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# 1. Project-wise accounting in real estate

This requires maintaining separate, independent books, cost centers, and RERA-compliant bank accounts for each project to ensure accurate cost allocation, inventory valuation, and revenue recognition. Revenue is typically recognized using the Percentage of Completion Method (POCM) when a project reaches a minimum of 25% construction, has 25% area sold, and 10% payment is received.

**Key Components of Project-Wise Accounting:**

- Project Definition: Clearly define each project, phase, or tower to ensure accurate cost allocation (land, development, borrowing costs).
- Cost Accumulation: Capitalize all direct costs (land, construction, planning) and allocated overheads for each project until completion.
- Revenue Recognition (POCM):
    - Construction-type Contracts: Revenue is recognized based on the percentage of project completion.
    - Conditions for Recognition: Minimum 25% construction cost incurred, 25% area sold, and 10% of revenue realized.
- Inventory Management: Unsold units are recorded as inventory (work-in-progress or finished goods).
- RERA Compliance: Separate bank accounts for each project are mandatory; 70% of funds collected must be kept for land and construction costs.
- Taxation (India Context): If transaction value is <90% of stamp duty value, the stamp duty value is deemed the consideration.

**Steps for Project-Wise Accounting:**

1. Set up Cost Centres: Create unique codes for each project in accounting software.
2. Capture Costs: Record site-specific expenses (e.g., permits, contractors) directly to the project.
3. Allocate Common Costs: Distribute costs like central office overheads based on a reasonable formula.
4. Recognize Revenue: Calculate progress via cost-to-cost method and recognize revenue based on completed units.
5. Financial Reporting: Generate separate Profit & Loss statements for each project to track profitability.

# 2. Financial reporting under the Company's Act for Real Estate projects under AS 7

Under the Companies Act, 2013, financial reporting for real estate projects follows a hybrid application of AS 7 (Construction Contracts) and AS 9 (Revenue Recognition), as clarified by the ICAI Guidance Note on Accounting for Real Estate Transactions.

**1. Applicability of AS 7**

- Direct Application: AS 7 is mandatory for contractors who build assets for others under specific construction contracts.
- Indirect Application: For real estate developers (who build and sell units), the revised AS 7 does not apply directly.
- Guidance Note Link: However, if a developer's project has the "economic substance" of a construction contract (e.g., long-term projects with interdependent units), the ICAI Guidance Note mandates using AS 7 principles for revenue recognition.

**2. Revenue Recognition Method**

- Percentage of Completion Method (POCM): Real estate projects that meet specific criteria must recognize revenue based on the stage of completion, as defined in AS 7.
- Thresholds for POCM: Revenue can only be recognized if:
  - Total project revenue and costs can be reliably measured.
  - At least 25% of the total estimated construction and development costs(excluding land) have been incurred.
  - At least 25% of the saleable project area is secured by legally binding agreements.
  - At least 10% of the total revenue per agreement is actually realized (collected).

**3. Key Reporting Requirements**

- Project Costs: Must include land costs, development rights, and direct construction costs. Borrowing costs are capitalized per AS 16.
- Foreseeable Losses: Any expected loss on a project must be recognized immediately and in full as an expense, regardless of the stage of completion.
- Work-in-Progress (WIP): Costs incurred that relate to future activity are recognized as an asset (Project WIP) if recovery is probable.

**4. Mandatory Disclosures**

- The amount of contract revenue recognized during the period.

- The methods used to determine revenue and the stage of project completion.
- For ongoing projects: aggregate costs incurred, profits recognized, advances received, and retention amounts.

# 3. Financial reporting under the Company's Act for Real Estate projects under Ind AS 115

Under the Companies Act, 2013, real estate companies meeting the specified net worth or listing criteria must follow Ind AS 115 (Revenue from Contracts with Customers). Effective from April 1, 2018, Ind AS 115 replaced Ind AS 11 and Ind AS 18, fundamentally shifting revenue recognition from the "Percentage of Completion Method" (POCM) to a "Control-based" model.

**1. The Core 5-Step Model**

Revenue is recognized by applying five sequential steps:

1. Identify the contract with the customer (must have commercial substance and enforceable rights).
2. Identify performance obligations (distinct promises to transfer goods or services).
3. Determine the transaction price (consider variable components like discounts or penalties).
4. Allocate the price to each performance obligation based on standalone selling prices.
5. Recognize revenue when (or as) the entity satisfies a performance obligation by transferring control.

