Developing Standards for the Canadian Real Estate Industry

Our initial view of some of the key IFRS accounting issues

Area	Key Issues	What real estate entities need to consider
Investment Properties	How should investment properties be classified and valued: (a) at time of recognition and (b) on an on-going basis	Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, IFRS provides organizations with the accounting policy choice for investment properties. Entities may value investment properties utilizing the fair value or cost-based model. Where the cost-based model is used, disclosure of the fair values the investment properties is still required in the notes to the financial statements. Our experience in other countries that have adopted IFRS is that the fair value model is generally used.
Assets Held for Sale and Discontinued Operations	How are discontinued operations accounted for?	IFRS 5 has a more restrictive definition of what constitutes a discontinued operation. In general, it is expected that real estate organizations will have fewer instances where they must present individual or held for sale properties as a discontinued operation.
Start-up Costs	How are start-up costs accounted for?	IFRS allows only certain start-up and pre-completion costs to be capitalized (i.e. those that are directly attributable to bringing an asset to the location and conditions necessary to bring the asset to operation as intended by management).
Leases and Revenue Recognition For Investment Properties	How are leases accounted for?	Canadian GAAP has more prescriptive guidance in classifying leases as either operating or capital (finance). IFRS determines lease classification based on guidelines and professional judgment around risk and rewards. In addition, under IFRS termination payments for a lease are recognized as revenue when the termination is negotiated and the fee is paid, which differs from Canadian GAAP (i.e. revenue is recognized when the tenant forgoes the rights and obligations from the use of the space).
Joint Ventures	How are joint ventures accounted for?	Under IFRS, joint ventures are currently permitted to be accounted for using either proportionate consolidation or equity accounted for. There is an IASB working group currently reviewing the joint venture accounting standard, which is aiming to align IFRS with US GAAP, which prohibits that proportionate consolidation method.
Impairment Testing	CGU definition and the one step impairment test	Under IFRS, impairment testing is performed at the Cash Generating Unit (CGU), which may be at a more detailed level than current Canadian GAAP requirements. In addition, IFRS tests impairment using discounted cash flows, which differs from the Canadian requirement of using undiscounted cash flows. Value in use calculations can also be complicated under IFRS (i.e. assessing a reasonable period for 'value in use' calculations). Furthermore, impairment charges are also subject to reversal under IFRS.

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