

ISSUES IN MAHA RERA VIS-À-VIS IND-AS



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KEY INGREDIENTS OF MAHA - RERA

RERA SNAPSHOT

Registration with Authority

Deposit 70% received from allottees in separate bank account

Withdrawal on POC basis

Website updation on timely basis

Advertisement to prominently mention website address

Alteration in project – approval of 2/3 allottees

Enable formation of Association or Society

Accept more than 10% of the cost of the apartment after entering into written agreement for sale

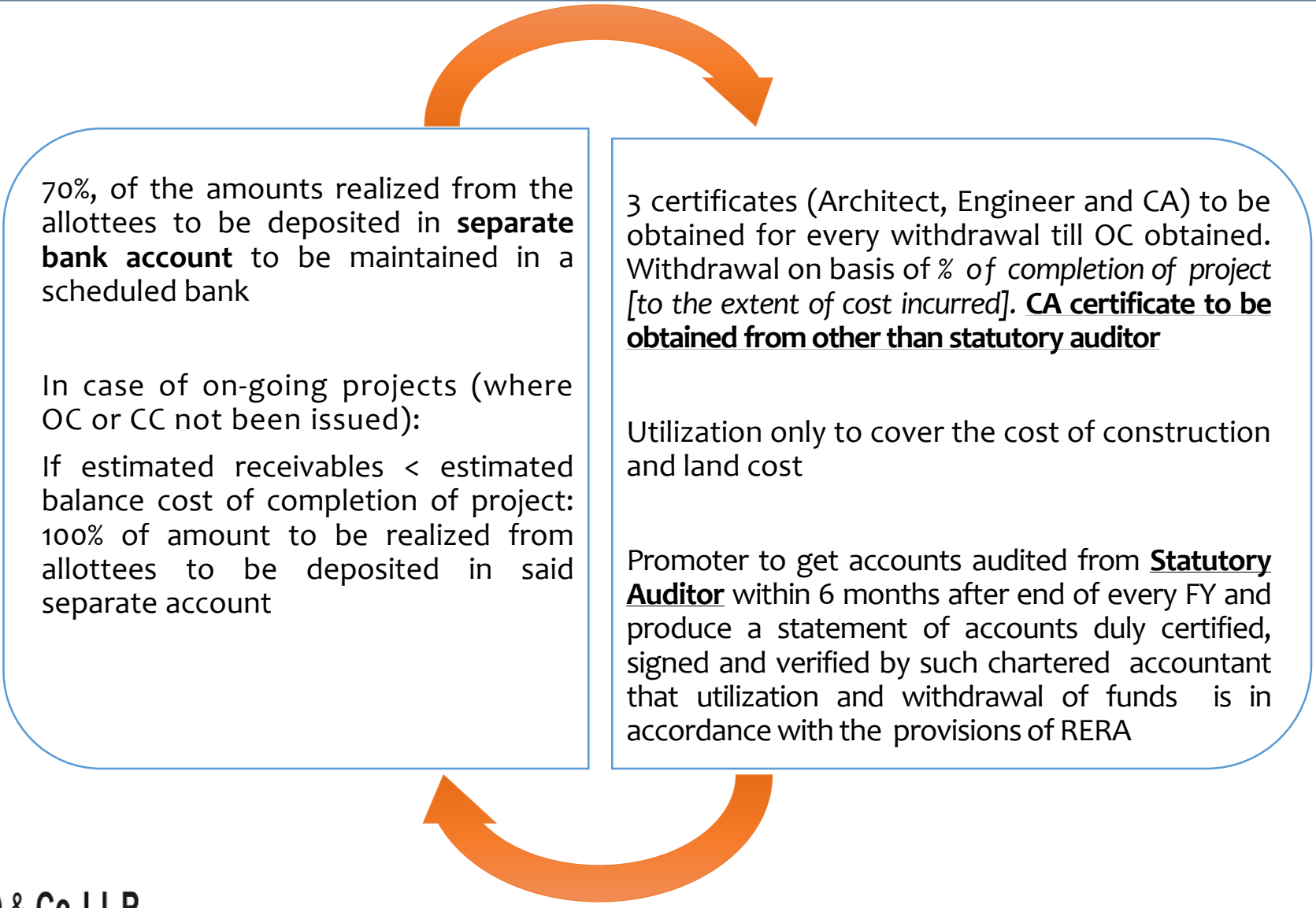
Project accounts -Audit

Obtain insurances

Transfer / assignment of majority rights & liabilities to third party - Prior written consent of 2/3rd allottees & written approval of authority

