

Analysis on Income Accounting of Real Estate Enterprises*

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Abstract

With the rapid and sustained development of China socialist market economy, the real estate industry has become the industry part that plays a dominant role in national economy. But the related accounting system of real estate enterprise is not perfect in China and fails to have a full range of coverage, so part of the real estate enterprises will take advantage of the system vulnerabilities to do some illegal behaviors, including manipulating profits, whitewash statements and other violations, especially in the case of income accounting. In this paper, by analyzing the reason and current situation that emerges in the income accounting of the real estate industry in our country, here we will put forward corresponding countermeasures on the accounting income of real estate enterprise, in order to ensure the normal operation and management of real estate enterprises, to ensure the interests of investors, then to stabilize the socialist market economy, and to guarantee the formulation of state macro-control policy.

Keywords

Real Estate Enterprise, Revenue Accounting, Countermeasures

1. Introduction

The real estate industry is an important industry of the national economy, playing a dominant role, and the national accumulative investment has closed to 10 trillion by 2014 in China. Although China's real estate industry has developed rapidly, it also has caused some problems, and the income accounting problems are more common. Especially after the implementation of new accounting standards, accounting requirements

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for real estate enterprises have a new standard. Income accounting problem of real estate enterprise is paramount: it not only relates to the normal operation and management of the company, but also relates to the investors' trust and social moral problems, even to social stability and healthy development of market economy.

2. Accounting Standard for Business Enterprises—The Income Accounting Rules of Real Estate Enterprise

China's "Accounting standards for enterprises-basic standards", through the finance ministry no. 33 publishing on February 15, 2006, takes effect from January 1, 2007. On July 23, 2014, according to "the decision on modifying the 'accounting standards for enterprises-basic standards' of the ministry of finance", for income accounting regulation is as follows: 1) Income is defined as: refers to the total inflow of economic benefits formed in daily activities, will lead to increases in owners' equity, and has nothing to do with the owner invested capital. 2) For the recognition criteria of income: income can be confirmed only by the economic benefits that are likely to flow into enterprise assets or debt reduction, and the inflow of economic benefit can be measured reliably. 3) To comply with the definition and recognition criteria of revenue projects, the requirements shall be included in the income statement (*The Ministry of Finance, 2006*).

For the real estate development enterprise accounting, easy to carry out the "accounting standards for enterprises", the ministry of finance formulated the "real estate development enterprise accounting system". Among them, the caption of account "business income" in no. 501 is used for accounting operating income earned by business through external transfer, sales, settlement and lease development products, as follows: 1) transfer, land sales and commercial housing, all of them should be seen as a sales. When land and commercial housing have been transferred, and have submitted the invoice to settle the bill to the buyer, 2) the agent-construction of housing and project, should be seen as sales when the houses and project completion acceptance, completed the property transfer procedures, and has submitted the settlement bills of project price and construction of housing to entrust unit. 3) For land and commercial housing adopts instalment payment sales approach, can split into account in terms of payment time as stipulated in the contract. 4) Rental product development, shall be as income, after collection of rent on specified date stipulated by the provisions of the lease contract (or agreement); having arrived the receiving date stipulated in the contract and rent party fails to pay the rent, shall be deemed to be business income (*Finance, 2010*).

On the specific application, first, the operating revenue of the enterprise, should according to the actual cost accounting. Implementation in current business income, debit "receivables", "bank deposits" and other subjects, credited subject. Second, this should set up the subsidiary ledger according to the categories of business income, such as "land transfer income", "commercial housing sales", "facilities sales revenue", "income from settlement of construction engineering", "lease rental income products", etc. Third, in the final, transferring the balance all to "profits this year" course, after carried

forward, caption of account should has no balance.

3. Source of Income for Real Estate Enterprises

Source of income for real estate enterprises, mainly includes the following four aspects:

First, merchandise sales: This enterprise has transferred the main risks and rewards of the goods property to the buyer, the company no longer carries out continuous management right and real control authority concerned to proprietorship the goods, Related revenues can be measured reliably, the sales have received or obtained payment evidence, the related economic interests are likely to flow into the enterprise, and the cost related to the goods can be measured in a reliable way, to confirm the revenue realization.

Second, to provide labor services: The result of service transaction provided on the balance sheet date can be reliably estimate, reliable estimate refers to the amount of revenues can be measured reliably, the related economic interests are likely to flow into the enterprise, the progress of transaction completion can be reliably determined, the cost of trading has occurred and will take place can be measured reliably. In the final, according to the percentage of completion method, service revenue is confirmed.

