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INVESTMENT PROPERTY ACCOUNTING THROUGH THE LENS OF CONVERGENCE OF THE INTERNATIONAL STANDARDS

Modern condition of the investment property accounting methodological basis was assessed hereby. It was found that the existing methods do not comply with provisions of the property rights theory, as well as requirements of the international standards. The comparative analysis was performed with regard to the international and national statutory provisions, whereby issues of the investment property operations reporting in accounts are regulated. The Author's methodology was proposed for reporting of the investment property operations in the accounting system, whereby fairness, completeness and accuracy of the accounting information reporting in the financial statements are improved.

Keywords: investment property, accounting, National Accounting Regulations (Standards), IFRS, lease, right of possession.

Фомина Е., Сломчинская С. Учет инвестиционной недвижимости в контексте конвергенции международных стандартов. Исследован современный уровень методологического обеспечения бухгалтерского учета инвестиционной недвижимости. Установлено несоответствие действующей методики положениям теории прав собственности и международным стандартам. Осуществлен сравнительный анализ норм международных и национальных положений, регулирующих

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вопросы отображения в учете операций с инвестиционной недвижимостью. Предложена авторская методика бухгалтерского учета инвестиционной недвижимости, которая повысит объективность, полноту и правильность отражения учетной информации в финансовой отчетности.

Ключевые слова: инвестиционная недвижимость, учет, П(С)БУ, МСФО, аренда, право владения.

Background. Globalization of the domestic property investment processes brings about the accounting and financial reporting globalization, which is considered to be one of the significant factors having effect over increasing the investment appeal for the purpose of widening the global participation in the national economic branches, in particular trade.

Despite dynamic progress in the accounting system transformation according to requirements of the International Financial Reporting Standards, such a process is characterized by randomness and absence of the systemic approach in Ukraine. Moreover, inconformity with the applicable legislative provisions gives rise to the collisions in the time of the practical implementation of the accounting standards.

Analysis of recent research and publications. View of the international standard convergence process in Ukraine still remains under discussions.

On the globalization of the accounting system on a worldwide basis, as well as undisputable participation of Ukraine in the convergence process insist V. Parkhomenko, V. Mossakovskyy, V. Vasylyeva and K. Kostyuchenko [1–3]. Other group of authors has the cautious opinion on the financial reporting globalization and convergence of the international standards with no consideration to specific domestic economic performance and the national accounting system as it may cause confusions in accounting process and conceal the new problems [4–6]. For the purpose of proper reporting of the investment property operations in the accounts and elimination of the asymmetry existing between provisions of the national and international standards, whereby methods of the investment property accounting is regulated, it shall be necessary to revise the existing methods with due consideration for both domestic and international legislative requirements.

Issues of implementation and identification of the investment assets, difference in their reporting in accounts according to the national standards of various countries and the international ones have been researched in the worldwide scientific literature in order to improve the actuality of the accounting information and provide for making proper investment decisions [7–9].

Significance of the issue concerned has drawn the attention of a number of the Ukrainian authors who tried to substantiate own views and proposals as to improvement of the investment property accounting system. In particular we are talking about I. Suprunova, T. Davydyuk, V. Chyudovets and V. Shevchenko [10–13]. Authors' proposals were mainly reduced to the substantiation of the properness or inconsistency of the way, in which

the investment property is reported according to the approved chart of accounts and procedure for application thereof, review of some operations, inclusive of receipt or disposal of assets, reporting of revenues and costs of operations with real estate properties in the profit and loss statements of the establishment.

Accentuation upon parts of the common problem that still remains unsolved. Unfortunately it has to be said about absence of the comprehensive approach to solving of the key debating issues of application of the investment property accounting methods according to the actual modifications of the International Financial Reporting Standards and in consideration of the provisions of law and the property rights theory.

The **aim**. Research of the theoretical and methodological guidelines of the investment property accounting, as well as working out of the proposals as to improvement of the investment property operation accounting methods within the context of convergence of the international standards.

Materials and methods. Domestic legislative environment was studied and the comparative analysis of requirements of the national, American and international accounting and financial reporting standards was performed in order to determine main weaknesses of the national investment property accounting system.

Analysis of the Ukrainian and European company financial reports made it possible to identify the key problems of the practical application of the accounting standards, as well as disclosure of the investment property information. The investment property accounting methods were worked out due to consolidation and systemization of the obtained results.

