

**DRAFT
INTERPRETATION**

SSAP Interpretation 24

**Revenue – Pre-Completion Contracts
for the Sale of Development Properties**

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SSAP Interpretation 24 *Revenue – Pre-Completion Contracts for the Sale of Development Properties* (SSAP-Int 24) is set out in paragraphs 1-9. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

SSAP INTERPRETATION 24

Revenue – Pre-Completion Contracts for the Sale of Development Properties

References

- HKAS 18 (SSAP 18) *Revenue*
- HKAS 11 (SSAP 23) *Construction Contracts*

Background

1. Property development projects are usually long term projects. In many cases, property developers would enter into contracts to sell the properties in advance of the completion of the development. These contracts usually involve the payment of a deposit by the purchaser, which may be refundable only if the developer does not complete the development in accordance with the contracted timeframes and specifications, or if there is some other breach of a contractual condition or statutory obligation. The balance of the purchase price is normally paid at contractual settlement.
2. Property developers currently adopt various policies for recognising revenue arising from pre-completion contracts for the sale of development properties. The stage of completion method is one of the most commonly used policies. Concern has been expressed as to whether the pre-completion contracts would satisfy the definition of construction contracts in HKAS 11 or SSAP 23, as appropriate, and, if not, whether the stage of completion method would be acceptable under Hong Kong Financial Reporting Standards. Concern has also been expressed, in the absence of authoritative guidance, that diverse or unacceptable practices would undermine the relevance, reliability or comparability of financial statements.
3. This Interpretation provides guidance on the applicable accounting standard and appropriate treatment for recognising revenue arising from the pre-completion contracts for the sale of development properties.

Scope

4. This Interpretation applies to the accounting of pre-completion contracts for the sale of development properties.

Issue

5. This Interpretation addresses the issue of how property developers shall recognise revenue arising from pre-completion contracts for the sale of development properties.

Conclusions

6. The pre-completion contracts for the sale of development properties do not meet the definition of construction contracts set out in HKAS 11 or SSAP 23, as appropriate, because the contracts in question are not specifically negotiated for the construction of the properties. Accordingly, these contracts fall outside the scope of HKAS 11 or SSAP 23, as appropriate, and, as a result, the stage of completion method as allowed under these Standards shall not be used to recognise revenue arising from such contracts.
7. Property developers shall apply HKAS 18 or SSAP 18, as appropriate, in recognising revenue arising from pre-completion contracts for the sale of development properties and, accordingly, recognise revenue only when all of the criteria specified in paragraph 14 of HKAS 18 or paragraph 13 of SSAP 18, as appropriate, are met.

Effective date

8. An entity shall apply this Interpretation on a prospective basis from the beginning of the first annual periods beginning on or after [1 January 2005]. Earlier application is encouraged. However, if an entity applies this Interpretation for periods beginning before [1 January 2005], it shall disclose that fact.

Transition

9. The effect of applying this interpretation on its effective date (or earlier) shall be reported as an adjustment to the opening balance of retaining earnings for the period in which the Interpretation is first applied. Entities are encouraged, but not required, to adjust the opening balance of retained earnings for the earliest period presented and to restate comparative information. If comparative information is not restated, this fact shall be disclosed.