



FRS 102 FACTSHEET 5

PROPERTY: FAIR VALUE MEASUREMENT

Fair value measurement of property

Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment* apply to investment property and property, plant and equipment respectively. These sections include requirements for initial and subsequent measurement and disclosures.

This factsheet does not address the basic accounting for these assets, but focuses on how to account for a remeasurement to fair value.

Investment property

Investment property is property (land, a building, or part of a building, or both) held by the owner or a lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

Entities will need to determine which of their properties are investment properties, based on the definition in FRS 102.

As part of the triennial review of FRS 102 changes were made to FRS 102 to allow investment property rented to another group entity to be transferred to property, plant and equipment and therefore accounted for using the cost model. Any such property transferred to property, plant and equipment is no longer within the scope of Section 16, and the revaluation model in Section 17 is not available to such property. If an entity wanted to measure investment property rented to another group entity at fair value, it must apply the requirements of Section 16.

Transition for investment property rented to another group entity

On transition to this new accounting policy, an entity is permitted to use the fair value of such an investment property as its deemed cost at the date of transition to the *Triennial Review 2017 Amendments* (ie the start of the comparative period). Further details on this transitional exception can be found in UK GAAP Factsheet 2 *Triennial Review 2017—Transition*.

Property, plant and equipment

Property plant and equipment are tangible assets that:

- (a) are held for use in the production or supply of goods or services or for administrative purposes; and
- (b) are expected to be used in more than one period.

This factsheet has been prepared by FRC staff. It should not be relied upon as a definitive statement on the application of the standard nor is it a substitute for reading the detailed requirements of FRS 102.

Remeasurement to fair value

Key FRS 102 references

Investment property

Investment property (other than any investment property rented to another group entity that have been transferred to property, plant and equipment) must be measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

16.7

As part of the triennial review of FRS 102 amendments were made to Section 16 to remove the undue cost or effort exemption in relation to fair value measurement of investment property and introduce the accounting policy option for investment property rented to another group entity. As a result, the only time when investment property within the scope of Section 16 is not measured at fair value will be if a reliable measure of fair value is not available, which is expected to be rare.

2A.4 to 2A.6

Recognising changes in fair value in profit or loss is an application of the fair value accounting requirements of Schedule 1 to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) (the Regulations), specifically paragraph 40.

Example

Entity A has an investment property. The property is measured at fair value at each reporting date. Its fair value at 31 December 2017 was CU300,000 and its fair value at 31 December 2018 was CU320,000. The change in fair value is recognised as follows:

Dr	Investment property	CU20,000	
	Cr	Profit and loss account	CU20,000

Entity A will also need to account for any deferred tax implications arising from the change in fair value.

Recognising the change in fair value in profit or loss does not make those gains immediately chargeable to corporation tax, which will typically arise on disposal of the investment property.

Presentation in reserves

As fair value accounting requirements apply, the change in fair value has been recognised in profit or loss, it is not recognised in a revaluation reserve.

However, an entity may choose to transfer a portion of its retained profit and loss account equal to the cumulative fair value gains for presentation purposes to a separate reserve, as this element of the profit and loss account is not realised, and not available for distribution.

Remeasurement to fair value

Key FRS 102 references

Revaluation model for property, plant and equipment

After initial recognition, property, plant and equipment shall be measured using the cost model or the revaluation model.

17.15

When the revaluation model is selected it shall be applied to all items of property, plant and equipment in the same class of asset.

17.15

When the revaluation model is selected an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

17.15B

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the reporting date.

17.15B

Usually any revaluation gains are recognised in other comprehensive income (unless they reverse a previous decrease that was recognised in profit or loss) and accumulated in a separate component of equity, the revaluation reserve.

17.15E

Recognising changes in fair value in other comprehensive income is an application of the alternative accounting rules of Schedule 1 to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) (the Regulations), specifically paragraph 35.

Example

Entity A has an office building and decides that it will choose to use the revaluation model for the subsequent measurement of its buildings. Its fair value at 31 December 2017 was CU200,000 and its fair value at 31 December 2018 was CU215,000.

The change in fair value is recognised as follows:

Dr	Land and buildings	CU15,000
	Cr Revaluation reserve (recognised in OCI)	CU15,000

Entity A will also need to account for any deferred tax implications arising from the change in fair value.

Subsequently the depreciation charge for each period is based on the relevant revalued amount and Entity A may transfer an amount from the revaluation reserve to retained earnings to reflect the difference between the depreciation based on the revalued amount and depreciation based on the original cost.

Presentation in reserves

Company law requires the revaluation reserve to be shown separately in the statement of financial position.

Transfer from investment property to property, plant and equipment

Key FRS 102 references

An entity may have investment property that subsequently become owner-occupied.

When a property ceases to meet the definition of an investment property the deemed cost for subsequent accounting as property, plant and equipment shall be its fair value at the date of change in use.

16.9A

Example

Entity A has an office building that was rented out to an unrelated party. Its fair value at 31 December 2017 was CU300,000 and on 1 January 2018 it became owner-occupied. The cumulative fair value gains to 31 December 2017 were £100,000.

Its fair value at 1 January 2018 becomes its deemed cost and the basis for future depreciation charges. Although the value of the property has not changed, accounting entries will be required to move the cumulative fair value gains from retained profits to a revaluation reserve because the property is now measured under the alternative accounting rules of Schedule 1 to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) (the Regulations).

The change in reserves is recognised as follows:

Dr	Profit and loss account (retained profits)	CU100,000	
	Cr	Revaluation reserve	CU100,000

Company law and FRS 102 disclosure requirements for revalued properties will apply to the property on an ongoing basis, including the need to disclose comparable amounts determined according to the historical cost accounting rules (in this case cost of £200,000).

17.32A

This example assumes that Entity A measures owner-occupied property under the cost model. If Entity A uses the revaluation model (which must be applied consistently to the same class of asset) the property would be measured at fair value in future reporting periods less accumulated depreciation and impairment losses. The above entries would still be required on transfer to property, plant and equipment as the property will be measured under the alternative accounting rules of Schedule 1 to the Regulations.