

Changes to accounting for investment property under construction

What is the issue?

The IASB's annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRS. One of the improvements endorsed by the IASB in May 2008 was an amendment to IAS 40 *Investment property*. The amendment revises the scope of IAS 40 and introduces new requirements for accounting for property under construction or development for future use as investment property (such transactions now fall within the scope of IAS 40).

Impact on profit and loss	✓
Impact on balance sheet	✓
Impact on disclosures	✓
Impact on stakeholder communication	✓

In this edition of *IFRS in brief*, we consider the amendments and how they affect current practice.

Who does it impact?

Entities (from 1 January 2009) that have property under construction or development for future use as an investment property and that adopt the fair value model to periodically remeasure investment property.

How does it change current practice?

- Entities will now classify property acquired for the purpose of development as investment property under IAS 140, rather than as property, plant and equipment under IAS 16.
- Classification as investment property must be made on acquisition of the property rather than when development or construction is complete.
- Where the entity accounts for investment property on a fair value basis (that is, at its market value) the change in value must be recognised periodically in the income statement from the date of acquisition over the construction or development phase.
- Where the property's fair value can't be reliably measured, entities should continue to measure it at cost until either its fair value can be reliably measured or the construction is complete (whichever is earliest).

PwC insight: Estimating the fair value of incomplete property will be challenging (plus new PwC guidance)

Entities that construct or acquire properties with a view to redeveloping them as investment properties will need to determine periodically the fair value of their investment property under construction. Estimating the fair value of such property is likely to be more challenging than valuing a completed property. As a result, many entities will need to engage the help of property valuation experts.

The current focus on property markets and the difficulties associated with their valuation will lead to more scrutiny of the related disclosures. Entities in the construction and property industry will have to meet the strict disclosure requirements associated with measuring fair values, which will involve disclosing the significant assumptions underlying the fair value measurements and other related uncertainties.

For more information on the amendments, please download a copy of the recently released publication *A practical guide to accounting for investment properties under construction*, which is available from www.pwc.com/ifrs (pictured right).

