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American Institute of Certified Public Accountants. Real Estate Committee

Statement of Position 92–1

Accounting for Real Estate Syndication Income

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Prepared by the
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SUMMARY

This statement of position provides guidance on applying generally accepted accounting principles in accounting for real estate syndication income. Briefly, the SOP arrives at the following conclusions:

1. *Applicability of FASB Statement No. 66 to syndication activities.* FASB Statement No. 66, *Accounting for Sales of Real Estate*, applies to the recognition of profit on the sale of real estate by syndicators to partnerships. The guidance in FASB Statement No. 66 should be applied by analogy to the recognition of profit on real estate syndication transactions, even if the syndicators never had ownership interests in the properties acquired by the real estate partnerships. FASB Statement No. 66 does not apply to the recognition of fees excluded from sales value.
2. *Determining sales value of property and fee income.* All fees charged by syndicators should be included in the determination of sales value in applying FASB Statement No. 66, except (a) fees for which future services must be performed and (b) syndication fees.
3. *Fees for future services.* Syndicators should recognize fees for future services when they render the services.
4. *Syndication fees.* Syndicators should not recognize syndication fees until the earnings process is complete and collectibility is reasonably assured. Further, if a syndicator receives or retains a partnership interest as compensation for a portion of the syndication fee, the profit recognized on that portion of the fee should not exceed the amount that would be recognized by applying partial sale accounting to the underlying partnership interest.
5. *Exposure to losses or costs from syndicator involvement and collectibility risk.* If syndicators are exposed to future losses or costs from (a) material involvement with the properties, partnerships, or partners or (b) uncertainties regarding the collectibility of partnership notes, they should defer income recognition on syndication fees and fees for future services until the losses or costs can be reasonably estimated.
6. *Allocating cash payments.* Regardless of contractual provisions, for the purpose of determining whether buyers' initial and continuing investments satisfy the requirements for recognizing profit in full in conformity with FASB Statement No. 66, cash received by syndicators should be allocated to unpaid syndication fees before being allocated to initial and continuing investment. After the syndication fee has been fully paid, additional cash received should be allocated to

unpaid fees for future services, to the extent that those services have been performed by the time the cash is received, before being allocated to the initial and continuing investment.

7. *Recognition of partnership interests received or retained.* This SOP amends paragraph 32 of SOP 78-9, *Accounting for Investments in Real Estate Ventures,* which requires the investor's costs of services or intangibles contributed to a partnership or joint venture to be allocated to the cost of the investment. The following footnote is appended to paragraph 32 of that SOP immediately following the paragraph heading "Contribution of Services or Intangibles":

    The provisions of this paragraph do not apply to real estate syndication activities in which the syndicators receive or retain partnership interests. Such activities are discussed in SOP 92-1, *Accounting for Real Estate Syndication Income.*

8. *Effective date.* The recommendations in this SOP should be applied to transactions in which the initial closing with investors occurs after March 15, 1992. Earlier application is encouraged for financial statements that have not been previously issued.

Accounting for Real Estate Syndication Income

Introduction

1. This statement of position (SOP) provides guidance for the recognition of income from real estate syndication activities. Syndication activities are efforts to directly or indirectly sponsor the formation of entities that acquire interests in real estate by raising funds from investors. As consideration for their investments, the investors receive ownership of or other financial interests in the sponsored entities.

2. The sponsored entities are generally organized as limited partnerships, trusts, or joint ventures, but they may also be organized in other forms. For convenience, the term *partnership* is used in this SOP to refer to such entities regardless of their form.

Scope

3. This SOP applies to the recognition of income from real estate syndication activities and to all entities that perform those activities. For purposes of applying the guidance in this SOP, entities that perform real estate syndication activities are syndicators regardless of whether their primary business is related to real estate syndication. Entities that may function as syndicators include real estate companies, brokers and dealers in securities, banks, savings and loan associations, insurance companies, finance companies, and entities organized solely to syndicate real estate.

4. This SOP applies to the combined activities of entities in the consolidated or combined financial statements of syndicators, including those entities in which the syndicators have investments accounted for under the equity method, as set forth in Accounting Principles Board (APB) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. However, it does not apply to the separate financial statements of subsidiaries or affiliates of syndicators, unless such entities are also considered to

be syndicators on the basis of the separate activities included in their consolidated or combined financial statements. For example, this SOP does not apply to the separate financial statements issued by a broker-dealer subsidiary of a syndicator if the role of the subsidiary and its subsidiaries, if any, in the transaction is limited to the sale of partnership interests.

5. This SOP does not address accounting by the partnerships in which the interests are syndicated, and it does not apply to syndications of assets other than real estate.

Definitions

6. Significant terms used in this SOP are defined as follows:

Blind pool or partially blind pool partnerships. Partnerships in which investment units are sold before some or all of the properties to be acquired are identified.

Flip transactions. Transactions in which syndicators acquire ownership interests and resell them to the partnerships shortly thereafter.

Investor notes. Promissory notes, generally with full recourse, that are payable by investors to partnerships in connection with purchases of partnership interests.

Ownership interests. Title to real estate or other interests in real estate, such as partnership interests or shares in joint ventures; also, options or contracts to acquire specified real estate or real estate interests.

Partnership notes. Notes payable to syndicators by partnerships in connection with acquisitions of property or in payment of fees. Partnership notes may be collateralized by investor notes, mortgages, or other liens against partnership assets.

Syndication activities. Efforts to directly or indirectly sponsor the formation of entities that acquire interests in real estate by raising funds from investors. As consideration for their investments, the investors receive ownership or other financial interests in the sponsored entities. For purposes of applying the guidance in this SOP, all general partners in syndicated partnerships are deemed to perform syndication activities.

Syndication (or securities-placement) fees. Compensation, including commissions and reimbursement of expenses, for selling debt or equity interests in partnerships. Such fees are generally paid in cash, notes, or partnership interests.

Background

7. In order to earn commissions and fees, syndicators perform a variety of services and activities. For example, they organize partnerships, sell (syndicate) debt or equity interests in the partnerships to third parties, sell real estate to the partnerships, arrange for the partnerships to purchase real estate directly from (or sell it directly to) third parties, develop partnership properties, supervise construction of partnership properties, raise or provide funds for use by the partnerships, provide income or cash-flow guarantees to the partnerships, and provide initial and long-term property management services to the partnerships. They also earn income from a variety of other sources, such as incentive arrangements and participations in profits on future sales of real estate by the partnerships.

