



## Real Estate Accounting according to IFRS/IAS – Position and Tasks of External Real Estate Experts

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# IFRS/IAS

- In Austria International Financial Reporting Standards („IFRS“) and International Accounting Standards („IAS“) are applicable for the following types of financial statements:
  - consolidated financial statements of listed companies (mandatory)
  - consolidated financial statements of all other companies (voluntary)
  - not applicable for individual financial statements

# IFRS/IAS Accounting of Real Estate

- IAS 2 Inventories
  - property intended for sale in the ordinary course of business or in the process of construction or development for such sale
- IAS 11 Construction Contracts
  - property being constructed or developed on behalf of third parties
- IAS 16 Property, Plant and Equipment
  - owner occupied property to be used in the production or supply of goods or services or for administrative purposes
- IAS 17 Leases
  - property leased under a finance or operating lease contract
- IAS 40 Investment Property
  - property held to earn rentals or for capital appreciation or both

# IAS 16 Property, Plant and Equipment

- At recognition measurement at cost (purchase price or costs of conversion)
- After recognition choice between cost model or revaluation model
  - cost model – measurement at (original) cost less accumulated depreciation and accumulated impairment losses
  - revaluation model – measurement at fair value (at the date of revaluation) less subsequent accumulated depreciation and subsequent accumulated impairment losses

# IAS 16 Property, Plant and Equipment

- Accounting principles according to the revaluation model
  - difference between carrying amount and fair value (in case of an increased value), less deferred tax, credited directly to equity as revaluation surplus
  - increased depreciation in subsequent years recognised in profit and loss, whereas reduction of revaluation surplus transferred directly to retained earnings
  - disclosure requirements (independent valuer, valuation techniques and significant assumptions ...)

# IAS 16 Property, Plant and Equipment

- Revaluation according to the revaluation model
  - revaluation only possible, if fair value can be measured reliably
  - revaluation of the entire class of assets required
  - frequency of revaluation depends upon changes of fair value, in any case revaluation every 3 or 5 years
  - in case of land and buildings appraisal normally to be undertaken by professionally qualified valuers

# IAS 16 Property, Plant and Equipment

- Fair value according to the revaluation model
  - fair value means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm´s length transaction
  - fair value to be determined from market-based evidence or, if not available, by using an income or depreciated replacement cost approach

# IAS 40 Investment Property

- At recognition measurement at cost (purchase price or costs of conversion)
- After recognition choice between cost model or fair value model
  - cost model – measurement at (original) cost less accumulated depreciation and accumulated impairment losses
  - fair value model – measurement at fair value

# IAS 40 Investment Property

- Accounting principles according to the fair value model
  - no regular depreciation
  - all gains or losses arising from a change in the fair value to be recognised in profit and loss
  - disclosure requirements (independent valuer, valuation techniques and significant assumptions ...; in case of the cost model the fair value of the investment property has to be disclosed)

# IAS 40 Investment Property

- Valuation according to the fair value model
  - valuation of all investment properties
  - valuation on an annual basis
  - rebuttable presumption that fair value can be reliably measured
  - valuation by an independent valuer encouraged but not required
  - valuer should (i) be independent, (ii) hold a recognised and relevant professional qualification and (iii) have recent experience in the location and category of the investment property being valued

# IAS 40 Investment Property

- Fair value according to the fair value model
  - fair value means the price at which the investment property could be exchanged between knowledgeable, willing parties in an arm's length transaction
  - knowledgeable means reasonably informed about the nature and characteristics of the investment property, its actual and potential uses and market conditions at the balance sheet date
  - willing means motivated but not compelled to either buy or sell
  - arm's length means between unrelated parties, each acting independently

# IAS 40 Investment Property

- Fair value according to the fair value model
  - should reflect market conditions at the balance sheet date
  - should reflect rental income from current leases and reasonable and supportable assumptions about rental income from future leases in the light of current conditions, less cash outflows
  - should not reflect future capital expenditure that will improve or enhance the property including the related future benefits
  - should not reflect owner specific legal and/or tax restrictions or benefits, portfolio considerations, synergies with other assets

# IAS 40 Investment Property

- Fair value calculation should be based on
  - current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts (best evidence)
  - recent prices for similar property or current prices for different property, with necessary adjustments
  - discounted cash flow projections based on reliable estimates of future cash flows, supported by existing contracts and external evidence such as current market rents
  - not value in use as defined in IAS 36 Impairment of Assets

# Cooperation between External Real Estate Expert as Valuer and Auditor

- Possibility to use the work performed by another expert
- Requirement to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of audit by
  - considerations regarding the expert
  - considerations regarding the work of the expert
- No influence on the professional liability of the auditor for the correctness of the financial statements