Results. According to the last statistical investigations, the retail turnover was increased in 2017 by 8 %, i.e. up to UAH 724,9 billion (as compared with 2016 figures). According to CBRE's retail business rating, Ukraine ranks 34th of 61 countries having 29,3 % share of the worldwide brands exposure. At the same time retail property markets in the biggest Ukrainian cities are characterized by availability of low amount of sound areas and require significant increase: by 44 % in Kyiv and by 33 % – in the regional market (*figure 1*).

Steady growth of the rent revenues (+10–25 % as compared with 2016 figures) together with capitalization rate reduction to 12%, as well as significant constriction of the investment opportunities in the *mature* European and global markets make the retail property assets of Ukraine attractive through the lens of investments not only for domestic investment companies and large-scale retailers, but for the international investors as well (*figure 2*). Therefore, bringing of the national accounting system into conformity with requirements of the international standards takes today the particular significance.

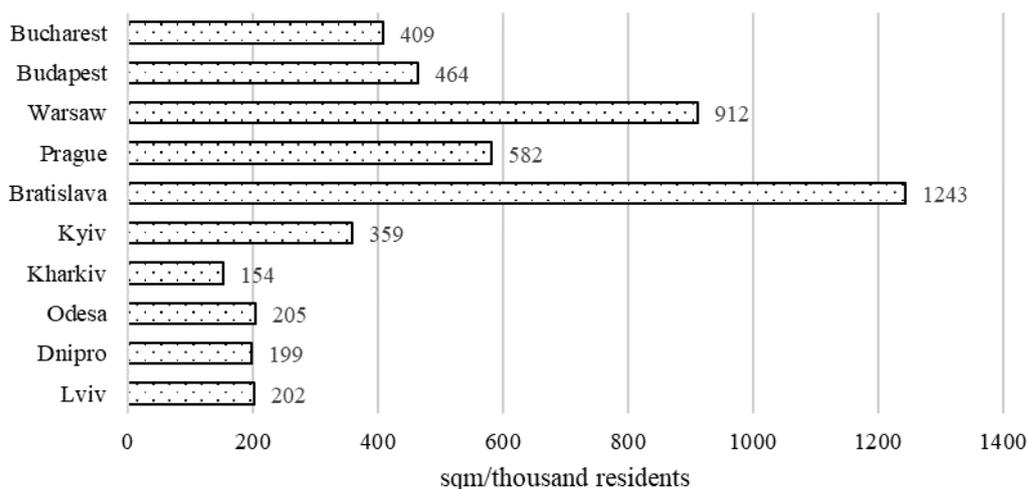


Figure 1. Availability of retail areas in the cities of Ukraine and neighboring countries

Source: compiled by authors [14].

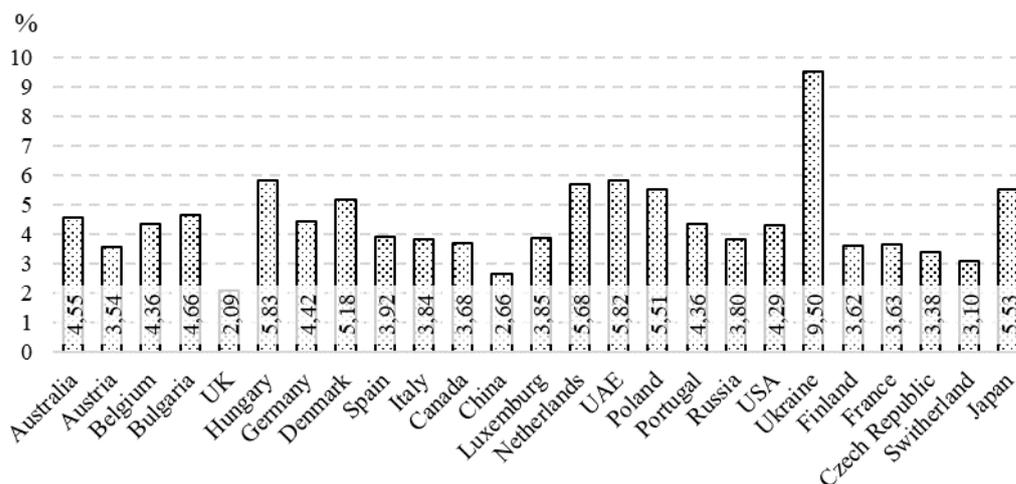


Figure 2. Countries rating by rate of return on commercial (retail) property investments

Source: compiled by authors [15].

