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FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

FRSIC Draft Consensus D3 *Development of Affordable Housing*

Comments to be received by 30 April 2010

Preamble

FRSIC Draft Consensus D3 "Development of Affordable Housing" is issued by the Financial Reporting Standards Implementation Committee ("FRSIC") of the Malaysian Institute of Accountants ("Institute") for comment only. Comments on the draft Consensus should be submitted in writing so as to be received by **30 April 2010**.

All responses will be put on the public record unless the respondent requests confidentiality. Comments should be addressed to:

The Chairman
Financial Reporting Standards Implementation Committee
Malaysian Institute of Accountants
Dewan Akauntan
2 Jalan Tun Sambanthan 3
Brickfields
50470 Kuala Lumpur
Malaysia

Phone: +60 3 2279 9200

Fax: +60 3 2273 1016

E-mail address: frsic@mia.org.my

Website address: <http://frsic.mia.org.my>

Invitation to Comment

FRSIC has approved the release of FRSIC Draft Consensus D3 for distribution to the members and member firms of the Institute, regulators, users and other interested individuals and organisations for comments.

There is no specific question raised on the proposed FRSIC Consensus. FRSIC, however, invites interested parties to comment on any aspect of the consensus reached in the proposed FRSIC Consensus. Comments are most helpful if they indicate specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The draft 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.

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FRSIC DRAFT CONSENSUS D3

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 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 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 authorities in return for the approval of the master and building plans of residential development.
- 3 Although there is no uniformity in the manner quota conditions are imposed 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 buyers of affordable housing by entities engaged in real estate and housing development (“developers”).

- 4 The involvement of developers in the construction and sales of affordable housing is viewed as a fulfilment of social-economic responsibility 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.

Scope

- 5 This [*draft*] Consensus applies to the accounting by developers in Malaysia for the obligations to provide affordable housing arising from the quota conditions associated with the approval of the master and building plans of an overall residential development.
- 6 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.

The Issue

- 7 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 buyers of affordable housing by the developers in the construction and sales of affordable housing.
- 8 This [*draft*] Consensus addresses how the shortfall between the unavoidable costs of meeting the obligations under the quota conditions and the economic benefits expected to be received from the buyers of affordable housing should be accounted for.

Consensus and Basis of Consensus

- 9 The Committee noted that the involvement of developers in Malaysia in the development of affordable housing constitutes a social-economic responsibility imposed upon the developers by the authority, and that such activity by itself lacks commercial substance. It is not an activity undertaken by the developers voluntarily but it is a responsibility imposed by the authorities and hence, an obligation. Agreement of the developers to discharge such responsibility as required by the authority is critical to enable the developers to carry out the commercial activities contained in the master and building plans.
- 10 The responsibility to develop affordable housing, together with other forms of obligations imposed by the authorities (such as the provision of land and/or infrastructure for public amenities, access roads, schools, and places of worship), may result in the developers incurring unavoidable costs exceeding the economic benefits expected to be received in relation to the fulfilment of those responsibilities. Generally, the developers do not have any realistic alternative to settling such obligations when the master and building plans is approved and when the developer commenced development, and the Committee opined that the combination of both events, in normal circumstances, creates a present obligation on the developers to discharge those responsibilities.
- 11 Such present obligation 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 responsibility to develop affordable housing is concerned, the provision recognised shall be used to set-off against the costs of purchase, costs of conversion and other costs incurred in developing the affordable housing.
- 12 Meanwhile, the provision for present obligation described in Paragraph 11 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.

- 13 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 construction and sales of premium housing and 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.

Issuance date of this Consensus

- 14 This [draft] Consensus is issued on [date to be set upon final approval by the Institute's Council].

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"