

DOCUMENT RESUME

ED 134 728

CE 009 478

TITLE Real Estate Appraising. A Suggested Adult Education Course.

INSTITUTION New York State Education Dept., Albany. Bureau of Continuing Education Curriculum Development.

PUB DATE 70

NOTE 54p.

EDRS PRICE MF-\$0.83 HC-\$3.50 Plus Postage;

DESCRIPTORS *Adult Education; *Job Skills; Lesson Plans; Post Secondary Education; *Property Accounting; *Property Appraisal; *Real Estate; Real Estate Occupations; Sales Occupations; Teaching Guides

ABSTRACT

Developed to assist teachers of classes in real estate appraisal and to help students prepare for professional qualification, this guide presents 12 lessons which may be taught in 15 two-hour sessions. The twelve lessons are (1) The Appraisal of Real Estate, (2) Real Property Value, (3) Basic Principles of Real Property Value, (4) The Appraisal Process, (5) Area, City, and Neighborhood Data and Their Analysis, (6) Site Analysis and Site Valuation, (7) The Cost Approach, (8) Depreciation, (9) Market Approach, (10) Income Approach, (11) Final Estimate of Value, and (12) The Appraisal Report. Each lesson provides objectives, a content outline, and teaching suggestions. A bibliography is appended.

(ML)

* Documents acquired by ERIC include many informal unpublished *
 * materials not available from other sources. ERIC makes every effort *
 * to obtain the best copy available. Nevertheless, items of marginal *
 * reproducibility are often encountered and this affects the quality *
 * of the microfiche and hardcopy reproductions ERIC makes available *
 * via the ERIC Document Reproduction Service (EDRS). EDRS is not *
 * responsible for the quality of the original document. Reproductions *
 * supplied by EDRS are the best that can be made from the original. *

ED 134728

REAL ESTATE APPRAISING

A Suggested Adult Education Course



U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINT OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY.

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Bureau of Continuing Education Curriculum Development

209 478

THE UNIVERSITY OF THE STATE OF NEW YORK

Regents of the University (with years when terms expire)

1984 Joseph W. McGovern, A.B., LL.B., L.H.D., LL.D., D.C.L.,
Chancellor - - - - - New York
1985 Everett J. Penny, B.C.S., D.C.S., Vice Chancellor - - - - - White Plains
1978 Alexander J. Allan, Jr., LL.D., Litt.D. - - - - - Troy
1973 Charles W. Millard, Jr., A.B., LL.D., L.H.D. - - - - - Buffalo
1972 Carl H. Pforzheimer, Jr., A.B., M.B.A., D.C.S., H.H.D. - - - - - Purchase
1975 Edward M. M. Warburg, B.S., L.H.D. - - - - - New York
1977 Joseph T. King, LL.B. - - - - - Queens
1974 Joseph C. Indelicato, M.D. - - - - - Brooklyn
1976 Mrs. Helen B. Power, A.B., Litt.D., L.H.D. - - - - - Rochester
1979 Francis W. McGinley, B.S., LL.B., LL.D. - - - - - Glens Falls
1980 Max J. Rubin, LL.B., L.H.D. - - - - - New York
1971 Kenneth B. Clark, A.B., M.S., Ph.D., Litt.D. - - - - - Hastings
on Hudson
1982 Stephen K. Bailey, A.B., B.A., M.A., Ph.D., LL.D. - - - - - Syracuse
1983 Harold E. Newcomb, B.A. - - - - - Owego
1981 Theodore M. Black, A.B. - - - - - Sands Point

President of the University and Commissioner of Education
Ewald B. Nyquist

Executive Deputy Commissioner of Education
Gordon M. Ambach

Deputy Commissioner for Elementary and Secondary Education
Herbert F. Johnson

Associate Commissioner for Instructional Services
Philip B. Langworthy

Assistant Commissioner for Instructional Services (General Education)
Bernard F. Haake

Director, Curriculum Development Center
William E. Young

Chief, Bureau of Continuing Education Curriculum Development
Herbert Bothamley

Assistant Commissioner for Occupational Education
Robert S. Seckendorf

Director, Division of Occupational Education
John E. Whitcraft

Chief, Bureau of Business and Distributive Education
Hobart H. Conover

FOREWORD

Information from throughout the State indicates that real estate personnel as well as the general public have considerable interest in *Real Estate Appraising*. This course can help salesmen and brokers not only to understand how the value of real property is determined, but also to improve their general understanding of property. Those not in the real estate business sometimes take the course to aid them in handling their own property. This course is intended only to introduce students to methods of appraising; it is not expected to qualify them to be appraisers. Rather, it is hoped that taking the course will whet their appetites for more information on real estate appraising. No specialized background should be required of anyone taking it. The course is not mandatory in any sense, but is published by the New York State Education Department as a suggested course.

The instructor for this course should be a qualified real estate appraiser. Help in finding a suitable instructor can be obtained from the office of the New York State Society of Real Estate Appraisers, Albany.

The scope of the course was outlined by an advisory committee consisting of the following: William F. Sheehan, Associate Professor, Department of Law and Finance, School of Business, State University of New York at Albany; Emil McKay, licensed real estate broker, Albany; Bernard Silberman, Assistant Director, Division of Licensing Services, New York State Department of State, Albany; Ralph P. DuPont, Executive Director, Albany Board of Realtors, Albany; John Brophy, Associate, Bureau of Business and Distributive Education; and the co-chairmen: E. John Gradoni, Chairman, Business Technologies Division, State University Agricultural and Technical College at Alfred; and E. Noah Gould, Associate, Bureau of Continuing Education Curriculum Development.

Harold Boulton, Boulton Realty Inc., Schenectady, wrote the original draft of the material for this instructor's guide. Benjamin F. Hammet, Assistant Professor of English, Rensselaer Polytechnic Institute, Troy, revised the material. Mr. Gould supervised the original writing and the revising, and prepared the manuscript for publication.

HERBERT BOTHAMLEY, *Chief*
Bureau of Continuing Education
Curriculum Development

WILLIAM E. YOUNG, *Director*
Curriculum Development Center

MESSAGE TO THE INSTRUCTOR

This course has been developed to assist teachers of classes in Real Estate Appraisal. It has grown out of a considerable amount of practical experience in the selling, buying, and appraisal of property, as well as formal instruction in real estate appraisal. Although the course has a very practical orientation, it is also designed to help students prepare for professional qualification. The instructor should attempt to keep the course on a level consistent with the standards of professional societies.

Property valuation is the heart of all real estate activity. Whether buying, selling, investing, developing, lending, exchanging, assessing, or acquiring property for public use, a working knowledge of sound valuation is essential so that land and its improvements may be put to their best use. All who are engaged in the real estate business must know something about the valuation of real estate, though they may not intend to qualify as experts.

In the application of theory to practice, the course has to be organized so the student is given weekly assignments having to do with his own property, or a property he is interested in or familiar with. Thus, at the end of the course, the student should have a complete dossier containing a valuation of his property. The instructor should also encourage students to participate in class discussion and to contribute from their own experiences.

This teacher's guide has been prepared so the course may be taught in 15 two-hour sessions. As you will note, there are only 12 lessons given here. Certain lessons, for instance lessons 1 and 3, will require more than a single session, yet each is a coherent whole difficult to separate. The instructor is expected to adjust the lessons to suit his own needs:

HOBART H. CONOVER, *Chief*
Bureau of Business and
Distributive Education

JOHN E. WHITCRAFT, *Director*
Division of Occupational Education

CONTENTS

	Page
Foreword	iii
Message to the Instructor	iv
Lessons	
1 The Appraisal of Real Estate	1
2 Real Property and Value	6
3 Basic Principles of Real Property Value	8
4 The Appraisal Process	15
5 Area, City, and Neighborhood Data and Their Analysis	19
6 Site Analysis and Site Valuation	23
7 The Cost Approach	27
8 Depreciation	31
9 Market Approach	35
10 Income Approach	38
11 Final Estimate of Value	42
12 The Appraisal Report	44
Bibliography	47

Lesson 1
The Appraisal of Real Estate

REFERENCES CITED IN THIS TEACHER'S GUIDE

American Institute of Real Estate Appraisers. *The appraisal of real estate*; 5th edition. Chicago. 1962. (Referred to as Ref. A)

Babcock, Henry A. *Appraisal principles and procedures*. Homewood, Illinois. Richard D. Irwin. 1968. (Referred to as Ref. B)

Benson, Philip A.; North, Nelson L.; and Ring, Alfred A. *Real estate principles and practices*; 5th edition. Englewood Cliffs, N.J. Prentice-Hall. 1967. (Referred to as Ref. C)

Knowles, Jerome, Jr. *Single family residential appraisal manual*. Chicago. Amer. Inst. of Real Estate Appraisers. 1967. (Referred to as Ref. D)

OBJECTIVES

1. To give students an understanding of the forces that create a real estate market, and to differentiate between this market and other markets
2. To define real estate appraisal and explain its uses

CONTENT OUTLINE

I. Overview of the Course

A. Course purpose

B. Texts and references

TEACHING SUGGESTIONS

Introduce yourself and briefly state your background. Have the students introduce themselves; try to achieve an informal atmosphere. You may wish to have the students fill out a form listing name, age, address, education, vocation, and reason for taking course, to help you get to know them.

The course is a general introduction to those basic principles common to all areas of real estate appraisal, with special emphasis on the practical application of appraisal techniques.

You may wish to have the students buy a textbook. Suitable texts are shown above. Other references which you may use for some topics are cited in the bibliography.

CONTENT OUTLINE

C. Course content

II. The Concept of Value

A. Types of real estate

B. How value is created

C. How values change

1. Business relocations

2. Residential uses and needs

3. Property maintenance

TEACHING SUGGESTIONS

References for Lesson 1 are:

- Ref. A, * Chap. 1
- Ref. C, Chap. 2

Discuss briefly the objectives of each lesson in the course.

This topic will be covered in detail in Lesson 2. For the present, emphasize the ambiguity of the term *value* as applied to real estate. Distinguish value from cost and price. Briefly explain some of the different kinds of value, such as mortgage value, assessed value, sales value, and exchange value. Discuss market value as the most commonly sought value.

Encourage students to suggest the various types of real estate property, such as residences, business buildings, factories, and farms.

Discuss briefly the way people create value by their use of each type of real estate.

Explain, with student participation, the effect of changes in value created by the following examples:

- Relocation of a business employing 100 people (into and out of the community)
- Opening of a junk yard in a residential area
- Conversion of a residence into a business or a rooming house
- Requirements of people moving to another neighborhood or another community (including changes in fashion and taste)
- Properly maintained property as opposed to deteriorating property
- Absentee as compared with resident ownership
- Community betterment programs

*The full citations for these references are given on page 1.

CONTENT OUTLINE

III. Forces Affecting Real Estate Values

A. Social

B. Economic and business

C. Government

1. Federal Government

2. State Government

a. Department of Health

TEACHING SUGGESTIONS

Discuss, with illustrations from your community, the ways real estate is created and changed by the interaction of forces affecting the activities of man.