Rectify structural defects arising within 5 years from date of handing over possession

FINANCIAL ASPECTS UNDER RERA



70%, of the amounts realized from the allottees to be deposited in **separate bank account** to be maintained in a scheduled bank

In case of on-going projects (where OC or CC not been issued):

If estimated receivables < estimated balance cost of completion of project: 100% of amount to be realized from allottees to be deposited in said separate account

3 certificates (Architect, Engineer and CA) to be obtained for every withdrawal till OC obtained. Withdrawal on basis of % of completion of project [to the extent of cost incurred]. **CA certificate to be obtained from other than statutory auditor**

Utilization only to cover the cost of construction and land cost

Promoter to get accounts audited from **Statutory Auditor** within 6 months after end of every FY and produce a statement of accounts duly certified, signed and verified by such chartered accountant that utilization and withdrawal of funds is in accordance with the provisions of RERA

COST CALCULATION FOR WITHDRAWAL OF FUNDS

LAND COST includes

- ❑ Costs incurred by Promoter for acquisition of ownership and title of land parcels, its lease charges, overhead, marketing, legal, supervision cost
- ❑ Premium payable to obtain development or redevelopment rights
- ❑ Amount paid for acquisition of TDR
- ❑ Premium for grant of FSI, additional / fungible FSI, etc.,
- ❑ Consideration payable to outgoing developer to relinquish ownership and title rights over such land parcels
- ❑ Amounts payable to State/ Central Government/ Competent Authority, etc. towards Stamp Duty, Transfer charges, Registration fees etc
- ❑ Rehab building construction cost
- ❑ Cost of Clearance of land/ cost of removal of occupants/ Transit accommodation in case of Rehabilitation Scheme
- ❑ ASR linked premiums payable for obtaining right for redevelopment of lands owned by Public Authorities

CONSTRUCTION COST includes

- ❑ Costs incurred by Developer towards on-site and off-site expenditure
- ❑ Payment of Taxes, Fees, Charges, Premiums, Interest etc. to any Competent/ Statutory authority of State/ Central Government
- ❑ Interest, paid or payable to any Financial institutions/ Banks/ NBFCs,/ Money-lenders for construction

Exclusions

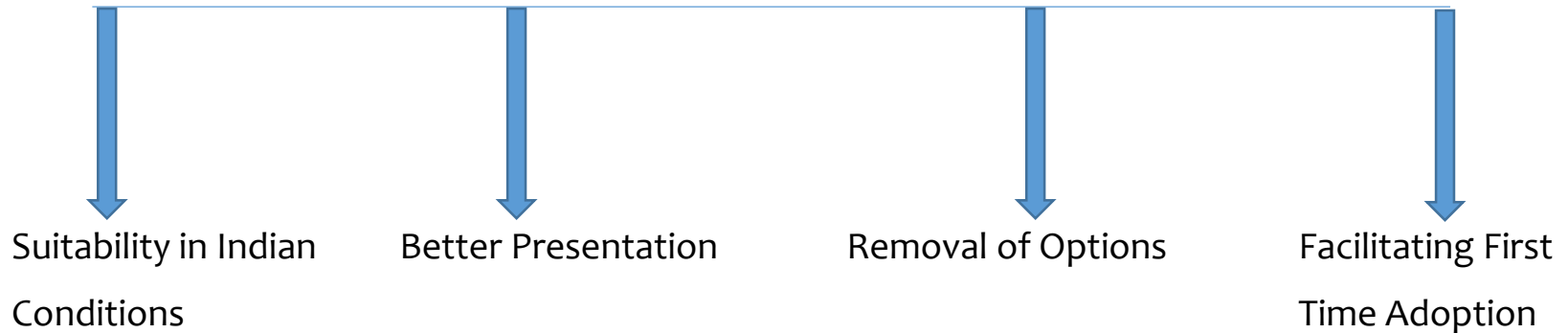
- ❑ Sum which promoter has raised and incurred by way of loan obtained from banks, NBFCs or money-lenders, for purchase of land or obtaining development rights over such land
- ❑ Sales/ marketing Costs, payment to brokers/ real estate agents



IND-AS

BRIEF MEANING OF IND AS

IFRS – Carve Outs = IND AS



* Convergence is NOT adopting IFRS verbatim.

APPLICABILITY OF IND AS

Phase I

- All companies with the Net worth of Rs 500 crores or more either as on 31.03.2014, 2015 or 2016 have mandatorily adopted Ind AS for the financial year commenced from April 1, 2016 under Phase 1.

