PROBLEMS IN ACCOUNTING

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PREFACE

This text was originally intended for the use of students in the various courses in Accounting in the University of Michigan. It attempts to place before the student in the form of problems the more important types of concrete situations which present the necessity for accounting analysis.

Problems in Accounting

CHAPTERS II AND III

1.

Classify the following transactions into debit and credit items:

(a) The book-keeper's salary is paid in cash, $20.
(b) Coal to the amount of $60 is purchased.
(c) A customer pays his account, $75.
(d) The firm buys goods, $400, on a 60-day note.
(e) The firm borrows $500 from a bank on a 60-day note.
(f) The firm settles an open account of $200 with a note.
(g) The property of the firm is mortgaged for $4,000.
(h) Interest is paid for capital-service rendered, $100.
(i) Finished goods to the amount of $600 are sold on account to various parties.
(j) The accounts mentioned in (i) are paid in cash.
(k) Goods are damaged by fire, $200.
(l) The plant depreciates in value, $600.
(m) Fuel is consumed, $100.
(n) The machinery is repaired, $50.
(o) Cash, $200, is paid for labor services.
(p) An insurance premium of $100 is paid in cash.
(q) Taxes are paid, $75.
(r) Capital stock to the amount of $25,000 is issued for cash.
(s) $10,000 of the above stock is exchanged for $10,000 in first mortgage bonds.
(t) The bonds mentioned in (s) are paid with cash, $10,000.
(u) Miscellaneous services are purchased with cash, $100.
(v) Miscellaneous services are consumed, $100.
(w) The firm gives $100 in cash to charities.
(x) Dividends are paid in cash, $500.
(y) $400 is received for rent of a portion of the factory.
(z) The firm receives $30 in interest on its bank deposits.

2.

Journalize the following transactions. Open the proper ledger accounts and post.

(a) R. A. Taylor begins business with a capital (all in cash) of $10,000.

(b) Mr. Taylor rents a store building, paying 3 months' rent ($180) in advance.

(c) Merchandise is purchased, $3,000. Terms: $1,500 cash, and a 60-day note for the balance.

(d) Second-hand fixtures are purchased for $500 in cash.

(e) Stock and fixtures are insured for one year; premium, $25.

(f) Cash sales are made, $300.

(g) Merchandise is sold on acount to J. R. Walters for $250.

(h) Cash is paid for advertising, $10.

(i) The clerk's salary is paid, $15.

(j) Merchandise is purchased on account from E. P. Smith Co. to the amount of $500.

(k) Merchandise is sold for cash, $350.

(l) Miscellaneous services are purchased with cash, $40.

(m) J. R. Walters returns $50 of merchandise as unsatisfactory.

(n) Merchandise is sold on account to F. A. Talbot, $600.

(o) Mr. Taylor draws $300 in cash for his personal use.

(p) The note mentioned in (c) is paid and interest for 20 days, $5.

(q) Merchandise is stolen, $200.

(r) Interest is received on bank deposit, $15.

(s) Mr. Taylor buys the building he has been renting for $10,000. Payment is made as follows: Cash, $3,000; the former owner of the building assumes F. A. Talbot's account, $600; a mortgage for $6,280 is given on building, stock, and fixtures; two months prepaid rent, $120, is allowed as part payment.

3.

Bought from Howard Houck drugs invoiced at $430. In payment we transferred to him an account which we held against G. Reed $115, gave him our 60-day note for $100, and paid him the balance in cash. Journalize.

4.

T. R. McCracken owed me $1200. I offered a discount of 2½% for cash. Not having the ready money he discounted his note at the bank for sixty days at the rate of 6%, the note producing the sum required to discount my claim. Give the entries as they would appear on McCracken's books.

5.

Mr. X called at my office today and presented a note signed by me for $187.50. This note had been sold to Mr. X by Mr. Y, in whose favor it had been originally drawn. After satisfying myself that the note was properly indorsed, and was due today, I gave Mr. X my check for the amount. Entries on my books?

6.

A merchant draws a draft of $1,000 at four months on a customer who owes him on open account, and the draft is accepted on February 2, 1909. On March 13, 1909, he discounts the draft at a bank at 6% per annum. What entries should be made on the merchant's books properly to record the transactions?

7.

A owed B $1,000 and B draws on him for the account at 60 days. The draft is accepted by A, whereupon B takes it to the bank for discount. The bank discounts the paper 57 days before maturity, at 6% per annum. Show the entries you would make on the books of B.

8.

Smith & Company draw on Jones & Company for an account of $1,500, allowing 1% discount. At maturity the acceptors borrow from the drawers $500 to assist them in meeting the draft, which is, however, finally allowed to be returned. Jones & Company repay $300 of the loan of $500.

Show the ledger account on the books of Smith & Company after the transactions are completed.

9.

A has exhausted his credit with B. He needs further accommodation to the extent of $2,500, to obtain which he gives B a three months draft on C for $2,500. This is $1,000 more than C owes A. To adjust this difference C draws on A at four months for $1,000. Assuming that the drafts have been accepted by the various parties, state what the journal entries would be on the books of each.

10.

The Dayton Plumbing Company has called our attention to an error in our bill of September 22, in which we charged them $1.95 each for six cast iron steel sinks. On September 16 we had quoted this concern these sinks at $1.45 each. The bookkeeper is accordingly instructed to send a credit memorandum for the amount of the over-charge. Make the proper journal entries.

11.

On March 28 we purchased from the Standard Sanitary Manufacturing Company 6 Class "A" Enameled Iron Bath Tubs at $23.50 each. These tubs were shipped to the Morgantown Supply Company on April 8 and billed to them at $28.00 each. A few days later we received a letter from our customer stating that two of the tubs which we had sent were Class "B" instead of Class "A." They stated that they were willing to keep the tubs if proper allowance in price were made. A letter from our salesman in this territory corroborated the customer's statement, and we accordingly sent a credit memorandum for $20.00 to correct the price of the tubs. The matter was also taken up with the manufacturers and we received their credit memorandum for $8.00. Prepare the proper journal entries on our books.

12.

A carload of coal purchased for cash from the Consolidated Coal Company proved of inferior quality. We received a check for $31.65 as a rebate. Journalize.

13.

What entries should an executor make on taking charge of a property which shows on the books of the deceased, and is appraised at the same figures, as follows:—

Real Estate (bequeathed to widow)	$50,000
Accrued rentals on real estate	100
Bonds owned	17,540
Accrued interest on bonds	185
Bills Receivable	7,000
Tradesman's bills	450
Household goods, etc.	5,000

What entries should be made on collecting rental amounting to $200 and interest amounting to $235?

14.

(a) What is the distinction between "Interest and Discount" and "Mdse Discount" accounts? What is Trade Discount?

(b) A bill of goods sold by A. A. Co. to T. Jones is listed at $1,000 with trade discount of 30% allowed. The terms offered on bill are 2% off if paid in 10 days, net if paid in 30 days. Supposing bill to be paid at once, give journal entries on the books of the seller for the transaction.

(c) Suppose instead that bill is settled at end of 30 days with a 60-day non-interest-bearing note which is at once discounted at the bank at 5%. Give journal entries on the books of the seller.

15.

I buy a house and lot of R. M. Brown, paying cash $3,500, and assuming a mortgage of $1,200, with interest at 5½%, 4 months accrued. The premises are rented at $300 per year, payable semi-annually, of which 3 months' rent has accrued. My entries at the time of buying, of receiving rent at the end of 3 months from date, and paying interest in 2 months? Show interest and rent accounts as they appear four months from date, assuming no other transactions.

16.

On January 1 we sent George Young our check for $142.56, in payment of our note of $125 and accrued interest. It is now found that a mistake was made in computing the interest and that we should have paid but $13.44 interest. Today we receive Mr. Young's check for the difference. Journalize.

17.

A owed B for goods purchased amounting to $500, subject to a discount of 10%. B draws on A at 30 days sight for the amount of the bill, less 12½% discount, and A accepted the draft. At maturity A sends B his check for the amount of the acceptance. Two weeks later B discovers the mistake and sends A a debit memorandum for the difference. A sends B his check for the amount. Give the journal entries (1) on A's books and (2) on B's books.

