



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

FRSIC Issue No. 61 [2016]
Provision for Common Infrastructure Cost

<p>The issue:</p> <p>The issue relates to the recognition of provision in relation to the legal obligations (i.e. required by the local authority) to build infrastructure or amenities (e.g. school, public hall, playground) for a property development projects in the financial statements of property development companies.</p>	
<p>Current accounting practice as observed by the Submitter:</p> <p>The submitter claimed that there are divergent in practice whereby some view that the obligation should be provided in full when the obligation cannot be avoided. Correspondingly the costs can be allocated to various development projects or phases that benefit from the costs. Others view that the amount of the provision should only be limited to the on-going or completed projects' share of the costs that need to be incurred. Application of the latter view results in a lower amount of liability recorded in the financial statements.</p> <p><i>To illustrate:</i></p> <p><i>A property development is divided into 10 projects where each project contributes 10% of the gross development value (GDV). The company has started the development for Project 1 and the other projects remain idle. The company is required by the local authority to build an interchange that would benefit the entire development project and the estimated cost is RM20 million.</i></p>	
View 1	View 2
<p>Provision to build common infrastructure have to be recognised in full.</p> <p>Accordingly, RM20 million (ignoring discounting) will be recognised in the financial statements of the company.</p> <p>The cost of RM20 million is thereafter allocated to each phase on a rational basis.</p>	<p>Provision to build common infrastructure should be limited to the on-going projects' share of the cost.</p> <p>Accordingly, only RM2 million (ignoring discounting) will be recognised in the financial statements of the company.</p>

Reasons for the FRSIC to address the issue:

FRSIC Consensus will provide guidance to ensure consistency of practices within property development industry.

Submitter's proposal or recommendation to address the issue:

None

Submitted on:

16 May 2016

Corresponding Guidance:

Ongoing