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INVESTMENT PROPERTY EVALUATION ISSUES UNDER NATIONAL AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In connection with the gradual integration of Ukraine into the European Union, as well as its entry into the international market, the transition from national financial reporting and accounting standards to international financial reporting standards is significantly accelerated. These processes have not passed the accounting for investment property.

Despite of legislative regulation in the form of the National Accounting Standard 32, «Investment Property» (hereinafter – NAS 32) and International Accounting Standard 40 «Investment Property» (hereinafter – IAS 40), it can't be asserted, that we have complete clarity regarding the key issues of accounting for this object, which is one of the most problematic types of non-current assets.

One of the main questions – is the evaluation of investment property objects and its influence on the indicators of financial reporting. The urgency of considering this problem arises from the fact that there is a significant difference in the provision of recommendations for the evaluation of investment property in accordance with national and international standards. Given the insufficient development of the investment property market in Ukraine and the number of tax accounting issues that arise when choosing one or another model of evaluation, the question arises: what value should be reflected: fair or cost?

First of all, it should be noted that both standards regulate the following methods of evaluation of investment property:

1. a fair value model – item 16 of NAS 32 and item 33 of IAS 40;
2. a cost model – item 16 of NAS 32 and item 56 of IAS 40.

In particular, item 31 of IAS 40 emphasizes the following: «It is unlikely that the replacement of the fair value model to the cost model will lead to a more reliable presentation» [1]. So, despite of the same recommendations, there is a difference: the international standard prefers an approach to valuation at fair value.

If company has chosen a fair value model, then at each balance sheet date, the amount of the change in the fair value of investment property will be recognized in other operating income or other operating expenses in accordance with item 22 of NAS 32 [2] or, in accordance with item 62 of IAS 40, is recognized as net profit or loss [1].

Item 32 of IAS 40 addresses in detail the issue of valuation of investment property: it is recommended (but not required) to determine the fair value of this asset with the help of a qualified independent appraiser [1]. Attention to this issue isn't paid in NAS 32.

Item 55 of IAS 40 encourage the application of an appraisal at fair value until the moment of the asset's abolition, «even if comparable market transactions become less frequent or market prices become less available» [1]. In other words, even if situations that complicate the process of determining fair value arise, the international standard foresees the continuation of the using of this model. At the same time, item 17 of NAS 32 recommends using the fair value model until the fair value can be measured reliably [2].

In addition, accounting by fair value (prioritized for IFRS) assumes that investment property is recorded in the financial statements at fair value and depreciation is not commenced in this case. Hence, in the opinion of Kireytsev G.N., there are several possible issues in reflecting such investment property in the tax accounting:

1. the procedure of accounting for expenses for the purchase of investment property is not specified;

2. controversial participation in the book value of investment property in the calculation of the 10% limit for repairs [3].

According to Suprunova I.V., in the conditions of weak development of the property market in Ukraine, «of limited information about market transactions with such objects» there is a need to substantiate the feasibility of carrying out an investment property valuation at fair value [4, p.280]. Nevertheless, the scientific community has not yet formed the final opinion about the valuation of investment property at fair value in our country.

If the entity has selected cost model, then, at the balance sheet date, the cost of investment property is measured at cost less accumulated depreciation, less impairment losses and recoverable benefits recognized at NAS 28 [5, p. 868].

In accordance with item 10 of NAS 32, the cost of investment property includes:

1. amounts, paid to suppliers and contractors for the construction and installation work (excluding indirect taxes);

2. registration fees, government fees and similar payments made in connection with the acquisition of rights to investment property;

3. the amount of indirect taxes in connection with the acquisition (creation) of investment property (if they are not reimbursed);

4. legal services, commission fees associated with the acquisition of investment property;

5. other expenses directly related to the acquisition and bringing of investment property objects into a state in which they are suitable for use [2].

In a situation when an entity chooses a cost model because of the inability to determine fair value, investment property is not subject to revaluation.

Based on the general situation and on a set of all facts, we can formulate the following conclusions:

1. the valuation of investment property at fair value is relevant for economic entities that compile financial statements according to international standards (securities issuers admitted to trading, stock market participants, joint investment institutions, etc.), since this model prevails in international practice;

2. The choice of the method of assessing investment property at cost is more appropriate for the formation of ordinary legal entities operating in the territory of Ukraine, since, as noted earlier, the determination of fair value causes difficulties due to insufficient development of the market of property, moreover, the cost model has documentary evidence and does not require a large number of assumptions.

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