BUSINESS ACCOUNTING 300/310 IAS 40: Investment Property Class example solutions – 2025 *A de Wet*	DEPARTMENT OF ACCOUNTING UP

CLASS EXAMPLE 1 – Suggested solution **(14 marks)**

a. Investment property is property (i.e. land and/or buildings – or both) **^** held by the owner, **^** or by the lessee as a right-of-use asset, **^** to earn rentals **^** or for capital appreciation or both, **^** rather than for:

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

b.
TOKEN LIMITED
NOTES FOR THE YEAR ENDED 31 DECEMBER 2010 ^

5. Investment property

	R	
Carrying amount on 1 January 2010	1 378 000	**^**
Net gain on fair value adjustment **^**	6 000	**^**
Transfer to property, plant and equipment **^**	(1 384 000)	**(^)**
Carrying amount on 31 December 2010	–	

6. Property, plant and equipment

	Land R	Buildings R		Total R
Carrying amount on 1 January 2010	–	–		–
Transfer from investment property **^**	1 384 000 **(^)**	–		1 384 000
Additions **^** [W1]	–	3 946 429	**2½**	3 946 429
Depreciation **^** [W2]	–	(16 443)	**1**	(16 443)
Carrying amount on 31 December 2010	1 384 000	3 929 986		5 313 986
Gross carrying amount	1 384 000 **(^)**	3 946 429	**(^)**	5 330 429
Accumulated depreciation	–	(16 443)	**(^)**	(16 443)

WORKINGS
W1.

Cash	3 500 000	**^**
Cash equivalent = PV	446 429	
FV = 500 000**^**		
i = 12**^** (8.64 / 72%)		
n = 1**^**		
Calc PV = 446 429**^**		
(NB 500 000 – 446 429 = interest expense) Total cost capitalised	3 946 429	

W2. 3 946 429 / 20yrs **^** x 1/12 **^**

CLASS EXAMPLE 2 – Suggested solution **(16 marks)**

PRIMEPROP LIMITED
NOTES FOR THE YEAR ENDED 31 DECEMBER 2011

4. Property, plant and equipment

	Land ^ R	Factory ^ building R	Total R	
Carrying amount on 1 January 2011	1 000 000	3 990 000	4 990 000	
Gross carrying amount	1 000 000	5 250 000	6 250 000	**^^**
Accumulated depreciation	–	(1 260 000)	(1 260 000)	
Revaluation surplus **^**	400 000	80 000	480 000	✓✓
Transfer to investment property [W2] **^**	(1 400 000)	(4 000 000)	(5 400 000)	✓
Additions **^**	3 000 000	12 000 000	15 000 000	**^**
Depreciation [W2]+[W3]	–	(470 000)	(470 000)	**2½**
Carrying amount on 31 December 2011	3 000 000	11 600 000	14 600 000	
Gross carrying amount	3 000 000	12 000 000	15 000 000	**^**
Accumulated depreciation	–	(400 000)	(400 000)	**^**

5. Investment property

	R	
Carrying amount at fair value on 1 January 2011	–	
Transfer from property, plant and equipment	5 400 000	**(^)**
Capitalisation of subsequent expenses **^**	980 000	**^**
Net gain on fair value adjustment **^** [6 500 000 – (5 400 000 + 980 000)]	120 000	✓
Carrying amount at fair value 31 December 2011	6 500 000	

11. Profit before tax

Profit before tax is stated after taking the following into account:

	R	
Income:		
Straight-line lease income – investment property **^ [W1]**	560 000	**^**
Expenses:		
Depreciation	470 000	**(^)**
Direct operating expenses – investment property **^**		
- that generated rental income **^**	140 000	**^**

WORKINGS:

W1. 70 000 x 8 months

W2. Premises - Brits

	Buildings R	Land R	Total R	
Cost	5 250 000	1 000 000	6 250 000	
Accumulated depreciation	(1 260 000)	–	(1 260 000)	
Carrying amount – given	3 990 000	1 000 000	4 990 000	
Depreciation 2011 [5 250 000 / 25 x 4/12]	(70 000)	–	(70 000)	✓
Carrying amount 30 April 2011	3 920 000	1 000 000	4 920 000	
Revaluation surplus	80 000	400 000	480 000	
Revalued amount	4 000 000	1 400 000	5 400 000	

W3. Premises – Rosslyn

	Buildings R	Land R	Total R	
Cost	12 000 000	3 000 000	15 000 000	
Depreciation 2011 **From 1 March – 31 December** [12 000 000 / 25 x 10/12]	(400 000)	–	(400 000)	✓^
Carrying amount 31 December 2011	11 600 000	3 000 000	14 600 000	