8. Syndicators may receive cash, notes or other receivables, partnership interests, or rights to share in the proceeds of the sale or refinancing of the properties. At the time of syndication, partnerships generally pay cash to the syndicators for portions of their fees. The sources of the cash are generally initial payments by the investors to the partnerships or proceeds of borrowings secured by investor notes. Subsequent payments are expected to be made to the syndicators based on the availability of cash from installments on investor notes, partnership operations, mortgage refinancings, or sales of properties.

9. Syndicators may arrange for partnerships to acquire properties in the following ways:

- By acquiring ownership interests and reselling them to the partnerships in flip transactions
- By selling to the partnerships properties that the syndicators already own, or by transferring options or contracts to buy properties
- By arranging for the partnerships to acquire the properties directly from third parties

Selling prices may be greater than the syndicators' acquisition costs, or the syndicators may receive compensation for arranging the acquisitions.

10. In some syndication transactions, the syndicators have substantial risks of ownership in properties they sell to the partnerships or arrange for the partnerships to acquire, as indicated by some or all of the following characteristics:

- The partnerships make only nominal down payments.
- The syndicators receive partnership notes that are subject to future subordination by the partnerships to the claims of other creditors.
- The syndicators, or affiliates of the syndicators, are general partners in the partnerships.
- The syndicators are obligated to or intend to continue supporting the properties after syndication.

11. In some syndication transactions, the syndicators market no-load investment units.[1] Some syndicators that sponsor such transactions initially own the entire partnership and, after completing the syndication, generally retain an ownership interest in the partnership. Other syndicators that do not initially have an ownership interest in the partnership generally receive an ownership interest in lieu of selling commissions. In addition, syndicators that market no-load investment units pay expenses related to organization and syndication activities in excess of contractual reimbursement allowances, such as charges for lawyers and broker-dealers. Such syndicators generally expect to recover their costs by charging fees for various other services, such as property acquisition and asset management.

12. Investors in partnerships expect to realize appreciation, earn operating income, receive distributions of cash, obtain tax benefits, or

[1] The North American Securities Administrators' Association, Inc. (NASAA) defines a carried interest in the "Real Estate Programs" section of its *Statements of Policy* as an equity interest (other than a "promotional interest") that participates in all allocations and distributions and for which full consideration is neither paid nor to be paid. A syndication in which the syndicator receives a carried interest is known in the industry as a "no load" offering.

obtain some or all of those benefits. The interests in real estate may be represented by direct ownership, mortgages, master leases, sale-leasebacks, or options to acquire real estate. Some partnership agreements require investors to pay their total capital contributions to the partnerships immediately; others require the investors to pay some cash immediately and permit them to issue investor notes to the partnerships for the balance.

Current Practice

13. Syndicators use various methods of accounting for income from syndications. Some recognize profit on the sales of real estate in conformity with Financial Accounting Standards Board (FASB) Statement No. 66, *Accounting for Sales of Real Estate*, and recognize additional fee income either as part of the real estate sales transactions or separately. Others believe that FASB Statement No. 66 does not apply to syndication transactions, and they either recognize all syndication profits immediately upon entering into the syndication transaction or follow methods based on discounting cash flows.

14. Some syndicators that apply FASB Statement No. 66 to syndication transactions in which they sell real estate to the partnerships do not apply it to syndication transactions in which they do not have ownership interests in the real estate acquired by the partnerships.

15. Some syndicators do not apply FASB Statement No. 66 to flip transactions because they believe the brief ownership period involved in a flip transaction is not substantive.

16. Syndicators that use discounted cash-flow methods include in reported revenue the discounted amounts of expected cash flows from partnerships. The discount rates are determined by reference to the estimated market rate of interest, using APB Opinion No. 21, *Interest on Receivables and Payables*, as guidance. Discounts or premiums on notes are determined to the extent that the stated or implicit interest rates of the notes differ from the market rates of interest. Some syndicators use the stated payment periods of principal and interest in determining the timing of the expected cash flows from the notes, whereas others use anticipated payment dates corresponding to the dates on which the syndicators expect the properties to be sold.

17. Some syndicators determine the projected depreciated cost of the properties and subtract the estimated balances of senior mortgage debt at the properties' anticipated dates of disposal (before the maturity of partnership notes). The difference is discounted to determine the amounts at which the partnership notes should be carried.

18. Syndicators that use discounted cash-flow methods recognize the discounted amounts of notes received from partnerships as income at the time capital is raised from investors in the partnerships. In subsequent periods, discounts or premiums on the notes, if any, are recognized in income ratably using the interest method.

19. Some syndicators recognize all revenue as of the date of syndication. Others use the guidance in FASB Statement No. 66 and, because of continuing involvement, defer recognizing some portion of the revenue.

20. Some syndicators use the criteria in FASB Statement No. 66 to account for fee revenue from real estate syndication transactions because they believe the transactions are, in substance, sales of real estate.

21. Some syndicators that account for fees by applying the revenue-recognition criteria in FASB Statement No. 66 exclude from the sales value of the properties, as the term *sales value* is defined in paragraph 7 of that Statement, some or all of the fees charged to the partnerships. Accordingly, they do not include the related payments of such fees in determining whether the buyers' initial and continuing investments in the properties are adequate for the seller to recognize profit in full on the sales. Other syndicators include all fees and related payments in determining sales value and in assessing whether the buyers' initial and continuing investment criteria have been met.

22. Syndicators of blind pool or partially blind pool transactions are often entitled to nonrefundable syndication fees at the time of syndication, which would generally be before some or all of the properties are acquired by the partnerships. The general practice is to recognize nonrefundable syndication fees or partnership interests in income when received if there will be adequate fees to compensate the syndicators for whatever future services they may have to perform for the partnerships.

23. Syndicators may receive or retain partnership interests as compensation for services. Some syndicators do not record their partnership interests, and others record them based principally on the following amounts:

- Estimated fair values
- The proportionate shares of (a) the amounts at which the syndicators carried the properties, if the syndicators had ownership interests in the properties, or (b) the partnerships' acquisition costs, if the syndicators never had ownership interests in the properties
- The costs incurred by the syndicators in excess of amounts charged to the partnerships
- Nominal amounts

Conclusions

24. The following conclusions should be read in conjunction with the "Discussion of Conclusions and Implementation Guidance," beginning with paragraph 40 of this SOP, which explains the bases for the conclusions and provides guidance for implementing them.

Applicability of FASB Statement No. 66 to Syndication Activities

25. FASB Statement No. 66 applies to the recognition of profit on the sale of real estate by syndicators to partnerships. This SOP concludes that the guidance in FASB Statement No. 66 should also be applied to the recognition of profit on real estate syndication transactions even if the syndicators never had ownership interests in the properties acquired by the real estate partnerships. For purposes of applying the profit recognition criteria of FASB Statement No. 66 to transactions in which syndicators never had such ownership interests, the syndicators should recognize profit on the transactions in the same way that they would have recognized such profit had they acquired the real estate and sold it to the partnerships.

