

## Learning objectives

In this learning path, you will learn the principles of accounting for tangible assets, in particular for Investment Property (IP) and Property, Plant and Equipment (PPE). After completion of this learning path you

1. are able to classify tangible assets,
2. know the recognition criteria as well as the measurement of Investment Property (cost model, fair value model),
3. know the recognition criteria as well as the measurement of Property, Plant and Equipment (cost model, revaluation model).

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## Definition of Investment Property

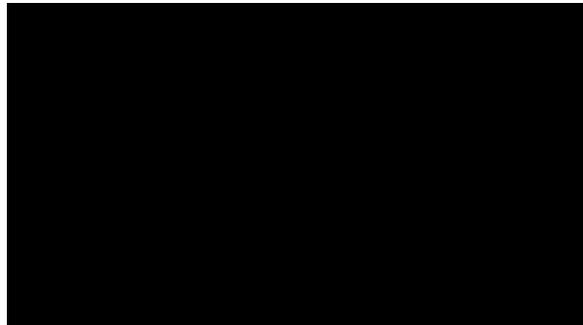
In IFRS, before we can account for a business transaction or an item in the balance sheet, we first have to **classify it**, i.e., determine which standard has to be applied. Afterwards, you can do the accounting treatment according to the relevant standard.

Accounting for assets in general involves the following steps:

- **Recognition:** does the transaction result in an asset and is this asset recorded on the balance sheet (or is it alternatively an expense)?
- **Initial measurement:** at which value is the asset recorded in the balance sheet at the transaction date?
- **Presentation:** where is the asset recorded in the balance sheet (current vs. non-current assets)?
- **Subsequent measurement:** at which value is the asset recorded in the balance sheet at the fiscal year end (e.g. December 31st)?  
Some assets are revalued at each fiscal year-end, while others remain on the balance sheet with their initial value.
- **Disclosure:** what do companies have to disclose about the asset in the notes?
- **Derecognition:** when is the asset removed from the balance sheet (e.g. when it is sold or when it is disposed of)?

To classify tangible assets, we first determine whether they are current or non-current. Current assets are e.g. inventories, which we consider later. Non-current assets can be investment property or property, plant and equipment.

To differentiate between investment property and property, plant and equipment, we first need to know more about their definitions. Please watch the following video to learn more about the definitions.



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## Recognition of Investment Property

If the company has classified an asset as an investment property, we use IAS 40, which provides the accounting rules for investment property.

According to the aforementioned procedure, we first analyze the recognition of investment property. The standard tells us: Investment Property is recognized in the statement of financial position if the following recognition criteria are met (IAS 40.16):

1. it is probable that the **future economic benefits** associated with the investment property will flow to the entity, and
2. the cost of the investment property can be **measured reliably**.

For investment property controlled by an entity, these criteria are basically always met. Thus, recognition is easy for investment property: all are recognized on the balance sheet. More complicated is the (initial and subsequent) measurement, which is explained on the next pages.

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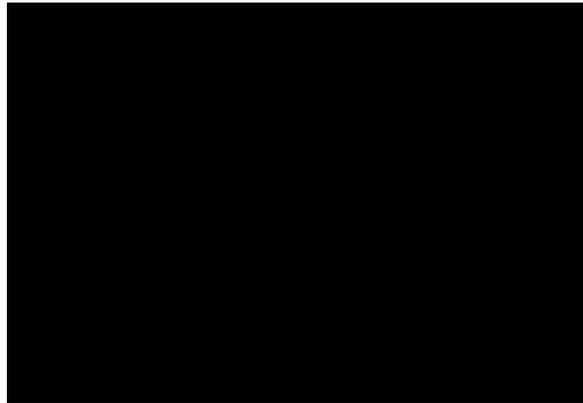
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## Initial measurement of Investment Property

To learn more about the initial measurement of investment property please watch the following video (hint: this video explains the initial measurement of assets in general. However, these rules apply to all assets, including investment property):



