



REAL ESTATE DEVELOPMENTS AND CURRENT ASSETS

THE AIFRS DEFINITION

AASB 101.57 defines a **current asset** as follows:

57. An asset shall be classified as current when it satisfies any of the following criteria:
- (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
 - (b) it is held primarily for the purpose of being traded;
 - (c) it is expected to be realised within twelve months after the reporting date; or
 - (d) it is cash or a cash equivalent (as defined in AASB 107 *Cash Flow Statements*) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

THE AAS DEFINITION

AAS 36.9.1 defines a **current asset** as follows:

current asset means an asset that:

- (a) is expected to be realised in, or is held for sale or consumption in, the normal course of the entity's *operating cycle*; or
- (b) is held primarily for trading purposes or for the short-term and is expected to be realised within twelve months of the *reporting date*; or
- (c) is cash or a cash-equivalent asset which is not restricted in its use beyond twelve months or the length of the operating cycle whichever is greater

THE DIFFERENCE

The AIFRS definition classifies an asset as current when it is held primarily for the purpose of being traded **whether or not** it is expected to be realised within twelve months of the reporting date. The AAS definition required that an asset, **whether held for trading purposes or not**, be expected to be realised within twelve months of the reporting date.

THE EFFECT

For most assets held by most Councils, the effects will be insignificant. For example, it would appear that all Rates Debtors¹ will have to be classified as *current assets*, even though it is virtually certain that at least a percentage will not be collected within 12 months of the reporting date.

1. As we understand WA legislation, this will be significant in relation to *pensioner deferred rates*.



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Many NSW Councils have significant holdings of real estate that they are, have or will be developing for resale as residential, commercial or industrial developments¹. For some individual Councils, and in total, the carrying amount of these assets is material.

In many cases, the sale of this real estate takes place over many years, and when stocks of developed land reduce below certain levels further development is undertaken. Most commonly this is the result of deliberate policy decisions to encourage the economic development of the area.

A Council may sell (say) 3 allotments each year, and have a total stock of (say) 15 allotments - all of which are available for immediate sale - and which would be sold immediately if buyers were to be available.

ALTERNATIVE ACCOUNTING TREATMENTS

AASB 140 - Investment Property

Quite frequently, Councils are aware that they are unlikely to realise all costs of developing and holding the land, and that any capital appreciation would be insignificant. Such property would generally be described as being held for strategic purposes, or for (future) service delivery purposes.

This suggests that the classification as *Investment Property* would be inappropriate (AASB 140.5 & Aus9.1).

Property, Plant & Equipment

Undeveloped land would certainly be able to be classified as *Property, Plant & Equipment*, but we doubt that this would be appropriate for fully developed land held - and immediately available - for sale.

OUR INTERPRETATION

AASB 101.13 provides:

13. **A financial report shall present fairly the financial position, financial performance and cash flows of an entity.** Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.

Fair presentation, in our view, would require *at least disclosure* of the estimated carrying value of land development not expected to be realised within the next reporting period, and we would not object to this disclosure being by way of classification as *non-current assets*. We would not construe this as substantive breach of the Accounting Standards.

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1. Based on a sample of 86 entries in the 2004 Annual Financial Statement Awards, the amounts involved at 30 June 2004 were:
Disclosed as current assets: ('000) \$40,434
Disclosed as non-current assets: ('000) \$82,271

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AIFRS HOTSPOTS