Property: use determines the route

MODULE 1 / IAS 40

1 **Own production or administration?**
Consider IAS 16 for owner-occupied property.

2 **Ordinary-course sale?**
Consider IAS 2 for property held as inventory.

3 **Rentals or capital appreciation?**
Consider IAS 40 for investment property.

4 **Mixed use or significant services?**
Analyse separable portions and the actual nature of the business.

Issue	Cost model	Fair value model
Subsequent amount	Cost less depreciation and impairment	Reporting-date fair value
Depreciation	Normally yes for depreciable property	No separate depreciation
Fair-value movement	Not routinely booked	Profit or loss
Fair-value disclosure	Generally required	Valuation and movement disclosures

Original example: depreciable rental building, ready for use at year start; cost $600,000; 30-year straight-line life; nil residual; year-end fair value $645,000. Ignore tax and rent.

Cost: Dr depreciation $20,000 / Cr accumulated depreciation $20,000. Carrying amount $580,000.
Fair value: Dr investment property $45,000 / Cr fair-value gain (profit or loss) $45,000. Carrying amount $645,000.

IAS 16 revaluation is different: gains normally go to OCI, subject to reversal rules, and depreciation continues. Do not choose a different policy each year to manage profit.

AASB 140 (December 2021), paragraphs 5-15, 20-35, 56, 75-79. Guide: Module 1, pp. 51-55.
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