

Investment Property (IAS 40)

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1. Overview and objective of IAS 40

IAS 40 **Investment Property** deals with the recognition, measurement, and disclosure of certain properties—mainly land and buildings—held to earn rentals and/or for capital appreciation. Its objective is to ensure that users of financial statements understand:

- **What qualifies as investment property**
- **How such property is initially measured**
- **How it is subsequently measured (cost vs fair value model)**
- **How changes in use, transfers, and disposals are accounted for**
- **What disclosures are required**

Investment property is often significant for entities such as property investment companies, real estate groups, and any entity that holds land or buildings primarily to earn rental income or benefit from capital growth, rather than to use them in operations.

2. Definition and scope

2.1 Definition of investment property

Under IAS 40, **investment property** is:

Land or a building (or part of a building, or both) held (by the owner or by a lessee as a right-of-use asset) to earn rentals, or for capital appreciation, or both, and not for:

- Use in the production or supply of goods or services, or for administrative purposes; or
- Sale in the ordinary course of business.

So, the key elements are:

- **Nature:** Land and/or buildings (including parts of buildings).
- **Purpose:** Held to earn rentals and/or for capital appreciation.
- **Exclusions:** Not held for own use (owner-occupied), not used in production or administration, and not held for sale in the ordinary course of business.

2.2 Scope of IAS 40

IAS 40 applies to:

- **Owned investment property** (land or buildings owned outright).
- **Investment property held by a lessee** as a **right-of-use asset** under IFRS 16, when it meets the definition of investment property (e.g. a building leased in and sub-leased out to earn rentals).

It does **not** apply to:

- **Owner-occupied property** → accounted for under IAS 16 (Property, Plant and Equipment).
- **Property used in production, supply of goods or services, or administration** → IAS 16.
- **Property held for sale in the ordinary course of business** → IAS 2 (Inventories).
- **Non-current assets held for sale** → IFRS 5.

Correct classification at the outset is crucial, because misclassification can materially affect profit, equity, and ratios.

3. Classification: what is and is not investment property

3.1 Typical examples of investment property

Examples that normally **qualify** as investment property include:

- **Land held for long-term capital appreciation** rather than short-term sale.
- **Land held for a currently undetermined future use** (not yet committed to owner-occupation or sale).
- **A building owned and leased out under one or more operating leases** to earn rentals.
- **A building that is vacant but held to be leased out** in the future.
- **Integral parts of a building** (e.g. lifts, air-conditioning systems) that form part of the investment property.

3.2 Items that are not investment property

The following are **not** investment property and are accounted for under other standards:

- **Owner-occupied property** (used by the entity itself) → IAS 16.
- **Property used in production, supply of goods or services, or administration** → IAS 16.
- **Property held for sale in the ordinary course of business** (e.g. property developer's inventory) → IAS 2.
- **Property under construction or development for sale** → IAS 2 or IFRS 15, depending on the business model.

3.3 Mixed-use property

Some properties have **mixed use**, for example:

- Part of a building is **owner-occupied** (e.g. offices).
- Another part is **leased out** to earn rentals.

IAS 40 requires:

- **Separate accounting** for the portions **only if** they could be sold or leased out separately.
- If the portions **cannot** be sold or leased separately, and the owner-occupied portion is significant, the entire property is treated as **owner-occupied** under IAS 16.

Judgement is required, and entities should develop and disclose consistent criteria for determining whether portions are separable.

4. Recognition criteria

An item of investment property is recognised as an asset when **both** of the following are met:

1. **Probable future economic benefits** will flow to the entity (e.g. rental income, capital appreciation).
2. **Cost can be measured reliably.**

If either condition is not met, the property is not recognised as investment property under IAS 40.

5. Initial measurement

5.1 Cost at initial recognition

On initial recognition, investment property is measured at **cost**, which includes:

- **Purchase price** (including non-refundable taxes).
- **Directly attributable costs**, such as:
 - Legal fees.
 - Property transfer taxes.
 - Professional fees (e.g. surveyors, valuers).
 - Other transaction costs directly attributable to acquiring the property.

5.2 Costs excluded from initial measurement

The following are **not** included in the cost of investment property:

- **Start-up costs** (unless necessary to bring the property to its intended condition).
- **Operating losses** incurred before the property achieves planned occupancy.
- **Abnormal waste** of materials, labour, or other resources.

These items are usually expensed as incurred.

5.3 Investment property acquired through a lease (right-of-use)

Where an entity is a **lessee** and the leased asset meets the definition of investment property, the right-of-use asset is recognised and measured initially in accordance with IFRS 16 (usually at the present value of lease payments plus direct costs). Subsequent measurement then follows IAS 40 (cost or fair value model, depending on policy).