Determining the Sales Value of Property and Fee Income

26. All fees charged by syndicators should be included in the determination of sales value in applying FASB Statement No. 66,

except (a) fees for which future services must be performed and (b) syndication fees. FASB Statement No. 66 does not apply to the recognition of fees excluded from sales value.

27. *Fees for Future Services.* Syndicators should recognize fees for future services when they render the services. If fees designated for future services are excessive or inadequate, they should be adjusted for accounting purposes and the adjustments should be allocated to or from the real estate sales portion of the transaction. However, the buyer's initial and continuing investment should not include cash payments on amounts reallocated from fees for future services until the services have been performed.

28. *Syndication Fees.* Syndicators should not recognize syndication fees until the earnings process is complete and collectibility is reasonably assured. Further, if a syndicator receives or retains a partnership interest as compensation for a portion of the syndication fee, the profit recognized on that portion of the fee should not exceed the amount that would be recognized by applying partial sale accounting to the underlying partnership interest, as set forth in paragraph 38 of this SOP.

29. If stated syndication fees are not reasonable, they should be adjusted for accounting purposes to amounts that are reasonable, and the adjustments should be allocated to or from the real estate sales portion of the transaction. Guidance on accounting for nonrefundable fees received from blind pools before property acquisition is provided in paragraph 32 of this SOP.

30. The syndication fee for a transaction, which consists of cash and the value of any notes or partnership interests designated as consideration for the syndication fee, is reasonable if it falls within the range of syndication fees charged by independent brokers in similar transactions and is at least adequate to reimburse the syndicator for amounts paid to independent brokers or other third parties associated with the transaction. The range of reasonable fees can generally be determined by reference to various sources, including independent brokers, publicly offered transactions, and industry-monitoring reports.

31. If, in addition to cash or notes, a syndicator receives a partnership interest as compensation for the syndication fee, the syndicator

should include the value of the partnership interest in determining the reasonableness of the syndication fee. If the amount of the syndication fee is determined not to be reasonable, the fee should be adjusted for accounting purposes, as described in paragraph 29 of this SOP. However, the adjustment should not reduce the syndication fee by more than the sum of the cash and notes received for the syndication fee. Further, the syndication fee should not be adjusted if all, or substantially all, of the compensation to the syndicator consists of partnership interests received or retained, as in the no-load transactions discussed in paragraph 11 of this SOP.

Accounting for Nonrefundable Fees Received From Blind Pools Before Property Acquisition

32. Syndication fees received from blind pool transactions should be recognized in income ratably as the syndication partnership invests in property acquisitions, but only to the extent that the syndication fees are nonrefundable and meet all conditions for recognition in income, as set forth in paragraphs 28 to 31 of this SOP.

Exposure to Losses or Costs From Syndicator Involvement and Collectibility Risk

33. If syndicators are exposed to future losses or costs from (a) material involvement with the properties, partnerships, or partners or (b) uncertainties regarding the collectibility of partnership notes, they should defer income recognition on syndication fees and fees for future services until the losses or costs can be reasonably estimated. Syndicators should reduce income recognized by the estimated losses or costs. The guidance in paragraphs 29 and 30 of FASB Statement No. 66 should be used in estimating potential losses or costs of support obligations. If such losses or costs cannot be estimated, the income recognized should be reduced by the maximum exposure. Paragraphs 61 to 63 of this SOP provide examples of syndicator involvement and uncertainties surrounding the collectibility of partnership notes that should be considered in recognizing real estate syndication income.

Allocating Cash Payments

34. For the purpose of determining whether buyers' initial and continuing investments satisfy the requirements for recognizing profit in full in conformity with FASB Statement No. 66, cash received

by syndicators should be allocated to unpaid syndication fees before being allocated to the initial and continuing investment. After the syndication fee has been fully paid, additional cash received should be allocated to unpaid fees for future services, to the extent that those services have been performed by the time the cash is received, before being allocated to the initial and continuing investment.

35. If, at or near the time of syndication, syndicators pay cash or unconditionally commit to pay cash to the partners or partnerships or to third parties on behalf of the partners or partnerships, the syndicators should account for those amounts as reductions of cash received from the partnerships, rather than as separate cash outlays.

Recognition of Partnership Interests Received or Retained

36. This SOP amends paragraph 32 of SOP 78-9, *Accounting for Investments in Real Estate Ventures,* which requires the investor's costs of services or intangibles contributed to a partnership or joint venture to be allocated to the cost of the investment. The following footnote is appended to paragraph 32 of that SOP immediately following the paragraph heading "Contribution of Services or Intangibles":

> The provisions of this paragraph do not apply to real estate syndication activities in which the syndicators receive or retain partnership interests. Such activities are discussed in SOP 92-1, *Accounting for Real Estate Syndication Income.*

37. *Participation in Future Profits Without Risk of Loss.* If syndicators receive or retain limited partnership interests that are subordinate for any distributions to the majority class of ownership interests, they should generally account for the interests as participations in future profits without risk of loss. Profits should be recognized when they are realized, in conformity with paragraph 43 of FASB Statement No. 66.

38. *Partial Sale.* If the partnership interests received by the syndicators have the same pro rata rights as the majority class of ownership interests for all distributions, the syndicators should account for their partnership interests as retained interests from partial sales of real estate, in conformity with FASB Statement No. 66,

regardless of whether the syndicators ever held title to the underlying properties. Syndication fees should be accounted for as set forth in paragraphs 28 to 31 of this SOP.

Effective Date and Transition

39. The recommendations in this SOP should be applied to transactions for which the initial closing with investors occurs after March 15, 1992. Earlier application is encouraged for financial statements that have not been previously issued.

Discussion of Conclusions and Implementation Guidance

40. The following discussion explains the bases for the conclusions reached in this SOP and provides implementation guidance.

Applicability of FASB Statement No. 66 to Syndication Activities

41. In some syndication transactions, the syndicator acquires the properties, or options to acquire the properties, and sells them to the partnership. Paragraph 1 of FASB Statement No. 66 indicates that such real estate sales transactions are within the scope of that Statement, as follows: "This Statement establishes standards for recognition of profit on all real estate sales transactions without regard to the nature of the seller's business." Ownership interests provide evidence that syndicators are sellers of real estate, and FASB Statement No. 66 therefore applies to real estate syndication transactions in which ownership interests in properties pass from the syndicators to the partnerships. FASB Statement No. 66 does not specify the duration of ownership, so it applies as much to a brief ownership as to a lengthy one.