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## Exercise: initial measurement

To illustrate the calculation of cost, consider the following example:

The Bavarian car manufacturer WMB AG purchased a building on February 2, 20X1. The purchase price was 3,570,000€ (incl. 19% VAT). WMB negotiated a cashback of 2% of the purchase price in case they pay the amount within 14 days. The WMB AG transfers the purchase price on February 10, 20X1. A certifying notary charges fees of 23,800€ (incl. 19% VAT). The WMB AG has to pay a real estate transfer tax of 150,000€. An internal employee was busy searching for a suitable building for 50 hours by assessing various alternatives and her wage is on average 50€ per hour. Moreover, the WMB AG has to do some refurbishment work so that it can use the building for renting it out (directly attributable costs for the work: 200,000€, production overheads for the work: 10,000€). The useful life of this building is 20 years.

What are the recognizable costs of the building? What are the correct booking entries for this purchase?

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## Solution (exercise): initial measurement

### Solution:

To determine the cost of the Investment Property, we apply the aforementioned scheme of initial measurement. In this example, we have the cost of purchase. The purchase price is 3,000,000€. We add the non-refundable real estate transfer tax which amounts to 150,000€. We subtract any trade discounts and rebates which amount in our case to  $3,000,000€ \cdot 0,02 = 60,000€$ . Next, we add any directly contributable costs necessary to bring the asset to the location and condition for it to be capable of operating [IAS 16.17]. In our case, this includes the net notary fees (without VAT) of  $23,800€ \cdot 100/119 = 20,000€$  and the directly attributable costs for refurbishment amounting to 200,000€. Overheads as well as the search costs are not included as these are no directly attributable costs. As a result, the cost of the Investment Property is 3,310,000€. In short:

Purchase price: 3,000,000€ (excluding VAT)

(-) Purchase price reductions:  $3,000,000€ \cdot 0,02 = 60,000€$

(+) Directly attributable costs:

$23,800€ \cdot 100/119 = 20,000€$  (notary)

150,000€ (non-refundable tax)

(+) Directly attributable costs for refurbishment: 200,000€ (no overheads!)

**Cost of the investment property: 3,310,000€**

For our posting, we need to know which T-accounts are affected. In this case, Investment Property, as well as Bank, are both asset-side T-accounts. This means that additions are posted on the debit side and subtractions on the credit side. As this Investment Property was purchased via bank transfer, we have an increase in Investment Property and a decrease in Bank. Thus, the booking entry of this purchase (ignoring VAT) is:

D: Investment Property 3,310,000€ C: Bank 3,310,000€

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## Subsequent measurement of Investment Property

After the investment property has been recorded at cost in the balance sheet (initial measurement), the next important step is the subsequent measurement at the fiscal year-end.

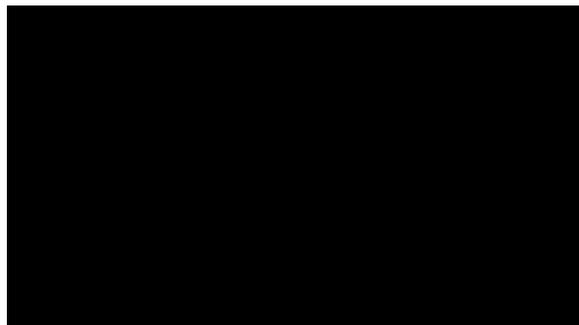
IAS 40 provides an **option** to managers. It allows using either the **cost model** [IAS 40.56] or the **fair value model** [IAS 40.33 ff.]. Thus, managers are free to choose between these two models but have to apply the chosen model consistently for all investment properties on the balance sheet. In the following, you will learn how these two models work.

