

Revenue Recognition for Sale of Uncompleted Residential Properties in Singapore

Application of FRS 115 Revenue
from Contracts with Customers



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PREFACE

On 28 May 2014, the International Accounting Standards Board (“IASB”) published IFRS 15 *Revenue from Contracts with Customers*. Singapore’s equivalent¹, FRS 115 *Revenue from Contracts with Customers* was issued by the Accounting Standards Council (“ASC”) on 19 November 2014. FRS 115 is effective for annual periods beginning on or after 1 January 2018 and will replace the following standards and guidance issued by ASC:

- FRS 11 *Construction Contracts*;
- FRS 18 *Revenue*;
- INT FRS 31 *Revenue - Barter Transactions Involving Advertising Services*;
- INT FRS 113 *Customer Loyalty Programmes*;
- INT FRS 115 *Agreements for the Construction of Real Estate* and the Accompanying Note²; and
- INT FRS 118 *Transfers of Assets from Customers*.

ISCA’s Financial Reporting Committee (FRC), through its Core Sub-Committee³, has discussed the application of FRS 115 on the sale of uncompleted properties under the standard Sales and Purchases Agreements⁴ (SPA). FRC is issuing this guidance to share their discussions and consensus reached. Generally, FRC does not expect changes with respect to whether revenue is recognised over time or at a point in time for sales of uncompleted residential properties in Singapore using the standard SPA, except for those sold under a deferred payment scheme. Under INT FRS 115, the revenue recognition for uncompleted residential properties sold under a deferred payment scheme is upon the completion of the construction and when the rest of the purchase price is paid. Under FRS 115, revenue from the sale of such residential properties could be accounted for using over time revenue recognition basis. FRC considers that those rights and obligations under the standard SPA would allow the developer to recognise revenue over time under FRS 115.

Whilst this guidance is prepared with the accounting profession and the business community in mind, it serves only as guidance for the user and should be used in conjunction with the relevant standards. If you have any queries on this guidance, please contact Lim Ju May or Jezz Chew from ISCA’s Corporate Reporting & Ethics (CoRE) Division at core@isca.org.sg.

¹ On 1 January 2018, ASC will be issuing a new financial reporting framework that is identical to IFRS (“IFRS-identical Financial Reporting Standards”). Therefore, this guidance is also applicable to the revenue standard (that is equivalent to IFRS 15) issued under the IFRS-identical Financial Reporting Standards framework.

² ASC issued an Accompanying Note (AN) on the application of INT FRS 115 in Singapore.

³ Members of ISCA’s FRC Core Sub-Committee include Prof. Chua Kim Chiu (Chairman), Ms. Chan Yen San, Ms. Cheng Ai Phing, Mr. Chen Voon Hoe, Mr. Reinhard Klemmer, Ms. Kok Moi Lre, Ms. Ong Suat Ling, Ms. Soh Lin Leng, Mr. Tan Seng Choon and Mr. James Xu Jun.

ISCA gratefully acknowledge and thank these individuals for their contributions towards the development of this guidance.

⁴ As prescribed in the Singapore Housing Developers (Control and Licensing) Act (Chapter 130), the standard form of Sales and Purchase Agreement are required to be used for the sale of residential properties.

RECOGNITION OF REVENUE FROM RESIDENTIAL PROPERTY DEVELOPMENTS IN SINGAPORE UNDER FRS 115 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

The core principle of FRS 115 is that an entity recognises revenue as and when control passes to the buyer to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the five-step model.

The table below is a condensed illustration of the application of steps 1 to 4 in the five-step model process to sales of residential properties using the standard form of the SPA (without consideration of terms and conditions that are not within SPAs).

Steps in Five-step model		Application to revenue recognition for standard residential property developments using the standard form of the SPA
1	Identify the contract(s) with a customer	<p>In the context of property developments in Singapore, the SPAs are the contracts signed with customers i.e. buyers of a specified unit within a development.</p> <p>Collectability of the entire consideration is considered “probable” as financing is typically required to be secured for the SPA to be executed.</p> <p>An option to purchase that may be entered into prior to signing of the SPA is not considered a contract under FRS 115 as the customer is not obligated to exercise the option to purchase the property.</p>
2	Identify the performance obligations in the contract	<p>The promised good in the SPA is usually the completed specified property unit within the development. The developer has also promised to construct common facilities that can be enjoyed by all the owners of the property (eg, car parks, swimming pools, gym and other recreational facilities). These are not considered as separate performance obligations within the context of the contract. Therefore, the performance obligation of the developer is to deliver the completed specified property unit with the common facilities to the buyer.</p>
3	Determine the transaction price	<p>The transaction price is usually the purchase price of the property unit, net of any discounts or rebates as stated in the SPA.</p>
4	Allocate the transaction price to the performance obligations in the contract	<p>Assuming that there are no other distinct promised goods or services in the SPA, the purchase price is fully allocated to the completed property unit as the single performance obligation under the SPA.</p>

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

FRS 115 paragraph 31 states that an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to the customer. An asset is transferred when (or as) the customer obtains control of that asset.

