Leadership.
Influence.
Impact.

REALPAC

Recommended Accounting Practices for Real Estate Investment and Development Entities Reporting in Accordance with **IFRS**

Disclaimer

This publication is intended to provide general information and should not be relied upon as legal or other professional advice. Readers are urged to consult their professional advisors, including accountants, lawyers, etc.

Copyright

© 2017 REALPAC

This publication may not be reproduced or used in any form or by any means – graphic, digital, electronic or mechanical, including photocopying, scanning, recording, transmitting, taping or digital storing without the express written consent of the Real Property Association of Canada. All rights reserved.

Publication Data

Main entry under title:

Recommended Accounting Practices for Real Estate Investment and Development Companies Reporting IFRS

Includes glossary of terms and index.

ISBN: 978-0-9739934-3-1

Comments

If there are any comments with respect to this publication, please respond in writing to:

REAL PROPERTY ASSOCIATION OF CANADA
77 King St. W., TD North Tower, Suite 4030
P.O. Box 147
Toronto, Ontario M5K 1H1 Canada
Email: info@realpac.ca
Facsimile: 416-642-2727
Telephone: 416-642-2700
Web: www.realpac.ca

October 2017

On behalf of the members of the Real Property Association of Canada (REALPAC), we are pleased to offer the next update of the REALPAC IFRS Accounting Practices Handbook. The original REALPAC Accounting Practices Handbook started in 1970 and was developed and maintained by the Association as the source of industry practice for accounting for real estate under existing Canadian GAAP at that time.

Since that time, there have been many changes within IFRS, and REALPAC remains firmly committed to maintaining the currency and relevance of the REALPAC IFRS Accounting Practices Handbook to the evolving requirements of our industry, and in ensuring its consistency with IFRS.

Industry participants can keep up to date on other industry issues through REALPAC's website: www.realpac.ca.

We look forward to continuing our association with you well into the future.

S. Michael Brooks
Chief Executive Officer
REALPAC

October 2017

As Chair of the Financial Best Practices Committee and author of amendments to the REALPAC IFRS Handbook, I am pleased to be given the opportunity to provide supplemental guidance to the real estate industry. At REALPAC, we strive to lead the industry in the on-going development of financial accounting and reporting best practices, and this publication is a key element in demonstrating these efforts.

We look forward to continuing to influence accounting policies, analyze on-going changes and keep the industry updated with developments in IFRS that affect financial accounting and reporting in the real estate industry.

Nancy Anderson
VP Financial Reporting and Chief Financial Officer
REALPAC

Table of Contents

Disclaimer 1
Copyright 1
Publication Data 1
Comments 2
Table of Contents 5
Chapter 100 15
Introduction 15
101. Real Property Association of Canada 15
102. The Original Accounting Practices handbook 16
103. The REALPAC IFRS Handbook 18
103.1. Preparation 18
103.2. Application 19
103.3. Identification of Recommendations 20
103.4. Identification of Defined Terms 20
103.5. Effective Date 20
103.6. Additions and Revisions 20
103.7. Further Information 21
103.8. Contents 21
Chapter 150 22
Real Estate Properties 22
151. Introduction 22
151.3. Income-Producing Property 23
151.4. Depreciable Real Estate Property 23
152. Investment Property 23
153. Owner-occupied Property 24

154. Inventory Property 24
155. Non-current Assets Held for Sale 25
Chapter 175 26
Financial Instruments 26
175.1. Scope 26
Chapter 176 27
Classification and Measurement 27
176.1. Classification of Financial Assets 27
176.2. Classification of Financial Liabilities 29
176.3. Measurement of Financial Assets and Financial Liabilities 29
176.4. Classification and Measurement of Equity Instruments 30
Chapter 177 31
Impairment of Financial Assets 31
Chapter 200 34
Costs 34
201. Introduction 34
202. Preacquisition Costs 35
203. Property Acquisition Costs 35
203.3. Non-market Rate Debt 36
203.4. Reacquisition Through Foreclosure or Power of Sale 37
204. Development and Construction Costs 38
204.4. Amenities 39
204.5. Air Rights and Payments in Lieu 39
204.6. General and Administrative Expenses 40
204.7. Sales at Nominal Values 40
205. Carrying Costs 41
205.10. Borrowing Costs 42
205.11. Interest 43