According to the **cost model**, the (new) carrying amount (=book value) of the asset at the fiscal year end is basically the original cost (at the date of transaction) minus **depreciation**. Depreciation is a kind of fictitious decrease in value. In most cases the straight-line depreciation is applied, i.e. you lower the original cost each year by the same amount of money until the end of the useful life. E.g. if you estimate the useful life of a building as 20 years and the initial cost was 1,000,000 €, then you lower the value each year by  $1,000,000 / 20 \text{ years} = 50,000 \text{ €}$ . After one year the carrying amount is only 950,000 €, after two years 900,000 €, etc. The depreciation charge is recognized as expenses (here 50,000 € each year). Please note that **land is not depreciated**, because its useful life is assumed to be indefinite. So, land basically remains in the balance sheet at its initial cost.

There are other methods of depreciation which are explained in the following video:



Overall, the **cost model** assumes a certain decrease in value, which does not have to correspond with the "market price" of the asset. For real estate, the market price might increase, but the value in the balance sheet decreases by the depreciation. One exception is a so-called **impairment**, which is a kind of unscheduled write-down after the depreciation is charged. These impairments could also happen for land. Details on impairments are explained in the following video:



In the last video, you learned that you have to discount the future cash flows of a CGU in order to calculate the value in use. In the next video, Prof. Ernstberger will explain to you the concept of discounting.



The second model for subsequent measurement of investment property (besides the cost model) is the **fair value model**. According to this model, the asset is valued at (the current) fair value at the fiscal year-end. IAS 36.6 defines fair value as "(...) the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The fair value is thus a kind of current market price for an asset.

To illustrate how the fair value model works, we assume again that we have investment property with initial cost of 1,000,000 €. If the fair value increases until the fiscal year end to 1,200,000 €, you remeasure the asset to 1,200,000 €. The value increase is recognized as income. If the fair value decreased to 900,000 €, you would remeasure the asset to 900,000 €. The value decrease is recognized as expense.

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## Exercise: subsequent measurement of Investment Property

The Florida Group purchased a building for 10,000 T€ (excluding VAT) at the beginning of the fiscal year 20X1. The estimated useful life of the building is 50 years, and the Florida Group pays in cash. The building is used as an investment property, and it is assumed that there will be no residual value at the end of its useful life. An independent expert assesses the value of the building at the end of the fiscal year 20X1 and concludes that its value is 11,800 T€. At the end of the fiscal year 20X2 there is no change in the value of the building. At the end of the fiscal year 20X3, an independent expert again evaluates the property and confirms that the fair value remains unchanged. Florida Group demonstrates strong negotiation skills and manages to sell the building for 12,000 T€. After long discussions, the Florida Group accepts the offer, and the selling price is paid in cash.

- a) The Group applies the fair value model. What are the booking entries for the fiscal years 20X1-20X3?  
b) The Florida Group applies the cost model. The initial costs shall be straight-line depreciated over the useful life of 50 years. What are the booking entries for the fiscal years 20X1-20X3? (Please also perform depreciation in 20X3)

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## Solution (exercise): subsequent measurement of Investment Property

### Solution:

#### a) Fair value model

20X1:

To recap, Investment Property, as well as Cash, are both asset-side T-accounts. This means that additions are posted as debit and subtractions as credit. As Investment Property was purchased via cash, we have an increase in Investment Property and a decrease in Cash. In choosing the fair value model we are comparing the carrying amount (10,000T€) with the fair value (11,800T€). According to IAS 40.35, a gain or loss arising from a change in the fair value shall be recognized in profit or loss. Thus, we have a gain from the change in fair value amounting to 1,800T€ which is recognized as income in the profit and loss statement. The booking entries for 20X1 (ignoring VAT) are:

Purchase: D: Investment Property C: Cash 10,000T€

Fiscal year-end: D: Investment Property C: Income 1,800T€

20X2:

As we do not have any changes in the fair value we do not change the carrying amount. Thus, we have no booking entries.

