



51A Middle Street Newburyport MA 01950
Phone: 800-588-7039 Fax: 877-902-4284
contact@bhfe.com www.bhfe.com

Course Information

Course Title: Real Estate Accounting: A Practitioner's Guide #364024

Number of continuing education credit hours recommended for this course:

In accordance with the standards of the National Registry of CPE Sponsors CPE credits have been granted based on a 50-minute hour.

CPA: 9 (Accepted in all states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy (for ethics): 002146

Ohio State Board of Accountancy: CPE .51 PSR

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

Course Description

The real estate professional needs to be aware of the accounting rules for real estate, in order to avoid adverse reporting outcomes. *Real Estate Accounting* covers the accounting rules for every type of real estate transaction, which can be used to structure real estate deals appropriately. The course covers the accounting for real estate sales, property exchanges, and time-share intervals. It also reveals the related financial statement presentations and accompanying disclosures. In addition, it describes the accounting related to the rental of property, and investments in real estate ventures. In short, this course is the go-to reference for discerning the proper accounting treatment for a real estate transaction.

Course Content

Publication/Revision date: 9/6/2024.

Author: Steven M. Bragg, CPA.

Final exam (online): Forty-five questions (multiple-choice).

Program Delivery Method: NASBA QAS Self-Study (interactive)

Subject Codes/Field of Study

NASBA (CPA): Accounting

Course Level, Prerequisites, and Advance Preparation Requirements

Program level: Overview

Prerequisites: None

Advance Preparation: None

Instructions for Taking This Course

- Log in to your secure account at www.bhfe.com. Go to "My Account."
- You must complete this course within one year of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From "My Account," Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- Complete the course by following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- Once you have completed studying the course and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Online Exam

- Log in to your secure account at www.bhfe.com. Go to "My Account."
- A passing grade of at least 70% is required on the exam for this course.
- You will have three attempts to pass the exam (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- For a printed copy of the exam questions, open the exam and press "Print Exam."

Learning Objectives

- Recognize the underlying principles of accounting, the nature of the accounting cycle, and the types of organizations that can be used to engage in real estate transactions.
- Specify the types of project costs, as well as when and how to capitalize interest on a real estate project.
- Identify the steps involved in accounting for an acquired income-producing property, as well as the process flow for goodwill impairment testing. Also, recognize the alternative treatment of amortizing goodwill, and the circumstances under which it can be used.
- Specify the steps in the five-step revenue recognition process.
- Identify the options available for valuing exchanged property, and the use of boot in calculating profits.
- Identify the characteristics of time-share arrangements, as well as the factors to consider when evaluating the sufficiency of the bad debt allowance.
- Identify the main characteristics of lease accounting as it pertains to rental arrangements.
- Recognize the nature of contingent rent agreements, lease incentives, and leasehold improvements, and the accounting for them.
- Specify the fiduciary role played by a property manager, as well as the accounting issues faced by this person.
- Specify the criteria for recognizing asset retirement obligations, as well as the rules for calculating these obligations. Also, identify the criteria for recognizing environmental obligations.
- Identify the calculation requirements for the equity method of accounting, as well as the origin of the costs used in the cost method, and the treatment of investor loans to a venture.
- Recognize the types of entities that can be classified as common interest realty associations, as well as the accounting for special assessments.

About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written more than 300 books and courses, including *New Controller Guidebook*, *GAAP Guidebook*, and *Payroll Management*. He has also written the science fiction novel *Under an Autumn Sun*, first book in *The Auditors* trilogy.

Copyright © 2024 by AccountingTools, Inc. All rights reserved.