205.12. Incidental Operating 46
205.13. Allocation of Carrying Costs to Land and Building 47
205.14. Realty Taxes 47
205.15. Property Taxes 48
206. Financing Costs 48
207. Initial Leasing Costs for Operating Leases 51
207.1. Types of Initial Leasing Costs 51
207.2. Direct Leasing Costs 51
207.3. Tenant Improvements 52
207.4. Tenant Incentives 53
207.5. Sales and Marketing Costs 54
208. Redevelopment Projects 55
209. Selling Costs of Inventory Property 56
210. Costs to Complete 58
211. Allocation of Costs 59
211.1. Methods of Allocation 59
211.2. Timing of Allocation 62
211.3. Revision of Estimates 62
212. Change in Use / Transfers 63
Chapter 250 64
Fair Value Measurement 64
251. Introduction 64
252. Definition of Fair Value 64
253. Highest and Best Use 65
254. Fair Value Hierarchy 67
255. Valuation Techniques 68
255.5. Market Approach 69
255.6. Cost Approach 69

255.7. Income Approach 70
Chapter 300 71
Impairment of Real Estate Properties 71
301. Introduction 71
302. Recognition and Measurement of Depreciable Real Estate Property 72
302.18. Fair Value Less Costs to Sell 75
302.19. Value in Use 76
303. Recognition and Measurement of Real Estate Property Classified as Inventory 78
303.5. Determination of Estimated Selling Price 79
303.6. Treatment of Future Carrying Costs 79
303.7. Other Costs 80
303.8. Provision for Loss 81
303.9. Recovery in Value 81
Chapter 400 83
Revenue and Profit Recognition on Sales of Real Estate 83
401. Introduction 83
402. Revenue and Profit Recognition on Sales of Real Estate 83
403. Step 1: Identifying the Contract 85
403.1. The Contract and the Customer 85
403.2. Collectability 85
404. Step 2: Identifying Performance Obligations 88
405. Step 3: Determining the Transaction Price 89
405.4. Variable Consideration 90
405.5. Non-Cash Consideration and Financing Components 91
406. Step 4: Allocating the Transaction Price 91
407. Step 5: Transfer of Control And Satisfying A Performance Obligation 92
407.2. Transfer of Control 92
407.3. Satisfying a Performance Obligation 92

407.4. Accounting for the Sale of Condominium Units 93
407.4.2. U.S. GAAP Guidance on the Sale of Condominium Units 93
407.5. Where Control Has Not Been Passed 93
407.6. Construction Contracts 96
408. Reporting Revenue Gross as a Principal Versus Net as an Agent 98
409. Lease Contract Modifications 98
410. Accounting for the Sale of Options 99
Chapter 500 101
Revenue and Profit Recognition for Income-producing Properties 101
501. Introduction 101
502. *Construction Completion Date* of Properties Under Construction 102
502.4. Multi-Phase or Use Developments 102
503. Rental Revenue and Expenses Prior to the *Construction Completion Date* of an Income-Producing Property 103
504. Leases to Anchor Tenants 104
505. Method of Recognition of Income 105
506. Contingent Rental Income 106
507. Lease Cancellation Fees 107
508. Re-leasing Costs 107
509. Refinancing Costs 110
510. Participating Mortgage Loans 111
511. Vendor Takeback Receivables 113
512. Long-term Replacement Items 114
513. Decommissioning Obligations 116
514. Unrealized Changes in Fair Value of Investment Property Measured Using the Fair Value Model Per IAS 40 118
515. Measurement Model for Owner-occupied Property: Cost or Revaluation on Model 119
515.2. Cost Model 119

515.3. Revaluation Model....119
516. Depreciation Recognized on Depreciable Real Estate Properties....121
516.2. Components and Useful Life....121
516.3. Method of Depreciation....123
516.4. Commencement of Depreciation....124
516.5. Periodic Review of Depreciation....124
516.6. Depreciation of Redeveloped Properties....124
Chapter 600....126
Investment in Joint Arrangements....126
601. Introduction....126
602. Criteria for the Identification and Classification of a Joint Arrangement....126
602.14. Example....129
603. Reporting Ownership of Joint Arrangements....131
604. Transactions with a Joint Operation....132
605. Transactions with a Joint Venture....132
606. Non-coterminous Year Ends and Other Issues....134
607. Accounting within Co-tenancies....135
Chapter 700....137
Foreign Currency Translation....137
701. Introduction....137
702. Functional Currency of Foreign Operations....137
703. Foreign Currency Denominated Monetary Items....138
704. Foreign Currency Denominated Non-monetary Items....139
Chapter 750....140
Disposal of Real Estate Property and Discontinued Operations....140
751. Introduction....140
752. Real Estate Property to be Disposed of other than by Sale....141
753. Real Estate Property to be Disposed of by Sale....141

