

Statement of Statutory Accounting Principles No. 77

Real Estate Sales—An Amendment to SSAP No. 40—Real Estate Investments

STATUS

Type of Issue:	Common
Issued:	Finalized December 4, 2000
Effective Date:	January 1, 2002
Affects:	Supersedes paragraphs 17 and 18 of SSAP No. 40 Nullifies and incorporates INT 99-22
Affected by:	Superseded with guidance included in SSAP No. 40
Interpreted by:	INT 06-13, INT 08-2, INT 08-7
Nullified INT:	INT 04-18

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Real Estate Sales—An Amendment to SSAP No. 40, Real Estate Investments**SCOPE OF STATEMENT**

1. This statement addresses the accounting for real estate sales.

SUMMARY CONCLUSION

2. This statement supersedes paragraphs 17 and 18 of *SSAP No. 40—Real Estate Investments* (SSAP No. 40). The guidance outlined in paragraphs 3-5 of this statement shall be followed when accounting for the sales of real estate.
3. Recognition of profit on sales of real estate investments shall be accounted for in accordance with *FASB Statement No. 66, Accounting for Sales of Real Estate* (FAS 66), except as modified in paragraph 5 of this statement, *FASB Emerging Issues Task Force No. 87-9, Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds*, *FASB Emerging Issues Task Force No. 87-29, Exchange of Real Estate Involving Boot*, *FASB Interpretation No. 43, Real Estate Sales an interpretation of FASB Statement No. 66* (FIN 43) and *FASB Emerging Issues Task Force No. 00-13, Determining Whether Equipment is “Integral Equipment” Subject to FASB Statements No. 66 and No. 98*. This statement applies to all sales of real estate including real estate with property improvements or integral equipment. The terms “property improvements” and “integral equipment” refer to any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant costs, such as an office building. Additionally, this guidance applies to all transfers of financial assets that are in substance real estate.
4. Profit shall be recognized in full when real estate is sold, provided (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the seller is not obliged to perform significant activities after the sale to earn the profit. Unless both conditions exist, recognition of all or part of the profit shall be postponed. Profit shall not be recognized by the full accrual method until all of the following criteria are met:
 - a. A sale is consummated;
 - b. The buyer’s initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
 - c. The seller’s receivable is not subject to future subordination; and
 - d. The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property after the sale.
5. The calculation of the buyer’s initial investment specified in paragraph 9 of FAS 66 shall be modified to reflect that buyer’s notes must be supported by letters of credit from institutions that are listed by the Securities Valuation Office of the National Association of Insurance Commissioners as meeting credit standards to be included in determining the buyer’s initial investment. Any profit or loss is considered a realized gain or loss in the year of the sale in accordance with FAS 66.

Relevant Literature

6. This statement adopts FIN 43, which clarifies that the phrase “all real estate sales” includes sales of real estate with property improvements or integral equipment that cannot be removed and used separately from the real estate without incurring significant costs. This is consistent with SSAP No. 40. This statement adopts *FASB Emerging Issues Task Force No. 98-8: Accounting for Transfers of*

Investments That Are in Substance Real Estate. This statement also adopts *FASB Emerging Issues Task Force No. 00-13, Determining Whether Equipment is “Integral Equipment” Subject to FASB Statements No. 66 and No. 98*, which clarifies the term “integral equipment” as used in this statement.

Effective Date and Transition

7. This statement is effective for years beginning January 1, 2002. Adoption as of January 1, 2001 is encouraged but not required. Changes resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3).

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- *FASB Interpretation No. 43, Real Estate Sales an interpretation of FASB Statement No. 66*
- *FASB Emerging Issues Task Force No. 00-13, Determining Whether Equipment is “Integral Equipment” Subject to FASB Statements No. 66 and No. 98*

RELEVANT ISSUE PAPER

- *Issue Paper No. 106—Real Estate Sales – An Amendment to SSAP No. 40—Real Estate Investments*