ACCOUNTING FOR REAL ESTATE DEVELOPMENT ACTIVITIES
SFAS No. 44, ACCOUNTING FOR REAL ESTATE DEVELOPMENT ACTIVITIES, was adopted by a meeting of the Financial Accounting Standard Committee on December 20, 1997, and was ratified by the National Council of the Indonesian Institute of Accountants on December 23, 1997.

Compliance with the policies contained in this Statement is not obligatory in the case of immaterial items.

Jakarta, December 23, 1997
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INTRODUCTION

Objective

01 The objective of this Statement is to prescribe the accounting treatment of transactions specifically related to real estate development activities. Rights of a general nature and matters not dealt with in this Statement shall be treated by in accordance with generally accepted accounting principles.

Scope

02 This Statement must be adopted by enterprises carrying out real estate development activities, regardless of whether these activities are the enterprise’s main activity.

03 This Statement is applicable for any financial statements prepared for enterprises carrying out real estate development activities.

04 This Statement does not address real estate constructed by an enterprise for its own use, or for lease to a third party, as such real estate assets are classified as non-current assets. The standard also does not address real estate which constitutes an enterprise’s investments; either as current or long term investments.

Definitions

05 The following are definitions of terms used in this Statement:

Real estate development activities are activities of acquiring land and subsequently constructing houses, commercial or industrial buildings. These buildings are intended for sale or lease, either together as one unit or retail. Real estate development activities also include the acquisition of land for resale without construction thereon.

Developer is an enterprise carrying out real estate development activities.

Building unit is a housing property, commercial or industrial property including the land on which it is constructed.

Project is all building units constructed in a geographical area, including vacant land for resale.

Real estate unit includes: (1) units of housing properties, commercial and or industrial properties including the land on which it is constructed; and (2) vacant land.

Relative selling price is the ratio of the estimated selling price of each type of real estate unit to the total estimated sales price of all real estate units constructed in a real estate development project. The selling price is the current estimated selling price.

Purchase and sale commitment is an opportunity between a buyer and a seller to enter into a purchase and sale agreement in respect of one or more real estate units in the future. From the date of signing, both parties are bound by this commitment which stipulates the rights and obligations of each party.

Purchase and sale agreement is an agreement between a buyer and a seller which stipulates the rights and obligations of each party with respect to one or more real estate units. From the date of signing, the agreement has legal force and the execution of the rights and obligations of each party can be enforced by law.

Revenue is the gross in-flow of economic benefits resulting from the ordinary activities of an enterprise during a period if such in-flows increase total equity, except for those originating from contributions of capital.
Profit is revenue from the sale of building units and or from the sale of vacant land less the cost of sales.

EXPLANATION

Revenue Recognition

The sale of houses, shop houses and other buildings of the same type including the land

06 The sale of houses, shop houses and other buildings of the same type including the land should be recognized using the full accrual method, if all of the following criteria are satisfied:

a A sale is consummated;

b the selling price is collectible;

c the seller’s receivable is not subject to future subordinated to a first mortgage on the property, and

d the seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

07 Revenue recognition using the full accrual method should be made on all sales value in the following manner:

a net receivables is discounted to its present values using an appropriate interest rate, which should not be lower than the interest rate agreed in the sales agreement. The net receivables shall not be discounted if the age of the remaining receivables is less than 12 months;

b a provision is to be made for receivables that are estimated to be non-collectible; and

c if the seller intends to or has agreed to give a price discount as an incentive for earlier debt settlement, it is required to estimate the amount of discount which will be taken by the buyer and recognize this amount at the time of sales. An immediate or unplanned price discount is charged to income statement in the period during which the discount is granted.

08 A sale is considered consummated if the sales contract has become effective, that is if the terms and conditions contained therein have been fulfilled.

09 Sales price is considered collectible if the total payments made by the buyer is at least 20% of the total agreed selling price, and the amount paid cannot be refunded to the buyer.

10 A receivable becomes subordinate to future mortgage if the seller allows the buyer to use the real estate asset as a first mortgage and the receivable is subordinated to the right of the mortgagor.

11 A seller is considered as has transferred the risks and rewards of ownership if the seller is no longer involved with the property after it is sold and the property is ready to be occupied or used.

12 In a real estate transaction the buyer might be given the opportunity to pay in an installment basis with no interest. If the installment period exceeds 12 months, the sales revenue should be recognised at its present value and recognise accrued interest income receivable.

