

Accounting and Reporting Policy

FRS 102

Staff Education Note 4

Investment properties

Disclaimer

This Education Note has been prepared by FRC staff for the convenience of users of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. It aims to illustrate certain requirements of FRS 102, but should not be relied upon as a definitive statement on the application of the standard. The illustrative material is not a substitute for reading the detailed requirements of FRS 102.

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Introduction

This Staff Education Note compares the accounting treatment for investment properties under current UK accounting standards (SSAP 19 *Accounting for Investment Properties*) and Section 16 *Investment Properties* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This Staff Education Note is written to highlight key areas of consideration when transitioning to FRS 102 and is not designed to be exhaustive.

Definition of investment property

SSAP 19	FRS 102
<p>An interest in land and/or buildings:</p> <ul style="list-style-type: none"> (a) in respect of which construction work and development have been completed; and (b) which is held for its investment potential, any rental being negotiated at arm's length. <p>(SSAP 19 paragraph 7)</p> <p>Exceptions to the definition:</p> <ul style="list-style-type: none"> (a) a property which is owned and occupied by a company for its own purposes; and (b) a property let to and occupied by another group company is not an investment property for the purposes of its own accounts or the group accounts. <p>(SSAP 19 paragraph 8)</p>	<p>Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:</p> <ul style="list-style-type: none"> (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. <p>(FRS 102 paragraph 16.2)</p> <p>A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property.</p> <p>(FRS 102 paragraph 16.3)</p> <p>Property that has a mixed use will be separated into investment property and property, plant and equipment.</p> <p>(FRS 102 paragraph 16.4)</p>

FRS 102 does not exclude from investment properties those properties that are let to and occupied by group companies, which would be recognised as investment properties in individual financial statements of the lessor. In the group accounts such properties would be part of property, plant and equipment.

In certain circumstances FRS 102 permits a property held under an operating lease to be treated as an investment property. SSAP 19 is not explicit on this point, therefore this may constitute a change when applying FRS 102.

There is no requirement to separate mixed-use properties under SSAP 19, although this may occur in practice, in which case no change would be required on application of FRS 102.

Initial recognition

SSAP 19	FRS 102
<p>Included at open market value. (SSAP 19 paragraph 11)</p>	<p>Included at cost of purchased investment property and directly attributable expenditure. (FRS 102 paragraph 16.5)</p>

Not considered to be significantly different.

Subsequent measurement

Recognition of gains and losses¹

SSAP 19	FRS 102
<p>Included at open market value.</p> <p>Changes in market value are taken to the statement of total recognised gains and losses (being movements on an investment property revaluation reserve), unless a deficit (or its reversal) on an individual investment property is expected to be permanent, in which case it should be charged (or credited) in the profit and loss account.</p> <p>(SSAP 19 paragraph 13)</p>	<p>Where fair value can be measured reliably without undue cost or effort the property shall be measured at fair value. Changes in fair value are recognised in profit or loss.(FRS 102 paragraph 16.7)</p> <p>All other investment property is accounted for as property, plant and equipment using the cost model in accordance with Section 17 <i>Property, plant and equipment</i>.</p> <p>(FRS 102 paragraph 16.1)</p>

Application is unlikely to change as fair values can normally be obtained without undue cost or effort². However, there is a significant presentational change required (see example below).

Example

Facts

On 1 January 20X1, the carrying amount of an entity's investment property was £1.5m. It obtains an updated valuation of £1.6m on 31 December 20X1.

SSAP 19

Under SSAP 19, the gain of £0.1m would be recognised as follows:

Dr	Investment property	£0.1m
Cr	Investment property revaluation reserve (STRGL)	£0.1m

The revaluation is in accordance with the alternative accounting rules of company law, which require amounts to be transferred to a revaluation reserve.

FRS 102

Under FRS 102, the gain of £0.1m would be recognised as follows:

Dr:	Investment property	£0.1m
Cr:	Profit and loss	£0.1m

The revaluation is in accordance with the fair value accounting rules³.

¹ Reference should be made to Section 29 *Income Tax* which sets out the accounting treatment in relation to deferred tax on investment properties.

² See paragraph 118 of the Accounting Council's Advice to the FRC in FRS 102 (and paragraphs 2.13 and 2.14 of FRS 102) for further information on 'undue cost and effort'.

³ See paragraph 39 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

The profit on revaluation of investment property will not be a realised profit available for distribution. An entity may choose to transfer such gains and losses to a non-distributable reserve, but there is nothing in the law to require this.

The presentation of capital and reserves will be different on application of FRS 102 (unless entities choose to transfer gains and losses on remeasurement of investment property to a separate reserve, in which case the balance sheet may appear unchanged). Amounts that would previously have been shown in a revaluation reserve will be part of the accumulated profit and loss account.

An entity choosing not to show a separate revaluation reserve may wish to make disclosure regarding distributable and non-distributable profits. As set out in the ICAEW Technical Release 02/10 *Guidance On The Determination Of Realised Profits And Losses In The Context Of Distributions Under The Companies Act 2006*, the revaluation of an investment property is not considered realised as the fair value of the investment property is not readily convertible to cash.

Transfers to and from investment properties

SSAP 19	FRS 102
Not specifically addressed.	<p>Provides that transfers to, or from, investment property shall only occur when the property first meets, or ceases to meet, the definition of investment property.</p> <p>(FRS 102 paragraph 16.9)</p> <p>A transfer is also made where a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model.</p> <p>(FRS 102 paragraph 16.8)</p>

Application is unlikely to change as fair values can normally be obtained without undue cost or effort.