Over 100 countries today have been in the stage of convergence with the International Financial Reporting Standards, except for the Central and North Africa, Indonesia, Malaysia, Saudi Arabia and Afghanistan. Following completion of the convergence process in the USA, Japan and Brazil, which aggregate global market capitalization share is 42 %, the IFRS shall get a status of the global international standards (table 1).

It shall be noted about significant divergence of the investment property accounting methodological approaches by contrast to the national standards, which is obvious at the modern stage of the process of convergence of the prevailing occupational standard systems, i.e. the International Financial Reporting Standards and the US Standard Accounting Practice (table 2).

Table 1

Investment Property Accounting Regulations of Different World Countries

Country	Accounting Regulations	Measurement Method (basis)
Japan	ASBJ No.20 Accounting Standard for Disclosures about Fair Value of Investment and Rental Property ASBJ Guidance No.23 Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property	Fair value
UK	SSAP 19 Property investment accounting standard	
Israel	AC 16 Financial accounting of investment properties	
Latvia	LAIS 9 – Investment properties	
China, Hong Kong	HKAS 40 – Investment properties	Actual value less depreciation and devaluation cost
India	Ind AS 40 – Investment properties	
Singapore	FRS 40 – Investment properties	
Australia	AASB 140 – Investment properties	
Azerbaijan	NAISKA 27 – Investment properties	Fair value
Switzerland	Swiss GAAP FER 18 Fixed (tangible) assets	
USA	ASC 360 Property plant and equipment	Actual value
Russia	Accounting regulations 6/01 – Fixed asset accounting	Initial value less depreciation cost
Germany	HGB Fixed assets	
France	CNC 2004–15 Identification, recognition and valuation of assets	Revaluated value less depreciation cost

Source: arranged by authors [16].

For the purpose of working out the recommendations for improvement of the investment property accounting system according to the international standards it is advisable to assess the modern approaches and the Ukrainian authors' proposals with regard to the investment property accounting.

Five main approaches to the investment property reporting in the accounts were identified upon analysis of the domestic scientific bibliographical sources, i. e. it is proposed to report it as: individual accounting item; fixed asset specific item; other property asset; financial investment and specific good.

The investment property is identified as the individual accounting item by the most authors, who substantiate therefore properness of asset related operation data generation in the individual subaccount that makes it possible to provide close interrelations between appropriate accounting and economic analysis forms required for making effective managerial decisions.

Because of different interpretation by authors of the investment property accounting substance, there is no single harmonized methodology of accounting the assets and practical recommendations for improvement thereof available today, which would represent economical, accounting and legal content of the investment property, as well as make allowance for laws, regulations and recommendations of the existing International Financial Reporting Standards.

Table 2

Different Investment Property Accounting Policies: the case of AR(S), IFRS and GAAP

Standard	AR(S) 32	IFRS 40	GAAP 360
Definitions	Investment property includes own rented/ leased land plots, buildings, installations held for the purpose of receiving rental fees and/or increasing of own capital, while not for manufacturing and supply of goods, for administration purposes or sale in the ordinary course of business (§ 4)	Investment property is the property (land or building or any part thereof) held for the purpose of receiving rental fees and/or increasing of own capital, or both of them (§ 5)	Concept of <i>Investment property</i> do not exist. It is reported in the line of available for use or sale assets (360-10-05-3, 905-360)
Classifications	Part of property held by the tenant under operating lease terms shall not be reported as asset and shall not be recognized as investment (§ 4).	Any part of property held under an operating lease may be classified and reported in the accounts as investment one, if it does fall under definition of the investment property (§ 6).	Property held under an operating lease may not be classified as investment one and therefore it is not recognized in financial statements (840-10-25-1)
Construction in process (property)	Is not investment property (§ 5.4)	Reported as investment property (§ 8g)	Reported in the line of property, buildings and installations with no consideration to the current condition (360-10-35-40)
Additional services	Not regulated	Recognized as investment property, should such services be insignificant component part of the general agreement (§ 11)	Property holder shall determine on his own nature of services and make a decision on how they have to be accounted (605-25-25-2)
Elevator and air conditioning unit accounting	Reported in off-balance accounts (§ 23)	Not regulated	Not regulated
Initial recognition	Cost price in the total aggregate costs for creation or improvement (§ 10)	Cost price in the total aggregate costs for gain, partial replacement or servicing (§ 17)	Actual cost price (360-10-30-1)
Valuation after recognition	1. On the fair value basis, should it may be credibly determined 2. On the initial value basis less depreciation cost charged (§ 16)	1. Fair value model. 2. Cost price model (§ 30). For the purpose of valuation or information disclosure, the fair value shall be determined (§ 32)	Actual cost accounting model. Fair value measurement method may not be applied (ARB 43, Ch 9 B.1).

