

**NATIONAL POLICY No. 5**  
**RECOGNITION OF PROFITS IN REAL ESTATE TRANSACTIONS**

Due to lack of uniformity in applying accounting principles to real estate transactions, the administrator (Commission) considered the problem and concluded to adopt the following guidelines

The presence of one or a combination of the following factors may raise a question of the propriety of current recognition of profit.

- 1 Evidence of financial weakness of the purchaser;
- 2 Substantial uncertainty as to amount of costs and expenses to be incurred;
- 3 Substantial uncertainty as to amount of proceeds to be realized because of form of consideration or method of settlement, e.g., non-recourse notes, non-interest bearing notes, purchaser's stock, and notes with optional settlement provisions all of undeterminable value;
- 4 Retention of effective control of the property by the seller;
- 5 Limitations and restrictions on the purchaser's profits and on the development or disposition of the property;
- 6 Simultaneous sale and repurchase by the same or affiliated interests;
- 7 Concurrent loans to purchasers;
- 8 Small or no down payment;
- 9 Simultaneous sale and leaseback of property.

The administrator (Commission) has concluded that the recognition of income from sales of land for development should be at the date when all material requirements of the vendor under or related to the sales agreement have been met. These may include one or more of the following:

- (a) Registration of a plan of subdivision;
- (b) Availability of building permits;
- (c) Letting of a contract for land servicing (installation of roads, sewers, water-mains, etc.) and including the obtaining of a performance bond if required by the municipality;
- (d) Interest on the buyer's obligation must have commenced to accrue at a reasonable interest rate (not less than bank rate);
- (e) Balance of purchase price must be payable with some reasonable relationship to the progress of the development;
- (f) An amount of at least 15% of the sale price must have been received in cash and the buyer is a responsible and established organization.