

NCP 8 – Investment Properties - Approach and Application

¹Beatriz Rocha, ²Diana Anunciação, ³Adalmiro Pereira, ⁴Tânia Teixeira

^{1,2}ISCAP – Porto

^{3,4}ISCAP – P Porto teacher; CEOS member

ABSTRACT

This work aims to analyze and apply the main concepts and rules foreseen in NCP 8, addressing in a progressive and integrated way the conceptual framework, the recognition criteria, the initial measurement and the subsequent measurement of investment properties, with special emphasis on the fair value and cost models. Alongside the theoretical component, examples and practical accounting cases are presented to illustrate the concrete application of the standard, making the understanding of its effects on the financial statements of entities more accessible.

KEYWORDS: NCP 8; Investment Properties; SNC-AP; IAS

1. INTRODUCTION

Investment properties constitute an asset category of increasing relevance in the context of Portuguese public business entities, particularly with regard to the management and valuation of their real estate assets. Unlike owner-occupied properties, whose purpose is to support the entity's operational activity, investment properties are held for the purpose of generating rental income, obtaining capital gains, or both, and are not used for the production or supply of goods and services, nor for administrative purposes.

The increasing professionalization of asset management in the public sector and the adoption of the Accounting Standardization System for Public Administrations (SNC-AP), approved by Decree-Law No. 192/2015 of September 11, have introduced a set of specific standards for the recognition, measurement, and disclosure of this type of asset. In particular, Public Accounting Standard No. 8 – Investment Properties (NCP 8) establishes the applicable accounting criteria, bringing the Portuguese public framework closer to International Public Sector Accounting Standards (IPSAS), specifically IPSAS 16.

The work is structured in three main parts. The first part includes the introduction, followed by the development, which covers the concepts and regulatory framework, the recognition criteria, the initial measurement, the subsequent measurement including a detailed analysis of the fair value model and the cost model, the disclosures required by the standard, and the presentation of integrative case studies. Finally, the conclusions, bibliography, and appendices prepared by the authors are presented, including a glossary of technical terms, a chart of accounts, and a decision flowchart.

2. Development

2.1. Concepts and framework - Regulatory framework

NCP 8 is part of the SNC-AP, which represents the most significant reform of Portuguese public accounting in recent decades. The SNC-AP came into effect on January 1, 2018, for most public entities, replacing the Official Public Accounting Plan (POCP) and the sectoral plans derived from it. NCP 8 is based on IPSAS 16 – Investment Property, issued by the International Public Sector Accounting Standards Board (IPSASB), adapted to the Portuguese institutional and legal reality.

The standard applies to all entities within the scope of the SNC-AP (Accounting Standardization System for Public Administration), including public business entities (EPEs), whenever they own real estate with the characteristics defined in the standard. For entities within the public business sector, the framework may be supplemented by the provisions of the SNC (Accounting Standardization System) applicable to private entities, namely NCRF 11 – Investment Properties, which has a direct correspondence with NCP 8.

Definition of investment property

In accordance with paragraph 6 of NCP 8, investment property is understood to mean real estate, land or building, or part of a building, or both, held by the entity (as owner or as lessee under a finance lease) for:

- To earn income; or
- Capital appreciation; or
- Both purposes.

The definition expressly excludes real estate that is used in the production or supply of goods or services, for administrative purposes, or that is held for sale in the ordinary course of business. These are treated, respectively, as tangible fixed assets (under NCP 7) or as inventories (under NCP 4).

Distinction compared to other asset categories

The correct classification of a property as an investment property requires the entity to assess the actual purpose for which the asset is held, which is not always straightforward. NCP 8 (Brazilian Accounting Standard 8) foresees borderline situations that require judgment:

Property used partly by the entity for its own purposes and partly for leaseback should be disaggregated if the parts can be sold or leased separately; otherwise, it is only classified as investment property if the part used for its own purposes is insignificant.

Property held for sale in the ordinary course of business is classified as inventory, even if it was previously an investment property.

A property under construction or development intended for future use as an investment property is treated under NCP 7 until completion, at which point it is transferred to NCP 8.