6. Subsequent measurement: cost model vs fair value model

After initial recognition, IAS 40 allows **two models** for subsequent measurement:

1. **Fair value model**
2. **Cost model**

The entity must **choose a model** and apply it **consistently** to all investment property, except in rare circumstances where fair value cannot be reliably determined for a particular property.

6.1 Fair value model

Under the **fair value model**:

- Investment property is measured at **fair value** at each reporting date.
- **Fair value** is determined in accordance with IFRS 13 (the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date).
- **No depreciation** is charged.
- **No impairment testing** is required under IAS 36, because the asset is already carried at fair value.
- **All changes in fair value** (both gains and losses) are recognised **in profit or loss** in the period in which they arise.

Key points:

- Fair value must reflect **current market conditions**, including:
 - Rental income from current leases.
 - Assumptions that market participants would use.
- Entities often use **professional valuers** to determine fair value, especially for complex properties.

6.2 Cost model

Under the **cost model**:

- Investment property is carried at:

- **Cost less accumulated depreciation**, and
 - **Less accumulated impairment losses** (IAS 36).
- The approach mirrors the cost model in IAS 16.
- **Depreciation** is charged over the asset's useful life.
- **Impairment testing** is performed when there is an indication of impairment.
- **Fair value must still be disclosed** in the notes, if it can be measured reliably.

6.3 Choice of model and changes in policy

- The chosen model must be applied **consistently** to all investment properties.
- A change from one model to the other is permitted only if it results in **more reliable and more relevant information**.
- A change from **fair value to cost** is considered **highly unlikely** to meet this criterion.

7. Fair value measurement considerations

When using the fair value model, entities must consider:

- **Market-based evidence:** Comparable sales, rental yields, discount rates.
- **Highest and best use:** The valuation assumes the property is used in its highest and best use by market participants.
- **Valuation techniques:**
 - Market approach (comparable transactions).
 - Income approach (discounted cash flows, capitalisation of rentals).
 - Cost approach (replacement cost, less depreciation) in limited cases.

In **rare circumstances**, if fair value cannot be determined reliably on a continuing basis for a particular property:

- The entity uses the **cost model** for that property for its entire life.
- This is an exception and must be supported by clear evidence.

8. Transfers to and from investment property

8.1 Principle: change in use

An entity transfers a property **to or from investment property** when, and only when, there is a **change in use**. A change in use occurs when the property **meets or ceases to meet** the definition of investment property and there is **evidence** of the change, such as:

- **Commencement of owner-occupation** (transfer from investment property to owner-occupied property).
- **Commencement of development with a view to sale** (transfer from investment property to inventories).
- **End of owner-occupation** (transfer from owner-occupied property to investment property).

- **Inception of an operating lease to a third party** (property becomes investment property).

A **change in management's intentions alone** (without evidence of changed use) is **not sufficient**.

8.2 Accounting for transfers

8.2.1 Transfer from investment property to owner-occupied property (IAS 16)

- The **carrying amount** at the date of transfer becomes the property's **deemed cost** for subsequent accounting under IAS 16 (cost model).

8.2.2 Transfer from owner-occupied property (IAS 16) to investment property (fair value model)

- The property is reclassified to investment property.
- Its **fair value at the date of transfer** becomes its **deemed cost** for subsequent measurement under the fair value model.
- Any difference between carrying amount and fair value is treated according to IAS 16 revaluation rules (if previously revalued) or recognised in profit or loss if appropriate.

8.2.3 Transfer between investment property and inventories (IAS 2)

- When investment property is transferred to inventories (e.g. property now held for sale in the ordinary course of business), the **carrying amount at the date of transfer** becomes the **cost** of inventories.
- When inventories are transferred to investment property (e.g. property previously held for sale now held to earn rentals), the **fair value at the date of transfer** becomes the deemed cost under the chosen model.

9. Disposal of investment property

On disposal (sale) or when the property is permanently withdrawn from use and no future economic benefits are expected:

- **Derecognise** the investment property.
- Recognise in **profit or loss**:
 - The **difference** between the **net disposal proceeds** and the **carrying amount** of the property.

If the entity uses the **fair value model**, the carrying amount at disposal date is already at fair value; the gain or loss reflects any difference between sale price and that fair value.

10. Disclosure requirements

IAS 40 requires extensive disclosures to help users understand the impact of investment property on the financial statements. Key disclosures include:

10.1 General disclosures

- **Whether the entity uses the fair value model or the cost model.**
- **Criteria used to distinguish investment property from owner-occupied property and from property held for sale.**
- **Methods and significant assumptions** applied in determining fair value.
- **Extent to which fair value is based on valuations by independent valuers.**

10.2 Disclosures under the fair value model

- **Fair value of investment property** at the reporting date.
- **Gains or losses** arising from changes in fair value, recognised in profit or loss.
- A **reconciliation** of carrying amounts at the beginning and end of the period, showing:
 - Additions.
 - Disposals.
 - Transfers.
 - Fair value changes.
 - Other movements.

