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Accounting of Re-Renting out Real Estates To Third Parties That Were Previously Rented From The Foundations Based on Accounting Standards

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Extensive Summary

In case a business attains the right to rent a real estate belonging to a foundation, this should be recognized as an operating rent (lease) activity. However, if this real estate is rented by a third party from the business, then that activity must be recognized as an investment property. This is because, according to Turkish Accounting Standards (TAS) 40, real estates kept for rent and capital income should be classified as investment properties.

For a real estate kept in the context of operating rent (lease) to be categorized as an investment property, the mentioned real estate should be reserved for renting (lease) and capital income purposes. When real estates rented from foundations are re-rented to third parties, the reserving aim of these real estates will be gathering renting (lease) incomes. Thus, they should be evaluated as investment properties. In this case, first of all the right related to renting (leaase) should be recognized as an investment property, and then the sub-renting transaction must be evaluated as a financial rent (lease). Based on TAS 17 paragraph 8, “Rents subject to transfer of all risks and benefits related to owning an asset should be classified as a financial rent”. On the opposite side, rents (leases) where all risks and benefits related to owning an asset are not transfered, should be classified as operating rent (lease). According to TAS 17 renting (lease) contracts standard paragraph 19, in case a hirer lets a third party sub-rent his real estate, this activity should be recognized as an operating rent (lease) for the third party and must be recognized as financial rent (lease) for the hirer. In case the right related to a property which is subject to operating rent (lease) is classified as an investment property, the right related to that property should be recognized similar to the financial rent (lease), and fair value method must be used for the stated asset.

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.