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Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD
FOR COMMERCIAL ORGANISATIONS №27**

"Investment Property"

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NASCO 27

Investment Property

General Provisions

Purpose of Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 28 “Accounting for Associates”.

Objective

2. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in the recognition, measurement and disclosure of investment property.
6. This Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with all matters covered in NASCO 14. In addition, the Standard does not deal with:
 - (a) biological assets related to agricultural activity; and
 - (b) mineral rights and mineral reserves such as oil, natural gas and similar non regenerative resources.

Definitions

7. The following terms are used in this Standard with the meanings specified:

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of NASCOs

Investment property is 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:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

Owner-occupied property is property 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.

8. 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 set out in paragraphs 31 - 42 for the asset recognised. 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. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 58 - 62
9. Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. NASCO 7 *Property, Plant and Equipment* applies to owner-occupied property.

- 10 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see NASCO 8), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
 - (b) property being constructed or developed on behalf of third parties (see NASCO 16).
 - (c) owner-occupied property (see NASCO 7), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
 - (d) property that is being constructed or developed for future use as investment property. NASCO 7 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard applies 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.
- 11 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these 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.
- 12 If an entity provides ancillary services to the occupants of a property it holds, the entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. If the services provided are significant then the property cannot be described as an investment property
- 13 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 9 - 12. Paragraph 59(c) requires an entity to disclose these criteria when classification is difficult.
- 14 If an entity owns property that is leased to, and occupied by, its parent or another subsidiary the property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

- 15 Investment property shall be recognised as an asset when, and only when:
- (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
 - (b) the cost of the investment property can be measured reliably.
- 16 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.
- 17 Under the recognition principle in paragraph 15, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred.
- 18 If parts of investment properties have been acquired through replacement an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at recognition

- 19 An investment property shall be measured initially at its cost which comprises of the purchase price and any directly attributable expenditure. Transaction costs shall be included in the initial measurement deleted
- 20 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 NASCO 7. At that date, the property becomes investment property and this Standard applies

- 21 The cost of an investment property is not increased by:
- (a) 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),
 - (b) operating losses incurred before the investment property achieves the planned level of occupancy, or
 - (c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.
- 22 If payment for an 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.
- 23 The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by NASCO 14
- 24 Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 31 - 39. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.
- 25 If an investment properties is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets the cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- 26 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or
 - (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and
 - (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.
- 27 The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after recognition

Accounting policy

- 28 With the exceptions noted in paragraphs 30 and 32, an entity shall choose as its accounting policy either the fair value model in paragraphs 31 - 42 or the cost model in paragraph 43 and shall apply that policy to all of its investment property.
- 29 This Standard 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).
- 30 An entity may:
- (a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and
 - (b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

Fair value model

- 31 After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 40.
- 32 When a property interest held by a lessee under an operating lease is classified as an investment property, paragraph 28 is not elective; the fair value model shall be applied.
- 33 A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.
- 34 The fair value of investment property shall reflect market conditions at the balance sheet date.
- 35 The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property.
- 36 Paragraph 23 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 31 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognised liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with NASC) 14. Thus, remeasuring a leased asset from cost in accordance with paragraph 23 to fair value in accordance with paragraph 31 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.
- 37 In determining the fair value of investment property, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:
- (a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.
 - (b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.
 - (c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.
 - (d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the fair value of the investment property for accounting purposes.
- 38 The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.
- 39 In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies NASCO 10 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

Inability to determine fair value reliably

- 40 There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in NASCO 7. The residual value of the investment property shall be assumed to be zero. The entity shall apply NASCO 7 until disposal of the investment property.
- 41 In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the cost model in accordance with NASCO 7, it measures all its other investment property at fair value. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.
- 42 If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins

to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

Cost model

- 42 After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with NASCO 7's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with NASCO 23 *Non-current Assets Held for Sale and Discontinued Operations*. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with NASCO 23.

