ORANGE COUNTY

Ramifications Of Accounting Standards Update For CRE

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IRVINE, CA—The **Financial Accounting Standards Board** has clarified its more than a decade-old definition of a "business." The clarification is included in **Accounting** Standards Update (ASU) 2017-01, which was meant to assist companies in applying the broadly interpreted FASB Statement No. 141(R), Business Combinations (codified in ASC 805).

The clarification will probably result in more **commercial real estate** acquisition transactions being accounted for as **asset acquisitions** rather than business combinations, **Haskell & White** audit principal **Paul Louis, CPA**, tells GlobeSt.com. We spoke with Louis about the ramifications of this clarification for our industry.

GlobeSt.com: How does the clarification affect CRE?

Louis: Prior to the clarification, when a commercial real estate deal was made, the buyer would pay a price for the property and additional fees for the service providers (think broker and attorney fees). Those fees and associated closing costs, which could add up to approximately 5% of the acquisition price or more, leaving buyers of a $100-million real estate purchase with an automatic $5-million acquisition expense on their books at the date they close the transaction.

GlobeSt.com: What effect will this update have on our industry going forward?

Louis: This clarification will probably result in more commercial real estate acquisition transactions being accounted for as asset acquisitions rather than business combinations. This is good news for anyone who has ever said: "I just spent $105 million to acquire the property; I want a $105 million asset on my balance sheet."

The clarification takes effect for public companies for fiscal years beginning after Dec. 15, 2017, and all other entities for fiscal years beginning after Dec. 15, 2018. Many companies have been early-implementing this new guidance due to its benefits for financial reporting purposes and financial ratios.

GlobeSt.com: Do you see more changes like this coming down the pike?

Louis: Yes, there are a number of other major changes that will be effective soon that will impact the commercial real estate industry. Brokers, developers, tenants and landlords will need to be up to speed on the new accounting guidance, mainly for revenue from contracts with customers (codified in ASC 606) and leases (codified in ASC 842).

GlobeSt.com: What else should our readers know about this new accounting guidance?

Louis: While the FASB brings some clarity, the guidance isn't necessarily black and white. If the transaction was accounted for as an asset acquisition, the acquisition costs would be allocated to the assets acquired on a relative fair-value basis, and no goodwill will be recognized. With such a sweeping change to these critical accounting functions, it is imperative to consult your CPA when structuring your next real estate transaction.