Phase II

- From April 1, 2017.
- All companies listed or in the process of getting listed.
- Interim reporting is applicable to listed Companies from quarter ending 30.06.2017.
- Unlisted Companies having Net worth of Rs. 250 crores but less than Rs. 500 crores either as on 31.03.2014, 2015, 2016 or 2017.

NBFCs

- Phase I : All NBFCs having Net worth of Rs. 500 crores or more from Apr 1, 2018.
- Phase II : All listed NBFCs.
- Unlisted NBFCs having Net worth of Rs 250 crores but less than Rs 500 crores from Apr 1, 2019.

Note:

1. **Parent, Subsidiary, Associates and Joint Ventures of the above to adopt Ind AS as applicable.**
2. All companies with Net Worth of Rs. 250 crores or more as on 31st Mar, 18 or thereafter, shall adopt Ind AS from the immediate next financial year.
3. In case of Banks and Insurance companies, applicable from April 1, 2018.
4. Once adopted, the companies are required to follow for all the subsequent years.
5. Voluntary adoption is permissible except for Bank, Insurance and NBFC.
6. Ind AS is not applicable to the Companies listed or in process of listing in SME Exchange.

GN - Real Estate Transactions (IND AS)

- Guidance Note (GN) on Accounting of Real Estate Transactions (for entities to whom IND AS is applicable) issued by ICAI.
- IND AS – 18 “Revenue” states that the real estate developers are required to follow IND AS GN on Real Estate Transactions. Hence, indirectly this GN is mandatory in nature as compared to other GN which are recommendatory in nature.
- Recommends the accounting treatment by entities dealing in ‘Real Estate’ as sellers or developers.
- Components of Various Costs related to a developer are defined in the GN.
- Application of Percentage of Completion Method.
- GN prescribes the circumstances when principles of IND AS 18 (in respect of sale of goods for recognizing revenue, costs and profits) will become applicable for transactions of real estate which are in substance similar to delivery of goods **vis-à-vis** Percentage Completion Method for transactions and activities of real estate which have the same economic substance as construction contracts.
- Sale and Purchase of Transferable Development Rights (TDR’s).
- Project revenues measured at Fair Value of consideration received or receivable.

ISSUES

SCOPE / TRANSACTIONS COVERED

Transactions covered under IND-AS but not regulated by RERA

- Sale of plots of land (including lease of land on finance lease under Ind AS 17, Leases) without any development.
- Acquisition, utilization and transfer of development rights.

PROJECT

- **IND AS**

Project is the smallest group of units/plots/saleable spaces which are linked with a common set of amenities in such a manner that unless the common amenities are made available and functional, these units/ plots/ saleable spaces cannot be put to their intended effective use. A larger venture can be split into smaller projects if the basic conditions as set out above are fulfilled. For example, a project may comprise a cluster of towers or each tower can also be designated as a project. Similarly, a complete township can be a project or it can be broken down into smaller projects.

- **RERA**

Real estate project to be developed in phases, every such phase shall be considered a stand alone real estate project and separate registration can be obtained.