Source: arranged by authors acc. to [17].

In consideration of no available statutory and methodological requirements to the detailed breakdown of accounts, the modern authors propose introduction of different analytical levels based upon defining the key characteristics of the investment property as accounting category, i. e. by items, valuation method, rent or lease type, maintenance purpose, term of use and ownership form.

Through application of discrete approach to development of the analytical accounting structure based upon statutory & methodological regulation and in science terms, it was found that the companies are experienced only with item-by-item based accounting in relation to tenants.

Analysis of the international standards and their practical convergence by different countries together with generalization of the modern authors' proposals with regard to improvement of the domestic accounting system made it possible to identify key problems of the accounting of investment property operations, as well as work out recommendations for solving such problems with due consideration for the legislative provisions.

In order to avoid double accounting of the assets and liabilities with regard to equipment (elevators, air conditioning units, etc.), which is an integral part of the building; they shall be included to the investment property instead of being recognized as individual fixed asset item. Moreover, furniture and any other assets rented or leased together with the investment property and generate rent or lease revenues shall be also recognized as investment property, but not as individual asset [18, p. 204].

The said assets meet all criteria for investment property recognition and identification. However, equipment, furniture, instruments and other accessories do not fall under legal definition of the property. It may have effect only with regard to land plots, as well as facilities or items located on a land plot, which relocation is not possible without depreciation and changing the designated use (Civil Code of Ukraine, art. 181, Tax code of Ukraine, art. 14, § 14.1(14.1.129), Code of Land laws of Ukraine, art. 18, National Standard 1 – General Guidelines for Property and Property Rights Appraisal, page 3 [19–21]).

In order to avoid collision between accounting standards and legal provisions it is proposed to introduce a concept of *Tangible investment assets*, i.e. the assets held for the purpose of rent or lease together with the investment item, but not for manufacturing and supply of goods, providing the services and for administration purposes or sale in the ordinary course of business, which anticipated term of value-added use (operation) exceeds one year. It is advisable to account them with analytical levels as investment property, thus complying with requirements to information support of the managerial demands.

Reporting of taken on lease items shall be an important aspect of the investment property accounting methodology as being changed it may lead to material changes in assets, liabilities and financial results (profit and losses) figures. From the IFRS 16 Leases effective date, no division into

operating and investment lease is more available, while classification is based upon a right for control over asset use. Within the practical framework it means that all agreements, whereunder the right for control over use of the identified asset is set forth, shall be reported as assets. Such rights include the right for pretty much of economic benefits and vested right to designate mode of the identified asset use during the certain period of time against appropriate compensation. Therefore, irrespective of lease type, investment property items shall be reported in line of assets as the right for use of the taken on lease asset is considered to be the asset by default. According to the IFRS Board's data, it will give rise to necessity in recognition of the liabilities under operating lease agreements amounting to USD 2,2 billion.

Main differences between the national and international standard, whereby the methodological guidelines for generation of the investment property lease operation data in the accounting system are regulated, are given in the *table 3*.

Table 3

**Different Investment Property Lease Operations Accounting Policies:
the case of national and international standards**

Regulation	By national standards	By international standards
<i>Standard</i>	<i>AR(S) 14</i>	<i>IFRS 16</i>
Lease recognition criteria	Right for use of asset (financial lease, property right) during pre-agreed period of time against getting payment or series of payments (§ 4)	Right for control over use of the identified asset during pre-agreed period of time against getting appropriate compensation.
Classification	Financial lease and operating lease (§ 4)	No division is available. Classification is based upon right for control over use of the asset (§ B9)
Recognition	Operating lease item shall be reported by the tenant in the off-balance account (§ 8) Operating lease item shall be reported simultaneously as asset and liability (§ 5)	Leased item shall be reported simultaneously as asset (being the right for use) and liability (connected with the lease)
Initial measurement	For operating lease: by value specified in the lease agreement (§ 8); For financial lease: by fair value or current value of aggregate minimum rental payments, whatever is least as of the first day of lease (§ 5)	Asset is valued with the initial cost, which includes: initial measurement of liability, rental payments, initial direct costs and dismantling, recovery cost estimates. Lease liability is the reported value of the lease payments and reported value of the payments anticipated to be effected by the end of the lease period.