42. In other transactions, the syndicator arranges for the partnership to acquire the property from a third party without ever having acquired the property or an option to acquire the property. Although the form of such transactions differs from those described previously, the substance is the same: The syndicator is primarily compensated for arranging the acquisition of property by the partnership and for arranging the sale of partnership shares to investors. Accordingly, this SOP takes the position that the guidance in FASB Statement No. 66

should be applied to the recognition of profit on real estate syndication transactions even if the syndicators never had ownership interests in the properties acquired by the real estate partnerships.

43. The following describes how a syndicator should apply the profit-recognition criteria in FASB Statement No. 66 to a real estate syndication transaction in which a partnership acquires real estate from a third party rather than from the syndicator:

- The syndicator should impute a purchase of the real estate from the third party at the amount paid by the partnership to the third party. The syndicator should also impute a corresponding sale of the real estate to the partnership at the same price.
- Except for fees for which future services must be performed and syndication fees, all fees charged by the syndicator to the partnership as part of the syndication transaction should be added to the sales price in the imputed sales transaction to arrive at the deemed sales value of the real estate syndication transaction.
- The syndicator should recognize profit on the real estate syndication transaction to the extent that profit could be recognized in conformity with FASB Statement No. 66 on an otherwise identical transaction with the deemed sales value described in the preceding bullet. In determining whether the partnership would meet the initial and continuing investment criteria for recognition of profit in full on the imputed sales transaction, as described in paragraphs 11 and 12 of FASB Statement No. 66, the syndicator should include amounts paid by the partnership to the third party on the real estate sale.

Example 1b of appendix B of this SOP illustrates the accounting methods described previously.

Determining the Sales Value of Property and Fee Income

44. Paragraph 7 of FASB Statement No. 66 states that sales value is determined by—

a. Adding to the stated sales price the proceeds from the issuance of a real estate option that is exercised and other payments that are *in substance additional sales proceeds.* These nominally may be management fees, points, or prepaid interest or fees that are required to be maintained in an advance status and applied against the amounts due to the seller at a later date. [*Emphasis added.*]

b. Subtracting from the sale price a discount to reduce the receivable to its present value and by the net present value of services that the seller commits to perform without compensation or by the net present value of the services in excess of the compensation that will be received.

45. In reviewing fees charged in connection with syndication transactions, the Real Estate Committee found that syndication fees and fees for future services are the only fees that are consistently separable from the corresponding real estate sales transaction. This SOP therefore concludes that all other fees should be included in the calculation of sales value, as described in part *a* of the foregoing quotation. This SOP also concludes that fees for future services associated with syndication transactions should be accounted for in the same manner as similar fees associated with real estate sales transactions, as described in part *b* of the foregoing quotation. Guidance on accounting for syndication fees is provided in paragraphs 28 to 31 of this SOP.

46. *Fees for Future Services.* Fees for future services excluded from sales value include fees for managing properties and brokerage commissions on sales of properties by partnerships but do not include fees directly related to the acquisition or initial financing of syndication properties, such as cash flow guarantee fees, initial loan fees, and rent-up guarantee fees.

47. Fees for future services that are deemed to be excessive or inadequate should be adjusted for accounting purposes. If the fees for future services are deemed to be excessive, the adjustments reduce amounts accounted for as fees for future services, and the sales value of the real estate is adjusted upward. However, until the services are performed, the syndicator remains contractually obligated to the partnership for the stated amount of the fees for future services regardless of whether they have been reallocated to sales value for reporting purposes. Payments made in consideration of such services are thus not included in the determination of the buyer's initial and continuing investment until the services are performed.

48. Conversely, if the fees are deemed to be inadequate, the adjustments increase amounts accounted for as fees for future services.

The sales value of the real estate is adjusted downward, because the real estate sales price is assumed to be overstated by the amount by which the fees for future services are understated. Furthermore, the payments made on the portion of sales value reallocated to fees for future services are not considered in evaluating whether the buyer has demonstrated a commitment to pay for the real estate, as described in paragraph 8 of FASB Statement No. 66. Profit is recognized on the amounts reallocated to the fees as the services are performed.

49. *Syndication Fees.* This SOP recommends excluding syndication fees from sales value because they relate to the raising of equity rather than to the acquisition or operation of property. Recognition of syndication fees in income on completion of the earnings process is consistent with paragraph 11 of FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, which states that the "enterprise managing a loan syndication (the syndicator) shall recognize loan syndication fees when the syndication is complete."

50. Syndication fees are usually paid in cash at the time of syndication, and thus, their inclusion in sales value would unsoundly accelerate recognition of income on the real estate transaction, because the cash received would be included in calculating the down payment on the transaction, as provided in paragraph 8 of FASB Statement No. 66.

51. This SOP recommends adjusting unreasonable stated syndication fees for accounting purposes to amounts that are reasonable, and allocating the adjustments to the real estate sales portion of the transaction. Such adjustments are necessary to account for the substance of the transaction.

52. Syndication fees are generally based on a percentage of funds raised from investors. The variety of real estate syndication transactions precludes the applicability of a particular rate of syndication fee in all circumstances. For example, the rate may be affected by—

- The size of the offering.
- The effort expected to be required to market the offering.
- The tax consequences to the partnership and to the investors.

- The stated syndication fees in similar syndication transactions.
- Regulatory constraints.
- Any payments to independent brokers or other independent third parties associated with the transaction.
- Any costs incurred in connection with the syndication, such as the preparation of offering circulars or prospectuses.
- The choice of a public or private offering.
- The existence of competitors.

53. If the adjustments increase amounts accounted for as syndication fees, the sales value of the real estate is adjusted downward because the real estate sales price is considered to be overstated by the amount by which the syndication fees are understated. The adjustments reduce the sales value of the real estate, and the payments made on the portion of sales value reallocated to syndication fees are not considered in evaluating whether the partnership has demonstrated a commitment to pay for the real estate, as described in paragraph 8 of FASB Statement No. 66, because such payments do not give the partnership an increased stake in the property.

54. Conversely, if adjustments reduce amounts accounted for as syndication fees, the sales value of the real estate is adjusted upward, and the payments made on the portion of sales value reallocated from syndication fees are accounted for as part of the partnership's initial or continuing investment in the property, because such payments create an increased stake in the property from the partnership's perspective.

55. Example 2 in appendix B of this SOP illustrates transactions in which syndication fees are adjusted.

56. Syndication fees should not be adjusted in transactions in which partnership interests are received or retained by the syndicators in lieu of cash syndication fees, as in the no-load transactions discussed in paragraph 11 of this SOP, because the partnership interests represent the total compensation to which the syndicator is entitled, unless additional future services are performed. To be consistent with that guidance, this SOP prohibits adjustment of the syndication fee by more than the sum of the cash and notes received for the syndication fee.

