

SSAP 13
STATEMENT OF STANDARD ACCOUNTING PRACTICE 13
ACCOUNTING FOR INVESTMENT PROPERTIES

*(Issued October 1987, revised July 1990, September 1994,
and December 2000 in red text and underlined type)*

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Introduction

Under the accounting requirements of ~~SSAP 6 "Depreciation accounting"~~ SSAP 17 "Property, plant and equipment", in order to match revenues with costs and charges period by period the depreciable amounts of depreciable assets are allocated over their estimated useful lives on a systematic basis. Under those requirements it is also accepted that an increase in the value of a depreciable asset does not generally remove the necessity to charge depreciation to reflect on a systematic basis the consumption of the asset.

A different treatment is, however, required where the fixed assets of a company are 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 a company. 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 periodic 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 Statement "investment properties").

Scope

1. ~~Companies~~ Insurance companies which avail themselves of the exemptions under Part III of the Tenth Schedule to the Companies Ordinance (~~banking, insurance and shipping companies~~) and charitable, Government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits (eg. trade associations, clubs and pension funds) are exempted from compliance with this Statement provided that full disclosure of their accounting policies is made.

Definitions

2. *Subject to the exceptions in paragraph 4 below, an "investment property" is an interest in land and/or buildings:*
 - 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.*
3. Investment properties may be held by a company which holds investments as part of its business such as a property investment company. Investment properties may also be held by a company whose main business is not the holding of investments.

4. *The following are exceptions from the definition of an investment property in paragraph 2 above:*
 - a. *A property, or that part of a property, which is owned and occupied by a company for its own purposes is not an investment property.*
 - b. *A property, or that part of a property, let to and occupied by another company in the group is not an investment property for the purposes of its own financial statement or the consolidated financial statements.*
5. A property of which only 15 per cent or less by area or value is occupied by the company or another company in the group ("owner-occupied") should normally be regarded as an investment property even though part of it is not held for investment purposes. The standards in this Statement will therefore apply to the whole property.
6. If a property is partially owner-occupied and partially held for investment purposes then the part occupied by the owner (which is more than 15 per cent by area or value) should be treated as a depreciable asset and ~~SSAP 6 "Depreciation accounting"~~ SSAP 17 "Property, plant and equipment" should be applied; the part held as an investment property should be identified separately in the financial statements and stated at their carrying amount in accordance with the standards in this Statement.

Open market value

7. *"Open market value", as defined by the Hong Kong Institute of Surveyors, means the best price at which an interest in a property might reasonably be expected to be sold at the date of valuation assuming:*
 - a. *a willing seller;*
 - b. *a reasonable period in which to negotiate the sale taking into account the nature of the property and the state of the market;*
 - c. *that values will remain static during that period;*
 - d. *that the property will be freely exposed to the open market; and*
 - e. *that no account will be taken of any additional bid by a purchaser with a special interest.*
8. *Subject to paragraphs 9, 12 and 13 below, investment properties should be included in the balance sheet at their open market value, based on a period end valuation carried out:*
 - a. *annually by persons holding a recognised professional qualification in valuing properties and having recent post-qualification experience in valuing properties in the location and in the category of the properties concerned; and*
 - b. *at least every three years by an external valuer with similar qualifications to those in a. above.*
9. *Investment properties should not be subject to periodic charges for depreciation on the basis of SSAP 6 "Depreciation accounting" except where the unexpired term of the lease is 20 years or less, in which case depreciation must be provided on the then carrying amount over the remaining term of the lease.*

10. Investment properties are ~~excluded from the definition of depreciable assets (SSAP 6) and are consequently~~ not subject to an annual depreciation charge on the ground that such properties are not held for consumption in the business operations but as investments.
11. Where an investment property is held on a lease with an unexpired term of 20 years or less it is necessary to recognise the annual depreciation in the profit and loss account to avoid the situation whereby a short lease is amortised against the investment property revaluation reserve while the rentals are taken to the profit and loss account.

