

New Zealand Society of Accountants

STATEMENT OF STANDARD  
ACCOUNTING PRACTICE NO. 17  
1989

**ACCOUNTING FOR  
INVESTMENT PROPERTIES AND  
PROPERTIES INTENDED FOR SALE**

*Issued by the Council, New Zealand Society of Accountants*

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*This Statement replaces SSAP-17 (1985), Accounting for  
Investment Properties By Property Investment Companies,  
which was withdrawn by Council in June 1988.*

*This Statement should be read in the context of  
the Explanatory Foreword to Statements of Standard Accounting Practice.*

**1 INTRODUCTION**

1.1 This Statement deals with accounting for investment properties and properties intended for sale.

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### **2 APPLICATION**

- 2.1 The Standard in this Statement applies to all external financial statements.
- 2.2 This Statement of Standard Accounting Practice becomes operative for financial statements covering periods ending on or after 31 March 1989.

### **3 DEFINITIONS**

- 3.1 *Property* is, for the purposes of this Statement, an interest in land or buildings in which the reporting entity, or any of the members of a group, singly or in combination, does not occupy or intend to occupy more than 20 percent of the area of the land or buildings.
- 3.2 *Investment Property* is property which is held, or development property intended to be held, primarily for capital growth or rental or similar income.
- 3.3 *Property Intended For Sale* is all property, other than investment property, held with the intention of realisation in the ordinary course of business.
- 3.4 *Development Property* is either investment property or property intended for sale, depending on the intention of the reporting entity, which is both being developed and is identifiable as a separate project.
- 3.5 *Development Margin* on a development property is the difference between (i) expected net current value on completion and expected cost in the case of investment property, or (ii) net sale price and expected cost in the case of property intended for sale.
- 3.6 *Net Current Value* is the open market value, less the costs of disposal that could reasonably be anticipated. Open market value is the price for which a property might reasonably be expected to be sold at the operative date.
- 3.7 *Group*, for the purposes of this statement, comprises the investor, subsidiaries, in-substance subsidiaries and associates.

### **4 DISCUSSION**

#### **Introduction**

- 4.1 Property, in general terms, may be held or developed for several reasons. First, it may be held or developed as an integral part of the reporting entity's production, manufacturing, administration or trading activities, and performance of the reporting entity may largely depend on the results of these activities. Secondly, the property may be held or developed primarily as an investment for capital growth or rental or similar income, such that an assessment of performance requires consideration of changes in value. Thirdly, the property may be held or

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developed with the intention of sale in either the short or long term, in which case the performance of the reporting entity depends on realisation of the property.

4.2 The purpose of this Statement is to provide guidance on accounting for properties either held or developed primarily as investments or with the intention of sale. Therefore, where more than 20 percent of the area of any property is occupied by the reporting entity, or singly or in combination by any of the members of the group, it does not meet the definition of a property for the purposes of this Statement. Hereafter, all references to property are to property as defined in paragraph 3.1 above.

4.3 Development margins arise from either investment property or property intended for sale which at balance date is still being constructed or developed. The property may be developed under an unconditional contract for development and sale, or there may be no such contract but an intention to sell the property either during or after development, or it may be intended to hold the property as an investment property.

4.4 Choice of an accounting policy for development margins involves a trade-off between competing objectives relating to the qualitative characteristics of relevance, reliability and internal consistency of the information presented in the financial statements. This Statement adopts the general view that in order to ensure that the information presented is *relevant* to users of the financial statements, development margins should be progressively recognised in the financial statements on a percentage of completion basis. Application of this accounting policy should, however, be restricted to those circumstances in which the margins can *reliably* be estimated.

4.5 Where the development margins arise from property intended to be held by the reporting entity, application of the policy should be restricted to those properties which are investment properties as defined.

### **Properties Intended For Sale**

4.6 Properties intended for sale may be classified as current assets or non-current assets. Where such property is readily realisable and intended to be held for not more than one year, classification as a current asset is appropriate. Similarly, any related liability which will be discharged upon sale should be classified as a current liability. For property intended for sale to be classified as a current asset there should be evidence of intent to sell including authorisation by directors, listing for sale or similar evidence. Where the current asset test is not met, properties intended for sale should be classified as non-current assets. Properties intended for sale should be carried at the lower of cost (or other amount where the circumstances described in paragraph 4.26 apply) and net realisable value. However, development property intended for sale should be accounted for in accordance with paragraphs 4.7 to 4.9 below.

