



NZ ACCOUNTING
STANDARDS
BOARD

New Zealand Equivalent to International Accounting Standard 40

Investment Property (NZ IAS 40)

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF IAS 40 ISSUED IN DECEMBER 2003
IASB BASIS FOR CONCLUSIONS ON IAS 40 (AS REVISED IN 2003)
IASC BASIS FOR CONCLUSIONS ON IAS 40 (2000)

New Zealand Equivalent to International Accounting Standard 40 *Investment Property* (NZ IAS 40) is set out in paragraphs 1–86. NZ IAS 40 is based on International Accounting Standard 40 *Investment Property* (IAS 40) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 40 should be read in the context of its objective the IASC’s and IASB’s Basis for Conclusions on IAS 40 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (NZ Framework). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Introduction

The Standard prescribes the recognition and measurement of investment property and related disclosure requirements.

In adopting IAS 40 for application as NZ IAS 40 no changes have been made to the requirements of IAS 40 for Tier 1 for-profit entities. Where identified, disclosure concessions have been made available for Tier 2 for-profit entities.

Tier 1 for-profit entities that comply with NZ IAS 40 will simultaneously be in compliance with IAS 40.

Reduced Disclosure Regime

NZ IAS 40 includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 for-profit accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs denoted with an asterisk (*) in this Standard. However, an entity is required to comply with any RDR paragraph associated with a disclosure concession that is adopted.

New Zealand Equivalent to International Accounting Standard 40

Investment Property (NZ IAS 40)

Objective

- 1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

- NZ 1.1** This Standard applies to Tier 1 and Tier 2 for-profit entities.
- NZ 1.2** A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.
- 2** This Standard shall be applied in the recognition, measurement and disclosure of investment property.
- 3** Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in NZ IAS 17 *Leases*, including:
- (a) classification of leases as finance leases or operating leases;
 - (b) recognition of lease income from investment property (see also NZ IAS 18 *Revenue*);
 - (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
 - (d) measurement in a lessor's financial statements of its net investment in a finance lease;
 - (e) accounting for sale and leaseback transactions; and
 - (f) disclosure about finance leases and operating leases.
- 4** This Standard does not apply to:
- (a) biological assets related to agricultural activity (see NZ IAS 41 *Agriculture* and NZ IAS 16 *Property, Plant and Equipment*); and
 - (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Definitions

- 5** The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other New Zealand equivalents to IFRSs, eg NZ IFRS 2 *Share-based Payment*.

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. (See NZ IFRS 13 *Fair Value Measurement*.)

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) 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 business.

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.

Classification of property as investment property or owner-occupied property

- 6 **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.**
- 7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. NZ IAS 16 applies to owner-occupied property.
- 8 The following are examples of investment property:
- (a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
 - (b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
 - (c) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.
 - (d) a building that is vacant but is held to be leased out under one or more operating leases.
 - (e) property that is being constructed or developed for future use as investment property.
- 9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see NZ IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
 - (b) property being constructed or developed on behalf of third parties (see NZ IAS 11 *Construction Contracts*).
 - (c) owner-occupied property (see NZ IAS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
 - (d) [deleted by IASB]
 - (e) property that is leased to another entity under a finance lease.
- 10 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.
- 11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

- 12 In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.
- 13 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.
- 14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.
- 14A Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of NZ IFRS 3 *Business Combinations*. Reference should be made to NZ IFRS 3 to determine whether it is a business combination. The discussion in paragraphs 7–14 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination as defined in NZ IFRS 3. Determining whether a specific transaction meets the definition of a business combination as defined in NZ IFRS 3 and includes an investment property as defined in this Standard requires the separate application of both Standards.
- 15 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

- 16 **Investment property shall be recognised as an asset when, and only when:**
- (a) **it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and**
 - (b) **the cost of the investment property can be measured reliably.**
- 17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.
- 18 Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.
- 19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at recognition

- 20 **An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.**
- 21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.
- 22 [Deleted by IASB]