Transfers

- 43 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 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 NASCO 7) to investment property.
- 44 Paragraph 43(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the balance sheet) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.
- 45 Paragraphs 46 - 50 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.
- 46 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with NASCO 7 or NASCO 8 shall be its fair value at the date of change in use.
- 47 If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply NASCO 7 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with NASCO 7 and its fair value in the same way as a revaluation in accordance with NASCO 7.
48. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with NASCO 7 and its fair value in the same way as a revaluation in accordance with NASCO 7.
- 49 For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.
- 50 When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Disposals

- 51 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. The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in NASCO 6 for

- recognising revenue from the sale of goods. NASCO 14 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.
- 52 If an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part.
- 53 Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless NASCO 14 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.
- 54 The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with NASCO 6 using the effective interest method.
- 55 An entity applies NASCO 10 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.
- 56 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.
- 57 Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of investment property are recognised in accordance with NASCO 24;
 - (b) retirements or disposals of investment property are recognised in accordance with paragraphs 51 - 55 of this Standard;
 - (c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and
 - (d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 19 - 27 of this Standard.

Disclosure

Fair value model and cost model

58. The disclosures below apply in addition to those in NASCO 17.
- 59 An entity shall disclose:
- (a) whether it applies the fair value model or the cost model.
 - (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
 - (c) when classification is difficult the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.
 - (d) 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 entity shall disclose) because of the nature of the property and lack of comparable market data.
 - (e) the amounts recognised in profit or loss for:
 - (i) rental income from investment property;
 - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
 - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

- (f) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.
- (g) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Fair value model

60 In addition to the disclosures required by paragraph 59, 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 recognised in the carrying amount of an asset;
- (b) additions resulting from acquisitions through business combinations;
- (c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NASCO 23 and other 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; and
- (g) other changes.

61 When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 37, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.

62 In the exceptional cases referred to in paragraph 40, when an entity measures investment property using the cost model in NASCO 7, the reconciliation required by paragraph 60 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

- (a) a description of the investment property;
- (b) an explanation of why fair value cannot be determined reliably;
- (c) if possible, the range of estimates within which fair value is highly likely to lie; and
- (d) on disposal of investment property not carried at fair value:
 - (i) the fact that the entity has disposed of investment property not carried at fair value;
 - (ii) the carrying amount of that investment property at the time of sale; and
 - (iii) the amount of gain or loss recognised.

Cost model

63 In addition to the disclosures required by paragraph 59, 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 recognised as an asset;
 - (ii) additions resulting from acquisitions through business combinations;
 - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NASCO 23 and other disposals;
 - (iv) depreciation;
 - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with NASCO 24;

- (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; and
 - (viii) other changes; and
- (e) the fair value of investment property. In the exceptional cases described in paragraph 40, when an entity cannot determine the fair value of the investment property reliably, it shall 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.

Effective date

64 This Standard becomes operative after the date approved by Ministry of Finance of Republic of Azerbaijan

Appendix 1 - Comparison with IAS 40 Investment Property

This National Accounting Standard for Commercial Organisations (NASCO) 27 – Investment Property is drawn primarily from International Accounting Standard (IAS) 40 (2006) – Investment Property. The main differences between NASCO 27 and IAS 40 are as follows

- The general provisions set out in paragraph 1 of the NASCO has been added and relates the Standard to the Accounting Law of the Republic of Azerbaijan
- Paragraphs 3 and 4 of the NASCO defines the scope of the organisations required to apply the Standard as set out in the Accounting Law of the Republic of Azerbaijan
- IAS 40 contains a number of illustrative examples explanations and summary paragraphs. In line with established policy, all examples, explanations and summaries have been removed from NASCO 27 and will be covered in the Explanations document
- IAS 40 contains paragraphs that require that qualified valuers be responsible for establishing fair value. These paragraphs have been omitted in NASCO 27 as being currently inappropriate in Azerbaijan
- Large sections on the general application of Fair Value in IAS 40 have been omitted as they are covered in NASCO 26