18.

We have donated supplies to the estimated value of $100 to the Belgian Relief Fund. Journalize.

19.

On December 20 we sold and delivered to the Fort Pitt Supply Company 200 boxes of cigars at $7.50 per box. These cigars we inadvertently charged to T. R. Goldstick & Bro., who sent us their check for the amount, not noticing the mistake. The mistake is discovered two months later, and rectified. Give the proper correcting entries.

20.

We have sold to T. R. Burton 10 shares of Pennsylvania Railroad stock at 112. He pays us $800 cash and gives us his 60 day note for the balance. Our bookkeeper made the following entry, which was posted:

Cash,	800	
Investments	320	
T. R. Burton		800
Bills Pay.		320

Make the proper correcting entries.

21.

One of our delivery trucks, valued at $1600, has been stolen. On the truck at the time there was general merchandise to the value of $117. What entry shall we make?

22.

We have deposited at the First National Bank for credit, coupons for the quarterly interest on the $20,000 Union Pacific First and Refunding 5's which our firm owns. "Cash to Investments" is the way our bookkeeper records the transaction. What should the entry have been?

23.

A check for $26.50 is received today from the Reading Railroad Company for losses sustained by us in a recent shipment of oranges. Journalize.

24.

The Dime Savings Bank holds our note for $2,000, maturing today. We take up the note, with accrued interest amounting to $200, and give a new note at sixty days for the entire amount. Journalize.

25.

The June salary of our stenographer, amounting to $75, is paid with an order on the Field Company for Merchandise to the value of $25.00 and our check for the balance. Journalize.

26.

On the books of the A. B. C. Corporation no separate account has heretofore been kept for postage. The amount of postage already charged in the Expense account is found to be $65.30. In order to transfer the account the bookkeeper makes the following entry:

Expense	65.30	
Postage		65.30

Is this entry correct? If not, make a journalization which will make the desired correction.

27.

The Milligan-Dible Company award a contract for an apartment house, the contract price being $125,000, payable in five installments of $25,000 each. The first installment is to be paid before work begins, the second installment when one-fifth of the job is completed and accepted, the third installment when the roof has been put on, the fourth installment when the plastering has been finished and the fifth and last installment when the job has been completed and the building accepted. The owners wish to record the interest lost on these advances as a part of the cost of the building. The following entry is made:

Interest,	$1,000	
Bellefield Apartments		$1,000

If this entry is not correct, what journalization will correct the error?

28.

In April you sell three hundred customers bills of goods amounting to $30,000, and none pay immediate cash. You collect bills amounting to $25,000 from two hundred seventy customers, of whom two hundred fifty take $750 discounts offered for early payment. You buy bills of goods, amounting to $15,000, of fifteen creditors paying none in immediate cash, you pay nineteen creditors cash, amounting to $19,000, and take a discount in each case, amounting in all to $600. You make forty cash payments for expenses, amounting to $4000.

Into what book should you enter each class of transaction indicated above, and how many postings should be made from each book?

Supposing you have subordinate ledgers for customers and for creditors, what would your general ledger show for the items above (show a rough posting for each item posted to the general ledger)?

29.

Rule and title five columns of a petty cash book in addition to the descriptive column, and make an illustrative entry for and in each distribution column.

30.

State fully how the disbursements entered in a petty cash book should be carried to the controlling account in the general ledger and to the detail accounts in the expense ledger.

31.

What is a controlling account? Give three examples. How are postings made to controlling accounts? With what must the balance of a controlling account coincide?

32.

A customer says that a bill which he has received from you represents goods for which he does not owe. He fails to state whether the goods were never purchased, were purchased but returned, or were purchased and paid for. What process should you go through, (i. e., what books should you consult,—naming them in order,—and what should you look for) to determine the facts?

33.

Enter the following transactions in a journal having special columns for cash received and paid, post to ledger.

Feb. 1. R. M. Jones invested in business $2500.00 in cash.

Feb. 1. Paid cash for February rent, $75.

Feb. 2. Bought from J. N. Price on account merchandise invoicing at $560.

Feb. 3. Sold merchandise for cash, $56.50.

Feb. 5. Issued our note for $150 due in 30 days at 6% in favor of J. N. Price, to be applied on account.

Feb. 6. Sold to R. B. Rodman on account goods billed at $73.50.

Feb. 8. Bought furniture and fixtures, including glass showcase for store, $750. Paid cash.

Feb. 9. Paid J. N. Price $125 in cash, on account.

Feb. 10. R. B. Rodman paid $45 on account, in cash.

Feb. 11. R. M. Jones took $25 in cash to pay a personal bill.

Feb. 12. Sold to T. R. Martin merchandise, $165.50, for cash.

Feb. 12. Paid in cash for 750 two-cent stamps.

Feb. 16. Sold three glass showcases, second-hand, to T. J. Murray for $110. He paid cash.

Feb. 18. Accommodated a friend with 100 two cent stamps, for which he paid cash.

Feb. 19. R. M. Jones invested $2,000 more in cash in the business.

Feb. 20. Sold to B. M. Miller on account, goods invoiced at $135.

34.

Enter the following transactions in the cash book and the journal. Make special columns in the journal for merchandise debits and credits.

Oct. 1. J. B. Preston, proprietor, invested in business $5,000 in cash.

Oct. 1. Paid rent for October in cash, $70.

Oct. 2. Sold to Jno. R. Thompson, on account, bill of goods for $65.50.

Oct. 2. Bought merchandise from the Sterling Furniture Co., for cash, $276.60.

Oct. 3. Sold merchandise to Gus E. Ericson, on account, $47.50.

Oct. 4. Bought merchandise for cash, Palmer & Anderson's invoice, $364.20.

Oct. 5. Received cash from Jno. R. Thompson, on account, $50.

Oct. 6. Sold to Harry K. Feldman, on his 10-day note at 6% merchandise, $126.50.

Oct. 6. Paid the bookkeeper's salary for the week ending today in cash, $18.

Oct. 8. J. B. Preston withdrew for his personal use $25 in cash.

Oct. 9. Sold to Geo. W. Chambers, on account, $123.75 worth of merchandise.

Oct. 10. Received cash from Gus E. Ericson, on account, $25.

Oct. 11. Sold merchandise to Jno. R. Thompson, on account, $98.50.

Oct. 13. Paid the bookkeeper's salary in cash, as on Oct. 6.

Oct. 16. Received from Harry K. Feldman his check for $126.71 to redeem his note of Oct. 6, $126.50, and interest for 10 days at 6%, $.21.

Oct. 17. Sold to Gus E. Ericson, on account, merchandise, $76.75.

Oct. 18. Paid for office stationery and envelopes in cash, $7.80.

Oct. 19. Sold to Geo. W. Chambers, on account, merchandise, $32.25.

Oct. 19. Received cash from Jno. R. Thompson, to apply on account, $15.50.

Oct. 19. Bought merchandise for cash from the Hoffman Co., their invoice, $225.60.

Oct. 20. Paid the bookkeeper's salary in cash, as on Oct. 6.

Oct. 22. Sold to F. N. Wright on his 30-day note at 6%, bill of goods, $150.65.

Oct. 24. Sold to Jno. R. Thompson, on account, $137.75, merchandise.

Oct. 25. Received from Gus. E. Ericson cash to complete the payment of bill against him of Oct. 3, $22.50.

35.

Enter the following transactions in the journal, cash book, purchase book or sales book. Post, and take a trail balance.

May 1. Begin a general grocery business today, investing cash, $4,000.

May 2. Pay store rent in cash, one month, $60.

May 3. Buy for cash, 200 bu. potatoes at $.80; 400 lbs. butter at $.25.

May 4. Buy of John Smith, on account, 60 bbls. flour at $4; 20 bbls. salt at $1.50; 175 lbs. lard at $.10.

May 5. Sell Albert Mullin for cash, 10 bbls. flour at $4.50; 45 bu. potatoes at $.80; 2 bbls. salt at $1.75.

