



51A Middle Street Newburyport MA 01950  
Phone: 800-588-7039 Fax: 877-902-4284  
[contact@bhfe.com](mailto:contact@bhfe.com) [www.bhfe.com](http://www.bhfe.com)

## Course Information

---

**Course Title:** Real Estate Accounting: A Practitioner's Guide #3640

**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: 10** (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

**Course Description**

This course describes the accounting to be used for all types of real estate transactions, such as retail land sales, real estate sales, property exchanges, and the sale of time-share intervals. It also reveals the related financial statement presentations and accompanying disclosures. In addition, the course describes the accounting related to the rental of property, and investments in real estate ventures.

**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

**Course Content**

Publication/Revision date: 6/25/2015.

Author: Steven M. Bragg, CPA.

Final exam (online): Fifty questions (multiple-choice).

### **Instructions for taking this course**

In order to receive CPE credit for this course, you must complete the course within one year of the date of purchase. This includes achieving a passing grade of at least 70% on the final exam. Exams may be retaken if not passed on the first attempt (no charge).

Complete the course by following the learning assignments and objectives listed below and studying the review questions after each major section in the text. Once you have completed each learning assignment and you are confident that the learning objectives have been met, answer the final exam questions (online).

### **Instructions for Taking the Final Exam Online**

- Login to your account online at [www.bhfe.com](http://www.bhfe.com).
- Go to "My Account" and view your courses.
- Select "Take Exam" for this course and follow instructions.

**Have a question?** Call us at 800-588-7039 or email us at [contact@bhfe.com](mailto:contact@bhfe.com).

## 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.
- Note 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.
- Note the criteria for determining a buyer's commitment to pay, and the types of income recognition methods that can be used.
- Recognize the nature of a retail land sale, the manner in which income recognition methods can be applied to these sales, and the calculation of the net sales figure associated with a retail land sale.
- 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 calculation of sale prices and the criteria for recognizing a time-share sale.
- Recognize the nature of contingent rent agreements, lease incentives, and leasehold improvements, and the accounting for them.
- Note 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 the following books and courses:

Accountants' Guidebook	Fixed Asset Accounting
Accounting Controls Guidebook	GAAP Guidebook
Accounting for Derivatives and Hedges	Hospitality Accounting
Accounting for Inventory	Human Resources Guidebook
Accounting for Investments	IFRS Guidebook
Accounting for Managers	Interpretation of Financial Statements
Accounting Procedures Guidebook	Inventory Management
Bookkeeping Guidebook	Investor Relations Guidebook
Budgeting	Lean Accounting Guidebook
Business Combinations and Consolidations	Mergers & Acquisitions
Business Ratios	New Controller Guidebook
CFO Guidebook	Nonprofit Accounting
Closing the Books	Payables Management
Constraint Management	Payroll Management
Corporate Cash Management	Project Accounting
Corporate Finance	Public Company Accounting
Cost Accounting Fundamentals	Purchasing Guidebook
Cost Management Guidebook	Real Estate Accounting
Credit & Collection Guidebook	Revenue Recognition
Financial Analysis	

# Table of Contents

---

<b>Chapter 1 - Introduction to Accounting .....</b>	<b>1</b>
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 .....	12
Cash Basis of Accounting.....	13
Real Estate Entities .....	14
Sole Proprietorship .....	14
Partnership .....	15
Corporation.....	16
Limited Liability Company .....	17
The Following Chapters .....	17
<b>Chapter 2 - Initial Real Estate Costs.....</b>	<b>20</b>
Relevant Accounting Sources.....	20
Capitalization.....	20
Real Estate Preacquisition Costs .....	21
Treatment of Preacquisition Costs .....	21
Operating and Non-Operating Classifications .....	22
Internally-Generated Preacquisition Costs .....	22
Real Estate Project Costs.....	22
Real Estate Taxes and Property Insurance.....	23
Real Estate Interest Costs .....	23
Assets for Which You Must Capitalize Interest .....	24
Assets for Which You Do Not Capitalize Interest.....	24
The Interest Capitalization Period .....	24
The Capitalization Rate .....	26
Calculating Interest Capitalization.....	27
Impact of Financing on Property Purchase Price.....	28
Costs Allocated to Real Estate Projects.....	29
Real Estate Donated to the Government.....	30
Changes in Estimates .....	30
Changes in Expected Use .....	30
Project Abandonment .....	31
Real Estate Selling Costs.....	31
Capitalized Selling Costs.....	31
Capitalized Advertising Costs .....	31
Selling Costs Charged to Expense .....	32
Real Estate Rental Costs.....	32
Real Estate Incidental Operations.....	33

