TOPIC 2.6: INVESTMENT PROPERTY

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding Investment Property. The FSOP's are drafted in the following categories:

2.6.1 Overview of the accounting for Investment property
2.6.2 Identification of Investment Property
2.6.3 Procedures relating to the recognition and initial measurement of Investment Property
2.6.4 Measurement of Investment Property subsequent to initial recognition
2.6.5 Other procedures over the useful life of the Investment Property
2.6.6 Procedures relating to transfers and disposals of Investment Property
2.6.7 AFS disclosure requirements
2.6.8 Exemptions related to the implementation of IAS 40.

2.6.1 OVERVIEW OF THE ACCOUNTING FOR INVESTMENT PROPERTY

When accounting for investment property the municipality must ensure that the necessary finance standard operating procedures are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	Section FSOP
• **Identification of Investment Property (IP).** The municipality must ensure that all land and buildings under its control are identified and that the fixed asset register is updated with this information to compile a **complete listing** of all land and buildings under its control. Thereafter the Investment Property can be determined and extracted from this list.	**Section 2.6.2**
• After IP has been identified and classified as such ensure that it is **initially recognised and measured in accordance with the FSOP's.**	**Section 2.6.3**
• After IP has been initially recognised and measured the municipality must ensure that **subsequent expenditure** is only capitalised if future economic benefits or service potential over the total life of the investment property**, in excess of the most recently assessed standard of performance of the existing investment property**, will flow to the municipality. Furthermore the municipality must decide on whether IP will in future be reflected at **fair value or at cost price less accumulated depreciation.**	**Section 2.6.4**
• **An investment property register** needs to be maintained by the municipality.	**Section 2.6.5**
• The municipality must ensure that any IP **that is disposed of** is treated in accordance with the requirements of IAS 40. Furthermore the municipality should at each financial year end assess its **intention or use** in respect of land and buildings classified as PPE, inventories, or IP and ensure that the land and buildings **are transferred** to the correct classification of land and buildings, based on its **intention or change in use** of the land and buildings.	**Section 2.6.6**
• The municipality must ensure that all **disclosure requirements for IP as listed in IAS 40** are met.	**Section 2.6.7**
• **Exemptions related to the implementation of IAS 40.** A number of exemptions from the requirements of IAS 40 have been offered to high capacity municipalities (HCM), medium capacity municipalities (MCM) and low capacity municipalities (LCM) by NT. The requirements have been discussed in full from section 2.6.2 onwards, but the exemptions are listed here to provide guidance to municipalities implementing this standard on a piecemeal basis: **EXEMPTIONS – 30 JUNE 2008** ➢ Any HCM that prepares its AFS in accordance with GRAP for the year ending 30 June 2008, need not account for IP in terms of the requirements of IAS 40, if it accounts for IP in accordance with the requirements of GAMAP 17. ➢ Any HCM applying IAS 40 in its 30 June 2008 AFS and showing IP at cost less accumulated depreciation need not disclose fair value of the IP in the notes to the AFS. ➢ MCM and LCM can prepare IMFO AFS for 2008, and therefore ignore IAS 40 in totality, but if they prepare GRAP AFS the same exemptions listed in the two bullet points above apply to them.	**Section 2.6.8**

Category	Section FSOP
EXEMPTIONS – 30 JUNE 2009 ➢ All HCM and MCM must for the year ending 30 June 2009 comply with all the requirements of GRAP 16 on Investment property and must restate the comparative figures. Transitional provisions discussed in section 2.6.8 may be applied. ➢ LCM can prepare IMFO AFS for 2009 and therefore ignore GRAP 16 and IAS 40 in totality. If however the LCM opts to prepare GRAP AFS for 30 June 2009, it must comply with all the requirements of **GRAP 16** on Investment property.	

2.6.2 IDENTIFICATION OF INVESTMENT PROPERTY

Investment property is land and/or buildings (or part of a building) held to earn rentals and/or capital appreciation and is distinguished from property, plant and equipment that are occupied and used by the municipality.

Owner occupied property is land or buildings (or both) held by an owner or by a lessee under a finance lease for use in supply of goods and services or for administration use.

Investment property is also not land and/or buildings held for sale in the ordinary course of business. As the definition implies, the intention is to earn a return on the investment made in the asset and to benefit from capital appreciation. Houses to employees, hostels, etc will not qualify as investment property as the primary objective of these facilities are to provide a service, e.g. housing, sport and recreation rather than to earn rental revenue or capital appreciation (or both).

In general, investment property will entail property leased under an operating lease to a lessee, where the municipality acts as lessor. Property leased under a finance lease will however not qualify as investment property (as the property is "sold" to the lessee).

A property constructed by the municipality that will be held as an investment property should not be treated as such until it is ready for its intended purpose (i.e. until it meets the definition of investment property). Until such time, it should be accounted for according to GRAP 17 (previously GAMAP 17). Similarly, property being constructed on behalf of a third party does not constitute investment property and should be accounted for as a construction contract in terms of GRAP 11. Properties held for sale in the ordinary course of business should be recognised as inventory and accounted for in terms of GRAP 12 (previously GAMAP 12).

It should be clear from the above that the classification of land and/or buildings (or part of a building) as investment property depends on the *intention* of management and therefore requires judgement to determine whether a property qualifies as investment property. Criteria therefore have to be developed to ensure that judgement is exercised consistently.