Explain those social forces that bring people together, and show how the following institutions and facilities affect real estate value:

- Schools and colleges
- Hospitals
- Churches and synagogues
- Public transportation
- Roads
- Recreational facilities

Discuss the commercial and industrial properties in your community to illustrate the value of property in different areas. Examine one area and show the effects of obsolescence, proper maintenance, and absentee as opposed to resident ownership.

State that various Federal, state, and local government regulations are increasingly concerned with the taxation, purchase, sale, and financing of real estate.

Discuss rent controls, Government housing, and guaranteed loans to home owners and business entrepreneurs. Illustrate the effect of the Federal Housing Administration regulations on residential property.

Illustrate the effect of these regulations by referring students to published zoning laws and equalization rates.

Explain the function of the State agencies regulating real property.

Discuss the need for State control of residential real estate. Explain why 15,000 square feet is the minimum lot

CONTENT OUTLINE

- b. Department of Equalization

3. Local government

- a. Zoning and planning boards

- b. Board of assessors

- c. Building inspector

- d. Fire and police departments

IV. Real Estate Appraisal

- A. Definition

TEACHING SUGGESTIONS

size if a water supply and a septic tank are to be located on the same lot.

Explain the operation of the Department of Equalization as it affects the assessed value of real estate.

Discuss the relationship of roads in new residential developments to existing roads and highways. Also discuss the importance of surface drainage.

Explain the function of local agencies in regulating real property.

Discuss the differences between a zoning board and a planning board. Illustrate the different kinds of zoning and planning in various areas of your community.

Explain local assessment practices, and illustrate with equalization rates in different areas.

Referring to your local newspaper, explain the requirements for publishing building, alteration, and demolition notices. Discuss the relevance of this information to the professional real estate appraiser.

Although not strictly regulatory, these departments and their efficiency affect fire insurance rates, and thus real estate value.

Explain in detail the meaning of the terms used in the following definition.

A *real estate appraisal* is a written statement in which is set forth an estimate of the value of an adequately described property as of a specific date, which is supported by the presentation and analysis of relevant data.

CONTENT OUTLINE

B. Purpose and use of appraisals

TEACHING SUGGESTIONS

Explain the purpose of written and oral appraisals in the purchase and sale of real property; in financing; in mergers; in fire, theft, and damage losses; in taxation; in lease negotiations; in investment decisions; and in urban planning.

Discuss the significance of appraisal to the layman, to the real estate broker, to the real estate salesman, and to the professional real estate appraiser.

Lesson 2
Real Property and Value

OBJECTIVES.

1. To define the terms *real estate* and *real property*
2. To explain how *property rights* (the rights of an individual as applied to real estate) have developed
3. To establish a concept of *value*, and develop the meaning of *market value* as it applies to real estate

CONTENT OUTLINE

I. Overview of this Lesson

A. Purpose of this lesson

B. References

C. Assignment

TEACHING SUGGESTIONS

The terms *real estate* and *real property* are often used interchangeably, yet there are distinctions between them that should be understood. *Real estate* is the physical land and the structures on it; *real property* refers to the interests, benefits, and rights inherent in the ownership of real estate. A third term, *personal property*, is still another concept, and applies generally to movable things not permanently attached as a part of the real estate.

These concepts as they relate to value have evolved over a period of many years, and are still subject to modification.

To develop an appreciation for the basic philosophy underlying the terminology used in real estate appraisal.

References for Lesson 2 are:

Ref. A,* Chap. 2

Ref. C, Chap. 4

Have each student obtain a copy of the deed to his property (indexed under grantor and grantee in the County Clerk's office). This is a good time to acquaint students with the real estate data available at that office.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

II. Legal Concept of Real Estate

III. Real Estate, Real Property, and Personal Property

IV. Bundle of Rights Theory

V. Evolution of the Theory of Value

VI. Value

VII. Market Value

TEACHING SUGGESTIONS

Discuss the legal concept of land ownership, illustrating from a fully warranted deed. Notice the variations in terminology in the deeds the students bring in. Note the limitations imposed by various levels of government.

Review the distinctions among these terms, emphasizing the importance of local usage which may alter the meaning of the terms from area to area.

Certain rights are inherent in the ownership of real property. However, there are limitations imposed by government using its powers of taxation, eminent domain, police power, and escheat.

If you wish to summarize some of the evolution of the theory of value, see a good textbook on the history of economic thought.

Discuss the appraiser's concept of *value*, as based on *utility* (in the economic sense), *scarcity*, and the *ability to satisfy needs*.

Review carefully the definition of *market value*; show how it applies to the different types of real estate: residential, commercial, and industrial.

Lesson 3
Basic Principles of Real Property Value

OBJECTIVES

1. To emphasize the fundamental principles which control the value of real estate
2. To develop a working knowledge of social and economic principles as they apply to real estate valuation

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

II. Value of Land Based on Use

A. This method of value rooted in economics

TEACHING SUGGESTIONS

This lesson starts with the fundamental principle of value--that people create value. Now tie this fact to land--its utility, its scarcity, and the fact that people must be able to pay a price equivalent to that value.

Since appraising is the estimation of the value of the rights of use of real property, it is essential that the broad principles of economics be reviewed and understood.

Ref. A,* Chap. 3
Ref. C, Chap. 4
Ref. D, Chap. 2

Ask the class to review the basic principles of real property values as they apply to a 12-unit apartment house, 20 years old, in an appropriate location in your community.

Start with land use in farming. Explain why some land is more valuable than other land because it can produce better and more abundant crops. Go on to discuss residential, commercial, and industrial uses of land.

Encourage the students to supply examples from their own experience.

*The full citations for these references are given on page 1..

CONTENT OUTLINE

B. Valuation of rights of use

III. Power of Supply and Demand

IV. Principle of Change

V. Principle of Substitution

TEACHING SUGGESTIONS

Each use tends to set a land value that establishes a market value in the particular area.

Land has value only when it is used. Example: What would be the value of the Taj Mahal in the middle of the Sahara Desert?

Discuss examples of the loss of land value, such as abandoned communities in areas where mining has stopped.

The demand for a commodity is created by scarcity and by the ability of the commodity to satisfy people's desires.

Discuss the comparative value of one square foot of land located in Times Square with one square foot on Main Street in a nearby village.

Nothing remains static. All buildings, neighborhoods, and cities change. All pass through three stages: development, stability, and decline.

Develop the idea that changes in real estate bring changes in value.

Discuss what possible changes can take place in a new community, especially where there is no zoning.

The appraiser must be able to recognize when and how changes occur. He must always view property with the principle of change uppermost in his mind.

The only constant is change. Discuss the effect of zoning on change, as it applies to a community.

This principle holds that when two or more properties with the same utility (or *use value*) are available, the one with the lowest price is most easily sold.

The *principle of substitution*, which is generally used in all three approaches

CONTENT OUTLINE

VI. Principle of Highest and Best Use

TEACHING SUGGESTIONS

to value, is the one most easily understood by students. (The three approaches to value are cost, income, and market.) Develop a few practical illustrations of the principle of substitution.

The market approach, which will be discussed later, is based on the value of comparable *substitute* properties.

Special purpose properties, such as schools, churches, and hospitals, have a limited market; their valuation tends to be limited to either the cost approach, or the substitution of a similar property.

Ask the students what they would do when they start to look for a new house. It is customary for people to look at what is offered on the market. This is an application of the *principle of substitution*.

That use which at the time of the appraisal is most likely to produce the greatest net return to the property over a given period of time, usually the present use of a property, is its *highest and best use*.

Discuss with the students why hotels are being sold, closing their doors, going bankrupt. Other principles are involved in this case, but the *highest and best use* is paramount.

Discuss *use-density* as an important factor in deciding the highest and best use.

Why are apartments being built where the older one-family residences used to be?

Discuss the effect of zoning for an area that has not been developed.

CONTENT OUTLINE

VII. Consistent Use Theory

TEACHING SUGGESTIONS

A property in transition from one use to another cannot be valued on the basis of one use for land and another for an improvement. For example, if a corner residential property is to be acquired for a gas station, the dwelling has little or no value, except perhaps salvage. This principle tends to be an obstacle to the beginning appraiser. Emphasize the fact that the improvements should enhance the value of the land.

VIII. Principle of Balance

The principle of balance holds that value is created and maintained in proportion to the equilibrium obtained between the amount and location of a given type of real estate and the number and location of users of that type of real estate.

This is one principle the students can grasp quite easily. Discuss what happens if too many automatic laundries open in one area; or too many bowling alleys, or too many drug stores. Balance in real estate is important to the business climate of any community.

IX. Surplus Productivity

Defined as the net income remaining after the costs of labor, coordination, and capital have been paid. The surplus is credited to the land.

Here is a basic lesson in economics. Obtain a breakdown of the costs of building an apartment or office building. Use an income and expense statement and demonstrate how the above agents work together to produce a net income from the property.

Note: This principle requires more background material for both the teacher and the students. It is important that the students have a clear interpretation of it.

X. Principle of Increasing and Decreasing Returns

Explain that larger amounts of the agents of production will produce greater net income, up to a point.

CONTENT OUTLINE

XI. Principle of Contribution

XII. Competition

TEACHING SUGGESTIONS

Any additional expenditures beyond that point will not produce a return commensurate with the cost.

Develop with the class a problem on a modern apartment house. The owner asks assistance from an appraiser as to the advisability of installing a self-operating elevator. Will the increased costs be offset by the increase in rents? Estimate a 20-year life for the elevator.

The *principle of increasing and decreasing returns* is also used in determining how high an office building can be. Will the increased costs be offset by rents available?

Ask the students to decide how much they could spend on improving their homes, if they were to be placed on the market.

This principle is similar to the principle of increasing and decreasing returns, except that it usually applies to a part of a property rather than the whole property. For example, this principle can be applied to a decision on whether or not to replace the heating system of a building.

The principle of contribution is also important in the valuation of lots of varying depths.

A simple class problem would be to evaluate a series of commercial lots, having a frontage of 25 feet and depths varying from 75 feet to 150 feet. After evaluating them, obtain the prices of similar lots with varying depths, sold recently in the area. Compare the evaluations with the actual sale prices.

Profit tends to breed competition and excess profit tends to breed ruinous competition.

CONTENT OUTLINE

XIII. Principle of Conformity

XIV. Principle of Anticipation

TEACHING SUGGESTIONS

Discuss the future of the many roast beef, hamburger, hot dogs and beer, and MacDonal'd's, that are springing up in the area. Do not confuse profit from the business with profit from real estate. In this discussion clarify the definitions of *real estate*, and *profit*.

Have the students respond to questions such as: Will shopping centers continue to thrive? What is the answer to the problem of downtown stores?

Competition tends to be creative but excess competition can destroy. Encourage students to look for and present practical applications.

This principle holds that maximum value is realized when there is a reasonable degree of homogeneity.

