PSASB

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

INVESTMENT PROPERTY

Guideline, IPSAS 16

2023

MESSAGE FROM THE CEO

Since the gazettement of PSASB in 2014, there has been major improvements in financial reporting. Entities have consistently sought to improve the financial reports that they prepare and submit for audit by the Office of the Auditor General.

Over the years, the Board has also continued to issue new financial reporting templates for various sectors majority of which are IPSAS Accrual based templates. Additionally, the Board is looking to transition National and County Government entities reporting on cash basis of accounting to the accrual basis of accounting in a bid to enhance accountability and transparency in the public sector.

The developments in reporting requirements have necessitated the Board to come up with innovative ways to disseminate knowledge to the users and preparers of financial statements so as to ensure continuous improvement of the financial reports prepared. The engagements with the preparers of financial statements through various platforms and review of the financial statements through Fire Award has provided an indication of areas where the preparers face challenges in applying standards as they prepare the financial statements.

One of the strategic objectives of the Board is to enhance skills and knowledge in financial reporting. It is on the strength of this objective that this guideline has been prepared so as to act as a guide for the users. IPSAS 16; Investment Property Guideline will be of help to the users and preparers of financial statement as it offers a summarized guide on how to treat the investment property that an entity owns. This guideline is geared to provide a high-level understanding of key concepts on the standard and therefore it is not intended to replace the standard. It is my pleasure to issue this guideline with a view that it will provide more clarity on your understanding and application of IPSAS 16.

CONTENTS

1. Introduction	**3**
2. Scope	**3**
2.1 Scope of IPSAS 16	3
2.2 Scope in the Kenyan Context	3
2.3 Examples of Investment Properties	3
3. Recognition	**4**
3.1 Measurement at Recognition	4
3.2 Measurement After Recognition	4
3.2.1 Fair Value Model	4
3.2.2 Cost Model	4
3.3 Transfers.	5
3.4 Derecognition	5
4. Disclosure	**5**
4.1 Fair Value Model and Cost Model	5
4.2 Fair Value Model.	5
4.3 Cost Model	6
5. Illustrative Examples and Commonly asked Questions	**6**
6. Transitional Provisions	**11**
6.1 Initial Adoption of Accrual Accounting	11

1. Introduction.

International Public Sector Accounting Standard (IPSAS) 16, “Investment Property,” replaces IPSAS 16, “Investment Property” (issued December 2001), and should be applied for annual reporting periods beginning on or after January 1, 2008.The objective of this International Public Sector Accounting Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

2. Scope

2.1 Scope of IPSAS 16

- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 16 in accounting for Investment Property.
- IPSAS 16 applies to all public sector entities other than Government Business Enterprises.
- IPSAS 16 applies to accounting for investment property including its measurement and disclosure.
- IPSAS 16 does not apply to biological assets related to agricultural activity and Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

2.2 Scope in the Kenyan Context

IPSAS 16 is applicable to the following categories of entities in Kenya:

1. National Government State Corporations and Semi- Autonomous Government Agencies that apply the IPSAS Accrual Basis of Accounting. Entities most likely to apply this Standard under this category are the Public Universities.
2. County Government State Corporations and Semi- Autonomous Government Agencies that apply the IPSAS Accrual Basis of Accounting.

In assessing whether this standard is applicable, entities should consider whether the property (land or building or part of a building or both) is held for capital appreciation, to earn rentals or both. If a building is used by an entity in the production or supply of goods or for administrative purposes, then it is considered to be an owner- occupied property and not an investment property and therefore should be accounted for under IPSAS 17- Property, Plant and Equipment.

2.3 Examples of Investment Properties

a) Land held for capital appreciation rather than short-term sale in the ordinary course of business.
b) Land held for a currently undetermined future use.
c) A building held for commercial purposes e.g a university that holds a building that it leases on commercial basis to external parties.

d) Building that is vacant but is held to be leased out.
e) Property under construction or development to be used in future as an investment property.
f) Hotel/ hostel.

3. Recognition

Investment property shall be recognized as an asset when, and only when:

(a) It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and

(b) The cost or fair value of the investment property can be measured reliably.

3.1 Measurement at Recognition

a) Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

b) Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

c) 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.

d) The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IPSAS 17. At that date, the property becomes investment property, `and IPSAS 16 applies.

3.2 Measurement After Recognition

An entity shall choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all its investment property.

3.2.1 Fair Value Model

After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

3.2.2 Cost Model

After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

3.3 Transfers

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.
d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
e) End of construction or development, for a transfer from property in the course of construction or development (covered by IPSAS 17) to investment property.

3.4 Derecognition

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

4. Disclosure

4.1 Fair Value Model and Cost Model

An entity shall disclose whether it applies the fair value or the cost model.

4.2 Fair Value Model.

An entity that applies the fair value model 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 recognized in the carrying amount of an asset.

b) Additions resulting from acquisitions through entity combinations.

c) 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.

g) Other changes.

4.3 Cost Model

An entity that applies the cost model shall disclose:

(a) The depreciation methods used.

(b) The useful lives or the depreciation rates used.

(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 recognized as an asset.
- (ii) Additions resulting from acquisitions through entity combinations.
- (iii) Disposals.
- (iv) Depreciation.
- (v) The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21.
- (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.
- (viii) Other changes.

(e) The fair value of investment property. In the exceptional cases cannot determine the fair value of the investment property reliably, the entity shall disclose:

- (i) A description of the investment property.
- (ii) An explanation of why fair value cannot be determined reliably.
- (iii) If possible, the range of estimates within which fair value is highly likely to lie.

5. Illustrative Examples and Commonly asked Questions

5.1 Fair value

Entity A acquired an office building which will be using to generate rent income. Entity A acquired this property in exchange for a Store house. On transaction date, the fair value of the office building was Kshs. 400,000, and the fair value of the Store house was Kshs. 350,000; the carrying amount(NBV) of the store house was Kshs. 300,000.