- 23 The cost of an investment property is not increased by:
- (a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),
 - (b) operating losses incurred before the investment property achieves the planned level of occupancy, or
 - (c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.
- 24 If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.
- 25 **The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of NZ IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.**
- 26 Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on measuring the fair value of a property interest is set out for the fair value model in paragraphs 33–35, 41, 41, 48, 50 and 52 and in NZ IFRS 13. That guidance is also relevant to the measurement of fair value when that value is used as cost for initial recognition purposes.
- 27 One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- 28 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or
 - (b) the entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange, and
 - (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity’s operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.
- 29 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after recognition

Accounting policy

- 30 **With the exceptions noted in paragraphs 32A and 34, an entity shall choose as its accounting policy either the fair value model in paragraphs 33–35 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.**
- 31 NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

32 This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of 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.

32A An entity may:

- (a) **choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and**
- (b) **choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).**

32B Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 32A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

32C If an entity chooses different models for the two categories described in paragraph 32A, sales of investment property between pools of assets measured using different models shall be recognised at fair value and the cumulative change in fair value shall be recognised in profit or loss. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Fair value model

33 After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.

34 When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6 the fair value model shall be applied.

35 A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

36–39 [Deleted by IASB]

40 When measuring the fair value of investment property in accordance with NZ IFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing the investment property under current market conditions.

41 Paragraph 25 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 33 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognised liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with paragraph 20 of NZ IAS 17. Thus, remeasuring a leased asset from cost in accordance with paragraph 25 to fair value in accordance with paragraph 33 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

42–47 [Deleted by IASB]

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 53).

49 [Deleted by IASB]

50 In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

- (a) equipment such as lifts 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 income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.
- (c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.
- (d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). 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.

51 [Deleted by IASB]

52 In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

Inability to measure fair value reliably

53 **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the cost model in NZ IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply NZ IAS 16 until disposal of the investment property.**

53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with NZ IAS 16.

53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

54 In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to measure an investment property using the cost model in accordance with NZ IAS 16, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

55 **If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost model

56 **After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with NZ IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.**

Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with NZ IFRS 5.

Transfers

- 57** Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
 - (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
 - (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
 - (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.
 - (e) [deleted by IASB]
- 58** Paragraph 57(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 sale. 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 (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.
- 59** Paragraphs 60–65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.
- 60** **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with NZ IAS 16 or NZ IAS 2 shall be its fair value at the date of change in use.**
- 61** **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply NZ IAS 16 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with NZ IAS 16 and its fair value in the same way as a revaluation in accordance with NZ IAS 16.**
- 62** Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with NZ IAS 16 and its fair value in the same way as a revaluation in accordance with NZ IAS 16. In other words:
- (a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.
 - (b) any resulting increase in the carrying amount is treated as follows:
 - (i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
 - (ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.
- 63** **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

- 64 The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.
- 65 **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.**

Disposals

- 66 **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 are expected from its disposal.**
- 67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in NZ IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the illustrative examples accompanying NZ IAS 18. NZ IAS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.
- 68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. For investment property accounted for using the cost model, a replacement may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.
- 69 **Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless NZ IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.**
- 70 The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with NZ IAS 18 using the effective interest method.
- 71 An entity applies NZ IAS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.
- 72 **Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.**
- 73 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 investment property are recognised in accordance with NZ IAS 36;
 - (b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;
 - (c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and
 - (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

Disclosure

Fair value model and cost model

- 74 The disclosures below apply in addition to those in NZ IAS 17. In accordance with NZ IAS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance or operating lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.
- 75 **An entity shall disclose:**
- (a) **whether it applies the fair value model or the cost model.**
 - * (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.**
 - * (c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.**
 - (d) [deleted by IASB]
 - (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 profit or loss for:**
 - (i) **rental income from investment property;**
 - (ii) **direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;**
 - (iii) **direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; and**
 - (iv) **the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).**
 - (g) **the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.**
 - (h) **contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**

Fair value model

- 76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall 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 business combinations;**
 - (c) **assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other 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.**

RDR 76.1 A Tier 2 entity is not required to disclose the reconciliation specified in paragraph 76 for prior periods.

RDR 76.2 A Tier 2 entity is not required to disclose separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset in accordance with paragraph 76(a).