10.3 Disclosures under the cost model

- **Depreciation methods** used.
- **Useful lives or depreciation rates.**
- **Gross carrying amount and accumulated depreciation** at the beginning and end of the period.
- **Impairment losses and reversals** recognised.
- **Fair value of investment property** (even though cost model is used), if it can be measured reliably.

11. Special issues and practical points

11.1 Investment property under construction

- If the entity uses the **fair value model**, investment property under construction is measured at **fair value** if it can be reliably determined; otherwise, it is measured at **cost** until completion.

11.2 Property leased out under operating leases

- A building owned by the entity and leased out under operating leases is usually investment property (if held to earn rentals).
- Rental income and related expenses are recognised in profit or loss; the building itself is accounted for under IAS 40.

11.3 Property held for an undetermined future use

- Land held for an undetermined future use is treated as investment property if it is not currently used for production, administration, or sale in the ordinary course of business and is held for capital appreciation or future rental.

11.4 Fair value not reliably measurable

- In **rare cases**, if fair value cannot be determined reliably on a continuing basis for a particular property:
 - The entity uses the **cost model** for that property.
 - This is applied for the **entire life** of the property.
 - The reason must be disclosed.

12. Illustrative examples

12.1 Example 1 — Land held for capital appreciation

Scenario: An entity purchases a piece of land on the outskirts of a growing city. It has no immediate plans to build on it or use it in operations. The intention is to hold the land for several years and then sell it when its value has increased.

Analysis:

- The land is **not used** in production, supply of goods or services, or administration.
- It is **not held for sale in the ordinary course of business** (the entity is not a property dealer).
- It is held for **capital appreciation**.

Conclusion: The land meets the definition of **investment property** and is accounted for under IAS 40.

Accounting (fair value model):

- Initial recognition at **cost** (purchase price + directly attributable costs).
- Subsequent measurement at **fair value** at each reporting date.
- Changes in fair value recognised in **profit or loss**.

12.2 Example 2 — Building partly owner-occupied and partly leased out

Scenario: An entity owns a 10-storey building. It uses 4 floors for its own offices (administration) and leases out the remaining 6 floors to tenants under operating leases.

Case A: Floors can be sold or leased separately

- The leased floors are held to earn rentals → **investment property**.
- The owner-occupied floors are used for administration → **owner-occupied property** (IAS 16).
- The entity accounts for the two portions **separately**:
 - Investment property portion under IAS 40.
 - Owner-occupied portion under IAS 16.

Case B: Floors cannot be sold or leased separately, and owner-occupied portion is significant

- The building is a single asset that cannot be split.
- Because a significant portion is owner-occupied, the entire building is treated as **owner-occupied property** under IAS 16.

12.3 Example 3 — Transfer from owner-occupied property to investment property

Scenario: An entity owns a building used as its head office (owner-occupied). Due to restructuring, it relocates its head office and decides to lease out the building to third parties under operating leases.

Analysis:

- There is a **change in use**: from owner-occupied to property held to earn rentals.
- The building now meets the definition of **investment property**.

Accounting (fair value model):

1. At the date of change in use, determine the **fair value** of the building.
2. Reclassify the building from IAS 16 to IAS 40.
3. The **fair value at the date of transfer** becomes the building's **deemed cost** under the fair value model.
4. Subsequent changes in fair value are recognised in **profit or loss**.

If the building was previously carried under the **revaluation model** in IAS 16, any revaluation surplus in equity is treated according to IAS 16 (e.g. transferred to retained earnings on disposal).

12.4 Example 4 — Cost model with fair value disclosure

Scenario: An entity holds several investment properties but chooses the **cost model** due to internal policy and the nature of its assets.

Accounting:

- Each property is carried at **cost less accumulated depreciation and impairment**.
- Depreciation is charged over the useful life (e.g. 40 years).
- Impairment is assessed under IAS 36 when indicators exist.

Disclosure:

- The entity must disclose:
 - **Fair value** of each investment property (or group) if it can be measured reliably.
 - Methods and assumptions used to determine fair value.
 - Reconciliation of carrying amounts, depreciation, impairment, and movements.