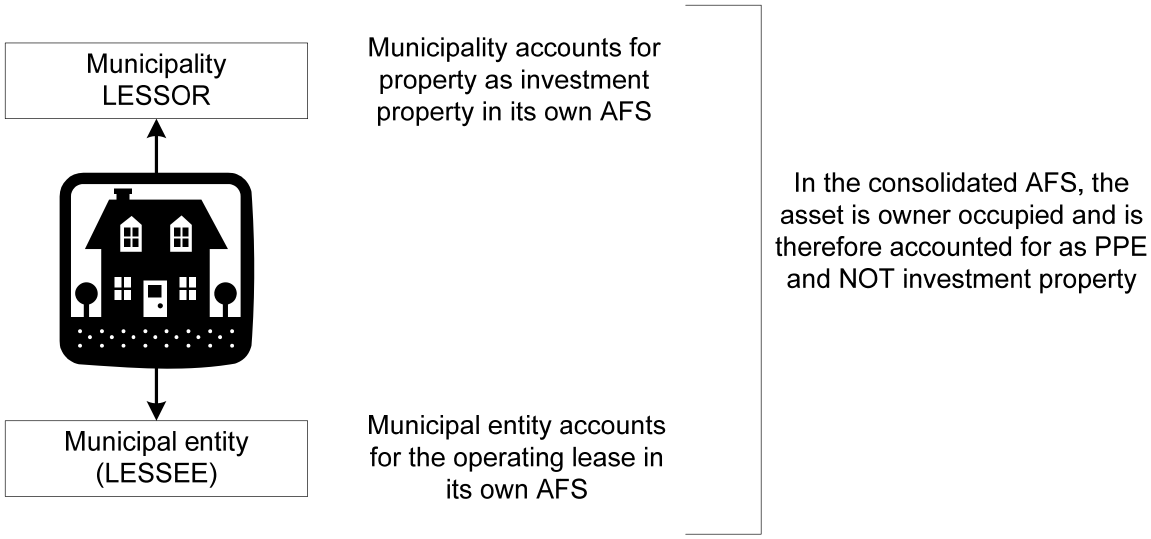
Examples of property that <u>would be</u> classified as investment property	**Examples of property that <u>would not be</u> classified as investment property**
• Property held for long-term capital appreciation; • Property leased out to another party under an operating lease; • Vacant property held for the purpose of leasing it in the future; and • Land and buildings held for undetermined use	• Property that is leased out to another party under a finance lease; • Property held for sale in the ordinary course of business; • Property that is owner occupied; • Property that is in the process of being constructed or developed.

In practice, the classification of an asset as either PPE or investment property is complicated when the asset is used both for investment and administrative purposes. Separate accounting can only be applied if it is possible for the portions to be sold separately or leased out separately under a finance lease.

For example, a municipality might own a four storey office building and only use the bottom two floors for its administrative function, whist renting out the upper two floors. If the municipality could sell floors separately or lease them out on a finance lease, it should treat the lower half of the building as PPE (owner occupied property) and the upper half as investment property.

Where the portions cannot be sold or leased out separately, the property is only classified as investment property if an insignificant portion is used for service delivery or administrative purposes. It will not be permissible to apportion the property between an “investment” and an “owner occupied” element. Either the whole building is treated as investment property or as owner occupied property. There is no guidance in the standard as to what constitutes a “insignificant” portion, this is left to the discretion of management based on the specific circumstances of each transaction.

Property that a municipality owns and which is occupied by a municipal entity (or vice versa) cannot be classified as investment property in the consolidated financial statements. From the perspective of the economic entity, the property is owner occupied and should be treated as PPE.



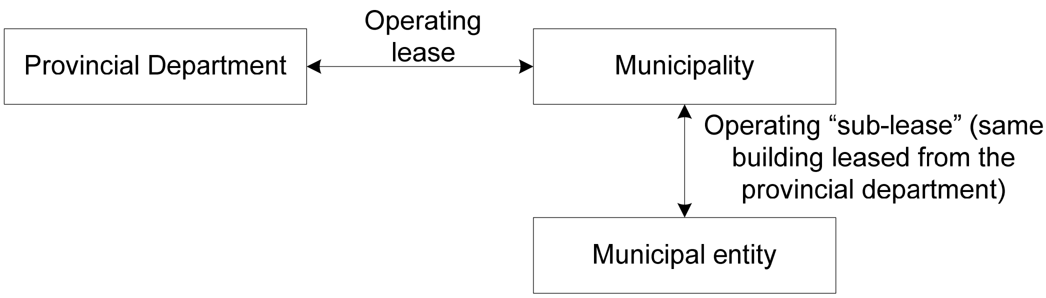
An entity may provide ancillary services to the occupants of its investment property. If so, the property may only be treated as an investment property if these services are insignificant to the arrangement as a whole.

If a municipality leases out a 20 storey building to another entity under an operating lease and according to the agreement the municipality maintains the gardens around the building. The office building is recognised as investment property because the ancillary services (maintenance of the surrounding grounds) are insignificant to the rental arrangement as a whole.

If a municipality owns and operates a B&B, the building is recognised as owner occupied and should be recognised in terms of GRAP 17 (GAMAP 17) because the services provided to the guests are significant to the property.

If a municipality holds a property under an operating lease the municipality may choose to recognise the property as investment property if (see diagram below):

- the property meets the definition of an investment property; **and**
- the municipality uses the fair value model to account for all its investment property.



The option to classify the property as investment property is allowed for properties held under operating leases on a property-by-property basis, but once it is adopted for one property, all other investment properties must be valued using the fair value model.

If a property held under an operating lease is classified as investment property, the lease is treated as a finance lease and not an operating lease. The investment property is initially recognised at the lower of its fair value and the present value of the minimum lease payments in terms of the lease arrangement.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**GRAP 16.05** (previously **IAS 40.05**) defines Investment property as 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: ➢ Use in the production or supply of goods or services or for administrative purposes; or ➢ Sale in the ordinary course of operations.	Review the complete GRAP compliant AR of the municipality and identify property, that fits the definition of investment property, by doing the following: **a)** Prepare a list of all possible names under which property (land and buildings) belonging to the municipality could have been registered in the past. **b)** Perform a title deeds search using all these names mentioned in a) above to identify all land and buildings under the control of the municipality. **c)** Compare the results of the title deeds search to the Fixed Asset Register and the Valuation roll and adjust the AR to reflect all land and buildings under the control of the municipality. **d)** Value all land and buildings, which were previously not reflected on the AR at fair value where historical cost prices and acquisition dates are unknown. **e)** Identify and reclassify as Investment Property (IP) all land and buildings reflected on the updated AR meeting the definition of Investment Property as per GRAP 16 (previously IAS 40). The decision tree at the end of this section should assist in determining whether an asset qualifies for recognition as Investment property. To ensure consistency, management should develop criteria for identification of IP – refer to the **example** of criteria disclosed by management in section 2.6.7.	**AP**	**Manager Budget Control**	Date of implementation of GRAP