Recognition of Profit When the Full Accrual Method is Not Appropriate

13 If a real estate sales transaction does not satisfy the criteria of profit recognition by the full accrual method as specified in paragraph 06, the transaction shall be accounted for using the deposit method and the sales is deferred until all criteria to use the full accrual method are satisfied.
14 Under the deposit method the seller:

a does not recognize any revenue from the sale of real estate, cash received from the buyer is reported as deposit;

b does not record notes receivable from the sale of the real estate;

c continues to report in its financial statements the property and the related existing debt even if it has been assumed by the buyer; and

d for real estate units as described in paragraph 28, continues to charge depreciation to expense of the real estate units.

15 In the event that the seller has transferred the liabilities related to a unit sold while the criteria for revenue recognition has not been satisfied, the liability cannot be deducted from the carrying value of the related real estate unit. Installments or settlements paid by the buyer on the liability associated with the real estate unit transferred to the buyer shall be recognised as deposit by reducing the balance of the related liability. The seller must disclose that the unit is bound by the sales agreement.

16 If a sales contract is canceled without the obligation to refund the deposit, the deposit shall be recognised as revenue at the time of cancellation. At the time the deposit of the unit sold is recognised as revenue, the interest component of the deposit shall be recognised as interest income.

Seller Involvement Without Transfer of Ownership Risks and Rewards

17 Seller involvement without transfer of ownership risks and rewards still exists if:

a the seller is still significantly involved with the property after it is sold in any way that results in retention of substantial risks or rewards of ownership;

b the seller guarantees the return of the buyer’s investment or a return on that investment for a specified period; or

c the seller is required to initiate or support operations or continue to operate the property at its own risk, or may be presumed to have such a risk, for a specified period.

18 The seller should not recognize a sales if there is an obligation to repurchase the property, or if the terms of the transaction allow the buyer to compel the seller. If the seller has an option to repurchase the property, the transaction shall be accounted as prescribed in SFAS No. 30, Accounting for Leases, unless the probability of the option being exercised is very low.

19 If the sales contract requires the seller to provide management services relating to the property after the sale without compensation or at compensation less than prevailing rates for the service required, the compensation shall be estimated for the whole services period and deducted from revenues recognized as accrued expenses.

20 If the seller made a partial sale, namely the seller owns or acquires an equity interest of the buyer, profit shall be recognized at the date of sale if the requirements for revenue recognition are satisfied. In this case the seller shall recognize the part of the profit proportionate to the outside interests in the buyer at the date of sale. If the seller controls the buyer, no profit on the sale shall be recognized until it is realized from transactions with outside parties, either through sale or operations of the property.

21 The sale of the property may cover or may be accompanied by an agreement requires the seller to develop the property in the future and to construct facilities agreed or required. Under such conditions the sale of houses, shop houses and other buildings of the same type, including the associated land, shall be recognized using the full accrual method only if all expenses, including the expenses to provide the agreed or required facilities, notwithstanding that these facilities have not been constructed or completed, are recognised using the accrual method.
22 The sale of the property may cover or may be accompanied by an agreement which would enable the seller to participate in future profit or the salvage value of the property. As long as such an agreement is not accompanied by an additional obligation or the risk, no deferral of the recognition of revenue from the sale of the property is required if the transaction satisfies all of the criteria for recognition of sales revenue using the full accrual method. The contingent future profit shall be recognized when they are realized. All the costs of the sale shall be recognized at the time of sale, and none shall be deferred including estimates of expenses to be incurred.

Sale of Condominiums, Apartments, Office Buildings, Shopping Centers and Other Buildings of the Similar Type and a Time Sharing Ownership Units

23 The activities of a real estate developer may cover more than one accounting period. In such circumstances the percentage of completion accounting method is to be used.

24 Under the percentage of completion method, the amounts of revenue and expenses recognized for each accounting period shall be determined in accordance with the level (percentage) of completion of the property. Revenue recognition based on percentage of completion provides the user of the financial statements with useful information, as revenue is recognized in proportion to the expenses incurred. In other words, the use of the percentage of completion method will enable the enterprise to more accurately match revenue against expenses.

