MPSAS 16:
Investment Properties

Sarawak State Government

Agenda

Day 1
- Introduction
- Accounting Principles
- First Time Adoption of MPSAS
- Presentation of Financial Statements

Day 2
- Property, Plant and Equipment
- Intangible Assets

Day 3
- Inventories
- Agriculture
- Investment Properties
- Prepayments
- Impairment of Asset

Day 4
- Financial Instrument

Day 5
- Investments
- Grants, Provisions and Contingencies
- Commitments

Day 6
- Revenue
- Construction Contract
- Employee Benefits
- Borrowing Cost

Day 7
- Public Private Partnership
- Lease Accounting

Day 8
- Policies, Estimates & Errors
- Events After Reporting
- Related Party Disclosures
- General Government Sector
- Trust Accounts and Trust Fund

Components & elements of financial statements

	COMPONENTS	MPSAS
1	Statement of Financial Position	MPSAS 1
2	Statement of Financial Performance	MPSAS 1
3	Statement of Changes in Net Assets/Equity	MPSAS 1
4	Cash Flow Statement	MPSAS 2
5	Statement of Budget Performance	MPSAS 24
6	**Notes to the Financial Statements**	Various MPSAS

- Financial statement is to be prepared in accordance with the accounting principles

MPSAS 16
Investment properties (IP)

Properties (land or buildings) that are:

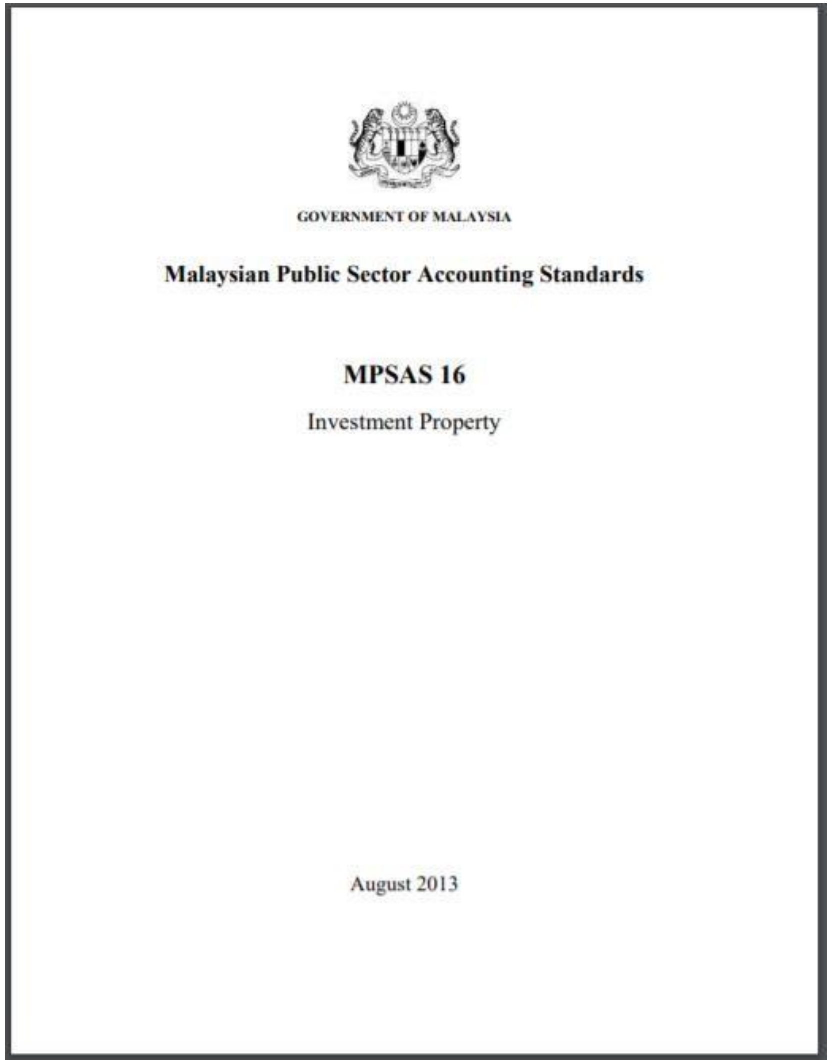
- held to earn rentals, or
- for capital appreciation, or
- both