Solution

The Entity is to initially recognise the office building acquired at its fair value of Kshs. 400,000.

The following journal is to be recorded:

Description	Debit	Credit
	Kshs	**Kshs**
Investment Property (Office Building)	400,000	
Store house		300,000
Gain on exchange of assets		100,000
Being recognition of office building at its fair value		

If Entity A is unable to reliably measure the fair value of the office building, then the office building is to be initially recognised at the fair value of the Store house exchanged. In this case the journal entries would be as follows:

Description	Debit	Credit
	Kshs	**Kshs**
Investment Property (Office Building)	350,000	
Store house		300,000
Gain on exchange of assets		50,000
Being the recognition of the Office Building at the warehouse's fair value		

If Entity A is not able to reliably measure the fair value of both the office building and the Store house, then the office building is to be initially recognized at the carrying amount of the Store house exchanged. In this case the journal entries would be as follows:

Description	Debit	Credit
	Kshs	**Kshs**
Investment Property (Office Building)	300,000	
Store house		300,000
Being the recognition of the Office Building based on the warehouse's carrying amount.		

5.2 Changes in fair value

A Government department acquires an investment property for Kshs.250,000 and incurs transaction costs amounting to Kshs. 10,000. At the reporting date, an independent appraiser establishes the fair value of the property at Kshs. 255,000.

Solution

The initial cost of the property will amount to KShs. 260,000 (Kshs. 250,000 + Kshs 10,000). A loss of Ksh.5,000 (Kshs.260,000 – Kshs 255,000) is recognised in surplus or deficit. This is not impairment but a fair value adjustment. The journal entries shall be as follows:

Initial recognition and measurement

Description	Debit	Credit
	Kshs	**Kshs**
Investment Property	260,000	
Bank		260,000
Being the recognition of the investment property at the acquisition date		

Subsequent measurement

Description	Debit	Credit
	Kshs	**Kshs**
Fair Value loss (surplus/ deficit)	5,000	
Investment Property		5,000
Being the recognition of the fair value adjustment of investment property		

5.3 Transfers

An entity started to restructure its operations in October 2013. Previously the entity acquired property that was held for capital appreciation and to earn rentals.

On 1st July 2013, An entity moved its offices into one of the office buildings that were held as investment property at fair value. The carrying amount of this property (as valued on 31 December 2012) was Kshs.350,000 and the fair value on transfer date was Kshs.400,000.

The entity decided to develop some of its property to build 24 houses with the objective to sell (hence becomes classified as inventories).

On 20th June 2014 development started on the first 15 houses (therefore transfer from investment property to inventories). The carrying amount (as at 31 December 2013) of the houses was Kshs.170,000 each and the fair value on transfer date was Kshs.165,000 each.

On the 15th July 2014 development started on the remaining 9 houses. The carrying amount (as at 31 December 2013) was Kshs. 170,000 each and the fair value on transfer date was Kshs.172,000 each.

Solution

Transfer from Investment Property to Property, Plant and Equipment – now owner-occupied. From the transaction date (1 July 2013) the Property, Plant and Equipment should be recognised in terms of IPSAS 17 and the cost shall be Kshs. 400,000. The following are the journal entries:

1st July 2013	Debit	Credit
	Kshs	**Kshs**
Property plant and equipment (PPE)	400,000	
Investment Property (IP)		350,000
Fair value adjustment in surplus or deficit		50,000
Being transfer of property from IP to PPE		

Transfer from Investment Property to Inventories – the first 15 houses developed by the department, recognised as per IPSAS 12 Inventories, at a value per house of Kshs.165,000. The following are the journal entries:

20th June 2014	Debit	Credit
	Kshs	**Kshs**
Inventories (Kshs 165,000 * 15 houses)	2,475,000	
Investment Property (IP) (Ksh.170,000 * 15)		2,550,000
Fair value adjustment	75,000	
Being transfer of property from IP to Inventories		

Transfer from Investment Property to Inventories – the remaining 9 houses developed by the department, recognized as per IPSAS 12 Inventories, at a value per house of KShs.172,000. The following are the journal entries:

15th July 2014	Debit	Credit
	Kshs	Kshs
Inventories (Kshs 172,000 * 9 houses)	1,548,000	
Investment Property (IP) (Ksh.170,000 * 9)		1,530,000
Fair value adjustment		18,000
Being transfer of property from IP to Inventories		

5.4 What is the regularity of valuation under the fair value model?

The use of fair value is construed to mean that fair value can be determined on a continuing basis. Fair value is time specific as of a given date. IPSAS 16 requires that the fair value of an investment property shall reflect market conditions at the reporting date. This therefore means that fair value determination for investment property should be made at each reporting date.

5.5 Must I use a registered valuer to value the Investment Property?

IPSAS 16 encourages but does not require an entity to determine the fair value of investment property based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

5.6 What consideration do I make before electing to use the cost model versus the fair value model?

i. Regularity of valuations.
ii. Volatility of the surplus or deficit.
iii. Ease of adherence to the standards.
iv. Objective of information to users of financial statements.

5.7 How do I determine a property is an investment property if part of it is being used for administrative purposes?

If the 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.

6. Transitional Provisions

6.1 Initial Adoption of Accrual Accounting

a) An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize investment property at cost or fair value.

b) For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.

c) The entity shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with International Public Sector Accounting Standards.

Disclaimer:

This guideline has been prepared as a guidance to public sector entities in Kenya for implementation of IPSAS 16. However, it does not serve as an advisory or complete standard documentation of Investment Properties or a replacement of IPSAS 16. For further engagements on IPSAS 16 reach out to us on:

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