57. *All Other Fees.* All fees charged by syndicators, other than syndication fees and fees for which future services must be performed, are included in the determination of sales value, in conformity with FASB Statement No. 66, because they cannot be consistently distinguished from the corresponding real estate transaction as discussed in paragraph 44 of this SOP.

Accounting for Nonrefundable Fees Received From Blind Pools Before Property Acquisition

58. In blind pool and partially blind pool syndications, partnerships generally pay syndication fees to syndicators, or promise to pay them, before the syndicators acquire properties for the partnerships. Such fees are usually stated separately from the property acquisition fees.

59. Although the syndication fees may be contractually nonrefundable even if the syndicators do not ultimately locate properties to acquire, a syndicator that could not successfully complete that phase of the transaction would soon be out of business. As a result, the earnings process is incomplete until both the partnership shares are sold and the corresponding properties are acquired.

60. If the syndicator arranges for the partnership to acquire a property in which the syndicator has or expects to have significant involvement, or if the syndicator has a history of such transactions, revenue recognition should be deferred for all fees related to all properties, in conformity with the guidance in the following section.

Exposure to Losses or Costs From Syndicator Involvement and Collectibility Risk

61. If syndicators are exposed to future losses or costs from (a) material involvement with the properties, partnerships, or partners or (b) uncertainties regarding the collectibility of partnership notes, they should defer income recognition on syndication fees and fees for future services until the losses or costs can be reasonably estimated. This SOP recommends that the syndicators reduce income recognized by the estimated losses or costs. The guidance in paragraphs 29 and 30 of FASB Statement No. 66 is used in estimating potential losses or costs of support obligations. If such losses or costs cannot be estimated, the income recognized should be reduced by the maximum exposure.

62. *Involvement.* The following scenarios describe some common forms of involvement that may expose syndicators to future losses or costs:

- The syndicator agrees to reimburse the partnership or partners for any loss of amounts invested.
- The syndicator guarantees a minimum return on amounts invested by the partnership or partners.
- The syndicator is required to operate properties belonging to the partnership or partners, or to support the operations of those properties, at its own risk.
- The syndicator is required to construct or renovate properties acquired, or to be acquired, by the partnership or partners.
- The syndicator guarantees obligations or debt of the partnership or partners.

63. *Collectibility.* The following factors associated with syndication transactions may expose syndicators to future losses or costs beyond those normally associated with the collection of receivables:

- Collection may depend primarily on income, cash flows, gain on sale, or gain on refinancing, which are affected by future events that cannot be assured.
- Minimal levels of capital in the partnership, coupled with operating losses, may dilute the equity of the partnership in the property to such an extent that the risk of loss by default no longer sufficiently motivates the partnership or partners to honor their obligations to the syndicators.
- Certain partnership notes (for example, notes in payment of syndication fees) may be unsecured or may otherwise be subject to future subordination, as described in paragraph 17 of FASB Statement No. 66. Syndicators should determine whether any notes accounted for as proceeds of real estate sales are subject to future subordination, particularly if notes originally designated for payment of syndication fees are adjusted and reclassified as sales proceeds in conformity with paragraphs 28 to 31 of this SOP.

Allocating Cash Payments

64. Because syndication fees have historically been paid in cash

at the time of syndication, all payments should be allocated to unpaid syndication fees before being allocated to any other unpaid amounts. After the syndication fee has been fully paid, additional cash received should be allocated to unpaid fees for future services excluded from sales value, to the extent those services have been performed by the time the cash is received, before being allocated to the initial and continuing investment and to fees included in sales value. Such additional cash received does not demonstrate an additional commitment to pay for the property, as described in paragraph 8 of FASB Statement No. 66, and applying it to the initial and continuing investment would thereby unsoundly accelerate the recognition of profit in full on the real estate sales portion of the transaction.

65. Some transactions provide for syndicators to both receive cash from the partnerships and pay cash to them. Payments received by syndicators in such transactions may effectively be refundable to the extent that the syndicators later make payments to the partnerships. Consequently, if the syndicators pay cash to the partnerships or unconditionally commit to pay cash at or near the time of syndication, the syndicators should account for those amounts as reductions of cash already received from the partnerships, rather than as separate cash outlays. The reductions are allocated first to partnership down payment, next to other fees excluded from sales value to the extent performed, and last to syndication fees.

Recognition of Partnership Interests Received or Retained

66. As stated in paragraph 36 of this SOP, syndication services for which partnership interests are received or retained are not contributions of services to the partnership, as described in paragraph 32 of SOP 78-9. They are, instead, services for which a syndication fee is paid through receipt or retention of the partnership interest. Such accounting is consistent with the premise of this SOP that the guidance in FASB Statement No. 66 should be applied to the recognition of profit on real estate syndication transactions.

67. *Participation in Future Profits Without Risk of Loss.* Transfers of subordinate limited partnership interests by partnerships to syndicators are similar to transfers of rights to participate in future profits without risk of loss. The syndicators' profits are contingent upon the ability of the partnerships to produce sufficient profits to pay their

majority security holders, and the syndicators are not liable for partnership losses. Paragraph 43 of FASB Statement No. 66 provides the following guidance for accounting for participations in future profits without risk of loss:

> If the transaction otherwise qualifies for recognition of profit by the full accrual method, the transfer of risks and rewards of ownership and absence of continuing involvement criterion shall be considered met. The contingent future profits shall be recognized when they are realized. [*Footnote omitted.*]

68. *Partial Sale.* In general, syndicators should recognize as retained interests from partial sales of real estate those partnership interests received or retained that have the same pro rata rights as the majority class of ownership interests for all distributions. Partnership interests are typically received or retained as compensation for selling properties to partnerships, arranging sales of properties to partnerships by independent third parties, or performing other services in connection with syndication transactions.

69. If a syndicator receives or retains a partnership interest as compensation for syndication services performed, the syndication fee for performing the services should be accounted for as follows:

a. All real estate owned by the partnership should be assumed to have been sold to the partnership by the syndicator, as described in paragraph 25 of this SOP.

b. The partnership interest received or retained by the syndicator should be accounted for as a retained interest from a partial sale of the real estate by the syndicator to the partnership, as described in paragraph 38 of this SOP.

c. The amount of profit recognized as the syndication fee should be equal to the carrying amount of such a retained interest.

70. Paragraph 33 of FASB Statement No. 66 states that a "sale is a partial sale if the seller retains an equity interest in the property or has an equity interest in the buyer." That Statement requires the use of partial sale accounting if properties acquired by the partnerships are owned by the syndicators before the syndication transactions. As noted in the preceding paragraph and in paragraph 25 of this SOP, even if a syndicator never owns a property and, for example, a transac-

tion is a sale of securities, the guidance in FASB Statement No. 66 should be applied if real estate is the principal underlying asset.

