

88 CASE STUDY

Percentage of Completion methodology

PERCENTAGE OF COMPLETION (PoC)

Multiplan accounts real estate for sale revenues and corresponding costs under the Percentage of Completion method (PoC).

The PoC method complies with the practices adopted in Brazil and with the International Financial Reporting Standards (IFRS), applicable to real estate development entities in Brazil registered with the Brazilian Securities and Exchange Commission (CVM) and is based on the physical and the financial evolution of a project development.

The costs incurred are recorded as inventories (while construction is in progress) and accrued as “cost of properties sold” as units are sold weighted by its percentage of the PSV¹. In a similar way, the revenues of units sold are accrued proportionally to the physical evolution of the unit construction. After delivery, costs and sales will be recognized in profit or loss when incurred.

The example below illustrates the impact of the development of a hypothetical residential project in the financial statements, according to the PoC method.

Hypothetical assumptions

Price per unit	<i>R\$ 2 million</i>
Total units	<i>10 units</i>
Total costs (budget)	<i>R\$ 15 million</i>
% of construction (physical)	<i>20%</i>
% of sales (financial)	<i>50%</i>

IMPACT ON THE FINANCIAL STATEMENTS

i. Real estate for sale revenue

The revenue accrual is calculated by multiplying the sales revenue by the % of construction completed.

Units sold (a)	5
Price per unit (b)	R\$ 2 million
Sales revenue: (c) = (a) x (b)	R\$ 10 million
% of construction (d)	20%
Real estate for sale revenue: (c) x (d)	R\$ 2 million

ii. Cost of properties sold

Costs related to properties sold is accounted by multiplying incurred costs by the % of sales. Incurred costs also include cost of land.

Total costs (budget) (a)	R\$ 15 million
% of construction (b)	20%
% of sales (c)	50%
Cost of properties sold: (a) x (b) x (c)	R\$ 1.5 million

iii. Projects for sale expenses

Expenses related to marketing, real estate property tax (IPTU²) and others are accounted for in the “projects for sale expenses” line and do not follow the physical and financial evolution of the project. Brokerage expenses, however, are subject to the PoC methodology and are accounted for according to the financial and physical stage indicators, as indicated in item (ii) above.

¹ PSV stands for Potential Sales Value.

² IPTU (Imposto Predial e Territorial Urbano, in Portuguese) refers to the real estate property tax in Brazil.