May 6. Sell J. B. Allen, on account, 100 lbs. lard at $.12; 110 lbs. butter at $.30; 10 bbls. flour at $4.50.

May 8. Buy for cash a set of books for office use, $15.

May 9. Pay John Smith cash, on account, $56.40.

May 10. Receive cash of J. B. Allen, on account, $50.

May 11. Buy of James Witt, on account, 5 bbls. flour at $3.50; 600 lbs. of lard at $.08; 500 lbs. butter at $.20; 250 bu. potatoes at $.70.

May 12. Sell John Reed, on account, 12 bbls. flour at $4; 100 lbs. lard at $.10; 100 lbs. butter at $.22.

May 13. Sell J. B. Allen, on account, 70 bu. potatoes at $.75; 6 bbls. salt at $1.70; 100 lbs. lard at $.12.

May 15. Receive cash of John Reed, on account, $52.50; pay James Witt cash, on account, $195.

May 16. Buy of John Smith, on account, 40 bbls. flour at $3.50.

May 17. Sell J. B. Allen, on account, 16 bbls. flour at $4; 100 lbs. lard at $.11.

May 18. Give John Smith your note for goods bought on the 16th; sell Robert Lewis for cash, 20 bbls. flour at $4.10; 212 lbs. butter at $.20; 60 bu. potatoes at $.77.

May 20. Sell John Reed, on account 10 bbls. flour at $3.98; 100 lbs. lard at $.11; 100 lbs. butter at $.20; 10 bbls. salt at $1.68.

May 22. Sell George Maine for cash, 100 lbs. lard at $.10; sell for cash, 20 bu. potatoes at $.75.

May 26. John Reed settles his bill of the 20th; pay your note in favor of John Randolph.

May 28. Pay clerk for one month, cash, $40.

CHAPTER IV

36.

After some correspondence and an interview, you buy from Watts & Cushing, Jan. 1, 1914, a jobbing business in canned goods and dried fruits, to be conducted in Rochester, N. Y. You pay therefor on the same day $6,756.25 for stock on hand, $243.75 for furniture and fixtures and $1,000 for the goodwill of the business. (Treat goodwill as an asset.) The payments are made as follows: your promissory note indorsed by Peter Martin at six months, for $3,000 with interest, and the remainder in cash, which constitutes your entire capital.

Make, in proper form, the record of the above transactions and of those that follow. Use journal, cashbook, invoice book and sales book. No postings of cash or merchandise are to be made from the journal. A double page cashbook should be used, having four money columns on each page, for convenience in handling Merchandise Discount, Merchandise Sales to casual customers, and Expense, and for the purpose of saving labor in posting. Keep no "Cash Account" in ledger.

Jan. 1. Cash sales to sundry persons $29.60.

Jan. 2. Cash sales to sundry persons $34. Bought office books and stationery $14.25.

Jan. 4. Sold H. B. Eldredge, Syracuse, "rush order," 100 cases perfection blackberries @ $1.32. Terms, 3/10, n/60 (3% off if paid in 10 days, net 60 days). Shipped by express, charges prepaid by special request $22.30 (to be entered on bill but not subject to discount).

Jan. 5. Bought of Excelsior Canning Co., Buffalo, 300 cases perf. blk. @ $1.10. Terms, 2/10, n/60. Sold Lawson & Co., Elmira, 50 cases perf. corn @ $1.20; 75 cases of perf. peas @ $1.62. Terms, 3/10 n/60.

Jan. 6. Sold Winthrop & Co., Binghamton, 100 cases standard cherries @ $1.32; 50 cases perf. peaches @ $1.98; 100 cases perf. tomatoes @ $1.08; 25 cases straw. jam @ $2.24. Terms, 3/10 n/60.

Jan. 7. Sold E. A. Sanford, Troy, 8 boxes, 400lb diamond apples @ 8c; 10 bx. 500lb diamond peaches @ 9c; 100 cases perf. corn @ $1.20. Terms, draft at 15 days date. Cash sales $46.85.

Jan. 9. Had draft on Sanford discounted at Commercial National Bank. (Charge the deduction from face of draft to *Interest,* not to "Interest and Discount," which is misleading.) Bought of Excelsior Canning Co. 200 cases perf. corn @ $1; 100 cases green beans at $1.15. Terms, 2/10 n/60. Cash sales $115.40.

Jan. 13. H. B. Eldredge remits draft of Salt City National Bank, John Mason, cashier, on Astor National Bank, N. Y. in payment of bill of Jan. 4, according to terms of sale, and includes express charges prepaid on shipment.

Jan. 14. Paid insurance premium on stock $16.50. Bought for cash 10 tons coal @ $5.75 for heating store. Sent Excelsior Canning Co. my check on Commercial National Bank in payment of invoice of Jan. 5. Lawson & Co. remit N. Y. draft for bill of Jan. 5.

Jan. 15. Winthrop & Co. remit N. Y. draft for bill of Jan. 5. Cash sales $146.70.

Jan. 16. Sold H. B. Eldredge 200 cases perf. corn @ $1.20. Terms, 3/10 n/60. Cash sales $43.50.

Jan. 18. Sent Excelsior Canning Co. N. Y. draft in payment of invoice of Jan. 9. Cash sales $78.50.

Jan. 21. Sold Jones & Baker, Olean, 50 cases standard corn @ 80c; 50 cases stan. peas @ $1. Cash sales $94.65.

Jan. 25. Commercial National Bank returns, unpaid and protested, the accepted draft on E. A. Sanford, protest fees $1.52. [See transactions of Jan. 7 and Jan. 9.] Cash sales $69.30.

Jan. 29. You are convinced by correspondence with E. A. Sanford and others, that owing to a recent misfortune it is not possible for Sanford to pay his obligation in full, and you accept his promissory note at 30 days for $100, indorsed by Truman Wakeley, in full settlement of the account.

Jan. 30. Paid rent of store for January $45; clerk's salary $50; printing $12.50; telegrams and postage $6.75. Cash sales $118.25.

Having made all the original entries, post the accounts and make trial balance. Show through Loss and Gain account your net capital, using the following resource inventories: merchandise $5869.45; expense (for coal on hand) $45. "Furniture and fixtures" and "Goodwill" stand unchanged.

37.

Dr.	INTEREST		Cr.
Jan. 4	$20.50	Jan. 10	$48.50
8	14.63	21	12.16
17	8.60	31 Inventory	9.44
28	13.24		
31 Inventory	4.80		
Loss and Gain	8.33		
	$70.10		$70.10

Close the above account and

(a) Bring down the proper amounts for Feb. 1.

(b) State which, if any, of the above figures would appear on the Income Sheet for January; and which ones, if any, would appear on the Balance Sheet of Jan. 31, and, whether on asset or liability side, being careful to give reason for your decision in each instance.

38.

If not corrected how would the following errors in bookkeping affect (1) the Expense and Revenue Account, (2) the Balance Sheet:

(a) A sum of $125 for freight paid for John Jones on goods purchased by him posted wrongly to Purchases Account.

(b) A sale of goods for $500 posted to the debit of Freight Account instead of to the debit of the purchaser.

(c) A sum of $250 received from a customer entered as a Cash Sale of $250?

39.

What would be the significance of a change in the trial balance, between one month and the next, of a total increase of $30,000 on each side, if the changes on the debit side were in property accounts and the changes on the credit side were in proprietorship accounts?

What if the changes on the debit side were in expense accounts, and on the credit side were in liability accounts?

What if the changes on both sides were in property and liability accounts?

40.

State how the following differ: a trial balance; and a balance sheet.

41.

The following trial balance is handed you, with the request that you prepare an expense and revenue account and a balance sheet:

A B's capital		$20,000.00
A B's personal account	$ 1,000.00	
Bank of North America	600.00	
Cash in hand	90.00	
Merchandise account	8,600.00	
Repair account	87.50	
Bills receivable	6,400.00	
Bills payable		4,000.00
Real estate	1,350.00	
Bank stock	1,566.00	
General expenses	1,860.00	
Freight	1,000.00	
Accounts receivable	8,000.00	
Accounts payable		10,000.00
Profit and loss	3,446.50	
	$34,000.00	$34,000.00

If all the information required is not presented in this trial balance, supply what is wanting and submit the statements called for.

