

CR PPE 125,000

I had a net book value of 4,875,000 so this is the NBV as at 1st October 2014. The company's policy for investment property is to value it at fair value. From 1st October 2014 this property would have to be shown at Fair Value ie 5,400,000. So from 4,875,000 it has risen to 5,400,000 giving a difference 525,000. I should recognise this difference similar to what I do when I have a revaluation, so this 525,000 that covers the period 1 April 2014 and October 2014; the difference will go to a revaluation reserve.

DR Investment property 5,400,000

CR Revaluation Reserve 525,000

CR PPE 4,875,000

From this point onwards, now that it is classified as investment property, any movement in fair value will go to the PL. The Fair value as at year end was 5,500,000, so there was an increase of 100,000. That movement will go to the PL

DR Investment property 100,000

CR Other Income 100,000

Paragraph 10 of IAS 40 ; some properties might comprise a portion that is used to earn rental income for capital appreciation and there might be another portion in the same building that will be used for administration purposes or will be used in the supply of goods and services. Therefore we have an instance where part of the property that is being held for capital appreciation or leased to third parties falls under the definition of an investment property whereas the remaining portion within the same building is being used for admin purposes cannot be classified as investment property.

The same paragraph provides us with guidance on how to go treat this. If the portions can be sold separately, therefore, it is very easy to separate between what is investment property and what is PPE. If the property can easily be subdivided and sold separately, then apportion them according to the value of each property. If we cannot subdivide (sold separately) the buildings, then I have a problem. In such cases, if an insignificant portion is held for use for the production of goods and services, it is to be classified as Investment Property. If only 5% of the total building is being used for admin purposes and the whole building cannot be subdivided, the company might say that 5% is insignificant; such property will be classified as investment property. SO

Determine whether the property can be sold separately, if yes there is no problem, if not you have to determine whether the portion that is being used for admin purposes is significant or not. If it is insignificant, you could recognise such property as investment property. If the portion used for admin purposes is deemed to be significant, you cannot classify such property as investment property. You would have to classify it as PPE.

A hotel is not investment property, as it provides a service, so it has to be classified as Property, Plant and Equipment.

Paragraph 12 talks about this.

Let's say I own a hotel but I am not actively managing it, there is a third party who is managing such hotel. If you lease a hotel to someone to run it, it should be classified as investment property as I am not actively managing the hotel, and I am not earning income from who resides in my hotel, but leasing to third parties to manage, the buildings should be classified as investment property.