



## **HK(IFRIC)–Int 15 *Agreements for the Construction of Real Estate***

### **HKICPA Standard Setting Department Staff Summary (August 2008)**

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk).

### **Introduction**

1. HK(IFRIC)–Int 15 *Agreements for the Construction of Real Estate* is effective for annual periods beginning on or after 1 January 2009, the same effective date as IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*. Earlier application is permitted. The Interpretation shall be applied retrospectively. This Interpretation will on 1 January 2009 supersede HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* issued in 2005.

### **Reasons for issuing HK(IFRIC)–Int 15**

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HK(IFRIC)–Int 15 is to maintain international convergence arising from the issuance of IFRIC Interpretation 15 by the International Accounting Standards Board (IASB).

The issues addressed in the Interpretation were first published in a draft Interpretation D21 *Real Estate Sales* in July 2007. In response to concerns expressed in relation to improving the articulation between IAS 11 *Construction Contracts* and IAS 18 *Revenue* and providing additional guidance on how to account for revenue in IAS 18, the International Financial Reporting Interpretations Committee (IFRIC) provides guidance on the following two issues in IFRIC Interpretation 15:

- (a) determining whether an agreement for the construction of real estate is within the scope of IAS 11 or IAS 18; and
- (b) when revenue from the construction of real estate should be recognised.

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”, that is, before construction is complete.

### **Main features of HK(IFRIC)–Int 15**

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3. The detailed guidance in HK(IFRIC)–Int 15 assumes that the entity has previously analysed the agreement for the construction of real estate and any related agreements and concluded that it will retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the constructed real estate to an extent that would preclude recognition of some or all of the consideration as revenue. If recognition of some of the consideration as revenue is precluded, the following discussion applies only to the part of the agreement for which revenue will be recognised.
4. In some circumstances, agreements may need to be split into separately identifiable components, with each such component being accounted for separately and the fair value of the total consideration received or receivable for the agreement is allocated to each component. The seller then applies the requirements of HK(IFRIC)–Int 15 to any components for the construction of real estate in order to determine whether each component is within the scope of HKAS 11 or HKAS 18.

#### **Determining whether the agreement is within the scope of HKAS 11 or HKAS 18**

5. HKAS 11 applies when the agreement meets the definition of a construction contract set out in paragraph 3 of HKAS 11. An agreement for the construction of real estate meets the definition of a construction contract when the buyer is able to specify:
  - (a) the major structural elements of the design of the real estate before construction begins; and/or
  - (b) major structural changes once construction is in progress (whether or not it exercises that ability).
6. In contrast, if construction could take place independently of the agreement and buyers have only limited ability to influence the design of the real estate, the agreement will be for the sale of goods or the rendering of services and within the scope of HKAS 18.

#### **Accounting for revenue from the construction of real estate**

##### *The agreement is within the scope of HKAS 11*

7. When the agreement is within the scope of HKAS 11 and its outcome can be estimated reliably, the entity shall recognise revenue by reference to the stage of completion of the contract activity in accordance with HKAS 11.

##### *The agreement is within the scope of HKAS 18*

8. When the agreement does not meet the definition of a construction contract, it is therefore within the scope of HKAS 18. In this case, the entity shall determine whether the agreement is for the rendering of services or for the sale of goods.



9. If the entity is not required to acquire and supply construction materials, the agreement may be only an agreement for the rendering of services in accordance with HKAS 18. In this respect, revenue shall be recognised by reference to the stage of completion of the transaction using the percentage of completion method when all the conditions in paragraph 20 of HKAS 18 are met. The requirements of HKAS 11 are generally applicable to the recognition of revenue and the associated expenses for such a transaction.
10. If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is an agreement for the sale of goods and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 apply.
11. The Interpretation focuses on the criteria that revenue can only be recognised when the entity has transferred to the buyer control and the significant risks and rewards of ownership of the goods, and distinguishes between circumstances in which these criteria are met “at a single point in time” and “continuously as construction progresses”:
  - (a) if the transfer of control and the significant risks and rewards of ownership of the real estate in its entirety occurs at a single point of time (for example, at completion, upon or after delivery), revenue is recognised only when all the criteria in paragraph 14 of HKAS 18 are satisfied.
  - (b) if the transfer of control and the significant risks and rewards of ownership of the work in progress to the buyer in its current state as construction progresses, revenue is recognised by reference to the stage of completion using the percentage of completion method if all the criteria in paragraph 14 of HKAS 18 are satisfied. The requirements of HKAS 11 are generally applicable to the recognition of revenue and the associated expenses for such a transaction.

### **Disclosures**

12. When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of HKAS 18 continuously as construction progresses, it shall disclose:
  - (a) how it determines which agreements meet all the criteria in paragraph 14 of HKAS 18 continuously as construction progresses;
  - (b) the amount of revenue arising from such agreements in the period; and
  - (c) the methods used to determine the stage of completion of agreements in progress.
13. For the agreements described above that are in progress at the reporting date, the entity shall also disclose:
  - (a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date; and
  - (b) the amount of advances received.



**Other references on IFRIC 15**

1. Deloitte IAS Plus on Accounting for agreements for the construction of real estate  
<http://www.iasplus.com/iasplus/0807ifric15.pdf>
2. KPMG IFRS Briefing Sheet on IFRIC 15 *Agreements for the Construction of Real Estate*  
[http://www.kpmg.com.hk/en/virtual\\_library/Audit/IFRS\\_briefingsheet/IFRSBS0897.pdf](http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS0897.pdf)

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