**2. Revenue Recognition: "Over Time" vs. "Point in Time"**

The biggest change for real estate is the stricter criteria for recognizing revenue during construction.

- Recognition "Over Time" (POCM): Permitted only if the developer meets specific criteria under Para 35:
  - The asset created has no alternative use to the developer (e.g., specific unit sold) AND
  - The developer has an enforceable right to payment for performance completed to date (including a reasonable profit margin) if the contract is terminated for reasons other than the developer's failure.
- Recognition at a "Point in Time": If the above criteria are not met, revenue can only be recognized when physical possession or legal title (control) is transferred to the buyer, typically at project completion.

**3. Key Financial Reporting Impacts**

- Contract Assets & Liabilities: Replaces traditional "Unbilled Revenue" and "Advance from Customers." A Contract Asset is recognized when work is done but payment is conditional; a Contract Liability is recognized when money is received before work is performed.
- Significant Financing Component: If the timing of payments provides a significant benefit of financing to either party (e.g., large upfront advance or delayed payment), the transaction price must be adjusted for the time value of money.

- Transition Adjustments: Companies usually adopt the Modified Retrospective Approach, where the cumulative effect of shifting from POCM to project completion is adjusted against opening Retained Earnings rather than restating previous years.

**4. Mandatory Disclosures**

Ind AS 115 requires extensive qualitative and quantitative disclosures to provide transparency:

- Disaggregation of Revenue: Revenue broken down by geography, market, or contract duration.
- Contract Balances: Opening and closing balances of contract assets, liabilities, and receivables.
- Unsatisfied Performance Obligations: The aggregate amount of the transaction price allocated to remaining work and when it is expected to be recognized.
- Significant Judgments: Explanations of methods used (e.g., cost-to-cost input method) and why they faithfully depict the transfer of control.

# 4. Deep Insights and Use Cases of Ind AS 115 for Real Estate Transactions

**Background**

Indian Accounting Standards (Ind AS) to real estate transactions presents unique challenges that go beyond conventional accounting practices. As a key driver of economic activity, employment, and infrastructure development, accounting for real estate transactions involves unique considerations that set it apart from revenue recognition practices in other industries. The complexity and diversity of real estate arrangements - ranging from long-term construction contracts to multiple-element sale agreements - require tailored approaches for recognition, measurement, and disclosure, making real estate accounting particularly nuanced under Ind AS. The key aspects of accounting for real estate companies in India under Ind AS, focuses on two crucial areas:

a. Practical challenges in assessment of the point of transfer of control for revenue recognition at a point in time.
b. Assessment and quantification of significant financing component in the transaction price.

**Key application challenges in revenue recognition**

As per Ind AS 115, Revenue from Contracts with Customers, an entity is required to evaluate whether control of a promised good or service transfers to the customer at a point in time or over time. Control is considered to have transferred when the customer obtains the ability to direct the use of and obtain substantially all the remaining benefits from the asset. While in case of sale of goods, it may be easy to define the point of transfer of control based on the terms of the underlying arrangement, in the case of real estate sector, judgement is required to determine the point of transfer of control. Accordingly, such evaluation requires consideration of the facts and circumstances of each case.

While it may seem that the only performance obligation in a real estate contract is to develop and deliver the real estate unit, there are many factors to be considered, given that transfer of a real estate unit is not necessarily straightforward as delivery of manufactured goods. This has also a lot to do with the statutory regulations of the state in which the project is being developed and Real Estate Regulation Act (RERA) related requirements.

Another important aspect to note is that while the developer may have satisfied the performance obligations as per the contract, the rights of the customer to cancel the contract are equally important to consider. If a customer has the right to cancel the contract at any time before the acceptance of possession of the real estate unit without any significant penalty, the developer may be able to recognise revenue only when the final possession is handed over to the customer.

A typical real estate contract comprises of multiple milestones from booking to handover. The below illustration shows the journey:

1. Initial project approvals and launch
2. Customer walk-in
3. Expression of interest/ application
4. Agreement signing
5. Milestone based construction
6. Application of receipt of occupancy certificate
7. Intimation of possession
8. Final payment
9. Hand Over

The most straightforward situation for revenue recognition is where the real estate unit is sold to the customer after receipt of the Occupancy Certificate (OC) for such unit. The developer may recognise revenue at the point in time when the real estate unit is handed over to the customer. This typically takes place once the customer has accepted possession and has made full and final payment in accordance with the terms of the real estate contract.