20X3:

In 20X3 the Investment Property is sold for 12,000T€. The respective carrying amount of the Investment Property is 11,800T€. As the amount of money you are receiving is higher than the carrying amount you recognize an income from the disposal of the Investment Property. It amounts to the difference between the selling price and the carrying amount. In this case, we have an income of 200T€. Thus, our booking entry for 20X3 is:

Selling: D: Cash 12,000T€ C: Investment Property 11,800T€  
C: Income 200T€

#### b) Cost model

20X1:

The booking entry of the purchase is exactly the same as described in the fair value model solution.

According to the cost model the new carrying amount is calculated as cost less any accumulated depreciation and any accumulated impairment losses. At the end of 20X1, we have to account for our yearly depreciation amounting to  $10,000T€/50 = 200T€$ . Depreciations are expenses posted as debit. Thus, our booking entries for 20X1 are:

Purchase: D: Investment Property C: Cash 10,000T€

Depreciation: D: Depreciation C: Investment Property 200T€

20X2:

In 20X2 we have to account for our annual depreciation, so our booking entry is:

Depreciation: D: Depreciation C: Investment Property 200T€

20X3:

In 20X3 the Investment Property is sold for 12,000T€. The carrying amount of the Investment Property is still 9,600€ (however, one could also do a depreciation until the date of the selling transaction; then the carrying amount would be 9,400€). As the amount of money you are receiving is higher than the carrying amount you recognize an income from the disposal of the Investment Property which is the difference between the selling price and the carrying amount. In this case, we have an income of 2,400T€. Thus, our booking entry for 20X3 is:

Depreciation: D: Depreciation C: Investment Property 200T€

Selling: D: Cash 12,000T€ C: Investment Property 9,400T€  
C: Income 2,600T€

Comparing the cost model and the fair value model we see a net balance of our expenses/income of 2,000T€ for both models. However, the timing of these expenses/income is different for both models. For the value model, we have an income of 1,800T€ in 20X1 and 200T€ in 20X3. For the cost model we have expenses at each year of 200T€ (in total:  $3 \cdot 200T€ = 600T€$ ) and an income of 2,600T€ in 20X3.

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## Derecognition of Investment Property

Derecognition describes the circumstances when an item is removed from the statement of financial position. You derecognize items of investment property

- on disposal or
- when the asset is permanently withdrawn from use and no future benefits are expected through disposal.

Please note that any differences between the carrying amount and net disposal proceeds are recognized as income or expense (see exercise on the previous page).

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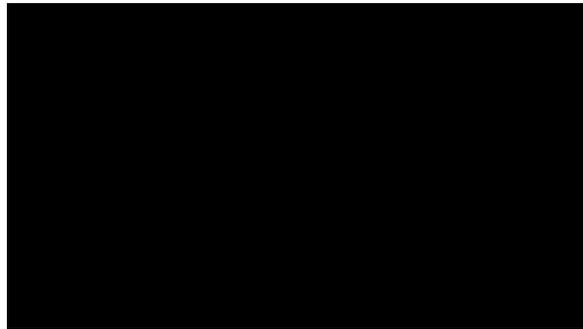
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## Definition of Property, Plant and Equipment

So far, you know the definition of Investment Property which is property (land or a building or both) held to earn rentals or for capital appreciation. However, if you for example have a property whose purpose is to use it in the production or supply of goods or services or for administrative purposes, you have to apply another standard which is IAS 16 "Property, Plant and Equipment (IAS 16.6)".

