



LECTURE 3

CONSOLIDATION CONTINUES...



2. CONSOLIDATION IN YEARS AFTER ACQUISITION

The balance sheets of the two companies at 30 June 2013 were as follows:

	Pink Ltd Tsh'000'	Blue Ltd Ths'000'
Non - Current		
Tangible	240,000	160,000
Investment in Blue Ltd	<u>175,000</u>	<u>-</u>
	415,000	160,000
Current assets		
Stock	50,000	45,000
Debtors	<u>45,000</u>	<u>21,000</u>
	95,000	66,000
Total assets	<u>510,000</u>	<u>226,000</u>
Current liabilities		
Trade creditors	40,000	20,000
Overdraft	<u>5,000</u>	<u>10,000</u>
Total Liabilities	<u>45,000</u>	<u>30,000</u>
Equity		
Ordinary shares @Tzs1, 000	150,000	100,000
Profit and loss reserves	<u>315,000</u>	<u>96,000</u>
	465,000	196,000
Total equity and liabilities	<u>510,000</u>	<u>226,000</u>

Additional information:

1. On 30 June 2011 Pink Ltd purchased the entire share capital of Blue Ltd (100,000 ordinary shares) for Tsh175,000,000.
2. At 30th June 2011 profit and loss reserves of Blue Ltd were Tsh 61,000,000.
3. There was no impairment of goodwill since acquisition.

Required:

Prepare the draft consolidated balance sheet for Pink Ltd and its subsidiary undertaking Blue Ltd as at 30th June 2013.

	Pink Group (100%) Tzs'000'	Non-controlling interest(0%) Tzs'000'
Cost Investment in Blue	175,000	
Less Net assets		
Share capital (Blue)	(100,000)	
P&L Reserve (Blue)	<u>(61,000)</u>	
Goodwill	14,000	

The balance sheets of the two companies at 30 June 2013 were as follows:

	Pink Ltd Tsh'000'	Blue Ltd Tsh'000'	Consolidated Tsh'000'
Non - Current			
Tangible	240,000	160,000	
Investment in Blue Ltd	<u>175,000</u>	<u>-</u>	
	415,000	160,000	
Current assets			
Stock	50,000	45,000	
Debtors	<u>45,000</u>	<u>21,000</u>	
	95,000	66,000	
Total assets	<u>510,000</u>	<u>226,000</u>	
Current liabilities			
Trade creditors	40,000	20,000	
Overdraft	<u>5,000</u>	<u>10,000</u>	
Total Liabilities	<u>45,000</u>	<u>30,000</u>	
Equity			
Ordinary shares @Tzs1,000	150,000	100,000	
Profit and loss reserves	<u>315,000</u>	<u>96,000</u>	
	465,000	196,000	
Total equity and liabilities	<u>510,000</u>	<u>226,000</u>	



3. CONSOLIDATION OF SUBSIDIARIES NOT WHOLLY OWNED

Additional information:

1. On 30 June 2011 Pink Ltd purchased the entire share capital of Blue Ltd (80,000 ordinary shares) for Tsh 175,000,000.
2. At 30th June 2011 profit and loss reserves of Blue Ltd were Tsh 61,000,000.
3. There was no impairment of goodwill since acquisition.

Required:

Prepare the draft consolidated balance sheet for Pink Ltd and its subsidiary undertaking Blue Ltd as at 30th June 2013.

	Pink Group (80%) Tzs'000'	Non-controlling interest(20%) Tzs'000'
Cost Investment in Blue	175,000	
Less Net assets		
Share capital (Blue)	(.....)	
P&L Reserve (Blue)	<u>(.....)</u>	
Goodwill	14,000	
Post Acq Re ()		

Consolidated Income statements

Example 9 (pg 28)

Large Ltd and Small Ltd

The accounts of Large Ltd and Small Ltd for the year to 30 September 2013 are as follows:

	Large Tzs	Small Tzs
Turnover	2,956,000	1,575,000
Cost of sales	<u>(2,217,000)</u>	<u>(925,000)</u>
Gross profit	739,000	650,000
Other expenses	<u>(525,000)</u>	<u>(246,000)</u>
Profit before tax	214,000	404,000
Tax	<u>(107,000)</u>	<u>(202,000)</u>
Profit for the year	<u>107,000</u>	<u>202,000</u>

