



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE

FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

FRSIC Consensus 17 ***Development of Affordable Housing***

Introduction

FRSIC Consensus 17 “Development of Affordable Housing” was developed by the Financial Reporting Standards Implementation Committee (“FRSIC”) and issued by the Malaysian Institute of Accountants (“MIA” or “Institute”) on 24 November 2011.

The Consensus contained herein is issued as part of the Institute’s initiatives to promote best practices in compliance with the highest standards in financial accounting.

FRSIC CONSENSUS 17**DEVELOPMENT OF AFFORDABLE HOUSING**

FRSIC Consensus is guidance issued by MIA and shall be regarded as best practice. It should be read in conjunction with the respective applicable accounting standards.

Members of MIA are expected to observe compliance to the consensus issued. In exceptional circumstances where departure is necessary, members shall be prepared to justify the departure.

FRSIC Consensus need not be applied to immaterial items. Nothing in the FRSIC Consensus is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the MASB and other relevant laws.

Background

- 1 Provision of affordable housing remains a priority of the relevant authorities in Malaysia to ensure social-economic stability and to promote national development.
- 2 Construction of affordable housing was previously a direct responsibility of the relevant authorities through the various State Economic Development Corporations and urban development agencies. Nevertheless, evolution in the development policies over the years has shifted part of the responsibility of constructing affordable housing to the private sector through quota conditions imposed by the relevant authorities in return for the approval of the master and building plans of residential development.
- 3 The involvement of an entity engaged in real estate and housing development (“developer”) in the construction and sales of affordable housing by reference to the quota conditions is viewed as a fulfilment of requirement imposed by the relevant authorities, requisite to the approval to develop associated premium housing (that is subjected to market forces) comprised within the master and building plans of residential development.

- 4 Where quota conditions are imposed as a requisite to the approval of an overall residential development, such conditions would normally be specified within the relevant approval documents issued by the authorities in an explicit and unreserved manner.
- 5 In some cases, a developer may also develop affordable housing for reasons other than as discussed above. For example, a developer may voluntarily develop affordable housing as part of its initiatives towards corporate social responsibility commitments, independent from any form of conditions imposed by the relevant authorities.
- 6 Although there is no uniformity in affordable housing policies from a local jurisdiction to another, pricing of affordable housing is controlled and standardised in reference to the price structure imposed by the Ministry of Housing and Local Government. As a result, costs of constructing affordable housing may, at times, surpass the amounts recoverable from the purchasers of affordable housing by a developer.

Scope

- 7 This Consensus applies to transactions in which developers undertake the construction and sales of affordable housing, when the amounts recoverable by the developer from the purchasers of affordable housing (and/or other relevant parties) appear to be less than the costs of constructing affordable housing.

The Issue

- 8 It was observed that there is divergence in practices amongst developers in Malaysia in relation to the accounting recognition for the amounts not expected to be recoverable from the purchasers of affordable housing by the developers in the construction and sales of affordable housing.

- 9 This Consensus addresses two issues:
- (a) Distinction between development of affordable housing forming the fulfilment of quota conditions imposed by the relevant authorities (i.e. on involuntary basis) and development of affordable housing on voluntary basis.
 - (b) The accounting for the shortfall between the cost of constructing affordable housing and the economic benefits expected to be received from the purchasers of affordable housing (and/or other relevant parties) in scenario where affordable housing are being developed on:
 - (i) involuntary basis; and
 - (ii) voluntary basis.

