CRI'S INVESTIGATIVE REPORT:

How the New Revenue Recognition Standard Will Affect Real Estate

WHEN

For nonpublic entities, fiscal years that start after December 15, 2018. For public entities, the start date is December 15, 2017. Even though the standard isn't applicable until 2019, entities must also apply to 2018 upon adoption.

WHAT

Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, will replace current industry-specific guidance and will require all entities to use a five-step model to identify the contract and obligations, determine and allocate the transaction price, and recognize revenue when performance is satisfied.

1. Identify the contract
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

EFFECT OF THE NEW STANDARD

- One of the most pervasive accounting standards in a generation
- Could significantly change how real estate entities recognize, measure, and report revenues
- Will impact timing, presentation, and potentially the amount of revenues to be recognized
- Implementation will require substantial investment of time and resources

CRI CARR RIGGS & INGRAM
CPAs and Advisors
CRIcpa.com

WHAT TO ASK

The new revenue recognition standard presents unique challenges to real estate owners and investors. Because the core concept is to recognize revenue when control of the real estate passes to the buyer, revenue likely will be recognized sooner than under the previous guidance.

Before recognizing revenue, ask:

Have the seller and buyer established a legally enforceable contract?

→ A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. Contracts must contain approval and commitments of the parties, rights of the parties, payment terms, commercial substance and collectability.

Do multiple contracts need to be combined into one?

→ For example, entering into two or more contracts with the same customer at or near the same time might trigger a requirement to combine these contracts under the new revenue recognition guidance.

Has a performance obligation been satisfied?

→ Timing of revenue recognition is tricky in the real estate industry, where contracts often include many customized clauses and can take years to close. Under the new revenue recognition guidance, a performance obligation is satisfied either at a point in time (e.g., point-of-sale transactions) or over a period of time (e.g., service contracts).

Has the contract changed?

→ If so, then the contract modification *might* need to be accounted for as a separate contract. The new guidance says that if the change adds distinct goods or services and the new price reflects the value of those goods or services, then the contract modification should be accounted for as a new contract.

Is the buyer committed to perform his or her obligations under the contract? Is it probable the organization will collect all of the consideration to which it is entitled?

→ If the answer to *either* question is 'no,' then a contract does not exist, and revenue cannot be recognized.

WHO CAN HELP?

CRI is a leader in institutional and private equity real estate accounting services. We can help you understand and adopt this landmark accounting standard.

If your organization has yet to fully consider the impacts of this new standard, the time for action is now! **Contact us at realestate@CRIcpa.com to discuss how CRI can help you prepare for and adopt the new revenue recognition standard.**

CRI CARR RIGGS & INGRAM
CPAs and Advisors
CRIcpa.com