

What Is an Investment Property?

Worksheet

An investment property is real estate held for rental income or capital appreciation, and under the fair value model, any change in its fair value is recognized directly in profit or loss.

Questions

1. Which of these qualifies as an investment property?
 - A) A factory used to manufacture the company's products
 - B) An office building leased out to earn rental income
 - C) Head office administrative building
 - D) Inventory held for sale
2. Under the fair value model, where are gains from fair value increases recognized?
 - A) Other comprehensive income
 - B) Profit or loss
 - C) Directly in equity
 - D) They are not recognized
3. A property's fair value goes from \$500,000 to \$540,000. What is the gain?
 - A) \$500,000
 - B) \$40,000
 - C) \$540,000
 - D) \$0
4. What standard governs investment properties?
 - A) IAS 16
 - B) IAS 40
 - C) IAS 37
 - D) IFRS 9
5. A company owns an office building purchased purely to rent out to tenants. Its fair value rises from \$500,000 to \$540,000 during the year. How is the change accounted for under the fair value model?
6. A retailer owns a warehouse it uses to store its own inventory for its retail operations. Is this an investment property?
7. An investment property's fair value falls from \$1,200,000 to \$1,150,000 over the year.
8. Define: What is an investment property?
9. Define: What are the two measurement models under IAS 40?
10. Define: Where do fair value gains/losses on investment property go?

Answer Key

1. B) An office building leased out to earn rental income - Property held purely to earn rentals or for capital appreciation meets the IAS 40 definition.
2. B) Profit or loss - IAS 40's fair value model routes all fair value changes through profit or loss.
3. B) $\$40,000 - 540,000 - 500,000 = \$40,000$ gain.
4. B) IAS 40 - IAS 40, Investment Property, sets the recognition and measurement rules.
5. This qualifies as an investment property (held to earn rentals) $\text{Gain} = 540,000 - 500,000 = \$40,000$ Recognize a $\$40,000$ gain directly in profit or loss (no depreciation charged)
6. The warehouse is used in the company's own operations (supply of goods), not held for rental or appreciation This fails the IAS 40 definition Classify as property, plant and equipment (IAS 16) instead
7. $\text{Loss} = 1,150,000 - 1,200,000 = \$50,000$ Recognize a $\$50,000$ loss directly in profit or loss under the fair value model
8. Land or a building held to earn rental income or for capital appreciation, not for use in operations.
9. The cost model and the fair value model.
10. Directly to profit or loss, unlike owner-occupied property revaluations which go to OCI.

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