However, there are other complexities in determining the timing of transfer of control which are considered in the following situations where revenue recognition may vary depending on contractual terms, regulatory requirements, and practical considerations.

**Use Case 1:** Unit of account for revenue recognition – individual real estate unit vs combined tower-based approach

In high-rise developments, construction and regulatory approvals often occur at the tower level, even though contracts are signed per unit. This creates a unique challenge in aligning revenue recognition with the actual transfer of control. While real estate developers in India typically enter into separate contracts for each real estate unit with customers, construction and OC often occur at tower level. The OCs are also received either for an entire tower or partially, based on combination of certain flats.

Despite issuing a common possession notice for all units in a tower, revenue recognition must be assessed individually for each unit based on its specific contract. For example, if a tower with 100 flats receives an OC, and the developer issues a common communication to all the customers of the flats in that tower, the developer cannot recognise revenue solely based on this one communication. Instead, the developer must assess the revenue recognition criteria based on whether the performance obligations under each customer's agreement has been satisfied.

**Use Case 2:** General criteria for transfer of control based on intimation of possession

Under RERA, developers are required to mandatorily obtain an OC from the municipal corporation, confirming the unit is fit for occupation. Post this the developer is formally required to intimate the customer that the residential unit is ready for possession and invite the customer to come and accept the possession of the property, subject to final payment. In this situation, the developer's performance obligation could be considered fulfilled once the OC has been received and the customer has been formally notified that the real estate unit is ready for possession. It is pertinent to note that often, residential unit sales are bundled with amenities such as recreational facilities, roads, lobbies, etc.

In such cases, the developer must assess whether the contract treats these amenities as separate performance obligations. If so, and a distinct portion of the transaction price is allocated, revenue should be recognised only when access is provided. The value these amenities provide to the customer also plays a role in this assessment. Recreational amenities may be viewed as separate obligations, whereas common infrastructure elements like roads, lobbies, and pavements are generally considered integral to the residential unit. These are typically not treated as separate obligations.

**Use Case 3:** Impact of delays in payment/possession

Generally, if the terms of the contract prohibit the customer from cancelling the agreement after possession intimation, then the developer may consider recognising revenue. However in case the customer is delayed in making final payment/taking possession, it is also important for the developer to assess the reasons behind such delay. In some instances, there may be genuine challenges such as the customer being abroad or facing administrative hurdles like sale deed registration. However, there may also be strategic reasons, such as negotiating a price reduction or expressing dissatisfaction with the unit's quality, seeking discounts, etc.

In such situations, the developer should exercise judgement and evaluate whether there is a reasonable certainty that the customer will accept possession at the agreed transaction price before recognising revenue. Administrative delays or absence from the country may suggest a likely acceptance and support recognition. Conversely, intentional delays driven by dissatisfaction or negotiations for costs may warrant caution in revenue recognition.

**Use Case 4:** Nature of agreement

In certain Indian states, a real estate transaction involves two agreements - an initial agreement, entered into at the start of the transaction and second - sale deed, which is signed at the end when the real estate unit is handed over and legally registered in the name of the customer. The statutory transfer of title and payment of stamp duty is generally established at the time of registration of sale deed.

Developers may face a scenario where the OC is received and full payment is made by the customer, but sale deed registration is delayed due to administrative formalities. In certain situations, the developers may grant access to the property (referred to as a soft possession) allowing the customer to occupy the unit.

Where the customer has physical access and enjoys substantially all benefits of the property, all performance obligations are completed, and the contract prohibits cancellation, the developer may exercise judgement to recognise revenue at the point of soft possession - despite the pending administrative title transfer.

**Use Case 5:** Plotted Development

In certain rare scenarios, the time gap between receiving the OC and handing over the residential unit to the customer is minimal. In such cases, if it is evident that the developer has fulfilled all performance obligations under the contract, revenue may be recognised when the OC is received.

This approach is particularly relevant in real estate transactions involving plotted developments, where primary deliverable is the land parcel itself - often accompanied by basic infrastructure. Since these projects typically involve limited construction activities, the issuance of the OC generally indicates that the developer's responsibilities are substantially complete. In these cases, generally contract prohibits cancellation post receipt of OC. Therefore, when possession is imminent and there is no material uncertainty regarding the customer's acceptance, recognising revenue upon receipt of the OC can be considered appropriate and aligned with the principles of revenue recognition under applicable accounting standards.