Not for:

- Use in production or supply of good/services or administrative purposes
- Sale in ordinary course of business

If owned asset or finance lease assets meets definition of ‘investment property’, must be shown separately on face of statement of financial position

Effective Date : 1 January 2017


GOVERNMENT OF MALAYSIA

Malaysian Public Sector Accounting Standards

MPSAS 16

Investment Property

August 2013

Scope of IP

Included

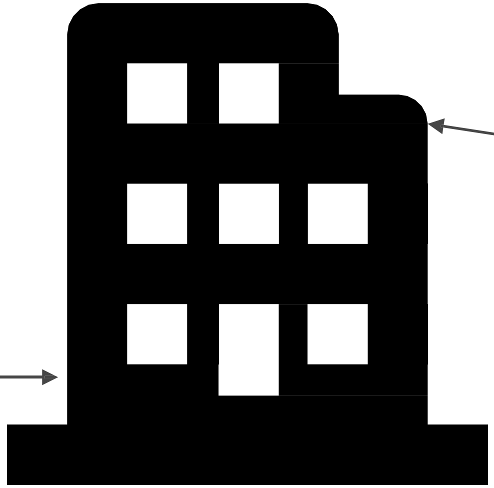
- Land held for long-term capital appreciation
- Land whose future use has not yet been determined.
- A building owned (or held under a finance lease) and leased out under an operating lease on a commercial basis to external parties.
- A building that is vacant, but held to be leased out under an operating lease
- Property that is being constructed or developed for future use as investment property.

Excluded

- Property intended for sale in the ordinary course of business or for development (for example, agricultural) and resale;
- Property under construction for third parties;
- Owner-occupied property, including property held for such use or for redevelopment
- Property occupied by employees
- Owner-occupied property awaiting disposal; and
- Property that is leased to another entity under a finance lease.

State purchase a new building for the purpose of administrative and commercial used

Several rooms in the building will be used by State as training centre



Most of the space is leased (operating lease) to a statutory body to operate as a learning institution

The building should be recorded as investment property

Yes

Since the portion could be sold separately (or leased out separately under a finance lease), account for the portions separately.

Initial recognition & Measurement of IP

Exchange transactions

Purchase Price

+

Any directly attributable costs eg. professional fees for legal services, property transfer taxes and other transaction costs

Non-exchange transactions

Investment properties shall be measured at fair value as at date of acquisition.

Subsequent measurement of IP

Accounting Policy

Cost Model

Original cost @ date of acquisition

Less

Accumulated **depreciation** and accumulated **impairment losses** (to reflect the reduction of IP's future economic benefit or service potential due to wear, aging or other factors)

Except for freehold land

=

Item's carrying amount

What if there is a change in measurement policy?

Cost model → Fair value* model

Consistently apply until disposal, owner-occupied or change in business operation

*** *Fair value = amount at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in arm's length transaction***

Where the accounting policy is changed to that of the fair value model, the treatment would be as follows:

- Measure at fair value unless the fair value is not reliably determinable on a continuous basis.
- Gain or loss arising from the change in the fair value is recognised in the surplus or deficit for the period in which it arises
- A property interest held by lessee under an operating lease may be classified and accounted for as investment property if it meets the definition of investment property and the use of fair value model is mandatory

What if there is change in use?

- Transfers to or from investment property shall be made when:

1. Commencement of owner-occupation

   Investment Property → Owner-occupied property

2. Commencement of development with a view to sale

   Investment Property → Inventories

3. End of owner-occupation

   Owner-occupied property → Investment Property

4. Commencement of an operating lease (on a commercial basis) to another party

   Inventories → Investment Property

If IP uses **cost model**, then no changes in carrying amount and cost

If IP uses **fair value**, then property value is the FV at the date of change in use

If owner-occupied becomes IP that will be carried at **fair value**, the difference in FV will be treated like revaluation in MPSAS 17.