Initial Rental Operations.....	33
Real Estate Amenities.....	34
Startup Costs.....	34
Presentation and Disclosure Topics.....	35
Classifications within the Statement of Cash Flows.....	35
Public Company Disclosures.....	35
Capitalized Interest Disclosures.....	36
Imputed Interest Disclosures.....	36
<b>Chapter 3 - Purchase of Income-Producing Property.....</b>	<b>39</b>
Relevant Accounting Sources.....	39
Overview of Business Combinations.....	39
Identifiable Assets and Liabilities, and Noncontrolling Interests.....	41
Goodwill or Gain from Bargain Purchase.....	42
Goodwill Calculation.....	42
Bargain Purchase.....	43
Purchase of Assets.....	44
Amortization of Intangibles.....	44
Goodwill.....	45
Goodwill Amortization.....	47
Presentation and Disclosure Topics.....	48
General Disclosures.....	48
Identifiable Assets and Liabilities, and any Noncontrolling Interest.....	49
Goodwill or Gain from Bargain Purchase.....	50
Goodwill Disclosures.....	50
<b>Chapter 4 - Real Estate Sales.....</b>	<b>53</b>
Relevant Accounting Sources.....	53
Replacement of the Accounting Standards.....	53
Step One: Link Contract to Customer.....	54
Step Two: Note Performance Obligations.....	54
Step Three: Determine Prices.....	54
Step Four: Allocate Prices to Obligations.....	55
Step Five: Recognize Revenue.....	55
What Constitutes a Real Estate Sale?.....	55
Full Accrual Method Revenue Recognition.....	56
Buyer's Commitment to Pay.....	57
Profit Recognition Not Using the Full Accrual Method.....	59
Sale is Not Completed.....	59
Buyer's Initial Investment Does Not Qualify.....	60
Buyer's Continuing Investment Does Not Qualify.....	60
Receivable is Subject to Future Subordination.....	60
Continuing Seller Involvement.....	60
Decision Tree for Use of Methods.....	63
Revenue and Profit Recognition Methods.....	63
Installment Method.....	64
Cost Recovery Method.....	65
Reduced-Profit Method.....	66
Percentage-of-Completion Method.....	67
Deposit Method.....	67
Financing Method.....	68
Leasing Method.....	69
Profit-Sharing Method.....	69
Real Estate Project Recoverability.....	69
Derecognition of Real Estate Project Costs.....	70
Real Estate Held-for-Sale.....	70
Presentation and Disclosure Topics.....	72

