plant and Equipment) then these would be excluded from the fair value calculation of the office building.

5.5 Treatment of changes in fair value

5.5.1 The gain arising from changes in fair value is recognised in surplus or deficit for the period in which it arises as a fair value adjustment; the loss arising from the changes in fair value is also recognised in surplus or deficit as a fair value adjustment and not as an impairment loss.

5.5.2 Example: changes in fair value

A department acquires an investment property for €250,000 and incurs transaction costs amounting to €10,000. At the reporting date, an independent appraiser establishes the fair value of the property at €255,000.

Solution

The initial cost of the property will amount to €260,000 (€250,000 + €10,000). A loss of €5,000 (€260,000 – €255,000) is recognised in surplus or deficit. This is not impairment but a fair value adjustment. The journal entries shall be as follows:

Initial recognition and measurement	Debit	Credit
	€	€
Investment Property	260,000	
Bank		260,000
Being the recognition of the investment property at acquisition date		

Subsequent measurement	Debit	Credit
	€	€
Fair value adjustment	5,000	
Investment property		5,000
Being the recognition of the fair value adjustment on investment property		

5.6 Inability to determine fair value reliably

5.6.1 When an entity expects that the fair value of an investment property under construction shall only be reliably determinable following construction, it shall measure the said property at cost until the fair value becomes reliably determinable or the construction is complete (whichever is earlier).

5.6.2 There may be circumstances where the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In this case, following authorisation by the pertinent government body, the entity shall measure that investment property using the cost model in IPSAS 17.
In such cases the residual value of the investment property measured in accordance with the cost model shall be assumed to be nil. The entity shall apply IPSAS 17 until disposal of the investment property.

	The entity should still measure all its **other investment property** using the **fair value model.** The cost model should only be used in exceptional circumstances.

F. Impairment

1. **Impairment**[3] is the loss in the future economic benefits or service potential of an asset, over and above depreciation. Impairment reflects a decline in the utility of an asset to the entity that controls it.

IPSAS 21/IPSAS 26
To determine whether an investment property is impaired, an entity applies IPSAS 21 or IPSAS 26, Impairment of Non-Cash and Cash-Generating Assets, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

1.1 Compensation from third parties for investment property that was impaired, lost, or given up shall be included in surplus or deficit when the compensation is virtually certain.

1.2 Impairments or losses of investment property, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

a) Impairments of items of property, plant and equipment are recognised in accordance with IPSAS 21 or IPSAS 26, as appropriate;
b) Derecognition of investment property, retired or disposed of is determined in accordance with this Standard;
c) Compensation from third parties for investment property that was impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and

[3] Impairment is only applicable to investment property measured using the cost model.

d) The cost of investment property, restored, purchased, or constructed as replacement is determined in accordance with this Standard.

1.3 Example - Impairment

During 2009 an entity recorded an impairment loss on assets of €90,000; whereas compensation from the insurance claim, of €110,000, due to the damages done on these assets, was received in 2010. The loss on disposal of €20,000 was recorded in 2010.

The loss or impairment of an asset and the compensation received from third parties (i.e. insurance payments) are separate economic events and hence the transactions have to be accounted for and disclosed separately. The transactions should not be netted off.

The loss on disposal and impairment of the property will therefore be shown separately from the insurance payment received as compensation in the statement of financial performance.

Extract from the Statement of Financial Performance	Notes	2010	2009
Revenue			
Compensation received – insurance claim received	1	110,000	
Other revenue		XX	XX
Expenses			
Loss on disposal of assets	2	(20,000)	
Impairment loss on assets	3		(90,000)
Other expenses		(XX)	(XX)

G. Transfers

1. Criteria for transfers

1.1 A department's use of property may change over time. Where an entity changes the use of a particular property, the classification of this property must reflect this change of use. An entity is to update its records relating to property, when transfers to or from investment property takes place.