Discuss the desirability of living in a development where all houses are exactly alike as compared to having only a reasonable degree of similarity.

Discuss the consequences of building a \$50,000 house in an area of \$25,000 homes.

Discuss similar problems in the commercial area. Should stores which sell similar goods be in the same area? If so, why?

This principle affirms that value is created by anticipated benefits to be derived in the future.

Why do we ask for a three-year income and expense record, when assigned a commercial appraisal?

Discuss the problem of estimating future rents for an apartment, an office building, and a store. Develop the idea that the socio-economic condition of the area will set the stage for increase or decrease in values.

CONTENT OUTLINE

TEACHING SUGGESTIONS

Generally the value of a property is determined neither by its past selling price nor by the owner's cost. Ask the students to name those forces that do create future benefits.

Lesson 4
The Appraisal Process

OBJECTIVES

1. To define the term *real estate appraisal*, and establish that the appraisal process is an orderly procedure
2. To provide students with a working knowledge of the three approaches to value

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

II. Appraisal Process

A. Definition of problem

TEACHING SUGGESTIONS

The value of real estate can be determined by an appraisal, which is an estimate of value based upon opinions. The appraisal's accuracy depends upon the basic competence and integrity of the appraiser, and upon the soundness and skill with which he processes the data.

The appraisal process consists of defining the problem, planning the work, acquiring data, classifying, analyzing, and interpreting.

Making a real estate appraisal is an attempt to solve a real estate problem. Present an outline of the appraisal process to the class, either on the board, or as a copy for each student to keep in his notebook.

Ref. A,* Chap. 4
Ref. D, Chap. 4

Before an appraisal is made, the problem it is intended to solve must first be defined. Present completed appraisals of several types to the students, including the following types: tax, mortgage, sale, and lease. Encourage them to develop an oral statement of the problem. Write

*The full citations for these references are given on page 1.

CONTENT OUTLINE

B. Preliminary survey

C. Determination of the fee

TEACHING SUGGESTIONS

one or two of the better ones on the board.

Present a specific appraisal problem to the class and develop the five basic steps:

- Identify the property.
- State the rights involved.
- State the purpose of the appraisal.
- Determine the data needed.
- Define the value to be estimated.

This pattern should be followed for all appraisal work. Have the students repeat these steps for each case.

Look over the problem to determine the character, the scope, and the amount of work involved. If there are no limiting qualifications, first determine the highest and best use.

Not only the property but the neighborhood must be inspected. This might be the start of the student's individual appraisal. All questions should apply to the individual assignment.

Stress the fact that at this stage of the appraisal work all three approaches should be used. Collect all data on the cost approach, the income approach, and the market approach. These three approaches will be taken up in detail later.

The fact to be stressed at this point is that an orderly procedure is to be followed. Recognizing the problem is more than half of the solution.

This is one of the first questions generally asked by students. The answer should not be given at this time. There is a healthy demand for competent appraisers. If an estimate of cost is demanded by a client, the local real estate boards have ranges of estimates for appraisal work. These can be used as guides.

CONTENT OUTLINE

D. Commitment from client

E. Data to be collected

F. Application of the three approaches

G. Correlation and final estimate

TEACHING SUGGESTIONS

This should be in writing. The appraiser and the client should agree as to the nature of the problem.

Using an outline of the appraisal process the student should list both the general and the specific data which applies to his problem.

Sources of information include:

- The local newspaper
- The Chamber of Commerce
- The New York State Department of Commerce
- The Census Bureau for population figures

The students should be encouraged to keep a file of facts and data about their areas, and their villages or cities.

The appraiser develops value by:

- Obtaining the current cost of reproducing a property and subtracting existing depreciation
- Capitalizing the net income produced by a property
- Comparing the property with recent sales of similar property

Note: Later in the course the three approaches will be described in detail. The importance of this lesson is to develop the idea that an appraisal of real estate is accomplished through an orderly process.

Suggest that the students review each of their approaches and decide which one is supported more by facts than opinions. Under normal conditions, and with a good supply of comparable sales, the *market approach* should give the greatest weight to the *market value*.

The final estimate of value is *never* an average of the three approaches.

CONTENT OUTLINE

TEACHING SUGGESTIONS

The final estimate must be amply supported with facts and sound judgment.

Point out to the students that upon completing an appraisal they will need to write a good narrative report for it. This report should speak for itself.

Lesson 5
Area, City, and Neighborhood Data and Their Analysis

OBJECTIVES

1. To develop an awareness that a property cannot be valued separately and apart from its neighborhood, that real estate is a fixed entity and its market controlled to a large degree by the social, physical, civic, and economic activities of its immediate environs
2. To list sources of pertinent information and to show how to collect and analyze data about a local area

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

TEACHING SUGGESTIONS

Since people create value, it is essential that the student have some understanding of how people live in their respective communities and neighborhoods. Suggest a review of the growth of their own community. When did the first school, the first church, the first bank, the first museum and library come into existence? What people do and how they live creates value.

To develop an understanding of the constant changing of the forces that create real estate values. A real estate appraiser must be aware of:

- Physical characteristics
- Economic conditions
- Civic activities
- Social organization of the area being studied

Ref. A, Chap. 6

Ref. D, Chap. 5 and 6

Have the students write a narrative report on the local area (city, village, or town) in which their homes are located. This should be the beginning of a continuing file on the history and growth of their own area.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

II. Physical Characteristics

III. Economic Conditions

IV. Civic Activities

TEACHING SUGGESTIONS

Start with a limited area and obtain:

- A good general map (Many gas stations furnish street maps.)
- A topographical map of the area (Stationery stores stock these.)
- A map of school districts (From the superintendent of schools)
- A map showing fire districts (From the fire commissioner)
- Locate railroads, rivers, main highways, and superhighways

Most areas have a Chamber of Commerce that collects data and prints reports on:

- Number of industries
- Number employed by each
- Total employment, etc.

The New York State Department of Commerce publishes economic details by counties.

Learn the history of industries in your area. Talk to owners or managers to get background material. Most industries will tell you the total amount of their payroll.

Try to find out which way the economic pattern of your area is developing. Consult the local real estate board as to the condition of local market. Do homes sell fast? Are there more homes available than there are buyers?

Discuss the types of county, town, and village government in your area.

How do your schools compare with those in adjoining territory? Are new buildings needed?

What is your current tax rate? Will it go up or down next year? Compare rates for the past five years.

What is the equalization rate for your county, city, or village? Obtain this from the assessor's office.

CONTENT OUTLINE

V. Social Environment

VI. Area Details

A. The neighborhood

TEACHING SUGGESTIONS

What is the bonded indebtedness of your area? Are new bond issues being planned?

Obtain data on your water district and fire district. Are they satisfactory?

Do you have a zoning and planning commission?

Make a list of all churches, synagogues, social organizations, and other similar organizations in your community.

- How many churches in the area are active?
- Is there a museum or art center?
- Are schools active in community affairs?

A well-rounded community is a strong factor in maintaining real estate values.

Definition of *neighborhood*: an urban or suburban area exhibiting a fairly high degree of similarity as to housing, tenancy, income, and population characteristics. A neighborhood may be residential, commercial, or industrial.

Have each student define the neighborhood in which his home is located. He should include the following:

- Its physical boundaries
- Its size and shape
- The price range of its houses
- The income range of its people
- Whether it is a separate unit or part of a larger area
- The rent levels

Have students note the forces that might make a change in their neighborhoods. Suggest that they look for changes in uses of buildings, such as from a private home to a rooming house, or a beauty parlor or small store starting up in a home.

CONTENT OUTLINE

B. Sources of information about
your neighbors

TEACHING SUGGESTIONS

- Local banks, and savings and loan associations
- Gas and electric companies
- Real estate brokers
- The local library
- Chamber of Commerce
- School superintendent

Lesson 6
Site Analysis and Site Valuation

OBJECTIVES

1. To set forth reasons for a separate valuation of a site and the way its value is affected by the relationship of the site to its neighborhood
2. To provide students with the data needed to make a site analysis

CONTENT OUTLINE

I. Overview of Lesson

TEACHING SUGGESTIONS

In the appraisal of real estate, a standard procedure is to value the land and the improvements as two separate entities. There are many sound reasons for such a division; one of the most valid reasons is that the improvements are always subject to depreciation but land tends to be fairly constant. Land may, however, appreciate in value.

In the valuation of real estate, the land itself is considered first, separate from any improvements. The land is considered to be permanent and maintains its utility regardless of time. The improvements, however, are considered to be non-permanent and will vary in value according to their age and condition, and other factors.

A. Purpose

To understand the phrase "Under all is the land."

B. References

Ref. A,* Chap. 7 and 8
Ref. C, sections on abstracts
Ref. D, Chap. 7

C. Assignment

Have the students develop a written appraisal of the land only, in the property the student is required to appraise for this course, using a market approach with at least three comparable sales.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

TEACHING SUGGESTIONS

II. Site Data Necessary

A. Legal description

1. Deed

Ask each student to obtain a copy of the deed to the property he is to appraise. If none is already available, a copy may be obtained from the County Clerk's Office. This is a good time to explain the filing system of the County Clerk.

Bring to class a copy of a simple deed. Explain filing as Liber _____ page _____, cross indexed by grantor and grantee.

The deed sets forth the legal description of the boundaries of the property. Try to obtain a copy of a fairly simple description, but one that contains a few restrictions that have been imposed. Discuss the effect (if any) that restrictions might have on the value.

2. Abstract of title

Obtain a short abstract of title of the above deed and explain to the class the need for and purpose of the abstract.

B. Physical data

Each student should make a plot plan (to scale) of the site he is appraising. Data can be obtained from the deed or from tax maps in the assessor's office.

The students should be aware of the topography, shape, area, soil, and subsoil of the site, and of the utilities serving the site.

C. Relation to neighborhood

The site should be described in relation to the adjoining streets, lots, and alleys, and the traffic pattern in the neighborhood. What are the land improvements on the site?

D. Highest and best use

Each site must be analyzed and valued as to its highest and best use. Perhaps residential property is just that, but if changes are taking place, it may not be. Suppose a corner site, improved with a one-family house, is zoned for commercial use. What would

its value be if the highest and best use were for a store or a service station?

E. Purposes of site valuation

Most assessors value land and buildings for tax purposes. If buildings are destroyed by fire, a separate value must be obtained.

If either the site value or building value is obtained by comparing with similar sites or buildings, it is possible to develop a property value.

When property is taken by eminent domain, it is necessary to have separate values for land and buildings.

III. Site Valuation

A. Market data method

The market data method is a preferred method. This calls for a study and investigation, and a recording and comparing of sales of comparable sites.

Each student is to find at least three sales of vacant sites similar to the one being appraised. These sales should have occurred within a reasonable time. Have all the data recorded and attempt to develop a value by a study of these sales. Be sure to have the student understand what a *bona fide* sale means.