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		See also examples of investment property below in **Annexure 1:** Distinguishing investment property from PPE.			
2	According to **GRAP 16.06** (previously **IAS 40.06**) 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 to measure the investment property. 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.	**A property interest held by a lessee under an operating lease** may be classified and accounted for as investment property provided: ▪ The property would meet the definition of an investment property ▪ The lessee uses the fair value model for the asset recognition. Where a property interest held under an operating lease is classified as investment property, the item accounted for at fair value is that **interest** and not the underlying property. The owner (lessor) of the property will still recognise the property leased to the holder of the property interest (lessee) as investment property in its own financial statements and measure the physical property using the fair value or cost model. The lessee will account for the interest in the property (not the property itself) at fair value. This classification alternative is available on a property-by-property basis. This implies that a municipality may choose to classify and account for a particular property interest held under an operating lease as investment property but may choose not to account and classify other property interests held under	**AP**	**Manager Budget Control**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		operating leases as investment property. Once this classification alternative is selected for one such property interest held under an operating lease, ***all*** property classified as investment property (including properties owned by the municipality as well as leased properties where the investment property selection is made) shall be accounted for using the **fair value model.**			

2.6.3 PROCEDURES RELATING TO THE RECOGNITION AND INITIAL MEASUREMENT OF INVESTMENT PROPERTY (IP)

As with PPE, investment property is recognised in the statement of financial position when the general recognition criteria are met, namely probability of an inflow of economic benefits and reliable measurement of its cost or fair value.

Investment property is initially measured at cost, which includes transaction costs such as legal fees, cost of registering title the title deed and other taxes on the purchase of property. Where investment property was acquired at no cost, it is initially measured at fair value.

The cost of self-constructed investment property is its cost at the date when the construction or development is complete under GRAP 17 (GAMAP 17).

The cost of investment property is not increased by:

- 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;
- operating losses incurred before the investment property achieves the planned level of occupancy; or
- abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

If payment for the investment property is deferred, then its cost is the cash price equivalent. The difference between this amount and the total payment made is recognised as interest expense over the period of the credit.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**According to the Accounting Framework** an asset is a resource controlled by the entity as a result of past event and from which future economic benefits are expected to flow to the entity.	Ensure that investment property is only recognised as an asset when It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably	**AP**	**Manager Budget Control**	Date of recognition of IP.
2	According to **GRAP 16.22** (previously **IAS 40.20)** an investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.	Ensure that investment property is initially measured at its cost (including transaction costs – thus these costs should be capitalised to the initial value of investment property). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, ensure that its cost is its fair value as at the date of acquisition. See **Annexure 3** for a comprehensive example of Investment Property	**AP**	**Manager Budget Control**	Date of recognition of IP.
3	Elements of cost include direct directly attributable costs **GRAP 16.24** (previously **IAS 40.21**)	Ensure that the cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure (such as professional fees for legal services, property transfer taxes and other transaction costs).	**AP**	**Manager Budget Control**	Date of recognition of IP.
4	According to **GRAP 16.25** (previously **IAS 40.22**) The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.	Ensure that the cost of a self-constructed investment property is recorded at its cost at the date when the construction or development is complete (until that date, the municipality applies the GRAP standard on accounting for PPE, see the FSOPM on PPE). At the completion date, the property becomes investment property and the Standard on investment property applies.	**AP**	**Manager Budget Control**	During construction and completion of IP.

5	Deferring interest expense according to **GRAP 16.27** (previously **IAS 40.24**)	If payment for 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.	**AP**	**Manager Budget Control**	During construction and completion of IP.
6	According to **GRAP 16.30** (previously **IAS 40.25**) the initial cost of a property interest held under a lease and classified as an investment property shall be as follows: the lower of the fair value of the property and the present value of the minimum lease payments.	Identify whether any building or land (or both) should be classified as investment property (if it is sub-leased).	**AP**	**CFO**	Date of recognition of IP

2.6.4 MEASUREMENT OF INVESTMENT PROPERTY SUBSEQUENT TO INITIAL RECOGNITION

Subsequent to initial measurement, a municipality should either measure its investment property at fair value or cost less accumulated depreciation and accumulated impairment losses. A change from one model to the other should only be made if it will result in more appropriate information. However, a change from the fair value to historical cost is not likely to provide more relevant and reliable information. Where it is considered appropriate to make such change, the municipality should comply with the provisions and requirements of GRAP 3 relating to changes in accounting policies.

Fair value model

Adopting the fair value model entails measuring all investment property at their fair value and recognising changes in their fair value in the statement of financial performance at each reporting date.

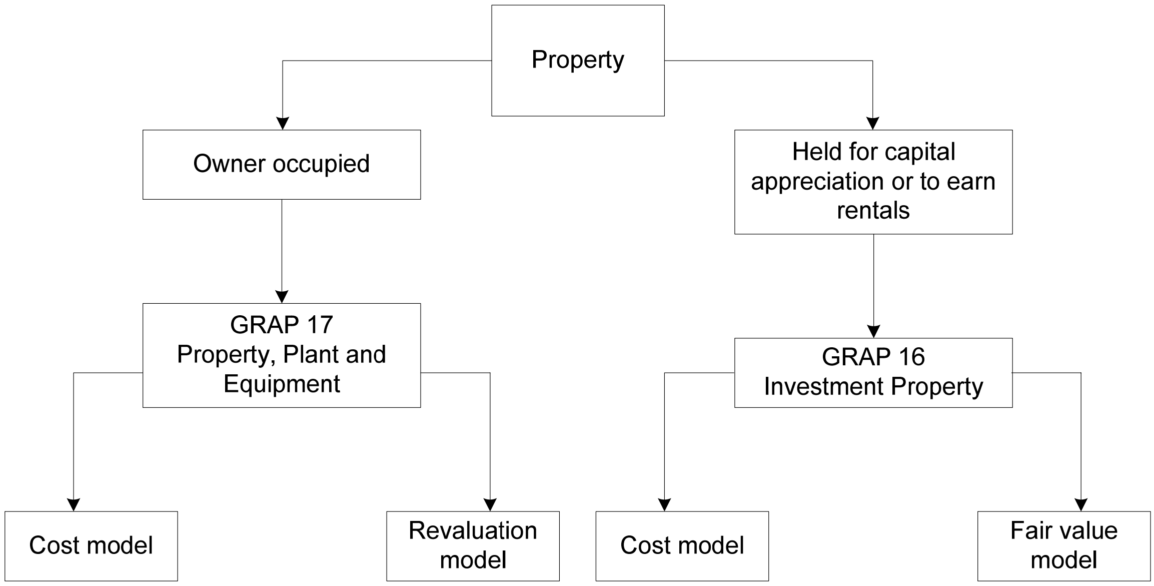
The definition of fair value is the best price obtainable by the seller, whilst simultaneously being the most advantageous price obtainable by a buyer. It therefore excludes special terms and circumstances, e.g. special financing arrangements, that are specific to the municipality only.

