Classification of the Properties According To Turkish Accounting Standards and Accounting of Investment Properties in Scope of Tms-40

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Extensive Summary

The main aim of Accounting Standarts is to provide accurate information to financial statement users. So, property should be classified correctly in the financial statements. Properties is generally defined as land and all things that are permanently attached to it. With regard to intended use, properties is subject to different standarts. Accordingly:

- Property held for sale in the ordinary course of business or in the process of construction of development for such sale (IAS 2 Inventories)
- Property being constructed or developed on behalf of third parties (IAS-11 Construction Contracts)
- Owner-occupied property (IAS 16 Property, Plant and Equipment), 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 and owner-occupied property awaiting disposal.
- 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. (IAS 40 Investment property)

With the standart no 40, “Accounting of Investment Property”, notion of property has took on a different. Distinguishing between investment and owner-occupied property is justified by reference to differing economic characteristics. Hand- held properties to get rental income and to acquire capital gain are different from other properties with respect to cash generation and capital gain. Determination of cash generating units from property is to be essential for both making a correct analysis and providing accurate information to financial statement users.
Management is required to choose between the application of the fair value model and the cost model for the accounting of investment properties. Once the decision is taken, it is applied consistently to all investment properties. There is a requirement to re-measure property under construction at fair value if the fair value model is applied. According to the fair value model in IAS 40, investment properties should be continually reported at their fair value, and changes in value represent a component of profit for the year.

IAS 40.07 explains that investment property generates cash flows that are largely independent of other assets of the business while the cash flows generated by owner-occupied property are interdependent with other assets of the firm. Examples of investment property: [IAS 40.8]

- land held for long-term capital appreciation
- land held for undetermined future use
- building leased out under an operating lease
- vacant building held to be leased out under an operating lease
- property that is being constructed or developed for future use as investment property

The objective of this study is to classify the property according to TMS and demonstrated of accounting of investment properties under the scope of the TMS-40. Real Estate Properties for investment purposes have been examined under the scope of the TMS 40 in the study and model practice relevant with the subject were attempted to be given.