

## **Double counting assets when investment properties are measured at fair value**

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### **Introduction**

The XYZ Limited owns an island with a club house and a restaurant which is classified under investment property in the financial statements and it uses to rent out to the people for their personal parties, weddings and other functions. Currently, the company measures its investment property at cost model and therefore the cost of the land and the buildings of the island is recognized under the investment property and the other plants and equipment in the same location (i.e. furniture, air conditioners and generators) are categorized under the property plant and equipment.

Because the company is currently using the cost model for the measurement of investment property, there is no probability of double counting the value of the other assets (i.e. furniture, air conditioners and generators) located in the club house and restaurant. But from this year onward because the company is going to adopt the fair value model in the measurement of investment property, then there is a possibility of double counting those assets in financial statements.

### **Discussion of the Issue**

In determining the fair value or market value of this kind of club house and restaurant, it is obvious that the fair value of such property cannot be obtained by putting apart the

properties like furniture, generators and air conditioners which are integral parts of that property. The company has obtained a valuation for this investment property from a qualified valuer and in his report also he has mentioned that in determining the market value of this investment property, he has taken in to the account all the assets located in the same premises.

Therefore when company is going to recognize its investment property at fair value, it must be considered the possibility of double counting those assets in the financial statements. Otherwise, the value of the assets (i.e. either the value of property, plant & equipment or investment property) will be overstated and as a result the financial position of the company will also be overstated than the actual financial position of the company. It will lead to lose the reliability and relevance of the financial statements and the decisions made based on such financial statements also can be misled.

### **Conclusions and Recommendations**

In Sri Lanka Accounting Standard (LKAS) 40 – “Investment Property”, there is a separate paragraph regarding the possibility of double counting assets in applying the fair value model for the measurement of investment property which is extracted below.

“In determining the carrying amount of the investment property under the fair value model, an entity does not double-count assets or liabilities that are recognized as separate assets and liabilities. For example; Equipment such as lifts or air conditioners is often an integral part of a



building and is generally included in the fair value of the investment property, rather than recognized separately as property plant and equipment.”(Paragraph 50 – LKAS 40)

But LKAS 40 does not prescribe exact method to avoid this possibility of double counting assets and therefore the company has freedom to select any method based on their judgment. One option which can be implemented by the company is, the company has separate records of the assets which are located in the island, company can deduct the carrying amount of those assets from the valuation obtained from the qualified valuer for this investment property in the presentation of financial statements.

If the company is implemented this method, then it will have to be separately disclosed it in the financial statements because it is required by LKAS 40 as follows.

“When a valuation obtained for investment property adjusted significantly for the purpose of financial statements, for example to avoid double counting of assets or liabilities that are recognized as separate assets and liabilities as describe in paragraph 50, an entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation in the financial statements.”(Paragraph 77 – LKAS 40)