Consolidated Income statements

- **FROM CLASS DEMO EXAMPLE:**

Thomas Ltd acquired 26,000 ordinary share capital of Johnston Ltd on 1 January 2007 when the reserves of Johnston were TZS 42,000,000. Robertson Ltd acquired 105,000 of the ordinary shares in Thomas Ltd on 30 April 2011. At that date the reserves of Thomas were TZS 120,000,000. The reserves of Johnston at 30 April 2011 were TZS 35,000,000. Draft accounts have been prepared for the three companies as follows

Statement of Financial position as at 31 December 2015

	Notes	Robertson TZS 000	Thomas TZS 000	Johnston TZS 000
Non -Current Assets				
Investments	1	600,000	350,000	100,000
Stock	2	320,000	90,000	20,000
Debtors	3	70,000	30,000	30,000
Bank		65,000	50,000	
		10,000		
		<u>1,065,000</u>	<u>520,000</u>	<u>150,000</u>
Share Capital and Reserves				
Share Capital @TZS 1000	4	400,000	200,000	50,000
Retained Earnings		605,000	180,000	55,000
Total Capital and Reserves		1,005,000	380,000	105,000
Liabilities				
Debentures - 5% 2014			100,000	
Creditors	5	60,000	30,000	30,000
Bank Over draft			10,000	15,000
Total liabilities		60,000	140,000	45,000
Total equities and Liabilities		<u>1,065,000</u>	<u>520,000</u>	<u>150,000</u>

Statement of Financial Operations for the year to 31 December 2015

	Robertson	Thomas	Johnston
	TZS 000	TZS 000	TZS 000
Turnover	1,567,000	885,000	931,000
Cost of sales	(1,000,000)	(682,000)	(590,000)
	567,000	203,000	341,000
Distribution Costs	(210,000)	(97,000)	(170,000)
Administrative Expenses	(120,000)	(60,000)	(85,000)
	237,000	46,000	86,000
Investment Income	23,000	26,000	-
Profit before tax	260,000	72,000	86,000
Tax	(70,000)	(20,000)	(30,600)
Profit for the period	<u>190,000</u>	<u>52,000</u>	<u>55,400</u>



Notes and requirement:

See your Class demo

Consolidates P & L

Notes which directly affect P&L

Sales	150,000	
Cost of sales being internal sales during the year		150,000
Cost of sales	15,000	
Stock being adjustment for unrealised profit		15,000
P/L account (administrative expenses)	27,975	
Goodwill being impairment of goodwill		27,975

STEP 5 - Non-controlling interest in profit for the year

	Thomas TZS 000	Johnston TZS 000
Profit after tax	52,000	55,400
Less: inter-company dividend (40,400 x 65%)	<u>(26,260)</u>	<u>-</u>
	25,740	55,400
Less: adjustment for unrealised profit	<u>(15,000)</u>	<u>-</u>
	10,740	55,400
Preference dividend (100% Non-controlling)	<u>(2,000)</u>	<u>(400)</u>
Profit attributable to ordinary shareholders	8,740	55,000
Ordinary shares Non-controlling interest - %	<u>30%</u>	<u>54.5%</u>
- value	2,622	29,975
Add: preference shareholders' Non-controlling interest	<u>2,000</u>	<u>400</u>
	4,622	30,375
		<u>4,622</u>
Total (see JE 4)		<u>34,997</u>

Robertson Group
Statement of Financial Operation
Year to 31 December 2015

	TZS 000
Revenue (1,567,000+885,000+931,000-150,000)	3,233,000
Cost of Sales (1,000,000+682,000+590,000+15,000-150,000)	<u>2,137,000</u>
	1,096,000
Distribution costs (210,000+60,000+85,000)	(477,000)
Administration expenses (120,000+60,000+85,000+27,975)	(285,975)
Investment income (49,000-48,660)	<u>340</u>
Profit before tax	333,365
Tax	<u>(120,600)</u>
Profit for the period	<u>212,765</u>
 Attributable to:	
Equity shareholders of the parent	177,768
Non-controlling interest	<u>34,997</u>
	<u>212,765</u>



FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION OF FOREIGN OPERATIONS

INTRODUCTION

- Exchange rates effect competitiveness
- A strong / weak currency impacts on exports and imports
- There is arguably no one best position – it depends on the nature of your business
- Businesses that deal in a foreign currency are exposed to risks
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- IAS 29 *Financial Reporting in Hyperinflationary Economies* – to be discussed in another topic

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Objective and Scope

- To set down the manner in which ***foreign currency transactions*** should be brought to account
- To set down the manner in which the financial statements of foreign operations should be ***translated*** for inclusion in the enterprise's financial statements by consolidation, proportionate consolidation or by the equity method

Key definitions

- **Functional Currency**

The currency of the primary economic environment in which the enterprise operates.