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

a) commencement of owner-occupation (transfer from investment property to owner-occupied property);
b) commencement of development with a view to sale (transfer from investment property to inventories);
c) end of owner-occupation (transfer from owner-occupied property to investment property); and
d) commencement of an operating lease (on a commercial basis) to another party (transfer from inventories to investment property).

> IPSAS 16 para. 66(b) 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 sell. When an entity decides to dispose of an investment property **without** development, it continues to treat the property as an investment property until it is derecognised (and does not treat it as inventory).

1.3 The entity shall perform regular reviews of its properties to determine whether these meet the requirements, and as part of this process the department may also identify and hold certain properties for sale. In such circumstances, the buildings are to be as considered inventories.

1.4 On the other hand, if the entity decides to hold the properties to generate rent revenue and for their capital appreciation potential, then the entity is to reclassify the buildings as investment property on commencement of any subsequent operating lease.

2. Measurement upon transfer of investment property

2.1 Investment Property transferred to Property, Plant and Equipment and Inventories

2.1.1 For transfers from investment property carried at fair value, to property, plant and equipment and inventories, the cost for subsequent measurement in terms of IPSAS 17 on Property, Plant and Equipment and IPSAS 12 on Inventories shall be the fair value of the property at the date of change of use.

2.1.2 Example 1: transfer of investment property

The entity started to restructure its operations in October 2013. Previously the entity acquired property that was held for capital appreciation and to earn rentals.

- On 1st July 2013 the entity moved its offices into one of the office buildings that were held as investment property at fair value. The carrying amount of this property (as valued on 31 December 2012) was €350,000 and the fair value on transfer date was €400,000.
- The entity decided to develop some of its property in order to build 24 houses with the objective to sell (hence becomes classified as inventories).
- On 20th June 2014 development stared on the first 15 houses (therefore transfer from investment property to inventories). The carrying amount (as at 31 December 2013) of the houses was €170,000 each and the fair value on transfer date was €165,000 each.
- On the 15th July 2014 development started on the remaining 9 houses. The carrying amount (as at 31 December 2013) was €170,000 each and the fair value on transfer date was €172,000 each.

Solution

- Transfer from Investment Property to Property, Plant and Equipment – now owner-occupied. From the transaction date (1 July 2013) the Property, Plant and Equipment should be recognised in terms of IPSAS 17 and the cost shall be €400,000. The following are the journal entries:

1st July 2013	Debit	Credit
	€	€
Property, plant and equipment (PP&E)	400,000	
Investment Property (IP)		350,000
Fair value adjustment		50,000
Being the transfer of property from IP to PP&E		

- Transfer from Investment Property to Inventories – the first 15 houses developed by the department, recognised as per IPSAS 12 Inventories, at a value per house of €165,000. The following are the journal entries:

20th June 2014	Debit	Credit
	€	€
Inventories {€165,000 X 15 houses}	2,475,000	
Investment Property (IP) {€170,000 X 15 houses}		2,550,000
Fair value adjustment	75,000	
Being the transfer of property from IP to Inventories		

- Transfer from Investment Property to Inventories – the remaining 9 houses developed by the department, recognised as per IPSAS 12 Inventories, at a value per house of €172,000. The following are the journal entries:

15th July 2014	Debit	Credit
	€	€
Inventories {€172,000 X 9 houses}	1,548,000	
Investment Property (IP) {€170,000 X 9 houses}		1,530,000
Fair value adjustment		18,000
Being the transfer of property from IP to Inventories		

2.2 Owner-Occupied Property transferred to Investment Property

2.2.1 When an owner occupied property is transferred to investment property, the entity shall:

a) Recognise the owner-occupied property in terms of IPSAS 17 Property, Plant and Equipment until the transfer date;
b) Determine the fair value of the property at transfer date;
c) Recognise any difference between the carrying amount of the property and the fair value of the property in the same way as a revaluation, in accordance with *IPSAS 17 on Property, Plant and Equipment.*

2.2.2 If the fair value is **lower** than the carrying amount and property was carried at **cost** in accordance with IPSAS 17, then the department is to recognise the decrease in surplus or deficit.