**Use Case 6:** Significant financing component

While the section above highlights the complexities in determining the point of revenue recognition based on control transfer and contractual obligations, another critical dimension in real estate accounting is the timing of payments - specifically, the impact of advance collections and deferred delivery, which brings into focus the concept of a significant financing component under Ind AS 115.

Real estate contracts typically span 1.5 to 4 years, with customer payments linked to construction milestones. Although developers receive payments throughout the construction period, the core performance obligation of handover of the unit is fulfilled only upon completion. This creates a time gap between the receipt of payments and the transfer of control.

In accordance with Ind AS 115, when a contract includes a significant financing component, the revenue must be adjusted to reflect the time value of money. However, this adjustment is not required when the practical expedient under Ind AS 115 is applied - specifically, when at the start of the contract, the developer anticipates that the time between transferring control of the unit and receiving payment will not exceed one year.

Since developers often receive payments well in advance of transferring control, this financing benefit must be considered in revenue recognition. According to paragraph 61 of Ind AS 115, the developer is required to adjust the transaction price for any significant financing component by comparing the promised consideration with the cash selling price of the goods or services.

Paragraph 61 of Ind AS 115 also requires developers to consider the combined effect of expected time gap between payment and transfer of control, and the prevailing market interest rate. In practice, developers often recover around 30 per cent of the consideration at the time of agreement registration, another 45 per cent upon laying foundation, and the remaining amount in phases as construction progresses. This results in a substantial time gap between payment and delivery, effectively providing the developer with a financing benefit. Even if not explicitly stated in the contract, this benefit should be accounted for using the developer's market borrowing rate as a reference.

**Use Case 7:** Subvention schemes

Real estate developers frequently introduce subvention schemes as a strategic tool to reduce the financial burden on homebuyers during the construction phase of residential or commercial projects. These schemes are typically structured as tripartite agreements involving the buyer, the developer, and a financial institution (such as a bank or housing finance company).

Under these schemes, the developer bears the interest cost associated with the customers' borrowing for a specified period. In such situations developers are required to determine whether such subvention should be treated as a discount or incentive offered to the customer, or does it represent an interest expense to be borne by the developers.

# 5. Internal control systems for compliance and monitoring for Builders and Developer

For builders and developers, internal control systems are formal frameworks of policies and procedures designed to safeguard assets, ensure accurate financial reporting, and maintain compliance with complex industry regulations like RERA.

**Core Components of Internal Control**

An effective system for construction and development typically includes five interrelated components:

- **Control Environment:** Setting an organizational "tone at the top" that prioritizes ethics, accountability, and regulatory adherence.
- **Risk Assessment:** Systematically identifying and evaluating project-specific risks, such as financial volatility, safety hazards, and changing government policies.
- **Control Activities:** Implementing specific safeguards like segregation of duties (ensuring no single person handles both billing and cash receipts) and formal approval workflows.
- **Information & Communication:** Using centralized systems to ensure timely, accurate data flows between project sites and the head office.
- **Monitoring:** Continuous oversight through internal audits and real-time dashboards to detect and rectify control failures.

**Specific Controls for Developers**

Given the high-risk nature of the industry, developers focus on several key areas:

- **Financial & RERA Compliance**
  - Escrow Account Management: Ensuring 70% of project collections are deposited into a separate project-specific account as required by RERA.
  - Regular Reconciliations: Performing monthly bank reconciliations and job-specific cost tracking to prevent over/under billing.
- **Project Site Monitoring**
  - Material Control: Strict record maintenance for the receipt and issue of materials to prevent theft or waste.
  - Asset Safeguarding: Installing security cameras and using sign-in/sign-out systems to monitor labor hours and physical site security.
- **Vendor & Subcontractor Governance**
  - Three-Way Match: Verifying that purchase orders, vendor invoices, and proof of service all align before issuing payment.
  - Bidding Oversight: Independently reviewing bid packages and checking the financial fitness of subcontractors during prequalification.

**Technology and Automation**

Modern developers use Enterprise Resource Planning (ERP) systems to automate these controls:

- Digital Approval Chains: Electronic routing for transaction reviews, providing a clear audit trail for every decision.

- Automated Alerts: Real-time notifications for expiring permits, upcoming regulatory filings, or budget variances.
- Centralized Repositories: Secure storage of blueprints, contracts, and compliance certificates with version control.