- **Presentation Currency**

The currency in which an enterprise presents its financial statements.

- **Closing Rate**

This is the spot exchange rate at the reporting date.

- **Exchange Rate Difference**

This is the difference resulting from translating one currency into another currency at different exchange rates.

- **Monetary and Non Monetary Items**

Monetary items are assets/liabilities held to be received/paid in fixed or determinable amounts. Examples include deferred tax, pensions and provisions. The feature of a non-monetary item is the absence of a right to receive a fixed or determinable amount of money (this includes prepayments, goodwill, intangible assets, inventory and property).

Foreign Currency Transactions

- **Initial Recognition**
 - Each transaction should be translated using the ER on the date the transaction occurred, or if stable, an average rate
 - If certain transactions are to be settled at a specified rate, or are covered by a matching forward contract, then the use 'contracted rate'
- **Reporting at Subsequent Reporting Dates**
 - Monetary items at closing ER (e.g. trade receivables and payables)
 - Non-monetary items measured at Historical Costs (HC) are not re-translated at the reporting date (e.g. non-current assets and inventory)
 - Non-monetary items measured at foreign currency fair value are re-translated at each date of fair value measurement

Recognition of exchange differences

- Those arising on settlement of **monetary items** should be expensed in the period they arise
- Where a gain/loss on a **non-monetary item** is recognised directly in **equity** any exchange component of that gain/loss should be recognised directly in equity
- Conversely when a gain/loss on a **non-monetary item** is recognised **in profit or loss**, any exchange component of that gain/loss should be recognised in profit or loss.
- If a transaction **is settled before** the end of a reporting, then:
 - (i) record the foreign currency transaction in the functional currency at the spot exchange rate at the date of the transaction (an average rate for a period may be used if exchange rates do not fluctuate significantly);
 - (ii) record the settlement at the exchange rate at the date of settlement;
 - (iii) recognise the exchange difference (i.e. (i) minus (ii) in arriving at operating profit in the statement of comprehensive income).

Example 1: Transactions settled at the reporting date

Blue Limited, whose year end is 31 December, buys goods from a foreign company for \$180,000 on 31 July 2015. The transaction is settled on 31 October 2015.

Exchange rates:

31 July 2015 \$1 = TZS 2,200

31 October 2015 \$1 = TZS 2,100

Requirement

Show the journal entries to record the above transaction

Initial recognition:

Dr	P/L – purchases	396,000,000
	Cr Trade payables	396,000,000

*Being initial recognition of goods purchased on credit
(\$180,000 at TZS 2200)*

At settlement:

Dr	Trade Payables	396,000,000
	Cr P/L – Fx Gain (e.g. CoS)	18,000,000
	Cr Cash	378,000,000

Being settlement and recognition of exchange difference

Example 2: Purchase of a non-monetary item

A company purchased a property on 1 January 2015 for \$200,000 (when \$1 = TZS 2050), with the account being settled on 1 March 2015 when the exchange rate was \$1 = TZS 2,350. If the company's year end is after 1 March 2015, then this transaction should be recorded as follows:

At 1 January 2015:

Dr	property	410,000,000	
Cr	S payables		410,000,000

Being initial recognition of property

At 1 March 2015:

Dr	P/L – Fx Loss	60,000,000	
Dr	SFP – payables	410,000,000	
Cr	Bank		470,000,000

Being settlement of liability and recognition of exchange difference

Normal consolidation procedures

- Eliminate IC balances
- Need to translate I/C monetary balances
- **Goodwill treated as asset of foreign operation and translated at CR**

Foreign Subsidiaries

OBJECTIVES


- translate the financial statements of a foreign subsidiary into Tzs so that they are suitable for consolidation; and
- prepare a set of consolidated financial statements including a foreign subsidiary.

Exchange Rate

There are a number of possible exchange rates that can be used to translate the foreign subsidiary accounts.

These include:

- the rate at the balance sheet date (the closing rate);
- the average rate for the period;
- the rate on the day each transaction occurs (the historical rate);
- the rate specified in a contract;
- the rate at the date the subsidiary was acquired; or
- the rate at the date the accounts are approved.



