

## **Revenue recognition of real estate sales**

G.A.N.R. Chaturanga & M.A.T.K. Munasinghe

chaturanganr@gmail.com, amila@kln.ac.lk

### **Introduction**

This case study was produced as an outcome of internship program which is a partial fulfillment of the Bachelor of Business Management degree program of department of accountancy of University of Kelaniya. Study refers to ABC Residencies (Private) limited operating as a limited liability company incorporated in Sri Lanka whose principle activities are construction and development of Real Estate.

### **Discussion of the Issue**

The company is selling individual apartments while construction is still in progress and buyers enter into a binding sale agreement that gives them the right to acquire a specified unit when it is ready for occupation. At the time of entering into sale agreement, buyers have to pay Rs.600, 000 as booking fee. After that buyers pay a deposit (25% of sale value) that is refundable only if the company fails to deliver the completed unit in accordance with the contracted terms. Buyers are also required to make progress payments between the time of the initial agreement and contraction completion. Further, buyers are able to specify only minor variations to the basic design but they cannot alter major structural elements of the design of their unit according to the agreement.

Conflict is arisen since the company recognizes upfront revenue at the time of receiving 25% of sale value before risk & rewards are transferred to buyer. On the other hand according to the agreement with the customer, this arrangement does not come under construction contracts since it is not an undertaking for a construction contract.

### **Conclusions and Recommendations**

According to the evaluation, transferring risk and rewards to buyer is on a continuous basis and this is supported by rendering of service agreement (according to LKAS 18 Revenue) entered by company with their customers. Further according to IFRIC 15 Agreements for the Construction of Real Estate, this is not a construction since buyers cannot make major structural changes to apartments while building is in progress. They can only make minor changes.

Based on the analyzed information, it is suggested to record as sales of goods within the scope of LKAS 18, since buyer has only limited ability to influence the design the real state and entity may transfer to the buyer control and the risk and rewards of the ownership of the real state in its entirety at a single time.