

### Case 92-3

#### **When Should a Gain Be Recognized?**

On January 15, 1992, Sweettooth Corp., which has a March 31 year-end, entered into a transaction to sell the land and building in which it operated a candy factory for a total selling price of \$22,500,000. The book value of the land and the building was \$3,532,000. The final closing was not expected to occur until sometime between June 1993 and March 1994.

On March 15, 1992, Sweettooth received an irrevocable letter of credit, issued by a major bank, for \$5,850,000, which represented more than 25% of the sales price. Sweettooth would collect the \$5,850,000 and would keep the property even if the buyer decided not to complete the transaction. The letter of credit had an option for an extension for up to one year for a total period of two years. At closing, the entire selling price was to be paid in cash.

Sweettooth was going to continue to operate its candy factory in the building and would continue to be responsible for all normal occupancy costs until final closing when it would move to another location. After the sale, the building would be torn down and replaced by a major office building complex.

#### **Required:**

- Based on the provisions in SFAS No. 66, Accounting for Sales of Real Estate, can Sweettooth recognize a profit on the transaction at March 31, 1992?
- What is the substance of the transaction and how should Sweettooth account for it?