13. Summary and exam-style focus points

To wrap IAS 40 into a study-friendly set of key points:

- **Definition:** Land or buildings held to earn rentals and/or for capital appreciation, not for own use or sale in the ordinary course of business.
- **Scope:** Includes owned property and right-of-use assets that meet the definition; excludes owner-occupied property (IAS 16) and inventory property (IAS 2).
- **Recognition:** Probable future economic benefits and reliably measurable cost.
- **Initial measurement:** Cost including directly attributable transaction costs; excludes start-up costs, pre-occupancy losses, abnormal waste.
- **Subsequent measurement:** Choice between **fair value model** (no depreciation, fair value changes in profit or loss) and **cost model** (depreciation and impairment, fair value disclosed).
- **Transfers:** Only when there is a **change in use** supported by evidence; carrying amount or fair value at transfer date becomes deemed cost under the new standard.
- **Disposals:** Derecognise and recognise gain or loss in profit or loss.
- **Disclosures:** Model used, fair value information, assumptions, reconciliation of movements, and criteria for classification.

14. Comprehensive Question Bank

SECTION A — BASIC CONCEPTUAL QUESTIONS (MCQs)

1. Which of the following best describes investment property under IAS 40?

- A. Property used in production or administration
- B. Property held for sale in the ordinary course of business
- C. Property held to earn rentals or for capital appreciation
- D. Property used by employees for staff housing

➤ **Correct answer: C**

2. Which standard applies to owner-occupied property?

- A. IAS 2
- B. IAS 16
- C. IAS 40
- D. IFRS 5

➤ **Correct answer: B**

3. Investment property is initially measured at:

- A. Cost
- B. Fair value
- C. Cost less depreciation
- D. Net realisable value

➤ **Correct answer: A**

4. Under the fair value model, changes in fair value are recognised in:

- A. Other comprehensive income
- B. Equity
- C. Profit or loss
- D. Deferred income

➤ **Correct answer: C**

5. Under the cost model, investment property is measured at:

- A. Cost less accumulated depreciation and impairment
- B. Fair value
- C. Net realisable value
- D. Replacement cost

➤ **Correct answer: A**

6. Which of the following is NOT included in the cost of investment property?

- A. Legal fees
- B. Property transfer taxes
- C. Abnormal waste of materials
- D. Professional fees

➤ **Correct answer: C**

7. A building owned and leased out under operating leases is classified as:

- A. Inventory
- B. Owner-occupied property
- C. Investment property
- D. PPE

➤ **Correct answer: C**

8. Fair value must be disclosed when using:

- A. Fair value model only
- B. Cost model only
- C. Both models
- D. Neither model

➤ **Correct answer: C**

9. Transfers to or from investment property occur when:

- A. Management changes its intention
- B. There is evidence of a change in use
- C. The fair value changes significantly
- D. The property is revalued

➤ **Correct answer: B**

10. A right-of-use asset can be investment property if:

- A. It is used by the lessee
- B. It is sub-leased to earn rentals
- C. It is held for sale
- D. It is used for administration

➤ **Correct answer: B**

SECTION B — INTERMEDIATE QUESTIONS (MCQs)

11. Land held for an undetermined future use is classified as:

- A. Inventory
- B. PPE
- C. Investment property
- D. Non-current asset held for sale

➤ **Correct answer: C**

12. Under the fair value model, depreciation:

- A. Is charged annually
- B. Is charged only if the asset is impaired
- C. Is not charged
- D. Is charged only on buildings

➤ **Correct answer: C**

13. If fair value cannot be reliably measured on a continuing basis:

- A. Use the cost model for that property
- B. Use net realisable value
- C. Use replacement cost
- D. Use the revaluation model

➤ **Correct answer: A**

14. When transferring from owner-occupied property to investment property under the fair value model, the deemed cost is:

- A. Carrying amount
- B. Fair value at date of transfer
- C. Historical cost
- D. Net realisable value

➤ **Correct answer: B**

15. Which of the following must be disclosed under IAS 40?

- A. Useful lives under the fair value model
- B. Fair value of investment property
- C. Depreciation expense under the fair value model
- D. Residual values under the fair value model

➤ **Correct answer: B**

16. Investment property under construction is measured at fair value if:

- A. The entity chooses the cost model
- B. The fair value can be reliably measured
- C. The entity is a property developer
- D. The property is owner-occupied

➤ **Correct answer: B**

17. A mixed-use property must be split into investment property and PPE when:

- A. The owner-occupied portion is insignificant
- B. The portions can be sold or leased separately
- C. The entity chooses to do so
- D. The fair value model is used

➤ **Correct answer: B**

18. Gains or losses on disposal of investment property are recognised in:

- A. Equity
- B. Other comprehensive income
- C. Profit or loss
- D. Deferred income

➤ **Correct answer: C**

19. Which of the following is a directly attributable cost?

- A. Advertising the property
- B. Abnormal waste
- C. Legal fees
- D. Operating losses before occupancy

➤ **Correct answer: C**

20. Under the cost model, impairment is assessed under:

- A. IAS 2
- B. IAS 36
- C. IFRS 13
- D. IFRS 15

➤ **Correct answer: B**

SECTION C — ADVANCED QUESTIONS (MCQs)