71. If a syndicator receives or retains a general partnership interest in a limited partnership as consideration for the portion of the syndication transaction classified as a real estate sale, the syndicator should recognize any associated profit in conformity with FASB Statement No. 66. Receipt or retention of a general partnership interest may expose a syndicator to losses or costs that should be evaluated as described in paragraphs 33 and 61 to 63 of this SOP.

APPENDIX A

Other Relevant Literature

A-1. This appendix provides background information on literature discussed only briefly in the body of this SOP. It also discusses literature that is not cited in the body of this SOP but that may be relevant, directly or by analogy, to the recognition of income from syndication activities.

FASB Statement No. 5, *Accounting for Contingencies*

A-2. Paragraph 17 of FASB Statement No. 5, *Accounting for Contingencies*, states: "Contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization."

FASB Statement No. 13, *Accounting for Leases*

A-3. FASB Statement No. 13, *Accounting for Leases*, specifies the accounting by lessors of residual interests in real and personal property leased under leases accounted for as sales-type and direct financing leases. In general, unguaranteed residual values are determined at the inceptions of the leases, thereby affecting the amounts of income to be recognized over the lease terms. Residual values are required to be reviewed at least annually, and downward adjustments made currently, if declines in estimated residual values are deemed to be other than temporary.

FASB Statement No. 66, *Accounting for Sales of Real Estate*

A-4. Paragraphs 29 and 30 of FASB Statement No. 66 provide the following guidance for estimating potential costs of support obligations:

> 29. *The seller is required to initiate or support operations or continue to operate the property at its own risk, or may be presumed to have such a risk, for an extended period, for a specified limited period, or until a specified level of operations has been obtained, for example, until rentals of a property are sufficient to cover operating expenses and debt service.* If support is required or presumed to be required[10] for an *extended* period of time, the transaction shall be accounted for as a financing, leasing, or profit-sharing arrangement. If support is required or presumed to be required for a *limited* time, profit on the sale shall be recognized on the basis of performance of the services required. Performance of those services shall be measured by the costs incurred and to be incurred over the period during which the services are performed. Profit shall begin to be recognized when there is reasonable assurance that future rent receipts will cover operating expenses and debt service including payments due the seller under the terms of the transaction.

Reasonable assurance that rentals will be adequate would be indicated by objective information regarding occupancy levels and rental rates in the immediate area. In assessing whether rentals will be adequate to justify recognition of profit, total estimated future rent receipts of the property shall be reduced by one-third as a reasonable safety factor unless the amount so computed is less than the rents to be received from signed leases. In this event, the rents from signed leases shall be substituted for the computed amount. . . .

30. If the sales contract does not stipulate the period during which the seller is obligated to support operations of the property, support shall be presumed for at least two years from the time of initial rental unless actual rental operations cover operating expenses, debt service, and other contractual commitments before that time. If the seller is contractually obligated for a longer time, profit recognition shall continue on the basis of performance until the obligation expires.

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[10] Support shall be presumed to be required if: (a) a seller obtains an interest as a general partner in a limited partnership that acquires an interest in the property sold; (b) a seller retains an equity interest in the property, such as an undivided interest or an equity interest in a joint venture that holds an interest in the property; (c) a seller holds a receivable from a buyer for a significant part of the sales price and collection of the receivable depends on the operaion of the property; or (d) a seller agrees to manage the property for the buyer on terms not usual for the services to be rendered, and the agreement is not terminable by either the seller or the buyer.

FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases*

A-5. Paragraphs 21 and 22 of FASB Technical Bulletin No. 88-1, *Issues Related to Accounting for Leases*, requires "wrap lease" transactions to be accounted for in the following manner:

Question 5

21. An enterprise purchases an asset, leases the asset to a lessee, obtains nonrecourse financing using the lease rentals or the lease rentals and the asset as collateral, sells the asset subject to the lease and the nonrecourse debt to a third-party investor, and leases the asset back while remaining the substantive principal lessor under the original lease (commonly referred to as a wrap lease transaction). Other than as required by Statement 13, as amended by Statements 28, 66, and 98, should an enterprise ever recognize any profit on the wrap lease transaction at its inception? If not, how should the enterprise account for the transaction?

Response

22. If the property involved is real estate, the provisions of Statement 98 apply to the sale-leaseback transaction. If the property involved is not real estate, the enterprise should account for the transaction as a sale-leaseback

transaction. If the property involved is not real estate, the enterprise should account for the transaction as a sale-leaseback transaction in accordance with paragraphs 32-34 of Statement 13, as amended, and the lease to the end user should be accounted for as a sublease in accordance with paragraph 36 of Statement 13. Under Statement 13 the asset should be removed from the books of the original enterprise, the leaseback should be classified in accordance with paragraph 6 of Statement 13, and any gain on the transaction should be recognized or deferred and amortized in accordance with paragraph 33 of Statement 13, as amended. The enterprise would also reflect the retained residual interest, gross sublease receivable, nonrecourse third-party debt, the leaseback obligation, and the note receivable from the investor in the statement of financial position. As in accounting for a money-over-money lease transaction. . . , the sublease asset and the related nonrecourse debt should not be offset in the statement of financial position unless a right of setoff exists.

AICPA Statement of Position No. 78-9, *Accounting for Investments in Real Estate Ventures*

A-6. SOP 78-9 provides guidance on accounting for investments in real estate ventures in financial statements prepared in conformity with generally accepted accounting principles. Paragraph 32 states the following:

Contribution of Services or Intangibles. The division believes the accounting considerations that apply to real property contributed to a partnership or joint venture also apply to contributions of services or intangibles. The investor's cost of such services or intangibles to be allocated to the cost of the investment should be determined by the investor in the same manner as for an investment in a wholly owned real estate project.

A-7. Paragraph 37 states the following:

If services are performed for a venture by an investor and their cost is capitalized by the venture, profit may be recognized by the investor to the extent attributable to the outside interests in the venture if the following conditions are met:

a. The substance of the transaction does not significantly differ from its form.

b. There are no substantial uncertainties about the ability of the investor to complete performance (as may be the case if the investor lacks experience in the business of the venture) or the total cost of services to be rendered.

c. There is a reasonable expectation that the other investors will bear their share of losses, if any.

The method of recognizing income from services rendered should be consistent with the method followed for services performed for unrelated parties.