B. Land value by allocation

There is a ratio between the value of the building and the value of the land upon which it is fixed. National estimates give an average of 17 percent; that is, the land value is 17 percent of the total property value.

Have the students locate a development where the prices of vacant sites and of improved properties can be obtained. From this information have them determine the land value by allocation.

Ask the students to obtain the assessed values of land and buildings of several comparable sales. Study the relationships among the sales figures

CONTENT OUTLINE

C. Developmental method

1. When used

2. How used

TEACHING SUGGESTIONS

to see if they support the market for land value. This method can be used only when assessors are consistent and reliable. Other names for this method of land valuation are *abstractive* and *distributive*.

This method applies to undeveloped land; while it does not have as much weight as the method of sales of comparable lands, it is often used as a supporting factor.

The developmental method is used when vacant land is subdivided, improvements installed, and some sites sold or held in anticipation of sale.

The steps in using this method are:

- Check to see that all governing authorities involved have approved the plans.
- Obtain the costs of making improvements from the developer. Check them against a competent authority.
- Estimate the value of a typical lot. (This should be supported by the market.)
- Determine the total expenses: raw land plus interest, taxes, advertising, and profit. Allow for time lag.
- Estimate the number of completed lots which would give the maximum return from the sale of all lots. Subtract all costs and the result should be the value of the raw land.

Lesson 7
The Cost Approach

OBJECTIVES

1. To demonstrate the basic principle of substitution and its relationship to cost
2. To examine the different methods of estimating the cost of a new building and what constitutes direct and indirect costs

CONTENT OUTLINE

1. Overview of Lesson

A. Purpose

B. References

C. Assignment

TEACHING SUGGESTIONS

The principle of substitution affirms that the maximum value of a property tends to be set by the cost of acquiring an equally desirable and valuable substitute property, all other factors being similar.

The cost approach is one method of indicating the value of property.

A person intending to buy a home decides on his basic needs, for example: 3 bedrooms, 1½ baths, 2-car garage. He will probably inspect a new home, ask its cost and compare it with others. It is desirable that the student have a good understanding of the real costs of a new home.

To help students become aware of *all* the costs that go into the creation of a new dwelling.

Ref, A,* Chap. 11 and 12
Ref. D, Chap. 10

This lesson can be made more interesting to the students if a practical example is used. For example, have them develop the cost of replacing the homes in which they live. They should also be able to measure accurately, using both the square foot and cubic foot.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

II. The Cost Approach

A. Quantity survey

B. Unit-in-place

TEACHING SUGGESTIONS

There are several methods of establishing the cost of a new building. However, it should be explained that *reproduction* means reproducing the actual structure. Sometimes, due to lack of material or workmanship, this cannot be done. For the most part, we are concerned with *replacement* cost. This means replacing the building with one having the same usefulness or utility. Example: a 200-year-old Victorian dwelling to be replaced with a modern, functional 2 1/2-story dwelling.

A quantity survey includes all materials for construction: how many concrete blocks; cubic yards of concrete; pieces of lumber (2 x 10's, 2 x 8's, 2 x 4's); how much sheetrock; how many kegs of nails; number of heating units; how much plumbing, rough and finished; electrical distribution and fixtures; quantity of paint, varnish, etc. Add the cost of labor.

An appraiser should be aware that estimates can be obtained from a reputable lumber and building supply company for a specific house to be built; also estimates of costs can be obtained for electrical, plumbing and heating work, and amount of paint.

Many architectural magazines specialize in describing one-family houses and have detailed information available for a nominal cost.

This method calls for knowledge of costs per square (100 sq. ft.); that is, so many squares of roofing, ceiling, walks, etc. It is based upon the costs of installing the various building materials used in construction of a dwelling.

The unit of cost, which includes material, labor, and overhead, is based on the complete construction of the walls, ceilings, roof, etc., as an integral part of the finished

CONTENT OUTLINE

C. Comparative methods: square foot and cubic foot

TEACHING SUGGESTIONS

building. Exact measurements must be made of all the exterior and interior dimensions; also, an accurate count of all doors, windows, trim, etc., must be made.

Many building contractors have current unit costs readily available.

This method is one of the most widely used. With experience and keeping up-to-date with costs (labor and material), an appraiser can rely on this method.

The comparative method calls for measuring the number of square feet or cubic feet in a given building. When the total cost of the structure is known, it can be divided by the number of square or cubic feet to find a unit cost.

It is necessary to start from a completed house with known market value. This is generally what it sold for.

Example: A 1,000 sq. ft. house on a 100 x 150 lot sold for \$16,000. Land value is known to be \$2,000. This leaves \$14,000 as the total cost of the completed house. \$14,000 divided by 1,000 sq. ft. = \$14.00 per sq. ft. This is the unit cost for this type of house.

If the cubic foot content were 17,500, then the cost per cubic foot would be 80 cents. This is \$14,000 divided by 17,500 cubic feet.

Obtain from a reliable building contractor his total costs for a completed structure, not including the land. Have the students measure the house and use the total square foot area and the cubic foot content to develop the unit costs.

Be sure to stress that the square foot area at ground level is to be used

CONTENT OUTLINE

III. Cost Data

TEACHING SUGGESTIONS

in computations. If the total square foot area of the total living area is used, a different figure will result.

Students should be encouraged to develop a cost data file based on the different types of buildings. They should be aware that several cost indices are on the market: Boeckh's, Marshall-Stevens, Dow. Bring a copy of one of the above services to class to acquaint the students with its contents.

Differentiate between direct and indirect costs of construction. The latter are sometimes overlooked. Indirect costs include the contractor's overhead and profit, architect's fee, special services, taxes, and insurance and interest over the period of construction.

Lesson 8
Depreciation

OBJECTIVES

1. To develop an awareness of *depreciation*, especially accrued depreciation, as it applies to buildings, and how it can be measured
2. To show the forces that bring about *depreciation* in a building in a community

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

TEACHING SUGGESTIONS

This lesson applies to improvements only and not to land. All things and people tend to "wear out." How do we measure the loss in value to the improvements that results from this "wearing out," or *depreciation*?

Depreciation is said to be a loss in value from any cause. The Appraisal Terminology and Handbook (The full citation is in the bibliography.) gives the following definition: "A loss from the upper limit of value..."

In this course, we are interested in observing and measuring all depreciation that has occurred in a structure up to the time of the appraisal. This is called accrued depreciation.

Ref. A,* Chap. 13

Ref. D, Chap. 11

Have the students observe and note the different types of depreciation that occur from the time a house is built to the date of the appraisal. Then have them either locate a new, similar house, or find the replacement cost of the home. The difference should be the total amount of depreciation. Have the students separate the depreciation factors into curable and incurable, and make an estimate of the cost-to-cure for the curable items of depreciation.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

II. Accrued Depreciation

A. Physical deterioration

The actual wearing away of physical property through time and use is an observed condition. The actual condition of the property is noted after inspection; that is, roof needs replacement, foundation walls bulge, heating system worn out. Knowing the age of a building is helpful in deciding what to look for in depreciation.

Physical depreciation is generally considered to be curable and is measured by several methods.

Cost-to-cure: If it costs \$350 to replace the roof, that is a measure of depreciation. A sagging porch may need new underpinning.

Cost to replace is another measure of depreciation. It may be necessary to call on experts to find the cost-to-cure.

There are conditions in an older structure that would be too expensive to cure, such as light or weak structural members that cause the roof to sag and put the building out of line.

B. Straight-line depreciation

Straight-line depreciation can be used as follows: Suppose a house is 50 years old. It might be usable in its present condition for 25 years. It has lost 50 percent of its value, 1 percent a year for 50 years.

C. Functional obsolescence

Functional obsolescence is a loss in value from the cost new, as of the date of the appraisal. It is caused by an overimprovement (massive structure, extremely high ceilings), or by underimprovement (no closets, inadequate bathrooms, poor room layout).

Functional obsolescence may be curable or incurable, or curable but not economically feasible.

CONTENT OUTLINE

D. Economic depreciation

TEACHING SUGGESTIONS

If the obsolescence is curable, then the cost-to-cure is a measure of the depreciation. If the functional obsolescence is considered incurable, the depreciation can be measured through the loss of rent. Example: What rent would the house bring if it were not obsolete? The difference the depreciation makes in the rental income would be the measure of the depreciation.

Physical and functional obsolescence are considered to be within the building itself and are said to be indirect. Also, they can be classed as curable or incurable.

One other type of depreciation--economic--results from conditions outside of the building itself; for instance, a change in the neighborhood: a junk yard starts next door, the zoning is changed to a different use, dwellings in the area become neglected and are not well maintained. This economic depreciation is considered to be incurable and can only be measured by a loss of rent factor.

Where capitalization of rent loss is considered the measure of the depreciation, the students should be able to use the following method:

Suppose the market value of the property is \$10,000, and the monthly rental \$85. If a similar property rents for \$90 monthly, the difference in rental can be considered depreciation. To estimate the dollar value of this depreciation: divide the market value by the monthly rental ($10,000 \div 85$), which yields a factor (117) called the gross monthly multiplier (GMM). Then multiply this factor by the difference in rental: 117×5 to derive the estimate depreciation (\$585).

CONTENT OUTLINE

III. General Measure of Depreciation

TEACHING SUGGESTIONS

One of the best ways of observing the results of depreciation is to actually observe what similar houses are selling for. The differences in prices paid can be attributed to the amount of accrued depreciation that exists at the time of the sale. By observing the different kinds of depreciation, the student begins to understand the importance of being able to see what changes have taken place. More important, he learns how to place a dollar value on the depreciation.

Lesson 9
Market Approach

OBJECTIVES

1. To show how the real estate market operates
2. To inform students about the characteristics of residential properties that are used for comparative purposes, and to establish a systematic and orderly procedure for using the market approach
3. To demonstrate the relationships among the three approaches to value used to indicate market value

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

II. The Market Data Approach to Market Value

TEACHING SUGGESTIONS

People create value. An appraiser must understand what individuals do when they buy a house: what they say, what they don't say, their final selection after looking at many homes. All these facts are important in determining the forces that create value. The same facts are needed to determine the value of industrial or commercial properties, although the latter are much easier to determine.

To study sales of similar properties that have occurred within a reasonable time. We should know as many facts about each sale as is reasonably possible to ascertain. We should be able to relate all data obtained in the market to the subject property.

Ref. A,* Chap. 20

Ref. C, Chap. 3

Have students obtain all data available on at least three comparable sales. If they live in an area lacking in such sales, have them investigate a similar area in a neighboring community.

Explain briefly the *market data approach*: the buying public tends to set the market value by comparing the different houses on the market.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

III. How To Use the Market Approach

A. Comparing properties

B. Making adjustments for variables

C. Sources of information

TEACHING SUGGESTIONS

Ask the students to list some of the important characteristics they should look for in buying a three-bedroom, 1½-bath dwelling. Put the list on the chalkboard.

Review the *principle of substitution* and discuss its application when using the market approach.