The following table summarizes the criteria for distinguishing between the three categories:

Purpose of the Property	Classification	Applicable Standard
Earning income / capital appreciation	Investment property	NCP 8
Use in operational activities / administrative purposes	Tangible fixed asset	NCP 7
Sale in the ordinary course of business	Inventory	NCP 4
Under construction for future personal use.	Asset under construction	NCP 7

Examples of investment properties

NCP 8 provides, by way of example, the following cases that qualify as investment properties:

- Land held for long-term capital appreciation;
- Land held for undetermined future use;
- Buildings owned by the entity and data under operational lease;
- Unoccupied buildings, but held for operational lease;
- Properties under construction or development for future use as investment properties.

2.2. Recognition General criteria for recognition

The recognition of an investment property in the entity's financial statements is subject to the cumulative fulfillment of two criteria, as stated in paragraph 16 of NCP 8:

It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

The cost or fair value of the asset can be reliably measured.

These criteria are common to the recognition of other non-current assets and reflect the general principles of the SNC-AP standard. Their application requires the entity to assess the specific circumstances of each asset, namely the existence of title to the asset, the ability to control the asset, and the possibility of obtaining economic benefits or service potential from it.

Moment of recognition

Recognition of investment ownership should occur when the aforementioned criteria are met. Typically, this moment coincides with the transfer of the risks and rewards inherent in ownership of the asset, which, in practice, corresponds to the date of the public deed or the moment when the entity obtains effective control of the property. In the case of investment properties acquired through contracts with deferred deed and delivery dates, recognition should occur on the date the entity takes control of the asset, regardless of the legal formalization.

Transfers between categories

NCP 8 also regulates transfers to and from the investment property category, which occur when there is a change in the use of the asset evidenced by concrete facts. The possible transfers are:

- From investment property to tangible fixed asset: when the entity begins to occupy the property for its own purposes;
- From tangible fixed asset to investment property: when the entity ceases to use the property for its own purposes and begins to lease it to third parties;
- From inventory to investment property: when an entity begins an operating lease of a property that was classified as inventory;
- From investment property to inventory: when the entity begins developing the property with a view to its sale.

The date of the transfer is crucial for determining the applicable measurement at the time of reclassification, as will be discussed in the following section.

2.3. Initial measurement - General rule: Cost

According to paragraph 20 of NCP 8, an investment property must be initially measured at its cost, including transaction costs directly attributable to the acquisition. This rule applies regardless of the subsequent measurement model adopted by the entity.

- The cost of acquiring an investment property includes:
- The purchase price; and

All directly attributable costs, such as legal fees, transfer taxes, registration costs, and other transaction expenses. The initial cost of an investment property does not include start-up costs (unless necessary to bring the asset into working order), operating losses incurred before the property reaches its planned occupancy level, or anomalous amounts of wasted materials.

Acquisitions without consideration

In the context of the public sector, the acquisition of assets without consideration is frequent, particularly through donations, transfers from other public bodies, or inheritance. In these cases, NCP 8 stipulates that the initial cost is the fair value at the acquisition date, with consideration recognized as an income or equity item, depending on the nature of the transfer.

DIY construction

When an entity constructs an investment property on its own account, the cost includes all expenses incurred from the start of construction until the asset is in the condition necessary for its use as intended by management. These expenses include materials, direct labor, capitalizable financing charges (where applicable), and other costs directly attributable to the construction.

Expenses incurred after initial recognition

Expenses incurred after the initial recognition of an investment property should be capitalized (added to the asset's carrying amount) if, and only if, it is probable that they will provide future economic benefits in excess of the originally estimated level of performance. Otherwise, they are recognized as expenses in the period in which they occur.

This distinction is fundamental: current maintenance and repair expenses are operating expenses; expansion works, significant rehabilitation, or component replacement that extend the asset's useful life are capitalized.

2.4. Subsequent Measurement Model Selection

Following initial recognition, NCP 8 allows the entity to choose one of two subsequent measurement models, applicable to all of its investment properties:

- theFair value model (paragraphs 30 to 50 of NCP 8); or
- theCost model (paragraphs 51 to 57 of NCP 8).