One of these could be used to translate the entire accounts or a combination could be used eg. **closing rate** for the balance sheet, **historical rate** for the profit and loss account.

Presentation of translation differences

- Differences that arise on translation may be taken through the profit and loss account or directly to equity (reserves).
- It is obvious that there are many possible combinations of treatments. IAS 21 prescribes the treatment to be used. It deals with two different situations. The first relates to **individual companies**. The second relates to **consolidated accounts** where the group has one or more foreign subsidiaries and is dealt with below

TRANSLATION METHOD REQUIRED BY IAS 21

- Where the functional currency of the subsidiary is different to the presentation currency of the group. IAS 21 (para 39) requires that the **exchange rates** for translation should be as follows:

- **Balance sheet**

The rate of exchange at the balance sheet date (**the closing rate**)

- **Income Statement**

The **average rate** for the period. The standard actually requires exchange rates at the date of each transaction but for practical reasons allows an average rate (unless exchange rates have fluctuated significantly

Translation differences arising because of changes in exchange rates

- Are taken directly to a translation reserve, not to the profit and loss account
- Are reported in the statement of recognised income and expense
- The translation differences are not recognised as income or expenses as the changes in exchange rates have little or no direct effect on the present and future cash flows from the operations of the foreign subsidiary or the group.
- Non- controlling interest should be **allocated their share of translation** differences (para 41).
- Goodwill is viewed as an asset of the foreign subsidiary and should be retranslated each **year at the closing rate** (para 47).



Example (Net Investment Method)

This example illustrates these differences.

A plc acquired 100% of an American subsidiary, X Inc, on 31.12.14. Balance sheets of X Inc, are as follows:

	\$ 31.12.14	\$ 31.12.15
Net assets	<u>10,000,000</u>	<u>14,000,000</u>
Share Capital	4,000,000	4,000,000
Profit and Loss reserve	<u>6,000,000</u>	<u>10,000,000</u>
	<u>10,000,000</u>	<u>14,000,000</u>
Exchange rates:	31.12.14	\$ = Tzs 1,680
	Average 2015	\$ = Tzs 1,670
	31.12.15	\$ = Tzs 1,665

- No goodwill arose on the acquisition.
- **What translation differences arise in the year to 31 December 2015?**

Net assets at				Net assets at
31.12.14		Profit for year		31.12.15
\$10,000	+	\$4,000	=	\$14,000

The accounts balance in dollars but the amounts when translated into Tzs '000' and consolidated into the group accounts do not:

$$\text{TZS 16,800} + \text{TZS 6,680} = \text{TZS 23,310}$$

The extra amount is (TZS 170)

How has this occurred?

In questions the quick way of calculating is to focus on the opening balances and compare how they are translated this year compared to how they were translated last year, together with a comparison of translated retained profit for the year.

	Current year		Previous year	Difference TZS '000'
Share capital	4,000*1,665	-	4,000* 1,680	
	6,660	-	6720	(60)
P/L reserve	6,000*1,665	-	6,000*1,680	
	9,990	-	10,080	(90)

	Balance sheet P/L			
Profit for the year	4,000*1,665	-	4,000*1,670	
	6,660	-	6,680	<u>(20)</u>
				(170)

Investment Property: IAS 40

- LEARNING OBJECTIVES
- Related standards
- IFRS financial statement examples
- End-of-topic practice

TANGIBLE FIXED ASSETS

- This topic deals with the accounting treatment and disclosure for tangible fixed assets. Accounting for intangible fixed assets, goodwill and leased assets is covered in separately.

- IFRS uses the term '**Property, plant and equipment**' instead of **tangible fixed assets**. The two terms can be used interchangeably.
- The main technical material covered in this topic is found in:
 - IAS 16 Property, plant and equipment
 - IAS 23 Borrowing costs
 - IAS 36 Impairment of assets –Semester 2
 - IAS 40 Investment property

LEARNING OBJECTIVES


- discuss and apply the appropriate accounting treatment for capital expenditure;
- account for the revaluation of tangible fixed assets;
- account for property, plant and equipment in accordance with IAS 16;
- account for investment properties in accordance with IAS 40;
- prepare notes to the accounts for movements in property, plant and equipment, investment properties and borrowing costs;

IAS 16 – PROPERTY, PLANT AND EQUIPMENT

Recognition (para 7-14)

An item of property, plant and equipment should be recognised as an asset when:

- (i) it is probable that future economic benefits associated with the asset will flow to the company; and
- (ii) the cost of the asset can be measured reliably.