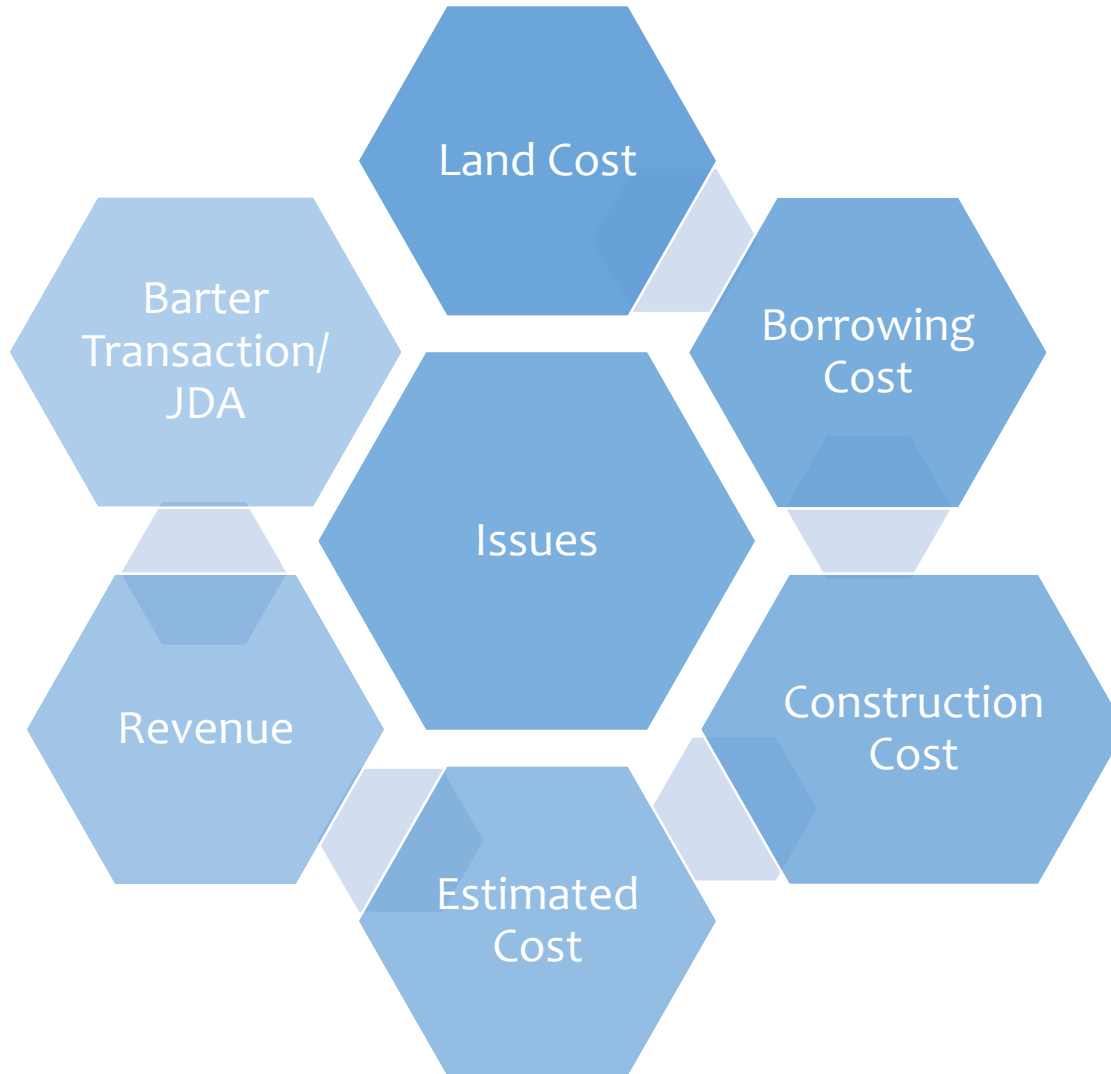
“Phase of a Real Estate Project” may consist of a building or a wing of the building in case of building with multiple wings or **defined number of floors** in a multi- storied building/wing;

Issues

- *Project under RERA and IND-AS may be different*
- *Separate maintenance of cost, sales data **in books of accounts** RERA project-wise, operation of separate bank accounts for defined RERA project may be cumbersome for real estate entities*
- *Said details to be verified by CA at time of issuance of every withdrawal certificate and certificate at year end*



ISSUES



PROJECT COSTS – LAND COST

- Indexed Cost to be considered for RERA purpose
- In case of Land taken on Finance Lease, amount of lease premium / lease rent shall differ under IND AS and RERA.
- Under RERA, in case of rehab scheme, following cost considered as Land Cost: Rehab building construction cost, Cost of Clearance of land/ cost of removal of occupants/ Transit accommodation in case of Rehabilitation Scheme, ASR linked premiums payable for obtaining right for redevelopment of lands owned by Public Authorities, Interest incurred on borrowing done for construction of rehab portion
- Under GN, rehabilitation costs considered as land cost. Rehabilitation costs not defined.
- Revaluation of land in the books. Revalued cost cannot be considered under RERA.
- Conversion of capital asset into stock in trade in the books. No effect for RERA purpose.
- Interest cost on land. Under IND AS, interest cannot be added to cost of land, if it is not a qualifying asset. Under RERA, no such discrimination i.e. all interest cost on loan taken for land cost can be considered as land cost and eligible for withdrawal purpose.



PROJECT COSTS - BORROWING COSTS

- Under RERA interest paid to only 4 parties i.e. financial institutions, scheduled banks, NBFC, money-lenders allowed as cost.
- In case of loan/ guarantee from group company, notional interest to be charged in books of accounts under IND AS, whether such notional interest/ guarantee fees allowed as cost under RERA?
- Under IND AS, dividend on redeemable preference shares considered as interest. Whether such interest allowed under RERA?
- Income earned on surplus funds, under IND AS – reduced from cost, treatment under RERA??



