ECON 136A RESEARCH PROJECT FALL 2004

This project will require you to research accounting literature. Doing so requires access to the large volume of “rules” and also a tool for “searched”. Both are available using KPMG’s Accounting Research Online tool:

WEBSITE: https://www.aro.kpmg.com as anderson@econ.ucsb.edu. See instructor for password.

You are the controller for a commercial real estate company, Seller, Inc. and have been instructed to locate the FASB Statement which addresses Sales of Real Estate. (Hint: the words “Sales or Real Estate” are in the title of the FASB statement.

Once located, you should read the literature, and answer the following questions referencing the literature you located for each answer:

1. Is there any discussion re: adequate initial investment by the buyer?

2. Is there any discussion re: adequate continuing investment by the buyer?

3. Is there any discussion re: continuing involvement in the project by the seller?

Armed with this knowledge, discuss whether the following real estate sales transaction would qualify for gain computation under the “full accrual” method:

A fully occupied retail shopping center is sold to Buyer for $10,000,000. Buyer agrees to pay $2,500,000 in cash when escrow closes, and to pay the remaining balance of $7,500,000 exactly one year from escrow closing. The Seller will transfer title to the property and all risks and rewards will transfer to Buyer when escrow closes. Seller will have no further association or involvement in the project after the sale.

NOTE: Much like in the real-world, you are responsible for taking the initiative. The instructor is available as a boss would be for you to seek guidance from. BUT no guidance will be granted unless a clear effort has been made first by the student. The goal is NOT the right answer, but your learning how to research.