ZAMBIA INSTITUTE OF CHARTERED ACCOUNTANTS

PRACTICE GUIDANCE NOTE 2012/1

ACCOUNTING TREATMENT OF LAND IN ZAMBIA

Background

1) In Zambia ownership of land is vested in the Zambian people but administered by the Republican President. Therefore land in Zambia is held on leasehold basis. Accordingly, on acquisition of land from the Government, one is given either a 100 years or 14 years period as tenant or lessee from the Ministry of Lands. There is no freehold land ownership.

Scope

2) This guidance addresses the accounting treatment by an entity of land acquired from Government or any other party and the entity has obtained title to such land (either to the remainder of 100 years or to the remainder of 14 years); for use in the production or supply of goods or services, or for administrative purposes, or as an investment property for capital appreciation.

3) It does not address the accounting treatment of land leased from a person or entity. The lease of land from a person or entity where the title to the land remains with that person or entity should be accounted for as per the requirements of IAS 17 - Leases. This entails that the land and buildings components of the lease should be split into two and each element classified either as finance or an operating lease according to the requirements of the standard.

Issues

4) The title to land in Zambia confers one with certain rights on the 'lessee of land'. The title to the lease of land in Zambia confers one, the right to use the land, benefit from its use or sell the land. In view of these rights, it has led to different interpretations by accountants in Zambia on how the cost on acquisition of land and subsequent revaluation (where applicable) should be accounted for.

5) Where land and buildings are revalued, the property valuation report as issued by the Valuation Chapter of the Surveyors Institute of Zambia does not separately identify values for land and buildings respectively.

6) This guidance therefore addresses the following issues in order to ensure consistency of accounting treatment of land across all entities in Zambia:

   a) How should an entity initially account for the cost on acquisition of land?
   b) How should an entity measure land subsequent to acquisition?
   c) How should an entity account for revaluation gains or losses?

Guidance

7) Even though technically land in Zambia is on 'lease' from Government, in substance the tenant enjoys all the risks and rewards associated with the land. The cost of acquiring land should initially be accounted as follows:

   a) Land acquired for use in the production or supply of goods or services, or for administrative purposes, whether directly from Government or from another party, should be recognised as Property under Property, Plant and Equipment (PPE).

   b) Land acquired for capital appreciation whether directly from Government or from another party, should be recognised as an Investment Property.

8) The cost of land should include:

   a) Consideration paid to acquire land
   b) Fees paid for title deed
   c) Any other fee incidental to the acquisition of the land such as legal fees

9) Subsequent to initial recognition, an entity should measure:

   a) Land held as Property, Plant and Equipment (PPE) and the entity has opted for the cost model under IAS 16, at cost less accumulated amortisation less any accumulated impairment losses.

   b) Land held as an Investment Property and the entity has opted for the cost model under IAS 40, at cost less accumulated amortisation less any accumulated impairment losses.

   Land should be amortised to zero over the remaining period of the lease. The lease term of land in Zambia shall be determined by reference to the legal form and status of the lease. Lessees should not assume that the lease will be extended for a further 14 years or 100 years, while the Government retains the sole discretion as to whether to renew it. Therefore, the period beyond the remaining lease term of the title should not be included in determining the lease period.

c) Land held as Property, Plant and Equipment (PPE) and the entity has opted for the revaluation model under IAS 16, at cost less accumulated amortisation less any accumulated impairment losses. Land should however not be revalued. The revaluation shall only apply to the Improvements. The gains and losses arising on the Improvements should be accounted for in accordance with the guidance in IAS 16 under the Revaluation model.

d) Land held as an Investment Property and the entity has opted for the Fair Value model under IAS 40, as per the guidance in IAS 40 under the fair value model.

Transition

10) An entity shall account for the change from whatever approach the entity was using before this guidance as a change in accounting policy as per the requirements of the accounting framework used by the entity i.e. either Full IFRS, IFRS for SMEs or Zambia Financial Reporting Standard (ZFRS) for MSEs.