21. A property previously classified as inventory is now leased out. Under the fair value model, the deemed cost is:

- A. Historical cost
- B. Carrying amount
- C. Fair value at date of transfer
- D. Net realisable value

➤ **Correct answer: C**

22. When transferring investment property to PPE, the deemed cost is:

- A. Fair value
- B. Carrying amount
- C. Historical cost
- D. Revalued amount

➤ **Correct answer: B**

23. Which of the following is TRUE regarding fair value measurement?

- A. It must reflect highest and best use
- B. It must ignore market participant assumptions
- C. It must use replacement cost only
- D. It must exclude rental income

➤ **Correct answer: A**

24. A property is partly owner-occupied and partly leased. The owner-occupied portion is significant and cannot be sold separately. The property is classified as:

- A. Investment property
- B. PPE
- C. Inventory
- D. Non-current asset held for sale

➤ **Correct answer: B**

25. Under IAS 40, fair value changes are recognised:

- A. Only when realised
- B. Only when the property is sold
- C. Immediately in profit or loss
- D. In OCI and recycled on disposal

➤ **Correct answer: C**

SECTION D — SCENARIO-BASED QUESTIONS (SHORT ANSWER)

26. Scenario:

An entity owns a building used as its head office. It relocates and leases the building to tenants.

Required: Explain the accounting treatment.

Answer: Change in use → transfer from PPE to investment property. Under fair value model → fair value at transfer date becomes deemed cost. Subsequent changes in fair value → profit or loss.

27. Scenario:

An entity holds land for long-term capital appreciation.

Required: Classify and explain.

Answer: Investment property → held for capital appreciation, not used in operations or held for sale.

28. Scenario:

A building is partly leased out (40%) and partly owner-occupied (60%). Portions cannot be sold separately.

Required: Classification.

Answer: Owner-occupied portion is significant → entire building classified as PPE.

29. Scenario:

An entity uses the cost model.

Required: What must still be disclosed?

Answer: Fair value of investment property, if measurable reliably.

30. Scenario:

A lessee sub-leases a building under an operating lease.

Required: Classification.

Answer: Right-of-use asset meets definition → investment property.

SECTION E — CALCULATION-STYLE QUESTIONS

31. Fair value change recognition

- Opening fair value: R5 000 000
- Closing fair value: R5 600 000

Required: Calculate the fair value gain.

Answer: Gain = R600 000 → recognised in profit or loss.

32. Cost model depreciation

- Cost: R4 000 000
- Useful life: 40 years
- Residual value: R0

Required: Annual depreciation.

Answer: $R4\,000\,000 \div 40 = \text{R}100\,000$ per year

33. Disposal gain/loss

- Carrying amount: R3 500 000
- Selling price: R3 800 000
- Selling costs: R50 000

Required: Gain or loss.

Answer: Net proceeds = $R3\,800\,000 - R50\,000 = R3\,750\,000$

➤ Gain = $R3\,750\,000 - R3\,500\,000 = \text{R}250\,000$

34. Transfer from PPE to investment property

- Carrying amount: R2 000 000
- Fair value at transfer: R2 400 000

Required: Deemed cost under fair value model.

Answer: Deemed cost = R2 400 000

35. Impairment under cost model

- Carrying amount: R3 000 000
- Recoverable amount: R2 700 000

Required: Impairment loss.

Answer: Impairment = R300 000 → recognised in profit or loss.

SECTION F — CASE STUDIES

36. Mixed-use building classification

Provide a detailed analysis of classification when:

- 30% leased out
- 70% owner-occupied
- Portions CAN be sold separately

Answer: Split the building:

- 30% → investment property (IAS 40)
- 70% → PPE (IAS 16)
- Measure each portion separately under the chosen model.

37. Fair value model vs cost model — analytical comparison

Explain the impact on profit, equity, volatility, and ratios.

Answer:

- Fair value model → higher volatility, no depreciation, fair value gains/losses in profit or loss, stronger asset base.
- Cost model → smoother profit, depreciation reduces profit, impairment only when indicators exist, fair value disclosed but not recognised.

38. Property under construction

Explain treatment when fair value becomes reliably measurable mid-construction.

Answer:

- Before reliable measurement → cost.
- After reliable measurement → fair value.
- Fair value changes → profit or loss.

39. Transfer to inventory

Explain treatment when investment property is now held for sale in ordinary course of business.

Answer:

- Transfer to inventory → carrying amount becomes cost of inventory.
- Subsequent measurement → lower of cost and NRV (IAS 2).

40. Right-of-use investment property

Explain how IFRS 16 and IAS 40 interact.

Answer:

- Initial measurement → IFRS 16 (PV of lease payments).
- Subsequent measurement → IAS 40 (fair value or cost model).
- Fair value changes → profit or loss.