For the definition of Property, Plant and Equipment (IAS 16.6) see the following video:



Below you can see the two balance sheets of BMW and Vonovia. BMW is a classic car manufacturer that needs a lot of Property, Plant and Equipment for its production. Accordingly, the Property, Plant and Equipment in the balance sheet is high:

### BALANCE SHEET FOR BMW GROUP AT 31 DECEMBER 2024

| in € million                                      | Note      | Group          |                | Automotive<br>(unaudited supplementary information) |                | Motorcycles<br>(unaudited supplementary information) |              | Financial Services<br>(unaudited supplementary information) |                | Other Entities<br>(unaudited supplementary information) |                | Eliminations<br>(unaudited supplementary information) |                 |
|---|-----------|----------------|----------------|---|----------------|--|--------------|---|----------------|---|----------------|---|-----------------|
|   |           | 2024           | 2023           | 2024  | 2023           | 2024   | 2023         | 2024  | 2023           | 2024  | 2023           | 2024  | 2023            |
| <b>ASSETS</b>                                     |           |                |                |   |                |  |              |   |                |   |                |   |                 |
| Intangible assets                                 | 21        | 20,220         | 20,022         | 19,630  | 19,439         | 220  | 216          | 369   | 366            | 1   | 1              | -   | -               |
| <b>Property, plant and equipment</b>              | <b>22</b> | <b>39,581</b>  | <b>35,266</b>  | <b>38,909</b>                                       | <b>34,639</b>  | <b>588</b>   | <b>533</b>   | <b>84</b>   | <b>94</b>      | <b>-</b>  | <b>-</b>       | <b>-</b>  | <b>-</b>        |
| Leased products                                   | 23        | 48,838         | 43,118         | -   | -              | -  | -            | 57,249  | 50,415         | -   | -              | -8,411  | -7,297          |
| Investments accounted for using the equity method | 24        | 553            | 443            | 553   | 443            | -  | -            | -   | -              | -   | -              | -   | -               |
| Other investments                                 |           | 1,099          | 1,197          | 14,662  | 14,697         | -  | -            | 25  | 28             | 23,187  | 23,084         | -36,775   | -36,612         |
| Receivables from sales financing                  | 25        | 55,149         | 50,517         | -   | -              | -  | -            | 55,299  | 50,657         | -   | -              | -150  | -140            |
| Financial assets                                  | 26        | 834            | 1,387          | 315   | 588            | -  | -            | 192   | 256            | 471   | 643            | -144  | -100            |
| Deferred tax                                      | 13        | 3,244          | 2,431          | 3,336   | 3,216          | -  | -            | 597   | 506            | 57  | 22             | -746  | -1,313          |
| Other assets                                      | 28        | 1,827          | 1,537          | 2,061   | 2,296          | 18   | 18           | 2,906   | 2,852          | 41,499  | 35,249         | -44,657   | -38,878         |
| <b>Non-current assets</b>                         |           | <b>171,345</b> | <b>155,918</b> | <b>79,466</b>                                       | <b>75,318</b>  | <b>826</b>   | <b>767</b>   | <b>116,721</b>  | <b>105,174</b> | <b>65,215</b>   | <b>58,999</b>  | <b>-90,883</b>  | <b>-84,340</b>  |
| Inventories                                       | 29        | 24,387         | 23,719         | 22,372  | 22,121         | 919  | 905          | 1,096   | 693            | -   | -              | -   | -               |
| Trade receivables                                 | 30        | 2,834          | 4,162          | 2,449   | 3,875          | 132  | 102          | 252   | 184            | 1   | 1              | -   | -               |
| Receivables from sales financing                  | 25        | 38,569         | 36,838         | -   | -              | -  | -            | 38,569  | 36,838         | -   | -              | -   | -               |
| Financial assets                                  | 26        | 2,565          | 4,131          | 1,561   | 2,888          | -  | -            | 613   | 558            | 423   | 692            | -32   | -7              |
| Current tax                                       | 27        | 1,316          | 1,199          | 715   | 911            | -  | -            | 154   | 102            | 447   | 186            | -   | -               |
| Other assets                                      | 28        | 7,429          | 7,596          | 23,152  | 24,925         | 17   | 7            | 4,375   | 3,753          | 64,227  | 57,638         | -84,342   | -78,727         |
| Cash and cash equivalents                         |           | 19,287         | 17,327         | 14,853  | 13,590         | 21   | 36           | 3,103   | 3,090          | 1,310   | 611            | -   | -               |
| <b>Current assets</b>                             |           | <b>96,387</b>  | <b>94,972</b>  | <b>65,102</b>                                       | <b>68,310</b>  | <b>1,089</b>   | <b>1,050</b> | <b>48,162</b>   | <b>45,218</b>  | <b>66,408</b>   | <b>59,128</b>  | <b>-84,374</b>  | <b>-78,734</b>  |
| <b>Total assets</b>                               |           | <b>267,732</b> | <b>250,890</b> | <b>144,568</b>                                      | <b>143,628</b> | <b>1,915</b>   | <b>1,817</b> | <b>164,883</b>  | <b>150,392</b> | <b>131,623</b>  | <b>118,127</b> | <b>-175,257</b>                                       | <b>-163,074</b> |

