



International Accounting Standards Board®

# Press Release

3 July 2008

## **IFRIC issues clarification on agreements for the construction of real estate**

The International Financial Reporting Interpretations Committee (IFRIC)\* issued today an Interpretation, IFRIC 15 *Agreements for the Construction of Real Estate*.

The Interpretation will standardise accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, ‘off plan’, ie before construction is complete.

The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction should be recognised.

The main expected change in practice is a shift for some entities from recognising revenue using the percentage of completion method (ie as construction progresses, by reference to the stage of completion of the development) to recognising revenue at a single time (ie at completion upon or after delivery). Agreements that will be affected will be mainly those currently accounted for in accordance with IAS 11 that do not meet the definition of a construction contract as interpreted by the IFRIC and do not transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses.

The IFRIC released draft Interpretation D21 *Real Estate Sales* for public comment in July 2007 and received 51 comment letters in response. In its redeliberations, the IFRIC responded to the concerns expressed by respondents by improving the articulation between IAS 11 and IAS 18 and by providing additional guidance on how to account for revenue in IAS 18. In addition, in its ratification process, the IASB specifically considered whether the

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\* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

IFRIC's interpretation was in line with the principles underpinning IAS 18 and agreed with the IFRIC's consensus.

IFRIC 15 applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation is effective for annual periods beginning on or after 1 January 2009 and is to be applied retrospectively.

Introducing IFRIC 15, Robert Garnett, IFRIC Chairman and IASB member, said:

The real estate industry is an important sector across countries and, especially in times of volatile markets, transparency and comparability of the accounting are important. However, at present there is widespread divergence in practice when accounting for the recognition of revenue for 'off plan' contracts. IFRIC 15 clarifies how the existing principles in IAS 11 and IAS 18 apply for the revenue recognition in the real estate sector and by doing so will ensure consistent accounting. In some cases this means that companies will have to change their accounting.

IFRIC 15 *Agreements for the Construction of Real Estate* is available for eIFRS subscribers from today. Those wishing to subscribe to eIFRSs should visit the online shop at [www.iasb.org](http://www.iasb.org) or contact:

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For further information on the project, visit the project Website (see 'Current Projects/IFRIC projects' on [www.iasb.org](http://www.iasb.org)).

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## **NOTES TO EDITORS**

### ***About IFRIC 15***

In July 2007 the IFRIC published IFRIC D21 *Real Estate Sales*. The proposal was open for public comment until 5 October 2007. In response, the IFRIC received 51 comment letters. The issues raised were redeliberated by the IFRIC at its meetings in January and March 2008. At its meeting in May 2008 the IFRIC completed its redeliberations, voted and confirmed the consensus.

### ***About the IFRIC***

The IFRIC first met in February 2002. It comprises 14 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

### ***About the IASB***

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.