MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 29 [2008]

Development of Affordable Housing

The issue:

What is the appropriate accounting treatment for losses incurred by property developers on the construction and sale of low-cost houses of a property development?

Fact Pattern

Many property developers are required by the authorities to build low-cost housing as one of the conditions of the approval of the master and building plan. In most cases, such property developers will incur losses on such low-cost houses.

Suggested Conclusion and Basis of Conclusion

View 1

Such losses on low-costs houses are costs that are necessarily incurred as a condition imposed by the authorities for the approval of the master and building plan. These costs should therefore be accounted for in a similar manner as that of common costs as described in FRS 201.20 where it states that "*Some of the property development costs ……. cannot be allocated but are nonetheless central to the project.*" In accordance with FRS 201.21, these costs may be allocated using relative sales value of the projects that benefited or are going to benefit from such costs, or other generally accepted methods.

View 2

The low-costs houses are considered as separate development project. Accordingly, all costs incurred are specifically identified and charged/capitalized to this separate development project, and any losses incurred should be accounted like any other 'normal' development projects in accordance with FRS 201. In accordance to FRS 201.24, property development costs should be allocated to individual development units. Therefore such losses incurred on low cost housing projects are not considered as common costs as defined under FRS 201.21 and hence should not be accounted for as such.

If the above entities' financial statements are to be prepared on a basis other than the going concern basis, what is this other basis and what should the accounting policies be.

Current accounting practice as observed by the Submitter:

Divergent practices by property developers. Both accounting treatments under View 1 and View 2 have been used by property developers in Malaysia.

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Reasons for the FRSIC to address the issue: To ensure consistency in application among property developers in Malaysia.
Submitter's proposal or recommendation to address the issue: None suggested.
Submitted on: 1 December 2008
Corresponding FRSIC Consensus: FRSIC Consensus 17 – *Development of Affordable Housing* [To view, click on the Consensus title]

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