FASB Emerging Issues Task Force Issue No. 85-37, *Recognition of Notes Received for Real Estate Syndication Activities*

A-8. Issue No. 85-37, *Recognition of Notes Received for Real Estate Syndication Activities*, discusses a number of methods of accounting for syndication transactions, including a method described as the "cash method," under which no carrying amount is recorded for notes receivable by syndicators from the partnerships except for portions of the notes that will be paid from the proceeds of the investors' contributions. The Emerging Issues Task Force (EITF) did not reach a consensus on the issue and referred it to the AICPA Real Estate Committee. However, the Securities and Exchange Commission (SEC) observer attending the EITF meeting stated that without a task force consensus, the SEC staff would challenge registrants that use a method other than the cash method. He also stated that the SEC objects to extending the 1980 AICPA Issues Paper *Accounting by Lease Brokers* to activities other than those of lease brokers. The SEC staff has also specifically objected to accretion of income on purchased, unguaranteed lease residuals and to income recognition and accretion of income on residual interests, realization of which depends on transactions whose occurrence in the future and whose terms are currently only anticipated.

AICPA Issues Paper, *Accounting by Lease Brokers*

A-9. The 1980 AICPA Issues Paper, *Accounting by Lease Brokers*, explicitly applies to equipment-leasing transactions, but the paper has been applied to real estate syndication transactions by analogy. Under lease-broker accounting, income is recognized at the inception of a lease based on cash received and the discounted amount of the expected residual (subject to an assessment of realizability). Until the FASB issued Technical Bulletin No. 86-2, *Accounting for an Interest in the Residual Value of a Leased Asset*, the residual could be accreted until realized. The amount of income to be recognized at the inception of a lease in money-over-money lease brokerage transactions was significantly restricted in FASB Technical Bulletin No. 88-1.

APPENDIX B

Examples

Example 1

B-1. The following examples illustrate the determination of sales value, the allocation of cash payments, and the calculation of syndication fees, as described in paragraphs 26 to 31, 34, and 35 of this SOP.

B-2. *Example 1a.* A syndicator arranges for a newly formed partnership to acquire a single-tenancy property using part of the proceeds raised through the sale of partnership interests to unrelated third parties, as follows:

- Limited partners contribute $4,000, of which $700 is retained for working capital, and the unrelated general partner contributes $100.
- The partnership acquires real estate from the syndicator at the syndicator's cost of $20,000. The partnership gives the following consideration:
  - $3,000 in cash.
  - The assumption of a $16,250 nonrecourse first mortgage note, payable in monthly installments over fifteen years with interest at a market rate.
  - A second mortgage note, payable to the syndicator for the balance of $750. The second mortgage is payable on the same terms as the first mortgage.
- The cash flow on the property is currently sufficient to meet the required principal and interest payments on the first and second mortgage notes.
- In addition, the syndicator receives the following:
  - Syndication fee:

Cash	$ 100
Note bearing a market rate of interest due in three years secured by a lien on the property that is not subject to future subordination	300
	$ 400

– Other fees—rent-up fee for activities prior to acquisition (accounted for as part of sales value)

Cash	$ 300
Note bearing a market rate of interest due in three years secured by a lien on the property that is not subject to future subordination	650
	950
Total fees	$ 1,350

Sales Value

Purchase price	$20,000
Other fees accounted for as part of sales value—rent-up fee for activities prior to acquisition	950
Adjusted sales value	$20,950

Cash Down Payment

Per sales contract		$ 3,000
Add: Fees paid in cash that are included in sales value	$ 300	
Less: Portion of syndication fee not paid in cash	300	–0–
Adjusted cash down payment		$ 3,000

Gain Calculation

Sales value	$20,950
Syndicator's cost	20,000
Gain	$ 950

Gain Recognition

Down-payment test:

$$\frac{\text{Down payment \$ 3,000}}{\text{Sales value \$20,950}} = 14\%$$

Required minimum down payment set forth in paragraph 54 of FASB Statement No. 66	15%

The sale does not meet the minimum required down-payment test for full profit recognition.

Use of the installment method[1] would result in profit recognition of:

$$\frac{\text{Down payment } \$\ 3{,}000}{\text{Sales value } \$20{,}950} \times \$950 = \$136^{2}$$

Syndication Fee Recognition

The syndication fee of $400 is deemed to have been received in cash and, accordingly, to have been collected. In addition, the syndicator's involvement with the property does not indicate that a funding obligation by the syndicator is likely. Therefore, the entire fee is recognizable currently. The collectibility of the balance of the amount designated as the note in payment of the syndication fee ($300) is evaluated as part of the evaluation of the collectibility of all notes from the real estate sale.

If the $300 note were unsecured or otherwise subject to future subordination, profit to the extent of the note would be recognized under the cost-recovery method. Profit to be recognized under the installment method would thus be reduced to $650 ($950 total less $300 under the cost-recovery method) and recognized as follows:

$$\frac{\text{Down payment } \$\ 3{,}000}{\text{Sales value } \$20{,}650^{3}} \times \$650 = \$94$$

[1] The method used is consistent with FASB Emerging Issues Task Force Issue No. 88-24, *Effect of Various Forms of Financing under FASB Statement No. 66.*

[2] Because the seller's receivable of $1,700 ($750 second mortgage plus $300 designated for syndication fees plus $650 designated for other fees) for the sales price and the fees exceeds the amount of deferred gain of $814 ($950 total gain less $136 profit recognized), no additional gain is currently recognized.

[3] In the calculation of profit under the installment method, the $20,950 sales value determined in example 1a is reduced by the $300 note that is being recognized under the cost-recovery method.

B-3. ***Example 1b.*** The same facts apply as in example 1a, except that the property is purchased from an independent third party for $20,000.

Sales Value

Same as in example 1a	$20,950

Cash Down Payment

Same as in example 1a	$ 3,000

Gain Calculation

Same as in example 1a	$ 950

Gain Recognition

Same as in example 1a

The sale does not meet the minimum required down-payment test for full profit recognition.

Use of the installment method would result in profit recognition of $136.

Syndication Fee Recognition

Same as in example 1a

B-4. ***Example 1c.*** The same facts apply as in example 1a, except that the syndicator retains a 3 percent limited partnership interest.

Sales Value

Same as in example 1a	$20,950

Cash Down Payment

Same as in example 1a	$ 3,000

Gain Calculation

Sales value		$20,950
Syndicator's cost	$20,000	
Less: 3% limited partnership interest—partial sale	112[4]	19,888
Gain		$ 1,062

[4] The $112 partial sale amount is computed by applying the limited partnership percentage (3 percent) to the difference between the syndicator's cost ($20,000) and the amount of the nonrecourse first mortgage note ($16,250) assumed at purchase by the partnership.

Gain Recognition

Down-payment test:

$$\frac{\text{Down payment } \$3{,}000}{\text{Sales value } \$20{,}950} = 14\%$$

Required minimum down-payment set forth in paragraph 54 of FASB Statement No. 66	15%

The sale does not meet the minimum required down-payment test for full profit recognition.