Vonovia, on the other hand, is a property firm, which sells, buys and develops property. As a result, Vonovia only has a rather small Property, Plant and Equipment item (probably a few administrative buildings) on its balance sheet, whereas Investment Property is the largest item. This includes property held to earn rentals or capital appreciation or both:

# BALANCE SHEET FOR VONOVIA SE AT 31 DECEMBER 2024

| in € million                                      | Notes | Dec. 31, 2023   | Dec. 31, 2024   |
|---|-------|-----------------|-----------------|
| <b>Assets</b>                                     |       |                 |                 |
| Intangible assets                                 | D25   | 1,423.7         | 1,424.4         |
| Property, plant and equipment                     | D26   | 655.1           | 743.8           |
| Investment properties                             | D27   | 81,120.3        | 78,343.1        |
| Financial assets                                  | D28   | 1,456.3         | 1,181.1         |
| Investments accounted for using the equity method | D29   | 157.9           | 344.3           |
| Other assets                                      | D30   | 221.7           | 267.0           |
| Deferred tax assets                               |       | 86.4            | 23.2            |
| <b>Total non-current assets</b>                   |       | <b>85,121.4</b> | <b>82,326.9</b> |
| Inventories                                       | D32   | 19.7            | 13.2            |
| Trade receivables                                 | D33   | 593.2           | 584.6           |
| Financial assets                                  | D28   | 1,007.8         | 866.8           |
| Other assets                                      | D30   | 660.3           | 674.5           |
| Income tax receivables                            | D31   | 178.2           | 177.0           |
| Cash and cash equivalents                         | D34   | 1,374.4         | 1,756.7         |
| Real estate inventories                           | D35   | 1,957.7         | 1,608.0         |
| Assets held for sale                              | D36   | 313.1           | 1,498.7         |
| Assets from discontinued operations               | D36   | 770.1           | 729.9           |
| <b>Total current assets</b>                       |       | <b>6,874.5</b>  | <b>7,909.4</b>  |
| <b>Total assets</b>                               |       | <b>91,995.9</b> | <b>90,236.3</b> |

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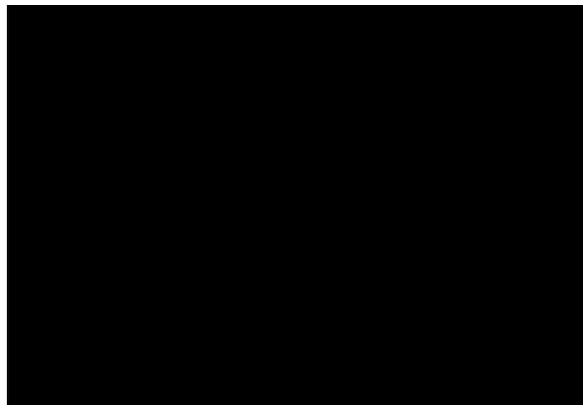
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## Recognition and initial measurement of Property, Plant and Equipment

The recognition criteria for Property, Plant and Equipment are defined in IAS 16.7 and are the same as for Investment Property. You recognize a tangible asset as Property, Plant and Equipment if **future economic benefits** associated with the item will probably flow to the entity and the cost of the item can be **measured reliably**.