15. Calculation-Heavy Question Pack (Impairment + Fair Value)

SECTION A — FAIR VALUE MODEL CALCULATIONS

1. Fair value gain

- Opening fair value: R7 200 000
- Closing fair value: R7 950 000

Required: Calculate the fair value gain.

Answer: Gain = 7 950 000 – 7 200 000 = **R750 000**

2. Fair value loss

- Opening fair value: R12 000 000
- Closing fair value: R11 300 000

Required: Calculate the fair value loss.

Answer: Loss = 11 300 000 – 12 000 000 = **R700 000**

3. Fair value change with additions

- Opening fair value: R5 000 000
- Additions during year: R400 000
- Closing fair value: R5 900 000

Required: Fair value gain.

Answer:

- Adjusted opening = 5 000 000 + 400 000 = 5 400 000
- Gain = 5 900 000 – 5 400 000 = **R500 000**

4. Fair value change with disposal

- Opening fair value: R9 000 000
- Closing fair value: R8 500 000
- Property disposed mid-year at R3 000 000 (carrying amount R2 700 000)

Required:

- a) Fair value loss
- b) Profit on disposal

Answer:

- a) Fair value loss = 8 500 000 – 9 000 000 = **R500 000**
- b) Profit on disposal = 3 000 000 – 2 700 000 = **R300 000**

5. Fair value change including transfer in

- Property transferred in at fair value: R4 800 000
- Closing fair value: R5 200 000

Required: Fair value gain.

Answer: Gain = 5 200 000 – 4 800 000 = **R400 000**

6. Fair value change including transfer out

- Opening fair value: R10 000 000
- Property transferred out at carrying amount: R3 000 000
- Closing fair value: R7 400 000

Required: Fair value gain/loss.

Answer:

- Adjusted opening = $10\,000\,000 - 3\,000\,000 = 7\,000\,000$
- **Gain** = $7\,400\,000 - 7\,000\,000 = \text{R}400\,000$

7. Fair value change with improvements

- Opening fair value: R6 500 000
- Capital improvements: R350 000
- Closing fair value: R7 000 000

Required: Fair value gain/loss.

Answer:

- Adjusted opening = $6\,500\,000 + 350\,000 = 6\,850\,000$
- **Gain** = $7\,000\,000 - 6\,850\,000 = \text{R}150\,000$

8. Fair value change with demolition costs

- Opening fair value: R8 000 000
- Demolition costs: R200 000
- Closing fair value: R7 900 000

Required: Fair value gain/loss.

Answer:

- Adjusted opening = $8\,000\,000 + 200\,000 = 8\,200\,000$
- **Loss** = $7\,900\,000 - 8\,200\,000 = \text{R}300\,000$

9. Fair value change with partial disposal

- Opening fair value: R15 000 000
- Disposed portion carrying amount: R4 000 000
- Sale proceeds: R4 500 000
- Closing fair value: R11 300 000

Required:

- a) Profit/loss on disposal
- b) Fair value gain/loss

Answer:

- a) **Profit** on disposal = $4\,500\,000 - 4\,000\,000 = \text{R}500\,000$

b)

- Adjusted opening = $15\,000\,000 - 4\,000\,000 = 11\,000\,000$
- Fair value **gain** = $11\,300\,000 - 11\,000\,000 = \mathbf{R300\,000}$

10. Fair value change with revaluation history

- Opening fair value: R20 000 000
- Closing fair value: R19 200 000

Required: Fair value loss.

Answer: Loss = $19\,200\,000 - 20\,000\,000 = \mathbf{R800\,000}$

SECTION B — COST MODEL: DEPRECIATION + IMPAIRMENT

11. Straight-line depreciation

- Cost: R9 000 000
- Useful life: 45 years
- Residual value: R0

Required: Annual depreciation.

Answer: Depreciation = $9\,000\,000 \div 45 = \mathbf{R200\,000}$

12. Depreciation with residual value

- Cost: R6 000 000
- Useful life: 40 years
- Residual value: R400 000

Required: Annual depreciation.

Answer:

- Depreciable amount = $6\,000\,000 - 400\,000 = 5\,600\,000$
- Annual depreciation = $5\,600\,000 \div 40 = \mathbf{R140\,000}$

13. Depreciation for partial year

- Cost: R5 000 000
- Useful life: 50 years
- Purchased on 1 October (Year-end is 31 December)

Required: Current-year depreciation.

Answer:

- Annual depreciation = $5\,000\,000 \div 50 = 100\,000$
- Depreciation for 3 months = $100\,000 \times 3/12 = \mathbf{R25\,000}$

14. Impairment loss

- Carrying amount: R7 500 000
- Recoverable amount: R6 900 000

Required: Impairment loss (if any).