Third, land development: Commercial land developed by real estate enterprise, we can transfer the land use right. Land development, according to Percentage of Completion Method, confirms the contract revenues and expenses on the balance sheet date.

Fourth, assigning the right to use assets: The economic interests related to trade are likely to flow into the enterprise, and the amount of revenues can be measured reliably. Amount of interest income, according to the time and real interest rates of enterprise monetary funds used by others to calculate and determine. Amount of royalty revenue, in accordance with charging time and methods stipulated by the relevant contract or agreement to calculative determination.

4. The Revenue Recognition and Comparative Analysis of the Listed Real Estate Companies in China

By 2014, china has a total of 144 listed real estate companies. Different listed companies use basically the same way for labor income, land development, the patterns of affirmation of the income through assigning the right to use assets, the following are the main types of commodity sales revenue:

First, proceeding revenue recognition after project completion approval (commodity house has been completed, been qualified and has the housing conditions), such as the Financial Street Holding Co. LTD., Shenzhen Special Economic Zone Real Estate (Group) Co. LTD. (Chen & Chen, 2013).

Second, in the housing delivery time for revenue recognition (real estate developers will consign commercial housing with housing conditions to the buyer, and then to revenue recognition if owner without justifiable reason to refuse to receive, then to written notice that after the determined delivery date for revenue recognition), such as Cofco Property (Group) Co., LTD., Hainan Expressway Co., LTD. (Chen & Chen,

2013).

Third, revenue recognition by installments according to the contract, in terms of the fair value of the receivable contract price to confirm by stages, such as Tianjin Real Estate Development (Group) Co., LTD., Jia KaiCheng Group Co., LTD. (Chen & Chen, 2013).

The above three kinds of revenue recognition ways, each has advantages and disadvantages.

First of all, after the project completion acceptance to proceed revenue recognition, and often the Annual financial just reflects investment costs, making statements fail to reflect actual situation. When all projects of the enterprise under construction are completed, the product conforms to confirm standard and after completion of the acceptance, the previous deposit received will be identified as income. So, this year's revenue will suddenly increase a lot.

Secondly, at the time of delivery for revenue recognition, this kind of patterns of affirmation is similar to one situation. But, by contrast, revenue recognition span is longer, the uncertainty is more obvious (Huang, 2013).

Finally, according to the contract in installment to confirm the revenue, the situation is more common to be seen, essentially embodying the financing nature, or to say to adopt the deferred way. In this kind of revenue recognition mode, there will not emerge large conditions like the first two patterns of volatile situation.

Taken together, the third is called Installment affirm income model that according to contract, revenue recognition is smooth, profits less volatile, this can better reflect the operating performance of the enterprise for investors, creditors and relevant government departments, so as to measure the current financial situation, forecasts the development trend of the future, and then to formulate better development strategy, making the enterprise development to strive for further improvement (Zhang, 2011). It has very important practical significance for the stability of the market economic order and smooth of state macro-control (Ye & Bo, 2012).

The former two modes, revenue recognition is volatile, profit volatility, the revenues and expenses not matching, income and cash flow is not matching, which causes asymmetric information, the accounting information quality to drop, easy to misleading investors, creditors and relevant government departments, making them difficult to grasp the enterprise's operating ability and financial status, then making the wrong decision, which will affect the normal operation, and even affect the market economic order.

5. The Suggestion of Income Accounts in Listed Companies

5.1. Pointedly Improving and Refining the Laws and Regulations System of Real Estate Enterprises

Accounting Standards for Business Enterprises does not especially mention the revenue recognition of real estate industry, and in "the Real estate development enterprise accounting system" specially formulated by the ministry of finance, the establishment of

Income confirmation principle was fuzzy, therefore in the real estate enterprise accounting system remains to be advanced and refined.

5.2. Enterprises Should Have Multi-Angle Comprehensive Considerations

The selection of real estate enterprise revenue recognition methods in addition to consider the accounting principle, we also should consider the practice environment, from the current state of the real estate industry and the trend of the real estate market (Chen, 2012). Soaring property prices at present, most of the time the owner can choose payment by installment, in this case to affirm income by installment is more suitable for current situation, and more advantageous to the enterprise development (Qian, 2010).

6. Conclusion

Real estate accounting is internal guarantee for the healthy development of real estate. Yet the current form is still not optimistic, the question remains, and the real estate enterprise accounting sales revenue recognition is an important performance. To solve the main problems, affirming income by installment is a good choice. But I believe that the real estate enterprise's development momentum cannot be prevented, and as a new generation of accounting, workers will further improve the real estate enterprise accounting.