42.

Being requested by a merchant to prepare a statement for creditors, you find his accounts to be as follows: real estate $25,000, mortgaged for $10,000, interest due $750; goods on hand $18,000; fixtures $1,250; merchandise in warehouse $10,000, on which the merchant has borrowed $3,000; accounts receivable deemed good $10,500, doubtful $1,500; known to be bad $2,000; bills receivable (held by bank as collateral for an advance of $5,000) $6,800; cash $2,500. In addition to the above secured claims you will find the following: accrued rent $500; taxes $750; wages $1,250. The merchant also owes A $6,000, B $3,500, C $13,500, D $6,850, E $1,800, F $2,650, G $1,225, H $1,400 and there is an unsecured disputed claim of K for $1,300. Submit the statement required.

43.

Construct seven column statement from the following Trial Balance and inventories.

	Dr.	Cr.
Cash	$ 12,300	
Notes Receivable	32,700	
Accounts Receivable	47,000	
Furniture and Fixtures	3,000	
Building	13,000	
Real Estate	50,000	
Notes Payable		30,000
Accts. Payable		13,100
Advertising	2,600	
Commission	3,050	
Supplies	12,900	
Salary	9,300	
Insurance	625	
Postage	1,650	
Discount		550
Exchange	25	
Interest	175	
Discount	375	
Thos. Greene, Prop.		85,000
Drawing Accounts, (Prop.)	4,300	
Mdse.		64,350
	$193,000	$193,000

Inventory.

Furniture and Fixtures	$ 2,500
Buildings	12,500
Real Estate	47,000
Advertising	300
Supplies	500
Salary	300
Insurance	150
Postage	400
Interest (Asset)	25
Mdse.	5,365

44.

Prepare a seven column statement from a ledger which contained the following open accounts after 15 days of business:

Cash	$8,418.76	$2,363.86
Peter B. Burns, Partner		9,000.00
Alfred E. Paine, Partner		3,000.00
Furniture and Fixtures	450.00	
Bills Receivable	1,000.00	
Interest	.25	
Commission		27.25
Mdse. discount	11.49	30.30
Supplies	169.85	
James Addington	151.56	
Mdse.	7,060.00	3,040.50
Accounts Receivable	1,269.50	1,069.50

Inventories: Mdse., $4,474.07; supplies, $58. Net income is shared by the partners in proportion to their investment. Furniture and fixtures remains unchanged.

45.

The general ledger balances of The Wilson & Wood Company are as follows: Cash, $20,000; Bills Receivable, $5,000; Bills Payable, $8,000; Accounts Payable, $7,000; Accounts Receivable, $14,000; Mdse. Dr., $80,000; Cr., $95,000; Real Estate, $7,500; Expense, $3,000; Interest and Discount, Cr., $500; Loss and Gain, Dr., $31,000; Capital Stock $50,000.

There remain unsold Mdse., $36,000; the Real Estate on hand is valued at $6,000; items charged to expense and not yet used, $1,200; 5% of the accounts receivable are doubtful; wages due and not paid, $300.

Prepare seven column statement.

46.

Messrs. Hawley & Wood are partners in business, sharing gains and losses equally. On the basis of the following trial balance of their double entry ledger at the close of the fiscal year you are required to make a statement showing the expense and revenue, and also the net capital of each partner:

W. H. Hawley, investment	$ 8,405.26
E. K. Wood, investment	8,405.28

Cash	$ 9,017.33	
Merchandise	3,224.89	
Bills Receivable	12,000.00	
Bills Payable		8,350.00
Miscellaneous Supplies	576.00	
Interest	129.74	
Loss and Gain	450.00	
Sundry book accounts receivable	3,566.00	
Sundry book accounts payable		3,803.42
Totals	$28,963.96	$28,963.96

Inventory of merchandise on hand, $8,000. Supplies, $85.50.

47.

The trial balance of the Y. Co., is found to be as follows:

Real estate and buildings	$ 32,500	
Plant and machinery	40,000	
Capital Stock, Preferred		100,000
Capital Stock, Common		100,000
Patents and goodwill	80,000	
Inventory, July 1	29,000	
Purchases	82,500	
Sales		219,175
Labor	88,000	
Coal	6,000	
Salaries general	11,000	
Salaries management	5,000	
Insurance	875	
Allowances	6,250	
Freight	1,500	
Discount and interest	750	
Cash in bank	8,000	
Investments	15,500	
Notes payable		26,000
Accounts Payable		14,000
Miscellaneous expense	4,300	
Book debts	42,000	
Preferred stock in treasury	5,000	
Repairs	1,000	
	$459,175	$459,175

Merchandise on hand, $26,500. Prepare expense and revenue statement and balance sheet, giving effect in accounts to depreciation at the rate of 7½% a year on plant and machinery, and making an allowance of 5% on the book debts to provide for bad debts.

48.

In closing a set of books state how you would treat the following on ledger and financial statements:

Depreciation on machinery	$1,500
Expenses prepaid	500
Discounts on customers' accounts	1,080
Salaries and wages accrued	675

49.

A trial balance of a manufacturing firm taken Dec. 31, 1910, contains the following accounts:

Plant and machinery	$ 35,000	Capital A	$ 40,000
Stock Raw Material Jan. 1, 1910	15,000	Capital B	20,000
Accounts Receivable	25,000	Creditor's Accounts	4,000
Cash	200	Sales	95,000
Loan Account	7,000	Bank Overdraft	5,000
Purchases Material	38,000	Rent of Steam Power	1,500
Labor	24,000		
Traveling Expenses	2,500		
Salaries—General	6,000		
Interest	600		
Stationery and Printing	1,200		
Rents and Taxes	3,500		
Discounts and Allowances	1,250		
Fuel	3,000		
Insurance (Plant) one year from July 1, 1910	1,150		
Freight Inward	1,500		
General Expenses	600		
Total	$165,500	Total	$165,500

Stock on hand Dec. 31, 1910, $23,000; each partner to be credited 6 per cent on his capital for one year before profits are ascertained; 3 per cent to be written off book debts for discount; 10 per cent to be written off machinery and plant for depreciation; unexpired insurance to be taken into account; net profits to be divided 2-3 to A, 1-3 to B. Draft Journal entries for closing the books and prepare seven column statement.

50.

Prepare a six-column statement. Allow 5% depreciation on plant and machinery for the year. Allow 2% for Reserve for Bad Debts on Accounts and Notes Receivable for the year.

BEDFORD SHOE CO.

Trial Balance, Dec. 31, 1911.

Capital Stock		$250,000.00
Surplus, Jan. 1, 1911		142,000.00
Reserve for Depreciation on Plant and Machinery, Jan. 1, 1911		20,000.00
Reserve for Bad Debts, Jan. 1, 1911		9,600.00
Inventory, finished goods, Jan. 1, 1911	$ 32,000.00	
Inventory, Raw Material, Jan. 1, 1911	45,000.00	
Purchases	135,000.00	
Sales		379,680.00
Discounts on Purchases		1,730.00
Discounts on Sales	2,500.00	
Goods Returned	3,650.00	
Wages	135,500.00	
Power, heat and light	17,000.00	
Repairs for Machinery	2,800.00	
Factory Expense	9,500.00	
Insurance Expense	2,200.00	
Plant and Machinery	125,000.00	
Salaries	37,000.00	
Notes and Accounts Rec.	200,000.00	
Notes and Accounts Pay.		30,000.00
Furniture and Fixtures	4,000.00	
Cash	75,500.00	
Taxes	960.00	
Advertising	5,400.00	
	$833,010.00	$833,010.00

Inventories on Dec. 31, 1911:

Finished Goods	$16,000.00
Raw Material	10,700.00
Furniture and Fixtures	3,580.00

51.

From the following trial balance and inventories prepare a seven-column statement.

