



Amendments to Accounting for Investment Properties under Construction

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“The amendments to AASB 140 will result in more investment properties being measured at fair value”

In July 2008, the Australian Accounting Standards Board (AASB) issued amending standards AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process*. These amendments follow from amendments issued by the International Accounting Standards Board (IASB) as part of their Annual Improvements Project.

There are a number of amendments to 26 standards in total, many of which are likely to result in accounting changes for presentation, recognition or measurement purposes. Of these, the amendments to AASB 140 Investment Property are of particular interest to the property industry

[Amendments to AASB 140 Investment Property](#)

The amendments to AASB 140 are contained in AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process*. These amendments relate to property

under construction or development for future use as investment property. Such property was previously excluded from the scope of AASB 140 and fell within the scope of AASB 116 *Property, Plant and Equipment*. The amendment to AASB 140 includes property under construction or development for future use as investment property in the definition of “investment property”.

[Consequences of Amendments](#)

Under AASB 140, an entity can choose to measure investment property under either the cost model or the fair value model. Whichever model is selected must be applied to all investment property. If the fair value model is adopted, gains or losses from changes in fair value are recognised in profit or loss in the period they arise. Many entities have chosen the fair value model in the past for their completed properties. This means that properties under construction or development for future use as investment property will also be required to be measured under the fair value model under the amendments to AASB 140. The only exception will

be when the fair value cannot be reliably determined whilst the property is under construction, but is expected to be reliably determinable on completion of construction. In these circumstances, the property can be measured at cost until the fair value becomes reliably determinable or construction is completed, whichever occurs first. In general, it is expected that the amendments to AASB 140 will result in more investment property being measured at fair value.

Action Required

Entities who currently adopt the fair value model to account for investment properties need to determine whether there are reliable fair values available for properties which are under construction or being developed for future use as investment properties.

Application Date

The amendments to AASB 140 apply prospectively for annual reporting periods beginning on or after 1 January 2009. This means that for an entity with a June year end, application will be required in the financial statements for the full year ending 30 June 2010 (and half year ending 31 December 2009).

Early Adoption

Entities are permitted to early adopt the amendments to AASB 140 provided the fair values of investment properties under construction were determined at the date of application.

Disclosures for 30 June 2008

Under AASB 108 *Accounting Policies, Changes in Estimates and Errors*, disclosure will be required in the 30 June 2008 financial report of the possible impact of the application of this amendment which has been issued but is not yet effective. If the impact is not reliably estimable at the time of completion of the financial report, a statement will be required to that effect.

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