

# ACCOUNTING in the headlines

## How will Black Squirrel Rentals use the relative sales value method to allocate the purchase price of a rental property it purchased?

Black Squirrel Rentals LLC is a real estate company located in Kent, Ohio, specializing in student housing rentals. Black Squirrel Rentals recently purchased a large house at 217 Main Street in Kent for \$290,000. Rooms in the house will be rented to students. In addition, there is office space that can be rented out on the first floor of the house. The real estate purchase included the house and the land (.436 acres) upon which it is located.

Assume that the house has an appraised value of \$240,000, while the land has an appraised value of \$60,000.

### Questions

1. What is the total appraised value of the house plus the land?
2. Why is there a difference between the purchase price and the total appraised value?
3. What is the relative sales method? Why is it important to allocate the purchase price to the house and to the land individually?
4. Of the total appraised value, what percentage is the house? What percentage is the land?
5. How much of the purchase price should be allocated to the house? How much should be allocated to the land?