Disposals of IP

- The carrying amount of IP shall be derecognised:
  - On disposal; or
  - Permanently withdrawn and no future economic benefits or service potential is expected from its use or disposal
- The gain or loss arising from the disposal of an IP shall be included in Statement of Financial Performance as surplus or deficit when the item is derecognised
- Gains shall not be classified as revenue. Account as other income. Represents difference between net disposal proceeds and carrying amount of IP

Purchase of IP and its subsequent measurement

Illustrative Example (Scenario 1)

- In 20X3, an entity purchased a plot of land on the outskirts of a major city for RM100,000.
- The area has mainly low-cost public housing and very limited public transport facilities.
- The State has plans to develop the area as an industrial park in 5 years time and the land is expected to greatly appreciate in value if the State proceeds with the plan.
- The entity has not decided what to do with the property.

Classify as investment property

How shall the entity classify the land purchased and record the journal entries?

Purchase of IP and its subsequent measurement

Illustrative Example (Scenario 1)

1) To record the purchase of an investment property

The property should be classified as an investment property. Although the entity has not determined a use for the property after the park's development takes place, in the medium-term the land is held for capital appreciation

DR/CR	Account description	Amount (RM)
DR	Investment property	100,000
CR	Cash	100,000

Purchase of IP and its subsequent measurement

Illustrative Example (Scenario 1)

2) To record the measurement of investment property after its initial recognition

The fair value of the investment property is RM110,000 in 20X4.

a) Cost model

The gain (RM110,000 – RM100,000 =RM10,000) is not recognised. Instead, the investment property is depreciated regularly at RM10,000 (RM100,000/10 years, assuming a useful life of 10 years).

DR/CR	Account description	Amount (RM)
DR	Depreciation expense	10,000
CR	Accumulated depreciation	10,000

In addition, the investment property is regularly assessed for impairment.

The same journal entry is applicable for similar scenarios for property, plant and equipment. Refer to Property, plant and equipment, Scenario 10 for further details.

Purchase of IP and its subsequent measurement

Illustrative Example (Scenario 1)

b) Fair value model

The gain (RM110,000 – RM100,000 =RM10,000) is recognised as a surplus during the period. This increases the value of the investment property to RM110,000 in the statement of financial position. Similarly, should there be a loss, the loss will be recognised in the current year surplus or deficits.

DR/CR	Account description	Amount (RM)
DR	Investment property	10,000
CR	Gain on change in fair value (P&L)	10,000

Swap of land with loan

Illustrative Example (Scenario 2)

- An entity issued loan amounting to RM50,000 to a third party.
- At the maturity of the loan, the third party settled its obligation by providing a land to the entity.
- The land is valued at RM40,000 and deemed to be classified as an investment property.

How shall the entity record the journal entries for the swap?

Swap of land with loan

Illustrative Example (Scenario 2)

1) To record the issuance of loan

The entity recognises the loan receivable of RM50,000 and reducing the cash account of RM50,000.

DR/CR	**Account description**	**Amount (RM)**
DR	Loan receivable	50,000
CR	Cash	50,000

Swap of land with loan

Illustrative Example (Scenario 2)

2) To record repayment of loan by providing a land to the entity

Since the fair value of the land is less than the value of the loan receivable, the loss on swap is recognised in the current year surplus or deficits. In addition, the land account is debited as soon as the ownership of the land is transferred to the entity and the outstanding loan receivable amount is reduced.

DR/CR	Account description	Amount (RM)
DR	Investment property	40,000
DR	Loss on land swap	10,000
CR	Loan receivable	50,000

Non-monetary exchange of investment property assets (with commercial substance)

Illustrative Example (Scenario 3)

- An entity exchanges a plot of government-owned land (Land A) for its neighbouring plot of land (Land B) with an outside party who owns Land B.
- Land B's fair value to the entity was RM200,000 while its carrying cost for Land A was RM190,000.
- The transaction is assumed to have commercial substance.