The initial measurement of Property, Plant and Equipment follows the same rules as the initial measurement of Investment Property. For repetition purposes, you can watch the following video regarding the initial measurement of assets again.



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## Subsequent measurement of Property, Plant and Equipment and derecognition

IAS 16 allows you to use two subsequent measurement models for Property, Plant and Equipment which are the cost model [IAS 16.30] and the revaluation model [IAS 16.31 ff.].

Under the **revaluation model**, the asset is also revalued at fair value. However, this revaluation does not happen every year but only every second, third, fourth, or even only every fifth year (e.g. for a frequency of three years the revaluation would happen in 2021, 2024, 2027, 2030, etc.). The **frequency of revaluations** depends on the volatility of fair values of the specific asset, i.e. how fast the value changes, which means the more volatile the fair values are, the more frequent the revaluations happen. For assets with fast-changing values the frequency should be higher (e.g. every second year), for slow-changing fair values the frequency can be lower (e.g. every fifth year). Besides the remeasurement, **every year the asset is depreciated** from the carrying amount of the last year. For the asset with the three-year frequency from above, this would mean: 2021: depreciation and remeasurement (at fair value), 2022: depreciation, 2023: depreciation, 2024: depreciation and remeasurement, 2025: depreciation, 2026: depreciation, 2027: depreciation and remeasurement). There could also be an impairment if necessary in all years. Please note that the remeasurement changes the carrying amount and this new carrying amount is then the new basis for the depreciation in the next year.

The revaluation model is a mix between the cost model and the fair value model. Under this model, an asset is carried at its fair value at the date of the revaluation less any accumulated depreciation and any accumulated impairment losses. The purpose is to ensure that the difference between the carrying amount and the fair value is not material. Next, let`s have a look at what happens if there is a difference between the carrying amount and the fair value at the revaluation date. If the revaluation increases the value, this increase is basically included in other comprehensive income (OCI), if the remeasurement decreases the value, this decrease is basically an expense. This is a kind of asymmetric recognition of these value changes. Further details can be found in IAS 16 but are not covered in this course.

**The cost model** for Property, Plant and Equipment is exactly the same as the cost model for Investment Property which is cost less any accumulated depreciation and any accumulated impairment losses (for repetition purposes, please watch the following videos regarding depreciation and impairment):





The derecognition criteria for Property, Plant and Equipment are the same as for Investment Property. So, you derecognize Property, Plant and Equipment

- on disposal or
- when the asset is permanently withdrawn from use and no future benefits are expected through disposal.

Any differences between the carrying amount and net disposal proceeds are recognized as income or expense.

For example, WMB AG sold its machine used in the production of its engines for 1,000,000 € which was paid via bank transfer. The carrying amount of this Property, Plant and Equipment is 2,000,000 €. So you have an increase on your asset-side bank T-account of 1,000,000€, and a decrease on your asset-side Property, Plant and Equipment T-account of 2,000,000€. As the amount of money you are receiving is lower compared to the carrying amount, you recognize an expense from the disposal of the Property, Plant and Equipment which is the difference between the carrying amount and the selling price. Thus, the respective booking entry of this business transaction is:

D: Bank 1,000,000€      C: Property, Plant and Equipment 2,000,000€

D: Expense 1,000,000€

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## Comparison between IFRS and German GAAP

For German GAAP there is no distinction between Investment Property and Property, Plant and Equipment which means that both are accounted for exactly the same way under German GAAP. Hereinafter, we are calling these tangible assets under German GAAP simply fixed assets.

