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International
Accounting Standards
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This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: January 2008, London
Project: D21 *Real Estate Sales* – Comment letter analysis -
Applying IAS 18 (Agenda Paper 2D)

Introduction

1. The staff present in this paper the main comments received on paragraphs 11-14 of D21 that provide guidance on applying IAS 18.
2. Respondents to D21 asked for clarifications about the following points:
 - Continuing involvement;
 - Remaining obligations;

Staff analysis

Continuing involvement

3. Some respondents¹ asked the IFRIC to clarify paragraph 13 of D21. For instance, E&Y states in its comment letter (CL9):

¹ CL9 E&Y, CL21 Malaysian Accounting Standards Board, CL24 KPMG, CL35 Australian Accounting Standards Board, CL41 National Institute of Accountants (Australia), CL50 EFRAG

‘...although we would wish to avoid a rules-based approach, we consider that the guidance in paragraph 13 is a little thin and an example would assist, particularly in relation to occupancy guarantees as this is a common feature in the investment property industry. Further, it is not clear to us in what circumstances a transaction may be accounted for as a sale but the recognition of revenue is deferred due to continuing involvement of the seller.’

4. The staff note that BC16 of D21 states that ‘Paragraph 13 of the draft Interpretation carries forward (with only minor amendments) the second paragraph of guidance from Example 9 in the appendix to IAS 18. The IFRIC took the view that this guidance has widespread application and accurately interprets the requirements of IAS 18’.
5. However, the staff believe that paragraph 13 of D21 should be amended to focus on the requirement of IAS 18 that would not permit recognition of revenue if the seller retains continuing involvement. Any further guidance should be set out as an illustrative example, eg a real estate sale in which the seller guarantees occupancy of the property for a specified period. In doing so, the staff point out that this guidance would have the same status as any guidance in the appendix to IAS 18 that accompanies, but is not part of, the Standard. The staff believe that it is appropriate because part of the guidance in paragraph 13 of D21 takes the form of implementation guidance and, therefore, should be included as an illustrative example.

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| <ol style="list-style-type: none">6. Question: does the IFRIC agree with the staff analysis in paragraphs 3-5 of this paper and the drafting suggestions in paragraphs 14 and BC23 of agenda paper 2E? If yes, the staff will provide an illustrative example for the next IFRIC meeting. |
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Remaining obligations

7. Some respondents² asked the IFRIC to clarify paragraph 14 of D21.

² CL 18 Canadian Accounting Standards Board, CL 29 SAICA-APB-APC of SAICA, CL 32 PwC, CL34 Foreningen af Statsautoriserede Revisorer (FSR) (Denmark), CL50 EFRAG

8. Two of them suggested amending paragraph 14(a) as follows: ‘to the extent that the entity has to perform insignificant further work on the real estate already delivered to the buyer...’.
 9. The staff does not believe that this suggestion is relevant because, as stated in BC20 of D21 that quotes IFRIC 13 *Customer Loyalty Programmes*, what matters is which goods or services have been delivered as opposed to those that have not.
 10. Others were confused about the meaning of the terms ‘internal decoration’ and ‘internal fittings’ or disagreed with them as examples in respectively 14(a) and 14(b) of D21. One respondent argued that revenue from the delivery of ‘communal amenities’ should not always be deferred.
 11. The staff think that whether the delivery of communal amenities (for instance) should be deferred or recognised as a separately identifiable component depends on facts and circumstances and that it was not intended to set up features for one treatment or another. In paragraph 14 of D21, the examples in brackets are only examples. To clarify the Interpretation, there are two options:
 - Option 1: delete the examples in brackets;
 - Option 2: delete the examples in brackets but provide an illustrative example.
 12. The staff’s view is that these examples are not essential to the understanding of the interpretation of the requirements of IAS 18 and therefore should be simply deleted (option 1).
 13. Finally, a few respondents³ pointed out that the wording in BC19 of D21 could imply that the accounting method was a free choice. The staff suggest amending the basis for conclusions of the Interpretation to clarify that it is NOT a free choice.
14. Question: Does the IFRIC support option 1 and the drafting suggestions set out in paragraphs 15 and BC25-BC28 of agenda paper 2E?

³ E.g. CL33 Accounting Standards Board (ASB), CL50 EFRAG