2.2.2.1 Example 1: transfer from owner-occupied to investment property

If the carrying amount of the property was €65,000 and the fair value €50,000, then the department is to recognise the difference of €15,000 in surplus or deficit.

2.2.3 If the fair value is **lower** than the carrying amount and the property was carried at **revalued** amount in terms of IPSAS 17 on Property, Plant and Equipment, then the department is to recognise the decrease against the revaluation reserve and the excess in surplus or deficit.

2.2.3.1 Example 2: transfer from owner-occupied to investment property

If the carrying amount of the property is €90,000, fair value is €70,000 and the revaluation reserve for this property is €10,000, then the department is to recognise the €20,000 difference by first clearing the €10,000 revaluation reserve and then recognising the remaining €10,000 (€20,000 – €10,000) in surplus or deficit.

2.2.4 If the fair value is **greater** than the carrying amount, the increase is to be treated as follows:

a) Recognise the increase in surplus and deficit, to the extent that it reverses a previous impairment loss. <u>The recognised amount in surplus and deficit should not exceed the amount needed to restore</u>

<u>the carrying amount to the amount that the asset would have had if an impairment loss had not been recognised</u>.

b) The remaining balance of the increase is recognised directly in net assets as part of the revaluation reserve. When the investment property is subsequently disposed of, the revaluation surplus will be transferred to the accumulated surplus or deficit.

2.2.4.1 Example 3: transfer from owner-occupied to investment property

If the fair value of a property exceeds its carrying amount by €30,000, and the previous impairment loss of €10,000 was recognised in surplus or deficit, the increase in the carrying amount should first be recognised as a reversal of the impairment loss in surplus and deficit to the extent of the impairment loss previously recognised. The remaining increase of €20,000 (€30,000 – €10,000) should be recognised directly in net assets as a revaluation reserve.

2.2.4.2 Example 4: transfer from owner-occupied to investment property

The entity acquired a property on 1 January 2004 for €120,000 for its daily operations. The useful life of the property was 40 years with no residual value, depreciated at €3,000 per annum.

At the end of year 5 the property was impaired by €35,000 and the revised depreciation charge was calculated as €2,000 per annum.

At the end of year 6 the department transferred the property from owner-occupied to investment property. The fair value at transfer date was €115,000. The reporting date is 31st December.

Solution

The revised depreciation charge of €2,000 per annum has been calculated as follows:

i. €3,000 depreciation charge X 5 years = €15,000 depreciation charge for the first 5 years;
ii. €120,000 – €15,000 = €105,000 was the carrying amount of the property after 5 years;
iii. The property was impaired at the end of year 5 by €35,000, therefore the carrying amount, at the end of year 5,

decreased by a further €35,000, bringing it down to €105,000 - €35,000 = €70,000;

iv. As a result of the impairment, the annual depreciation charge was revised as follows: €70,000/35 (years) {original 40 years less – 5 years already depreciated} = €2,000 depreciation per annum for the remaining 35 years.

The following are the remaining calculations:

Year	Carrying amount	Carrying amount had no Impairment been done
	€	€
1st January 2005	120,000	120,000
Depreciation (120,000/40)	(3,000)	(3,000)
31st December 2005	**117,000**	**117,000**
Depreciation (117,000/39)	(3,000)	(3,000)
31st December 2006	**114,000**	**114,000**
Depreciation (114,000/38)	(3,000)	(3,000)
31st December 2007	**111,000**	**111,000**
Depreciation (111,000/37)	(3,000)	(3,000)
31st December 2008	**108,000**	**108,000**
Depreciation (108,000/36)	(3,000)	(3,000)
Impairment	(35,000)	-
31st December 2009	**70,000**	**105,000**
Depreciation (70,000/35)	(2,000)	(3,000)
31st December 2010	**68,000**	**102,000**

As at 2009

a) The entity is to recognise an impairment of €35,000.