Use of the installment method would result in profit recognition of—

$$\frac{\text{Adjusted cash down payment } \$3{,}000}{\text{Sales value } \$20{,}950} \times \$1{,}062 = \$152$$ [5]

Syndication Fee Recognition

Same as in example 1a

B-5. ***Example 1d.*** The same facts apply as in example 1a, except that the syndicator agrees to fund cash-flow deficiencies for the first three years, up to a maximum of $1,500. In calculating the profit to be recognized based on performance of the services required (including reduction of rents by the one-third safety factor described in paragraph 29 of FASB Statement No. 66), there is a $1,100 exposure to loss. Current forecasts indicate discounted cash-flow losses of $500 in year 1, $300 in year 2, $200 in year 3, and positive cash flow thereafter. The partnership also pays an additional $200 of the $400 syndication fee in cash.

Sales Value

Same as in example 1a	$ 20,950

Cash Down Payment

Down payment as calculated in example 1a	$ 3,000
Additional cash	200
Adjusted cash down payment	$ 3,200

[5] Because the seller's receivable of $1,700 ($750 second mortgage plus $300 designated for syndication fees plus $650 designated for other fees) for the sales price and the fees exceeds the amount of deferred gain of $910 ($1,062 total gain less $152 profit recognized), no additional gain is currently recognized.

Gain Calculation

Gain as calculated in example 1a	$ 950
Less: Syndicator's exposure to loss under paragraph 29 of FASB Statement No. 66	1,100
Gain	NONE

Gain Recognition

Down-payment test:

$$\frac{\text{Down payment } \$3{,}200}{\text{Sales value } \$20{,}950} = 15\%$$

Required minimum down payment set forth in paragraph 54 of FASB Statement No. 66	15%

Although the sale meets the minimum required down-payment test for full profit recognition, no gain is recognizable because the exposure to loss exceeds the gain.

Syndication Fee Recognition

The syndicator would recognize $250 in syndication fee income, which is equal to the $400 syndication fee less the $150 excess of the syndicator's expected funding obligation ($1,100) over other fee income ($950).

Example 2

B-6. The following example illustrates the adjustment of syndication fees when stated fees are not reasonable, as described in paragraph 28 to 31 of this SOP. The property is an office building subject to lease on a long-term basis to parties with a satisfactory credit rating; cash flow is currently sufficient to service all indebtedness.

	Case 1	*Case 2*
Stated real estate sales price	$ 1,000	$ 900
Cost	$ 800	$ 800
Payments:		
Cash		
Stated syndication fees	$ 40	$ 140
Stated down payment	100	0
Total cash paid at closing	140	140

	Case 1	Case 2
Assumption of existing nonrecourse debt for which the seller has no contingent liability	800	800
Second mortgage note payable to seller	100	100
Total payments	$ 1,040	$ 1,040
Required minimum down payment for full recognition of profit in conformity with FASB Statement No. 66	10%	10%
Reasonable fee[6]	$ 100	$ 100

	Case 1		Case 2	
	Syndication Fees	*Real Estate Sale*	*Syndication Fees*	*Real Estate Sale*
Stated terms	$ 40	$ 1,000	$ 140	$ 900
Reallocation of fees	60	(60)	(40)	40
Adjusted balances	$ 100	$ 940	$ 100	$ 940

	Case 1	Case 2
Syndication fee recognized in income at date of sale:		
Stated fee	$ 40	$ 140
Adjustment	60	(40)
Total	$ 100	$ 100

[6] The syndication fee that is reasonable depends on circumstances unique to the individual transaction. The amount used in the example is not intended to serve as a benchmark for determining whether syndication fees are reasonable in practice.

	Case 1	Case 2
Allocation of cash:		
Stated syndication fees	$ 40	$ 140
Syndication fee allocated from real estate sale	60	0
Syndication fee allocated to real estate sale	0	(40)
Adjusted syndication fee	100	100
Real estate down payment	40	40
Total Cash	$ 140	$ 140

	Case 1	Case 2
Cash down payment required for full profit recognition:		
10% of adjusted sales price	$ 94	$ 94
Real estate down payment	40	40
Additional cash required for full profit recognition	$ 54	$ 54
Total profit on real estate transaction:		
Adjusted sales price	$ 940	$ 940
Cost	800	800
Total profit	$ 140	$ 140
Profit on real estate sales transaction recognizable under installment method—greater of:[7]		
(a) ($40/$940) x $140	$ 6	$ 6
or		
(b) Total accounted for as real estate profit	$ 140	$ 140
Less: Second mortgage receivable	100	100
Less: Buyer's debt secured by the property for which the seller is contingently liable	0	0
Total profit recognizable on real estate sale	$ 40	$ 40

[7] The method used is consistent with FASB Emerging Issues Task Force Issue No. 88-24.

	Case 1	Case 2
Total profit recognizable at closing:		
Syndication fee	$ 100	$ 100
Real estate sale	40	40
Total	$ 140	$ 140

The remaining balance of $100 in profit is deferred and recognized as cash payments are received by the syndicator.

Example 3

B-7. The following example illustrates the recognition of syndication fees received from blind pool transactions, as described in paragraph 32 of this SOP. The terms of the transaction are as follows:

- In June 19X1, syndication A raises $50,000 for investment in real estate in a blind pool transaction; at the time the equity is raised, no properties have been acquired or identified for acquisition.
- The offering memorandum states that $45,000 will be available for investment in property after payment of the following items:
  - $3,000 in syndication fees
  - $1,000 in expenses
  - $1,000 set aside for working-capital funds

  In addition, the offering memorandum states that it is anticipated that $15,000 of debt financing will be obtained in connection with the property acquisition.
- In July 19X1, a property is acquired for $15,000 cash and the assumption of an existing $5,000 first mortgage loan. The partnership is to use an additional $4,000 of its funds to renovate the property.

Syndication Fee Recognition

Assuming that the syndication fees to be recognized are nonrefundable and meet all conditions for recognition in income, as set forth in paragraphs 28 to 31 of this SOP, $1,200 should be recognized in July 19X1, as follows:

Cash purchase price	$15,000
Portion of purchase price financed with debt	5,000
Cash committed for renovation	4,000
Total invested	$24,000

$$\frac{\text{Total invested } \$24{,}000}{\text{Cash committed for investment } \$60{,}000} = 40\%$$

The syndication fee to be recognized in July 19X1 is $1,200 (40% x $3,000 total syndication fee).

The remaining syndication fee of $1,800 ($3,000 total less $1,200 recognized in July 19X1) would be recognized in income ratably as the syndication partnership invests in property acquisitions.

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