How shall the entity record the journal entries for the swap and what is the value of the exchanged assets?

Non-monetary exchange of investment property assets (with commercial substance)

Illustrative Example (Scenario 3)

1) To record the exchange of Land A for Land B

The exchange of lands is a non-monetary exchange. As the configuration of the cash flows potential of the Land A differs from the configuration of the cash flows potential of the Land B, the exchange transaction has commercial substance.

As a result, the cost of Land B is measured at fair value, leading to recognition of RM10,000 gain on exchange of Land A. The fair value of Land B would be recognised if Land A's fair value is less reliable.

DR/CR	**Account description**	**Amount (RM)**
DR	Investment property (Land B)	200,000
CR	Investment property (Land A)	190,000
CR	Gain on exchange	10,000

Disclosures

The State Government of Sarawak
Statement of Financial Position
As at 31 December 20X2

Statement of financial position As at 31 December, 20X2	Notes	20X2 RM'000	20X1 RM'000
Assets			
Current assets			
Cash and cash equivalents	3	xx	xx
Recoverable from taxes and transfers	4	xx	xx
Receivables	5	xx	xx
Inventories	6	xx	xx
Other receivables		xx	xx
Other current assets		xx	xx
Total current assets		xx	xx
Non-current assets			
Recoverable from taxes and transfers	4	xx	xx
Receivables	5	xx	xx
Investments in controlled entities	7	xx	xx
Investments in associates	8	xx	xx
Investments in joint ventures	9	xx	xx
Other financial assets	10	xx	xx
Property, plant and equipment	11	xx	xx
Investment properties	12	xx	xx
Intangible assets	13	xx	xx
Other receivables		xx	xx
Total non-current assets		xx	xx
Total assets		xx	xx

Disclosures (cont'd)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the State. It does not include property held primarily for strategic purposes or to provide a social service even though such property may earn rentals or appreciate in value. Such property is classified as property, plant and equipment.

Investment property is measured initially at its cost, including professional fees for legal services, property transfer taxes, and other transaction costs.

After initial recognition, investment property is stated at cost less any accumulated depreciation and impairment losses. Investment property is depreciated on the straight-line basis to allocate the cost to their residual values over their estimated useful lives of [ ] to [ ] years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the State and the cost of the item can be measured reliably. All other repairs and maintenance costs are

- Whether it applies the fair value or the cost model
- If apply cost method, disclose
  - The depreciation methods used;
  - The useful live or the depreciation rates used;

Disclosures (cont'd)

Note 12: Investment properties

	20X2 RM'000	20X1 RM'000
Cost		
As at 1 January	xx	xx
Additions	xx	xx
Disposals	(xx)	(xx)
Reclassification	xx	xx
Write off	(xx)	(xx)
As at 31 December	xx	xx
Accumulated depreciation		
As at 1 January	xx	xx
Depreciation charge for the year	xx	xx
Disposals	(xx)	(xx)
Write off	(xx)	(xx)
As at 31 December	xx	xx
Accumulated impairment losses		
As at 1 January	xx	xx
Impairment charge for the year	xx	xx
Reversal	(xx)	(xx)
As at 31 December	xx	xx
Carrying amount		
As at 31 December	**xx**	**xx**

The fair value of the investment properties held by the State amounted to RM[ ] (20X1: RM[ ]).

An entity that applies cost model shall disclose:

- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period
- Reconciliation of the carrying amount of investment property at the beginning and end of the period (Additions, disposals, reconciliation, depreciation, impairment, forex changes, reclassification to owner occupied or vice versa, other changes)

Disclosures (cont'd)

Note 12: Investment properties (continued)

All investment properties are let under operating leases to third parties from which the State earned rental income of RM[ ] (20X1: RM[ ]) during the year. Direct operating expenses (including repairs and maintenance) arising from these investment properties of RM[ ] (20X1: RM[ ]) were incurred during the year.

No investment properties were pledged as securities as at the reporting date.

a) The amounts recognised in surplus or deficit for:
   - Rental revenue from investment property;
   - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue;
   - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue;

a) The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal; and

b) Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.