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Appendix

144 listed real estate companies:

Code	Name	Operating Income (RMB Ten Thousand)	Growth Rate (%)
000036.SZ	Hualian Holding Co. LTD.	9591.5535	-15.9739
000402.SZ	Financial Street Holding Co. LTD.	491,904.4665	13.9338
000965.SZ	Tianbao Infrastructure Co. LTD.	35,902.5865	-55.8511
000638.SZ	Wisefund Investment Holding Co. LTD.	6591.9949	-30.1670
600322.SH	Tianjin Real Estate Development (Group) Co., LTD.	80,289.9414	-28.0781
600007.SH	China World Trade Center Holding Co. LTD.	109,514.5751	1.3557
000029.SZ	Shenzhen Special Economic Zone Real Estate (Group) Co. LTD..	114,755.2774	100.2450
000031.SZ	Cofco Property (Group) Co., LTD.	278,614.6131	18.4208
000042.SZ	Continental Holding Co. LTD.	232,675.8623	72.9541
000886.SZ	Hainan Expressway Co., LTD.	9908.8173	21.4346
000909.SZ	Soyea Technology Holding Co. LTD.	61,693.8930	25.1943
000918.SZ	Jia KaiCheng Group Co., LTD..	211,209.9830	-21.5018
000981.SZ	Millions of the Bank's Shares Holding Co. LTD.	212,136.5214	-19.3988
000656.SZ	US Shares Holding Co. LTD.	656,074.3004	50.5475
000691.SZ	Asia Pacific Industry Holding Co. LTD.	3342.9578	202.5177
000505.SZ	Pearl River Holding Co. LTD.	13,611.7829	9.1698
000514.SZ	Chongqing Development Holding Co. LTD.	31,926.0845	-62.5371
000526.SZ	Silver Run Investment Holding Co. LTD.	1253.2677	130.2794
000006.SZ	Shenzhen Zhenye Group A Holding Co. LTD.	202,261.4400	311.5284
600113.SH	Zhejiang East Holding Co. LTD.	11,644.3113	-37.6970
600734.SH	Shida Group Holding Co. LTD.	5491.5682	444.5281
600604.SH	City North High Holding Co. LTD.	8048.4188	3.9328
600620.SH	Heaven in Stock Holding Co. LTD.	2557.0657	36.3360
600621.SH	Huaxin Shares Holding Co. LTD.	29,854.2679	-21.4197
600648.SH	Wai Gao Qiao Holding Co. LTD.	352,340.0728	38.8689
600649.SH	City Investment Holding Co. LTD.	269,012.9074	-8.2955
600675.SH	Chinese Enterprises Holding Co. LTD.	127,258.5728	14.2358
600568.SH	Pearl Holding Co. LTD.	32,547.4740	-34.1925
600576.SH	Good Home Holding Co. LTD.	276.4738	-67.4581
600383.SH	Gemdale Group Holding Co. LTD.	808,842.8817	-10.9584

Continued

600240.SH	Uol Capital Holding Co. LTD.	315,908.9428	284.5788
600890.SH	Room Share Holding Co. LTD.	186.3968	-68.6835
600773.SH	Tibet City Holding Co. LTD.	18,223.3220	-65.9792
600807.SH	Industrial Corporation Holding Co. LTD.	38,867.6046	40.2483
000931.SZ	Zhongguancun Holding Co. LTD.	39,896.6535	-64.3562
000809.SZ	Tieling Holding Co. LTD.	1250.8562	-93.2594
000863.SZ	Sanxiang Shares Holding Co. LTD.	21,756.7192	-67.9900
000620.SZ	New Hualian Holding Co. LTD.	92,381.4957	7.5333
000534.SZ	Nwanze Shares Holding Co. LTD.	27,128.5318	1.8197
000540.SZ	Transit City Cast Holding Co. LTD.	804,400.7840	54.8293
000573.SZ	Guangdong Hongyuan A Holding Co. LTD.	20,059.9622	-62.2686
000046.SZ	Oceanwide Holding Co. LTD.	400,251.0227	88.3193
002133.SZ	Guangyu Group Holding Co. LTD.	58,463.2512	122.8799
000897.SZ	Jinbin Development Holding Co. LTD.	43,802.1208	-62.8745
600215.SH	Changchun Economic Development Holding Co. LTD.	9166.6973	-9.8674
600641.SH	Wanye Enterprises Holding Co. LTD.	97,949.3235	104.3647
600658.SH	Electronic Holding Co. LTD.	16,522.8812	-85.0484
600340.SH	Chinese Happy Holding Co. LTD.	1,687,224.3734	48.2298
600376.SH	First Shares Holding Co. LTD.	748,638.6249	-23.7451
600225.SH	Tianjin Songjiang Holding Co. LTD.	19,237.1523	-53.8498
600246.SH	Beijing Vantone Real Estate Holding Co. LTD.	78,485.6196	132.5605
600159.SH	Great Dragon Real Estate Holding Co. LTD.	19,053.2025	-4.9977
600185.SH	Gree Real Estate Holding Co. LTD.	11,517.1858	-86.7424
600716.SH	Phoenix Stakes Holding Co. LTD.	15,798.5890	-69.5934
600748.SH	Real Development Holding Co. LTD.	77,096.7939	33.2102
600759.SH	Intercontinental Oil And Gas Holding Co. LTD.	65,335.7619	85.2580
000671.SZ	Sunshine City Holding Co. LTD.	448,814.2056	46.1217
000038.SZ	Dark Chase Holding Co. LTD.	9725.7435	85.3713
002244.SZ	The Riverside Group Holding Co. LTD.	594,516.2532	36.8860
002077.SZ	Jiangsu Dagang Holding Co. LTD.	67,824.3134	-26.4725
000979.SZ	Zhonghong Shares Holding Co. LTD.	67,883.8431	-70.7085
600683.SH	Beijing Investment Intime Holding Co. LTD.	62,960.3954	431.8259
600753.SH	East Silver Star Holding Co. LTD.	40.0000	-69.7311