The choice of model is an accounting policy decision and should be applied consistently to all of the entity's investment properties. Once a model has been adopted, its alteration is only permitted if it results in a more faithful presentation of the financial statements, which the standard considers unlikely in the case of a change from the fair value model to the cost model.

Key factors in choosing the model

The selection of the subsequent measurement model must take into account several factors:

- **Availability of reliable reviews:** The fair value model assumes that the market value of the asset can be estimated regularly and reliably.
- **Cost-benefit analysis of information:** Obtaining periodic independent assessments has costs that must be weighed against the usefulness of the information produced;
- **Financial reporting objectives:** Entities that aim to reflect the evolution of their portfolio's assets tend to prefer the fair value model; entities more oriented towards prudence and stability of results tend to opt for the cost model.
- **Comparability:** The consistency of the model adopted throughout the fiscal years is fundamental for the comparability of financial statements.

2.5. Fair Value Model

The fair value model is one of the two subsequent measurement alternatives provided for in Public Accounting Standard No. 8 (NCP 8), and is characterized by reflecting, at each reporting date, the value at which an asset could be traded between knowledgeable parties willing to negotiate under market conditions. This model is particularly relevant in the context of investment properties, as it allows capturing the actual evolution of market transactions and providing more up-to-date financial information to users of financial statements.

2.5.1. Regulatory framework

According to paragraph 33 of NCP 8, an entity that adopts the fair value model must measure all its investment properties at fair value, except in cases where this cannot be reliably determined on an ongoing basis. In these exceptional situations, the entity resorts to the cost model as a measurement alternative.

The fair value of an investment property is typically determined using one of the following approaches, in accordance with the fair value hierarchy established in the applicable standards: (i) quoted prices in active markets for identical or similar assets; (ii) valuation techniques using observable data, such as capitalized net income or the comparables method; or (iii) valuation techniques using unobservable data, applicable when the former are not available.

2.5.2. Recognition of gains and losses

One of the most striking characteristics of the fair value model is the way in which the results of changes in value are treated. According to paragraph 35 of NCP 8, gains or losses resulting from a change in the fair value of an investment property are recognized in the profit or loss of the period in which they occur. This approach differs fundamentally from the cost model, where changes in value are only reflected in the profit or loss at the time of disposal.

In terms of its impact on financial statements, the fair value model implies that the income statement may exhibit volatility due to fluctuations in the real estate market, not depending solely on the entity's current operations. For this reason, adopting this model requires a robust disclosure policy that allows users to distinguish between operating results and revaluation results.

2.5.3. Impossibility of reliably determining fair value

There are circumstances in which the fair value of an investment property cannot be reliably determined on an ongoing basis. This situation may occur, for example, when the local real estate market is inactive, when the property has very specific characteristics that make comparison with similar transactions difficult, or when the data needed to apply valuation techniques is not available.

In these cases, NCP 8 stipulates that the property must be measured using the cost model, and the entity must disclose in the notes to the financial statements that the fair value could not be reliably determined, as well as a description of the properties in question and the reason why the fair value could not be reliably measured.

2.5.4. Practical application – Accounting example

A public business entity owns a building classified as investment property, acquired on January 1st of year N for €500,000. The entity adopts the fair value model for subsequent measurement.

Table 1 – Investment property acquisition launch (Jan 1 N)

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	500,000	
12/27	Deposits / Suppliers		500,000

On December 31st of year N, the independent valuation of the property determined a fair value of €530,000, resulting in a gain of €30,000.

Table 2 – Adjustment to fair value (Dec 31 N) – gain of €30,000

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	30,000	
7611	Gains on Investment Profit – JV		30,000

The following year, on December 31st of year N+1, the fair value decreases to €510,000, resulting in a loss of €20,000.