The fair value of land and buildings is usually its market value and can be obtained by getting a professional independent valuer to value the property. This is usually done by reference to the market value of similar properties in a similar location and subject to similar restrictions and conditions. There is however no requirement for the fair value to be determined by an external independent valuer but independent valuation enhances the perceived reliability of the fair values.

The fair value can be determined by –

- using discounted cash flow projections based on reliable estimates of future cash flows and a discount that reflects the uncertainty in the amount and timing of the cash flows; or
- adjusting the market prices of properties of a different nature, condition or location to reflect the differences.

The fair value model differs from the revaluation model applied to PPE in that the fair value of investment property is determined at each reporting date and movements in the fair value are recognised in the statement of financial performance as opposed to the statement of changes in net assets.



In exceptional cases where the municipality is not able to determine the fair value of the investment property reliably on a continuing basis, the investment property will be measured using the cost model described below, until disposal of the investment property or until the property becomes owner occupied or the municipality begins to develop the property for subsequent sale in the ordinary course of business.

Remember:- property held by a lessee under an operating lease and classified as investment property in accordance with GRAP 16 can only be measured using the fair value model.

Cost model

If the cost model is adopted as the accounting policy, the investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure

The rules for the capitalisation of subsequent expenditure for investment property are identical to the rules in GRAP 17 (GAMAP 17). Subsequent expenditure can only be added to the cost of the asset if it meets the recognition criteria below:

- It is probable that future economic benefits will flow to the municipality; and
- The costs are reliably measurable.

Day to day maintenance and repairs on the investment property may not be added to the carrying value of the asset. These must be expensed in the statement of financial performance in the period in which they were incurred. If a part is replaced due to damage, the part that was damaged must be impaired and derecognised. The cost of the replacement part must be capitalised to the asset.

Transfers

Transfers to and from investment property are only made when there is a change in use and can be summarised as follows:

Change in use	Transfer from	Transfer to	Treatment of carrying value
Commencement of owner occupation	Investment property	Property, plant and equipment	Fair value at date of transfer is deemed cost
Commencement of development with a view to sell	Investment property	Inventory	Fair value at date of transfer will be the deemed cost
End of owner occupation	Property, plant and equipment	Investment property	Difference between carrying amount and fair value is treated the same as revaluation surplus
Commencement of operating lease to another party	Inventory	Investment property	Difference between carrying amount and fair value recognised in surplus/deficit
End of construction of development	Property, plant and equipment	Investment property	Difference between carrying amount and fair value recognised in surplus/deficit

When the municipality has adopted the cost model, the carrying amount of property transferred between investment property, PPE and inventory does not change. However, for transfers from investment property carried at fair value, the fair value at the date of change is deemed the cost of PPE or inventory.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Capitalisation of subsequent expenditure	Ensure that subsequent expenditure relating to an investment property that has already been recognised is only added to the carrying amount of the investment property when: a) it is probable that future economic benefits or service potential over the total life of the investment property**, in excess of the most recently assessed standard of performance of the existing investment property**, will flow to the municipality. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred. See **Annexure 2, Example 1** below for an illustration of **subsequent expenses** that should be capitalised.	**AP**	**Manager Budget Control**	Date when subsequent expense are incurred.
2	Subsequent measurement (valuation model)	Decide on which accounting model, cost or fair value, the municipality will apply to investment property after initial recognition. The above-mentioned chosen model becomes an accounting policy for the municipality, thus council has to formally accept this model as such.	**AP**	**Manager Budget Control**	Date of implementation of GRAP.
3	According to **GRAP 16.35** (previously **IAS 40.30**), an entity shall choose either the fair value model or the cost model and shall apply that policy to all its investment property. An exception is when a property interest held by a lessee under an	After initial recognition, reflect the investment property in the AFS of the municipality at fair value or at cost less accumulated depreciation, based on the accounting policy elected in procedure 2 above. A municipality that chooses the cost model, measures all the investment property using the cost model in GRAP 17 (GAMAP 17) on Property, Plant and Equipment. Investment property is therefore valued at cost less	**AP**	**Manager Budget Control**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	operating lease is classified is classified as an investment property. In such a case the fair value model shall be applied.	accumulated depreciation and impairment losses. The appropriateness of the cost model for subsequent measurement of investment property is doubted by the author, as the cost model for IP may not result in fair presentation (it is highly unlikely that IP will depreciate in value, nor should its value be impaired under normal circumstances – municipalities are therefore encouraged to rather apply the fair value model as opposed to the cost model.			
4	According to **GRAP 16.46** (previously **IAS 40.38**), the fair value of investment property shall reflect market conditions at the reporting date. An arm's length transaction according to **GRAP 16.52** (previously **IAS 40.44**), is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently	If the municipality elects the fair value model, ensure that all of its investment property is measured at its fair value at each Statement of Financial Position date (fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction). A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. See **Annexure 2, Example 2** below for an illustration of **subsequent measurement** of investment property carried at fair value	**AP**	**CFO**	30 June each year
5	A property interest held by a lessee under an operating lease	The initial cost of a **property interest** held under an operating lease and classified as investment property shall be accounted for, as prescribed for a finance lease (from a lessee's perspective) under the statement of	**AP**	**CFO**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		leases. The asset borne from the property interest shall be recognised at the lower of the fair value of the property interest and the present value of the minimum lease payments. An equivalent amount shall be recognised as a lease liability with the minimum lease payments apportioned on subsequent measurement to the lease liability between finance charges and capital reduction of the lease liability. After initial recognition, the property interest held by the lessee under an operating lease and classified as investment property, shall be measured using the fair value model only. See **Annexure 4** below for an example of a property interest held by a lessee under an operating lease classified and accounted for as investment property.			
6	**GRAP 16.38** (previously **IAS 40.32**) requires all entities to determine 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**	**Fair value of all investment properties must be disclosed, irrespective of the measurement model (fair value or cost) used.** A municipality may use its own valuer to determine fair value of investment property – it doesn't need to be an independent valuer who holds a recognised and relevant professional qualification.	**AP**	**CFO**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	required, to determine 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.				