Published by AccountingTools, Inc., Centennial, Colorado.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to Steven M. Bragg, 6727 E. Fremont Place, Centennial, CO 80112.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Table of Contents

| | |
|--|-----------|
| Chapter 1 - Introduction to Accounting | 1 |
| Financial Accounting Basics | 1 |
| Accounting Frameworks..... | 2 |
| The Accounting Cycle | 3 |
| Accounting Transactions | 4 |
| Types of Transaction Cycles | 4 |
| Source Documents | 5 |
| Double Entry Accounting..... | 5 |
| The Accounting Equation..... | 6 |
| Journal Entries | 8 |
| The Ledger Concept | 9 |
| Posting to the General Ledger | 10 |
| General Ledger Overview..... | 10 |
| The Accruals Concept | 11 |
| The Realization Concept..... | 12 |
| Accrual Basis of Accounting..... | 13 |
| Cash Basis of Accounting..... | 13 |
| Real Estate Financial Statements..... | 14 |
| Real Estate Entities | 17 |
| Sole Proprietorship | 17 |
| Partnership..... | 18 |
| Corporation..... | 19 |
| Limited Liability Company | 21 |
| Real Estate Investment Trust..... | 21 |
| Tiered Partnerships | 22 |
| The Following Chapters | 22 |
| Chapter 2 - Initial Real Estate Costs..... | 24 |
| Relevant Accounting Sources..... | 24 |
| Capitalization..... | 24 |
| Real Estate Preacquisition Costs | 25 |
| Treatment of Preacquisition Costs..... | 25 |
| Operating and Non-Operating Classifications | 26 |
| Internally-Generated Preacquisition Costs | 26 |
| Real Estate Project Costs..... | 26 |
| Real Estate Taxes and Property Insurance..... | 27 |
| Real Estate Interest Costs | 27 |
| Assets for Which You Must Capitalize Interest | 28 |
| Assets for Which You Do Not Capitalize Interest..... | 28 |
| The Interest Capitalization Period | 28 |
| The Capitalization Rate | 30 |
| Calculating Interest Capitalization..... | 31 |
| Impact of Financing on Property Purchase Price..... | 33 |
| Costs Allocated to Real Estate Projects | 33 |
| Real Estate Donated to the Government..... | 34 |
| Changes in Estimates..... | 35 |
| Changes in Expected Use | 35 |
| Project Abandonment | 35 |
| Real Estate Selling Costs..... | 35 |
| Capitalized Selling Costs..... | 35 |
| Capitalized Advertising Costs | 36 |
| Selling Costs Charged to Expense..... | 37 |
| Real Estate Rental Costs..... | 37 |

| | |
|--|-----------|
| Real Estate Incidental Operations..... | 37 |
| Initial Rental Operations..... | 38 |
| Real Estate Amenities..... | 38 |
| Startup Costs..... | 39 |
| Presentation and Disclosure Topics..... | 39 |
| Classifications within the Statement of Cash Flows..... | 39 |
| Public Company Disclosures..... | 39 |
| Capitalized Interest Disclosures..... | 40 |
| Imputed Interest Disclosures..... | 41 |
| Chapter 3 - Purchase of Income-Producing Property..... | 43 |
| Relevant Accounting Sources..... | 43 |
| Overview of Business Combinations..... | 43 |
| Identifiable Assets and Liabilities, and Noncontrolling Interests..... | 45 |
| Goodwill or Gain from Bargain Purchase..... | 46 |
| Goodwill Calculation..... | 46 |
| Bargain Purchase..... | 47 |
| Purchase of Assets..... | 48 |
| Amortization of Intangibles..... | 49 |
| Goodwill..... | 49 |
| Goodwill Amortization..... | 52 |
| Presentation and Disclosure Topics..... | 52 |
| General Disclosures..... | 53 |
| Identifiable Assets and Liabilities, and any Noncontrolling Interest..... | 53 |
| Goodwill or Gain from Bargain Purchase..... | 54 |
| Goodwill Disclosures..... | 54 |
| Chapter 4 - Real Estate Sales..... | 57 |
| Relevant Accounting Sources..... | 57 |
| Replacement of the Accounting Standards..... | 57 |
| Step One: Link Contract to Customer..... | 57 |
| Step Two: Note Performance Obligations..... | 58 |
| Step Three: Determine Prices..... | 58 |
| Step Four: Allocate Prices to Obligations..... | 58 |
| Step Five: Recognize Revenue..... | 59 |
| Revenue Recognition for New Condominiums..... | 59 |
| Derecognition of Real Estate Project Costs..... | 60 |
| Real Estate Held-for-Sale..... | 60 |
| Chapter 5 - Nonmonetary Exchanges..... | 63 |
| Relevant Accounting Sources..... | 63 |
| Overview of Nonmonetary Transactions..... | 63 |
| Exchanges Involving Monetary Consideration..... | 65 |
| Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest..... | 68 |
| Spin-off Transactions..... | 68 |
| Like-Kind Exchanges..... | 68 |
| Presentation and Disclosure Topics..... | 69 |
| Chapter 6 - Time-Sharing Activities..... | 72 |
| Relevant Accounting Sources..... | 72 |
| Time-Share Characteristics..... | 72 |
| Cost Recognition..... | 73 |
| Additional Time-Share Transactions..... | 77 |
| Additional Products and Services..... | 77 |
| Effects of Below-Market Financing..... | 78 |
| Estimating Uncollectable Receivables..... | 78 |
| Debt Restructurings..... | 79 |
| Deferral of Rental Costs..... | 80 |
| Payments by Seller to Support Operations..... | 80 |