Table 3 – Adjustment to fair value (Dec 31 N+1) – loss of €20,000

Account	Description	Debit (€)	Credit (€)
6611	Losses on Investment Property – JV	20,000	
4211	Investment Properties – Building		20,000

Table 4 – Summary of the evolution of fair value

Period	Fair Value (€)	Variation (€)	Result Rubric
Acquisition (Jan 1 N)	500,000	—	—
Period	Fair Value (€)	Variation (€)	Result Rubric
December 31, N	530,000	+30,000	Profit (account 761x)
December 31, N+1	510,000	-20,000	Loss (account 661x)

Note that, unlike the cost model, depreciation is not recorded in the fair value model. The book value of the property reflects, at any given time, its estimated market value, which gives greater relevance to the financial information, but also introduces an element of volatility into the results of the financial year.

2.6. Cost Model

The cost model constitutes the second subsequent measurement alternative foreseen in NCP 8. It is based on the assumption that assets are measured at their historical cost, less accumulated depreciation and any accumulated impairment losses. This model prioritizes prudence and the reliability of information over its current relevance, and is widely adopted by entities that cannot determine fair value continuously and reliably.

2.6.1. Amortization

According to paragraph 56 of NCP 8, when an entity adopts the cost model, investment property should be amortized over its expected useful life, in accordance with the straight-line method or another method that best reflects the pattern of consumption of future economic benefits embodied in the asset.

The useful life of a property as an investment asset depends on its construction characteristics, the quality of the materials used, the type of use, and the maintenance conditions. In general, legislation and accounting practices for the public sector in Portugal allow useful lives between 25 and 50 years for buildings and structures, and a component approach may be used when different parts of the property have distinct useful lives.

2.6.2. Impairment

In addition to amortization, the cost model requires the entity to assess, at each reporting date, whether there are indications that an investment property may be impaired. If such indications exist, the entity must estimate the recoverable amount of the asset. When the carrying amount exceeds the recoverable amount, an impairment loss must be recognized, reducing the value of the asset and recognizing a loss in profit or loss.

NCP 8 refers to the impairment criteria established in the applicable standards, namely NCP 9, which defines the recoverable amount as the higher of two values: the fair value of the asset less costs to sell, and the value in use (present value of the expected cash flows arising from the continued use of the asset and its disposal).

2.6.3. Comparison between the cost model and the fair value model

Table 5 – Comparison between the two subsequent measurement models

Criterion	Cost Model	Fair Value Model
Measurement basis	Net historical cost	Market estimate
Amortizations	Yes (useful life)	No
Impairment	Yes (when applicable)	Incorporated into the JV variation
Recognition of earnings	Only at the time of sale.	Annually in the income statement
Volatility in results	Reduced	High
Information reliability	High	It depends on the assessment.
Relevance of the information	Minor	Bigger

2.6.4. Practical application – Accounting example

Consider the same investment property presented in the previous example: acquired for €500,000 on January 1st of year N, with an estimated useful life of 40 years and a zero residual value. The entity adopts the cost model.

Table 6 – Acquisition launch (Jan 1, N) – same as JV model

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	500,000	
12/27	Deposits / Suppliers		500,000

Annual amortization = €500,000 ÷ 40 years = €12,500 / year. As of December 31st of year N:

Table 7 – Annual amortization (Dec 31 N)

Account	Description	Debit (€)	Credit (€)
6422	Depreciation for the Year – Investment Profit	12,500	
4421	Accumulated Depreciation – Investment Property		12,500

In year N+5 (December 31, year N+5), after five years of accumulated depreciation of €62,500, the entity identifies signs of impairment: the surrounding area has depreciated and the estimated recoverable amount is €400,000. The carrying amount at that date is €500,000 – €62,500 = €437,500. Since €437,500 > €400,000, an impairment loss of €37,500 is recorded.

Table 8 – Recognition of impairment loss (Dec 31 N+5)

Account	Description	Debit (€)	Credit (€)
6511	Impairment Losses – Investment Property	37,500	
4491	Accumulated Impairment Losses – Investment Profit		37,500

Table 9 – Evolution of the book value according to the cost model

Date	Historical Cost (€)	Accumulated Amortization (€)	Accumulated Impairment (€)	Book Value (€)
January 1, N	500,000	—	—	500,000
December 31, N	500,000	12,500	—	487,500
December 31, N+1	500,000	25,000	—	475,000
December 31 N+5	500,000	62,500	37,500	400,000

After recognizing the impairment loss, future amortization should be calculated on the new carrying amount (€400,000), spread over the remaining useful life of the asset, which in this case is 35 years (40 – 5), resulting in an annual amortization of approximately €11,429.

