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Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

A Financial Accounting and Reporting Practice Aid

To be used in conjunction with Checklists and Illustrative Financial Statements for Corporations

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Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
FSP Section 7000

CHECKLIST AND ILLUSTRATIVE
FINANCIAL STATEMENTS FOR REAL
ESTATE VENTURES

.01 The checklist and illustrative financial statements included in this section have been developed by the AICPA's Technical Publications staff as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP; as a result, pronouncements deemed unlikely to be encountered in financial statements of real estate ventures are not included.

- The checklist and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

- The checklist and illustrative financial statements are to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations” (FSP sections 2000—2600) and have been updated to include relevant accounting pronouncements through FASB Statement of Financial Accounting Standards No. 123, AICPA Statement of Position No. 95-3, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Practice Bulletin No. 14, and FASB Emerging Issues Task Force consensuses reached through May 19, 1995. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.

.02 Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Note: This publication was extracted from sections 7,000 through 7,300 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 7100

Introduction

.01 Real estate joint ventures are entities organized to accomplish a business purpose for the benefit of the members of the group. They are formed in a variety of legal ways. There are corporate joint ventures, partnerships (general or limited), undivided interests, limited liability companies, and limited liability partnerships.

.02 Real estate joint ventures ordinarily are formed to accomplish various activities, such as to sell homes and homesites, to complete development of commercial or residential real estate, or to operate and maintain those facilities.

.03 An AICPA Issues Paper (Issues Paper), “Joint Venture Accounting,” dated July 17, 1979, describes certain characteristics common to joint ventures: The entities are “(1) owned, operated, and jointly controlled by a small group as a separate and specific business project; (2) operated for the mutual benefit of the ownership group; (3) frequently organized to share risks and rewards in developing a new market, product, or technology by pooling resources and facilities; (4) operated under arrangements by which each venturer may participate in overall management regardless of the percentage of ownership; (5) usually of limited duration; (6) usually operated as an extension of the business or investment of one or more of the venturers; and (7) owned by a small number of venturers.” In addition to real estate activities, joint ventures are used for various purposes including to explore for oil and gas, and construct and operate manufacturing facilities.

Accounting Literature

.04 The accounting literature has given little attention to the accounting by a joint venture. Most literature in this area deals with the accounting by the investor for an investment in a joint venture. For example, the Issues Paper and its addendum issued on October 8, 1979, the AICPA Statement of Position 78-9, Accounting for Investments in Real Estate Ventures, APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, and FASB Statement No. 14, Financial Reporting for Segments of a Business Enterprise, all deal primarily with the accounting and disclosure by an investor in a joint venture or investee.

Current Developments

.05 In October 1995, the FASB issued an exposure draft entitled Proposed Statement of Financial Accounting Standards—Consolidated Financial Statements: Policy and Procedures. The deadline for comments is January 15, 1996. The proposed statement would establish standards that specify when entities should be included in consolidated financial statements and how consolidated financial statements should be prepared. The AICPA is also planning to issue an exposure draft in the first quarter of 1996 entitled Accounting for Investors’ Interest in Unconsolidated Real Estate Joint Ventures. It is planned that the exposure draft will supersede SOP 78-9, Accounting for Investments in Real Estate Ventures.

Financial Statements

.06 The financial statements accompanying the disclosure checklist illustrate how a joint venture entity would report its financial condition, results of operations, and cash flows.

.07 Please note that the equity section of those joint venture financial statements presents separately the ownership interest of each venturer based on his equity interest in the joint venture. If the joint venture is a corporation, the equity section would show the equity interest of each corporation. If the joint venture is a partnership, the equity section would be entitled “Partner’s Capital,” and would list the equity interest of each partner and distinguish between class of partners.
FSP Section 7200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the AICPA's Technical Publications staff as a nonauthoritative practice aid and is to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations (FSP sections 2000—2600).”