| | |
|--|------------|
| Holding Period..... | 80 |
| Impairment | 80 |
| Accounting Changes and Error Corrections | 81 |
| Presentation and Disclosure Topics..... | 81 |
| Chapter 7 - Rent Topics | 84 |
| Relevant Accounting Sources..... | 84 |
| Types of Leases | 84 |
| The Lease Term..... | 85 |
| Types of Leases for Accounting Treatment..... | 85 |
| Asset and Liability Recognition (Lessee)..... | 86 |
| Initial Measurement..... | 87 |
| Short-Term Leases..... | 87 |
| Finance Leases..... | 87 |
| Operating Leases | 88 |
| Optional Lease Payments | 89 |
| Right-of-Use Asset Impairment..... | 89 |
| Subleases | 90 |
| Derecognition | 90 |
| Lease Recognition Topics (Lessor) | 90 |
| Direct Financing Leases | 90 |
| Operating Leases | 91 |
| Variable Lease Payments..... | 92 |
| Lease Modifications | 92 |
| Lessee Impact | 92 |
| Lessor Impact | 94 |
| Contingent Rent..... | 96 |
| Lease Incentives | 96 |
| Leasehold Improvements..... | 97 |
| Prepaid Rent | 97 |
| Straight-Line Rent | 98 |
| Operating Expense Issues..... | 99 |
| Sale and Leaseback Transactions | 100 |
| Chapter 8 – Property Management | 104 |
| The Fiduciary Nature of Property Management | 104 |
| Sample Entries..... | 105 |
| Receipt of Rental Payment | 105 |
| Receipt of Security Deposit..... | 106 |
| Withholding from Security Deposit..... | 107 |
| Receipt of Property Reserve Payment | 107 |
| Deferred Rent Payments..... | 108 |
| Prepaid Rent | 108 |
| Contingent Rent..... | 109 |
| Applying Prepaid Rent | 109 |
| Management Fee Payments | 109 |
| Payments to Property Owners | 110 |
| Property Management Financial Reports | 110 |
| Chapter 9 - Asset Retirement and Environmental Obligations..... | 114 |
| Relevant Accounting Sources..... | 114 |
| Overview of Asset Retirement Obligations | 114 |
| The Initial Measurement of an Asset Retirement Obligation | 115 |
| Subsequent Measurement of an Asset Retirement Obligation..... | 116 |
| Settlement of an Asset Retirement Obligation..... | 117 |
| Overview of Environmental Obligations..... | 118 |
| Measurement of Environmental Obligations | 120 |
| Recoveries Related to Environmental Obligations..... | 122 |

