Real estate valuation for IFRS purposes
In accordance with new legislation, many Russian public companies are required to adopt IFRS starting from 2012. IFRS and Russian accounting principles differ in several ways, and in particular with regard to valuation issues.

For real estate organisations and companies that have significant real estate properties on their balance sheet, the move to IFRS could have enterprise-wide implications.

Both companies that plan to apply IFRS and companies that already prepare IFRS financial statements face a number of difficulties in relation to the valuation of real estate assets for financial reporting purposes.

In accordance with IFRS, there are several types of real estate properties. The classification will determine the available accounting options for their subsequent measurement.

**Investment property**

...is real estate held to earn rental income or for capital appreciation, or both.

IFRS has a special standard addressing accounting for investment property, and it allows the use of either the fair value model or the cost model to account for such properties.

Many Russian entities already applying IFRS select the fair value model and demonstrate changes in the value of the properties in the annual financial statements.

If a company selects the cost model, the fair value needs to be disclosed in the statements for information purposes.

**Property, plant, and equipment (PPE)**

...comprises property held by the owner for use in the production or supply of goods or services, or for administrative purposes.

Other owners of real estate, such as hotels, may be required to classify their investments as PPE.

IFRS requires entities to account for PPE using the cost model, unless the fair value can be measured reliably, in which case the revaluation model may be used.

**Inventory**

...comprises property held by a real estate entity for sale in the ordinary course of business or in the process of development for sale (e.g., residential buildings for subsequent sale by a construction company).

Inventory is required to be recorded at the lower of cost and net realisable value.

In practice there are several cases that require specific consideration, e.g., classification and valuation of mixed-use properties, assets held for sale, allocation of the value of the total property between land and building components, treatment of assets under operating or finance lease, indications of impairment of properties and analysis of the fair value or value in use of properties during impairment testing.

Many issues require knowledge of both accounting standards and valuation methodology, as well as experience of their application in the real estate market.
KPMG performs valuations...

...of the following real estate assets:
- Land
- Residential properties
- Business centers
- Shopping malls
- Logistic complexes
- Warehouses
- Development rights
- Hotels
  ... in use and under construction
  ... leasehold or freehold

...and in accordance with the following standards:
- IFRS 1 First-time adoption of IFRS
- IFRS 3 Business combinations
- IAS 2 Inventories
- IAS 16 Property, plant and equipment
- IAS 17 Leases
- IAS 36 Impairment of assets
- IAS 40 Investment property
- IFRS 5 Non-current assets held for sale and discontinued operations

The KPMG real estate practice has significant experience in the valuation and review of valuation results and pays attention to the consistency between periods and different assets in accounting treatment, the valuation methodology applied and the reasonableness of the results.

Is the property planned to be sold in the normal course of business?

Yes

The property is treated as inventory.
Accounted for under IAS 2 at the lower of cost and net realisable value

No

Is the property mainly used by the owner for its own purposes?

Yes

The property is treated as fixed assets.
Accounted for under IAS 16 under the cost or fair value model

No

The property is treated as investment property.
Accounted for under IAS 40 under the cost or fair value model

Special cases:
- Properties held under lease (operating/finance)
- Allocation of fair value (land/building)
- Change in use (inventory/fixed assets/investment property/assets held for sale)
- Mixed-use properties (e.g. hotels)
- Analysis of indications of impairment, analysis of fair value or value in use of real estate properties and cash generating units (CGUs)
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Why KPMG?

• High qualified appraisers and accountants  
• Significant experience in audit of real estate companies  
• Broad experience in valuation of assets of real estate companies  
• >100 reviews of assets valued for IFRS purposes per annum  
• We will help to smooth the process of the review of the valuation results by your auditors

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