.02 Explanation of References:

ARB = AICPA Accounting Research Bulletin
APB = AICPA Accounting Principles Board Opinion
SFAS = FASB Statement of Financial Accounting Standards
AC = Reference to section number in FASB Accounting Standards—Current Text
SOP = AICPA Statement of Position

.03 Checklist Questionnaire

Yes No N/A

General

A. Disclosure of Accounting Policies

1. Is the method of reporting investments in joint ventures disclosed?
   [APB 22, par. 13 (AC A10.106)]

2. Is the consolidation policy disclosed?
   [ARB 51, par. 5 (AC C51.108); APB 22, pars. 12—13 (AC A10.105—.106)]

3. Is treatment of the following items considered for disclosure:
   a. Preacquisition costs?
   b. Interest, property taxes, and insurance?
   c. Indirect property costs?
   d. Amenities?
   e. Incremental revenue from incidental operations?
      [SFAS 67, pars. 4—10 (AC Re2.104—.110)]

4. Is the method of allocating capitalized costs to components of real estate projects considered for disclosure?
   [SFAS 67, par. 11 (AC Re2.111)]

5. Disclosure of method of revenue recognition:
   a. Is a description provided of the accounting principles followed and the method of applying those principles?
   b. If the percentage-of-completion method is used for condominium projects or time-sharing interests, are the minimum requirements for units sold and project costs incurred before profit is recognized considered for disclosure?
      [APB 22, par. 12 (AC A10.105); SFAS 66, par. 37 (AC Re1.137)]

B. Accounting Changes

1. Are significant revisions in estimates of the percentage-of-completion disclosed, if the effects are material?
   [APB 20, par. 33 (AC A06.132)]
2. If a retail land sale that has been accounted for by the installment method subsequently qualifies and is accounted for by the percentage-of-completion method, is the effect accounted for as a change in accounting estimate and is the effect on income before extraordinary items, net income, and related per-share amounts of the current period disclosed? [APB 20, par. 33 (AC A06.132); SFAS 66, par. 49 (AC Re1.149)]

3. If a sale, other than a retail land sale, which is accounted for using the installment or cost recovery methods, subsequently qualifies and is changed to the full accrual method, is this change disclosed? [APB 22, par. 12 (AC A10.105); SFAS 66, par. 61 and 64 (AC Re1.159 and 1.162)]

C. Contingencies and Commitments
1. Are the following disclosures regarding improvements for retail land sales operations made:
   a. Estimated total costs and estimated dates of expenditures for improvements for major areas from which sales are being made over each of the five years following the date of the financial statements? [SFAS 66, par. 50 (AC Re1.150)]
   b. Recorded obligations for improvements? [SFAS 66, par. 50 (AC Re1.150)]

2. Are other significant commitments disclosed, such as commitments to purchase or construct real estate or provide financing to affiliates? [SFAS 5, pars. 18—19 (AC C59.120)]

D. Other Matters
1. If the installment method of profit recognition is used, are the following items disclosed:
   a. The sales value, unrecognized gross profit, and total cost of the sale in the income statement or notes for the period including the date of sale? [SFAS 66, par. 59 (AC Re1.157)]
   b. The revenue and cost of sales presented as separate items in the income statement or notes when profit is recognized as earned? [SFAS 66, par. 63 (AC Re1.161)]

2. If the cost recovery method of profit recognition is used:
   a. Is the sales value, unrecognized gross profit, and total cost of the sale in the income statement for the period including the date of sale disclosed? [SFAS 66, par. 63 (AC Re1.161)]
   b. Is the unrecognized gross profit offset against the related receivable on the balance sheet? [SFAS 66, par. 63 (AC Re1.161)]
   c. Is the gross profit presented as a separate item of revenue on the income statement, when it is recognized as earned? [SFAS 66, par. 63 (AC Re1.161)]

3. If the deposit method of profit recognition is used, is disclosure made that the property and related existing debt are subject to a sale contract? [SFAS 66, par. 65 (AC Re1.163)]

E. Risks and Uncertainties (SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties, is effective for financial statements issued for fiscal years ending after December 15, 1995.)
1. Is a description of the major products and services the venture sells or provides and the principal markets, including the location of those markets disclosed? [SOP 94-6, par. 10]
2. If the venture operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]
3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements?  
[SOP 94-6, par. 11]

4. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that (a) it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events and (b) the effect of the change would be material to the financial statements?  
[SOP 94-6, par. 13]

5. Does the disclosure in Step 4 above, indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term?  
[SOP 94-6, par. 14]

6. If the estimate in Step 4 above involves a loss contingency covered by SFAS 5, Accounting for Contingencies, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made?  
[SOP 94-6, par. 14]

7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met?  
[SOP 94-6, pars. 21–22]

8. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered?  
[SOP 94-6, pars. 14–15]

**Balance Sheet**

**A. General**

1. Is an unclassified balance sheet considered where it is not possible to clearly define the operating cycle and classification of current assets and liabilities on the basis of the one-year rule in ARB 43, chapter 3A, paragraph 5?  
[Generally Accepted]

2. Are real estate assets grouped in a manner that discloses the company's operations (the following are examples of classifications to consider):

   a. Unimproved land?
   b. Land under development?
   c. Residential lots?
   d. Condominiums?
   e. Single-family dwellings?
   f. Rental properties?
   g. Commercial and industrial properties?  
[Generally Accepted]

**B. Receivables**

1. Are the following disclosures regarding accounts receivable of enterprises with retail land sales operations disclosed:

   a. Maturities of accounts receivable for each of the five years following the date of the financial statements?