Therefore, property developers will need to carefully consider their terms and conditions in contracts to determine when and how control of the specified unit is transferred to the buyer, primarily (i) over time (as and when property is being constructed); or (ii) at a point in time (eg upon completion of the development and hand-over to the buyer).

Performance Obligations Satisfied Over Time (“Over time revenue recognition”)

Under FRS 115 paragraph 35, an entity transfers control of a good or service over time and therefore satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits as the entity performs (“Criterion 1”);
- (b) The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced (“Criterion 2”); or
- (c) The entity’s performance does not create an asset with an alternative use to the entity **and** the entity has an enforceable right to payment for performance completed to date (“Criterion 3”).

Criterion 1 - Paragraph 35(a)

The buyer (customer) does not simultaneously consume the benefits provided by the developer’s (entity’s) construction of the property unit as the unit is being constructed. This is because the developer’s performance creates an asset (i.e. the uncompleted property unit) that is not consumed immediately. Hence, the criterion in paragraph 35(a) is not met.

Criterion 2 – Paragraph 35(b)

The developer’s performance creates the uncompleted property unit. Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the uncompleted property unit. Generally, the buyer does not control an uncompleted property unit for uncompleted residential properties in Singapore. Hence, this criterion in paragraph 35(b) is not met.

Criterion 3 – Paragraph 35(c)

Both conditions (A) & (B) below have to be fulfilled in order to recognise revenue over time:

(A) Asset with No Alternative Use

An asset created by an entity has no alternative use if the entity is either restricted contractually or practically from readily directing the asset to another use. For example, the entity is not able to sell the same asset to another customer.

Under the SPA, the developer cannot sell the same unit as indicated in the signed SPA to another customer. This is a contractual restriction on the developer's ability to direct the unit to another customer, without breaching the contract or incurring significant additional costs. Developers are not able to substitute one unit with another one as that would require the consent of the buyer.

Condition (A) is therefore met for sales of development properties in Singapore.

(B) Enforceable Right to Payment for Performance Completed to Date

An entity has an enforceable right to payment for performance completed to date if, at any time during the contract term, the entity would be entitled to an amount that at least compensates it for work already performed. This right to payment, whether by contract or by law, must be present, even in instances in which the buyer can terminate the contract for reasons other than the entity's failure to perform as promised (i.e. when the developer fails to perform under the contract). The inclusion of a payment schedule in a contract does not, by itself, indicate that the entity has an enforceable right to payment for performance to date.

In addition, the compensation for performance completed to date that the entity is entitled to must approximate the selling price of the goods or services transferred to date (for example, recovery of costs plus a reasonable profit margin). Compensation for potential loss of profit on termination of contract is not compensation for performance completed to date.

For the assessment of the existence and enforceability of the right to payment for the work completed to date, a developer is required to consider the contractual terms as well as any legislation or legal precedent that could supplement or override those contractual terms. This would mean that the developer must have the contractual right to either (1) obtain compensation (that is recovery of costs plus a reasonable profit margin) for work completed to date, or (2) enforce the contract and complete the construction for full contractual payment.

In the context of sales of units within a larger property development in Singapore, the developer does not have a contractual right to payment commensurate with performance to date under the standard SPA. However, the developer may have the right to enforce the contract and sue the buyer for specific performance of the contract with the completion of the construction, notwithstanding that such right may not be explicitly specified in the contract. In this case, the developer may have to look to common law for any legal precedents on the enforceability of the right to sue for specific performance of the contract.

One such legal case is *MP-Bilt Pte Ltd v Oey Widarto* [1999] SGHC 70 (refer to Singapore Law Reports (Reissue) [1999] 1 SLR(R) pages 908-930). The court ruled in favour of the developer when pursuing to recover the outstanding amounts payable by the buyer under the SPA, rather than allowing the buyer under the SPA, rather than annul the agreement and return the property.

Past practice by the developer to agree with buyers to annul the contract and take back the property unit does not negate the right of the developer to enforce the contract.