| | |
|--|------------|
| Presentation and Disclosure Topics | 122 |
| Asset Retirement Obligations | 122 |
| Environmental Obligations | 123 |
| Chapter 10 - Real Estate Ventures | 126 |
| Relevant Accounting Sources | 126 |
| Accounting for an Interest in a Real Estate Venture | 126 |
| Consolidations | 127 |
| Consolidation Examples | 129 |
| Recognition of Noncontrolling Interest | 129 |
| Sale of Shares by Subsidiary | 129 |
| Share of Accumulated Other Comprehensive Income | 130 |
| Full Consolidation Example | 131 |
| Equity Method of Accounting | 132 |
| Cost Method | 135 |
| Changing Methods | 136 |
| Transactions with a Real Estate Venture | 136 |
| Contributions | 136 |
| Loans | 137 |
| Purchase of Real Estate from a Venture | 137 |
| Sale of an Investment in a Real Estate Venture | 137 |
| Real Estate Syndication | 137 |
| Syndication Activities | 138 |
| Syndicator Risks and Rewards | 138 |
| Income Recognition by Syndicators | 138 |
| Acquisition, Development, and Construction Arrangements | 140 |
| Participating Mortgage Loans | 141 |
| Real Estate Investment Trusts | 142 |
| Presentation and Disclosure Topics | 143 |
| Chapter 11 - Housing Associations | 146 |
| Common Interest Realty Associations | 146 |
| CIRA Liability Accounting | 147 |
| Refundable Security Deposits | 147 |
| Assessments Received in Advance | 147 |
| Property Tax Liabilities | 147 |
| Debt Accounting | 148 |
| CIRA Expenses | 148 |
| Expenses Charged Against Assessments | 148 |
| Property Insurance | 148 |
| Cost Allocations to Ancillary Operations | 148 |
| Reserve Study Expenditures | 148 |
| Management Fees | 149 |
| Timeshare Expenses | 149 |
| Security Expenses | 149 |
| Issues Specific to Cooperative Housing Associations | 149 |
| Presentation and Disclosure Topics | 149 |
| Common Interest Realty Association Presentation Requirements | 149 |
| Common Interest Realty Association Disclosures | 150 |
| Cooperative Housing Association Presentation Requirements | 152 |
| Cooperative Housing Corporation Disclosures | 152 |
| Answers to Chapter Questions | 154 |
| Glossary | 164 |
| Index | 168 |

Preface

There are many kinds of real estate transactions, each of which must be accounted for in its own unique way. These events include the sale of time-share intervals, the purchase of income-producing property, the construction of a new facility using debt financing, property swaps, and the sale of land. *Real Estate Accounting* shows how to properly account for each of these transactions and many more, as well as how to disclose them in one's financial statements.

The book is divided into two sections. In Chapters 1 through 4, we focus on the main real estate activities of building or buying property, followed by its sale to a third party. In Chapters 5 through 11, we deal with more specialized topics. These topics include nonmonetary exchanges, time-sharing activities, rental transactions, property management, asset retirement obligations, real estate ventures, and housing associations.

You can find the answers to many questions about real estate accounting in the following chapters, including:

- Which preacquisition costs can I capitalize?
- How do I capitalize the cost of interest into a real estate project?
- Do I recognize goodwill when buying an income-producing property?
- What are the criteria for recognizing revenue?
- How do I account for an exchange of property?
- What types of leases can be offered to a prospective tenant?
- What accounting entries would a property manager use?
- How do I account for asset retirement obligations?
- How does an investor account for an interest in a real estate venture?

Real Estate Accounting is designed primarily for professionals, who can use it as a reference tool for determining the most appropriate accounting treatment of different real estate transactions.

Centennial, Colorado
September 2024