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4.7 In the case of a development property intended for sale, the following conditions should be met in order to provide the required degree of reliability for recognition of a development margin in the financial statements:

- (i) the reporting entity should have an unconditional contract for the sale of the completed property, and
- (ii) all costs incurred and expected to be incurred by the entity can be reliably estimated.

4.8 If the conditions in paragraph 4.7 are met, the development margin should be recognised on a percentage of completion basis (the stage of completion is defined in SSAP-14, *Accounting for Profit on Construction Contracts*) and included in the income statement in profit before extraordinary items (i.e. as part of operating profit (loss)). Such properties should be recorded in the balance sheet at cost plus accumulated increments to date determined on a percentage of completion basis.

4.9 If the conditions in paragraph 4.7 are not met, the reporting entity should account for the development property as inventory at the lower of cost and net realisable value.

### **Investment Properties**

4.10 Investment properties by their nature are not held with the intention of sale within one year and therefore should be classified as non-current assets.

4.11 Under the requirements of SSAP-3 (1984), *Accounting for Depreciation*, depreciation on the depreciable amount of a building is charged against income 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 technological and market changes. Under those requirements it is also accepted that temporary increases in the value of such an asset do not generally remove the necessity to charge depreciation.

4.12 The net current values of investment properties would reflect their age (and hence the depreciation to date). Therefore, the provisions of SSAP-3, *Accounting for Depreciation*, do not apply to investment properties which should be carried in the balance sheet at their net current value.

4.13 In order to provide prudent and objective evidence of value, valuations should be conducted annually by an independent valuer holding a recognised professional qualification and having experience in the location and category of the investment property concerned. The valuation should be prepared in accordance with the New Zealand Institute of Valuers' Asset Valuation Standard.

4.14 In the case of a development property intended to be held by the reporting entity, the following conditions should be met in order to provide the required degree of reliability for recognition of a development margin in the financial statements:

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- (i) the property should unconditionally be pre-let to at least 80 percent of the anticipated annual rental revenue to be received from entities external to the reporting group; and
- (ii) all costs incurred and expected to be incurred by the entity can reliably be estimated.

4.15 If the conditions in paragraph 4.14 are met, the development margin on the property should be recognised on a percentage of completion basis in accordance with paragraphs 4.20 and 5.6 below. The stage of completion should be determined in accordance with SSAP-14, *Accounting for Profits on Construction Contracts*. Development properties should be recorded in the balance sheet at cost plus accumulated increments to date determined on a percentage of completion basis.

4.16 If the conditions in paragraph 4.14 are not met, the reporting entity should account for the development property at the lower of cost and net realisable value.

4.17 There are strong arguments to support the proposition that both changes in the value of investment properties and development margins on properties intended to be held as investment properties and which meet the conditions outlined in paragraph 4.14 above, should be disclosed in the income statement because such information:

- (a) is highly relevant to both an assessment of the reporting entity's performance and of the investing community's information needs;
- (b) is sufficiently reliable for inclusion in the income statement because the valuations are established by recognised independent valuers appropriately qualified and following recognised standards of valuation; and
- (c) complements the information presented in a statement of cash flows.

4.18 On the other hand, it can be argued that because there is a degree of uncertainty in valuing such properties any changes in value should be disclosed only as a movement in revaluation reserves.

4.19 Consideration of the above arguments leads to the conclusion that, while the income statement approach is the preferred approach, either approach is acceptable.

4.20 Accordingly, the Standard in this Statement requires that both a net change in the value of investment properties and development margins on properties intended to be held as investment properties which meet the conditions outlined in paragraph 4.14 above, should be disclosed either:

- (a) in the income statement following profit after extraordinary items and clearly identified as unrealised development margins, or where appropriate as an unrealised net change in the value of investment properties, or
- (b) as movements in an investment property revaluation reserve, unless the total of the investment property revaluation reserve is insufficient to cover a

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deficit, in which case the amount of the deficit should be charged in the income statement as part of operating results.