Source: arranged by authors [22–23].

Methods for reporting of the right for use of property in the accounts still remain under discussion and require legislative regulation.

Two approaches to solving of the said issue were identified upon analysis of the scientific bibliographic sources: legal and accounting. The first approach devotees determine the right for use of property as the key criterion. The second approach devotees consider it to be the property as fixed asset.

The most part of researchers do not consider the right for use of property to be the intangible asset as its substance falls under definition of lease. Therefore it will be regulated by the AR(S) 14 – Leases and reported in the off-balance account.

For the purpose of legal and accounting standards adjustment, V. Mossakovskiy proposes to introduce the off-balance account 010 *Title to property (assets)* with subaccount 010.1 *Title to immovable property* for reporting of the title to immovable property. The aforesaid accounts shall be used for reporting general information on the property rights (title) assigned to the property items. As property rights are not subject to tear& wear, no depreciation may be applied thereto [24, p. 242–243].

For the purpose of taking into account the property rights theory V. Bondarchouk proposes to accumulate monthly lease payment amounts on subaccount 152.1 *Acquisition of fixed assets on financial lease* of account 152 *Acquisition (manufacturing) of fixed assets*. After all payments are made and following acquiring the title to immovable property, it shall be accounted under credit of the appropriate subaccount of account 10 *fixed assets*. In doing so, no liabilities may arise for the tenant as to depreciation of the leased immovable property [25, p. 216].

Conflict in practical implementation of the above grows stronger because of lack of proper statutory regulation and no clarifications available from the legislative bodies.

According to the AR(S) 8 – *Intangible assets*, right for use of property shall be also understood as right for use of land plot as prescribed by land regulations, right for use of building, right of lease of premises, etc.

According to clarifications given in the Letter of the Ministry of Finance of Ukraine, the right for use of land plot shall be reported as intangible asset with value of such right, which is estimated according to the Law of Ukraine *On appraisal of property, property rights and professional appraisal activity in Ukraine* [26]. Another Letter of the Ministry of Finance of Ukraine contains requirements, whereby companies are restricted from reporting the rights for use of property as intangible assets, should they not be the direct owners thereof [27].

In view of the aforesaid, substantiation of reporting the investment property held under lease in the intangible assets account is given in *figure 3* below.

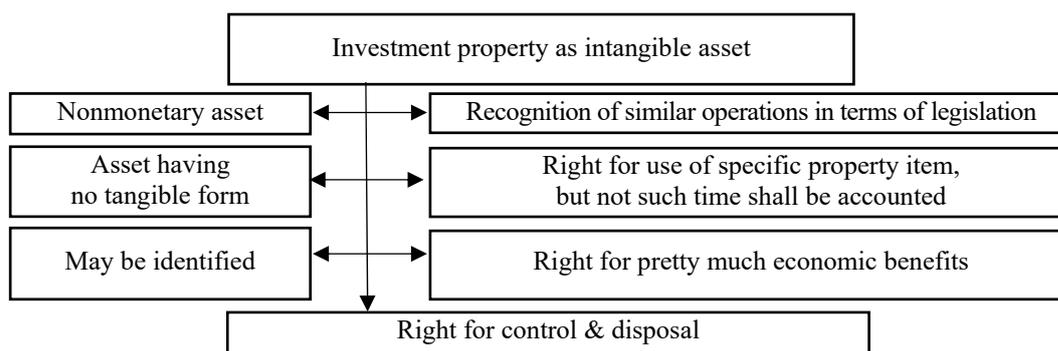


Figure 3. Criteria of recognition of the right for use of investment property as intangible asset

Source: Authors' compilation.