Continued

600639.SH	Jinqiao Holding Co. LTD.	74,782.3050	-22.2371
600393.SH	Donghua Industrial Holding Co. LTD.	29,989.6983	87.2834
600223.SH	Lushun Real Estate Holding Co. LTD.	200,466.6534	51.7390
002208.SZ	Hefei Urban Construction Holding Co. LTD.	25,260.0695	-66.3733
000668.SZ	Rongfeng Holdings Holding Co. LTD.	445.9075	-22.9904
000670.SZ	Infront Of Micro Holding Co. LTD.	12,436.1217	93.2005
000040.SZ	Baoan District Real Estate Holding Co. LTD.	48,903.2479	44.0638
000056.SZ	Dark Country Holding Co. LTD.	17,042.3405	356.2617
000150.SZ	Yihua Health Holding Co. LTD.	42,164.1046	430.0929
000961.SZ	Zhongnan Construction Holding Co. LTD.	882,100.4573	-7.2064
000024.SZ	Investment Real Estate Holding Co. LTD.	1,797,394.8437	12.0071
000090.SZ	Tonge Group Holding Co. LTD.	273,820.2392	54.0876
002285.SZ	World-Link Holding Co. LTD.	191,552.2311	35.2288
600606.SH	Green Holding Co. LTD.	8,612,346.0741	-26.6700
600239.SH	Yunnan Quasi-Holding Co. LTD.	28,211.7571	-57.9201
600158.SH	China Industry Holding Co. LTD.	26,814.4112	-32.3238
600048.SH	Poly Real Estate Holding Co. LTD.	4,234,496.1790	24.5465
600052.SH	Zhejiang Guangsha Holding Co. LTD.	39,009.1153	-15.1465
600684.SH	Pearl River Enterprises Holding Co. LTD.	100,360.3157	4.8903
600732.SH	*ST New Plum Holding Co. LTD.	4344.4743	-60.7150
002146.SZ	R Development Holding Co. LTD.	915,221.6167	-10.0156
000797.SZ	China Wuyi Holding Co. LTD.	100,185.3992	1.2462
000803.SZ	Kim Car City Holding Co. LTD.	4550.6358	-35.7027
000014.SZ	Shahe Shares Holding Co. LTD.	18,403.5355	-4.2407
002305.SZ	Southland Real Estate Holding Co. LTD.	60,476.5306	4.7290
600895.SH	Zhangjianggaoke Holding Co. LTD.	50,613.7752	-30.1136
600791.SH	Beijing Energy Real Estate Holding Co. LTD.	27,127.0343	-65.2725
600724.SH	Ningbo Fuda Holding Co. LTD.	111,164.8807	-69.7109
600638.SH	New Harbour Holding Co. LTD.	64,447.8947	-5.3746
600647.SH	Tongda Venture Holding Co. LTD.	6499.1395	-0.2402
600657.SH	Cinda Real Estate Holding Co. LTD.	216,327.0378	13.4913
600665.SH	World Source Holding Co. LTD.	31,611.0374	-61.0145
600533.SH	Qixia Formation In Construction Holding Co. LTD.	303,759.9070	144.0416