2.6.5 COMPILING AND MAINTAINING AN INVESTMENT PROPERTY REGISTER

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**Section 63 (2)(c) of the MFMA stipulates:** The accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register as may be prescribed.	Ensure that an investment property register is prepared and that the assets listed under this category actually meet the definition of investment property. Applying the criteria (referred to in section 2) developed by management for identification of IP, compile or download a complete list and details of Investment Properties as at 30 June. Alternatively, the list and details of Investment Properties could be updated during the year (eg. monthly/quarterly) and only finalised at 30 June. To ensure the availability of information for reporting and disclosure purposes, the following information should be contained in the IP register and updated on a continuous basis as changes occur during the financial period. **1. General asset information** • Asset number • Formal property (cadastral) description • Location (e.g. 16km South of Worcester bordering the N1 highway) • Zoning of property (as per relevant town planning legislation) • Type of asset (Describe the function of the asset for example commercial accommodation, vacant land, residential accommodation etc)	**FCP**	**CFO**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		2. Description of asset • Extent of building/structure (recorded in m^2) • Building name and address (or erf number if vacant land) **3. Ownership** • Ownership (state-owned or leased) • If owned, details of title deed, title conditions/restrictions • If owned, cost of acquisition & current valuation of asset (if available) • If leased, details of lease (term, rental, escalation, responsibility for maintenance). **4. Encumbrances** • Leases over the asset (both short and long term) • Name of lessee • Contact details • Nature of lease • Term of lease • Expiry date of lease • Special conditions of lease • Rental (income per month/annum) and escalation rate and date of escalation • Reference to lease agreement, property and debtor management systems • Other rights over the asset in favour of another organ of state or private entity (e.g. right of way, power line/pipeline servitude, usufruct, etc) • Land restitution claims lodged against the asset (in			

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		terms of the Restitution of Land Rights Act, 1994). **5. Management responsibility** • Cost centre • Operating expenditure (eg. municipal rates & service charges/maintenance/ management cost) • Type and contact details of all relevant guarantees, warranties and maintenance contracts. **6. Rights of the municipality over assets** • Is the right contained in the title deed? If so, provide number and holder of title deed. • If no, in terms of what documents (other than the title deed) does the municipality hold this right? (e.g. agreement of sale/donation, official correspondence, etc) To facilitate the preparation of GRAP compliant AFS, ensure that the IP register is able to provide the following information on an **annual** basis: • A summary of all **acquisitions** of IP's • A summary of all **disposals** of IP's during the year. • The disposals should include cost (inclusive of disposal dates, amount received for disposal of fixed asset) (and accumulated depreciation, profit or loss on the disposal (cost model) • The aggregate depreciation expense for the year (cost model) • Any impairment losses incurred during the year (cost model) • The opening and closing balances of accumulated			

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		depreciation (cost model) • The **opening and closing balances** of assets (cost model) • **Movements in the fair value** of assets (fair value model) • **Direct operating expenses** (including repairs and maintenance) arising from investment property			

2.6.6 PROCEDURES RELATING TO TRANSFERS AND DISPOSALS OF INVESTMENT PROPERTY

Investment property is derecognised from the financial statements when the risks and rewards associated with the investment property is transferred to another entity either through sale or finance lease or sale and leaseback or when the investment property is permanently withdrawn from use and no further economic benefits are expected at disposal.

The difference between the net proceeds on disposal and the carrying amount of the property shall be recognised as a gain/loss (unless GRAP 13 requires otherwise in terms of a sale and leaseback arrangement) in the period of the retirement or disposal.

Compensation from third parties

If compensation is received for damage to a property, for example there has been a fire that has destroyed the investment property that is insured and had subsequently been replaced by means of purchase or construction, the entity must account for each economic event separately. The following steps are required:

1. Impair the investment property;
2. Retire and dispose of investment property;
3. Compensation received from third parties (insurance company) is recognised in the surplus/deficit in the statement of financial performance when it is received.

a) Guidelines in connection with transfers between investment property and owner-occupied property and inventories

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	According to **GRAP 16.65** (previously **IAS 40.57**) transfers to, or from, investment property shall only be made 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 to investment property.	Ensure that transfers to and from investment property are only made when there is a change in use.	**AP**	**Manager Budget Control**	Date of transfer