25 The level of completion of a real estate development can be determined using various methods. The enterprise may use methods which could be used to reliably measure the result of the real estate development activity which may be in the form of:

a a survey of the work performed;

26 The sale of condominiums, apartments, office buildings, shopping centers, other buildings of the similar type and a time sharing ownership units are recognized using the percentage of completion method if all of the following criteria are satisfied:

a the construction process has already commenced, that is the building foundation has been completed and all of the requirements to commence construction have been fulfilled;

b total payments by the buyer is at least 20% of the agreed sale price and that amount is not refundable; and

c the amount of revenue and the cost of the property can be reliably estimated.

27 If one or more of the criteria mentioned under paragraph 26 are not fulfilled, the payment received from the buyer shall be recognized as a deposit using the deposit method as described under paragraph 14, until all the criteria are satisfied.

28 The revenue from the sale of condominiums, apartments, office buildings, shopping centers, other buildings of the similar type and time sharing ownership units, the construction of which have been completed, shall be recognized using the full accrual method in line with the criteria specified under paragraph 06. In this case, the requirements for profit recognition as described under paragraphs 13 - 14 and paragraphs 17 - 22 also apply to the transaction.
To determine whether the total revenue from the sale of a building unit can be reliably estimated, the following factors must be considered: sales volume, the trend of the sale price of each property, the experience of the developer, geographical location and the environmental condition of the property. Some of the properties may be more preferable due to location or environment atmosphere, while it may be difficult to sell the other properties. This indicates that a certain property must be sold at a discount.

The ability to estimate the costs of the property (particularly the costs to complete a property) is a primary requirement for revenue recognition. Factors in considering whether a developer is able to estimate the cost of the building unit are: the experience of the developer, type of construction contract and the current economic situation which may have an impact on the cost of construction.

The amount of billings to and payments received from the buyer do not reflect the level of completion. Therefore, billings and payments cannot be regarded as the basis for revenue recognition.

The application of the percentage of completion method is subject to the risk of estimation errors. Therefore, the principle of prudence must be followed in estimating revenues and expenses.

Retail Land Sales

The revenue from the retail land sales shall be recognized using the full accrual method at the time of the sales contract, if all of the following criteria are satisfied:

- total payments by the buyer is at least 20% of the agreed sale price and that amount is not refundable;
- the sale price is collectible;
- the receivable is not subordinated to other loans in the future;
- the land development process is complete so that the seller has no further obligations related to the land sold; such as a requirement to improve the land, or to construct facilities as agreed or is the obligation of the seller based on the purchase and sale contract or the provisions of prevailing law and regulations; and
- only the land that is sold without any requirement of the seller’s involvement in the construction of the building on the land.

The seller’s involvement in the construction may be a provision of the sale contract, i.e. whether the seller is required to involve in or responsible for construction. If the sale contract was originally for the sale of land and buildings or land only, and then the commitment was subsequently changed to the sale of land only or vice versa, then the accounting treatment of such a transaction shall be based on the initial sale contract.

For the purpose of revenue recognition of the sale of land, the seller's obligation to construct the agreed or the required facilities is deemed to have been fulfilled if the primary facilities (such as an access road and drainage system) have already been constructed.

If the criteria of revenue recognition for the sale of vacant land using the full accrual method are not satisfied, the sale of vacant land shall be recognized using the deposit method.

Costs Components of Real Estate Development Project

Expenses directly related to real estate development activities and indirect project expenses related to several real estate projects shall be allocated and capitalized to the real estate development projects. Expenses which are not clearly related with a certain real estate project, such as general and administrative expenses, shall be recorded as expenses when incurred.
38 The following real estate development costs shall be capitalized as real estate development project costs:

- a) pre-acquisition costs of land;
- b) land acquisition costs;
- c) expenses directly related to a project;
- d) expenses attributable to real estate development activities; and
- e) loan expenses.

The Pre-Acquisition Costs of Land

39 The pre-acquisition cost of land shall be capitalized as real estate development project costs if the following criteria are satisfied:

- a) the costs are directly identifiable to a certain project;
- b) the costs will be capitalized to the real estate development project after the acquisition of the land; and
- c) the developer must actively endeavor to acquire the land and is able to finance the purchase or obtain adequate financing.

40 The pre-acquisition cost of land covers the expenses incurred before the acquisition of land or until the enterprise obtains the land acquisition permit from the Government. Pre-acquisition costs of land that can be capitalized are expenses related to the land acquisition. The pre-acquisition costs of land include but are not limited to the following costs:

- a) cost of obtaining a government permit;
- b) legal consulting expenses;
- c) feasibility costs;
- d) employees’ salaries;
- e) costs of environmental impact analysis; and
- f) compensation paid to the land affairs expert.

