

May 2024

Corporate Reporting Supervision

# Financial Reporting Decision

Decision 1/2024



<b>Issuer</b>	Dalata Hotel Group plc
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2022
<b>Financial reporting framework</b>	IFRS-EU
<b>Applicable financial reporting standards</b>	IFRS 15 <i>Revenue from Contracts with Customers</i>
<b>Summary</b>	<p>This examination considered the requirements of IFRS 15 where the issuer sold residential units to a third party and recognised the proceeds from the sale as revenue. The costs of the residential units are presented in cost of sales and the profit from the sale is presented in operating profit.</p>
<b>Background</b>	<p>The issuer is a hotel operator which owns or leases and operates a portfolio of 50 hotels across Ireland, the UK and mainland Europe.</p> <p>IAASA performed an interactive focused examination of the issuer's annual financial statements for the year ended 31 December 2022.</p>
<b>Outline of financial reporting treatment applied by the issuer</b>	<p>In its 2022 financial statements, the issuer included the proceeds from the sale of residential units as revenue and as part of continuing operating activities. The costs related to the residential units were included in cost of sales. Both the proceeds and costs were disclosed as a note on the face of the Income Statement.</p> <p>The issuer described its primary activity as '<i>... the provision of hotel accommodation and the provision of food and beverage services</i>'.</p> <p>The issuer informed IAASA that the land on which the residential units had been developed was on the surplus grounds of the former Tara Towers Hotel. In November 2018, the issuer entered a forward sale with a third party and, at that point the land, ceased to meet the definition of property plant and equipment [paragraph 6(a)<sup>1</sup> of IAS 16 <i>Property, Plant and Equipment</i> refers] as it was no longer an asset held for use in the production or supply of goods.</p> <p>Since the asset no longer met the definition of IAS 16, it was necessary to reclassify it. As there is no IFRS that covers this specific type of transaction (i.e. the transaction to build and sell residential units to a third party where they had been developed in conjunction with a hotel for own use) the</p>

<sup>1</sup> IAS 16.6 states "Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) ..."

issuer looked to the hierarchy in paragraph 11(a)<sup>2</sup> of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to select the most relevant and reliable accounting policy.

The issuer considered 57(b)<sup>3</sup> of IAS 40 *Investment Property* which states that once “development with a view to sale” commences the asset should be reclassified from investment property to inventory. As the issuer disclosed the asset as inventory, by analogy they concluded that IFRS 15 would be the most appropriate Standard to be used for the forward sale of the residential units and the ultimate completion of that sale.

The issuer confirmed to IAASA that it had not undertaken similar residential development activity in the past and had no current plans for such activity. However, it indicated that it would engage in similar opportunities should they arise and where it makes commercial sense to do so and is intrinsically linked with its primary activity.

### **Outline of findings made by IAASA**

IFRS 15 defines ‘revenue’ as ‘*Income arising in the course of an entity’s ordinary activities*’ [IFRS 15, Appendix A].

IFRS 15.6 states that ‘*A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration*’.

IAASA concluded that, based on the specific facts and circumstances pertaining to the issuer, including that the ‘primary activities’ description in the annual report made no reference to residential development, and the fact this was the first time that the issuer had incorporated residential development into a hotel development project, the sale of residential units was not part of the ordinary activities of the issuer and, consequently, it did not meet the definition of revenue under IFRS 15. The transaction did not, in this instance, constitute part of the issuer’s ordinary activity and, therefore, required separate presentation within the consolidated statement of profit or loss and other comprehensive income.

IAASA did not challenge the measurement of income from residential development activities nor the cost of residential development activities. In addition, IAASA found that the extent of disclosures in the 2022 annual financial statements regarding the accounting treatment applied to the sale of the residential units was transparent.

### **Outline of corrective actions undertaken or to be undertaken**

Following engagement with the issuer, the issuer agreed to revise the accounting treatment for 31 December 2023 financial year end, presenting income and costs from the sale of residential units separately from revenue from ordinary activities.

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<sup>2</sup> IAS 8.11 states “In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements in IFRSs dealing with similar and related issues; and
- (b) ....”

<sup>3</sup> IAS 40.57(b) “An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. Examples of evidence of a change in use include:

- (a) ...
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;”

Following engagement with IAASA, the issuer provided voluntarily undertakings that future financial statements would:

- (a) amend the description of 'primary activities' in the directors' report, identifying some of the other activities that the issuer considers to be part of its ordinary activities, including those related to development activities, and
- (b) revise the presentation in the Income Statement, including the 2022 comparative amounts, to disclose '*Income from residential development activities*' and '*Cost of residential development activities*' separately from '*Revenue*' and '*Cost of Sales*'.

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