Under German GAAP there is no explicit definition of fixed assets compared to IFRS. For initial measurement as well as derecognition there are virtually no differences between IFRS and German GAAP. However, there are some differences for recognition as well as subsequent measurement which are illustrated in the table below:

### Differences between IFRS and German GAAP

|                               | IFRS  | German GAAP   |
|-------------------------------|---|---|
| <b>Recognition</b>            | Recognition if <ul style="list-style-type: none"> <li>• future economic benefits associated with the item will probably flow to the entity and</li> <li>• the cost of the item can be measured reliably.</li> </ul>   | Recognition if <ul style="list-style-type: none"> <li>• the tangible asset has the properties of a fixed asset (§ 247 Abs. 2 HGB) and</li> <li>• are attributable to the merchant (personally and objectively)</li> </ul> |
| <b>Subsequent measurement</b> | Option for Investment Property: <ul style="list-style-type: none"> <li>• cost model</li> <li>• fair value model</li> </ul> Option for Property, Plant and Equipment <ul style="list-style-type: none"> <li>• cost model</li> <li>• revaluation model</li> </ul> | Only one approach is allowed which is the cost model (similar to IFRS)  |

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## The influence of tangible asset accounting on earnings management incentives

The choice of different depreciation methods allows managers to exercise some influence on the distribution of expenses over the useful life of assets, thus allowing managers to exercise influence on the carrying amount of assets which may be relevant for the calculation of some KPIs like ROA (= net income/total assets). An increase or decrease in the value of the assets, all else equal, decreases or increases the ROA. If the remuneration of management is partially dependent on ROA, this may provide an incentive for the management to increase ROA by the means of accounting choices as previously mentioned.

In the following example, we have a look at the effect of the cost model and the fair value model on the ROA.

The Florida Group purchases a building for 10,000 T€ (excluding VAT) at the beginning of the fiscal year 20X1. The estimated useful life of the building is 50 years and the Florida Group pays in cash. The building is used as an investment property and it is assumed that there will be no residual value at the end of its useful life. An independent expert assesses the value of the building at the end of the fiscal year 20X1 and concludes that its value is 11,800 T€. For simplification, we assume the following values before the booking entries of the respective subsequent measurement models on Dec 31st 20X1: total assets = 30,000T€ and net income = 900T€.

To recap, at the beginning of the fiscal year 20X1 the booking entry of this purchase is

D: Investment Property C: Cash 10,000T€

Depending on the chosen subsequent measurement model the booking entries on 31st Dec 20X1 are:

cost model: D: Depreciation C: Investment Property 200T€

fair value model: D: Investment Property C: Income 1,800T€

Considering our assumptions we get the following ROA depending on the choice of the subsequent measurement between the cost model and the fair value model

### choice of subsequent measurement

|     | cost model   | fair value model  |
|-----|--|---|
| ROA | $\frac{=(900 \text{ T€}-200\text{T€})/(30,000 \text{ T€}-200\text{T€})}{*100= 2.35\%}$ | $\frac{=(900 \text{ T€}+1,800\text{T€})/(30,000 \text{ T€}+1,800\text{T€})}{*100=8.49\%}$ |

Please note that the higher ROA under the fair value model reverses later (e.g., when the asset is sold) meaning that managers can only shift income from one period to another but cannot increase it forever.

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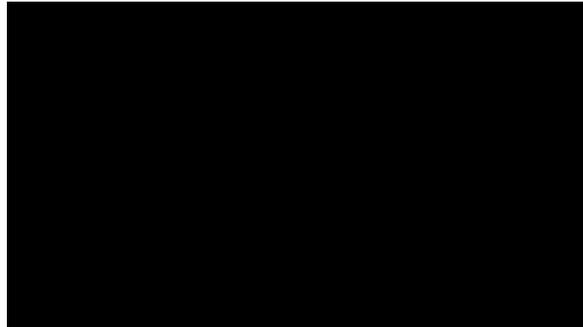
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## Recap

To wrap up this learning path "tangible assets" please watch the following video:



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