

# Comparison of old and new revenue recognition criteria and countermeasures——Take Evergrande Real Estate Group Co., Ltd. as an example

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**Abstract.** In the current social development, transaction mode is constantly having to bring out the old, and the step and method of revenue recognition is becoming more and more complex. So the defects of the original income criterion are exposed gradually. In order to comply with the trend of Chinese economic development and perfect our accounting information standard, the Ministry of Finance made an innovation income recognition criterion decision. Therefore, the Accounting Standards for Business Enterprises No.14 Revenue (Finance and Accounting [2017] No.22) was released in July 2017. Compared with the original revenue recognition standards, the adjustment between the two standards and the revenue recognition standards in international financial reports basically converge, and the requirements for the way, time or time of revenue recognition of enterprises are significantly improved. Income is a very important indicator to evaluate the profitability of an enterprise in the process of operation, so the recognition and measurement of income is very important. The purpose of this study is to compare the differences between the old and new revenue recognition criteria, propose solutions to the problems, and clearly define how real estate enterprises recognize revenue under the new standard, what impact it will bring to real estate enterprises in practice, and what aspects real estate enterprises should pay attention to under the revised revenue criteria. This paper will also have a reference for other enterprises.

**Keywords:** new revenue recognition standard; real estate enterprises; Evergrande real estate.

## 1. Introduction

### 1.1. Research background

At present, our country is in the environment of vigorous economic development, increasing industries and emerging businesses of various industries. Transaction process grows and transaction complexity increases. The original standard of revenue recognition criterion of revenue cannot adapt to the new transaction modes, which exposes the limitations of the old revenue criterion. The original revenue recognition criterion in our country has been carried out for 13 years. Then, in order to adapt to the development of times and solve problems existing in practice, our current revenue recognition criterion will keep its convergence with international revenue recognition criterion. On July 19, 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 14 Revenue (hereinafter referred to as the new revenue Standards (2017)), which effectively improved the quality of China's accounting information and kept up with the international situation.

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### 1.2. Significance of research

The profit and loss of an enterprise is very important to the enterprise itself, so the income has always been a key indicator in the enterprise financial statements. Income can reflect the level of enterprise operation and management personnel and is also the focus of concern of all investors, creditors and other stakeholders related to the enterprise, and is also the focus of the enterprise window-dressing statements. The main purposes of the new accounting standards promulgated by the

country (2017) are to keep the convergence of Chinese and international revenue recognition standards and improve the quality of accounting information in our country. The difference between old and new recognition standards will certainly affect enterprises' accounting work, accounting information and financial statements. What kind of specific impact these changes will have on enterprises, and how the affected enterprises should deal with them, all remain for us to ponder and explore.

## 2. Basic information of Evergrande Real Estate Group

### 2.1. Asset composition of Evergrande Real Estate Group

According to the 2019 interim annual report of Evergrande Real Estate, the current assets and non-current assets are RMB 1,763,817 million yuan and RMB 3,347,23 million yuan respectively, with a difference of 5.27 times. The current assets and non-current assets of Country Garden were RMB 1,472,179 million yuan and 274,551 yuan respectively, with a ratio of 5.36. Vanke's current assets and non-current assets are 1,438,989 million yuan and 290,940 million yuan respectively, with a ratio of 4.95. From the data point of view, the current assets of the three real estate enterprises are far higher than the non-current assets, with a gap of about 5 times. This is because the resources occupied by real estate development are large. The costs such as land use fee, construction cost generated during the development, depreciation expense of various machinery and equipment are all included in the current assets. Due to the large scale of the enterprise, the reserve land held and the high value of the building under construction are the root cause of the large amount of current assets of the real estate enterprise.

**Table 1.** Ratio of current assets and non-current assets of real estate enterprises in 2019

	Evergrande	Country Garden	Vanke
current assets	1,763,817	1,472,179	1,438,989
non-current assets	334,723	274,551	290,940
current assets /non-current assets	5.27	5.36	4.95

Based on the amount, the top five specific assets of Evergrande Real Estate in 2019 are as follows: developing business, cash and cash equivalents, investment business, prepaid accounts and trade receivables and other receivables

### 2.2. Sources of income of Evergrande Real Estate Group

Evergrande Group has four revenue sources, namely real estate sales, rental income, property management services and other businesses. Other businesses mainly include hotel operation, Internet business, health business and investment business. In the 2018 annual report, the revenue from real estate sales reached 452,764-million-yuan, accounting for 97% of the total revenue. Rental income amounted to \$117.8 million, or 0.2% of total revenue. Revenue from property management services amounted to \$40.67 million, or 0.9% of the total revenue. Revenue from other businesses amounted to 818.7-million-yuan, accounting for 1.9% of the total revenue.