Ask the students to find at least three comparable sales they could use to develop a market value for their own home. Assume they are going to sell it.

Have students list the similarities and differences between the comparable home and their own home; that is, a one-car garage vs. none, or a two-car garage; a one-bath vs. 1½-bath, etc.

Sales should have occurred within a reasonable time, say one year. If sales are two to three years old, find out what has happened in the real estate market during that period. Has it gone up or down?

Sometimes different locations reflect different values. This difference generally is reflected in the land values. Try to find sales of vacant land in the different locations, and compare them.

The beginner tends to have difficulty finding relevant information. Ask students for sources: local news items on sales; listings from the real estate offices; local maps showing streets; zoning, etc.

If possible, visit the county courthouse record room to see how records of real estate transactions are kept.

You may wish to invite a local realtor or mortgage banker to discuss this matter with the class.

CONTENT OUTLINE

D. Data file

E. Rental units

IV. Additional Factors

V. Summary

TEACHING SUGGESTIONS

Encourage students to set up in an orderly manner the sales of residential properties in their communities that have occurred within the past few years. List them as bungalows, one-family, two-family, etc.; also, list them as to location and price range. This is a beginning for the student who wishes to further his appraisal experience.

The rental values of residential properties are good indicators of value. One of the guide posts often used for establishing value of rental homes is the gross monthly multiplier (GMM).

Explain that the GMM is a relationship between the monthly rental of a dwelling and its selling price. For example, a house renting for \$150 a month sold for \$15,000. The GMM is 100. The market may show a GMM ranging from 80 to 130.

Ask the students to list conditions that could vary the market value of any residential property. Develop a discussion of local and state economic conditions. What happens to real estate values when such conditions change? What happens if a change of zoning occurs? Does it affect value?

How does the effect of a declining neighborhood change the value of real estate?

This lesson is one of the most important in this course. The forces that create value in the market are constantly changing. A careful study of the reasons why similar properties sell for different prices might develop an appreciation and awareness of the uniqueness of the real estate market.

Try to limit the number of comparable properties studied. Select three to support a market value for a selected dwelling. Use photographs and a map, rentals, assessed values, taxes, etc. to support a market value.

Lesson 10
Income Approach

OBJECTIVES

1. To emphasize the significance of the income approach in relation to the commercial real estate market, and the relationship between the property and its earning capacity, rent, and other income
2. To enable students to analyze the expenses allocated to the real estate, and to reconstruct expense statements as usually submitted by owners

CONTENT OUTLINE

I. Overview of Lesson

A. Purposes

B. References

TEACHING SUGGESTIONS

Income properties are those that are expected to have earning capacity. In other words, they will produce an income over and above the costs to the owner. We must be aware of the duration, the quality, and the quantity of this income stream.

Most buyers of income-producing real estate are primarily interested in the net income the property does or can produce. It is imperative that the students be able to analyze expense statements and develop the economic rent that a property can produce.

The income approach develops a value that is the present worth of future rights to income. The student must be able to recognize the need for the continuation of all the forces that maintain the value over the predicted life of the property when appraised.

To develop a knowledge of the usual and reasonable expenses involved in the real estate. To be able to analyze the income and expense statements that produce the net income, and to have a working knowledge of interest rates.

Ref. A,* Chap. 15, 16, 17
Ref. C, Chap. 23
Ref. D, Chap. 13

*The full citations for these references are given on page 1.

CONTENT OUTLINE

C. Assignment

II. Rent

A. Economic

B. Contract

III. Gross Income

IV. Expenses

TEACHING SUGGESTIONS

Have the class as a group work out a gross income and expense statement for an 8-10 unit apartment house.

It is important at this stage that students recognize the characteristics of a *bona fide* gross rent, and an expense account.

Economic rent is that rent the building should bring in the open market at the time of the appraisal.

Students should be aware that the contract rent (the actual rent) may be higher or lower than the economic rent. Ask them to find out the monthly rental for similar apartments in a similar location. They should recognize what the economic rents should be for that type of income-producing property.

Contract rent is established by a lease, and is legally binding.

Gross income includes all the income: rents, plus income from service, garages, automatic washers, parking, etc.

Have the students obtain gross income statements from actual apartment units. The only charge against gross income is a percent charge for vacancy or a collection loss. This could vary from 3-7 percent. The history will indicate such loss. The final product is known as the *effective gross income*.

Expense statements presented to the appraiser often include items that are not proper charges against gross income. Items such as interest and mortgage payments are not charges against income when the expense statement is used for appraisal purposes. The property is appraised as though it were free and clear.

CONTENT OUTLINE

V. Reserves

VI. Net Income and Market Value

VII. Capitalization Rate

VIII. Conclusion

TEACHING SUGGESTIONS

Have the students make up a list of what they think should be expenses for an income-producing property.

Items such as roofs, heaters, refrigerators, and stoves tend to have a shorter life than the building. It is considered necessary to set up a reserve account to replace items as they wear out.

Have students work out a simple problem: A refrigerator with a 10-year life costs \$100. Set up a reserve in the expense column for \$10 per year. Repeat for other items.

This is a rather complicated procedure. Perhaps you might only try to present a simple procedure, capitalizing net income to determine value. A thorough explanation calls for additional knowledge and experience on interest rates and capitalization.

The net income has a definite relationship to value. Example: An apartment having a net income of \$5,000 when capitalized at a proper rate, say 10 percent, would indicate a value of \$5,000 divided by .10 = \$50,000.

A capitalization rate is made up of an interest rate, say 6 percent, the rate the money will earn in a normal market, plus the recapture rate. Since a building is a wasting asset, an amount must be recaptured from the annual income stream. Example: A building might produce a regular income for 25 years and then need considerable work. Then a 4 percent recapture rate should be used. $100 \div 25 = 4$. The total capitalization rate is therefore 6 percent interest plus 4 percent recapture rate or a total capitalization rate of 10 percent.

It is well to remind the students that the market has its own rule of thumb in the sale of income-producing property.

CONTENT OUTLINE

TEACHING SUGGESTIONS

Using the previous example, the apartment has a gross income of \$10,000. The market, say, will pay five times the gross income or \$50,000. These gross multipliers are found in the market.

The market may use a net multiplier: in this case, 10 would be the multiplier.

Lesson 11
Final Estimate of Value

OBJECTIVES

1. To develop an appreciation of an orderly procedure in the appraisal process
2. To draw together all the facts and opinions gathered in the appraisal and develop a final estimate of value

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

II. Selection of Approaches

TEACHING SUGGESTIONS

The final estimate of the value of property is the result of an orderly examination of all those factors relating to the transfer of property.

To review the *cost approach*, the *market approach*, and the *income approach*, and to weigh the advantages and disadvantages of each as it affects the market value.

Ref. A,* Chap. 23

Write a narrative description of each approach, detailing the advantages and disadvantages of each. Show how these approaches are correlated into a final estimate of value.

Using the same specific example, that is, an 8-apartment building, have the students determine what measures they would apply in selecting one approach over another. Students should be prepared to defend a selection based on facts available in their presentations.

Review the value of a property as developed by:

- The cost of production
- The sale price of other similar properties
- The anticipated flow of cash from income units

*The full citation for this reference is given on page 1.

CONTENT OUTLINE

TEACHING SUGGESTIONS

Based on the appraiser's knowledge, the buyer's needs, and the manner in which the property satisfies those needs, the appraiser will select one approach which will enable him to arrive at an estimate of market value.

The cost approach usually determines the quality of structure as discussed in Lesson 7. No adequate appraisal can be made without a thorough examination of the improvements, including fixtures.

The market approach establishes a range of values for comparable properties as outlined in Lesson 9. No adequate appraisal of any property can be made without giving serious consideration to the range of values of similar properties, especially in the residential market.

The income approach is used to determine the value of a property in terms of the income it will produce. This method is rarely applied to the appraisal of one-family dwellings, as noted in Lesson 10.

III. Correlation of Approaches

Correlation is the bringing together of the results of the three different approaches in an attempt to show the relationship of the subject property to the comparable properties used.

The appraiser must analyze each of the approaches and then select that approach which most nearly fulfills the purpose of the appraisal.

IV. Final Estimate of Value

The final estimate of value is not necessarily an amount indicated by any one of the three approaches. Neither is it an arithmetical average. It is based on the judgment of the appraiser as to which is the most valid approach to value. The final estimate of value is that estimate which has been most adequately supported by facts.

Lesson 12
The Appraisal Report

OBJECTIVES

1. To demonstrate that an appraisal report is an orderly method by which the problem is defined, work is planned, and data is properly arranged into an estimate of value
2. To emphasize the need for and the use of an appraisal report, and to create a desire to make each appraisal report better than the previous one

CONTENT OUTLINE

I. Overview of Lesson

A. Purpose

B. References

C. Assignment

TEACHING SUGGESTIONS

The appraisal should speak for itself. Since the appraisal is the written opinion of the writer, it must present all the data and facts on which the opinions are based. Remember, the appraisal report is often read and interpreted in places far distant from the subject property. The reader may have no previous knowledge of the property under appraisal. Stress the importance of a complete narrative report, including maps, plans, and photographs that present ample evidence to support the opinion.

To develop an understanding and mastery of the orderliness of the appraisal process. Over the years this process, as illustrated on page 44 of Ref. A, has been used effectively. Page 386 of Ref. A illustrates an outline of the process.

Ref. A,* Chap. 24
Ref. C, Chap. 15

Complete the home appraisal assigned in this course, using the outline and table of contents that have been provided.

*The full citations for these references are given on page 1.

CONTENT OUTLINE

II. The Report

A. Define the problem

In review, prepare and present to the class an example of a complete, well-documented appraisal. Use either an apartment house or a commercial structure and go through the following steps in the appraisal. This is an attempt to tie in the logical steps necessary to complete the appraisal.

B. Identify the property

Ask the class to suggest possible ways of identifying a property. Be sure they include: street address, deed description, physical location, location by plot plan, lot and block system, plot survey. Suggest where such data can be found.

C. Property rights

This is an important element in appraising. Stress the fact that real property consists of the physical property and all the rights involved in the ownership of the property.

D. Purpose and function of the appraisal

The student should clearly understand the reasons for making the appraisal, and the use it is to serve. This is necessary to help him emphasize certain facts which will lend additional support to the appraisal.

E. Date of appraisal

Stress the fact that all real estate appraisals must apply to a specific date. The forces that create, maintain, or destroy value change very quickly. Give examples of economic or physical conditions (such as a strike, a cyclone, or oil being found in the area) which affect the value.

F. Definition of value

The following definition should be memorized by all interested in real estate appraisal. It is accepted by all the courts in the land: "...the highest price estimated in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted, and for which it is capable of being used."

CONTENT OUTLINE

G. Factual data

H. The approaches

I. Correlation and final conclusion

J. Underlying and contingent conditions

K. Addenda

TEACHING SUGGESTIONS

The data collected from the neighborhood, the area, the city, and possibly the state is all pertinent to the issue. This data can be interpreted by the reader to support the opinions of the writer. This data is one of the forces that create, maintain, or destroy value.