As at 2010

b) The difference between the fair value and the carrying amount = €47,000 (€115,000 – €68,000); and

The difference between the actual carrying amount and the carrying amount had no impairment been done = €34,000 (€102,000 – €68,000).

The entity is to recognise the investment property at €115,000 (fair value at transfer date) and the difference between the investment property and the carrying amount shall be recognised as follows:

i. The reversal of the impairment of €35,000 is to be recognised in surplus and deficit. This reversal is however limited to **€34,000** which is the difference between the actual carrying amount and the carrying amount had no impairment been recognised; and

ii. The remaining balance of €13,000 (€47,000 - €34,000) should be recognised in net assets as a revaluation reserve.

The fair value of property plant and equipment is to be transferred to investment property as follows:

31st December 2010	Debit	Credit
	€	€
Investment property (at fair value)	115,000	
Property, plant and equipment (carrying amount after 6 years)		68,000
Reversal of impairment (reverse the effect of impairment on the carrying amount)		34,000
Revaluation reserve (remaining balance of difference between fair value of IP and carrying amount of PP&E)		13,000
Being the transfer of property from PP&E to IP		

2.3 Inventories transferred to Investment Property

2.3.1 When a department transfers inventories to investment property, the transaction date shall be the commencement date of the operating lease. The fair value of the investment property at transaction date is to be determined and any difference between the inventories' carrying amount and the investment property's fair value shall be recognised in surplus or deficit.

2.3.1.1 Example 1: transfer from inventories to investment property

The entity has decided that some properties, which were originally held as inventories, were to be retained for capital appreciation and earn rental income instead.

Lease agreements were signed and the commencement dates for all leases were 1st November 2011.

The carrying amount of these investment properties (as at 31st December 2010) was €9,250,000 and the fair value of the same properties on 1 November 2011 was €9,100,000. The department shall subsequently measure investment property at fair value.

Solution

The transaction date of the transfer of properties from inventories to investment property is 1st November 2011, the commencement date of the operating leases.

The difference, amounting to €150,000, between the carrying amount and the fair value of the properties, should be recognised in surplus or deficit as a fair value adjustment.

The fair value of inventory is to be transferred to investment property as follows:

1st November 2011	Debit	Credit
	€	€
Investment property (at fair value)	9,100,000	
Inventories		9,250,000
Fair value adjustment	150,000	
Being the transfer of property from Inventories to IP		

2.4 Self-constructed property transferred to investment property

2.4.1 When a department 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 shall be recognised in surplus or deficit.

H. Derecognition

1. Derecognition

1.1 Derecognition of investment property is the removal of an item of investment property from the Statement of Financial Position.

<u>IPSAS 16</u> states that an investment property shall be derecognised (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.

1.2 Situations determining removal of an investment property

1.2.1 An investment property is eliminated from the Statement of Financial Position as a result of the following:

a) sale – *property is sold to a third party*
b) finance lease – *property is leased under a finance lease agreement*
c) donation/transfer – *property is donated to an organization*

1.2.2 An investment property should also be derecognised when it is permanently withdrawn from use and no future economic benefits or service potential is expected from it such as when a building is certified by the competent authorities as being unsafe for occupancy due to structural defects.

1.2.3 In determining the date of disposal for investment property, an entity is to apply the criteria in IPSAS 9 for recognizing revenue from sale of goods and reference is to be made to its related guidelines. IPSAS 13 is to be applied for the disposals falling under the classification of a finance lease and to a sale and leaseback.

1.3 Gains and Losses from Derecognition of Investment Property

1.3.1 If, in accordance with the recognition principle, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it shall derecognise the carrying amount of the replaced part.

1.3.2 Gains or losses from derecognition of an investment property are included in the surplus/deficit in the period the item is derecognised.

