

4: Fixed assets

Topic List

Companies Act rules

FRS 15

SSAP 19

SSAP 4

*Many of the rules on accounting for fixed assets are contained in **CA 1985**: these relate to ALL fixed assets.*

FRS 15 Tangible fixed assets: important recent standard

SSAP 19 Accounting for investment properties: old standard, so has problems

- *What is OMV? Willing buyer/seller? Normal market conditions?*
- *Specialised properties may have no OMV*

SSAP 4 Accounting for government grants: old standard:

- *Conflict of accruals vs asset definition in SoP*
- *Matching difficulties to unspecified expenditure*

Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Cost

- Based on purchase price/production cost
- Add expenses incidental to acquisition
- Production costs include:
 - Raw materials
 - Consumables
 - Other direct costs
 - Reasonable indirect costs
 - Interest borrowed to finance

Problem

Allowing both HC and revaluations leads to a lack of comparability

Valuation/Revaluation

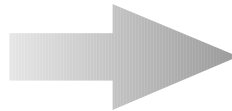
- Continue to value at cost less depreciation/impairment
OR
- Revalue to current value (see FRS 15), disclose:
 - Items revalued/basis of valuation
 - HC or difference to revalued amount

Depreciation/Impairment

- Must provide for depreciation systematically over useful life
- Reduce value by any permanent diminution (see Chapter 5)
- Both depreciation and impairments are charged in the P&L a/c

Solution

FRS 3 note reconciling HC profits to reported profits (see Chapter 12)



Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Definitions

Tangible fixed assets

Assets that have physical substance and are held for use on a continuing basis in the reporting entity's activities.

Current value

The lower of replacement cost and recoverable amount.

Standards

Initial measurement

- 1 Measurement **initially at cost**; only directly attributable costs
- 2 Only include **start-up costs** for essential commissioning period
- 3 Addition of **finance costs** (optional) restricted to active development and when finance costs incurred; disclose policy
- 4 **Write down** to recoverable amount if necessary
- 5 **Subsequent expenditure** to maintain is written off to the P&L a/c, except in three circumstances:
 - a Performance enhanced
 - b Replacement/restoration of separately depreciated component
 - c Restoration of all economic benefits in major overhaul

Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Abbreviations

OMV = Open Market Value
DRC = Depreciated Replacement Cost
EUV = Existing Use Value
All defined by the RICS

Useful economic life

The period over which the entity expects to derive economic benefits from the asset.

Depreciation

The measure of the cost or revalued amount of the economic benefits of the tangible FA consumed during the period.

Valuation

- 6 Where there is a policy of revaluation, **revalue entire classes** of assets to current value at the BS date
- 7 **Valuation bases:** usually OMV or failing that DRC:
 - Non-specialised properties at EUV plus notional acquisition costs
 - Specialised properties at DRC
 - Surplus properties at OMV less selling costs
- 8 **Revaluation gains** → STRGL unless reverse previous revaluation losses recognised in the P&L a/c
- 9 **Revaluation losses** (see Chapter 6 on FRS 11):
 - Clear consumption of economic benefit → P&L a/c
 - Other → STRGL to depreciated HC, then → P&L a/c

Depreciation

- 10 All assets are depreciated according to **pattern of consumption over useful lives**; depreciable amount = cost/revaluation less residual value

Residual value

The NRV of an asset at the end of its useful economic life, based on prices at the date of acquisition/revaluation.

Recoverable amount

The higher of NRV and value in use (see Chapter 6 on FRS 11).

- 11 **Change of method** is not a change in accounting policy, but permitted if better reflects the pattern of consumption
- 12 Depreciate separately **components** with different useful lives
- 13 Only grounds for **non-depreciation** (except freehold land) is immateriality of both annual charge and accumulated amounts
- 14 **Subsequent expenditure** to maintain does not negate the need to depreciate
- 15 **Review for impairment** annually those assets:
 - Not depreciated on grounds of immateriality
 - With remaining useful economic lives > 50 years
- 16 **Review** economic lives and (if material) residual values each accounting period
- 17 **Renewals accounting** permitted for infrastructure assets; annual expenditure to maintain = depreciation charge
- 18 **On disposal** of fixed assets:
 - Profit/loss = sales proceeds less carrying amount
 - Revaluation surplus transferred to P&L a/c (realised)

Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Definition

Investment property

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.

Exceptions:

- Property owned and occupied by a company for its own purposes.
- Property let to and occupied by another group company, for both company and group a/cs.

Standards

- 1 Investment properties **are not depreciated** *except* leaseholds with an unexpired term of < 20 years
- 2 Valued in BS at OMV at each year end, ie **revalue annually**
- 3 **Increases/decreases in value** → STRGL → Investment Revaluation Reserve (IRR)
- 4 **Deficit** on a property: treatment of losses below cost:
 - Permanent → P&L a/c
 - Temporary → STRGL → IRR until reversed
- 5 **Disposal** as per FRS 3: sales proceeds less carrying value = gain/loss → P&L a/c
- 6 **True and fair override** for CA 1985 non-compliance as no depreciation charged
- 7 **Disclosure:** prominent display of properties/IRR; name/qualification of valuer, whether officer/employee; basis of valuation

Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Definition

Government grants

Assistance by government in the form of cash or transfers of assets to an enterprise in return for past/future compliance with certain conditions relating to the operating activities of the enterprise.

Balance at 1.1.X0	X
Grants received during year	X
Transferred to P&L a/c	(X)
Balance at 31.12.X0	X
	==

Standards

- 1 Government grants are **matched** in the P&L a/c with the expenditure for which they are contributed
- 2 If for a **fixed asset**, grants are recognised over its useful economic life
- 3 Grants are not recognised in the P&L a/c until **conditions of receipt** are complied with
- 4 Potential **liabilities to repay** are provided for to the extent repayment is probable (see Chapter 13 on FRS 12)
- 5 **Combined** revenue/capital grant: match grant with total expenditure to which grant assisting
- 6 **Disclosure/presentation**
 - Accounting policy and potential liability to repay (FRS 12)
 - P&L a/c: credit under 'other operating income'
 - BS: deferred income note

Companies Act
rules

FRS 15

SSAP 19

SSAP 4

Summary of accounting treatment

- **Revenue-based grants**

Debit Cash
Credit P&L a/c

- **Capital-based grants**

Debit Cash
Credit Accruals and deferred income
when grant received

Debit Accruals and deferred income
Credit P&L a/c
over useful life of the related fixed asset