All these approaches should be used: cost, market, and income. If for any reason one approach is omitted, the reason should be clearly stated.

Final statements should be amply supported with sound reasoning. Provide a good correlation; read it to the class and explain its strong points.

Certain facts and data pertinent to the appraisal are furnished by others. The appraiser states that these are assumptions made by others and that there are certain contingencies. Explain what these assumptions and contingencies are.

The addenda should include all the additional supporting data the appraiser deems pertinent: maps, photos, plot plan, floor plans, etc.

BIBLIOGRAPHY

American Association of State Highway Officials. Acquisition of right of way. The Association, 917 National Press Bldg., Washington, D.C. 20004. 1962.

American Institute of Real Estate Appraisers. The appraisal of real estate; 5th ed. The Institute, 155 E. Superior St., Chicago, Ill. 60611. 1967.

_____. Appraisal terminology and handbook; 5th ed. The Institute. Chicago, Ill. 1967.

_____. Real estate appraisal: Silver anniversary papers. The Institute. Chicago, Ill. 1958.

American Society of Appraisers. Appraisal and valuation manual. The Society. 1101-17th St., N.W., Washington, D.C. 20036. 1965. (This publication was issued annually between 1956 and 1964, except that one year was skipped. This means that only eight were issued before publication was discontinued.)

Babcock, Henry A. Appraisal principles and procedures. Homewood, Ill. Richard D. Irwin. 1968.

Bartlett, C. R. Assessing and the appraisal process. International Association of Assessing Officers, 1313 E. 60th St., Chicago, Ill. 60637. 1965.

Cadwallader, Clyde T. How to deal in real estate. Englewood Cliffs, N.J. Prentice-Hall. 1955.

Crouse, Earl F. & Everett, Charles H. Rural appraisals. Englewood Cliffs, N.J. Prentice-Hall. 1956.

Downs, James C., Jr. Principles of real estate management; 8th ed. Institute of Real Estate Management, 155 E. Superior St., Chicago, Ill. 60611. 1964.

Kahn, Sanders A. & others. Real estate appraisal and investment. New York. Ronald Press. 1963.

Kinnard, William N., Jr. Industrial real estate. Society of Industrial Realtors, 1300 Connecticut Ave., N.W., Washington, D.C. 20036. 1967.

Knowles, Jerome, Jr. Single family residential manual. American Institute of Real Estate Appraisers, 155 E. Superior St., Chicago, Ill. 60611. 1967.

Kratovil, Robert. Real estate law; 5th ed. Englewood Cliffs, N.J. Prentice-Hall. 1969.

Murray, William G. Farm appraisal and valuation; 5th ed. Ames, Iowa. Iowa State Univ. Press. 1969.

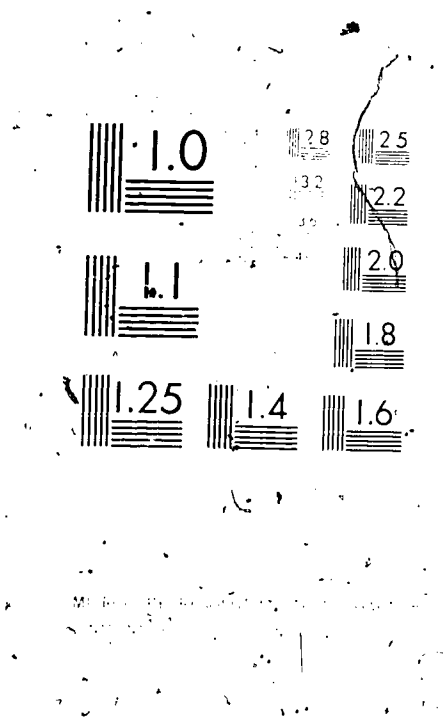
Ratcliff, Richard U. Modern real estate valuation; theory and application. Democrat Press, Box 1148, Madison, Wis. 53701. 1965.

Ring, Alfred A. & North, Nelson L. Real estate principles and practices; 6th ed. Englewood Cliffs, N.J. Prentice-Hall. 1967.

Schmutz, George L. The appraisal process. The author, Studio City, Calif. 1953.

Weimer, Arthur M. & Hoyt, Homer. Real estate; 5th ed. New York. Ronald Press. 1966.

Winstead, Robert W. Real estate appraisal desk book. Englewood Cliffs, N.J. Prentice-Hall. 1968.



CURRENCY REQUISITION FROM BANK			
Denomination	Quantity	Amount	
\$20			
\$10			
\$ 5			
\$ 1			
25¢			
10¢			
5¢			
1¢			
	Total		

Figure 6.9
Currency Requisition from Bank

CURRENCY REQUISITION FROM BANK			
Denomination	Quantity	Amount	
\$20	8	160	00
\$10	3	30	00
\$ 5	1	5	00
\$ 1	3	3	00
25¢	3		75
10¢	2		20
5¢	2		10
1¢	3		3
	Total	199	08

Figure 6.9K
Ans. Key to Currency Requisition from Bank

EMPLOYEE EARNINGS RECORD

Name Lydia Baker

Date Employed Sept. 9, 19

Date Terminated _____

Address 4 North St.

Social Security 022-77-7042

Single Married

Village, NY 12201

Telephone Number 621-2215

Date of Birth 1-17-27

Weekly Overtime

Pay Rate 95 week ~~Monthly~~ Rate \$3.56 hr.

Number of Exemptions 1 (+1.40) Position Clerk, Counter

Date	Hours	EARNINGS			DEDUCTIONS						Net Pay	Gross Cumulative Earnings	
		Regular	Overtime	Total Gross	Federal Income	State Income	FICA						Total Deduct.
Jan 10	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	95.00
30	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	190.00
Feb 15	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	285.00
28	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	380.00
Mar 15	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	475.00
30	40	95.00	-	95.00	11.30	1.60	4.94				17.84	77.16	570.00

84

Figure 6.10K
Employee Earnings Record
For Lydia Baker



**Employer's Quarterly
Federal Tax Return**

**SCHEDULE A—Quarterly Report of Wages Taxable under the Federal Insurance Contributions Act—FOR SOCIAL SECURITY
IF WAGES WERE NOT TAXABLE UNDER THE FICA MAKE NO ENTRIES IN ITEMS 1 THROUGH 9 AND 14 THROUGH 18**

1. (First quarter only) Number of employees (annual household) employed in the pay period including March 15th **2** 2. Total pages of this return including this page and any pages of Form 941 **1** 3. Total number of employees listed **2**

List for each nonagricultural employee the WAGES taxable under the FICA which were paid during the quarter. If you pay an employee more than \$8,000 in a calendar year report only the first \$8,000 of such wages. In the case of "Tip Income" see instructions on page 4. Please report each employee's name and number exactly as shown on his Social Security card.

4. EMPLOYER'S SOCIAL SECURITY NUMBER	5. NAME OF EMPLOYEE (Print last or first)	6. TAXABLE FICA WAGES Paid to Employee in Quarter (Before deductions) (Include Tips)	7. TAXABLE TIPS REPORTED (See page 4)
022-77-7042	LYDIA BAKER	\$970.00	
022-61-3261	WILLIAM SMITH	840.00	

Figure 7.1K
Ans. Key to Form 941,
Employer's Quarterly Federal Tax Return.

If you need more space for listing employees, see Schedule A continuation sheets, Form 941.
Totals for this page—Wages total in column 6 and tip total in column 7 **\$1,410.00**
TOTAL WAGES TAXABLE UNDER FICA PAID DURING QUARTER (Total of column 6 on this page and continuation sheets.) Enter last and in Form 14 below **\$1,410.00**
TOTAL TAXABLE TIPS REPORTED UNDER FICA DURING QUARTER (Total of column 7 on this page and continuation sheets.) Enter here and in Form 15 below **\$ None**

Name (as distinguished from trade name) **VILLAGE DRYCLEANERS** Date quarter ended **March 31, 19**
Trade name, if any
Employer Identification No. **14-2356789**
Address and ZIP code
Main Street, Any Village, N.Y. 12809
Enter name to be made both above and below this line, if address different from previous return, check here
Name (as distinguished from trade name) **VILLAGE DRYCLEANERS** Date quarter ended
Trade name, if any
Employer Identification No.
Address and ZIP code
Main Street, Any Village, N.Y. 12809

	FF	FP
	TD	TOT
10. TOTAL WAGES AND TIPS SUBJECT TO WITHHOLDING PLUS OTHER COMPENSATION		1,410.00
11. AMOUNT OF INCOME TAX WITHHELD FROM WAGES, TIPS, ANNUITIES, etc. (See instructions)		124.80
12. ADJUSTMENT FOR PRECEDING QUARTERS OF CALENDAR YEAR		
13. ADJUSTED TOTAL OF INCOME TAX WITHHELD		
14. TAXABLE FICA WAGES PAID (Line 6)	1,410.00	
15. TAXABLE TIPS REPORTED (Line 7)		
16. TOTAL FICA TAXES (Lines 14 plus 15)		146.64
17. ADJUSTMENT (See instructions)		
18. ADJUSTED TOTAL OF FICA TAXES		
19. TOTAL TAXES (Lines 12 plus Item 18)		271.44
20. TOTAL DEPOSITS FOR QUARTER (INCLUDING FINAL DEPOSIT MADE FOR QUARTER AND OVERPAYMENT FROM PREVIOUS QUARTER LIST IN SCHEDULE B. (See instructions on page 4). Notes		

21. UNDEPOSITED TAXES DUE (ITEM 19 LESS ITEM 20—
ENTER HERE) **1** 1. PAY TO INTERNAL REVENUE SERVICE AND
IF ITEM 20 IS MORE THAN ITEM 19, ENTER EXCESS HERE **1** AND CHECK IF YOU WANT IT APPLIED TO NEXT RETURN, OR REFUNDED

22. If not liable for return in succeeding quarters with "FINAL" here **1** and enter date of final payment of taxable wages here **1**
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete.

Date **1** Signature **1** Title (Owner, etc.) **1**



NEW YORK STATE INCOME TAX BUREAU - EMPLOYERS RETURN OF PERSONAL INCOME TAX WITHHELD

IT-2101 (PNS)
1972

MAIL WITH REMITTANCE TO:
NEW YORK STATE INCOME TAX BUREAU
ALBANY, N. Y. 12227

FOR PERIOD FROM:	NAME - PRINT OR TYPE Village Drycleaners	TAX WITHHELD - IF NONE STATE REASON ON BACK 17.40
TO:	ADDRESS Main Street Any Village, N.Y. 12809	INTEREST - PENALTY - SEE INSTRUCTIONS BELOW
	OR CODES: ENTER FED. EMPLOYER ID NO. AND BRANCH CODE, IF ASSIGNED BY THE DEPARTMENT.	TOTAL REMITTANCE - PAYABLE TO N.Y.S. INCOME TAX BUREAU 17.40

READ EMPLOYER'S INSTRUCTIONS, AND ANSWER ALL QUESTIONS ON THIS FORM.