1.3.3 Gains from derecognition are not included in revenue from normal operations, they are recognised as a separate line item reported on the Statement of Financial Performance.

1.3.4 The following formula summarises how gains or losses from derecognition are calculated:

Gain/Loss from Derecognition =
Net Disposal Proceeds – Carrying Amount

1.3.5 The net proceeds received or receivable on disposal are initially recognised at fair value. Thus, when payment is deferred, the proceeds received are recognised as the cash price equivalent. The difference between the cash price equivalent and the nominal amount is recognised as interest revenue using the effective interest method, in accordance with IPSAS 9 and related guidelines.

1.3.6 Example 1: gains or losses from disposal

The entity is selling a warehouse, which is classified as investment property in its books, for €200,000. The purchase price is payable over a period of four years, €50,000 annually. The investment property is carried at fair value and the carrying amount at the date of sale is €90,000. The cash purchase price for the property is €150,000.

Solution

The gain for the entity is calculated as the difference between the carrying amount and the cash purchase price which is €60,000 (€150,000 – €90,000). As a result of the deferred payment, the entity will recognise the difference between the amount receivable and the cash purchase price as interest revenue over the payment period.

The journals for recording this transaction at the date of sale are as follows:

Disposal date	Debit	Credit
	€	**€**
Receivables	150,000	
Gain on sale of investment property Investment property		60,000
Investment property		90,000
Being the recognition of a gain on the disposal of Investment Property		

Once an Investment Property is disposed of, the **asset register** should be updated accordingly, and the respective property struck off from the asset register.

I. Disclosure and Reporting of Investment property

1. IPSAS 16 states that the disclosures concerning investment property must be made in the following components of the financial statements:

a) **Statement of Financial Position** – shows all items of assets and liabilities as at the end of the financial period and shows a breakdown of the net assets position.

b) **Statements of Financial Performance** – shows all items of revenue and expenses recognised in a financial period and the surplus or deficit of total revenues against expenses.

c) **Statement of Cash Flows** – shows how cash was used by the department during the period, linking the two previous financial statements; and

d) **Notes to the Financial Statements** – include important disclosures that provide further explanation to the financial statements.

a) Statement of Financial Position

At the end of the reporting period, the total of the carrying amount of all Investment Property is shown as a "Non-current Asset" in the Statement of Financial Position. The following extract illustrates how investment property should be reported on the face of the Statement of Financial Position:

Statement of Financial Position as at 31st December 2013 (extract)				
	Notes	2013 (€)	2012 (€)	
Investments		x	x	IPSAS 1.88 (e)
Intangible assets	41	x	x	IPSAS 1.88 (c)
Property, plant and equipment	40	x	x	IPSAS 1.88 (a)
Investment property	42	x	x	IPSAS 1.88 (b)
		x	x	IPSAS 1.70

Comparative figures (previous year amounts) will not be provided in the first year of IPSAS compliance but reconciliation between beginning and ending balances of investment property is still required in the Notes to the Financial Statements.

b) Statement of Financial Performance

Investment Property disclosure in the Statement of Financial Performance includes **rental revenue** from holding investment property, **fair value adjustments and gains or losses from disposal** (gains from disposal are not to be disclosed with revenue). The following extract illustrates how investment property should be reported on the face of the Statement of Financial Performance.

Statement of Financial Performance for the year ended 31st December 2013 (extract)				
	Notes	2013 (€)	2012 (€)	
Revenue				IPSAS 1.109 - 112
Rental revenue	23	X	X	IPSAS 16.10
Expenses				IPSAS 1.109 - 112
Wages, salaries & employee benefits		X	X	
Depreciation and amortization expense	25	X	X	
Impairment		X	X	
Gains/Losses from disposal of assets (investment property)	24	X	X	IPSAS 16.80
Fair value adjustments	26	X	X	IPSAS 16.44
General expenses		X	X	
Total expenses		X	X	

c) Statement of Cash Flows

The following extract illustrates how investment property should be reported on the face of the Statement of Cash Flows:

