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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 17 June 2008, London

Subject: Ratification of IFRIC Interpretations

***Cover note for Agreements for the Construction of Real Estate
(Agenda paper 7A)***

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1. This paper asks the Board to ratify an Interpretation on the accounting for revenue and associated expenses by entities that undertake the construction of real estate.
 2. Draft Interpretation D21 was published in July 2007 with a comment deadline of 5 October 2007. The IFRIC received 51 comments letters.
 3. Most respondents to D21 supported the IFRIC's conclusion that it should develop an Interpretation on this issue. However, nearly all respondents expressed concern with some aspects of the proposals or the possible application by analogy to industries other than real estate.
 4. In its redeliberations, the IFRIC addressed these concerns by clarifying the definition of a construction contract, the articulation between IAS 11 and IAS 18, and how to account for revenue when the agreement for the construction of real estate falls within the scope of IAS 18.

Consensuses

5. The IFRIC reached consensuses on the following issues:
 - a. Is the agreement within the scope of IAS 11 or IAS 18?
 - b. When should revenue from the construction of real estate be recognised?

Implications

6. The staff would like to highlight several of the more important implications of the IFRIC's conclusions to assist the Board in reviewing the Interpretation.

Flow chart

7. At the May 2008 IASB meeting, the staff presented a flow chart that illustrates the logic underlying the IFRIC's consensuses.
8. At that meeting, the Board identified a few areas it would specifically consider to ensure that the flow chart presented by the staff was clear when considered in conjunction with the complete Interpretation.
9. After that meeting, the staff did not receive comments from Board members on the complete Interpretation that includes the flow chart with references to the Interpretation.

Disclosures

10. The IFRIC concluded that, for agreements with 'continuous transfer', the Interpretation should require specific disclosures similar to those of paragraphs 39 and 40 of IAS 11 to satisfy the general requirements of IAS 1 (see paragraphs 20 and 21 of the draft Interpretation).

Consistency with US GAAP

11. The IFRIC's consensuses are not consistent with the requirements of SFAS No. 66 *Accounting for Sales of Real Estate*. SFAS 66 requires the use of the percentage of completion method for recognising profit from sales of units in condominium projects or time-sharing interests (provided specified criteria are met).
12. However, the IFRIC concluded in BC16(d) of the draft Interpretation that 'differences exist between the requirements in IFRSs and US GAAP for revenue recognition in general and for construction contracts in particular. They cannot be eliminated by interpretation. They are being addressed in a general project on revenue recognition conducted jointly by the IASB and the US Financial Accounting Standards Board.'

Main expected change in practice

13. The main expected change in practice would be a shift from recognition of revenue using the percentage of completion method to recognition of revenue at a single time (eg at completion, upon or after delivery). Affected agreements would 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 result in a 'continuous transfer'.

Question for the Board

14. Are you in favour of ratifying the Interpretation?