CLASS EXAMPLE 3 – Suggested solution **(4 marks)**

Deferred tax balance for land as at 31 December 2009 and 31 December 2010

	CA	TB	TD	DT (Dr)/Cr
31/12/2009				
Investment property (Land)	^ 1 378 000	^ 1 350 000	28 000	✓ **6 272**
> Up to cost	1 350 000	1 350 000	-	- (Note 1)
> Above cost	28 000	-	28 000	**6 272** (28 000 x 28% x 80%) (Note 2)
				6 272
31/12/2010				
Land (IP transfer to PPE)	^ 1 384 000	^ 1 350 000	34 000	✓ **7 616**
> Up to cost	1 350 000	1 350 000	-	- (Note 3)
> Above cost	34 000	-	34 000	**7 616** (34 000 x 28% x 80%) (Note 4)
				7 616

Notes:

1) The tax base for land measured in accordance with the cost model is normally R0 (since no future tax deductions are allowed), and this would then create a temporary difference of R1 350 000 which will be exempt in accordance with IAS 12.

   Since the land is classified as **investment property** in accordance with IAS 40, and investment property is accounted for using the **fair value model**, the presumption is that its CA will be recovered entirely through **sale**. As the CA will be recovered through sale, you will get a deduction for the cost in the future when you sell the asset. The tax base would therefore be the cost of the asset of R1 350 000. Therefore, at initial recognition of the investment property, no temporary difference arises.

2) The fair value adjustment of R28 000 (R1 378 000 FV – R1 350 000 cost) will be taxed at the rate of 28% x 80% (CGT rate) as it represents the excess of the asset above the cost of the asset i.e. the **capital gain**.

3) The tax base for land measured in accordance with the cost model is normally R0 (since no future tax deductions are allowed), and this would then create a temporary difference of R1 384 000.

   However, the R1 384 000 would not be exempt, as not all of this difference arose at initial recognition of the asset. Only R34 000 (R1 384 000 FV – R1 350 000 cost) which is taxed at the rate of 28% x 80% (CGT rate) as it represents the excess of the asset value above the cost of the asset i.e. **capital gain**. At initial recognition of the land, the tax base would be R1 350 000 since the fair value model was used for the investment property and the cost was R1 350 000. Therefore, at initial recognition of the land, no temporary difference arise and no exemption applies.

4) The fair value adjustment represents the excess of the asset value above the cost of the asset i.e. **capital gain** and will thus be taxed at the capital gains tax rate (28% x 80%).

CLASS EXAMPLE 4 – Suggested solution **(4 marks)**

Deferred tax balance for land as at 31 December 2010 and 31 December 2011

	CA	TB	TD	DT (Dr)/Cr	
31/12/2010					
Land	^ 1 000 000	^ -	1 000 000	✓ **Exempt** (Note 1)	
31/12/2011					
Investment property (PPE transfer to IP)	^ 1 500 000	^ 1 000 000	500 000	✓ **112 000**	
> Up to cost	1 000 000	1 000 000	-	- (Note 2)	
> Revaluation (**OCI**)	400 000 (1 400 – 1 000)	-	400 000	**89 600** (400 000 x 28% x 80%) (Note 3)	Movement in OCI
> FV adj (**P/L**)	100 000 (1 500 – 1 400)	-	100 000	**22 400** (100 000 x 28% x 80%) (Note 3)	Movement in P/L
				112 000	

Notes:

1) The tax base for land measured in accordance with the cost model is R0 since no future tax deductions are allowed. The temporary difference of R1 000 000 arose on initial recognition of the asset and is exempt in accordance with IAS 12.

2) Since the land is classified as investment property in accordance with IAS 40, and investment property is accounted for using the **fair value model**, the presumption is that its CA will be recovered entirely through **sale**. As the CA will be recovered through sale, you will get a deduction for the cost in the future when you sell the asset. The tax base would therefore be the cost of the asset of R1 000 000. Therefore, at initial recognition of the investment property, no temporary difference arises.

3) The land, which was transferred to investment property on 30 April 2011, was revalued at that point by R400 000 (R1 400 000 – R1 000 000) in the revaluation surplus (OCI) (refer to **W2** in Class example 2).

   The value of the land was adjusted again with R100 000 (R1 500 000 – R1 400 000) at the end of the year due to applying the fair value model for investment property. The fair value adjustment of R100 000 will be recognised in other income (P/L).

   The deferred tax movement will be split and recorded according to where the revaluation surplus and fair value adjustment appears in the SPLOCI. The

R400 000 revaluation is included in "other comprehensive income", so the tax of R89 600 (R400 000 x 28% x 80%) is also included in OCI. Remember that the tax follows the transaction.

The R100 000 fair value adjustment is included in "other income" in the P/L section, so the tax of R22 400 (R100 000 x 28% x 80%) is also included in "income tax expense" in the P/L section. Remember that the tax follows the transaction.

The deferred tax liability at 31 December 2011 amounts to R112 000 (R89 600 + R22 400) as per above table.