Trial Balance	Dr.	Cr.
Capital		$ 75,000
Land	$ 5,000	
Buildings	21,500	
Tools and Machinery	6,575	
Horse and Wagon	1,205	
Furniture and Fixtures	393	
Patents	5,250	
Notes Receivable	15,820	
Accounts Receivable	86,981	
Insurance	1,205	
Notes Payable		21,000
Accounts Payable		25,180
Expense	830	
Salaries	6,675	
Advertising	2,620	
Freight	2,200	
Stationery	875	
Interest	175	
Discount		225
Merchandise		35,899
	$157,304	$157,304

Inventory

Land	$ 4,500
Buildings	20,000
Tools and Machinery	6,200
Horse and Wagon	1,000
Furniture and Fixtures	350
Patents	5,000
Insurance	200
Advertising	550
Stationery	400
Interest Payable	25
Merchandise	5,760

52.

From the following trial balance and inventories prepare a seven column statement.

Trial Balance, Jan. 31	Dr.	Cr.
Capital		$ 45,000
Furniture and Fixtures	$ 3,930	
Horse and Wagon	2,750	
Land	3,650	
Machinery	25,750	
Buildings	18,650	
Notes Payable		32,350
Notes Receivable	4,757	
Accounts Payable		4,736
Accounts Receivable	32,450	
Cash	3,433	
Advertising	2,570	
Salary	8,750	
Commission	3,650	
Expense	5,740	
Insurance	3,400	
Postage	865	
Interest	375	
Discount		450
Merchandise Inventory, Jan 1	5,650	
Merchandise Purchases	37,650	
Merchandise Sales		81,484
	$164,020	$164,020

Inventory

Furniture and Fixtures	$ 3,600
Horse and Wagon	2,500
Land	3,400
Machinery	22,500
Buildings	18,150
Advertising	400
Insurance	515
Postage	125
Merchandise	7,550

53.

From the following information prepare a seven column statement.

LEDGER BALANCES

A Capital Acount	$82,000
Notes Payable	10,000
Accounts Payable	9,000
Notes Receivable	25,000
Acounts Receivable	22,000
Mortgage Payable	25,000
Real Estate	45,000
Merchandise (Credit)	7,000
Interest (Debit)	1,000
Labor	30,000
Expense	10,000

INVENTORIES

Real Estate	$42,600
Merchandise	45,000
Interest Due the Firm	500
Wages Accrued	800
Taxes Accrued	600

54.

A grain dealer charges his customers 15c apiece for sacks that cost him 10c. He agrees to receive back any sacks returned in good condition at 12c each, calculating that they would be worth 7½c each. How should these transactions be treated on the dealer's books?

55.

What are the advantages of a seven-column statement? Why is it that the difference between the expenses and revenues is always exactly the same as the difference between the resources and liabilities?

56.

Describe the expense and revenue account. Show how this account is made up. What does the balance of this account represent, and how should such a balance be finally treated?

57.

The fiscal year of a Manufacturing Company ends June 30, 1908 and the bookkeeper presents a statement to the Directors made up in the following form:

Gross Sales	$285,000	
Increase of Inventory	15,000	$300,000
Cost of sales:		
Operating expenses, material and supplies	257,000	
Plant Expense	12,000	
Freight on returned goods	600	
Sundry purchases finished goods	10,400	280,000
Manufacturing Profit		20,000
Other Income:		
Miscellaneous earnings	1,500	
Profit on contracts	6,500	
Discount on purchases	500	8,500
		$ 28,500
Less:		
Discount on sales	2,875	
Rebates and allowances	1,125	4,000
Net Plant Profit		$ 24,500
Less:		
General expenses	5,500	
Interest	1,500	7,000
Net Profit		$ 17,500

You are required to make up an Expense and Revenue statement in seven-column form, using such of the above figures as may be necessary, together with these following: Inventory June 30, 1907: Materials, $115,000; Supplies, $35,000; Finished Goods, $45,000. Inventory June 30, 1908: Material, $140,000; Supplies, $10,000; Finished Goods, $60,000. Materials used in factory during the year, $75,000; Wages, $122,500; Fuel, $2,500; Repairs and Renewals, $2,000; other operating expenses $55,000, which includes $25,000 supplies used.

CHAPTER V

58.

In closing the ledger at the end of a fiscal period, into what account are the balances of accounts that show expense and revenue merged? Give the reason for this and state how the net loss or gain is finally disposed of in the case of (1) an individual or partnership business, and (2) in a corporation.

59.

The trial balance of a corporation shows Dec. 31, 1912, a credit to capital stock account of $74,176. The authorized capital of the company is $150,000. There is $50,000 stock in the treasury of the corporation. These figures in the trial balance were occasioned by the fact that the bookkeeper, not understanding corporation bookkeeping, had charged the capital stock account with losses as follows: 1908, $13,884.50; 1909, $9,897.50; 1910, $32,507.50; and credited the same account with gains as follows: 1911, $4,319.15; 1912, $26,146.35. (a) Make the necessary entries to adjust the books so as to show the true condition December 31, 1912. (b) Give a clear and concise explanation of the nature of the bookkeeper's error and of the changes which are necessary.

60.

At the beginning of the year, January 1, the capital stock of a corporation was $100,000, and it is known to represent good assets; the surplus was $24,000, the outside liabilities were $17,000. The net earnings since January 1, have been $16,000, and nothing has been paid in dividends. What is the present excess of assets over outside liabilities?

61.

The American Gas Light Company had operated a gas plant since 120
the beginning of the year 1896. For the purpose of acquiring this industry, the National Gas Company was organized April 1, 1899, with a capital of $100,000, and after purchasing all of the capital stock of the American Company, issued $100,000 of first mortgage 6% gold bonds, dated April 1, 1899, due April 1, 1929, interest payable January 1 and July 1 of each year.

June 30, 1899, the two companies were united by a certificate of merger, and new books were opened.

The accounts of the American Gas Light Company had not been closed at any time during that company's existence, and at the date of the merger, stood as follows:

Land, buildings, machinery, mains and franchises	$ 82,360.73	Capital	$ 50,000.00
Materials and tools	1,856.30	Bills payable	5,000.00
Coal (including freight)	47,540.45	Accounts payable	2,679.81
Labor	50,668.73	Gas account	157,683.33
Repairs	13,872.46	Coke account	6,210.69
Water and other supplies	3,869.39	Tar account	4,500.54
Superintendence	3,500.00		
Salaries (clerks and collectors)	5,600.00		
Office expenses	2,100.00		
Insurance	1,435.00		
Taxes	4,237.10		
Interest	1,450.40		
Cash	2,251.47		
Consumer's accounts	3,210.44		
Other accounts receivable	2,121.90		
	$226,074.37		$226,074.37

The inventory was as follows:

Coal	$400	
Coke	150	
Tar	100	$650

In acquiring the stock of the American Company, paying organization expenses, etc., the National Company used all its capital stock and $90,000 first mortgage bonds, holding in reserve $10,000 of bonds for improvements.

Make the necessary journal entries to open the books of the new company, and prepare a balance sheet dated June 30, 1899.

62.

We own 100 shares of the stock of the Bellevue Land and Improvement Company, par value 100. A stock dividend of 10% is declared. The market value of the stock in 90. Make the proper journal entries.

63.

13

Messrs. Sharp & Flat, partners, engaged in manufacturing, decide to form a business corporation under the laws of New York, under the name of The Sharp & Flat Manufacturing Company, having an authorized capital of $100,000. The corporation, in consideration of the entire issue of capital stock, purchased all of the assets and assumed all of the liabilities of the partnership as shown by the following balance sheet dated May 31, 1900. Sharp & Flat take all the stock except five shares, par value $100 each, issued to incorporators for cash subscriptions.