PROJECT COSTS - CONSTRUCTION COSTS

- Cancellation amounts paid by Promoter to Allottees on cancellation of booking treated as cost incurred under RERA. Under IND AS???
- Compensation/ interest paid by Promoter to Allottees treated as cost incurred under RERA. Under IND AS??
- Depreciation not allowed as cost under RERA. Entire cost of machineries and equipment allowed as cost under RERA.



PROJECT COSTS - ESTIMATED COSTS

- Original Estimated Cost under RERA and IND-AS to be same except for some items for which reconciliation to be maintained.
- Data of Estimated cost is submitted to RERA authorities, it is also mentioned in CA Certificate. Any changes in it are allowed only after approval of RERA authorities.



REVENUE RECOGNITION

- Under RERA- Unsold Flats considered at ASR
- Cross check of sold units from RERA website– said data uploaded on RERA website
- Project Revenues - Fair value of consideration received/ receivable under IND AS
- Revenue recognition from sale of project in case of 20 : 80 scheme (or any other ratio) will be different as compared to the sale consideration disclosed in RERA certificate for such project.
- Disclosure of unbilled revenue at year end under IND AS. Effect / Difference under RERA.
- Under IND – AS, Revenue and cost to be recognized on the basis of stage of completion. Stage of completion determination methods – Project cost based, Other method (surveys of work done, technical estimation)

Data for use of other methods are readily available from Engineer and Architect Certificate obtained for RERA purposes.



Barter Transactions / Non-Cash Transactions

IND-AS includes specific guidance on how to recognize revenue in case of barter transactions wherein goods or services are provided in exchange of other goods or services. Nature of such transactions can be as described hereunder:

- Redevelopment of a residential building in return for right to construct and sell the additional units constructed to third parties,
- Rehabilitation of slums in return for right to develop and sell the area constructed on remaining portion of land (received free of cost),
- Construction of a public car park to be handed over to a regulator in return for additional floor space index (FSI),
- Construction of public road on land owned by the entity in return for TDR etc...



Barter Transactions and JDA

IND-AS

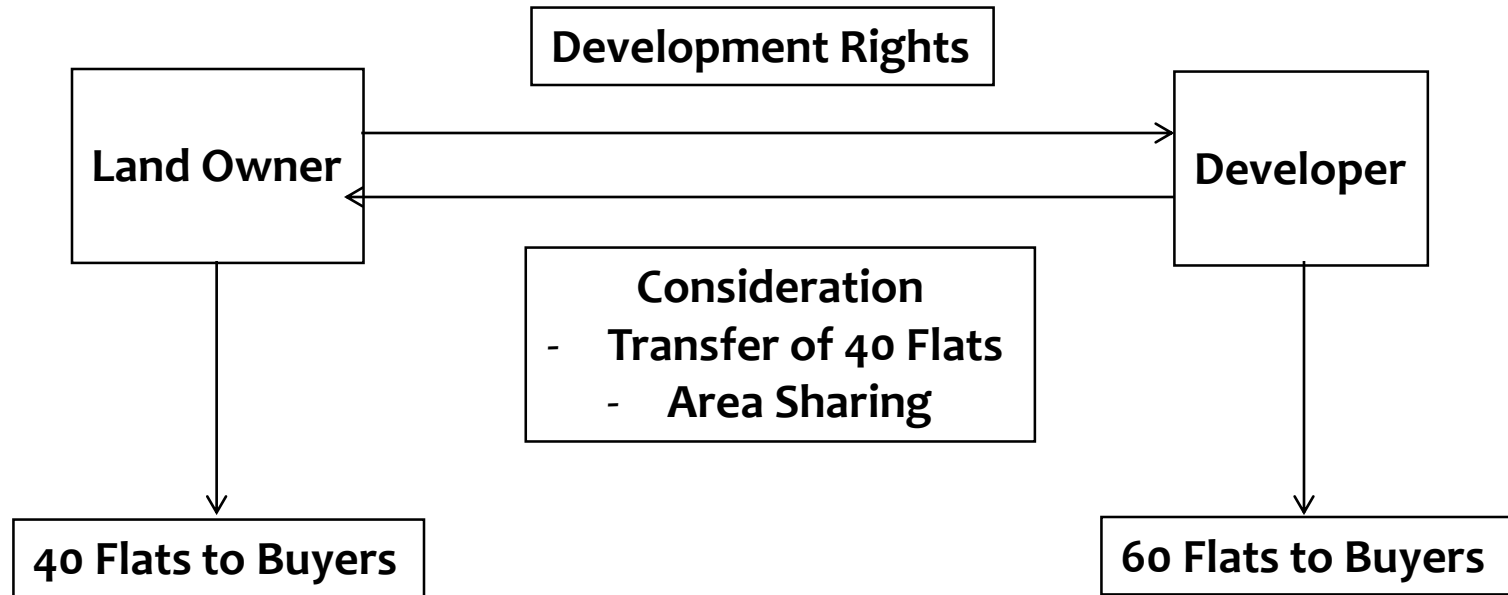
- Under Ind AS, barter transactions recorded at fair value of the goods or services received or given up.
- Where TDR acquired by way of giving up of rights over existing structures or open land, the development rights should be measured in accordance with the principles of exchange of assets enunciated in **Ind AS 38, Intangible Assets**; which requires fair value accounting, based on few criteria.