2.7. Disclosures

The disclosures required by NCP 8 aim to provide users of financial statements with relevant information about the nature and extent of investment properties, the recognition and measurement criteria adopted, and their evolution over the reporting period. The quality of these disclosures is crucial for the transparency and comparability of the financial statements of public business entities.

2.7.1. General Disclosures (applicable to both models)

Regardless of the measurement model adopted, NCP 8 requires entities to disclose, at a minimum, the following information:

- Whether they adopt the fair value model or the cost model;
- The criteria used to distinguish investment properties from owner-occupied properties and assets held for sale;
- The significant methods and assumptions applied in determining the fair value of investment properties, including a statement as to whether the fair value determination was supported by market evidence or based on other factors disclosed by the entity;
- The extent to which the fair value of investment properties is based on an appraisal carried out by an independent and qualified appraiser; if no such appraisal has taken place, this fact must be disclosed;
- The amounts recognized in profit or loss relating to rental income and direct operating costs of investment properties.

2.7.2. Specific disclosures of the fair value model

Entities that adopt the fair value model must also present a reconciliation between the opening and closing balances of investment properties, including:

- Additions (acquisitions, capitalizations of subsequent expenses, transfers of owned properties, inventories or assets under construction);
- Assets classified as held for sale or included in a group of assets for disposal;
- Net gains or losses after fair value adjustments;
- Net exchange rate differences;
- Transfers to and from inventories and owner-occupied properties;
- Other changes.

Table 10 – Opening/Closing Reconciliation (Fair Value Model) – Fiscal Year N

Heading	€
Initial balance (Jan 1 N)	500,000
(+) Period additions	80,000
(+) Fair value gains	30,000
(-) Fair value losses	(20,000)
(-) Transfers for own use	(0)
(-) Alienations	(0)
Final balance (Dec 31 N)	590,000

2.7.3. Specific disclosures of the cost model

When the cost model is adopted, disclosures should include:

- The amortization methods used;
- Useful lives or depreciation rates;
- Gross cost and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- A reconciliation of the carrying amount at the beginning and end of the period, with separate evidence of additions, amortizations for the period, impairment losses and reversals, disposals and other changes;
- The fair value of investment properties, to the extent that such information is available, or a statement that fair value cannot be reliably determined.

Table 11 – Disclosure of book value (cost model)

Heading	N-1 (€)	N (€)
Gross historical cost	500,000	580,000
(-) Accumulated depreciation	(12,500)	(25,000)
(-) Accumulated impairments	—	—
Net book value	487,500	555,000

2.7.4. Notes to the financial statements – recommended structure

The following structure is recommended for presenting notes relating to investment properties in the financial statements:

- **Note 1 – Accounting Policies:** Description of the adopted model, recognition and measurement criteria;
- **Note 2 – Investment Properties:** Breakdown by property type (land, buildings, other), indicating the measurement model and opening and closing values;
- **Note 3 – Income and Costs:** Rental income recognized, direct operating costs and taxes incurred;
- **Note 4 – Commitments and Contingencies:** Contractual commitments relating to repairs, maintenance or future development of investment properties.

2.8. Practical Cases

This section presents integrative case studies that aim to comprehensively illustrate the accounting treatment of investment properties throughout their life cycle – from acquisition and initial measurement, through subsequent measurement (using the fair value model and the cost model), to disposal. The examples adopt the NCP 8 accounting framework and use the Chart of Accounts for Public Business Entities.

2.8.1. Practical Case 1 – Fair Value Model (complete cycle)

Public Housing, EPE is a public company that manages a housing stock for rent. On October 1st of year N, it acquires a property to rent to third parties for €800,000, paid in full by bank transfer. The deed and registration expenses amount to €12,000. The entity adopts the fair value model.