Statement of Cash Flows for the year ended 31st December 2013 (extract)				
	Notes	2013 (€)	2012 (€)	
Cash flows from investing activities				IPSAS 2.18, IPSAS 2.31
Acquisition of Investment Property		X	X	IPSAS 2.25 (a)
Proceeds from sale of investment property		X	X	IPSAS 2.25 (b)
Decrease in non-current receivables		X	X	
Net cash flows used in investing activities		X	X	

d) Notes to the Financial Statements

An entity that holds an investment property under a finance lease or an operating lease is to provide lessees' disclosure for finance leases and lessors' disclosure for any operating leases into which it has entered, in addition to the notes provided for under IPSAS 13. An entity is to disclose:

(a) The **measurement bases** used for determining the gross carrying amount is the fair value model as prescribed by IPSAS 16[4];

(b) Whether and in what circumstances property interests held under **operating leases** are classified and accounted for as investment property;

(c) The **criteria used** to distinguish investment property form owner-occupied property and from property held for sale in the ordinary course of operations;

(d) 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 shall disclose) because of the nature of the property and lack of comparable market data;

(e) 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 recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) The amounts recognised in surplus or deficit 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.

(g) The existence and amounts of **restrictions** in the realisability of investment property or the remittance of revenue and proceeds of disposal; and

[4] As indicated in paragraph 62 of the standard and explained on this guideline, there may be exceptional cases where the cost model may be used following authorisation by the pertinent government body.

(h) **Contractual obligations** to purchase, construct, or develop investment property or for repairs, maintenance or enhancements.

The financial statements shall also disclose a **reconciliation** between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) **Additions,** disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;

(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 into a different presentation currency and on translation of a foreign operation into the presentation currency of the reporting entity;

(f) **Transfers** to and from inventories and owner-occupied property; and

(g) **Other changes.**

For a valuation obtained for investment property that has been adjusted significantly for the purpose of financial statement, for examples to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities the financial statements shall also disclose:

- A reconciliation between the valuation obtained and the adjusted valuation in the financial statements, showing separately the aggregate amount of any recognised lease obligations that has been added back; and

- Any other significant adjustments.

When an entity measures investment property using the **cost model in IPSAS 17**, due to **exceptional cases** where the fair value cannot be reliably determined on a continuing basis*,* the reconciliation mentioned above shall include amounts relating to that investment property **separately** from amounts relating to other investment property. The reconciliation of the carrying amount of that investment property at the beginning and end of the period, showing the following:

(a) **Additions**, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

(b) **Additions** resulting from acquisitions through entity combinations;

(c) **Disposals**;

(d) **Depreciation**;

(e) The amount of **impairment losses** recognised, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(f) The **net exchange differences** arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(g) **Transfers** to and from inventories and owner-occupied property; and

(h) Other changes.

In addition, an entity is to disclose:

(i) A **description** of the investment property;

(j) An **explanation** of why fair value **cannot** be determined reliably;

(k) If possible, the **range of estimates** within which fair value is highly likely to lie; and

(l) 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 recognised.**

Example – extract from the Notes to the Financial Statements

2.2 Summary of significant accounting policies

Investment Property

Investment properties are measured initially at cost, including transaction costs. The carrying amount excludes the costs of day-to-day maintenance of an investment property.

After initial recognition, investment property is carried at fair value. Investment property under construction is measured at fair value if the fair value is considered to be reliably determinable. Investment properties under construction for which the fair value cannot be determined reliably, but for which the entity expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits or service potential associated with the expenditure will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in surplus or deficit. Investment properties are derecognised when they have been disposed.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IPSAS 17.

Example – extract from the Notes to the Financial Statements

2.2 Summary of significant accounting policies

Investment Property (contd.)