IS THIS YOUR FIRST RETURN OF TAX WITHHELD FROM EMPLOYEES? YES NO

IF "YES" ENTER DATE OF FIRST PAYMENT OF WAGES _____ 19__

IF "NO" ENTER DATE YOUR LAST RETURN WAS FILED _____ 19__

WRITE PREVIOUS NAME, ADDRESS AND IDENTIFICATION NUMBER ON BACK OF CARD IF DIFFERENT FROM ABOVE.

THIS IS TO CERTIFY THAT EXCEPT FOR REQUIRED CORRECTIONS FOR PRIOR PERIODS IN 1972, THIS RETURN IS CORRECT.

SIGNATURE _____

TITLE _____ DATE _____

LATE FILING AND PAYMENT INSTRUCTIONS:

INTEREST AT 6% PER YEAR FOR LATE PAYMENT MUST BE PAID. ADD. PENALTY FOR LATE FILING OF 6% PER MONTH, NOT TO EXCEED 25% PLUS PENALTY OF 1/2% PER MONTH FOR LATE PAYMENT UNLESS YOU SHOW REASONABLE CAUSE FOR THE LATE FILING AND PAYMENT ON THE BACK OF THIS FORM. PENALTIES WILL BE ADDED IF YOU FAIL TO SHOW REASONABLE CAUSE.

IF THIS IS A FINAL RETURN, CHECK APPLICABLE BOX

BUSINESS SOLD CEASED PAYING WAGES BUSINESS PERMANENTLY DISCONTINUED

IF ONE OF THE ABOVE APPLY, WRITE THE WORDS "FINAL RETURN" ABOVE "TAX WITHHELD" BOX IN UPPER RIGHT, AND GIVE EXPLANATION ON BACK OF CARD AND FILE WITH FORMS IT-2102 AND IT-2103 WITHIN 30 DAYS.

CID 1-2	EMPLOYER NUMBER 3-15	DATE OF FILING 14-16 17 18-20	TAX WITHHELD 21-29	TOTAL REMITTANCE 30-38	ALT. TAX WITHHELD 39-47	ALT. TOTAL REMITTANCE 48-56	DATE RECEIVED 57-60	ALT. PERIOD 61-64	TRANSACTION HISTORY 65-76	77-84
---------	----------------------	-------------------------------	--------------------	------------------------	-------------------------	-----------------------------	---------------------	-------------------	---------------------------	-------

Figure 7.2K
Ans. Key to Form IT-2101 (PNS)
Employer's Return of
N.Y. State Personal Income Tax Withheld

ST-100

New York State
Department
of Taxation
and Finance
23

New York State and Local Sales and Use Tax Return

Page 1

Under Articles 28 and 29 of Tax Law
September 1, 1972 - November 30, 1972

Use Pre-addressed Form and Return Envelope for filing your return.
Keep duplicate for your records.

Enter name, address, ZIP code and identification number if not shown correctly below.

VILLAGE DRYCLEANERS
Main Street
Any Village, NY 12809

14-2356789

Complete page 2 of this form before making entries below.

SUMMARY OF BUSINESS ACTIVITY	GROSS SALES AND SERVICES	TAXABLE SALES AND SERVICES	PURCHASES SUBJECT TO USE TAX
	A (to nearest dollar)	B (to nearest dollar)	C (to nearest dollar)
	\$2,969	\$2,969	

ENTER TYPE OF BUSINESS

Retail Drycleaning

If this return reports sales taxes for more than one business location, check here.

Summary of Taxes Due

1	Sales and Use Taxes (total column (a), page 2 and amounts from Schedules A, B and N, if any)	178.	15
2	(a) Credits (attachments required)		
	(b) Prepayments (attach Form ST-330)		
	(c) Total Credits and Prepayments		
3	Sales and Use Taxes Due (line 1 less line 2(c))	178.	15
4	Add: Late Filing Charge		
5	Amount Due including Late Filing Charge (line 3 plus line 4) Pay this amount	178.	15

Attach remittance payable to "New York State Sales Tax Bureau" and mail to your New York State District Tax Office on or before December 20, 1972.

SIGNATURE OF VENDOR

For office use only

TITLE

Partner-Owner

DATE

SIGNATURE OF PREPARER (IF OTHER THAN VENDOR)

DATE

ADDRESS

ST-100 (9/72)

Did you complete the other side of this form?

Figure 7.3K1

Ans. Key to Form ST-100,

N.Y. State and Local Sales and Use Tax Return for Dec. 1-Feb. 28

87

110

*The tax rate for the Sept. 1-Nov. 30, 1972, period covered by this quarterly return is actually 7%. It has been changed to 6% on this form to agree with computations made for illustration, before the tax rate was increased.

ST-100 (Back) (9-72-23)					State and Local Sales and Use Tax					Page 2	
TAXING JURISDICTION	RATE	TAXABLE SALES AND SERVICES (to nearest dollar) (c)	PURCHASES SUBJECT TO USE TAX (to nearest dollar) (d)	SALES AND USE TAXES (dollars and cents) (e)	C O D E	TAXING JURISDICTION	RATE	TAXABLE SALES AND SERVICES (to nearest dollar) (c)	PURCHASES SUBJECT TO USE TAX (to nearest dollar) (d)	SALES AND USE TAXES (dollars and cents) (e)	C O D E
New York State	4				0002	Ontario	6				3602
Albany	7				0132	Rensselaer - except Troy (city)	6 7				3872 3832
Allegany	6				0202	St. Lawrence - except	7				4092
Broome	6				0302	Ogdensburg (city)	7				4012
Cattaraugus - except	7				0492	Mechanicville (city)	6				4112
Olean (city)	7				0412	Saratoga Springs (city)	6				4132
Salamanca (city)	7				0422	Schuyler	7				4402
Cayuga	7				0502	Steuben - except	7				4682
Chautauque	7				0602	Hornell (city)	7				4622
Chemung - except	7				0792	Suffolk	7				4712
Elmira (city)	7				0712	Sullivan	6				4802
Chenango	6				0802	Tioga	6				4902
Clinton	7				0902	Tompkins - except	7				5092
Columbia	6				1002	Ithaca (city)	7				5012
Cornwall	7				1102	Ulster - except	5				5102
Poughkeepsie (city)	6				1322	Kingston (city)	7				5152
Eric	7				1412	Warren - except	7				5292
Essex	7				1502	Glens Falls (city)	7				5212
Franklin	7				1602	Washington	6	\$2,969		178.15	5302
Fulton	7				1702	Wayne	7				5402
Genesee	6				1802	Westchester	5				5502
Greene	6				1902	Mount Vernon (city)	6				5522
Hamilton	7				2002	Yonkers (city)	7				5572
Jefferson	7				2202	Yates	7				5702
Livingston	7				2402	New York City	7				5802
Madison	6				2502						
Monroe	7				2602						
Montgomery - except	7				2792						
Amsterdam (city)	7				2712						
Nassau	7				2842						
Niagara	7				2902						
Onondaga	7				3102						
Ontario - except	7				3272						
Canandaigua (city)	7				3232						
Geneva (city)	7				3242						
Orleans	7				3472						
Fulton (city)	7				3532						
Oswego (city)	7				3542						
						TOTALS -		\$2,969		178.15	

N.Y. State and Local Sales and Use Tax Return for Dec. 1-Feb. 28
 Figure 7-3K2
 Ans. Key to Form ST-100

ENTER ON PAGE 1,

BOX B BOX C LINE 1

111



112

COMBINED CASH JOURNAL

CASH			Date	Explanation	Pr. No.	GENERAL LEDGER		Cleaning	Utilities	Payroll	Federal	State	FICA	Sales Tax	Income
(Received)	(Paid Out)	Check				Debit	Credit	Supplies	Debit	Debit	Debit	Income Tax	Income Tax		
Debit	Credit	No.								Debit	Credit	Credit	Credit	Credit	Credit
			1	Cash Balance \$ 1,870.04	✓										
			1	F.I.C.A. Tax (Employer)			7932						7932		
	200		1	Miscellaneous Expense	62	200									
	271.44	35	1	Federal Income Tax Payable	21	271.44									
				F.I.C.A. Tax Payable	29	146.14									
	1740	36	1	State Income Tax Payable	22	1740									
	12815	37	1	State Sales Tax Payable	24	9998									
				County Sales Tax Payable	25	8907									
	17000	38	1	Rent Expense	51	17000									
	4552	39	1	Wire Transfer				4552							
18190			4	Cash Sales											
	2390	40	5	M. T. Telephone Service					2390					1030	17160
13922			5	Cash Sales											
	28400	41	6	(New) Prepaid Insurance	8	28400									
	3640	42	6	Repairs and Maintenance	57	3640									
14428			6	Cash Sales											
	5600	43	7	News and Subscriptions	56	5600								828	12800
16881			7	Cash Sales											
	19900	44	8	Cash Payroll						23500	2080	280	1222	850	15925
			8	F.I.C.A. Tax Expense	53	1222							1222		
29267			8	Cash Sales									1222		
	3380	45	9	Plastic Garment Bags				3580						1457	22610
21582			9	Cash Sales											
	700	46	11	News and Subscriptions	56	700								1222	20260
	3800	47	11	Fuel oil - Heat					3800						
30844			11	Cash Sales											
	650	48	12	Miscellaneous Expense	62	650								1740	28100
12452			12	Cash Sales											
17246			13	Cash Sales										716	11940
	4300	49	14	Electricity					4300					976	16220
16716			14	Cash Sales											
	45000	50	15	J. Blair, Drawing	32	45000								940	15000
	19900	51	15	Cash Payroll						23500	2080	280	1222		
			15	F.I.C.A. Tax Expense	53	1222							1222		
	2800	52	15	Delivery Truck Expense	58	2800									
191934	209372		15	Totals Forward		160465		8132	10498	47000	4160	580	12220	10859	180320