---

1 If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.
2 See footnote 1.
b. Delinquent accounts receivable and the method(s) for determining delinquency?

c. The weighted average and range of stated interest rates of receivables?

[SFAS 66, par. 50 (AC Rel.1.150)]

C. Investments

1. For investments by the real estate venture in other entities accounted for under the equity method, are the following items disclosed:

   a. The name of each joint venture and percentage of ownership?
   
   b. The accounting policies of the investor with respect to investments in joint ventures?
   
   c. The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in the investee’s net assets and the accounting treatment of the difference?
   
   d. For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price (this is not required for investments in common stock of subsidiaries)?
   
   e. If investments in subsidiaries not consolidated prior to adoption of SFAS 94, Consolidation of All Majority-Owned Subsidiaries, are, in the aggregate, material in relation to financial position or results of operations, summarized information as to assets, liabilities, and results of operations for such subsidiaries (in the notes or in separate statements), either individually or in groups, as appropriate?
   
   f. If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations, summarized information as to assets, liabilities, and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate?
   
   g. Material effects of possible conversions, exercises, and other contingent issuances of an investee on the investor’s share of reported earnings or loss if conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor’s share of reported earnings?
   
   h. The names of any significant investments in which the investor holds less than 20 percent of the voting stock and the investment is accounted for on the equity method together with reasons why the equity method is considered appropriate?

[APB 18, par. 20 (AC 182.110)]

2. Are the following items relating to investments by the real estate venture in other entities accounted for under the cost method disclosed:

   a. The accounting policies of the investor with respect to investments in joint ventures?

   [APB 18, par. 20 (AC 182.110)]

   b. The amount of dividends or distributions received in the current period?

   [Generally Accepted]

   c. The names of any significant investments in which the investor holds 20 percent or more of the voting stock and the investment is not accounted for on the equity method, together with reasons why the equity method is not considered appropriate?

   [APB 18, par. 20 (AC 182.110)]

3. Are the following items relating to investments in real estate ventures accounted for under the proportionate consolidation method disclosed:

   a. The accounting policies of the investor with respect to investment in joint ventures?

   [APB 18, par. 20 (AC 182.110)]
b. If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations of the investor, summarized information as to assets, liabilities, and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate?
[Generally Accepted]  

D. Properties
1. Is the method of determining net realizable value considered for disclosure?
[Generally Accepted]

Income Statement
A. General
1. Are revenue and cost of operations classified by principal type of activity (the following are examples of classifications to consider):
   a. Unimproved land?
   b. Land under development?
   c. Residential lots?
   d. Condominiums?
   e. Single-family dwellings?
   f. Rental properties?
   g. Commercial and industrial properties?
[Generally Accepted]
Exhibit A—Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

SFAS 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to assets to be held and used or disposed of. This standard is effective for financial statements for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted.

A. Impairment

1. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:
   a. A description of the impaired assets and the facts and circumstances leading to the impairment? ___ ___ ___
   b. The amount of the impairment loss and how fair value was determined? ___ ___ ___
   c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement? ___ ___ ___
   d. The business segment(s) affected, if applicable? [SFAS 121, par. 14 (AC 108.132)] ___ ___ ___

2. If assets to be disposed of are accounted for in accordance with paragraphs 15—17 of SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, are all of the following disclosed in financial statements that include a period during which those assets are held:
   a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets? ___ ___ ___
   b. The business segment(s) in which assets to be disposed of are held, if applicable? ___ ___ ___
   c. The loss resulting from the application of paragraph 15 of SFAS 121? ___ ___ ___
   d. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121? ___ ___ ___
   e. The caption in the income statement in which the gains or losses in c. and d. are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement? ___ ___ ___
   f. The results of operations for assets to be disposed of to the extent that those results are included in the entity’s results of operations for the period and can be identified? [SFAS 121, par. 19 (AC 108.138)] ___ ___ ___

3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18 (AC 108.131 and .137)] ___ ___ ___
Illustrative Financial Statements