Answer: Impairment loss = $7\,500\,000 - 6\,900\,000 = \mathbf{R600\,000}$

15. Impairment reversal (allowed under IAS 36)

- Carrying amount: R4 000 000
- Recoverable amount: R4 300 000
- Original cost: R5 000 000

Required: Reversal amount.

Answer: Reversal = $4\,300\,000 - 4\,000\,000 = \mathbf{R300\,000}$

16. Depreciation after impairment

- Cost: R10 000 000
- Accumulated depreciation: R2 000 000
- Impairment loss: R1 500 000
- Remaining useful life: 30 years

Required: New annual depreciation.

Answer:

- *New depreciable amount* = $10\,000\,000 - 2\,000\,000 - 1\,500\,000 = 6\,500\,000$
- New annual depreciation = $6\,500\,000 \div 30 = \mathbf{R216\,667}$

17. Impairment with residual value

- Carrying amount: R3 800 000
- Recoverable amount: R3 200 000
- Residual value: R200 000

Required: Impairment.

Answer: Impairment = $3\,800\,000 - 3\,200\,000 = \mathbf{R600\,000}$

18. Impairment test triggered by fair value disclosure

- Carrying amount: R9 000 000
- Fair value disclosed: R8 400 000
- Recoverable amount: R8 500 000

Required: Impairment (if any).

Answer: Recoverable amount = 8 500 000 (*in all likelihood its value in use*)

➤ Impairment = 9 000 000 – 8 500 000 = **R500 000**

19. Impairment after transfer from inventory

- Transferred at deemed cost: R6 000 000
- Recoverable amount: R5 500 000

Required: Impairment.

Answer: Impairment = 6 000 000 – 5 500 000 = **R500 000**

20. Impairment after transfer from PPE

- Carrying amount at transfer: R7 000 000
- Recoverable amount: R6 600 000

Required: Impairment.

Answer: Impairment = 7 000 000 – 6 600 000 = **R400 000**

SECTION C — TRANSFERS (CALCULATION-FOCUSED)

21. Transfer from PPE to investment property (fair value model)

- Carrying amount: R4 500 000
- Fair value at transfer: R5 200 000

Required: Deemed cost.

Answer: Deemed cost = **R5 200 000**

22. Transfer from investment property to PPE (cost model)

Carrying amount: R9 000 000

Required: Deemed cost.

Answer: Deemed cost = **R9 000 000**

23. Transfer from inventory to investment property (fair value model)

Fair value at transfer: R3 900 000

Required: Deemed cost.

Answer: Deemed cost = **R3 900 000**

24. Transfer from investment property to inventory

Carrying amount: R6 800 000

Required: Inventory cost.

Answer: Cost of inventory = **R6 800 000**

25. Transfer with revaluation surplus

- Carrying amount under revaluation model: R10 000 000
- Fair value at transfer: R11 000 000
- Revaluation surplus: R1 200 000

Required:

- a) Deemed cost
- b) Treatment of surplus

Answer:

- a) Deemed cost = **R11 000 000**
- b) Surplus remains in equity until disposal

SECTION D — DISPOSAL CALCULATIONS

26. Disposal profit/loss

- Carrying amount: R5 500 000
- Sale proceeds: R6 000 000
- Selling costs: R100 000

Required: Profit/loss on disposal.

Answer:

- Net proceeds = 6 000 000 – 100 000 = 5 900 000
- **Profit** = 5 900 000 – 5 500 000 = **R400 000**

27. Disposal profit/loss

- Carrying amount: R8 000 000
- Sale proceeds: R7 600 000
- Selling costs: R50 000

Required: Profit/loss on disposal.

Answer:

- Net proceeds = 7 600 000 – 50 000 = 7 550 000
- **Loss** = 7 550 000 – 8 000 000 = **R450 000**

28. Disposal under fair value model

- Fair value at reporting date: R9 000 000
- Sale proceeds: R9 300 000
- Selling costs: R100 000

Required: Profit/loss on disposal.

Answer:

- Net proceeds = 9 300 000 – 100 000 = 9 200 000
- **Profit** = 9 200 000 – 9 000 000 = **R200 000**

29. Disposal after impairment

- Carrying amount after impairment: R4 200 000
- Sale proceeds: R4 500 000
- Selling costs: R50 000

Required: Profit/loss on disposal.

Answer:

- Net proceeds = 4 500 000 – 50 000 = 4 450 000
- **Profit** = 4 450 000 – 4 200 000 = **R250 000**

30. Disposal of partially depreciated property

- Cost: R6 000 000
- Accumulated depreciation: R1 800 000

→ Carrying amount: R4 200 000

- Sale proceeds: R4 000 000
- Selling costs: R100 000

Required: Profit/loss on disposal.