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- **Fixed assets acquired for safety or environmental reasons should be capitalised even although they do not directly generate benefits in themselves. Indirectly they allow the company to secure benefits from its other assets.**

Example I

The following information is available concerning CS Ltd in the year to 31 December 2011:

spent Tzs 510,000,000 on new machinery, which was delivered in March 2011; on 2 December 2011 placed an order for 15 new cars costing Tzs 12,500,000 each. The cars will be delivered in February 2012. There are no significant penalties for cancellation; took out an option (at zero cost) to acquire a property for Tzs 15,000,000,000. The option runs until 2014; Spent Tzs 120,000,000 fitting new guards to its production line following a request by the Health and Safety Executive.

Required:

Explain how the above should be treated in the accounts of CS Ltd for the year to 31 December 2011.

Solution

(a) Machinery

This should be capitalised as the company has access to the benefits associated with machinery. The cost can be measured reliably.

(b) Cars

As the cars have not been delivered by the year end and the order could be cancelled, the company does not yet have control over the items. The cars should not be recognised at 31 December 2011.

(c) Option

The option has not and may never be exercised. It does not, in itself, give access to the benefits associated with the property. The property should not be recognised. (The option itself could be recognised as a financial asset but at zero initial cost – financial assets are dealt with in modules).


(d) Guards

The Tzs 120,000,000 should be capitalised as it allows the production line to continue to be used legally.

Measurement at recognition (para 15-22)

This is concerned with establishing costs that can be capitalised. These can include:

- (a) purchase price (including import duties, stamp-duty etc after deducting any trade discounts and rebates, but not settlement discounts).**
- (b) directly attributable costs in bringing the asset to the location and condition necessary for its intended use, including:**
 - Cost of site preparation
 - Initial delivery and handling costs
 - Installation costs
 - Professional fees (eg architects' and legal fees)
 - Testing costs (less net proceeds of sale of any products produced)
 - These costs can include the cost of own labour in constructing or installing an asset. No profit element on own labour should be included

- 
- (c) The initial estimates of the cost of dismantling and removing the item and restoring the site, the obligation for which is incurred either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during the period.**

The issue concerning inventories is that costs relating to production in a particular period should be charged directly as a cost of these goods and not capitalised and spread over a number of years through depreciation.

The following costs should not be capitalised:

- a) costs of opening a new facility;
- b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- c) costs of conducting a new business in a new location (including staff training costs); and
- d) administration and other general overhead costs

Example 2

The following information relates to two fixed assets acquired by Carpenter Ltd during the year to 31 March 2013.


Asset A

Purchased from abroad at invoice price of Tzs 450,000,000. Import duties were an additional Tzs 25,000,000. Installation costs totalled Tzs 28,000,000. The company was granted a discount of Tzs 10,000,000 by the supplier for early payment. Testing the asset cost Tzs 40,000,000 but goods produced during testing were sold for a net profit of Tzs 15,000,000.

Asset B

Construction of this asset started in April 2013 and is scheduled to be completed in August 2014. Payments to external contractors were:

	TZS
30 September 2013	200,000,000
31 December 2013	214,500,000
28 February 2014	210,000,000



A further TZS 75,100,000 was outstanding at the year end. A firm of architects was paid TZS 51,000,000 at the end of January 2014 and consulting engineers were paid TZS 67,900,000 at the end of November 2013.

The company's own staff were used to clear and prepare the site at an additional direct cost of TZS 96,000,000 (half paid at the end of May 2013 and the other half at the end of June 2013). Based on this figure an additional allocation of general overheads of TZS 36,200,000 has been calculated.

Required:

Calculate the cost of each asset as at 31 March 2014.

Solution

Asset A	TZS '000'
Invoice price	450,000
Installation costs	28,000
Import duties	25,000
Testing (40,000 - 15,000)	<u>25,000</u>
Total cost	<u>528,000</u>

The discount for early settlement should not be deducted as it relates to financial settlement rather than the purchase of the asset.

Asset B	TZS '000'
External contractors' costs -paid	624,500
-accrued	75,100
Professional fees -architects	51,000
- engineers	67,900
Own staff	<u>96,000</u>
	<u>914,500</u>

The general overhead allocation is not directly attributable to the construction and should be excluded.