BALANCE SHEET—MAY 31, 1900

ASSETS	
Plant and machinery	$35,000
Stock on hand per inventory	20,525
Accounts receivable	22,750
Bills receivable	1,500
Cash	5,225
Total assets	$85,000

LIABILITIES	
Sharp's capital	$42,500
Flat's capital	36,300
Accounts payable	5,250
Bills payable	700
Wages due and unpaid	250
Total liabilities	$85,000

During the first year of the corporation's existence, the books were kept in the same manner as during the partnership. Soon after the end of the first fiscal year however a certified public accountant was presented with the following trial balance showing the condition of the books May 31, 1901, and was requested to open a new set of books for the corporation, covering the operations of the business during the past year, and to prepare therefrom an expense and revenue account and balance sheet:

TRIAL BALANCE—MAY 31, 1901

Sharp's capital		$ 42,500
Flat's capital		36,300
Plant and machinery	$ 37,500	
Stock on hand per inventory May 31, 1900	20,525	
Sales		131,405
Purchases: materials and supplies	48,000	
Labor	34,500	
Office salaries	7,000	
Traveling expenses	2,400	
Interest	600	
Stationery and printing	175	
Rent and taxes	4,200	
Discounts and allowances	2,250	
Fuel	4,600	
Insurance	175	
Freight (inward)	1,750	
Commission	6,375	
Advertising	500	
Bills receivable	6,115	
Bills payable		1,100
Accounts receivable	36,115	
Accounts payable		7,850
Cash	6,375	
	$219,155	$219,155

Draft the opening journal entries necessary to give effect to the above, prepare an income and profit and loss account and a balance sheet as at May 31, 1901.

(a) depreciation 5% on plant and machinery, (b) unexpired insurance $75, (c) bad debts $325, (d) inventory, stock on hand May 31, 1901, $19,605.

64.

The Elite Amusement Company was organized on January 1, 1912, with an authorized capital stock of $1,000,000. The stock was all subscribed for at 90, to be paid in three annual installments. The first two installments were duly called for and paid in full with the exception of one block of ten shares on which the subscriber defaulted after paying the first installment. It was decided to hold these shares in the treasury.

Make journal entries necessary to record correctly each of the above named steps.

65.

The third installment of the subscriptions for the stock of The Elite Amusement Company, mentioned in Problem 168, was due on January 1, 1915. Because of the large profits, however, it was decided not to call this third installment, but instead a dividend was declared just equal to the amount subscribers still owed for this installment, and "fully paid" stock certificates were then issued to the subscribers. What entries are necessary to properly record these facts?

66.

A corporation has outstanding $1,000,000 of fully paid stock. Its accumulated surplus is $140,000. The profits for the current year are $100,000. The directors declare a cash dividend of 6% and a stock dividend of 25%.

(a) Make Journal entries to record these last two transactions.

(b) Prepare Balance Sheet after the dividends are declared.

67.

A corporation earns in 1912 net $50,000.00 on a capital of $250,000.00. Business has increased and the stock on hand has increased $50,000.00, leaving the cash balance sufficient only for the current needs of the business.

Several large stockholders are women who need some return on their investment. (a) Should the directors borrow money and pay a dividend? If so, how much should they pay?

(b) Show the journal entries that would be made as a result of the course of action that you advise.

(c) Prepare four imaginary balance sheets one for Dec. 31, 1911; one for Dec. 31, 1912; one for Jan. 5, after borrowing money and declaring a dividend of 8% but before the dividend has been paid; one after paying the dividend.

68.

What is meant by the term "stock-dividends?" Are they legitimate at any time? Would you consider it justifiable at any time to pay a dividend with borrowed money? Explain carefully.

69.

"A stock-dividend is really not a dividend at all." Defend this statement.

70.

177 "Treasury stock or bonds are merely so many legalized pieces of paper, and cannot in any sense be considered as assets of the corporation creating and issuing them" (Dickinson). Defend.

71.

178 A company has purchased 1,000 shares of its own stock at $96.50 a share, the par value being $100 per share. Its balance sheet shows "Treasury Stock, $96,500." Is this correct? Give reason. If not correct, state how you would adjust the books.

72.

179 A corporation is organized with an authorized capital stock of $50,000, of which only $40,000 is sold and stock certificates issued therefor. Two conflicting methods of recording the capital stock on the books of the company are urged by rival accountants as follows: (1) treasury stock to capital stock $50,000; cash and properties to treasury stock ,$40,000; (2) cash and properties to capital stock $40,000.

Which method is the better, and why?

73.

188 Smith & Jones are partners, drawing equal amounts for services, and sharing profits according to capital invested, after allowing 5% on capital. They require additional capital and arrange to admit the manager to the firm, he to acquire a one-quarter interest in the business. According to the balance sheet Smith has $12,000 and Jones $6,000 invested, and goodwill is valued at $6,000. What sum must the manager contribute? How will the partnership accounts appear after payment into the firm of the new capital? How will profits be divided in the future? Show accounts in skeleton form.

74.

A, B and C were partners in business for several years. A died December 31, 1903. The articles of copartnership provided that on any change in the firm the goodwill should be taken into account and its value divided one-half to A and one-quarter each to B and C. The balance sheet at the date of A's death was as follows:

Assets		Liabilities	
Cash	$ 1,500	Sundry accounts payable	$ 8,500
Mdse. on hand	12,000	A's net investment	10,000
Bills and Accts. Rec.	15,000	B's net investment	5,000
		C's net investment	5,000
	$28,500		$28,500

In January, 1904, B and C arranged with D to come into the firm with $5,000. The goodwill is, by agreement, to be valued at $3,000. The new firm, consisting of B, C, and D takes over the business and goodwill in equal shares, subject to an allowance of 2½% on the Bills and Accounts Receivable. It pays the estate of A $5,000, with the understanding the balance due A's estate shall remain as a loan at the rate of 5% interest.

Prepare the balance sheet and the capital accounts of B, C, and D as they should appear at the beginning of the new business, writing off the goodwill in equal proportions to amount of capital invested.

75.

A and B, each carrying on a similar business, agree to form a partnership, the new firm to take over the assets and assume the liabilities of each. The following trial balances, representing the book accounts, were presented:

A.

Capital		$ 40,000
Machinery and Fixtures	$ 30,000	
Cash	2,000	
Bills Receivable	5,000	
Accounts Receivable	30,000	
Inventory Merchandise	25,000	
Wages	7,000	
Wages due		250
Expense	10,000	
Bills payable		10,000
Merchandise Account		40,000
Accounts Payable		20,000
Repairs	1,250	
	$110,250	$110,250

B.

Capital		$ 50,000
Machinery and Fixtures	$ 30,000	
Cash	4,000	
Bills Receivable	8,000	
Accounts Receivable	40,000	
Wages	9,000	
Wages due		500
General Expense	15,000	
Bills Payable		15,000
Merchandise Account		50,000
Inventory	32,000	

Repairs Account................	2,500	
Accounts Payable...............		25,000
	$140,500	$140,500

Each partner is to draw half the profits. Formulate opening entries for the new firm. At the end of the year a profit is made of $30,000.00. Create a trial balance and inventory, using your own figures to produce that result; divide the profits between the partners and make statement of assets and liabilities.

76.

Two partners named Wilson and Peters find at the end of the first year's business the Balance Sheet shows that Wilson's interest is worth $18,000.00 and Peters' $9,000.00.

The good will of the firm is worth $3,000.00. Each draws profits in proportion to his investment.

They conclude to take in another partner, and he is to have a one-quarter interest in the new firm.

What sum must the new partner contribute? How will the partnership accounts appear after the payment of the additional capital?

How will the profits be divided? Give skeleton form of accounts.

77.

X and Y enter into partnership, X's capital being $20,000, and Y's $15,000. Capital is to bear interest at 10 per cent. per annum. Profits are to be divided equally between the parties. The profits for the first two years (after charging interest on capital) were:

1st year..................................	$6,000
2nd year..................................	7,500

and the drawings of the partners (in excess of salaries) were:

X...............	$1,500 first year,	$1,750 second year
Y...............	1,200 first year,	1,500 second year

At the end of the second year Z was admitted to partnership, and put into the business the same amount of capital as Y had in the business at that time, and on the same conditions as to interest and division of profits. The profits of the business for the third year were $12,000, and the partners' drawings in excess of salary were:

X	$1,750
Y	1,600
Z	1,500

Construct the capital accounts of the partners for each of the three years, showing the balance of each at the end of the third year.