In summary, the right to require the buyer to perform under the contract, which means that the buyer will have to continue making payments under the contract and will have to take possession of the unit upon completion is the determining right in order to satisfy the requirement under FRS 115.

Please see Appendix B for the application of the above conditions to some types of real estate sales commonly seen in Singapore.

Appendix C contains an illustrative example of the accounting for revenue for residential properties (e.g. standard residential properties) using over-time revenue recognition.

Performance Obligations Satisfied at a Point in Time (“Point in time revenue recognition”)

FRS 115 paragraph 38 states that if a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. To determine the point in time at which the performance obligation is satisfied, an entity is required to consider when the customer obtains control of the promised good or service.

The determination of when control is transferred will require significant judgement. Indicators that might be considered in determining the point in time at which control of the good or service (asset) passes to the customer include but are not limited to:

- Whether the entity has a right to payment;
- Whether the customer has obtained legal title to the asset;
- Whether the entity has transferred possession of the asset to the customer;
- Whether the customer has significant risks and rewards of ownership of the asset;
- Whether the customer has accepted the asset.

The above indicators are not meant to be a checklist and not all of them must be present to determine that the customer has gained control. An entity needs to consider all relevant facts and circumstances to determine whether control has transferred.

APPENDICES



APPENDIX A: GLOSSARY

The following tables show the commonly used terminology and abbreviations within this guidance.

Definition of terminology

Terminology	Definition
Percentage of Completion (POC) method	Recognition of revenue by reference to the stage of completion of a transaction [FRS 18 paragraph 21]
Over Time (OT) revenue recognition	Progressive recognition of revenue when a performance obligation is satisfied [FRS 115 paragraph 35]
Point In Time (PIT) revenue recognition	Recognition of revenue at a point in time upon satisfaction of a performance obligation [FRS 115 paragraph 38]
Standard form of SPA	Standard form of SPA as prescribed in the HDA
Sale of uncompleted Standard Residential Properties	Sales of residential properties off-plan or sale of uncompleted residential properties (i.e. before construction is completed) using the standard SPA

Abbreviations

Abbreviation	Description
AN	Accompanying Note to INT FRS 115
DBSS	Design, Build & Sell Scheme
EC	Executive Condominiums
HDB	Housing and Development Board
HDA	Singapore Housing Developers (Control and Licensing) Act (Chapter 130)
SPA	Sales and Purchase Agreement
TOP	Temporary Occupancy Permit

APPENDIX B: REVENUE RECOGNITION FOR SALE OF UNCOMPLETED PROPERTIES UNDER FRS 115

The following table shows the likely outcomes for the application of the two conditions (A) and (B) below [FRS 115 paragraph 35(c)] on the revenue recognition of some types of real estate sales commonly seen in Singapore.

Type of real estate sales	Standard Residential Properties*	Executive Condominiums (EC)	Design, Build and Sell Scheme (DBSS) Properties	Mixed Development Properties
Conditions [FRS 115.35(c)]				
Developer is not able to direct or sell the unit to another buyer (i.e. no alternative use)	✓	✓	✓	✓
The right to payment is enforceable at all times	✓	✗	✗	✓
Conclusion	OT	PIT	PIT	OT

Legend:

✓ - Yes OT – Over time revenue recognition

✗ - No PIT – Point in time revenue recognition

* - Depending on the terms of contracts, this may include standard residential properties sold under deferred payment schemes.

The rationale for the above outcomes is described below.

Generally, a developer is not able to sell the same property unit to another customer under a standard SPA as the unit would be explicitly specified in the contract. Hence, the first condition of “No alternative use” is met for all residential properties as listed in the table above.

Standard Residential Properties

Standard residential properties are uncompleted residential properties in Singapore that are regulated under the Singapore HDA. The sales of such properties are concluded using a standard form of SPA or SPAs which are modified from the standard form of the SPA with approval from the Controller of Housing.

It is noted that there have been past instances whereby developers for properties sold under a standard form of SPA have chosen to take back the property unit and not enforce the contract terms if buyers asked to cancel the contract. As the contract does not grant a cancellation right to the buyer, the developer makes a commercial decision to either take the sold unit back, and for on-selling in the market or to hold the buyer to the terms of the contract. To meet the criteria for over time revenue recognition, the developers are required to establish that they have an enforceable right to sue buyers for specific performance of the contract, i.e. full payment for the completed property unit if they wish to do so.

One legal case in Singapore is MP-Bilt Pte Ltd v Oey Widarto [1999] SGHC 70 (refer to Singapore Law Reports (Reissue) [1999] 1 SLR(R) pages 908-930). The court ruled in favour of the developer when pursuing to recover the outstanding amounts payable by the

purchaser under the SPA, rather than allowing the buyer to annul the agreement and return the property.