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
2	Transfers in terms of **GRAP 16.65** (previously **IAS 40.57**)	For transfers from investment property carried at fair value to owner-occupied property or inventories, in future apply the FSOPM on PPE. The property's cost for subsequent accounting under the relevant GRAP Standards on PPE or inventories should be its fair value at the date of change in use.	**AP**	**Manager Budget Control**	Date of transfer
3	Transfers in terms of **GRAP 16.65** (previously **IAS 40.57**)	For owner-occupied property which becomes an investment property that will be carried at fair value, a municipality should apply the FSOPM on PPE up to the date of change in use. At this date, treat any difference between the carrying amount of the property and its fair value in the same way as a revaluation under the relevant GRAP Standard on PPE by crediting a non distributable reserve.	**AP**	**Manager Budget Control**	Date of transfer
4	Transfers in terms of **GRAP 16.65** (previously **IAS 40.57**)	For a transfer from inventories to investment property that will be carried at fair value, recognise any difference between the fair value of the property at that date and its previous carrying amount in net surplus/deficit for the period.	**AP**	**Manager Budget Control**	Date of transfer
5	Transfers in terms of **GRAP 16.65** (previously **IAS 40.57**)	If the municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, recognize any difference between the fair value of the property at that date and its previous carrying amount in net surplus/deficit for the period.	**AP**	**Manager Budget Control**	Date of transfer

b) Guidelines in connection with disposals of investment property

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**MFMA Section 14 (1) to (2)** stipulates: A municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services. A municipality may transfer ownership or otherwise dispose of a capital asset other than the one contemplated above, but only after the municipal council, in a meeting to the public has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.	Council should (or if the power is delegated to the accounting officer of the municipality, then this officer should): c) investigate and prove that there are reasonable grounds for disposal of investment property, as the asset is not needed any more to provide the minimum level of basic municipal services; and d) consider the fair market value of the asset and the economic and community value to be received in exchange for such asset.	**LCP**	**Accounting officer or Council**	Before proposed disposal of investment property.
2	**MFMA section 14 (5)** stipulates that any transfer of ownership of a capital asset is fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality has adopted.	Council should ensure that the transfer of ownership of an investment property complies with section 14 (5) of the MFMA.	**LCP**	**Council**	Before proposed disposal of investment property..

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
3	According to **GRAP 16.76** (previously **IAS 40.66**), an investment property shall be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.	Eliminate a specific investment property from the statement of financial position on disposal thereof or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.	**AP**	**Manager Budget Control**	Date of disposal of investment property
4		Determine gains or losses arising from the retirement or disposal of investment property as the difference between the net disposal proceeds and the carrying amount of the asset. Present the gain or loss in the statement of financial performance as an item of revenue or expense.	**AP**	**Accounting officer or Council**	Date of disposal of investment property and at 30 June.

2.6.7 ANNUAL FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

If the municipality elected to reflect all of its investment properties **at fair value,** ensure disclosure in the AFS of the following information:

- Whether and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
- The criteria developed by the municipality to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations (Example: Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

Investment property	PPE	Non-current assets held for sale
the asset generates its own cash flows in the form of rentals (on a commercial basis)	rental income earned is below market value, therefore the asset is held for service delivery rather than to generate a commercial return	land and other properties held for sale within the next 12 months, if the criteria in paragraphs 7 and 8 of IFRS 5 are met
the asset is held for capital appreciation	the asset is held to achieve service delivery objectives rather than to earn rental or for capital appreciation	
investment property that is being redeveloped for continued use as an investment property	property that is being constructed or developed for future use as investment property (until the asset meets the definition of investment property it is accounted for as PPE)	
land held for an undetermined use	owner occupied-property such as office buildings and residential buildings occupied by staff members (assets used by employees, irrespective of whether or not the employees pay rent at market rates, are owner-occupied)	
	assets held for strategic purposes	

- The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the municipality should disclose) because of the nature of the property and lack of comparable market data (Example: The fair value of the municipality's investment property at 30 June 2008 has been arrived at on the basis of a valuation carried out at that date by XY Valuers, independent valuers that are not related to the municipality. XY Valuers are members of the South African Institute of Valuers, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to South Africa's Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties);
- 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 recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed (Example as above, or: The municipality did not make use of an independent valuer who holds a recognised and relevant professional qualification, but utilized its own valuer to determine the fair value of investment property.);
- The amounts included in the statement of financial performance for:
  - (i) Rental revenue from investment property;
  - (ii) Direct operating expenses (including repairs and maintenance) arising from investment property that **generated rental revenue** during the period; and
  - (iii) Direct operating expenses (including repairs and maintenance) arising from investment property that **did not generate rental revenue** during the period;
  - (iv) The cumulative change in fair value recognised in surplus or deficit on a sale of investment property.
- The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal;
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):
  - (a) Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure;
  - (b) Additions resulting from acquisitions through municipality combinations;
  - (c) Disposals;

(d) Net gains or losses from fair value adjustments;

(e) Transfers to and from inventories and owner-occupied property; and

(f) Other movements.

If the municipality elected to reflect all of its investment properties **at cost less accumulated depreciation,** ensure disclosure in the AFS of the following information, in addition to any relevant information required by the first six bullet points above:

- The depreciation methods used;
- The useful lives or the depreciation rates used;
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):

  (i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure;

  (ii) Additions resulting from acquisitions through municipality combinations;

  (iii) Disposals;

  (iv) Depreciation;

  (v) The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period;

  (vi) The net exchange differences arising on the translation of the financial statements of a foreign municipality;

  (vii) Transfers to and from inventories and owner – occupied property; and

  (viii) Other movements; and

- The fair value of investment property. In the exceptional cases , when the municipality cannot determine the fair value of the investment property reliably, the municipality should disclose:

  (i) A description of the investment property;

  (ii) An explanation of why fair value cannot be determined reliably; and

  (iii) If possible, the range of estimates within which fair value is highly likely to lie.

2.6.8 EXEMPTIONS RELATED TO THE IMPLEMENTATION OF IAS 40

Refer to section 2.6.1 Overview of the accounting for investment property, for a discussion on the exemptions related to the implementation of IAS 40.

For **municipalities making use of the exemptions** granted for IAS 40, the interim requirements applicable during the exemption period are as follows:

- Land and/or buildings that meet the 'investment property' definition:
    - must be accounted for in accordance with IAS 40 if they were previously accounted for as investment property.
    - may be accounted for in accordance with either IAS 40 or GAMAP 17 if they were not previously accounted for as investment property.
- If accounted for in accordance with GAMAP 17, narrative disclosure must be included in the PPE note stating that PPE may include investment property.
- Certain disclosures, set out in the communication from National Treasury, titled 'Application of accounting standards (updated August 2007)', must be made as part of the 'Investment property' accounting policy in respect of each of the Investment property exemptions.