78. 193

A, B, and C engage in business, A contributing $10,000 capital, B $5,000, and C undertakes to take the active management at a salary of $3,000 a year, to be paid to him monthly. After providing 5 per cent. interest on capital they are to divide the net results in the proportions of 5, 3, and 2. At the end of 18 months they ascertain the position to be unfavorable and decide to wind up. The assets are agreed to be worth $12,500, of which A takes $10,000, and B $2,500. There are no liabilities except for the capital and simple interest thereon, and one month's salary due C. State the position of the three partners to each other.

79. 194

A, B, and C were partners and contributed the following capital: A, $8,000; B, $6,000, and C, $4,000. Profits and losses were to be borne equally. At the end of the first year each partner had drawn $1,000. The assets were then disposed of for $3,000, the purchaser discharging all liabilities of the firm. How should this sum of $3,000 be apportioned among the partners and would any of them have to advance any further sum? If so, state which partner and how much and make up the necessary accounts to show the results.

195

80.

Bilsom and Marley are partners, sharing profits and losses equally. The partnership is dissolved December 31, 1907, at which time Bilsom's capital investment is $10,000, and Marley's $2,500. The total liabilities of the firm are $25,000, which includes $5,000 due Bilsom on loan account and $2,500 due Marley on loan account. The whole of the assets of the firm are disposed of for $30,000 cash on May 1, 1908. Prepare accounts closing the partnership and show the position in which the partners stand with each other. No allowance for interest is required.

81. 197

A, the party of the first part, enters, March 31, on the performance of a contract for $50,000, payable in two installments of $25,000 each, the first of which is due on completion of a specific part of the work, but subject to 10% to be retained by the party of the second part as security for the continuation of the undertaking; the second, together with the security retained as aforesaid, is to be paid on final acceptance of the completed work.

A has a capital of $4,000 available for payment of labor, which proves insufficient. He therefore takes in as associates on April 1, B, who contributes $3,000, and C, who contributes $1,000, B and C to share profits in proportion of $\frac{3}{8}$ and $\frac{1}{8}$ respectively and to receive interest on capital at 6% per annum.

The first installment of the contract falls due and is paid on May 1, at which time there had been expended by the contractors for labor and incidentals $7,502, and obligations for materials and supplies furnished on credit had been incurred and were outstanding to the amount of $13,900, of which all but $1,500 are forthwith settled from the installment money.

On receipt of the first installment B and C withdraw their capital and realize the profits earned at the completion of the first stage of the work, leaving A to continue alone, it being carefully estimated and mutually conceded that a further outlay of $26,158 will be sufficient to finish the work and cover all reasonable contingencies.

Show by skeleton ledger accounts the cash payable by A to B and C respectively on their withdrawal from the partnership, and state the resources and obligations that remain to A on entering upon the second part of the work.

82. (198)

A firm whose resources and liabilities are stated below is converted into a corporation:

Assets		Liabilities	
Real estate and improvements	$64,500	Accounts payable	$ 7,800
Merchandise	15,900	Bills payable	25,200
Accounts receivable	5,000	Partners' accts.	55,000
Cash	2,600		
	$88,000		$88,000

The corporation receives all the assets except the cash, and assumes payment of the accounts payable but not of the bills payable. The real estate and improvements are taken over at a value of $100,000, and the good will is considered worth $20,000. The purchase price is to be as follows: $33,100 in cash, $50,000 in bonds and $50,000 in capital stock of the corporation.

What entries are necessary to close the books of the firm and to open the books of the corporation?

83. 199

A and B were partners, trading under the name of A, B & Co. June 30, 1908, the following balances appear on their ledger:

A, Capital Account	$70,000.00
B, Capital Account	50,000.00
Real Estate	22,000.00
Buildings	20,000.00
Machinery and Tools	44,000.00
Furniture and Fixtures	2,000.00
Accounts Receivable	50,000.00
Cash	7,000.00
Materials and Merchandise	53,000.00
Accounts Payable	35,000.00
Bills Payable	48,000.00
Bills Receivable	5,000.00

On June 30, 1908, the business is incorporated as the X Company, on the following plan:

1. Capital stock, $150,000.00.

2. X Company takes over the entire assets and liabilities of A, B & Co. at the book figures as above, except (a) real estate of the book value of $5,000, which is retained by A, B & Co.; (b) the accounts receivable, which are taken over at $48,000, and (c) the capital accounts of the partners.

3. X Company pay A, B & Co. $30,000 for the good will of the business.

4. Payments to A, B & Co. are made as follows, viz.: $50,000 in first mortgage bonds, and the balance in capital stock of the X Company.

5. After paying off A, B & Co. the remainder of the capital stock is sold for cash to sundry persons.

The real estate which is retained by A, B & Co. is bought from A, B & Co. by A, for $7,000, and is charged to A's capital account.

After the conclusion of the foregoing described transactions A and B dissolve partnership.

You are required:

(a) To prepare closing entries for the books of A, B & Co.

(b) A statement setting forth the partners' accounts down to their final closing, beginning with the balances shown by the books on June 30, 1908.

(c) Opening entries for the X Company.

84.

200 How do the accounts of a corporation and of a partnership differ in the statement of

(a) Investments.
(b) Operation of business and determination of profits.
(c) Division and distribution of profits.

85.

Distinguish between the following:

(a) Capital stock authorized.
(b) Treasury stock.
(c) Donated stock.
(d) Stock outstanding.

On which side of the balance sheet will each appear?

86.

204 The Domestic Manufacturing Company, organized with a Capital Stock of $5,000,000, half preferred and half common, sells five shares of common stock at par for cash. It issues to John Jones $1,500,000 preferred stock and $1,000,000 common stock in consideration of the assignment by him of certain rights, patents, and contracts. Later Jones agrees to surrender for valuable consideration to the treasurer of the Domestic Manufacturing Company $1,000,000 common stock and $500,000 preferred stock. Still later Jones agrees to surrender to the Domestic Manufacturing Company $1,000,000 preferred stock and take in lieu thereof $1,000,000 common stock. Jones makes a further agreement with the company to deliver to it all the stock in the Blank Manufacturing Company, appraised at $350,000, and to pay the Domestic Manufacturing Company $150,000, for which he is to receive $500,000 in preferred stock of the Domestic Manufacturing Company.

Illustrate by journal entries the necessary accounts to be opened on the books of the Domestic Manufacturing Company to show each step in the foregoing agreement.

87.

205 It is proposed to organize for conducting a small manufacturing business a corporation based on certain rights and franchises owned by one of the proposed stockholders. The amount of the capital stock is to be $100,000. The owner of the rights and franchises agrees to transfer them to the corporation in consideration of $50,000 of the capital stock, though he believes them to be worth much more

than that amount. The remainder of the stock is to be sold to provide working capital. Certain capitalists are to be approached for cash subscriptions to the capital stock, but it is uncertain what opinion they will hold concerning the enterprise, and it is desired to have the stock in the treasury in such form that it can be sold below par if necessary. What method would you suggest for accomplishing the end in view? Formulate the journal entries for opening the books of the corporation in accordance with your suggestion.

88. 206

The Elk Run Tanning Company has been organized under the laws of Pennsylvania with an authorized capitalization of $500,000, all common stock, par value $100. The five incorporators subscribe and pay cash for fifty shares each at face value. F. W. Coulter purchases the tannery now being operated by Thos. Keck & Son, paying for the complete plant $475,000, and transfers the same to the newly incorporated company for the remaining common stock and $100,000 of first mortgage 5% bonds.

Make the opening journal entries.

89.

A, B and C constitute a firm engaged in a manufacturing business, which they have decided to change into a stock company with a capital of $100,000, equally divided into common and preferred stock, par value $100 for each share. Each partner is to take stock to the amount of his net investment in the business, on the basis of 75 per cent preferred and 25 per cent common stock and the remaining shares authorized are to be offered for sale.

On taking over the business the books of the firm show assets as follows: real estate, $25,000; machinery and tools, $10,000; merchandise, $15,000; materials and supplies, $8,000; cash, $5,000; notes receivable, $3,000; accounts receivable, $9,000. The liabilities are: notes payable, $10,000; accounts payable, $5,000; A, $25,000; B, $20,000, and C $15,000.

