

# IFRS Briefing Sheet

IFRIC Draft Interpretation *D21 Real Estate Sales*

July 2007, **Issue 70**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation D21 *Real Estate Sales*, which was published on 5 July 2007.

This draft interpretation proposes guidance on the accounting for revenue from the sale of real estate.

### **Background and Issue**

Entities that undertake real estate development may market and enter into agreements to sell real estate "off plan", i.e., before construction is complete. Residential real estate developers may sell individual units (apartments or houses) to multiple buyers, and commercial or industrial real estate developers may sell an entire development to a single buyer prior to completion. Typically, a buyer pays a deposit and then is required to make progress payments between the initial agreement to sell and the contractual completion of the development. In other cases the

construction may be complete before the sale agreement is finalised.

The draft interpretation proposes guidance on determining whether the revenue from such agreements should be accounted for in accordance with:

- IAS 11 *Construction Contracts*, i.e., meeting the definition of a construction contract; or
- IAS 18 *Revenue*, i.e., treated as a sale of goods (constructed real estate).

### **Proposed Consensus**

The proposed consensus is that IAS 11 would apply only if an agreement meets the definition of a construction contract, i.e., by providing "construction services to the buyer's specifications". Alternatively, IAS 18 would apply if such an agreement is for the sale of goods.

The draft interpretation proposes guidance on the types of features that may indicate that a real estate sales agreement meets the definition of a construction contract, including whether:

- the buyer is able to specify the major structural elements of the design of the real estate
- the seller transfers to the buyer control and the significant risks and rewards of ownership as the construction progresses.

**A supplement to KPMG's  
publication IFRS in Brief**

The draft interpretation also proposes guidance on the types of features that may indicate that a real estate sales agreement is an agreement for the sale of goods, including whether:

- negotiations are primarily about amounts and the timing of payments
- the buyer has limited ability to specify the real estate's design
- the agreement provides the buyer only a right to acquire the completed real estate at a later date.

If IAS 18 applies, the draft interpretation notes that the criteria for recognising revenue may be satisfied before the seller has performed all of its contractual obligations to the buyer under the agreement. In this case the seller would recognise its remaining obligation either:

- as an expense with the related liability measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, to the extent that the entity has to perform further work on the real estate already delivered (e.g., to remedy minor defects)
- as a separate component of the sale with the fair value of the consideration allocated between components already delivered and those yet to be delivered, to the extent that there are remaining deliverables separately identifiable from the real estate delivered (e.g., construction of internal fittings).

In addition, the draft interpretation proposes to delete the real estate guidance (Example 9) in the appendix to IAS 18.

### Effective Date and Transition

The draft interpretation proposes retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with an effective date of annual periods beginning on or after three months after a final interpretation is issued. Early adoption will be encouraged.

### Response to the IFRIC

The IFRIC has invited comments on this draft interpretation by 5 October 2007.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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