



Australian Government

Australian Accounting  
Standards Board

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Mr Robert Garnett  
Chairman – IFRIC  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Bob

**IFRIC Draft Interpretation D21**  
***Real Estate Sales***

The Australian Accounting Standards Board (AASB) has considered the proposals in IFRIC Draft Interpretation D21 and is pleased to provide its views in respect of the proposals for consideration by the IFRIC.

**Overall Comments**

The AASB supports the issuance of an Interpretation on this topic and the IFRIC's proposal to withdraw Example 9 from the Appendix to IAS 18 *Revenue* and include new guidance in the Interpretation.

However, the AASB fundamentally disagrees with the related proposals that:

- (a) a real estate contract meets the definition of a “construction contract” in IAS 11 *Construction Contracts* only if the agreed construction services are “to the buyer’s specifications” (paragraph 8); and
- (b) a feature of a real estate construction contract is “the buyer being able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not)” (paragraph 9(a)).

The AASB observes that an apparent implication of these proposals is that a contract for the construction of a home on a customer's land would not qualify for accounting under IAS 11 if the customer selects one of the builder's existing plans for the home's major structural elements and cannot specify major structural changes during construction. The AASB would not support that treatment, which differs from general practice in Australia, because it does not regard customised design by the customer as an essential feature of a construction contract. The AASB's view is that there is no substantive difference between

building a display home and building a home the design of which was developed by the customer's architect.

Instead, the AASB's view is that a real estate construction contract has the following two essential features:

- (a) it has been specifically negotiated for the construction of an asset or a combination of assets (as per the definition of a "construction contract" in IAS 11, quoted from in paragraph 8 of D21); and
- (b) the seller transfers 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 feature mentioned in paragraph 9(b) of D21).

The AASB's view is that these features are present when a real estate contract is for the provision of construction services over the contract term, but are not present in a contract for the delivery of real estate at the end of the contract term (which should be accounted for under IAS 18). A contract under which the control and significant risks and rewards of ownership of the building works pass to the customer at the end of the contract term but the control and significant risks and rewards of ownership of the land pass to the customer earlier is a multiple component sales contract, to which paragraph 13 of IAS 18 should be applied.

The AASB's other concerns with paragraphs 8 and 9 of D21 are that:

- (a) paragraph 8 seems inconsistent with paragraph 9(b). Paragraph 8 implies that the feature in paragraph 9(a) is essential for the existence of a construction contract, but paragraph 9 says this feature, "individually or in combination, *may* indicate that" an agreement is for construction services (emphasis added); and
- (b) the principle underlying the proposed indicators of a real estate construction contract in paragraphs 9(a) and 9(b) is unclear, particularly because those indicators relate to different matters.

### **Other Comments**

With the exception of the matter noted above, the AASB generally supports the proposals in D21. Its other proposals for amending D21 are as follows.

The AASB is of the view that paragraph 13, regarding the treatment of real estate sold with continuing involvement by the seller (such as guarantees provided by the seller in relation to the property sold), should either be clarified or deleted. This is because an array of different guarantees may be provided by the seller, and it is unclear from paragraph 13 which types or combinations of them would either preclude the recognition of a sale or delay the recognition of revenue from a sale.

The AASB noted that, although the scope of the Draft Interpretation is revenue recognition from sales of real estate accounted for under either IAS 11 or IAS 18 (as appropriate), the section of the Consensus headed "Applicable standard" mentions IAS 18 only once (in the second sentence of paragraph 7). The section would have greater apparent balance if a sub-heading "IAS 11" preceded paragraph 8 and a sub-heading "IAS 18" preceded paragraph 10.

## Editorial Suggestions

The AASB has the following editorial suggestions:

- (a) Paragraph 9(b)(i) should be amended as marked up below, to exclude applying IAS 11 when construction takes place on land the buyer leases from the seller in an operating lease:

“the construction taking place on land that is owned, or leased from a party other than the seller, by the buyer;”

- (b) Paragraph 14(a) should be amended to explicitly apply only when the circumstances in paragraph 14(b) do not arise, consistent with the IFRIC’s intention expressed in paragraphs BC18-BC21. This would avoid possible misconceptions that an entity has an option to apply either of the accounting treatments in paragraphs 14(a) and 14(b). A seller could be considered to be obliged “to perform further work on the real estate already delivered to the buyer” (referred to in paragraph 14(a)) in the circumstances described in paragraph 14(b). This is because “real estate” in “real estate already delivered to the buyer” could be read as the item of property transferred to the buyer, not just the completed work on that item of property. Accordingly, the AASB suggests including in paragraph 14(a) the additional words marked up below:

“to the extent that the entity has to perform further work on ~~the~~ real estate that has already been delivered to the buyer and does not include separately identifiable undelivered goods or services (eg to remedy minor defects or complete internal decoration), it shall recognise an expense in accordance with paragraph 19 of IAS 18. ...”

- (c) At the start of paragraph BC4, the AASB suggests amending “it is argued that” to “it has been argued that”, so that readers can see immediately that the following arguments are not the IFRIC’s view. Presently, that is not obvious until paragraph BC5.
- (d) The first bullet point in paragraph BC5(b) should also mention land leased by the buyer, for consistency with paragraph 9(b)(i). If the suggestion in (a) above were agreed with, the words in that bullet point could be amended as marked up below:

“the land under construction is owned, or leased from a party other than the seller, by the buyer from the outset.”

- (e) In paragraph BC20, each use of “had” in the first and third lines is unnecessary. In general usage, when “had considered” or “had concluded” is used, the “had” normally signifies that previous considerations or conclusions no longer apply. Omitting “had” would avoid any such misconceptions in this context.

If you have any queries regarding any matters in this submission, please contact Jim Paul ([jpaul@aasb.com.au](mailto:jpaul@aasb.com.au)) or myself.

Yours sincerely

A handwritten signature in black ink that reads "David Boymal." The signature is written in a cursive style with a clear dot at the end.

David Boymal  
Chairman