Compared with the data in the 2017 report, the annual revenue of Evergrande increased by 66.7% in 2017-2018, and the total revenue increased from 311,022 million yuan to 466,196 million yuan, among which the revenue of four divisions all showed an upward trend. The following two tables respectively show the specific situation and proportion of the ideological business income of Evergrande Group from 2015 to 2018.

**Table 2.** Income statement of four businesses of Evergrande Real Estate from 2015 to 2018

Numble	2015	2016	2017	2018
Real estate sales	126,449	203,890	302,384	452,764
Rental income	241	647	811	1,178
Property management service	1,318	1,948	3,024	4,067
Other	5,122	4,959	4,803	8,187
Total revenue	133,130	211,444	311,022	466,196

**Table 3.** Statement of income proportion of four businesses of Evergrande Real Estate from 2015 to 2018

Numble	2015	2016	2017	2018
Real estate sales	95%	96%	97%	97%
Rental income	0.2%	0.3%	0.3%	0.2%
Property management service	1%	0.9%	1%	0.9%
Other	3.8%	2.8%	1.7%	1.9%

It should be noted that the financial statements of Evergrande Group from 2015 to 2018 are still based on the transfer of risks and rewards of commodities, that is, the completion of relevant construction projects and the delivery of goods to buyers, and the income can be recognized when the receipt of relevant receivables can be reasonably confirmed, rather than the new criterion CAS14 (2017) for the transfer of control.

### 3. Case study of Evergrande Real Estate Group Co. LTD

#### 3.1. The impact of new revenue recognition criteria on revenue recognition

The financial statements disclosed by Evergrande Real Estate up to 2018 all adopted the income policy of recognizing the income when the risk reward of commodities is transferred and the relevant receivables can be reasonably recognized. That is to say, in the process of building, when the house is for sale, the house and property are fully delivered to the owner and the payment is received, then the risk and reward are completely transferred before the income is recognized. Not subject to revenue recognition during lengthy construction activities. Then, if the enterprise adopts the new revenue recognition criterion (2017) to recognize revenue, the enterprise should follow the provisions of the criterion. First, the contract indicates the commitments and obligations that both parties should perform, and clearly states the specific rights and obligations. The following is an analysis of how Evergrande Real Estate should establish a new revenue recognition standard through the five-step method through the new revenue recognition criteria:

The first step is to identify a contract, which is an agreement between two or more parties with legally binding rights and obligations. The contract may take a variety of forms, but it must have commercial substance. The enterprise should divide and standardize the contract contents, and clearly indicate the obligations and rights that the buyer and the seller should fulfill. Second, it is necessary to identify individual performance obligations in the contract. Performance obligations refer to the commitment of the enterprise to transfer commodities or provide services to customers. The buyer can obtain a good or a service from the seller, and possibly other resources that benefit the buyer. Individual commitments can be separately distinguished from other commitments in the contract, that is, goods or services or resources can be clearly distinguished and should be accounted for separately.

### **3.2. The impact of new revenue recognition criteria on financial statements**

In the original revenue recognition criteria, the methods of revenue recognition in different transaction situations are also different. Generally, the accounting policies involved include the recognition methods of labor service, the recognition methods of the completion progress of the construction contract, the amount of the four types of transactions confirmed in the current period, the accumulated cost of the construction contract, the accumulated gross profit or loss recognized. And the estimated loss of resources and amounts for the current period. In the new revenue recognition criteria, the items that need to be listed are added, and the two accounting subjects of "contract assets" and "contract liabilities" are added to expand the scope of disclosure.

In terms of cost, the qualified cost built into the contract should be included in the original revenue criteria, and this part includes indirect costs and direct costs. When the new revenue recognition criteria is used, there is a more clear direction for the "contract cost" of the contract related costs, and the new revenue recognition criteria more perfect and standardized subsequent amortization, impairment and other accounting treatment. Contract incremental cost and contract performance cost are important components of contract cost. If it is expected to be recovered during the process of enterprise incremental cost, then this part of contract acquisition cost should be identified as an asset. The cost of contract performance that has already been incurred is no longer included in the scope of other guidelines, such as inventory, intangible assets or real estate, plant and equipment that existed before signing the contract. The enterprise must meet the standard conditions of cost of contract performance, that is, the cost of contract performance can be directly identified as related to the existing or expected contract. And the cost of performing the contract generates or occupies the resources used by the enterprise to perform the performance obligations in the future; The final cost of performing the contract is expected to be recovered before it can be recognized as an asset.