ACCOUNTING FOR INVESTMENT PROPERTIES


- **IAS 40** identifies what an investment property is, how it differs from property, plant and equipment (owner-occupied property); and what recognition, measurement and disclosure standards apply to investment properties

Definition (para 5)

- For the purposes of IAS 40, an investment property is a property (land and/or buildings) held (by the owner or by a lessee under a finance lease) to earn rentals and/or capital appreciation rather than for use in the business or for sale in the ordinary course of business.
- A property held under an operating lease that otherwise meets the definition of an investment property may be classified as an investment property if the fair value model is used (see below).

The following are not investment properties: (para 9):

- 1) property held for sale;
- 2) property being constructed or developed on behalf of a third party;
- 3) owner-occupied property;
- 4) property being constructed or developed to be an investment property. IAS 16 applies until such a property becomes an investment property (i.e. when complete).

- 
- A property owned by one company let to and occupied by another group company is not an investment property for the purposes of the group accounts as at the group level it is owner-occupied. It is an investment property in the company's own accounts if it meets the definition.

Accounting treatment

Recognition

As for IAS 16 – probable inflow of economic benefits and reliable measurement criteria (para 16).

- Subsequent expenditure should be capitalised only if it meets the recognition criteria eg replacement of central cooling system. Other expenditure should be written-off to the profit and loss account as repairs and maintenance.

Subsequent re-measurement

- IAS 40 gives two choices – the **cost model** and the **fair value model**. The model that is chosen as its accounting policy should be applied consistently to **all** its investment properties (para 33). IAS 8 permits changes in policy where the change will result in a more appropriate presentation of transactions and IAS 40 states that it is highly unlikely that a change will be made from the fair value to the cost model.



(a) cost model (para 56)

Property is held at cost and depreciated as normal for IAS 16;

(b) fair value model

- Properties are held at fair value
- if any investment properties are held at fair value, all should be (para 33)
- gains and losses should be taken to profit and loss account (para 35)
- there is a rebuttable presumption that reliable fair values can be ascertained on a continuing basis. If, when a property first becomes an investment property, this is not the case the cost model should be used for the property until it is disposed of.

Example 3

A company has three properties at 31 December 2012. – **Assignment Qn?**

Property A


This has been an investment property for a number of years. It had a fair value of £7.5m at 31 December 2011 and £8.7m at 31 December 2012. Maintenance of the property cost £200,000 during 2012.

Property B

This was bought for £5.1m on 1 August 2012. Legal fees and stamp duty amounted to £300,000. The property was rented to a third party from 1 August 2012 and had a fair value of £5.9m at 31 December 2012.

Property C

This is in the process of being constructed by the company. At 31 December 2012 a total of £7.9m had been spent. The property is expected to be completed in early 2013. A tenant has already been found and the level of rent indicates the property will have a market value of £9.0m.



The policy of the company is to value investment properties at fair value and property, plant and equipment at cost.

Required:

Explain how each of the properties should be treated in the accounts of the company for the year to 31 December 2012.

Transfers

IAS 40 (para 57 – 65) considers two transfer situations:

- 1) Between fixed assets (FA) and investment properties (IP);
- 2) Between investment properties (IP) and inventory (I).

- Transfers can be in both directions for each of the above. Under the **cost model** a transfer does not change the carrying amount of the property ie all transfers are at net book value (carrying amount).

The following should be applied when the **fair value model** is used for investment properties:

1. Transfer of IP at fair value to FA

This could arise where a company decides to occupy a property for its own purposes that it previously rented out as an investment property. Cost of FA is fair value at date of transfer.

2. Transfer of FA to IP to be held at fair value

A company may vacate surplus property and rent it out.

Fair value at date of transfer is used. Difference between cost and this fair value is a revaluation under IAS 16.

Alternatively a company may have engaged a contractor to construct a property to rent out. It cannot be an investment property until it is completed hence it must be included in fixed assets until then.

On the initial transfer of a FA to an IP, following construction being completed, the difference between cost and fair value is taken to the profit and loss account as, in effect, a gain on sale.

3. Transfer of I to IP at fair value

A company may be in the business of constructing properties for sale. While being constructed properties are part of the inventory of the business. If it decides to keep rather than sell a property it will have to be transferred.

Difference between cost and fair value should be taken to profit and loss account as a gain or loss.

4. Transfer of IP to I

A transfer should only be made if the purpose is to redevelop the property for sale. The transfer is at fair value which becomes the cost for accounting purposes. If there is no redevelopment, the IP remains as an IP until the sale. If redevelopment is to an IP which is to be retained as an IP it should remain within IP.



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