

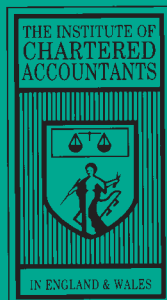
SSAP

Statement of standard accounting practice No. 19.

19

November 1981

Accounting for investment properties



STATEMENTS OF STANDARD ACCOUNTING PRACTICE

19

Accounting for investment properties

Contents

	<i>Paragraphs</i>
Part 1 – Explanatory note	1–6
Part 2 – Definition of terms	7–8
Part 3 – Standard accounting practice	9–16
Part 4 – Legal requirement in UK and Ireland	17–18

STATEMENTS OF STANDARD ACCOUNTING PRACTICE

Accounting for investment properties

(Issued November 1981)

The provisions of this statement of standard accounting practice should be read in conjunction with the Explanatory Foreword to accounting standards. The provisions apply equally to financial statements prepared under the historical cost convention and to financial statements prepared under the current cost convention. They need not be applied to immaterial items.

Part 1 – Explanatory note

- 1 Under the accounting requirements of SSAP 12 'Accounting for depreciation', fixed assets are generally subject to annual depreciation charges to reflect on a systematic basis the wearing out, consumption or other loss of value whether arising from use, effluxion of time or obsolescence through technology and market changes. Under those requirements it is also accepted that an increase in the value of such a fixed asset does not generally remove the necessity to charge depreciation to reflect on a systematic basis the consumption of the asset.
- 2 A different treatment is, however, required where a significant proportion of the fixed assets of an enterprise is held not for consumption in the business operations but as investments, the disposal of which would not materially affect any manufacturing or trading operations of the enterprise. In such a case the current value of these investments, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Consequently, for the proper appreciation of the financial position, a different accounting treatment is considered appropriate for fixed assets held as investments (called in this standard 'investment properties').
- 3 Investment properties may be held by a company which holds investments as part of its business such as an investment trust or a property investment company.
- 4 Investment properties may also be held by a company whose main business is not the holding of investments.
- 5 Where an investment property is held on a lease with a relatively short unexpired term, it is necessary to recognise the annual depreciation in the financial statements to avoid the situation whereby a short lease is amortised against the investment revaluation reserve whilst the rentals are taken to the profit and loss account.
- 6 This statement requires investment properties to be included in the balance sheet at open market value. The statement does not require the valuation to be made by qualified or independent valuers; but (in paragraph 12) calls for disclosure of the names or qualifications of the valuers, the bases used by them and whether the person making the valuation is an employee or officer of the company. However, where investment properties represent a substantial proportion of the total assets of a major enterprise (e.g. a listed company) the valuation thereof would normally be carried out:

STATEMENTS OF STANDARD ACCOUNTING PRACTICE

- (a) annually by persons holding a recognised professional qualification and having recent post-qualification experience in the location and category of the properties concerned; and
- (b) at least every five years by an external valuer.

Part 2 – Definition of terms

For the purposes of this statement, but subject to the exceptions in paragraph 8 below, an *investment property* is an interest in land and/or buildings: 7

- (a) in respect of which construction work and development have been completed; and
- (b) which is held for its investment potential, any rental income being negotiated at arm's length.

The following are exceptions from the definition: 8

- (a) A property which is owned and occupied by a company for its own purposes is not an investment property.
- (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.

Part 3 – Standard accounting practice

This statement does not apply to investment properties owned by charities. 9

Investment properties should not be subject to periodic charges for depreciation on the basis set out in SSAP 12, except for properties held on lease which should be depreciated on the basis set out in SSAP 12 at least over the period when the unexpired term is 20 years or less. 10

Investment properties should be included in the balance sheet at their open market value. 11

The names of the persons making the valuation, or particulars of their qualifications, should be disclosed together with the bases of valuation used by them. If a person making a valuation is an employee or officer of the company or group which owns the property this fact should be disclosed. 12

Subject to paragraph 14 below, changes in the value of investment properties should not be taken to the profit and loss account but should be disclosed as a movement on an investment revaluation reserve, unless the total of the investment revaluation reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the investment revaluation reserve should be charged in the profit and loss account. In the special circumstances of investment trust companies (as mentioned in paragraph 10 of SSAP 6) and of property unit trusts it may not be appropriate to deal with such deficits in the profit and loss account. In such cases they should be shown prominently in the financial statements. 13

STATEMENTS OF STANDARD ACCOUNTING PRACTICE

- 14 Paragraph 13 does not apply to the financial statements of pension funds and the long-term business of insurance companies where changes in value are dealt with in the relevant fund account.
- 15 The carrying value of investment properties and the investment revaluation reserve should be displayed prominently in the financial statements.

Date from which effective

- 16 The accounting and disclosure requirements in this statement should be adopted as soon as possible and regarded as standard in respect of financial statements relating to accounting periods starting on or after 1 July 1981.

Part 4 – Legal requirement in UK and Ireland

- 17 The insertion by section 1 of the Companies Act 1981 of a new section 149 of the Companies Act 1948 is likely to have the effect, among other things, that where this standard is applied certain disclosures will need to be made in the notes to the accounts. The application of this standard will usually be a departure, for the overriding purpose of giving a true and fair view, from the otherwise specific requirement of the law to provide depreciation on any fixed asset which has a limited useful economic life. In this circumstance there will need to be given in the notes to the accounts 'particulars of that departure, the reasons for it, and its effect'.
- 18 A similar legal requirement is expected to be enacted in the Republic of Ireland.