***77** When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.

78 In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in NZ IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

- (a) a description of the investment property;
- (b) an explanation of why fair value cannot be measured reliably;
- (c) if possible, the range of estimates within which fair value is highly likely to lie; and
- (d) on disposal of investment property not carried at fair value:
 - (i) the fact that the entity has disposed of investment property not carried at fair value;
 - (ii) the carrying amount of that investment property at the time of sale; and
 - (iii) the amount of gain or loss recognised.

Cost model

79 In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably and measures that investment property using the cost model in NZ IAS 16, it shall also disclose:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used; and
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
 - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - (ii) additions resulting from acquisitions through business combinations;
 - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals;
 - (iv) depreciation;
 - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with NZ IAS 36;
 - *vi** 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;
 - *vii** transfers to and from inventories and owner-occupied property; and
 - (viii) other changes;
- *e** the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:
 - (i) a description of the investment property;
 - (ii) an explanation of why fair value cannot be measured reliably; and
 - (iii) if possible, the range of estimates within which fair value is highly likely to lie.

RDR 79.1 A Tier 2 entity is not required to disclose separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset in accordance with paragraph 79(d)(i).

Transitional provisions

80–84 [Paragraphs 80 to 84 have not been reproduced. The transitional provisions in IAS 40 are not applicable to entities adopting NZ IAS 40].

Business Combinations

84A *Annual Improvements Cycle 2011–2013* issued in December 2013 added paragraph 14A and a heading before paragraph 6. An entity shall apply that amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts that amendment. Consequently, accounting for acquisitions of investment property in prior periods shall not be adjusted. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date if, and only if, information needed to apply the amendment to those earlier transactions is available to the entity.

Effective date

85 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

85A NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition it amended paragraph 62. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

85B Paragraphs 8, 9, 48, 53, 54 and 57 were amended, paragraph 22 was deleted and paragraphs 53A and 53B were added by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were measured at those dates. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to paragraphs 5 and 81E of NZ IAS 16 *Property, Plant and Equipment*.

NZ 85B.1 *Harmonisation Amendments*, issued in April 2011, amended paragraphs NZ 4.1, 30–33, 56, 59, 68, 75 and 79 and deleted paragraphs NZ 33.1, NZ 33.2 and NZ 75.1. These amendments shall be applied for annual reporting periods beginning on or after 1 July 2011. Early application is permitted. If an entity applies these amendments for an earlier period it shall disclose that fact and also apply the relevant amendments to NZ IAS 16 *Property, Plant and Equipment* for the same period.

85C NZ IFRS 13, issued in June 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies NZ IFRS 13.

NZ 85C.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

85D *Annual Improvements Cycle 2011–2013* issued in February 2014 added headings before paragraph 6 and after paragraph 84 and added paragraphs 14A and 84A. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Withdrawal of IAS 40 (2000)

86 [Paragraph 86 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

Appendix A

FRSB Basis for Conclusions – Reinstatement of the cost model option

This Basis for Conclusions accompanies, but is not part of, NZ IAS 40.

- NZBC1 The FRSB has reintroduced the option in IAS 40 *Investment Property* to permit the use of the cost model to account for investment property. Limiting the measurement of investment property to the fair value model maintained consistency with the previous requirements of SSAP-17 *Accounting for Investment Properties and Properties Intended for Sale*. The FRSB sought constituents' views on the proposal to reintroduce the cost model in ED 121 *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand*. The FRSB, after considering the feedback from constituents, confirmed the proposal to reintroduce the cost model to account for investment property, noting that harmonisation with IFRSs and Australian Accounting Standards outweighs the historical preference of not allowing the cost model option for valuing investment property.
- NZBC2 In reaching its view to reintroduce the cost model, the FRSB noted the requirements in paragraph 14 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* regarding changes in accounting policies.
- NZBC3 An entity can change an accounting policy only if the policy is (a) required by an NZ IFRS, or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. This means that an entity can revert from the fair value model to the cost model only when the requirements of paragraph 14 can be met.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 40 *Investment Property*