Phase 1 – Initial reconnaissance (Oct 1 N)

The acquisition cost includes the purchase price and all directly attributable expenses: $800,000 + 12,000 = €812,000$.

Table 12 – Acquisition of investment property (Oct. 1 N)

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	812,000	
1211	Demand Deposits		812,000

Phase 2 – Adjustment to fair value (Dec 31 N)

On December 31st of year N, the independent appraiser determines a fair value of €825,000. A gain of €13,000 is recorded.

Table 13 – Adjustment to fair value (Dec 31 N)

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	13,000	
7611	Gains on Investment Profit – Variance JV		13,000

Phase 3 – Rental income (N+1)

During year N+1, the entity receives rents totaling €36,000 (€3,000/month), recording them as income from finance/operating leases.

Table 14 – Recognition of rental income (N+1)

Account	Description	Debit (€)	Credit (€)
2111	Clients / Tenants	36,000	
7811	Rental Income – Investment Property		36,000

Phase 4 – Adjustment to fair value (Dec 31 N+1)

On December 31st of year N+1, the fair value decreases to €810,000. A loss of €15,000 is recorded.

Table 15 – Adjustment to fair value (Dec 31 N+1)

Account	Description	Debit (€)	Credit (€)
6611	Losses on Investment Property – Variance JV	15,000	
4211	Investment Properties – Building		15,000

Phase 5 – Sale of property (July 1, N+2)

On July 1st of year N+2, the property is sold for €850,000. The registered value at the time of sale is €810,000, therefore a gain of €40,000 is recorded on the sale.

Table 16 – Disposal of investment property (July 1, N+2)

Account	Description	Debit (€)	Credit (€)
1211	Demand Deposits	850,000	
4211	Investment Properties – Building		810,000
7841	Gains on the Sale of Investment Property		40,000

Table 17 – Summary of the impact on results (Case 1)

Period	Event	Impact on Results (€)
N (Oct–Dec)	JV Adjustment (+13,000)	+13,000
N+1	Rental income	+36,000
N+1	JV adjustment (-15,000)	-15,000
N+2 (Jan–Jun)	Sale of the property	+40,000
Total accumulated	—	+74,000

2.8.2. Practical Case 2 – Cost Model (transfer and impairment)

Infraestructuras Municipais, EPE owns an office building that it used as its headquarters (owner-occupied property). On January 1st of year N, the headquarters were moved to another property and the building was leased to private entities, being reclassified as investment property. At the time of the transfer, the book value of the building was €600,000 (historical cost of €900,000, accumulated depreciation of €300,000). The entity adopts the cost model; the estimated remaining useful life is 30 years.

Phase 1 – Transfer to investment property (Jan 1 N)

When an asset is transferred from owner-occupied ownership to investment ownership and the entity adopts the cost model, the carrying amount remains unchanged. Only the account reclassification is recorded.

Table 18 – Reclassification to Investment Property (Jan 1 N)

Account	Description	Debit (€)	Credit (€)
4211	Investment Properties – Building	900,000	
4311	Tangible Fixed Assets – Buildings		900,000
4431	Accumulated Depreciation – Tangible Fixed Assets	300,000	
4421	Amort. Accum. – Prop. Investment		300,000

Phase 2 – Annual amortization (Dec 31 N to N+4)

Annual depreciation = $600,000 \div 30 = €20,000/\text{year}$.

Table 19 – Annual amortization (Dec 31, N to N+4, repeated in each fiscal year)

Account	Description	Debit (€)	Credit (€)
6422	Depreciation – Investment Property	20,000	
4421	Accumulated Depreciation – Investment Profit		20,000

Phase 3 – Impairment loss (Dec 31 N+3)

On December 31st of year N+3, the entity identifies that the commercial lease market in the area has suffered a sharp decline. The carrying amount on that date is $€600,000 - (4 \times €20,000) = €520,000$. The estimated recoverable amount is €460,000. An impairment loss of €60,000 is recorded.