From 1 July 2008 (reporting date 30 June 2009) **GRAP 16, on Investment property,** becomes effective for High capacity and Medium capacity municipalities, while for Low capacity municipalities it becomes effective from 1 July 2009 (reporting date 30 June 2010).

The **transitional provisions** of GRAP 16 states that all changes resulting from the application of the Standard of GRAP on Investment property shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (therefore **retrospectively**).

- **Low and medium capacity** municipalities are however allowed **three years** from the date of initial adoption of GRAP 16 to comply with the measurement requirements of the Standard.
- Certain **disclosures**, as set out in Directives 3 and 4 of the ASB, are required if transitional provisions of GRAP 16 are applied.

ANNEXURE 1: Distinguishing investment property from PPE (owner occupied property)

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 operations. For example, land held by a municipality for capital appreciation which may be sold at a beneficial time in the future;

(b) Land held for a currently undetermined future use. (If an municipality has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by the municipality to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);

(c) A building owned by the reporting municipality (or held by the reporting municipality under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a municipality may own residential houses that it leases on a commercial basis to municipal officials; and

(d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not Investment Property and therefore fall outside the scope of the guidelines in this section:

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventories. For example, the municipality may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventories. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventories;

(b) Property being constructed or developed on behalf of third parties. For example RDP houses.

(c) Owner-occupied property which is defined as property which is 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. A building owned by the municipality, but utilised to house the budget and treasury office is an example of an owner - occupied property. Property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) are also regarded to be owner–occupied property.

(d) Property that is being constructed or developed for future use as investment property. The relevant GRAP standard on accounting for PPE applies to such property until construction or development is complete, at which time the property becomes investment property and the Standard on investment property applies.

However, the Standard on investment property does apply to existing investment property that is being redeveloped for continued future use as investment property.

(e) Property that is leased to another entity under a finance lease (GRAP 16)

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with the GRAP standard on accounting for PPE.

(g) Some entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property.

The following examples require careful consideration and judgement

Judgement is needed to determine whether property qualifies as investment property. The municipality should develop criteria so that it can exercise that judgement consistently in accordance with the definition of investment property. IAS 40 paragraph 75 c) requires that a municipality should disclose these criteria when classification is difficult.

a) In some cases, entities hold some property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a municipality may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. **– If these portions could be sold separately (or leased out separately under a finance lease), the municipality should account 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.

b) In some cases a municipality provide ancillary services to the occupants of a property it holds. The municipality should treat such a property as investment property if the services are insignificant to the arrangement as a whole. An example would be where an entity owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

c) In other cases the services provided are significant. For example, a municipality may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are a significant component of the arrangement as a whole. Therefore an owner-managed hotel or hostel is owner occupied property, rather than investment property.

d) In some cases, a municipality owns property that is leased to, and occupied by a controlled entity. The property does not qualify as investment property in the consolidated financial statements, because the property is owner occupied from the perspective of the economic entity as a whole. However, from the perspective of the municipality that owns it, the property is investment property and should be treated as such in its individual financial statements.

ANNEXURE 2: Subsequent expenditure

Example 1: Capitalisation of subsequent expenditure relating to investment property

Municipality A purchases a building as an investment property and will incur renovation costs. The renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R 5,000.00 per month rental income, but after the renovation it will earn R 7,000.00 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property, as the renovation costs enabled the investment property to earn more rental income

Example 2: Subsequent measurement of investment property which is carried at fair value

Municipality B purchases four houses at a cost of R 200,000.00 each for purposes of leasing them out (not to employees of the municipality) at market related rates. The legal fees and transport duties relating to the transaction amount to R 16,000.00. At the end of the financial year the fair value of the houses is determined to be R 900,000.00. This means that the municipality will recognise a fair value gain in the Statement of Financial Performance for the year of R 84,000.00 (R 900,000.00 – R 816,000.00).

ANNEXURE 3: Comprehensive example of investment property

An extract from the financial records of Protea Municipality, contains the following information.

Property:	**RAND**
1.Land - Erf 1520 Tshwane	1 000 000
Building thereon (Construction completed on 1 July 1999)	2 500 000
(The property is used to house staff of the Budget and Treasury Office)	
2. Land Erf 1810 Tshwane	1 600 000
Building thereon (Construction completed on 1 January 2000)	4 200 000
Improvements to the building to extend rented floor capacity	800 000
Repairs and maintenance to investment property for the year	100 000

Approximately 6 % of the floor space of this building is also used to house staff from the Budget and Treasury Office. The remainder of the building is leased out under operating leases. The municipality provides lessees with security services.

The municipality values investment property using the fair value model. Owner-occupied property is valued at cost less accumulated depreciation. Owner occupied buildings are depreciated according to the straight line method over a period of 20 years. On 30 June 2000, the financial year end of the Municipality, Mr. Jabo Khumalo, a sworn appraiser, valued the two properties based on market evidence at the following fair values:

	RAND
Property 1	
Land	1 000 000
Buildings	2 200 000
Property 2	
Land	2 000 000
Buildings	5 200 000

Property 1 and 2 can only be sold as two complete units. Any decline in value in Property 1 is attributable to the building and is deemed to be an impairment loss.
The Municipality received rental for Property 2 amounting to R320 000.

To account for the property in the financial statements of the Municipality for the year ended 30 June 2000, the property should firstly be classified as either investment property or owner-occupied property.

Property 1 is an owner-occupied property and is accounted for in accordance with GAMAP 17 as a depreciable asset and is reflected at cost less accumulated depreciation and impairment losses.

Property 2 is classified as an investment property and is accounted for in terms of the fair value model in accordance with GRAP 16. The motivation is that the portion occupied by the municipality for administrative purposes is insignificant (6%) and the portion of property cannot be sold separately. In addition the majority of the floor space of the property is used to generate rental income and the security services rendered to lessee are insignificant.