.01 The illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical real estate venture; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

.02 Independent Auditors' Report

To the Management of Real Estate Joint Venture Company

We have audited the accompanying balance sheets of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[February 15, 19X2]
REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 19X1 and 19X0

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31, 19X1</th>
<th>December 31, 19X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets, at cost</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Land held for development and sale</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Supplies</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
</tbody>
</table>

| Liabilities and Capital                     |                  |                  |
| Current maturities of long-term debt        | $ XX             | $ XX             |
| Accounts payable                            | XX               | XX               |
| Accrued expenses and other liabilities      | XX               | XX               |
| Long-term debt, less current maturities:    |                  |                  |
| Mortgage loans                              | XX               | XX               |
| Construction loans                          | XX               | XX               |
| Total liabilities                           | $ XX             | $ XX             |

| Capital:                                    |                  |                  |
| ABC Company                                 | XX               | XX               |
| XYZ Company                                 | XX               | XX               |
| Total capital                               | $ XX             | $ XX             |

| Total liabilities and capital               | $ XX             | $ XX             |

The accompanying notes are an integral part of these financial statements.
REAL ESTATE JOINT VENTURE COMPANY

Statements of Income

Years Ended December 31, 19X1 and 19X0

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 19X1</th>
<th>Year Ended December 31, 19X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Interest income</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Sales commissions</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Interest expense</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
<tr>
<td>Net income</td>
<td>$ XX</td>
<td>$ XX</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 19X1 and 19X0

<table>
<thead>
<tr>
<th>Year Ended December 31, 19X1</th>
<th>Year Ended December 31, 19X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td>Cash flows from operating activities:</td>
</tr>
<tr>
<td>Cash received from operating activities</td>
<td>$ XX</td>
</tr>
<tr>
<td>Cash paid for operating activities</td>
<td>(XX)</td>
</tr>
<tr>
<td>Interest received, net of amount capitalized</td>
<td>XX</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(XX)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$ XX</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td>Cash flows from investing activities:</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>$(XX)</td>
</tr>
<tr>
<td>Purchase of equipment</td>
<td>(XX)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>$(XX)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td>Cash flows from financing activities:</td>
</tr>
<tr>
<td>Borrowings</td>
<td>$ XX</td>
</tr>
<tr>
<td>Principal debt payments</td>
<td>(XX)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>$ XX</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>$ XX</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>XX</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$ XX</td>
</tr>
</tbody>
</table>

Reconciliation of net income to net cash provided by operating activities:

| Net income | $ XX | $ XX |
| Adjustments to reconcile net income to net cash provided by operating activities: |
| Depreciation and amortization | XX | XX |
| Provision for losses on accounts receivable | XX | XX |
| Increase in liabilities | XX | XX |
| Total adjustments | $ XX | $ XX |
| Net cash provided by operating activities | $ XX | $ XX |

The accompanying notes are an integral part of these financial statements.
REAL ESTATE JOINT VENTURE COMPANY

Notes to Financial Statements

Note 1: The Company

In 19X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company ("Joint Venture"). The joint venture was formed to sell homes and homesites, to complete development, and to operate and maintain the facilities.

The joint venture agreement provides that earnings are distributed based on the proportionate share of contributed capital. During 19X1 and 19X0, $X and $X, respectively, were distributed to each of the joint venturers.

Note 2: Significant Accounting Policies

Substantially all sales of real estate are of homesites located in residential areas. Included in joint venture income for the year ended December 31, 19X1, is a gain of $X on the sale of homesites between the two joint venturers. That gain has been deferred until the ultimate sale of the property to outside parties.

No federal income tax provision is included because each venturer will report in its return its share of the income (loss) of each venture.

Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

Note 3: Loans Payable

Mortgage and construction loans payable as of December 31, 19X1, consist of the following:

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Total</th>
<th>19X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6 or later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage loans—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABC company</td>
<td>10½—12½%</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
</tr>
<tr>
<td>XYZ company</td>
<td>11%</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td></td>
</tr>
<tr>
<td>Construction loans</td>
<td>11½%</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
<td></td>
</tr>
</tbody>
</table>

The borrowings are collateralized by certain of the joint venture's real estate, with a carrying value of approximately $X at December 31, 19X1.

Note 4: Commitments

As of December 31, 19X1, the joint venture had remaining commitments of approximately $X on construction contracts and was contingently liable for approximately $X of notes discounted with banks.

Note 5: Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the company's financial position.
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