Consensus and Basis of Consensus

- 10 The Committee noted that the involvement of developers in Malaysia in the development of affordable housing constitutes a social-economic requirement, and that such activity by itself lacks commercial substance. Such activity does not appear to be undertaken voluntarily if the decision to develop affordable housing is driven by quota conditions. The quota conditions constitutes a requirement imposed by the authorities and hence, an obligation. Agreement of the developers to discharge such requirement as imposed by the authority is critical to enable the developers to carry out the commercial activities contained in the master and building plans.
- 11 The requirement to develop affordable housing involuntarily under the quota conditions may result in a developer incurring unavoidable costs exceeding the economic benefits expected to be received in relation to the fulfilment of that requirement; similarly with other forms of conditions imposed by the authorities such as the provision of land and/or infrastructure for public amenities, access roads, schools, and places of worship. In circumstances where a developer could not avoid or do not have any realistic alternative but to develop affordable housing, the developer has a requirement to act or perform in a certain way. This creates a present obligation on the developer to discharge the requirement as imposed by the authorities. Generally, the developer could not avoid or do not have any realistic alternative to settling such obligations in the combination of the following conditions:
- (a) the master and building plans is approved,
 - (b) the developer commenced development, and
 - (c) sales of the affordable housing are controlled, whereby eligibility of buyers is dictated by the authority and the developer has no ability to impose selling price higher than what the authority dictates.

- 12 The use of judgement is required in establishing the fact that a present obligation exists, and the Committee opined that input from professionals involved in the project approval should be considered in applying such judgement.
- 13 Nevertheless, the present obligation discussed in Paragraph 11 does not appear to exist in circumstances where the development of affordable housing is independent of quota conditions, i.e. when carried out on voluntary basis.

Development of affordable housing on involuntary basis

- 14 The present obligation described in Paragraph 11 to develop affordable housing on involuntary basis would result in the developers incurring unavoidable costs of meeting the obligation which exceed the economic benefits expected to be recovered from the purchasers of the affordable housing, and it is probable that an outflow of resources equivalent to the shortfall will be required during the development of affordable housing. When a reliable estimate can be made of the amount of shortfall, the amount shall be recognised and measured as a provision in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets", and shall be used to set-off against the expenditures incurred in discharging the obligations. As far as the requirement to develop affordable housing is concerned, the provision recognised shall be utilised on the costs of purchase, costs of conversion and other costs incurred in developing the affordable housing which is not expected to be recoverable from the purchasers of affordable housing during the construction of affordable housing.
- 15 Meanwhile, the provision for present obligation described in Paragraph 14 above is also seen as amounts necessarily incurred by the developers to enable activities with commercial substance contained in corresponding master and building plans to be carried out. The fulfilment of such obligation would give rise to future economic benefits in the form of the approval granted by the authorities to construct and sell premium housing.
- 16 Therefore, the recognition of provision for present obligation would result in the recognition of a corresponding asset in the form of common costs in the development of premium housing, as the developers' agreement to discharge of such obligation is essential to enable the premium housing to be developed to the location and condition to be sold. Hence, the provision for present obligation to provide affordable housing is seen as costs in the construction and sales of premium housing. Such costs shall be allocated to individual item on a rational and consistent basis.

Development of affordable housing on voluntary basis

- 17 When a developer develops affordable housing on voluntary basis, the costs of purchase, costs of conversion and other costs incurred in developing the affordable housing may not be fully recoverable from the purchasers. Unlike the situation discussed in Paragraph 14, present obligation does not exist due to the approval of master and building plans. The shortfall would result in the write-down of costs to net realisable value, as assets should not be carried in excess of the amounts expected to be realised from their sale or use.
- 18 The development of affordable housing on voluntary basis is not expected to give rise to any future economic benefits that can be measured with reliability, other than the agreed selling price of the affordable housing. Therefore, the write-down of costs to net realisable value described in Paragraph 17 is a decrease in economic benefits and shall be expensed to the profit or loss in the period they are incurred.

Issuance date of this Consensus

- 19 This Consensus is issued on 24 November 2011.

References

Framework for Preparation and Presentation of Financial Statements
FRS 102 "Inventories"
FRS 111 "Construction Contracts"
FRS 137 "Provisions, Contingent Liabilities and Contingent Assets"
IC Interpretation 15 "Agreements for the Construction of Real Estate"