41 At the time the land is acquired, the pre-acquisition costs of land shall be transferred to the real estate development project. If highly probable that the land could not be acquired, the pre-acquisition costs of land shall be immediately recognized as an expense in the income statement.

Land Acquisition Costs

42 The land acquisition costs cover the purchase price of the land, including all costs incurred in preparing the land for its intended purpose. The land acquisition costs include but are not limited to the following costs:

- a) land acquisition costs, including the acquisition cost of buildings (which will not be used), plant and other features of that land;
- b) cost of a topographic diagram;
- c) cost of master plans;
- d) legal document handling expenses;
- e) transfer tax;
- f) broker’s commission;
- g) compensation for professionals such as environmental experts, lawyers, construction engineers, etc.; and
h  land improvement expenses including building demolition expenses.

**Expenses Directly Related to the Project**

43 Expenses directly related to the project include but are not limited to the following costs:

a  field workers’ salaries, including supervisors’ salaries;

b  cost of materials used in the project;

c  depreciation of infrastructure and equipment used in the project;

d  mobilization costs of instruments, equipment and materials to and from the project location;

e  rental of instruments and equipment;

f  design and technical expenses directly related to the project;

g  compensation for professionals such as park design experts, environmental experts, architects, construction engineers etc.;

h  costs associated with the sales contract; and

i  costs associated with the sales agreement.

**Expenses Attributable to Real Estate Development Activities**

44 Costs which can be attributed to the real estate development activities cover, but are not limited to the following components:

a  insurance;

b  design and technical assistance expenses which are indirectly related to a certain project;

c  construction overhead expenses;

d  costs of building general infra-structure such as religious places, parks, roads, markets, schools, police stations, hospitals or clinics, cemeteries etc.;

e  compensation for professional services and planning of the entire project; and

f  loan expenses.

45 The construction of general infrastructure facilities which can be commercialized shall be treated in accordance with management’s plan as follows:

a  If the facilities will be sold or transferred in respect of the sale of existing units, the excess of expenses over the estimated revenue shall be allocated as project expenses. These expenses shall be classified as future operating expenses to be borne by the seller.

b  If the facilities will be sold separately or will be owned by the developer, the excess of expenses over the estimated fair value at the time the facilities are substantially completed shall be allocated as project expenses.

46 The allocation of general infrastructure facility expenses shall be to the units of land benefits from these facilities. Revenues obtained before the facilities are substantially constructed shall be deducted from the costs of the facilities.

**Loan Expenses**
47 Loan expenses, which can be attributed directly to real estate development activities, shall be capitalized to those real estate development projects in accordance with SFAS No. 26, Borrowing Costs (1997 Revised).

48 Due to the long business cycle required to clear land and the development activities carried out at different phases with different levels of development, the seller shall capitalize loan expenses related to development activities. The capitalization of loan expenses shall cease at the time the real estate unit is substantially ready for use in accordance with its objective, or if that part that is completed can be used immediately while the other part is still being completed, in accordance with paragraphs 33 and 34 of SFAS No. 26, Borrowing Costs. Capitalization shall be discontinued if the construction activities are delayed for an extended period of time in accordance with paragraph 32 of SFAS No. 26 Borrowing Costs.

Provisions and Allocation

49 The allocation of costs to a real estate development project shall not cease because the realization of future revenue is less than the carrying value of the project. However, periodic provisions shall be made for these differences. The total provisions shall reduce the carrying value of the project to its net realizable value and shall be expensed in the profit and loss during the period recognized.

50 Expenses capitalized for real estate development projects shall be allocated to each real estate unit using a method of identification. If the method of identification cannot be applied, the capitalized expenses shall be allocated based on the ratio of sale prices. If it is not possible to apply the ratio of sale prices, the capitalized expenses shall be allocated based on measurement of the area or another method appropriate for the conditions of the real estate development project. The method chosen must be used on a consistent basis.

Accounting Treatment for Special Matters

51 Cost estimates and allocation must be re-evaluated at the end of each reporting period until the project is substantially complete. If substantial change occurs to the current estimation, expenses must be revised and reallocated.