Therefore, the investment property, right of control over use of which is acquired, shall be reported with the intangible assets in subaccount 122 *Right for use property* until one of the below:

- transfer to the tenant of the right of possession, in which case the item is transferred to the tangible assets and reported in subaccount 100 *Investment property*;
- expiry of the item lease, in which case the item is retired from assets due to termination of right for use and disposal thereof.

Next important, but not clearly defined issue regards reporting in accounts of the investment property held for the purpose of capital growth. Despite of the actuality, such topic was not widely covered in the works of domestic and foreign scientists. The issue remains also unsolved in terms of legislation as no certain AR(S) requirements, methodological recommendations and official clarifications from the executive bodies and fiscal authorities are available.

As provided for in the international standard, the investment property may be held with the purpose of capital, either own or/and employed, growth. Domestic regulations stipulate it only as own capital, i.e. registered (share) capital, appraisal capital, additional capital and retained earnings.

Upon analysis of the AR(S) provisions, accounting and legal doctrines of statutory instruments, as well as similar asset reporting practice implemented in trade establishments, the scope of investment property operations were defined, which provide for growth of own capital:

- through vesting in the authorized capital of a company;
- in case of getting the property item on a free-of-charge basis without no intent for further operating lease thereof;
- by means of increase of the fair value as of a day, where on the property is transferred from fixed assets to investment property account.

Therefore, vesting of the investment property item in the authorized capital will directly lead to increase of the company's own capital. Free of cost getting of the investment property is accompanied with increase of the additional capital, exceeding by the fair value of the book value of

operating property as of a day, whereon asset was transferred to the investment property account, by revaluation amount of noncurrent assets as a part of appraisal capital.

Change in own capital is indirectly impacted by fluctuations of the investment property value through other operating revenues and costs, whereby profit and losses are formed, and which shall be reported with the retained profits / uncovered losses (*figure 4*).

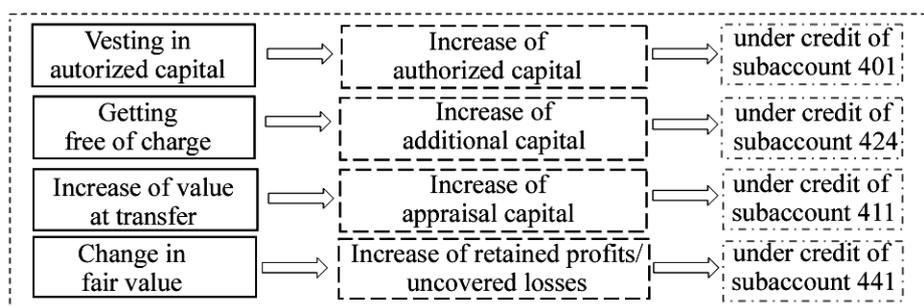


Figure 4. Methodology of reporting of the investment property held for the purpose of capital growth

Source: worked out by authors.

Summary of proposals as to improvement of the investment property gains accounting methods in consideration of the IFRS requirements is shown in *figure 5*.

<p>1.1. IP Purchase</p> <p>1. IP received from the supplier Dt 152 $\begin{matrix} 152_x \\ 152_y \end{matrix}$ Ct 631</p> <p>2. Costs of purchase and bringing to ready for use conditions are reported Dt 152 $\begin{matrix} 152_x \\ 152_y \end{matrix}$ Ct 20, 63, 65, 66</p> <p>3. IP and TIA are commissioned Dt 100.1 IP Ct 152_x Dt 100.2 TIA Ct 152_y</p>	<p>1.2. Construction</p> <p>1. IP and TIA construction - contract based work Dt 151 $\begin{matrix} 151_x \\ 151_y \end{matrix}$ Ct 631</p> <p>Dt 151 $\begin{matrix} 151_x \\ 151_y \end{matrix}$ Ct 20, 65, 66, 91*_{x,y}</p> <p>2. IP and TIA are commissioned Dt 100.1 IP Ct 151_x Dt 100.2 TIA Ct 151_y</p>
<p>1.3. Getting on free of charge basis</p> <p>1. Accountable IP and TIA, got on free of charge basis Dt 152 $\begin{matrix} 152_x \\ 152_y \end{matrix}$ Ct 424 CB Ct 66, 65 extra costs</p> <p>2. IP and TIA are commissioned Dt 100.1 IP Ct 152_x Dt 100.2 TIA Ct 152_y</p>	<p>1.4. Taken on lease</p> <p>1. Right for IP lease is acquired Dt 154 Ct 531, 631</p> <p>2. Right for IP lease is recognized as asset Dt 122 Ct 154</p>
<p>1.6. Transfer to the IP</p> <p>1. Transferred from fixed assets Dt 100 $\begin{matrix} 100.1 IP \\ 100.2 TIA \end{matrix}$ Ct 10 $\begin{matrix} 104, 106 \\ 101, 103 \end{matrix}$</p> <p>2. Initial value increase is reported Dt 100 Ct 411 by revaluation surplus amount</p> <p>3. Depreciation cost is increased by the revaluation surplus amount Dt 411 Ct 131 by amount of depreciation revaluation</p>	<p>1.5. Taken on lease</p> <p>1. IP is got as contribution to authorized capital Dt 100 Ct 46</p> <p>Legend: IP: Investment property TIA: Tangible investment asset, x, y – analytical accounts for IP and TIA</p> <p>*Explanation: General production expenses shall be written-off for the IP cost price</p>