Table 20 – Impairment loss (Dec 31 N+3)

Account	Description	Debit (€)	Credit (€)
6511	Impairment Losses – Investment Property	60,000	
4491	Accumulated Impairment Losses – Investment Profit		60,000

After recognizing the impairment, future amortization is recalculated: $460,000 \div 26$ years (remaining useful life) $\approx$ €17,692/year.

Phase 4 – Impairment reversal (Dec 31 N+5)

In N+5, the market recovers and the entity estimates that the recoverable amount rises to €510,000. The carrying amount without impairment would be: $\text{€}520,000 - (2 \times 17,692) = \text{€}484,616$. Since $\text{€}510,000 > \text{€}484,616$, the reversal is limited to $\text{€}484,616 - (\text{€}460,000 - 17,692) = \text{€}42,308$, in accordance with the limit of the net carrying amount without impairment.

Table 21 – Reversal of impairment loss (Dec 31 N+5)

Account	Description	Debit (€)	Credit (€)
4491	Accumulated Impairment Losses – Investment Profit	42,308	
7511	Reversal of Impairment Losses		42,308

Table 22 – Evolution of the book value (Case 2 – cost model)

Date	Event	Book Value (€)
1 Jan. N (transfer.)	Reclassification	600,000
December 31, N	Amortization (-20,000)	580,000
December 31, N+1	Amortization (-20,000)	560,000
December 31, N+2	Amortization (-20,000)	540,000
December 31, N+3	Amortization (-20,000) + Impairment (-60,000)	460,000
December 31, N+4	Amortization (-17,692)	442,308
December 31 N+5	Depreciation (-17,692) + Odd Reverse (+42,308)	467,024*

* Approximate value.

2.8.3. Comparative synthesis of the two practical cases

A comparative analysis of the two case studies highlights the main differences in the application of the two subsequent measurement models foreseen in NCP 8:

Table 23 – Comparison of results between the two case studies

Analysis dimension	Case 1 – JV Model	Case 2 – Cost Model
Amortizations	Not applicable	€20,000/year (adjusted after odd amounts)
Impact of appreciation	Immediate (account 761x)	Deferred (only in alienation)
Impact of devaluation	Immediate (account 661x)	Impairment (account 651x)
Volatility in results	High	Low
Assessment complexity	High (periodic evaluation)	Moderate (impairment with indications)
Asset information	Reflects the current market.	Reflects net historical cost

Final consideration

The choice between the fair value model and the cost model is a strategic decision with a direct impact on the entity's financial image. Public business entities must consider the availability of reliable valuations, the resources available to obtain them, and the financial information objectives they intend to convey to users of financial statements.

3. CONCLUSION

Public Accounting Standard No. 8 – Investment Properties plays a significant role within the SNC-AP (Accounting Standards for Public Administration), establishing specific criteria for the recognition, measurement, and disclosure of real estate held for the purpose of generating rental income, capital appreciation, or both. Its application contributes to a more accurate representation of the economic reality of public business entities, simultaneously promoting transparency and comparability of financial information.

Throughout this work, it was possible to analyze the main concepts associated with investment properties, as well as the criteria that allow them to be distinguished from other asset categories, namely tangible fixed assets and inventories. The rules relating to initial recognition and subsequent measurement were also addressed, highlighting the differences between the fair value model and the cost model.

The analysis carried out demonstrated that each model presents its own advantages and limitations. The fair value model allows for a more up-to-date reflection of real estate market conditions, providing greater relevance to financial information, although it introduces greater volatility in the results. In turn, the cost model offers greater stability and simplicity of application, but may distance the book value from the effective economic value of the assets.

The practical case studies developed allowed for an understanding of the concrete application of the standard in different situations, highlighting the accounting impacts resulting from revaluations, amortizations, impairments, impairment reversals, and disposals of investment properties. The importance of the disclosures required by NCP 8 to ensure adequate accountability and support decision-making by the various users of financial statements was also demonstrated.

In summary, the correct application of NCP 8 is a fundamental instrument for the efficient management of the real estate assets of public business entities, contributing to more transparent and reliable financial information aligned with international best practices in financial reporting in the public sector.

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