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Financial Accounting Series

Statement of Financial Accounting Standards No. 152

Accounting for Real Estate Time-Sharing Transactions

an amendment of FASB Statements No. 66 and 67

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement amends FASB Statement No. 66, *Accounting for Sales of Real Estate,* to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-Sharing Transactions.* This Statement also amends FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects,* to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2005.

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INTRODUCTION

1. FASB Statements No. 66, *Accounting for Sales of Real Estate,* and No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects,* were issued in 1982 as part of the process of extracting specialized accounting and reporting principles and practices from AICPA Statements of Position (SOPs) and AICPA Industry Accounting Guides (Guides) and issuing them in FASB Statements after appropriate due process. Statement 66 established the financial accounting and reporting standards for sales of real estate. Statement 67 established the financial accounting and reporting standards for the acquisition, development, construction, selling, rental costs, and initial operations of real estate projects. In its deliberations of Statement 66, the Board acknowledged that sales of time-sharing interests were not addressed in the SOPs and Guides. The Board concluded that the sales of real estate time-sharing interests should be accounted for as sales of real estate using the other-than-retail-land-sales model and that further guidance should not be provided at that time.

2. In the years following the issuance of Statements 66 and 67, changes in the methods used by the real estate time-sharing industry to offer its products resulted in divergent accounting practices including practices associated with revenue recognition, recording of credit losses, and the treatment of selling costs. In response, the AICPA's Accounting Standards Executive Committee developed SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions,* which applies to all real estate time-sharing transactions. This Statement amends Statements 66 and 67 in association with the issuance of SOP 04-2.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendments to Existing Pronouncements

3. FASB Statement No. 66, *Accounting for Sales of Real Estate,* is amended as follows (added text is underlined):

a. Paragraph 2:

> Although this Statement applies to all sales of real estate, many of the extensive provisions were developed over several years to deal with complex transactions that are frequently encountered in enterprises that specialize in real estate transactions. The decision trees in Appendix F highlight the major provisions of the Statement and will help a user of the Statement identify criteria that determine when and how profit is recognized. Those using this Statement to determine the accounting for relatively simple real estate sales transactions will need to apply only limited portions of the Statement. The general requirements for recognizing all of the profit on a nonretail land sale at the date of sale are set forth in paragraphs 3–5 and are highlighted on the first decision tree. Paragraphs 6–18 elaborate on those general provisions. Paragraphs 19–43 provide more detailed guidance for a variety of more complex transactions. Real estate time-sharing transactions should be accounted for as nonretail land sales. AICPA SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions,* provides additional guidance on the accounting for real estate time-sharing transactions.

4. FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects,* is amended as follows:

a. Paragraph 2:

> This Statement does not apply to:
>
> a. Real estate developed by an enterprise for use in its own operations,[1] other than for sale or rental.
> b. "Initial direct costs" of sales-type, operating, and other types of leases, which are defined in FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* The accounting for initial direct costs is prescribed in FASB Statement No. 13, *Accounting for Leases,* as amended by Statement 91 and FASB Statement No. 98, *Accounting for Leases: Sale-Leaseback*

Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases.

c. Costs directly related to manufacturing, merchandising, or service activities as distinguished from real estate activities.

Paragraphs 20–23 of this Statement do not apply to real estate rental activity in which the predominant rental period is less than one month. Paragraphs 10 and 17–19 of this Statement do not apply to real estate time-sharing transactions. AICPA Statement of Position 04-2, *Accounting for Real Estate Time-Sharing Transactions,* provides guidance on the accounting for those transactions.

EFFECTIVE DATE AND TRANSITION

5. This Statement shall be effective for financial statements for fiscal years beginning after June 15, 2005. Restatement of previously issued financial statements is not permitted.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Gary S. Schieneman
Katherine Schipper
Leslie F. Seidman
Edward W. Trott

Appendix

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement.

A2. FASB Statements No. 66, *Accounting for Sales of Real Estate,* and No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects,* were issued in 1982. Statement 66 adopted the specialized profit recognition principles in the AICPA Industry Accounting Guides, *Accounting for Profit Recognition on Sales of Real Estate,* and *Accounting for Retail Land Sales;* and AICPA Statements of Position (SOPs) 75-6, *Questions Concerning Profit Recognition on Sales of Real Estate,* and 78-4, *Application of the Deposit, Installment, and Cost Recovery Methods in Accounting for Sales of Real Estate.* Statement 67 adopted the specialized principles and practices in AICPA SOPs 80-3, *Accounting for Real Estate Acquisition, Development, and Construction Costs,* and 78-3, *Accounting for Costs to Sell and Rent, and Initial Rental Operations of, Real Estate Projects,* and the AICPA Industry Accounting Guide, *Accounting for Retail Land Sales,* that address the costs of real estate projects. In its deliberations of Statement 66, the Board acknowledged that sales of real estate time-sharing interests were not addressed in the AICPA SOPs and Guides. The Board concluded that sales of real estate time-sharing interests should be accounted for as sales of real estate using the other-than-retail-land-sales model and that further guidance should not be provided at that time.

A3. In the years following the issuance of Statements 66 and 67, changes in the methods used by the real estate time-sharing industry to offer its products resulted in divergent accounting practices including practices associated with revenue recognition, recording of credit losses, and the treatment of selling costs. In response, the Accounting Standards Executive Committee (AcSEC) developed SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions,* which applies to all real estate time-sharing transactions. AcSEC requested that the Board amend Statements 66 and 67 to accommodate the issuance of SOP 04-2, which provides accounting and reporting guidance that differs from the guidance in those Statements.

A4. In February 2003, the Board issued an Exposure Draft, *Accounting for Real Estate Time-Sharing Transactions,* for a 60-day comment period. After the exposure period, the Board concluded that the final SOP should not include revenue recognition guidance for real estate time-sharing transactions. The Board considered a number of factors in arriving at its conclusion including (a) changes to the revenue recognition practices that have occurred since AcSEC originally added this project to its agenda, (b) the Board's revenue recognition project and the potential for requiring preparers to change their revenue recognition practices twice in a short time frame, and (c) the "rules-based" nature of the revenue recognition requirements in the proposed SOP. As a result of the Board's conclusion, SOP 04-2 does not change the revenue recognition guidance in Statement 66 for real estate time-sharing transactions and, accordingly, this Statement does not amend the guidance in Statement 66. However, the Board agreed to amend Statement 66 to include a reference to the guidance in SOP 04-2 for real estate time-sharing transactions. This amendment does not change the financial accounting and reporting standards in Statement 66 for real estate time-sharing transactions.

A5. The Board concluded that it should amend Statement 67 to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects (paragraphs 10 and 17–19 of Statement 67, respectively) does not apply to real estate time-sharing transactions.

A6. The Board concluded that SOP 04-2 would result in an improvement in the accounting and reporting of real estate time-sharing transactions and that, accordingly, it should make the amendments to Statements 66 and 67. The Board believes that there is a need for the guidance and that the benefits will exceed the cost of implementation.