RERA

- Landowner/ Investor also considered a promoter
- Sale proceeds to the Promoter (Landowner/ Investor) cannot be considered as cost of the project and withdrawn from designated bank account merely by the virtue of this arrangement
- Liabilities of Promoter (Landowner/ Investor) as per agreement/ arrangement with Promoter, however for withdrawal purpose from designated Bank Account, Promoter (Landowner/ Investor) considered at par with Promoter



Case 1



- Whether Barter transaction ?
- Recording of said transactions in books of landowner and developer in IND AS. Effect under RERA
- Impact in case of applicability of IND AS to either one party

Example 1

Landowner upfronts sells land to Developer

| Developer | |
|---|-----|
| Sale Consideration on sale of flats after development | 100 |
| (-) Land Cost paid to landowner | 40 |
| (-) Construction Cost | 20 |
| Profit | 40 |

| Landowner | |
|--|----|
| Sale Consideration received from Developer | 40 |
| (-) Original Acquisition Cost | 10 |
| Profit | 30 |

RERA

- Landowner not considered as Promoter
- Developer to consider indexed land cost
- Cost & Sale will be recognized on POCCM basis as per the requirements prescribed in IND AS.

Example 2

Area Sharing (40:60) between landowner and Developer (IND AS not applicable to both)

| Developer | |
|--|----|
| Sale Consideration on sale of 60 flats after development | 60 |
| (-) Construction Cost of 100 flats | 20 |
| Profit | 40 |
| POCM method of accounting followed | |

| Landowner | |
|--|----|
| Sale Consideration on sale of 40 flats | 40 |
| (-) Original Acquisition Cost | 10 |
| Profit | 30 |
| Project Completion Method or POCM followed | |

RERA

- Landowner considered as Promoter
- Indexed land cost available to landowner as cost for withdrawal purpose
- Developer to consider only construction cost as project cost for withdrawal purpose
- Any monetary consideration paid to landowner by developer not considered as project cost
- Cost & Sale will be recognized on POCM basis as per the requirements prescribed in IND AS.

Example 3

Area Sharing (40:60) between landowner and Developer (IND AS applicable to both)