Whilst developers in Singapore typically did not take legal action against the purchaser but instead choose to annul the SPA and resell the unit, this customary past business practice does not affect the contractual rights under the SPA, as evidenced by the court ruling quoted above.

Accordingly, developers of standard residential properties in Singapore would be able to continue recognising their sales of uncompleted units using over time revenue recognition as both conditions (A) and (B) in FRS 115 paragraph 35(c) are met.

Executive Condominiums (EC) and Design, Build and Sell Scheme (DBSS) Properties

Under the regulations of the HDB, the buyer is subject to the following eligibility rules which are applied at the date of obtaining the TOP:

1. Purchaser must be a Singapore Citizen or Singapore Permanent Resident;
2. Purchaser must form a family nucleus; and
3. Purchaser must not own or have an estate or interest in any other properties, including private properties.

Because the completion of the sale is subject to the buyer choosing to meet these eligibility rules (i.e. at the discretion of the buyer), unconditional completion of the sale and purchase agreement can only be assured upon handover of the property, which is after TOP is achieved. Therefore, the enforceable right to payment for work performed to date is contingent on whether the buyer meets these eligibility rules at TOP date. The EC and DBSS rules require developers to unwind the sales contract with customers that fail to meet the eligibility rules.

Accordingly, the developers for both ECs and DBSS properties will not be able to recognise revenue until the contingency of the buyer meeting the eligibility rules is lifted.

Mixed Development Properties

A mixed development property is a project involving the development and sale of a combination of residential units and commercial units. These properties are governed by both the HDA and the Sale of Commercial Properties Act.

Similar to sales of standard residential properties, the standard form of SPA is used for sales of residential units. Accordingly, there are no substantive differences between the sales of residential units in mixed developments as compared to standard residential properties sales. Hence the revenue for residential units in mixed development properties should be recognised by reference to the stage of completion i.e. over time.

APPENDIX C: ILLUSTRATION EXAMPLE 1 – SALE OF RESIDENTIAL PROPERTIES WHOSE REVENUE IS RECOGNISED OVER TIME (e.g. STANDARD RESIDENTIAL PROPERTIES)

1. Entity A is the developer of a standard residential property using the standard form of SPA prescribed in the HDA. As specified in the SPA, buyers are required to make progressive payments as and when the developer completes the different stages of the construction of the standard residential properties. The timing and quantum of payment of the contracted purchase price are as set out under the standard payment scheme in the SPA.
2. Entity A has assessed that the control of the uncompleted property are transferred from the developer to the purchaser continuously as construction progresses. Accordingly, the appropriate accounting for revenue for the sale of the standard residential property is over time.
3. For illustrative purposes, the stages of completion of the contract activity and the progressive payment schedule for Entity A are set out as follows:

Stage of contract activity	Payment at each stage	Accumulated payment
(a) Upon the grant of Option to Purchase	5% (Booking fee)	5%
(b) Upon signing of the Sale & Purchase Agreement or within 8 weeks from the Option date	20% less booking fee	20%
(c) Completion of foundation work	10%	30%
(d) Completion of reinforced concrete framework of unit	10%	40%
(e) Completion of brick walls of unit	5%	45%
(f) Completion of roofing/ceiling of unit	5%	50%
(g) Completion of electrical wiring, internal plastering, plumbing and installation of door and window frames of unit	5%	55%
(h) Completion of car park, roads and drains serving the housing project	5%	60%
(i) Temporary Occupancy Permit	NA	60%
(j) Notice of Vacant Possession	NA	60%
(k) Within 14 days after Notice of Vacant Possession	25%	85%
(l) On Completion Date	15%	100%

4. Applying OT revenue recognition, Entity A should recognise the revenue progressively by reference to the stage of completion of the contract activity. This may be determined as the percentage of cost incurred to date relative to the total estimated cost of the developed property, taking into account estimated future costs to discharge all obligations (input method) or by reference to the stage of completion as assessed by a surveyor (output method). Progress payments claimed or made may not reflect the stage of completion of the contract activity and hence are not an appropriate determinant of revenue to be recognised.
5. Notwithstanding the above, at the point of receipt of the TOP, the developer would typically have substantially completed the construction of the property. There is generally little physical activity between the time of receipt of TOP and the issuance of Notice of Vacant Possession. Accordingly, it is generally appropriate to recognise 100% of the revenue and costs upon receipt of TOP.

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