<b>Chapter 5 - Retail Land Sales</b> .....	<b>74</b>
Relevant Accounting Sources.....	74
Retail Land .....	74
Full Accrual Method.....	75
Percentage-of-Completion Method.....	77
Installment Method.....	79
Deposit Method .....	80
Presentation and Disclosure Topics.....	81
<b>Chapter 6 - Nonmonetary Exchanges</b> .....	<b>84</b>
Relevant Accounting Sources.....	84
Overview of Nonmonetary Transactions.....	84
Exchanges Involving Monetary Consideration.....	86
Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest .....	88
Spin-off Transactions .....	89
Like-Kind Exchanges .....	89
Presentation and Disclosure Topics.....	90
<b>Chapter 7 - Time-Sharing Activities</b> .....	<b>92</b>
Relevant Accounting Sources.....	92
Time-Share Characteristics.....	92
Criteria for Revenue Recognition.....	93
Buyer's Initial Investment .....	93
Buyer's Continuing Investment.....	94
Sales Value .....	94
Revenue Recognition Methods.....	96
Full Accrual Method.....	96
Percentage-of-Completion Method.....	96
Deposit Method .....	96
Cost Recognition .....	96
Additional Time-Share Transactions .....	100
Additional Products and Services .....	100
Treatment of Selling Costs .....	101
Effects of Below-Market Financing .....	102
Estimating Uncollectible Receivables .....	102
Debt Restructurings .....	103
Deferral of Rental Costs .....	103
Upgrade Transactions .....	104
Reload Transactions .....	104
Payments by Seller to Support Operations .....	104
Management Services.....	105
Operation of Affinity Programs.....	105
Holding Period.....	105
Impairment .....	105
Accounting Changes and Error Corrections .....	106
Special-Purpose Entities .....	106
Assumptions and Sales of Debt .....	107
Leases .....	107
Presentation and Disclosure Topics.....	107
<b>Chapter 8 - Rent Topics</b> .....	<b>110</b>
Relevant Accounting Sources.....	110
Types of Leases .....	110
Contingent Rent.....	111
Lease Incentives .....	111
Leasehold Improvements.....	111
Prepaid Rent .....	112
Straight-Line Rent .....	113

Operating Expense Issues .....	114
Sub-Leases .....	115
Presentation and Disclosure Topics .....	115
<b>Chapter 9 - Asset Retirement and Environmental Obligations .....</b>	<b>118</b>
Relevant Accounting Sources .....	118
Overview of Asset Retirement Obligations .....	118
The Initial Measurement of an Asset Retirement Obligation .....	119
Subsequent Measurement of an Asset Retirement Obligation .....	120
Settlement of an Asset Retirement Obligation .....	121
Overview of Environmental Obligations .....	122
Measurement of Environmental Obligations .....	124
Recoveries Related to Environmental Obligations .....	125
Presentation and Disclosure Topics .....	125
Asset Retirement Obligations .....	125
Environmental Obligations .....	126
<b>Chapter 10 - Real Estate Ventures .....</b>	<b>129</b>
Relevant Accounting Sources .....	129
Accounting for an Interest in a Real Estate Venture .....	129
Consolidations .....	130
Consolidation Examples .....	132
Recognition of Noncontrolling Interest .....	132
Sale of Shares by Subsidiary .....	132
Share of Accumulated Other Comprehensive Income .....	133
Full Consolidation Example .....	133
Equity Method of Accounting .....	135
Cost Method .....	138
Changing Methods .....	138
Transactions with a Real Estate Venture .....	139
Contributions .....	139
Loans .....	139
Purchase of Real Estate from a Venture .....	139
Sale of an Investment in a Real Estate Venture .....	140
Real Estate Syndication .....	140
Syndication Activities .....	140
Syndicator Risks and Rewards .....	140
Income Recognition by Syndicators .....	141
Acquisition, Development, and Construction Arrangements .....	142
Participating Mortgage Loans .....	143
Real Estate Investment Trusts .....	145
Presentation and Disclosure Topics .....	145
<b>Chapter 11 - Housing Associations .....</b>	<b>148</b>
Common Interest Realty Associations .....	148
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
<b>Answers to Chapter Questions .....</b>	<b>154</b>
<b>Glossary .....</b>	<b>165</b>
<b>Index .....</b>	<b>169</b>

# 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 6, we focus on the main real estate activities of building or buying property, followed by its sale to a third party. In Chapters 7 through 11, we deal with more specialized topics. These topics include time-sharing activities, rental transactions, 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 using the different income recognition methods?
- How do I account for an exchange of property?
- How do I account for the sale of a time-share interval?
- What types of leases can be offered to a prospective tenant?
- 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  
June 2015