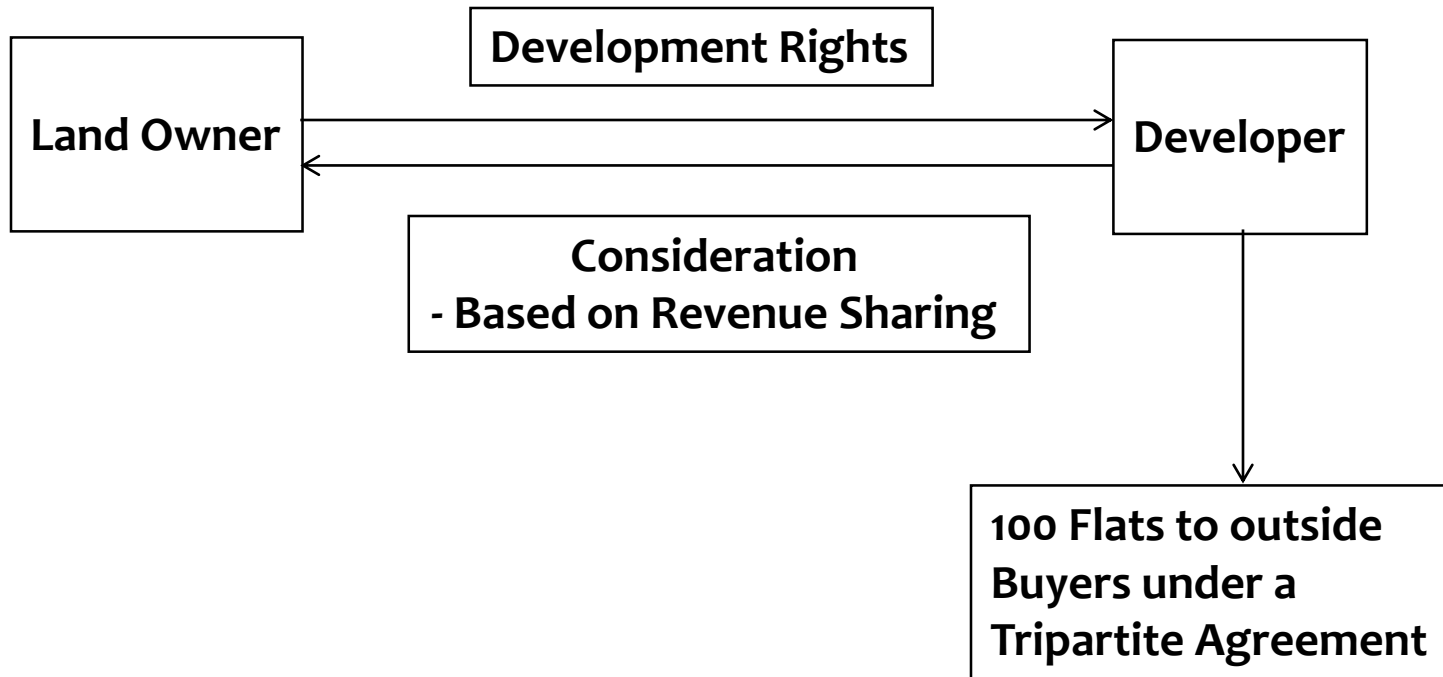
| Developer | |
|--|----|
| <u>Revenue</u> | |
| Sale Consideration on sale of 60 flats to third parties | 60 |
| Fair Value of 40 flats given to Landowner | 40 |
| <u>Costs</u> | |
| (-) Development rights acquired from landowner in lieu of 40 flats given | 40 |
| (-) Construction Cost of 100 flats | 20 |
| Profit | 40 |
| <ul style="list-style-type: none"> POCM method of accounting followed | |

| Landowner | |
|--|----|
| Fair value of 40 flats received in lieu of development rights given to developer | 40 |
| (-) Original Acquisition Cost | 10 |
| Profit | 30 |
| <ul style="list-style-type: none"> POCM to be followed If flats sold at higher than fair value, additional consideration to the extent to difference recognized as revenue | |