Exemption from open market value

12. *For the purpose of their own financial statements, unlisted companies with investment properties the estimated open market value of which in aggregate is less than HK\$50 million or less than 15 per cent of the carrying amount of total assets of the company may carry those investment properties at cost or, if they have been measured previously at estimated open market value, at the most recently determined estimated open market value. In either case, and, subject to paragraph 9 above they should not be depreciated, but any impairment should result in a reduction of the carrying amount.*
13. *For the purpose of the consolidated financial statements, investment properties may be stated at cost or, if they have been measured previously at estimated open market value, at the most recently determined estimated open market value, if the parent company is unlisted and the aggregate estimated open market value of investment properties at group level is less than HK\$50 million or less than 15 per cent of the carrying amount of total group assets. In either case, and, subject to paragraph 9 above they should not be depreciated, but any impairment should result in a reduction of the carrying amount.*
14. This Statement requires investment properties of enterprises falling within the scope of this Statement to be included in the balance sheet at open market value at the period end. Enterprises which satisfy the exemption criteria set out in paragraphs 12 and 13 are exempted from the requirement and may state investment properties at cost or at estimated open market value.
15. The exemptions are allowed because the costs of complying with the valuation requirement in paragraph 8 may be disproportionate to the benefits.
16. "Estimated open market value" means open market value estimated by the directors for the purpose of establishing the exemption criteria and, in respect of an eligible enterprise which chooses to take advantage of the exemptions in paragraphs 12 and 13 above, for determining the carrying amount of investment properties. Estimated open market value may be determined by the directors, by reference to recent transactions in similar properties or where such market value is not available, other estimation techniques, for example, depreciated replacement cost or income capitalisation techniques.

Changes in value

17. *Subject to paragraph 19 below, changes in the value of investment properties should not be taken to the profit and loss account but should be treated as movements in an investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve should be charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus should be credited to the profit and loss account to the extent of the deficit previously charged.*

18. Paragraph 17 requires that when the deficits on the revaluation of investment properties exceed the balance of the investment property revaluation reserve the resulting debit balance should be charged to the profit and loss account. Where a revaluation deficit arises in an individual company which is part of a group and there is a net surplus on revaluations of investment properties in the group, the deficit can be charged against the revaluation reserve in the consolidated financial statements.
19. *Paragraph 17 does not apply to the long-term business of insurance companies where changes in value are dealt with in the relevant fund account.*

Disclosure in financial statements

20. *Investment properties should be included under the classification of fixed assets in the balance sheet. Investment properties with an unexpired term of 20 years or less which are depreciated should continue to be classified as investment properties within fixed assets.*
21. *Where the company's assets include investment properties the following information should be disclosed:*
- a. *the accounting policies for:*
 - i. *the determination of the carrying amount of investment properties,*
 - ii. *the treatment of changes in value of investment properties carried at revalued amounts, and*
 - iii. *the treatment of any revaluation surplus on the sale of a revalued investment property;*
 - b. *the carrying amount of investment properties;*
 - c. *the balance on the investment property revaluation reserve together with details of movements during the accounting period;*
 - d. *any surplus or deficit on revaluation taken to the profit and loss account during the accounting period;*
 - e. *the profit or loss on disposal of any investment properties;*
 - f. *the gross rental income from investment properties;*
 - g. *significant restrictions on the realisability of investment properties, or the remittance of income and proceeds of disposal; and*
 - h. *for investment properties stated at revalued amounts:*
 - i. *the policy for the frequency of revaluation,*
 - ii. *the date of the latest revaluation, and*
 - iii. *the names of the persons making the valuation, or particulars of their qualifications, 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 asset, this fact.*

Effective date

22. **Except for paragraph 1, the accounting practices set out in this Statement should be adopted as soon as possible and regarded as standard in respect of financial statements relating to periods ending on or after 31 October 1994. Paragraph 1 should be regarded as Standard in respect of financial statements relating to periods beginning on or after 1 July 2000.**

Transitional arrangements

23. Enterprises which state their investment properties at carrying value, as permitted under SSAP 13 before the September 1994 amendment, may continue to do so provided that they meet the exemption criteria of paragraphs 12 and 13 and the investment properties have not been subsequently restated at open market values or estimated open market values. Subject to paragraph 9, the investment properties should not be depreciated but any impairment should be provided for.

Notes on legal requirements in Hong Kong

24. The reference to "the Schedule" below are to the Tenth Schedule to the Companies Ordinance.
25. Paragraph 5 of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value.
26. Paragraph 12(7) of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period:
- a. the name of the persons who valued them or particulars of their qualifications for doing so; and
 - b. the bases of valuation used by such persons.
27. Paragraph 12(8) of the Schedule requires disclosure of the amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9) requires separate disclosure of the amounts ascribable to:
- a. land in Hong Kong held on long lease, medium-term lease and short lease respectively; and
 - b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively.
28. Under paragraph 13 of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.
29. Paragraph 13(1)(h) of the Schedule requires disclosure of rental income from land and buildings (after deduction of ground rents, rates and other out-goings).
30. The above provisions apply to all companies other than banking, insurance and shipping companies which are entitled to certain disclosure exemptions under the provisions of Part III of the Schedule.