# 6. Accounting of transactions in the books of the Land Owners and Recognition of Revenue

In the books of a Land Owner (typically under a Joint Development Agreement or JDA), the accounting for transactions and revenue recognition depends on the applicable accounting framework—AS (Accounting Standards) or Ind AS (Indian Accounting Standards)—and the specific model of the agreement.

1. **Recognition of Revenue**

Revenue for a Land Owner is generally recognized when the right to receive consideration becomes reasonably certain. The timing depends on whether the owner receives constructed area or a share of sales proceeds.

- **Area Sharing Model**: Revenue is typically recognized when the developer hands over the completed units or control of the constructed area to the Land Owner.
- **Revenue Sharing Model**: Revenue is recognized as and when the developer sells the units to end customers and the Land Owner becomes entitled to their agreed share of the sales proceeds.
- **Ind AS 115 Framework**: Revenue is recognized when (or as) performance obligations are satisfied by transferring control of the asset to the customer. For many real estate JDAs, this often happens at a point in time (upon delivery) rather than over time, unless specific criteria for "control over time" are met.

**2. Accounting Treatment in Books of Land Owner**

The classification and subsequent accounting entries depend on the intent for holding the land.

- **Initial Classification:**
  - Property, Plant & Equipment (PPE): If the owner intends to use the constructed space for their own business.
  - Investment Property: If the intent is to earn rentals or capital appreciation.
  - Inventory/Stock-in-Trade: If the land is held for sale in the ordinary course of business.
- **Accounting under AS:**
  - Land Retention: The land typically continues to be recognized as a fixed asset since legal ownership often remains with the owner during development.
  - Exchange Transaction: When the constructed area is received, it is treated as an exchange. The land transferred (or development rights) is derecognized, and the new asset (flats/units) is recognized.
- **Accounting under Ind AS:**
  - Exchange of Assets: Under Ind AS 38, the exchange of development rights for constructed area is measured at fair value.
  - Derecognition: The Land Owner derecognizes the portion of land (or development rights) given up and recognizes the value of the constructed area received as an asset.

**3. Key Accounting Considerations**

| Feature | AS (Accounting Standards) | Ind AS (Indian Accounting Standards) |
|---|---|---|
| Measurement | Historical cost of land is often maintained. | Fair value measurement for exchange of rights. |
| Asset Held for Sale | Measured at lower of cost or net realizable value (AS 10). | Measured at lower of cost or fair value less costs to sell (Ind AS 105). |
| TDS Implications | TDS @ 10% is deductible on any monetary consideration paid by the developer (Sec 194-IC). | Same tax implications apply. |

# 7. Role of CA as independent financial monitor for real estate companies

As an independent financial monitor, a Chartered Accountant (CA) acts as a critical intermediary between developers, homebuyers, and regulatory bodies to ensure financial discipline and transparency. This role is most prominent under frameworks like India's Real Estate (Regulation and Development) Act (RERA), where their oversight is a legal mandate.

**Core Responsibilities of a CA Monitor**

- **Fund Utilization Oversight:**
  - CAs certify that at least 70% of project funds are maintained in a dedicated bank account.
  - They ensure withdrawals are made only in proportion to the percentage of project completion.
- **Mandatory Certification:**
  - Form 3 (Promoter Certificate): Required for project registration to verify land, construction, and development costs.
  - Withdrawal Certification: Developers cannot withdraw project funds without a CA certificate confirming the funds match the stage of construction.
- **Annual Financial Auditing:**
  - CAs must audit project accounts annually to verify that money collected from buyers is used solely for that specific project.
  - They must submit these audited statements to regulatory authorities (e.g., K-RERA Form 7) to ensure transparency.
- **Compliance & Risk Mitigation:**
  - Identify and report deviations from RERA rules, circulars, or orders.
  - Reconcile project values across books of accounts, GST returns, and income tax filings.
  - Conduct due diligence to verify the financial health and liability status of developers for potential investors.
- **Independent Representation:**
  - They can legally represent developers or homebuyers before appellate tribunals and regulatory authorities in case of disputes.

- To maintain independence, a CA providing project certification generally cannot perform the audit for the same project.

**Key Monitoring Functions**

| Function | Description |
|---|---|
| Budget Monitoring | Tracking actual vs. estimated costs for land and construction. |
| Cash Flow Control | Managing inflow from sales and outflow for project-related expenses. |
| Internal Controls | Establishing procedures to prevent fraud and financial mismanagement. |
| Tax Oversight | Ensuring correct TDS, GST, and property tax compliance to avoid legal penalties. |