52 The revision of estimated costs/revenues which are generally attributed to real estate development activities must be allocated to ongoing and future projects. Revisions resulting from current period and prior period adjustments shall be recognized in the current period profit and loss statement, while revisions related to future periods shall be allocated to the remaining period of development.

53 If the cancellation of the sales contract is probable, an adjustment must be made to revenues previously recognized.

54 If a certain project is estimated to generate a loss, a provision must be recognised for the amount of the loss (including expenses to be incurred during the warranty period).

55 Deposits for a purchase subsequently canceled, administrative expenses and interest income from buyers, repair expenses (which are not borne by contractors), and maintenance expenses incurred prior to delivery must be recognized directly in the statement of profit and loss when incurred.

Presentation

56 In presenting a balance sheet of an enterprise carrying out real estate development activities as its primary activity, assets and liabilities are not classified as current and non-current.

57 In presenting a balance sheet of an enterprise carrying out real estate development activities not as its primary activity, real estate assets shall be presented as non-current.
58 The following are types of real estate assets that must be disclosed separately in the notes to financial statements:

a. Land and buildings;
b. Buildings under construction;
c. Land under development; and
d. Undeveloped land.

59 Real estate development assets shall be presented separately from real estate assets used by the enterprise on its own behalf, which shall be reported as non-current assets.

60 The normal operating cycle of a developer is generally longer than one year and is subject to significant uncertainty. The determination of the normal operating cycle of a developer enterprise is quite often very complicated. Therefore, the requirement to present a balance sheet using classified method for an enterprise whose primary activity is the development of real estate is inappropriate.

61 For an enterprise whose primary activity is not the development of real estate, the presentation of a balance sheet based on classified method might be unavoidable. Even in this situation, the uncertainty factor affecting the determination of the normal operating cycle of the real estate development activity exists. Therefore, an enterprise whose primary activity is not the development of real estate is required to classify real estate assets as current non-current.

Disclosures

62 In addition to the disclosures required under the generally accepted accounting standard, the following must be disclosed:

a. The accounting policy regarding revenue recognition covering:

i. the method, including the reasons and criteria for using this method, including the criteria which make it not possible to recognize revenue from the sale of the real estate unit using the full accrual method (for the sale of houses, shop houses, other buildings of the same type including land, and for the sale of vacant land); or the percentage of completion method (for the sale of condominiums, apartments, office buildings, shopping centers and other buildings of the similar type);

ii. if revenue is recognized using the percentage of completion method, the method of determining the level of completion of the real estate development activities must be disclosed; and

iii. the time of the recognition of sale and the revenue from the sale of the real estate.

b. The accounting policy regarding capitalization and allocation of the costs of the real estate development projects.

c. If the real estate transaction does not satisfy the criteria for sale recognition, the disclosures shall include:

i. the nature of the transaction; and

ii. total contracts not recognized as sales and unrecognised receivables from buyers.

d. The total acquisition cost of real estate assets, the sale commitment of which has become effective, but the sale has not been recognized including total liability to be transferred, if any.
The sale of houses, shop houses and other buildings of the same type including the land should be recognized using the full accrual method, if all of the following criteria are satisfied:

- A sale is consummated;
- The selling price is collectible;
- The seller’s receivable is not subject to future subordinated to a first mortgage on the property, and
- The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue recognition using the full accrual method should be made on all sales value in the following manner:

- Net receivables is discounted to its present values using an appropriate interest rate, which should not be lower than the interest rate agreed in the sales agreement. The net receivables shall not be discounted if the age of the remaining receivables is less than 12 months;
- A provision is to be made for receivables that are estimated to be non-collectible; and
- If the seller intends to or has agreed to give a price discount as an incentive for earlier debt settlement, it is required to estimate the amount of discount which will be taken by the buyer and recognize this amount at the time of sales. An immediate or unplanned price discount is charged to income statement in the period during which the discount is granted.

Recognition of Profit When the Full Accrual Method is Not Appropriate

If a real estate sales transaction does not satisfy the criteria of profit recognition by the full accrual method as specified in paragraph 63, the transaction shall be accounted for using the deposit method and the sales is deferred until all criteria to use the full accrual method are satisfied.