754. Presentation 143
755. Additional Disclosures 145
Chapter 760 147
Derivatives 147
761. Introduction 147
762. Non-financial Derivatives and the Own-use Exception 147
763. Embedded Derivatives 149
764. Hedge Accounting 150
Chapter 800 152
Special Reporting Practices 152
801. Introduction 152
802. Statement of Financial Position 152
803. Statement of Cash Flows 154
803.3. Cash Flows from Operating Activities 155
803.4. Specific Items affecting Cash Flows from Operating Activities 155
803.5. Tenant Incentives 156
803.6. Gain or Loss on Sale of Property 159
803.7. Provision for Loss or Reversal of Provision for Loss on Inventory Property Held for Sale 160
803.8. Unrealized Changes in the Fair Value of Investment Properties Recognized in Profit or Loss 160
803.9. Changes in the Carrying Value of Depreciable Real Estate Property to Recognize an Impairment Loss, Reversal of an Impairment Loss, or a Revaluation Gain or Loss Impacting Profit or Loss 161
803.10. Non-Cash Interest Income or Expense 161
803.10.3. Application Of Paragraph 803.10.1. an Illustration of the Impact on the Statement of Cash Flows of Accounting for an Interest Discount 161
803.11. Preferred Share Dividends 163
803.12. Unrealized Changes in the Fair Value of *Financial Instruments* Recognized in Profit or Loss 164

803.13. Distinction Between Cash Flows from Operating, Investing and Financing Activities 164
803.14. Capital Improvements 167
803.15. Expenditures on Inventory Property Held for Sale 168
803.16. Expenditures on Income-producing Property 168
803.17. Construction Payables 168
803.18. Proceeds on Sale of Property or Recovery of Costs 168
803.19. Vendor Takeback Receivables 168
803.20. Expenditures on Long-term Replacement Items 169
803.21. Disclosures within the Statement of Cash Flows 169
804. Statement of Comprehensive Income 171
804.1. Recovery of Operating Costs 172
804.2. Sale of Income-producing Property 172
804.3. Unrealized changes in Fair Value of Investment Property measured at Fair Value 173
804.4. Provision for Loss or Reversal of Provision for Loss on Inventory Property Held for Sale 173
804.5. Provision for or Reversal of Impairment of Depreciable Real Estate Property 173
804.6. Revaluation Gains or Losses of Depreciable Real Estate Property 174
804.7. Tenant Incentives 175
804.8. Interest Income and Expense 176
805. Notes to the Financial Statements 176
805.1. Material Accounting Policies 176
805.2. Capitalized Costs 177
805.3. Joint Ventures 177
Chapter 900 178
Investment Properties 178
901. Introduction 178
902. Definition of Investment Property 178
903. Measurement at Recognition 180

904. Subsequent Measurement of Investment Property 181
905. Fair Value Model for Investment Property 182
906. Cost Model for Investment Property 184
907. Disclosures for Investment Property 185
907.2. Disclosures for Both the Fair Value Model and Cost Model 185
907.3. Additional Disclosures for the Fair Value Model 186
907.4. Additional Disclosures for the Cost Model 186
908. U.S. GAAP 187
Chapter 1000 188
Accounting Practices of Canadian Life Insurance Enterprises and Pension Plans 188
1001. Introduction 188
1002. Life Insurance Enterprises 189
1002.3. Legislation and Accounting Regulations 189
1003. Pension Fund Vehicles 190
1004. Pension Plans 190
Glossary Of Terms 192
REALPAC Funds From Operations (FFO) and Adjusted Funds from Operations (AFFO) for IFRS .. 203
Table of Contents 204
I. Introduction and Background 206
II. Intended Use of FFO and AFFO 209
III. FFO Definition 211
IV. Discussion of FFO Definition Adjustments 213
V. AFFO Definition 220
VI. Discussion of AFFO Definition Adjustments 221
VII. Suggested Additional Best Practices for AFFO 223
VIII. Disclosure of FFO and AFFO 224
IX. Implementation 224
X. Differences with Nareit and EPRA 225

REALPAC ADJUSTED CASH FLOW FROM OPERATIONS (ACFO) for IFRS 227
Table of Contents 228
I. Introduction and Background 229
II. Intended Use of ACFO 230
III. ACFO Definition 231
IV. Discussion of ACFO Definition Adjustments 232
V. Suggested Additional Best Practices for ACFO 237
VI. Disclosure of ACFO 238
VII. Implementation 238

Leadership.
Influence.
Impact.

REALPAC

REALPAC
77 King St West
TD North Tower
Suite 4030 PO Box 147
Toronto ON M5K 1H1
Canada

realpac.ca