4.21 In order to provide investors with full information as to the extent of the net changes in the value of investment properties and of development margins on those properties, the net amount in the investment property revaluation reserve should be separately disclosed within shareholders' funds and the movement for the year in the reserve disclosed.

4.22 In accounting for development margins and for the changes in the values of investment properties regard should be had to the potential effect of taxation in accordance with SSAP-12, *Accounting for Inter-period Allocation of Income Tax*.

### **General**

4.23 Where a property is sold the difference between net sale proceeds and the carrying amount of that property should be recognised in the income statement as part of operating profit (loss). Where development margins or changes in value of investment properties have been reported in income as per paragraph 4.20(a) above and where an investment property has been sold there should also be a transfer from the revaluation reserve directly to retained earnings of any balance in the reserve in respect of that property. Where development margins or changes in value of investment properties have been reserve accounted as per paragraph 4.20(b) above and an investment property has been sold, there should be a transfer from the revaluation reserve to operating profit (loss) of any balance in the reserve in respect of that property.

4.24 The Standard in this Statement should be applied in a consistent manner to all investment properties and properties intended for sale held by members of the group. If the method of accounting is changed, the fact of the change, its effect and the reasons for the change should be fully disclosed.

4.25 Reporting entities that apply the Standard contained in this Statement will not be presenting financial statements on the historical cost basis and should therefore ensure that their statement of general accounting policies is appropriately worded.

4.26 If a property previously accounted for as an investment property is now intended to be sold, it should be reclassified accordingly but continue to be recorded at the carrying amount at the date of change of intention except where carrying amount is greater than net realisable value, in which case it should be written down to net realisable value and the difference charged in the income statement as part of operating results. The reclassification of a property as an investment property or as a property intended for sale should be supported by a directors' resolution and objective evidence of the changed circumstances.

**5 STANDARD ACCOUNTING PRACTICE**

**Accounting for Investment Properties and Properties Intended for Sale**

*The Standards set out in the following paragraphs should be read in the context of the foregoing paragraphs of this Statement and the Explanatory Foreword to Statements of Standard Accounting Practice issued by the Council of the New Zealand Society of Accountants.*

**Properties Intended for Sale**

5.1 Properties intended for sale which are readily realisable and intended to be held for not more than one year should be classified within current assets. Where the current asset test is not met, properties intended for sale should be classified as non-current assets.

5.2 Development margins arising from properties intended for sale by the reporting entity, which meet the criteria described in paragraph 4.7 above, should be recognised on a percentage of completion basis and included as part of operating profit (loss). Such properties should be recorded in the balance sheet at cost plus accumulated increments to date determined on a percentage basis.

5.3 Development properties intended for sale which do not meet the criteria for recognition of development margins, as described in paragraph 4.7 above, should be accounted for as inventory at the lower of cost and net realisable value.

**Investment Properties**

5.4 Investment properties, other than development properties, should be recorded in the balance sheet at their net current value. Development properties meeting the criteria outlined in paragraph 4.14 should be recorded in the balance sheet at cost plus the accumulated increments to date determined on a percentage of completion basis. Investment properties, including development properties:

- (a) should be valued annually by an independent valuer holding a recognised professional qualification and having experience in the location and category of the property concerned; and
- (b) should not be subject to periodic charges for depreciation.

5.5 Development margins arising from properties which meet the criteria of paragraph 4.14 above should be recognised on a percentage of completion basis in accordance with paragraph 5.6 below, provided that the property on completion meets or is expected to meet the criteria applicable to an investment property. Where the criteria in paragraph 4.14 are not met, development properties should be carried at the lower of cost and net realisable value.

5.6 Development margins on investment properties and the net change in the value of investment properties should be disclosed either:

- (a) included in the income statement following profit after extraordinary items

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and clearly identified as unrealised development margins, or where appropriate as an unrealised net change in the value of investment properties; or

- (b) transferred direct to an investment property revaluation reserve. If the total of the investment property revaluation reserve is insufficient to cover a deficit, the amount of the deficit should be charged in the income statement as part of operating results.