Figure 8.1K1
Ans. Key to Journalizing Apr. Transactions
For Prob. 5



COMBINED CASH JOURNAL

CASH		Date	Explanation	Post Ref	GENERAL LEDGER		Cleaning	Utilities	Payroll	Federal	State	FICA	Sales Tax	Income
(Received)	(Paid Out)				Debit	Credit	Supplies	Debit	Debit	Debit	Income Tax	Income Tax	Income Tax	Income Tax
Debit	Credit	Check No.												
1818.34	2093.27		Totals Forward		1402.15		81.32	1049.00	445.00	41.60	32.00	123.20	120.39	1189.28
234.84			Cash Sales										13.44	224.40
304.35			Cash Sales										17.35	287.00
	10.00	53	Donations	60	10.00									
138.22			Cash Sales										7.82	150.40
189.15			Cash Sales										10.65	178.50
	12.00	54	Donations	60	12.00									
178.72			Cash Sales										10.22	168.50
241.48			Cash Sales										15.48	226.00
	199.08	55	Cash Payroll					235.00	2.80	2.80	12.22			
			F.I.C.A. Exp Expense	55	12.22						12.22			
381.60			Cash Sales										21.60	360.00
311.96			Cash Sales										17.60	294.36
	10.00	56	Donations	60	10.00									
152.54			Cash Sales										9.64	162.18
147.34			Cash Sales										9.34	156.68
	284.00	57	Repairs and Maintenance	57	284.00									
218.12			Cash Sales										12.12	206.00
299.84			Cash Sales										14.84	285.00
	199.08	58	Cash Payroll					235.00	2.80	2.80	12.22			
			F.I.C.A. Exp Expense	55	12.22						12.22			
278.57			Cash Sales										15.77	262.80
	45.00	59	J. Blank, Drawing	32	45.00									
414.44			Cash Sales										24.44	390.00
	154.50	60	Loan Payable	26	154.50									
			Int. Expense	61	45.00									
5358.61	4584.83		Totals		3458.47		81.32	1049.00	745.00	70.20	116.00	101.00	152.29	5055.28
(1)	(1)								(2)	(2)	(2)	(2)	152.29	5055.28
			Cash Pool											
			Balance, April 1		189.00									
			Plus Receipts		5358.61									
			Less Payments		724.44									
			Balance, April 30		189.00									

Figure 8.1K2
Ans. Key to Journalizing Apr. Transactions
For Prob. 5



Cash				Acct. No. 1			
Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	1210 28	Mar 31		CJ	1243 31
Mar 31		CJ	1923 07	Apr 30		CJ	4546 83
Apr 30	2890.04 2761.82	CJ	3133 95 5358 61 8491 96				5790 14

Prepaid Insurance				Acct. No. 3			
Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	380 00				
Apr 6	Fire (3-year)	CJ	286 00 666 00				

Cleaning Supplies				Acct. No. 4			
Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	550 55				
Mar 31		CJ	156 35				
Apr 30		CJ	706 90 81 32 788 22				

Furniture				Acct. No. 5			
Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	860 00				

Delivery Truck				Acct. No. 7			
Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	1500 00				

Figure 9.1K1
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob. 5

Equipment

Acct. No. 8

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	16,045.00				

Federal Income Tax Payable

Acct. No. 21

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 1		CJ	124.80	Feb 28	Balance	✓	89.20
				Mar 31		CJ	41.60
				Apr 30		CJ	124.80
					83.20		89.20
							208.00

State Income Tax Payable

Acct. No. 22

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 1		CJ	17.40	Feb 28	Balance	✓	11.60
				Mar 31		CJ	5.80
				Apr 30		CJ	17.40
					11.60		11.60
							29.00

FICA Tax Payable

Acct. No. 23

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 1		CJ	146.64	Feb 28	Balance	✓	48.88
				Mar 31		CJ	24.44
				Apr 30		CJ	171.08
					97.76		244.40

State Sales Tax Payable

Acct. No. 24

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 1		CJ	89.08	Feb 28	Balance	✓	89.08
				Mar 31		CJ	54.43
				Apr 30		CJ	143.57
					206.10		151.47
							295.18

Figure 9.1K2
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob. 5

County Sales Tax Payable

Acct. No. 25

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
19- Apr 1		CJ	89.07	19- Feb 28	Balance	✓	89.07
				Mar 31		CJ	54.44
				Apr 30		CJ	129.51
					206.10		151.66
							293.17

Equipment (Loan Payable)

Acct. No. 26

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
19- Apr 30		CJ	1,500.00	19- Feb 28	Balance	✓	1,500.00

J. Blair, Capital

Acct. No. 31

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
				19- Feb 28	Balance	✓	18,000.00

J. Blair, Drawing

Acct. No. 32

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
19- Feb 28	Balance	✓	800.00				
Mar 31		CJ	400.00				
Apr 15		CJ	1200.00				
Apr 30		CJ	450.00				
			2100.00				

Income From Sales

Acct. No. 41

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
				19- Feb 28	Balance	✓	2,969.30
				Mar 31		CJ	1,814.20
				Apr 30		CJ	4,783.60
							5,055.28
							9838.78

Figure 9.1K3
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob. 5

Rent Expense

Acct. No. 51

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	340 00				
Mar 31		CJ	170 00				
Apr 1		CJ	510 00 170 00 680 00				

Utilities Expense

Acct. No. 53

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	74 70				
Mar 31		CJ	74 70				
Apr 30		CJ	145 40 104 60 250 00				

Payroll Expense

Acct. No. 54

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	940 00				
Mar 31		CJ	470 00				
Apr 30		CJ	1410 00 940 00 2350 00				

FICA (Employer)

Acct. No. 55

19- Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 6		CJ	73 32				
		CJ	12 22				
15		CJ	12 22				
22		CJ	12 22				
29		CJ	12 22 122 20				

Dues and Subscriptions

Acct. No. 56

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	17 50				
Mar 31		CJ	3 00				
Apr 7		CJ	20 50 56 00				
11		CJ	7 00 83 50				

Figure 9.1K4
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob. 5

Repairs and Maintenance

Acct. No. 57

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	41 60				
Apr 6		CJ	36 40				
27		CJ	28 40				
			126 40				

Delivery Truck Expense

Acct. No. 58

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	16 50				
Mar 31	Repairs	CJ	33 60				
Apr 15	Gas	CJ	30 10 28 00 78 10				

Advertising Expense

Acct. No. 59

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Feb 28	Balance	✓	15 00				

Donations Expense

Acct. No. 60

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 18	Boy Scouts	CJ	10 00				
20	Tickets - assoc. merchants	CJ	12 00				
25	H.S. Award	CJ	10 00				
			32 00				

Interest Expense

Acct. No. 61

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Apr 30	6-month Note	CJ	45 00				

Figure 9.1K5
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob: 5

Miscellaneous Expense

Acct. No. 62

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit
Mar 31	Plant-Counter	CT	7 50				
Apr 1	Service Charge	CT	2 00				
	Lost Sweater	CT	6 50				
			16 00				

Acct. No.

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit

Acct. No.

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit

Acct. No.

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit

Acct. No.

Date	Explanation	Post Ref.	Debit	Date	Explanation	Post Ref.	Credit

Figure 9.1K6
 Ans. Key to
 Posting Mar. and Apr. Transactions
 For Prob. 5

VILLAGE DRYCLEANERS

Trial Balance

April 30, 19

Account Title	Acct. No.	Debit		Credit	
Cash	1	2,701	82		
Prepaid Insurance	3	666	00		
Cleaning Supplies	4	788	22		
Furniture	5	860	00		
Delivery Truck	7	1,500	00		
Equipment	8	16,045	00		
Federal Income Tax Payable	21			83	20
State Income Tax Payable	22			11	60
F.I.C.A. Tax Payable	23			97	76
State Sales Tax Payable	24			206	10
County Sales Tax Payable	25			206	10
J. Blair, Capital	31			18,000	00
J. Blair, Drawing	32	2,100	00		
Income from Sales	41			9,838	78
Rent Expense	51	680	00		
Utilities Expense	53	254	30		
Payroll Expense	54	2,350	00		
F.I.C.A. (Employer)	55	122	20		
Books and Subscriptions	56	83	50		
Repairs and Maintenance	57	106	70		
Delivery Truck Expense	58	78	10		
Advertising Expense	59	15	00		
Donations Expense	60	32	00		
Interest Expense	61	45	00		
Miscellaneous Expense	62	16	00		
		28,443	54	28,443	54

Figure 10.1K
 Ans. Key to Trial Balance
 For Prob. 5

123

VILLAGE DRYCLEANERS
Worksheet

4-Month Period Ended April 30, 19

Account Title	Acct. No.	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		Debit	Credit	Expenses	Income	Assets	Liabilities & Net Worth
Cash	1	2701.82				2701.82	
Prepaid Insurance	3	600.00				600.00	
Cleaning Supplies	4	789.22				789.22	
Furniture	5	860.00				860.00	
Delivery Truck	7	1500.00				1500.00	
Equipment	8	1604.50				1604.50	
Federal Income Tax Payable	21		83.20				83.20
State Income Tax Payable	22		11.60				11.60
F.I.C.A. Tax Payable	23		77.76				77.76
State Sales Tax Payable	24		206.10				206.10
County Sales Tax Payable	25		206.10				206.10
J. Blair, Capital	31		18000.00				18000.00
J. Blair, Drawing	32	2100.00				2100.00	
Income from Sales	41		9838.78		9838.78		
Rent Expense	51	680.00		680.00			
Utilities Expense	53	254.30		254.30			
Payroll Expense	54	2350.00		2350.00			
F.I.C.A. (Employee) Expense	55	122.20		122.20			
News and Subscription	56	83.50		83.50			
Repairs and Maintenance	57	106.40		106.40			
Delivery Truck Expense	58	78.10		78.10			
Advertising Expense	59	15.00		15.00			
Donations Expense	60	30.00		30.00			
Interest Expense	61	4.50		4.50			
Miscellaneous Expense	62	1.60		1.60			
		28413.54	28413.54	3782.50	9838.78	24661.04	18604.76
				6056.28			6056.28
				9838.78	9838.78	24661.04	24661.04

Figure 10.2K
Ans. Key to Financial Statement Worksheet
For Prob. 5

VILLAGE DRYCLEANERS
Balance Sheet
As of April 30, 19

Assets		Liabilities	
Cash	\$ 2,701.82	Taxes Payable	
Prepaid insurance	666.00	Federal withholding	\$ 83.20
Cleaning supplies	788.22	State withholding	11.60
Furniture	860.00	FICA tax	97.76
Delivery truck	1,500.00	State sales tax	206.10
Equipment	16,045.00	County sales tax	206.10
		Total Liabilities	604.76
		<u>Net Worth</u>	
		J. Blair, Capital, Jan. 1	\$18,000.00
		Net Profit for Period	\$6,056.28
		Less drawings	<u>2,100.00</u>
		Net Increase in Capital	<u>3,956.28</u>
		J. Blair, Capital, April 30	21,956.28
Total Assets	\$22,561.04	Total Liabilities and Net Worth	\$22,561.04

Figure 10.3K
Ans. Key to Balance Sheet
For Prob. 5

VILLAGE DRYCLEANERS

Income Statement

For the 4-month period ended April 30, 19__

<u>Items</u>		<u>Amounts</u>
Income from Sales		\$9,838.78
Expenses for Period		
Rent	\$ 680.00	
Utilities	254.30	
Payroll	2,350.00	
FICA (Employer)	122.20	
Dues and Subscriptions	83.50	
Repairs and Maintenance	106.40	
Delivery truck	78.10	
Advertising	15.00	
Donations	32.00	
Interest	45.00	
Miscellaneous	16.00	
Total Expenses for Period		<u>3,782.50</u>
Net Profit for Period		<u>\$6,056.28</u>

Figure 10.4K
Ans. Key to Income Statement
For Prob. 5