ANNOUNCEMENT
20th March 2019

IFRIC Agenda Decisions (March 2019)

On 18th December 2018, the Malaysian Accounting Standards Board (MASB) has issued for public comment six Tentative Agenda Decisions (TAD) published by the IFRS Interpretations Committee (IFRIC), including the TAD on IAS 23 *Borrowing Costs* relating to over time transfer of constructed good.

In March 2019, the IFRIC considered, among others, the public comments on TAD - IAS 23 and concluded that the TAD shall be issued as an Agenda Decision. Annexure I provides details of the said Agenda Decision.

When IFRIC decided not to add an issue to its standard-setting agenda, it will publish an agenda decision. Agenda decision explains why the IFRIC concludes that there is no need to amend or add to requirements in IFRS Standards after considering an application question. Agenda decisions often include information to help entities applying IFRS Standards by explaining how the applicable principles and requirements in the Standards apply to the question submitted. Agenda decisions do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive.

As explained in the *IFRIC Updates (March 2019)*, an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The IASB expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).

The MASB observed that non-private entities in the real estate industry might need to change their accounting policy as a result of the Agenda Decision on IAS 23. In ensuring consistent application of the Malaysian Financial Reporting Standards, which are word-for-word the IFRS Standards, the Malaysian Accounting Standards Board has decided that an entity shall apply the change in accounting policy as a result of the Agenda Decision on IAS 23 *Borrowing Costs* to financial statements of annual periods beginning on or after 1 July 2020.

END

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Annexure I

Over time transfer of constructed good (IAS 23 *Borrowing Costs*)

The IFRS Interpretations Committee (Committee) received a request about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building).

In the fact pattern described in the request:

(a) a real estate developer (entity) constructs the building and sells the individual units in the building to customers.

(b) the entity borrows funds specifically for the purpose of constructing the building and incurs borrowing costs in connection with that borrowing.

(c) before construction begins, the entity signs contracts with customers for the sale of some of the units in the building (sold units).

(d) the entity intends to enter into contracts with customers for the remaining part-constructed units (unsold units) as soon as it finds suitable customers.

(e) the terms of, and relevant facts and circumstances relating to, the entity's contracts with customers (for both the sold and unsold units) are such that, applying paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers*, the entity transfers control of each unit over time and, therefore, recognises revenue over time. The consideration promised by the customer in the contract is in the form of cash or another financial asset.

The request asked whether the entity has a qualifying asset as defined in IAS 23 and, therefore, capitalises any directly attributable borrowing costs.

Applying paragraph 8 of IAS 23, an entity capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 5 of IAS 23 defines a qualifying asset as 'an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'.

Accordingly, the entity assesses whether, in the fact pattern described in the request, it recognises an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on the particular facts and circumstances, the entity might recognise a receivable, a contract asset and/or inventory.

The Committee concluded that, in the fact pattern described in the request:

(a) a receivable that the entity recognises is not a qualifying asset. Paragraph 7 of IAS 23 specifies that financial assets are not qualifying assets.

(b) a contract asset that the entity recognises is not a qualifying asset. The contract asset (as defined in Appendix A to IFRS 15) would represent the entity's right to consideration that is conditioned on something other than the passage of time in exchange for transferring control of a unit. The intended use of the contract asset - to collect cash or another financial asset - is not a use for which it necessarily takes a substantial period of time to get ready.

(c) inventory (work-in-progress) for unsold units under construction that the entity recognises is not a qualifying asset. In the fact pattern described in the request, this asset is ready for its intended sale in its current condition – i.e. the entity intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer.

The Committee concluded that the principles and requirements in IAS 23 provide an adequate basis for an entity to determine whether to capitalise borrowing costs in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.