



Our Ref.: C/FRSC

**Sent electronically through the IASB Website ([www.iasb.org](http://www.iasb.org))**

11 October 2007

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

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

The Hong Kong Institute of CPAs is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the Draft Interpretation D21 *Real Estate Sales*.

We are pleased to note that IFRIC D21 aims to standardise accounting practices among real estate developers for sales of units, such as apartments or houses, “off plan”, i.e. while construction is still in progress or even before it has begun. We understand that at present, real estate developers interpret IFRSs differently and record revenue for the sale of the units at different times. Some record revenue only when they have handed over the completed unit to the buyer, while others record revenue earlier, as construction progresses, by reference to the stage of completion of the development.

In this regard, we strongly support the IFRIC’s initiative to eliminate the divergence amongst real estate developers in their revenue recognition policies and are in favour of the consensus set out in D21. We fully agree that the applicable accounting standard should depend on the nature of the sale agreement. An entity should firstly determine whether the sale agreement meets the definition of a construction contract in IAS 11 *Construction Contracts* or sale of goods in IAS 18 *Revenue* in order to decide the appropriate accounting treatment.

We further agree that the sale of real estate that is not subject to a specifically negotiated construction contract does not constitute the provision of construction services to the buyer’s specifications. Although the developer constructs the real estate, it sells the real estate (a good) rather than render a service to the buyer. The fact that the real estate construction may be planned, under construction or completed is irrelevant to the classification of the contract. Only where the sale agreement meets the definition of a “construction contract” under IAS 11 can IAS 11 be applied. We also agree with the features set out in D21 which indicate when an agreement is for the seller to provide construction services to the buyer’s specification (paragraph 9 refers) and the features which indicates when an agreement is for the sale of goods (paragraph 10 refers).



In summary, we strongly support the proposals set out in D21 that revenue should be recorded as construction progresses only if the developer is providing construction services, rather than selling goods (completed real estate units) together with the proposed features that indicate that the seller is providing construction services or that it is for the sale of goods.

Furthermore, while agreeing that retrospective application is technically correct, we strongly recommend that a concession should be granted and retrospective application should not be mandated given the practical implementation difficulties that may be encountered by entities which currently adopt revenue recognition practices that are different from that set out in D21. We suggest the IFRIC consider providing a transitional provision that allows an entity not to apply D21 retrospectively to contracts for the sale of real estate entered into before the effective date of D21.

For your information, we would like to draw to your attention that when we adopted IFRSs in Hong Kong in 2005, we encountered all the issues raised in D21 and in 2005 issued Hong Kong Interpretation 3 (HK-Int 3) *Revenue – Pre-completion Contracts for the Sale of Development Properties*, which was developed based on the very same principles as those set out in D21. It also contains a transitional provision which is the same as that suggested above. A copy of HK-Int 3 is enclosed for your information.

If you have any questions on our comments, please do not hesitate to contact me at [patricia@hki CPA.org.hk](mailto:patricia@hki CPA.org.hk).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Patricia McBride', with a stylized flourish at the end.

Patricia McBride  
Executive Director

PM/EC/ac

HK Interpretation 3  
Revised June 2006

---

Effective for pre-completion contracts  
for the sale of development properties  
entered into on or after 1 January 2005

*HK Interpretation 3*

---

# **Revenue – Pre-completion Contracts for the Sale of Development Properties**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**HK INTERPRETATION 3**  
**REVENUE – PRE-COMPLETION CONTRACTS FOR**  
**THE SALE OF DEVELOPMENT PROPERTIES**  
**CONTENTS**

---

	Paragraphs
Background .....	1 - 2
Scope .....	3
Issue.....	4
Conclusions.....	5 - 6
Effective date.....	7
Transition.....	8

HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* (HK-Int 3) is set out in paragraphs 1-8. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

This Interpretation was first issued as SSAP-Int 24 in March 2005 and<sup>1</sup> reissued as HK-Int 3 in May 2005 and revised in June 2006.

## References

- HKAS 11 (~~SSAP 23~~) *Construction Contracts*
- HKAS 18 (~~SSAP 18~~) *Revenue*

## Background

1. Property development projects are usually long term projects. In many cases, property developers would enter into contracts to sell the properties in advance of the completion of the development. These contracts usually involve the payment of a deposit by the purchaser, which may be refundable only if the developer does not complete the development in accordance with the contracted timeframes and specifications, or if there is some other breach of a contractual condition or statutory obligation. The balance of the purchase price is normally paid either at contractual settlement or in stages up to contractual settlement.
2. Property developers currently adopt various policies for recognising revenue arising from pre-completion contracts for the sale of development properties. The stage of completion method is a commonly used policy. Concern has been expressed as to whether the pre-completion contracts would satisfy the definition of construction contracts in HKAS 11 ~~or SSAP 23, as appropriate~~, and, if not, whether the stage of completion method would be acceptable under Hong Kong Financial Reporting Standards. Concern has also been expressed, in the absence of authoritative guidance, that diverse or unacceptable practices would undermine the relevance, reliability or comparability of financial statements.

## Scope

3. This Interpretation provides guidance on the applicable accounting standard(s) to be followed in recognising revenue arising from the pre-completion contracts for the sale of development properties.

## Issue

4. The issue addressed in this Interpretation is which accounting standard(s) shall be followed in recognising revenue arising from pre-completion contracts for the sale of development properties.

## Conclusions

5. Pre-completion contracts for the sale of development properties do not meet the definition of construction contracts set out in HKAS 11 ~~or SSAP 23, as appropriate~~, if the contracts in question are not specifically negotiated for the construction of the properties. Accordingly, these contracts fall outside the scope of HKAS 11 ~~or SSAP 23, as appropriate~~, and, as a result, the stage of completion method as required under ~~these Standards~~ HKAS 11 shall not be used to recognise revenue arising from such contracts.
6. Property developers shall apply HKAS 18 ~~or SSAP 18, as appropriate~~, in recognising revenue arising from pre-completion contracts for the sale of development properties that do not fall within the scope of HKAS 11 ~~or SSAP 23, as appropriate~~, and, accordingly, recognise revenue only when all of the criteria specified in paragraph 14 of HKAS 18 ~~or paragraph 13 of SSAP 18, as appropriate~~, are met.

## Effective date

7. An entity shall apply this Interpretation to pre-completion contracts for the sale of development properties entered into on or after 1 January 2005. Earlier application is encouraged. Retrospective application of this Interpretation to pre-completion contracts for the sale of development properties entered into before 1 January 2005 (or date of initial application of this Interpretation, if earlier) is permitted but not required. If an entity applies this Interpretation:

- (i) for a period beginning before 1 January 2005; and/or
- (ii) retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005 (or date of initial application of this Interpretation, if earlier),

it shall disclose those facts. The marked up changes in this Interpretation reflect the changes consequential on the issue of HKAS 11 and HKAS 18 which replaced SSAP 23 and SSAP 18, respectively, with effect for accounting periods beginning on or after 1 January 2005 (with earlier application encouraged). Given that there are no material differences between the above HKASs and SSAPs as far as this Interpretation is concerned, this Interpretation continues to apply after the changes.

## **Transition**

8. If an entity chooses not to apply this Interpretation retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005 (or date of initial application of this Interpretation, if earlier), it shall continue to account for those contracts using the method of accounting used prior to the application of this Interpretation.