Answer:

- Net proceeds = 4 000 000 – 100 000 = 3 900 000
- **Loss** = 3 900 000 – 4 200 000 = **R300 000**

SECTION E — ADVANCED MULTI-STEP CASES

31. Multi-step fair value + disposal

- Opening fair value: R12 000 000
- Additions: R500 000
- Closing fair value: R12 400 000
- Disposed portion carrying amount: R3 000 000
- Sale proceeds: R3 200 000

Required:

- a) Fair value gain/loss
- b) Profit/loss on disposal

Answer:

a) Adjusted opening = 12 000 000 + 500 000 = 12 500 000
Fair value **loss** = 12 400 000 – 12 500 000 = **R100 000**

b) **Profit** on disposal = 3 200 000 – 3 000 000 = **R200 000**

32. Multi-step impairment + depreciation

- Cost: R10 000 000
- Accumulated depreciation: R2 000 000
- Recoverable amount: R7 200 000
- Remaining useful life: 20 years

Required:

- a) Impairment loss (if any)
- b) New annual depreciation

Answer:

a) Carrying amount = $10\,000\,000 - 2\,000\,000 = 8\,000\,000$
Impairment loss = $8\,000\,000 - 7\,200\,000 = \mathbf{R800\,000}$

b) New depreciable amount = 7 200 000
New annual depreciation = $7\,200\,000 \div 20 = \mathbf{R360\,000}$

33. Multi-step transfer + fair value change

- Transfer from PPE carrying amount: R6 000 000
- Fair value at transfer: R6 500 000
- Closing fair value: R6 900 000

Required:

- a) Deemed cost
- b) Fair value gain/loss

Answer:

a) Deemed cost = **R6 500 000**
b) **Gain** = $6\,900\,000 - 6\,500\,000 = \mathbf{R400\,000}$

34. Multi-step impairment + disposal

- Carrying amount: R9 000 000
- Recoverable amount: R8 400 000
- Sale proceeds: R8 600 000
- Selling costs: R100 000

Required:

- a) Impairment loss (if any)
- b) Profit/loss on disposal

Answer:

a) Impairment loss = 9 000 000 – 8 400 000 = **R600 000**

b) New carrying amount = 8 400 000

Net proceeds = 8 600 000 – 100 000 = 8 500 000

Profit on disposal = 8 500 000 – 8 400 000 = **R100 000**

35. Multi-step fair value + impairment (cost model)

- Cost: R7 000 000
- Accumulated depreciation: R1 400 000
- Fair value disclosed: R5 200 000
- Recoverable amount: R5 300 000

Required: Impairment (if any).

Answer: Carrying amount = 7 000 000 – 1 400 000 = 5 600 000

Impairment = 5 600 000 – 5 300 000 = **R300 000**

36. Multi-step depreciation + transfer to inventory

- Cost: R8 000 000
- Accumulated depreciation: R2 400 000
- ➔ Carrying amount: R5 600 000
- Transferred to inventory NRV: R5 300 000

Required: Inventory measurement.

Answer: Inventory cost = 5 600 000

NRV = 5 300 000

Inventory measured at **R5 300 000** (lower of cost and NRV)

37. Multi-step fair value + impairment reversal

- Opening fair value: R9 000 000
- Closing fair value: R9 600 000
- Recoverable amount: R9 700 000
- Original cost: R10 000 000

Required: Reversal amount.

Answer: Carrying amount = 9 600 000

Recoverable amount = 9 700 000

Maximum carrying amount = 10 000 000

Reversal = 9 700 000 – 9 600 000 = **R100 000**

38. Multi-step disposal + fair value model

- Fair value at reporting date: R14 000 000
- Sale proceeds: R14 500 000
- Selling costs: R200 000

Required: Profit/loss on disposal.

Answer: Net proceeds = 14 500 000 – 200 000 = 14 300 000

Profit = 14 300 000 – 14 000 000 = **R300 000**

39. Multi-step impairment + revaluation history

- Carrying amount: R11 000 000
- Recoverable amount: R10 200 000
- Revaluation surplus in equity: R500 000

Required: Impairment and treatment.

Answer: Impairment = 11 000 000 – 10 200 000 = **R800 000**

First reduce revaluation surplus: 500 000

Remaining impairment to P/L: **R300 000**

40. Multi-step fair value + additions + disposal

- Opening fair value: R18 000 000
- Additions: R1 000 000
- Closing fair value: R18 500 000
- Disposed portion carrying amount: R3 500 000
- Sale proceeds: R3 700 000

Required:

- a) Fair value gain/loss
- b) Profit/loss on disposal

Answer:

a) Adjusted opening = 18 000 000 + 1 000 000 = 19 000 000

Fair value **loss** = 18 500 000 – 19 000 000 = **R500 000**

b) Disposal **profit** = 3 700 000 – 3 500 000 = **R200 000**