

**Comments of the Institute of Chartered Accountants of India on the Exposure Draft on  
'Revenue from Contracts with Customers' in the context of real estate contracts**

We are glad to respond to the Exposure Draft on '*Revenue from Contracts with Customers*'. Our comments are in the context of real estate in respect of sale of flats in a multi-unit apartment block. Our comments are based on the inputs obtained from various real estate developers and experts keeping in view the legal environment prevailing in the Indian jurisdiction.

**1. Paragraph 35(b)(iii)**

We understand that criterion stated in paragraph 35(b) (ii) is not applicable to real estate entities as it is mainly for service providers such as a shipping company.

Paragraph 35(b)(iii) states that the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised.

In India, where, in respect of a contract for a residential flat, a customer has already made some payments and is required to make further payments on ongoing basis as the construction progresses, if a customer defaults in making subsequent payments, the entity has a right to forfeit the payments made till the date of default. In such cases, the entity has a right to sell the property under construction to any other customer. While applying the criterion specified in 35(b)(iii), a question may arise that if the value of the performance completed to date is more than the forfeited payments, whether the entity is entitled to recover the differential amount from the customer in-default. In India, generally, the entity can sell the flat to another customer at the same terms or the better terms, as the entity operates in sellers' market and the entity may not attempt to recover the aforesaid amount from the customer who has defaulted, and may recover only damages and interest on the defaulted payment. Although, such conditions are not mentioned in the agreement, but this practice is followed in real estate sector. It would thus appear that in such a situation, the entity may not be able to recognise revenue on ongoing basis, say, on the percentage of completion basis, in view of the clarification provided in BC 101 that in using the term 'right to payment' the Boards mean a payment that is intended to compensate an entity for its performance completed to date rather than, for example, payment for a deposit or to compensate the entity for inconvenience or loss of profit. In our view, in situations also, it should be possible to recognise revenue on ongoing basis as the entity would ordinarily go on to the complete the performance albeit with a different customer. Accordingly, the term 'right to payment' should be clarified appropriately.

**Example 7** illustrates the requirements in paragraph 35 and 36. The example mentions that the entity's (seller's) consent is not necessary, if a customer sells his interest to any other party.

In this context, it may be mentioned that in India, ordinarily, a seller gives his consent because it operates in the sellers' market.

To our understanding, in such cases, it appears that although the sellers' consent is necessary, revenue can still be recognised by following the percentage of completion method. It may be clarified whether our understanding is correct.

### **Undivided share of land**

In case of certain real estate contracts for construction of condominium or flats, the divided or undivided share of land is also transferred either by way of separate contract or a part of the composite contract. In our view, though there may be an agreement for transfer of divided or undivided share of land, in-substance the customer does not get control over the land transferred as the portion of land is not distinctly identifiable from that belonging to other customers. In other words, the sale of land is not separable from the sale of the flat. Accordingly, for the purpose of the standard, these cannot be treated as separate performance obligations and should meet the requirements of paragraph 29. It may be clarified whether our understanding is correct.