

Statement of Financial Accounting Standards No. 61

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Accounting for Title Plant

June 1982



Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 61: Accounting for Title Plant

FAS 61 Summary

This Statement extracts the specialized principles and practices for title plant from AICPA Statement of Position 80-1, *Accounting for Title Insurance Companies*, and applies to enterprises, such as title insurance enterprises, title abstract enterprises, and title agents, that use a title plant in their operations. This Statement requires that costs directly incurred to construct a title plant be capitalized until the enterprise can use the title plant to do title searches. This Statement also requires that capitalized costs of a title plant not be depreciated and that costs of maintaining a title plant and doing title searches be expensed as incurred.

INTRODUCTION

1. A title plant consists of (a) indexed and catalogued information for a period concerning the ownership of, and encumbrances on, parcels of land in a particular geographic area; (b) information relating to persons having an interest in real estate; (c) maps and plats; (d) copies of prior title insurance contracts and reports; and (e) other documents and records. In summary, a title plant constitutes a historical record of all matters affecting title to parcels of land in a particular geographic area. The number of years covered by a title plant varies, depending on regulatory requirements and the minimum information period considered necessary to issue title insurance policies efficiently. Title plants are updated on a daily or other frequent basis by adding copies of documents on the current status of title to specific parcels of real estate.

APPLICABILITY AND SCOPE

2. This Statement applies to enterprises that use a title plant in their operations. Those enterprises include, but are not limited to, title insurance enterprises (underwriters), title abstract enterprises, and title agents.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Capitalization of Title Plant

3. Costs incurred to construct a title plant, including the costs incurred to obtain, organize, and summarize historical information in an efficient and useful manner, shall be capitalized until the title plant can be used by the enterprise to do title searches. To qualify for capitalization, costs need to be directly related to, and properly identified with, the activities necessary to construct the title plant.

4. Purchased title plant, including a purchased undivided interest in title plant, shall be recorded at cost at the date of acquisition. For title plant acquired separately, cost shall be measured by the fair value of the consideration given.

5. An enterprise may decide to construct or purchase a title plant that antedates the period covered by its existing title plant (backplant). Costs to construct a backplant need to be identifiable to qualify for capitalization.

6. Capitalized costs of title plant shall not be depreciated or charged to income unless circumstances indicate that the value of the title plant has been impaired. The following circumstances may indicate that the value of title plant has been impaired:

- a. Changes in legal requirements or statutory practices
- b. Effects of obsolescence, demand, and other economic factors
- c. Actions of competitors and others that may affect competitive advantages
- d. Failure to maintain the title plant properly on a current basis
- e. Abandonment of title plant or other circumstances that indicate obsolescence

If the value of a title plant decreases below its adjusted cost, that impairment shall be recognized in income.

Title Plant Maintenance and Title Searches

7. Costs incurred to maintain a title plant and to do title searches shall be expensed as incurred. Title plant

maintenance involves the updating of the title plant on a daily or other frequent basis by adding (a) reports on the current status of title to specific parcels of real estate and (b) other documents, such as records relating to security or other ownership interests. Title searches involve the process of searching through records for all recorded documents or updating information summarized in the most recently issued title report.

Storage and Retrieval

8. Costs incurred after a title plant is operational (a) to convert the information from one storage and retrieval system to another or (b) to modify or modernize the storage and retrieval system shall not be capitalized as title plant. Those costs, however, may be capitalized separately and charged to expense in a systematic and rational manner.

Sale of Title Plant

9. The sale of a title plant shall be reported separately as follows:
- a. If the enterprise sells its title plant and relinquishes all rights to its future use, the reported amount shall be the amount received net of the adjusted cost of the title plant.
 - b. If the enterprise sells an undivided ownership interest in its title plant (that is, the right to its joint use), the reported amount shall be the amount received net of a pro rata portion of the adjusted cost of the title plant.
 - c. If the enterprise sells a copy of its title plant or the right to use it, the reported amount shall be the amount received. Ordinarily, no cost shall be allocated to the sale of a copy of or the right to use a title plant unless the value of the title plant decreases below its adjusted cost as a result of the sale (paragraph 6).

Effective Date and Transition

10. This Statement shall be effective for fiscal years beginning after December 15, 1982, with earlier application encouraged. Accounting changes adopted to conform to the provisions of this Statement shall be applied retroactively. In the year that this Statement is first applied, the financial statements shall disclose the nature of any restatement and its effect on income before extraordinary items, net income, and related per share amounts for each year presented.

11. If retroactive restatement of all years presented is not practicable, the financial statements presented shall be restated for as many consecutive years as practicable and the cumulative effect of applying this Statement shall be included in determining net income of the earliest year restated (not necessarily the earliest year presented). If it is not practicable to restate any prior year, the cumulative effect shall be included in net income in the year in which this Statement is first applied. (Refer to paragraph 20 of APB Opinion No. 20, *Accounting Changes*.)

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was approved by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix: BACKGROUND INFORMATION AND SUMMARY OF CONSIDERATION OF COMMENTS ON EXPOSURE DRAFT

12. As discussed in FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*, the FASB is extracting the specialized ¹ accounting and reporting principles and practices from AICPA Statements of Position (SOPs) and Guides on accounting and auditing matters and issuing them as FASB Statements after appropriate due process. This Statement extracts the specialized principles and practices for title plant from SOP 80-1, *Accounting for Title Insurance Companies*,² without significant change.

13. Board members have assented to the issuance of this Statement on the basis that it is an appropriate extraction of those existing specialized principles and practices and that a comprehensive reconsideration of those principles and practices was not contemplated in undertaking this FASB project. Some of the background material and discussion of accounting alternatives have not been carried forward from the SOP. The Board's conceptual framework project on accounting recognition criteria will address recognition issues relating to elements of financial statements. A Statement of Financial Accounting Concepts resulting from that project in due course will serve as a basis for evaluating existing standards and practices. Accordingly, the Board may wish to evaluate the standards in this Statement when its conceptual framework project is completed.

14. An Exposure Draft of a proposed FASB Statement, *Accounting for Title Plant*, was issued on November 18, 1981. The Board received 14 comment letters in response to the Exposure Draft, most of which expressed agreement. Certain of the comments received and the Board's consideration of them are discussed in this appendix.

15. Some respondents stated that title plant is unique to the title insurance industry and that all accounting principles for title insurance enterprises, including title plant, should be included in a separate FASB Statement. The Board has concluded that it is more appropriate to include accounting standards relating to all insurance enterprises in one Statement and that separate Statements for each type of insurance enterprise are unnecessary. The Board concluded that a separate Statement on accounting for title plant was necessary because enterprises

that are not insurance enterprises, such as title abstract enterprises and title agents, may use a title plant in their operations.

16. The Board has concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraphs 10 and 11 are advisable in the circumstances.

Footnotes

FAS61, Appendix, Footnote 1--The term *specialized* is used to refer to those accounting and reporting principles and practices in AICPA Guides and SOPs that are neither superseded by nor contained in Accounting Research Bulletins, APB Opinions, FASB Statements, or FASB Interpretations.

FAS61, Appendix, Footnote 2--Other specialized principles and practices from SOP 80-1 are included in FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.