



**International
Accounting Standards
Board**

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

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

INFORMATION FOR OBSERVERS

IFRIC Meeting: **March 2006, London**
Project: **IAS 18 Real Estate Sales**
 (Agenda Paper 3)

Objective of meeting

- 1 The IFRIC Agenda Committee has recommended that the IFRIC take on to its agenda a project to clarify the requirements of IAS 18 *Revenue* for real estate sales in which contracts are signed before construction is complete. The project could result in the issue of an Interpretation and/or amendments to the real estate example in the Appendix that accompanies IAS 18.

- 2 At this meeting, the IFRIC will be asked to approve:
 - a) the inclusion of the project on its agenda;
 - b) the specific matters to be addressed in the project; and
 - c) the process for determining the form of the guidance.

It is not the purpose of this meeting to obtain a consensus on any of the matters to be addressed in the project.

Reasons for taking a project onto the IFRIC agenda

- 4 The project would seek to clarify the following paragraph of guidance in the Appendix accompanying IAS 18:

“9 *Real estate sales*

Revenue is normally recognised when legal title passes to the buyer. However, in some jurisdictions the equitable interest in a property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.”

Matters to be addressed in the project

- 10 Matters that could be addressed within the project are:

	Issue
(a)	What should the scope of the Interpretation be?
(b)	In what circumstances should a contract for sale be regarded as a construction contract within the scope of IAS 11?
(c)	If the contract is within the scope of IAS 18, when should revenue be recognised?
(d)	When is a buyer’s equitable interest sufficient to give him the significant risks and rewards of ownership and effective control of the real estate?
(e)	When would it be appropriate to regard the contract as comprising separately identifiable components?
(f)	How should revenue and expenses be allocated to contracts for the sale of individual units within multi-unit developments? Should the contracts be combined?

Form of guidance

- 11 An IFRIC consensus on the matters above could take the form of an Interpretation and/or an amendment to the real estate example in the Appendix accompanying IAS 18.

- 13 If the IFRIC approves the project for its agenda, it could defer any decision on the output of the project until it has as better idea of the content and extent of the guidance.