

## **Separation of dual purpose asset as investment property and property plant & equipment**

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### **Introduction**

Nisansala Fresh Teas (Private) Limited is a limited liability company incorporated in and domiciled in Sri Lanka. The principal activity of the company which is carry on the business of manufacturers and exports of Bulk Tea, Tea packets, Tea Bags and other kinds of products and by products processed or made of tea. Company has a building with four floors which were used for dual purpose for rent and administration and these two portions can be sold separately. However, company has been unable to get fair value assessment of the investment property as at the reporting date in Statement of Financial Position. Therefore, whole property has been shown as property plant & equipment in the financial statement at cost as one unit.

Company has incurred additional cost such as decoration part, air condition, attached bathroom, and entertainment facilities etc., to upgrade the part of the building that has been given for rent. However it is not practical for company to separate the cost additionally they incurred and fair value of the investment property.

### **Discussion of the Issue**

According to the Section 17 SLFRS for SMEs mixed use property shall be separated between investment property and property plant & equipment. However, if the fair value of the

investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant & equipment. However, The Company wishes to recognize two parts as property plant & equipment at cost and Investment Property at fair value.

The impact of this issue to the statement of comprehensive income and the statement of financial position are as follows.

- ✓ Depreciation may be over stated.
- ✓ A gain or loss arising from a change in the fair value of investment property not included in the profit & loss account.
- ✓ Investment property also included in the property, plant & equipment. Therefore, it not appropriate for proper presentation.

### **Conclusions and Recommendations**

It is recommended that one of the following methods to be used to determine the fair value of the property In the absence of current prices in an active market an entity considers information from a variety of sources, including;

- a) The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.
- b) Recent prices of similar properties on less active markets.
- c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using

discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.