

Consultation Questions Component Accounting

We welcome this further consultation to consider how capital grant may be allocated against separate components and set out our comments below.

1. Do consultees consider that component accounting is applied social housing grant should be:

a) allocated against all of the identified components;
or

b) allocated against only the land and remaining structure element; or

c) allocated on a net basis after depreciation has been charged against each identified component?

It would be helpful if consultees could explain their reasons for choosing/rejecting the options above.

Response

Our preferred approach would be option (b) which has a number of advantages:

- It preserves the accumulated grant received in the balance sheet thereby recognizing the accumulated public capital subsidy invested in the association, ie the grant is not amortised. Accounting for recycling of grant on a disposal event will be more complex if some of the grant has already been amortised.
- It allows for the full removal of the historical cost of new components when they are replaced.
- It is a simpler method to operate in practice.

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2. If option `a` above is preferred, do consultees consider that on replacement of a component the allocated grant should also be released to the income and expenditure account? It would be helpful if consultees could explain the factors they considered in reaching their conclusions.

Response

N/a

3. If option `c` above is preferred, do consultees consider that grant should be amortised to the income and expenditure account over the life of the asset to match the depreciation charge?

Response

N/a

4. Do consultees consider that there is a more appropriate option for allocating social grant when adopting component accounting than those discussed in this paper? If so, could consultees detail this option and why it is considered more appropriate?

Response

One option would be to follow accounting practice more commonly followed by companies and treat the grant as a creditor rather than deducting it from fixed assets. This would however require a change to the SORP.

A second option would be to recognize the grant as income when properties are constructed. This approach would be more consistent with the Statement of Principles for Public Benefit entities and with the draft IFRS for SMEs which seems likely to replace the current UK GAAP within the next five years. Again, this would require a change to the present SORP.

In the shorter term, where housing providers following the current SORP adopt component accounting, it seems most practical to follow option 'b'.

- 5 A number of social landlords have already adopted component accounting. In these cases, which method e.g. Examples 1, 2 or 3, was used and why? If an alternative method was used can consultees explain what factors were considered in choosing this approach?

Response

It is our experience that most commonly option 'b' has been used by those organisations that have already adopted component accounting. This is the simplest approach and whilst it may mean higher depreciation charge during the lifetime of the asset, there can be no concern regarding recycling of grant when the asset is disposed of and replaced.

- 6 Do consultees consider that there are any significant tax consequences that may arise from adopting one method over another?

Response

If grant is allocated across the various components this raises the question of how that part of the grant is accounted for when the components are replaced (could the disposal of the component and acquisition of a new one be regarded as a relevant event?). If the intention became to recycle the grant against the cost of the replacement there could be tax consequences.