Calculations

Property 1	**Land**	**Buildings**
Cost	1 000 000	2 500 000
Depreciation 2 500 000 / 20 years		(125 000)
		2 375 000
Fair Value	1 000 000	2 200 000
Impairment loss	0	175 000

Property 2

	Land	**Buildings**
Cost	1 600 000	4 200 000
Improvement to building		800 000
		5 000 000
Fair Value	2 000 000	5 200 000
Increase in value recognized in income Statement – fair value adjustment	400 000	200 000

The accounting treatment and disclosure of the properties in the financial statements of the Municipality for the year ended 30 June 2000 will be as follows:

Protea Municipality
Statement of Financial Position as at 30 June 2000

	Note	
Assets		
Non-current assets		
Property, plant and equipment		
Land and buildings	3	3 200 000
Investment Property	4	7 200 000

Notes for the year ended 30 June 2000

1. Accounting policies

1.1 Property plant and equipment

Buildings are shown at cost less accumulated depreciation. Land is shown at cost and not depreciated. Buildings are depreciated at 5% per annum on a straight line basis.

1.2 Investment property

Investment property is property held to earn rentals or capital appreciation or a combination of these two sources of increase in Net Assets of the municipality. Investment property is stated at fair value determined at Statement of Financial Position date by an independent sworn appraiser based on market evidence of the most recent prices achieved in arm's length transactions of similar properties in the same area.

2. Surplus for the year

The surplus for the year has been calculated after taking, amongst others, the following into account:

Rental income received for investment property	320 000
Depreciation	125 000
Impairment loss – building	175 000
Repairs and maintenance investment property generating rental income	100 000

3. Property, plant and equipment

	Land	**Buildings**
	R	**R**
Additions	1 000 000	2 500 000
Depreciation	0	(125 000)
Impairment loss		(175 000)
Carrying amount at end of period	1 000 000	2 200 000
Cost	1 000 000	2 500 000
Accumulated depreciation and impairment losses	0	(300 000)

4. Investment property

	R
Additions (4 200 + 1 600)	5 800 000
Capitalized subsequent expenditure	800 000
Net gain in fair value	600 000
Closing balance at fair value	7 200 000

ANNEXURE 4: Example of property interest held by a lessee under an operating lease classified and accounted for as investment property

On 1 July 2007, Protea Municipality entered into a lease agreement with a lessor to lease land and buildings for a period of 10 years at a market related annual rental of R 1,094,400 (inclusive of VAT), payable in advance.

Protea Municipality sublease all the units at R 102,600 per month (inclusive of VAT) payable in advance. At the end of the 10 year term the municipality will have no rights relating to the property and the property will be given back to the registered owner. A fair value incremental borrowing rate of interest for similar leases is 12% per annum.

Assume that the fair value model is applicable for accounting of investment property and that Protea Municipality decided to account for the abovementioned property interest, which is held under an operating lease, as investment property.

The journal entries to account for the abovementioned transactions are as follows:

		Dr R	Cr R
1	Investment property	6,075,120	
	Finance lease liability		6,075,120
	Recognition of finance lease liability		
2	Finance lease liability (R 1,094,400 x 100/114)	960,000	
	Input VAT (R 1,094,400 x 14/114)	134,400	
	Bank		1,094,400
	Instalment paid and allocated between VAT, interest and capital		
3	Interest expense	613,814	
	Finance lease liability		613,814
	Interest provided on finance lease liability		
4	Bank (R 102,600 x 12)	1,231,200	
	Rental income from investment property (R 102,600 x 100/114 x 12)		1,080,000
	Output VAT (R 102,600 x 14/114 x 12)		151,200

Rental income from lessee of sublease

		Dr	Cr
5	Investment property	369,931	
	Fair value adjustment (Statement of Financial Performance)		369,931
	Fair value adjustment at year-end of interest in the investment property		

Explanatory notes

1. **Calculation of the finance lease liability.**

According to calculator:

- BGN
- i = 12 %
- n = 10 years
- PMT = R 960,000 (R 1,094,400 x 100/114**)**

- **Comp PV = R 6,075,120**

Amortisation table

Year	Instalment	Capital	Interest	Closing balance
				6,075,120
1	960,000	960,000	-	5,115,120
2	960,000	346,186	613,814	4,768,934

2. Fair value adjustment at the end of the financial year:

Fair value of the asset at year end equals the present value of future receipts:

According to calculator:

- BGN
- i = 12 %
- n = 9 years
- PMT = R 1,080,000 (R 102,600 x 12 x 100/114)

- **Comp PV = R 6,445,051**

Fair value:	R 6,445,051
Less: Cost at initial recognition:	R 6,075,120
Fair value adjustment:	**R 369,931**

	Self Assessments

1. Investment property can be

(a) A building
(b) Land
(c) Part of a building
(d) Both land and building
(e) All of the above

2. Owner occupied property

(a) Cannot be treated as investment property
(b) Can be treated as investment property
(c) Can sometimes be treated as investment property

3. Investment property can be

(a) A building
(b) Land
(c) Part of a building
(d) Both land and building
(e) All of the above

4. A property that is held by a lessee, under an operating lease, may be held as investment property if

(a) The operating lease is for 35 years

(b) The building is a hotel

(c) The fair value model is used by the lessee

5. If a property is partly an investment property, and partly owner-occupied, it should be accounted for as

(a) Owner occupied

(b) Investment property

(c) Each portion should be accounted for separately

(d) Both land and building

(e) All of the above

6. If the lessor provides significant ancillary services to tenants in its property, the property:

(a) May have to be classified as owner occupied rather than investment property

(b) May have to be classified as investment property rather than as owner occupied property

(c) The service fees should be capitalised

7. If the cost of a major refurbishment is capitalised

(a) The cost of the refurbishment must be recognised as a separate asset

(b) The part of the asset that was refurbished should be derecognised and the cost of the refurbishment is added to the value of the asset

(c) Major refurbishment on investment property cannot be capitalised

8. If a municipality decides to dispose of an investment property without further development thereon

(a) The property is reclassified as inventory

(b) The municipality continues to treat the property as an investment property

(c) The property is reclassified as owner occupied

9. Investment property is derecognised

(a) On disposal

(b) On entering into a finance lease

(c) On entering into an operating lease

(d) Both (a) and (b)

10. A gain from a change in the fair value of investment property should be recorded

(a) In the surplus/deficit for the year

(b) In a revaluation reserve

(c) As a receivable