

IFRS AT A GLANCE  
*IFRIC 15 Agreements for the  
Construction of Real Estate*





# IFRIC 15 *Agreements for the Construction of Real Estate*

Effective Date  
Periods beginning on or after 1 January 2009

## ISSUES

IFRIC 15 addresses two issues:

- Is the construction agreement within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*?
- When should revenue from the construction of real estate be recognised?

## SCOPE

IFRIC 15 applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

## CONSENSUS

### DETERMINING WHETHER THE AGREEMENT IS WITHIN THE SCOPE OF IAS 11 OR IAS 18

- IAS 11 applies when the agreement meets the definition of a construction contract set out in IAS 11. This occurs when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability)
- In contrast, an agreement for the construction of real estate in which buyers have only limited ability to influence the design of the real estate, or to specify only minor variations to the Basic design, is an agreement for the sale of goods within the scope of IAS 18.

### ACCOUNTING FOR REVENUE FROM THE CONSTRUCTION OF REAL ESTATE

The agreement is a construction contract

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

The agreement is an agreement for the rendering of services

- 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 IAS 18. In this case, revenue is recognised by reference to the stage of completion of the transaction using the percentage of completion method.

The agreement is an agreement for the sale of goods

- 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 IAS 18.14 apply
- If risks and rewards are transferred at a single time (usually after completion) and all other criteria in IAS 18.14 are met revenue is recognised at that point
- If the entity transfers risks and rewards in the work in progress as construction progresses the entity recognises revenue by reference to the state of completion.

### DISCLOSURE

- When an entity recognises revenue using the percentage of completion method it discloses:
  - How it determines which agreements meet all the criteria of IAS 18 continuously as construction progresses
  - The amount of revenue arising from such agreements in the period
  - The methods used to determine the stage of completion of agreements in progress.
- For the agreements that are in progress at the reporting date, the entity is also required to disclose:
  - The aggregate amount of costs incurred and recognised profits (less recognised losses) to date
  - The amount of advances received.

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