In the case of this paper, the project company can compare the amount of confirmed income with the amount collected from customers in the actual transaction process. If the amount of confirmed income is greater than the amount actually collected, it can be included in the contract asset account of the balance sheet; if the amount of confirmed income is less than the amount actually collected, The contract liability item can be included in the balance sheet. If the project of the contract is large and the income of a single performance obligation needs to be recognized, the performance progress can be measured according to the input method detailed in the new revenue criteria, so as to determine the income.

## **4. Other companies have proposed measures to face the new revenue recognition criteria**

### **4.1. In terms of enterprise contract management, the original contract content will be optimized and refined**

From the perspective of contract management, in order to improve the accuracy of accounting information and make the revenue more accurately recognized and measured, the enterprise must upgrade the original contract, reorganize and innovate it, and analyze specific problems based on its own operating characteristics, transaction characteristics and habits. It is rough and random or inertial to review the contract of the counterparty. Instead, it should take the new revenue recognition criterion (2017) as the cornerstone, write the contract, and the reviewers should analyze and think about various problems encountered in the contract and update them from the perspective of comprehensiveness, relevance and universality. In the process of enterprise operation, there are bound to be various types of contracts. For various enterprises that need to constantly innovate products and expand product channels, relevant financial employees and employees of other related businesses should learn together, grasp the core of the new income criteria, and adjust the requirements for contract writing and contract review.

#### **4.2. Financial staff work to enhance their professional quality**

Financial personnel at work need to learn the new revenue recognition criteria, and classify the related and affected entries and businesses after clearly understanding and grasping CAS14 (2017). For example: The recognition time and time periods of the old and new revenue criteria for the same business are inconsistent, the financing business with a large amount, the contract cost that can be expensed in the original criteria, the relevant current funds that should be summarized as contract liabilities but not required in the original criteria, and so on. In order to better meet the innovation of revenue recognition standards, enterprises will classify the accounts and reset the relevant accounts in the process of changing accounting methods, so that the accounting can be more clear and convenient, so that the accounting work can be more compliant, legal and smooth, and prepare for the disclosure of corporate information in financial statements.

#### **4.3. Business management should update the relevant rules and regulations and work flow in time**

When enterprises timely adapt to the new national rules and policies to make corresponding changes, financial personnel timely learn systematic knowledge, in order to implement the new rules and regulations, improve the application effect, the internal enterprise should timely revise the new specific financial accounting process, change the traditional accounting process, so as to correctly, quickly and efficiently implement the new policy in the implementation process. To carry out the accounting work to provide a strong and powerful guarantee. In addition, the enterprise can also set up a new supervision and management organization to strengthen the supervision of the accounting process, so as to make a good transition at the important nodes. If there are any problems, they can be found and solved in the first time. When changing the revenue recognition criteria and implementing the new criteria, strengthening the management and supervision of relevant accounting work and strictly implementing the new rules and regulations will have a significant positive impact on improving the accuracy of revenue accounting.

### **5. Summary**

Taking Evergrande Real Estate Group as an example, this paper focuses on comparing the differences between the old and new revenue recognition criteria, studies the statements disclosed by Evergrande Real Estate in the period of adopting the new criteria, and explores what specific changes should be taken when adopting the new revenue recognition criteria (2017) in the future, as well as what impact it will bring to the company. This paper expounds the basic research and relevant theoretical knowledge of the old and new income criteria, and based on this, puts forward suggestions and opinions for Evergrande Real Estate and other enterprises.

In the part of case analysis, it elaborated the basic situation of Evergrande Real Estate Group, such as asset composition and business income sources, analyzed the change and influence of the new revenue recognition criteria on the future financial disclosure of Evergrande Real Estate Group, and gave suggestions and opinions on the staff work, enterprise planning and operation management of Evergrande Group when facing the new revenue recognition criteria (2017). Through the case study of Evergrande Group, it can be found that CAS14 (2017) has a great change compared with the original income criterion. The new revenue recognition criterion takes the transfer of control rights as the core standard to confirm the measurement of revenue and the provisions of the "five-step method" step, so that the lag of revenue recognition has been greatly improved, and strengthens the accounting information treatment. The innovation of this criterion can be said to have a far-reaching impact on the standards and processes of the future revenue recognition of enterprises and the working ideas of accounting personnel. We accountants should continue to learn and progress, for the vigorous development of enterprises and national economic construction to add bricks and tiles, and make their own modest contribution

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