Any resulting increase in the carrying amount of the property is recognised in surplus or deficit to the extent that it reverses a previous impairment loss, with any remaining increase recognised directly in net assets as part of the revaluation reserve. Any resulting decrease in the carrying amount of the property is initially charged against the revaluation reserve against any previously recognised revaluation surplus and the excess in surplus or deficit.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

Notes to the financial statements

	2011	2012	
	€	€	IPSAS
23. Rental revenue			
Investment property	xx	xx	*IPSAS 16.86 (f) (i)*
Equipment	xx	xx	
Direct operating expenditure arising from investment property that generated rental revenue	(xx)	(xx)	*IPSAS 16.86 (f) (ii)*
Direct operating expenditure arising from investment property that did not generate rental revenue	(xx)	(xx)	*IPSAS 16.86 (f) (iii)*

Notes to the financial statements

42. Investment Property (when the fair value model is used)	2011	2012	
	€	€	IPSAS
Opening balance as at 1 January	xxx	xxx	*IPSAS 16. 54-55*
Additions from acquisitions	xx	xx	*IPSAS 16.79*
Additions from subsequent expenditure recognised	Xx	Xx	
Net gain or (losses) from fair value adjustments	xx	(xx)	
Disposals	(Xx)	(Xx)	*IPSAS 16.77-82*
Transfer to/(from) investment property	(Xx)	Xx	*IPSAS 16.66 - 76*
Closing balance as at 31 December	xxx	xxx	

Glossary

''Accruals-based accounting'' Accruals-based accounting is a system of accounting based on the accrual principal, under which revenue is recognised (recorded) when earned, and expenses are recognised when incurred.

''Asset'' An asset is a resource presently controlled by the entity as a result of a past event and from which future economic benefits or service potential are expected to flow to the entity.

''Asset Management'' Asset management is as a process that directs the procuring, use and disposal of assets to obtain their full potential throughout their lifespan and manages and maintains any costs and risks associated with the assets.

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

''Cash-based accounting'' Cash-based accounting is an accounting method in which income is recorded when cash is received, and expenses are recorded when cash is paid out.

''Central Government Entities (CGEs)'' The term CGEs refers only to ministries and departments of the Government of Malta.

''Class of Property, Plant and Equipment'' A Class of Property, Plant and Equipment is a grouping of assets of a similar nature or function in an entity's operations that is shown as a single line-item for the purpose of reporting value and providing disclosure in the financial statements.

''Cost'' 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.

''Depreciable amount'' Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

''Depreciation'' Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

''Derecognition'' Derecognition of PP&E is the removal of an item of property, plant and equipment from the Statement of Financial Position.

''Fair Value'' 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.

''Finance Lease'' A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

''Impairment'' Impairment is the loss in the future economic benefits or service potential of an asset, over and above depreciation. Impairment reflects a decline in the utility of an asset to the entity that controls it.

''International Public Sector Accounting Standards (IPSAS)'' IPSAS are a set of accrual-based accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

''Investment property'' 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.

''Operating Lease'' An operating lease is a lease other than a finance lease. In this case the lease does not transfer substantially all the risks and rewards incidental to ownership.

"Owner-occupied property" 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.

''Property, Plant and Equipment (PP&E)'' PP&Es are tangible items that are:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are
- expected to be used during more than one reporting period

''Residual value'' Residual value is the estimated amount that an entity would currently receive from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

''Resource'' A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource.

''Service Potential'' Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

''Useful life'' Useful life is:

- the period over which an asset is expected to be available for use by an entity; or
- the number of production or similar units expected to be obtained from the asset by an entity.

Amendments to draft Guidelines

Amendments[5] made to the original draft guidelines

Section E [paras 2.1.5, example 2.1.6, 3.2, 4.4, 5.6.2]

Section F [paras 1, example 1.3]

Section G [paras 2.1.2, 2.3.1.1]

Section H [paras 1.2.2, example 1.3.6]

Throughout these Guidelines reference to the Government Property Department (GPD) was amended to refer to 'The Entity'.

[5] *Only the significant amendments have been included.*