RERA

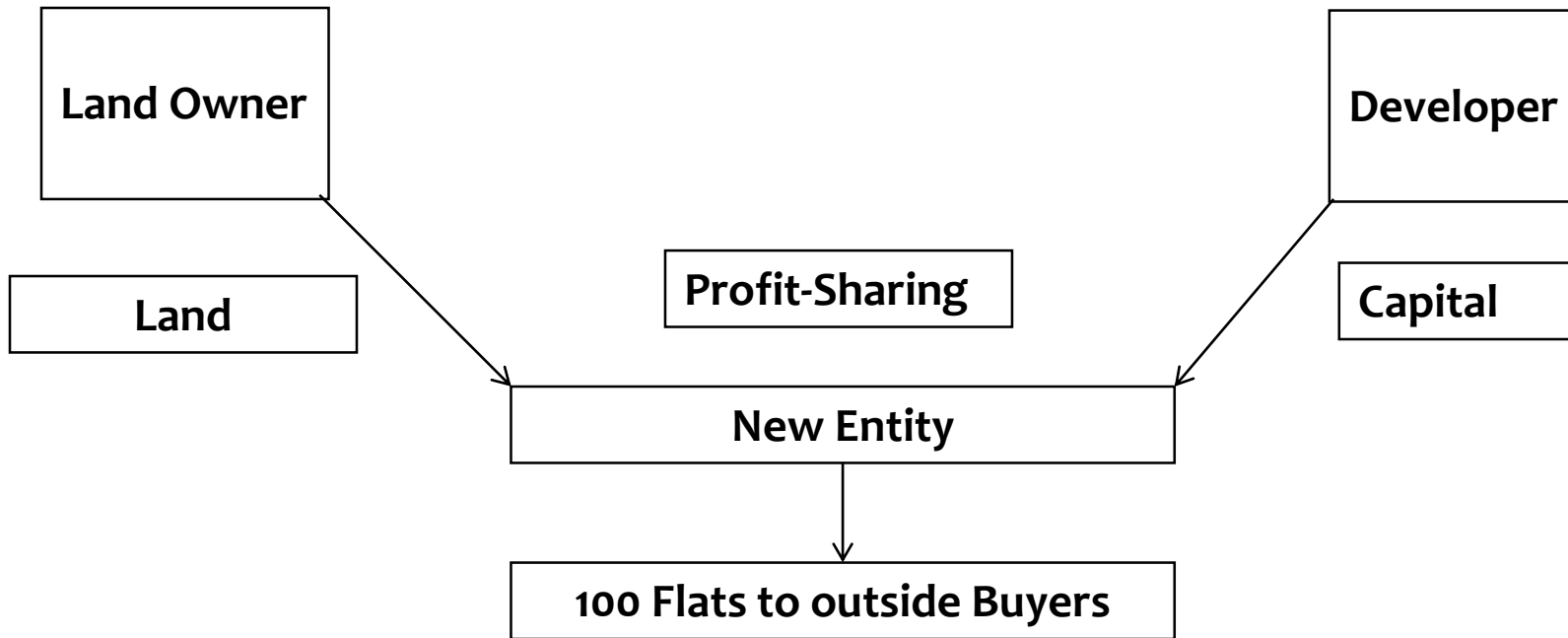
- Landowner considered as Promoter
- Indexed land cost available to landowner as cost for withdrawal purpose
- Developer to consider only construction cost as project cost for withdrawal purpose
- Any monetary consideration paid to landowner by developer not considered as project cost

Case 2



- Whether Barter transaction ?
- Recording of said transactions in books of landowner and developer in IND AS. Effect under RERA
- Impact in case of applicability of IND AS to either one party

Case 3



- Whether Barter transaction ?
- Recording of said transactions in books of landowner, developer and new entity in IND AS. Effect under RERA
- Impact in case of applicability of IND AS to either one party

Case 4

Redevelopment of old buildings or rehabilitation of slums

- Whether Barter transaction ?
- Recording of said transactions in books of developer.

OTHER MATTERS

Other Matters

- If an enterprise is developing a project and is accounting it under the head of “Investment Property” or “Property, Plant & Equipment” i.e. either for the purpose of rental or for its own usage, in such circumstances RERA will not be applicable to these projects.
- In case of JDA, there can be situations where IND AS is applicable to a developer and IGAAP is applicable to a developer or vice-versa. Differentiation will arise under such circumstances between the accounting requirement as RERA norms.
- As per the norms of RERA, a developer is required to rectify structural defect arising within 5 years from date of handing over of the possession. Hence, in such circumstances, the developer is required to show the contingent liability towards rectification of structural defect, which may arise.
- In addition to the matters described herein which are more peculiar to real estate enterprises, there will be various other adjustments relating to IND AS i.e. foreign exchange transactions, ESOP accounting etc...
- There can be more differences between IND AS and RERA (as RERA regulations differ from state to state) in a particular enterprise, if the enterprise has projects in different states.

CONSIDERATION POINTS FOR PROMOTERS

CONSIDERATION POINTS FOR PROMOTERS

Business

- ❑ Strengthen planning, budgeting, estimation
- ❑ Arrangements/ business modals with Co-promoters
- ❑ Design and Finalization of Plans and designs
- ❑ Agreement with Brokers

Operation

- ❑ Project Management: Timely approval and strengthen delivery capabilities
- ❑ Prepare and review of allotment letters, agreement for sale and conveyance deed
- ❑ Project Details to be available and updated on real-time basis

Accounting

- ❑ Maintained on Real Time basis
- ❑ Separate Ledger A/c: Land Cost and Construction Cost
- ❑ Co-relation of projects as reflected in books of accounts Ind AS/ cost records / income-tax ICDS and under RERA
- ❑ Impact of GST

Cash Flow

- ❑ Planning internal & external funds and flow from allottees
- ❑ Review/ Timely Updation of MIS to ensure maximum withdrawal from receipt account
- ❑ Decision on at what intervals amounts to be withdrawn from designated bank account

Monitoring

- ❑ Detailed review of all advertising, marketing and promotional material to ensure accuracy of information

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