Whichever method is adopted, that method should be followed consistently for all relevant properties or, if the method is changed, the fact of the change, the effect and the reasons for the change should be fully disclosed.

### **General**

5.7 Where a property is sold, the difference between net sale proceeds and the carrying amount of that property should be recognised in the income statement as part of operating profit (loss). Where development margins or changes in value of investment properties have been reported in income as per paragraph 5.6(a) above and an investment property has been sold, there should also be a transfer from the revaluation reserve directly to retained earnings of any balance in the reserve in respect of that property. Where development margins or changes in value of investment properties have been reserve accounted as per paragraph 5.6(b) above and an investment property has been sold, there should be a transfer from the revaluation reserve to operating profit (loss) of any balance in the reserve in respect of that property.

5.8 If a property, previously accounted for as an investment property, is now intended to be sold, it should be reclassified accordingly but continue to be recorded at the carrying amount at the date of change of intention except where carrying amount is greater than net realisable value, in which case, it should be written down to net realisable value and the difference charged in the income statement as part of operating results. The reclassification of a property as an investment property or as a property intended for sale should be supported by a directors' resolution and objective evidence of the changed circumstances.

### **Disclosures**

5.9 There should be disclosure of:

- (a) the method(s) used in accounting for both investment properties and properties intended for sale, including development properties where applicable;
- (b) the amounts included in the income statement in respect of changes in value of investment properties and of development margins;
- (c) investment properties separate from other land and buildings and properties intended for sale;
- (d) properties intended for sale shown separately as current assets or non-current assets where applicable;

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- (e) the property revaluation reserve separate from other reserves; and
- (f) the movements in the property revaluation reserve during the year;
- (g) in respect of each valuer employed:
  - (i) the name of the valuer,
  - (ii) the total net current value of property valued by that valuer, and
  - (iii) the date(s) of such valuations.

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### APPENDIX

*Note: This appendix, which illustrates changes in value in the Income Statement, is intended for illustrative purposes only and does not form part of the Statement of Standard Accounting Practice.*

#### Income Statement for the Period Ended 31 March 19A1

	\$000	\$000
Rent Received	XXX	
Interest Received	XXX	XXX
Profit on Sale of Properties		XXX
Profit to Date on Development Properties Intended for Sale		XXX
Property and Administration Expenses		(XXX)
Operating Profit Before Taxation		XXX
Income Tax		(XXX)
Profit After Tax and Before Extraordinary Items		XXX
Extraordinary Items		XXX
Profit Including Extraordinary Items		XXX
Unrealised Net Change in Value of Investment Properties		XXX
Unrealised Development Margins on Investment Properties Under Development		XXX
Surplus for the Year		XXX
Add Retained Profits March 31 19A0		XXX
Transfer To/From Revaluation Reserve		XXX
(To reflect the transfer of changes in property values and development margins to the revaluation reserve, or to transfer from revaluation reserve previous revaluations on investment properties now sold)		XXX
Less Dividends		XXX
Retained Profits 31 March 19A1		XXX

**Statement of General Accounting Policies**

As stated in paragraph 4.25, reporting entities that apply the Standard in this Statement should ensure that their statement of general accounting policies is appropriately worded. An example in terms of paragraph 5.9(a) might be:

1. Investment properties and development properties intended to be held as investment properties have been valued at net current value; revaluation gains or losses and development margins have been included in the surplus for the year and the income statement does not include a charge for depreciation on investment properties. In all other respects the measurement base adopted is that of historical cost.
2. Reliance is placed on the fact that the company is a going concern.
3. Accrual accounting has been used to match expenses with revenues.

An alternative example in terms of paragraph 5.9(a) might be:

1. Investment properties and development properties intended to be held as investment properties have been valued at net current value; revaluation gains or losses and development margins have been included in reserves for the year and the income statement does not include a charge for depreciation on investment properties. In all other respects the measurement base adopted is that of historical cost.
2. Reliance is placed on the fact that the company is a going concern.
3. Accrual accounting has been used to match expenses with revenues.

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