Continued

600325.SH	Hua FA Shares Holding Co. LTD.	223,252.4299	11.8463
000506.SZ	Run Resource Holding Co. LTD.	29,281.7066	74.3019
000043.SZ	Air Real Estate Holding Co. LTD.	161,340.7478	-17.8980
600823.SH	Shimao Shares Holding Co. LTD.	852,604.4247	39.3871
002016.SZ	Rong Zhaoye Holding Co. LTD.	61,765.2370	106.8732
000069.SZ	Overseas Chinese Town A Holding Co. LTD.	1,016,133.3341	-25.2657
601588.SH	North Star Industrial Holding Co. LTD.	324,946.6815	25.4670
600149.SH	Langfang Development Holding Co. LTD.	138.3147	-92.9672
600175.SH	United States Energy Holding Co. LTD.	239,533.0620	7.2295
600095.SH	High-Tech Holding Co. LTD.	10,605.0895	-62.8661
600777.SH	Fashion Industry Holding Co. LTD.	18,087.1178	-60.5677
000838.SZ	Country Real Estate Holding Co. LTD.	50,216.1204	50.6579
600622.SH	Garbo Group Holding Co. LTD.	103,355.4222	7.7283
000002.SZ	Vanke A Holding Co. LTD.	5,026,679.7993	22.7160
000631.SZ	Shunfa Hengye Holding Co. LTD.	199,402.6706	80.1200
000011.SZ	Depth Property A Holding Co. LTD.	33,876.1310	-32.4325
000502.SZ	Green View Holding Co. LTD.	1248.0459	-10.9193
600745.SH	Zhongyin Shares Holding Co. LTD.	37,618.0435	-50.3763
600162.SH	Hong Kong Holding Co. LTD.	186,087.6448	43.6965
600266.SH	Beijing Urban Construction Holding Co. LTD.	327,457.8817	-7.0524
000926.SZ	Lucky Star Shares Holding Co. LTD.	374,675.0917	-9.0261
000609.SZ	Cotton Stock Holding Co. LTD.	2778.0289	63.1192
000732.SZ	CAC Group Holding Co. LTD.	416,556.6415	84.8540
000736.SZ	Real Estate Holding Co. LTD.	30,778.8893	-33.3508
600555.SH	Dragon Mountain Holding Co. LTD.	9825.6024	1577.2099
600736.SH	Suzhou High-Tech Holding Co. LTD.	125,311.3985	-16.2466
600503.SH	Gorgeous Family Holding Co. LTD.	5,157.6308	-80.6082
000718.SZ	Suning Universal Holding Co. LTD.	376,389.0483	609.3287
600767.SH	Wan Shing Medical Therapy Holding Co. LTD.	1084.9352	64.5849
600463.SH	Airport Shares Holding Co. LTD.	26,297.0037	-30.6622
000567.SZ	Hyde Shares Holding Co. LTD.	937.3585	422.2696
000608.SZ	Sun Shares Holding Co. LTD.	34,324.2000	40.6585
600743.SH	Huayuan Property Holding Co. LTD.	218,872.0838	-42.7516

Continued

600094.SH	Big City Holding Co. LTD.	206,384.2966	82.3065
000616.SZ	Investment In HNA Holding Co. LTD.	29,949.0221	-26.5262
600565.SH	Dumas Shares Holding Co. LTD.	239,739.9525	-13.8594
000517.SZ	Rong An Real Estate Holding Co. LTD.	28,465.5671	-88.9776
600696.SH	Convex Horse Horses Holding Co. LTD.	-0.3585	-100.0359
600615.SH	US Shares Holding Co. LTD.	3569.8528	7.1830
600663.SH	Lu Jia Zui Holding Co. LTD.	250,534.3229	31.0705
600064.SH	Nanjing High-Tech Holding Co. LTD.	158,323.9051	0.4490
600173.SH	Wolong Real Estate Holding Co. LTD.	67,122.7511	21.2171
000558.SZ	The Rhine Sports Holding Co. LTD.	118,073.8633	14.1428
600208.SH	Xinhu Zhongbao Holding Co. LTD.	497,961.4361	73.7530
600067.SH	First City Kingberry Chase Holding Co. LTD.	292,264.1210	-18.4697
000005.SZ	Century Star Holding Co. LTD.	3628.5339	52.0984
000537.SZ	Guang Yu Development Holding Co. LTD.	67,310.0572	9.6841
000667.SZ	Good Group Holding Co. LTD.	104,928.4729	-3.7344



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