Under the deposit method the seller:
a does not recognize any revenue from the sale of real estate, cash received from the buyer is reported as deposit;
b does not record notes receivable from the sale of the real estate;
c continues to report in its financial statements the property and the related existing debt even if it has been assumed by the buyer; and
d for real estate units as describe in paragraph 75, continues to charge depreciation to expense of the real estate units.

Seller Involvement Without Transfer of Ownership Risks and Rewards

67 Seller involvement without transfer of ownership risks and rewards still exists if:

a the seller is still significantly involved with the property after it is sold in any way that results in retention of substantial risks or rewards of ownership;
b the seller guarantees the return of the buyer’s investment or a return on that investment for a specified period; or
c the seller is required to initiate or support operations or continue to operate the property at its own risk, or may be presumed to have such a risk, for a specified period.

68 The seller should not recognize a sales if there is an obligation to repurchase the property, or if the terms of the transaction allow the buyer to compel the seller. If the seller has an option to repurchase the property, the transaction shall be accounted as prescribed in SFAS No. 30, Accounting for Leases, unless the probability of the option being exercised is very low.

69 If the sales contract requires the seller to provide management services relating to the property after the sale without compensation or at compensation less than prevailing rates for the service required, the compensation shall be estimated for the whole services period and deducted from revenues recognized as accrued expenses.

70 If the seller made a partial sale, namely the seller owns or acquires an equity interest of the buyer, profit shall be recognized at the date of sale if the requirements for revenue recognition are satisfied. In this case the seller shall recognize the part of the profit proportionate to the outside interests in the buyer at the date of sale. If the seller controls the buyer, no profit on the sale shall be recognized until it is realized from transactions with outside parties, either through sale or operations of the property.

71 The sale of the property may cover or may be accompanied by an agreement requires the seller to develop the property in the future and to construct facilities agreed or required. Under such conditions the sale of houses, shop houses and other buildings of the same type, including the associated land, shall be recognized using the full accrual method only if all expenses, including the expenses to provide the agreed or required facilities, notwithstanding that these facilities have not been constructed or completed, are recognised using the accrual method.

72 The sale of the property may cover or may be accompanied by an agreement which would enable the seller to participate in future profit or the salvage value of the property. As long as such an agreement is not accompanied by an additional obligation or the risk, no deferral of the recognition of revenue from the sale of the property is required if the transaction satisfies all of the criteria for recognition of sales revenue using the full accrual method. The contingent future profit shall be recognized when they are realized. All the costs of the sale shall be recognized at the time of sale, and none shall be deferred including estimates of expenses to be incurred.

Sale of Condominiums, Apartments, Office Buildings, Shopping Centers and Other Buildings of the Similar Type and a Time Sharing Ownership Units
73 The sale of condominiums, apartments, office buildings, shopping centers, other buildings of the similar type and time sharing ownership units are recognized using the percentage of completion method if all of the following criteria are satisfied:

a. the construction process has already commenced, that is the building foundation has been completed and all of the requirements to commence construction have been fulfilled;

b. total payments by the buyer is at least 20% of the agreed sale price and that amount is not refundable; and

c. the amount of revenue and the cost of the property can be reliably estimated.

74 If one or more of the criteria mentioned under paragraph 73 are not fulfilled, the payment received from the buyer shall be recognized as a deposit using the deposit method as described under paragraph 66, until all the criteria are satisfied.

75 The revenue from the sale of condominiums, apartments, office buildings, shopping centers, other buildings of the similar type and time sharing ownership units, the construction of which have been completed, shall be recognized using the full accrual method in line with the criteria specified under paragraph 06. In this case, the requirements for profit recognition as described under paragraphs 65 - 66 and paragraphs 69 - 74 also apply to the transaction.

Retail Land Sales

76 The revenue from the retail land sales shall be recognized using the full accrual method at the time of the sales contract, if all of the following criteria are satisfied:

a. total payments by the buyer is at least 20% of the agreed sale price and that amount is not refundable;

b. the sale price is collectible;

c. the receivable is not subordinated to other loans in the future;

d. the land development process is complete so that the seller has no further obligations related to the land sold; such as a requirement to improve the land, or to construct facilities as agreed or is the obligation of the seller based on the purchase and sale contract or the provisions of prevailing law and regulations; and

e. only the land that is sold without any requirement of the seller’s involvement in the construction of the building on the land.

77 For the purpose of revenue recognition of the sale of land, the seller’s obligation to construct the agreed or the required facilities is deemed to have been fulfilled if the primary facilities (such as an access road and drainage system) have already been constructed.