Figure 5. Proposed changes to investment property accounting methods

Source: worked out by authors.

Conclusion. In view of multidimensionality of the substance and differentiation of the titles to investment properties, the existing accounting methods shall be subject to significant improvement with due consideration for the property rights concept and recommendations of the international standards. Separation of the tangible investment assets from the investment property and its referring to the individual accounting item, as well as recognition and reporting of the investment property held under lease with intangible assets shall provide for improving the reliability of accounting data on assets and liabilities of the establishment.

For the moment adjustment of liabilities for the operating lease results in overestimation or underestimation of different companies debts. Properness and accuracy of the investment property item valuation is of particular significance as failure to comply with methods and rules of the asset valuation will lead to breach of the prudence principle caused by overstatement (understatement) of its value and misrepresentation of information in financial statements.

Further, building up of the analytical hierarchy will affect aggregate and duly arranged information on availability, turnover and retirement of property items. Therefore, analytical accounting system shall be developed in line with the demands for management of properties, avoiding however overloading with not relevant information.

Accounting methodology to be applied in the time of operation and retirement of the investment property items is considered to be the promising trend in future studies of the problems concerned.

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Фоміна О., Сломчинська С. Облік інвестиційної нерухомості в контексті конвергенції міжнародних стандартів.

Постановка проблеми. Незважаючи на активну трансформацію системи бухгалтерського обліку відповідно до вимог міжнародних стандартів фінансової звітності, цей процес в Україні характеризується хаотичністю та відсутністю системного підходу.

Аналіз останніх досліджень і публікацій. Актуальність питання привертає увагу багатьох українських науковців, зокрема: І.В. Супрунова, Т.В. Давидюк, В.В. Чудовець, В.М. Шевченко.

Мета статті – дослідження теоретико-методичних засад бухгалтерського обліку інвестиційної нерухомості та розробка пропозицій щодо вдосконалення методики обліку операцій з інвестиційною нерухомістю в рамках процесу конвергенції міжнародних стандартів.

Матеріали та методи. З метою визначення основних недоліків національної системи бухгалтерського обліку інвестиційної нерухомості досліджено вітчизняне законодавче поле, проаналізовано вимоги національних, американських і міжнародних стандартів обліку та звітності.

Результати дослідження. За результатами аналізу фінансової звітності компаній України та Європи виокремлено ключові проблеми практичного застосування облікових норм та розкриття інформації про інвестиційну нерухомість. Завдяки узагальненню та систематизації отриманих результатів розроблено методику бухгалтерського обліку інвестиційної нерухомості.

Виокремлено у складі інвестиційної нерухомості інвестиційних матеріальних активів в окремий об'єкт обліку визнання та відображення у складі нематеріальних активів інвестиційної нерухомості, утримуваної на правах оренди, що забезпечить підвищення достовірності облікової інформації щодо активів та зобов'язань підприємства.

Висновки. Коригування зобов'язань по операційній оренді призводять до переоцінки або недооцінки боргу різних компаній. Недотримання методики та правил оцінки активу зумовлює порушення принципу обачності внаслідок завищення (заниження) його вартості та спотворення інформації у фінансовій звітності.

Ключові слова: інвестиційна нерухомість, облік, П(С)БО, МСФЗ, оренда, право володіння.