This table lists the pronouncements establishing and substantially amending NZ IAS 40. The table is based on amendments approved as at 31 December 2015 other than consequential amendments resulting from early adoption of NZ IFRS 15 *Revenue from Contracts with Customers*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 40 <i>Property, Plant and Equipment</i>	Nov 2004	1 Jan 2005 Early application encouraged	1 Jan 2007
<i>Omnibus Amendments</i> (2006-01)	Dec 2006	Early application encouraged	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application encouraged	1 Jan 2009
<i>Improvements to NZ IFRSs</i>	June 2008	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate
<i>Harmonisation Amendments</i>	Apr 2011	Early application permitted	1 July 2011
NZ IFRS 13 <i>Fair Value Measurement</i>	June 2011	Early application permitted	1 Jan 2013
<i>Framework: Tier 1 and Tier 2 For-profit Entities¹</i>	Nov 2012	Early application permitted	1 Dec 2012
<i>Annual Improvements to NZ IFRSs 2011-2013 Cycle</i>	Feb 2014	Early application permitted	1 July 2014
<i>Agriculture: Bearer Plants</i> (Amendments to NZ IAS 16 and NZ IAS 41)	Aug 2014	Early application permitted	1 Jan 2016

Table of Amended Paragraphs in NZ IAS 40

Paragraph affected	How affected	By ... [date]
Paragraph 4	Amended	<i>Agriculture: Bearer Plants</i> [Aug 2014]
Paragraph NZ 4.1	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 5	Amended	NZ IFRS 13 [June 2011]
Paragraph 7	Amended	<i>Agriculture: Bearer Plants</i> [Aug 2014]
Paragraph 8	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 9	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 14A	Added	<i>Annual Improvements to NZ IFRSs 2011-2013 Cycle</i> [Feb 2014]
Paragraph 22	Deleted	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 26	Amended	NZ IFRS 13 [June 2011]
Paragraph 29	Amended	NZ IFRS 13 [June 2011]

¹ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.

Table of Amended Paragraphs in NZ IAS 40		
Paragraph affected	How affected	By ... [date]
Paragraphs 30–33	Amended/Added	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 32	Amended	NZ IFRS 13 [June 2011]
Paragraph NZ 33.1	Amended	<i>Omnibus Amendments (2006-01)</i> [Dec 2006]
Paragraphs NZ 33.1 and NZ 33.2	Deleted	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraphs 36–39	Deleted	NZ IFRS 13 [June 2011]
Paragraph 40	Amended	NZ IFRS 13 [June 2011]
Paragraphs 42–47	Deleted	NZ IFRS 13 [June 2011]
Paragraph 48	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 49	Deleted	NZ IFRS 13 [June 2011]
Paragraph 50	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 51	Deleted	NZ IFRS 13 [June 2011]
Paragraph 53	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 53 and the preceding heading	Amended	NZ IFRS 13 [June 2011]
Paragraph 53A	Added	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 53B	Added	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 53B	Amended	NZ IFRS 13 [June 2011]
Paragraph 54	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 56	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 57	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 59	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 62	Amended	NZ IAS 1 [Nov 2007]
Paragraph 68	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 75	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 75(d)	Deleted	NZ IFRS 13 [June 2011]
Paragraph NZ 75.1	Deleted	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 78	Amended	NZ IFRS 13 [June 2011]
Paragraph 79	Amended	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 79	Amended	NZ IFRS 13 [June 2011]
Paragraph 80	Amended	NZ IFRS 13 [June 2011]
Paragraph 84A	Added	<i>Annual Improvements to NZ IFRSs 2011-2013 Cycle</i> [Feb 2014]
Paragraph 85A	Added	NZ IAS 1 [Nov 2007]
Paragraph 85B	Added	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 85B	Amended	NZ IFRS 13 [June 2011]
Paragraphs NZ 85B.1	Added	<i>Harmonisation Amendments</i> [Apr 2011]
Paragraph 85C	Added	NZ IFRS 13 [June 2011]
Paragraph NZ 85C.1	Added	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]
Paragraph 85D	Added	<i>Annual Improvements to NZ IFRSs 2011-2013 Cycle</i> [Feb 2014]
Appendix A	Added	<i>Harmonisation Amendments</i> [Apr 2011]