78 If the criteria of revenue recognition for the sale of vacant land using the full accrual method are not satisfied, the sale of vacant land shall be recognized using the deposit method.

Costs Components of Real Estate Development Project

79 Expenses directly related to real estate development activities and indirect project expenses related to several real estate projects shall be allocated and capitalized to the real estate development projects. Expenses which are not clearly related with a certain real estate project, such as general and administrative expenses, shall be recorded as expenses when incurred.
The following real estate development costs shall be capitalized as real estate development project costs:

a. pre-acquisition costs of land;

b. land acquisition costs;

c. expenses directly related to a project;

d. expenses attributable to real estate development activities; and

e. loan expenses.

The Pre-Acquisition Costs of Land

81 At the time the land is acquired, the pre-acquisition costs of land shall be transferred to the real estate development project. If highly probable that the land could not be acquired, the pre-acquisition costs of land shall be immediately recognized as an expense in the income statement.

Expenses Attributable to Real Estate Development Activities

82 The construction of general infrastructure facilities which can be commercialized shall be treated in accordance with management’s plan as follows:

83 If the facilities will be sold or transferred in respect of the sale of existing units, the excess of expenses over the estimated revenue shall be allocated as project expenses. These expenses shall be classified as future operating expenses to be borne by the seller.

Loan Expenses

84 If the facilities will be sold separately or will be owned by the developer, the excess of expenses over the estimated fair value at the time the facilities are substantially completed shall be allocated as project expenses.

Provisions and Allocation

85 Due to the long business cycle required to clear land and the development activities carried out at different phases with different levels of development, the seller shall capitalize loan expenses related to development activities. The capitalization of loan expenses shall cease at the time the real estate unit is substantially ready for use in accordance with its objective, or if that part that is completed can be used immediately while the other part is still being completed, in accordance with paragraphs 33 and 34 of SFAS No. 26, Borrowing Costs. Capitalization shall be discontinued if the construction activities are delayed for an extended period of time in accordance with paragraph 32 of SFAS No. 26 Borrowing Costs.

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88 Cost estimates and allocation must be re-evaluated at the end of each reporting period until the project is substantially complete. If substantial change occurs to the current estimation, expenses must be revised and reallocated.

89 If the cancellation of the sales contract is probable, an adjustment must be made to revenues previously recognized.

Presentation

90 In presenting a balance sheet of an enterprise carrying out real estate development activities as its primary activity, assets and liabilities are not classified as current and non-current.

91 In presenting a balance sheet of an enterprise carrying out real estate development activities not as its primary activity, real estate assets shall be presented as non-current.

92 The following are types of real estate assets that must be disclosed separately in the notes to financial statements:
   a. Land and buildings;
   b. Buildings under construction;
   c. Land under development; and
   d. Undeveloped land.

93 Real estate development assets shall be presented separately from real estate assets used by the enterprise on its own behalf, which shall be reported as non-current assets.

Disclosures

62 In addition to the disclosures required under the generally accepted accounting standard, the following must be disclosed:

a. The accounting policy regarding revenue recognition covering:
   (i) the method, including the reasons and criteria for using this method, including the criteria which make it not possible to recognize revenue from the sale of the real estate unit using the full accrual method (for the sale of houses, shop houses, other buildings of the same type including land, and for the sale of vacant land); or the percentage of completion method (for the sale of condominiums, apartments, office buildings, shopping centers and other buildings of the similar type);
   (ii) if revenue is recognized using the percentage of completion method, the method of determining the level of completion of the real estate development activities must be disclosed; and
   (iii) the time of the recognition of sale and the revenue from the sale of the real estate.

b. The accounting policy regarding capitalization and allocation of the costs of the real estate development projects.

c. If the real estate transaction does not satisfy the criteria for sale recognition, the disclosures shall include:
   (i) the nature of the transaction; and
   (ii) total contracts not recognized as sales and unrecognised receivables from buyers.

d. The total acquisition cost of real estate assets, the sale commitment of which has become effective, but the sale has not been recognized including total liability to be transferred, if any.

Transition Period

95 Any change in the accounting policy as a result of implementing this Standard shall be implemented prospectively.
Effective date

96 This statement becomes effective for the preparation and presentation of financial statements covering the period beginning or after January 1, 1998. Early implementation is highly encouraged.