Formulate the necessary entries to close the books of the firm and to open the books of the new corporation.

90. 210

The Great Northern Manufacturing Company was incorporated under the laws of the state of New Jersey, February 1, 1899, with a capital stock of $10,000,000, consisting of $4,500,000 (45,000 shares of $100 each) preferred 7% non-cumulative stock, and $5,500,000 (55,000 shares of $100 each) of common stock. On the same date $2,000 of the common stock was subscribed for at par as follows:

By John Smith, 2 shares	$ 200
" Henry Brown, 4 shares	400
" John Doe, 4 shares	400
" Henry Rodman, 3 shares	300
" Wm. Rodman, 7 shares	700
Total	$2,000

On February 4, 1899, these subscribers paid in to the company the amount of their subscriptions, and stock was issued to them. February 15, the balance of the authorized capital stock of the company, both preferred and common, was issued by resolution of the board of directors, to John M. Scott, for and in consideration of $750,000 in cash and 12 manufacturing plants. An inventory of the property purchased, made by authorized representatives of the company, resulted in the following appraised valuations on the various plants and the stocks on hand:

	Buildings	Real Estate	Mach'y	Tools	Materials
A	$ 430,000	$ 95,000	$ 195,000	$ 20,000	$ 98,000
B	211,000	44,000	130,000	10,000	84,000
C	495,000	38,500	475,000	11,000	62,000
D	304,000	15,000	924,000	13,000	48,000
E	171,000	32,750	184,000	14,500	89,000
F	86,500	81,000	60,000	17,750	26,000
G	47,250	44,000	30,000	32,500	34,000
H	98,000	35,750	20,000	14,600	62,000
I	101,250	11,000	10,000	17,200	11,000
J	37,000	13,000	11,000	19,200	35,000
K	346,000	49,000	14,000	75,000	71,000
L	121,000	67,000	37,000	34,750	44,000
Totals	$2,448,000	$526,000	$2,090,000	$279,500	$664,000

Open the accounts of the company so that the result of the operation of each factory will be known at the end of the company's fiscal year. The books of the company are not to show the appraised valuation placed on the real estate, buildings, tools, machinery, etc., by factories, but in one amount only; and it is desired that the account include any expenditure incurred by the company for good-will, etc.

Make opening entries in cash-book, journal and ledger, covering in full the above transactions.

91.

A and B buy merchandise to the amount of $4,000, A contributing $2,500 and B $1,500. They sell to C a ⅓ interest in the business for $2,000. How much of the $2,000 will A and B receive respectively, in order to make A, B and C equally interested?

92.

Three brothers, A, B, and C, own all the capital stock (each ⅓) of a certain corporation X. They own also, but not equally, 55% of the capital stock of a kindred corporation Y, which is capitalized for $100,000, the par value of the shares being $10. The holdings of each in the Y corporation are as follows: A, 2,222 shares; B, 2,222 shares; C, 1,056 shares.

The three brothers, acting as the corporation X, purchase out of corporate funds the remaining 45% interest in the corporation Y, paying $100,000 therefor. Without further cost to X they now wish to merge the two corporations under the corporate name X and to dissolve Y.

C proposes to make compensation to A and B individually for an equal interest in the 5,500 shares upon the same basis as the 45% interest was acquired, so that all may share equally in the merged properties.

(1) How much should C pay to each of the other stockholders?

(2) Outline the entries necessary to record all the above stated transactions on the books of X and Y.

93.

A corporation agrees to purchase a mine, issuing $500,000 full paid stock in payment. The stock is issued to the owner of the mine, with the agreement that he donate to the company $200,000 of the stock to provide working capital. $60,000 of this stock is sold at 50% of par; 100,000 at 60%; and 40,000 at 70%.

(a) Make all entries necessary to show these transactions, all subscriptions being paid in cash.

(b) Show the balance sheet as it will stand after these transactions.

94.

216

On December 31, 1910, the balance sheet of the Wrigley Supply Company was as follows:

Real Estate and Buildings	$ 50,000	Capital Stock	$ 60,000
Machinery	5,000	Bills and Accts. Pay.	25,000
Furniture and Fixtures	5,000	Surplus	15,000
Merchandise Inventory	25,000		
Bills and Accts. Rec.	10,000		
Cash	5,000		
	$100,000		$100,000

The Wrigley Supply Company now sells all its assets with the exception of its Cash to The Interurban Supply Company. The selling price is $120,000; $60,000 being payable in cash and $60,000 in the 6% cumulative preferred stock of The Interurban Supply Company.

After the sale has been consummated The Wrigley Supply Company pays off its outstanding liabilities and then distributes its remaining assets pro rata among its stockholders and dissolves.

State how much cash and how much stock of The Interurban Company each share of The Wrigley Supply Company is entitled to receive in the final distribution. Make all the journal entries necessary for the books of The Wrigley Supply Company.

95.

A. B., desiring to incorporate his business, secures a charter under the laws of Pennsylvania, on December 28, 1910, the A. B. Company being organized for the purpose of manufacturing chemicals and for the sale of the products of such manufacture. The capital stock of the company consists of 3,000 shares of the par value of $100 each, the subscribers being as follows:

A. B.	2,996 shares
C. D.	1 share
E. F.	1 "
G. H.	1 "
J. K.	1 "

A. B. advances from his own funds the minimum amount of cash required by law. The balance of the subscription is to be paid for in Formulae, Trade Marks, and Patents belonging to A. B. to the amount of $150,000, and a sufficient amount of the tangible assets of A. B.'s business, a Balance Sheet of which at January 1, 1911, is as follows:

Real Estate	$ 25,000	Bills Payable	$ 2,000
Machinery	30,000	Accts. Payable	3,143
Fixtures	15,600	Capital of A. B.	152,279
Manufactured Product.	15,220		
Materials	28,650		
Coal	578		
Prepaid Insurance	1,856		
Cash	12,106		
Accts. Receivable	28,412		
	$157,422		$157,422

(a) Prepare entries for opening the books of the A. B. Company.

(b) Prepare appropriate entries for the books of A. B.

96.

Two manufacturers of steel castings with their plants located in the same city decide to eliminate local competition by consolidating. A company is incorporated with $250,000 preferred and $250,000 common stock, to take over the assets and business of both plants. The new corporation buys the two plants, subject to a payment of $10,000, giving therefor its capital stock to the full amount authorized. Twenty per cent of both common and preferred stock is donated to the new corporation's treasury in order to provide working capital. The corporation sells three-fourths of the donated preferred at 95, giving a 50% bonus in donated common stock. Extensions and betterments are considered desirable, and the corporation issues $100,000 6% 1st mortgage bonds, which bonds are sold at par with a bonus of 10% preferred and 30% common.

Prepare all the journal entries necessitated by the above transactions.

97.

Several manufacturers consolidate their interests and organize the Consolidated Manufacturing Company, with an authorized capital stock of $1,000,000, divided into 5,000 shares of common stock and 5,000 shares of preferred stock at $100 each par value.

The manufacturers sell to the company all of their assets, subject to floating debts of $115,000, divided into notes payable $65,000, and accounts payable $50,000, for the sum of $1,000,000, payable $1,000 in cash, $499,000 in common stock, and $500,000 in preferred stock. The company agrees to pay the debts of $115,000. The active assets acquired are inventoried by the Consolidated Manufacturing Company as follows: Real estate $175,000, machinery $200,000, and merchandise $155,000.

The patents and good will were inventoried at a sum equal to the difference between the net cost to the company of the assets acquired and the above valuation of the active assets.

The company received $1,000 cash for 10 shares of common stock, and for the purpose of providing funds for working capital authorized an issue of bonds amounting to $300,000, of which $200,000 were immediately sold as follows: $100,000 for cash at 80%, and $100,000 for cash at par, with a bonus of common stock amounting to $100,000.

For the purpose of providing common stock to be given as a bonus the manufacturers donated $200,000 of common stock to the treasury of the company.

Prepare the journal and cash entries for the company, covering all of the above transactions, and prepare a balance sheet of the company.

98.

A corporation organizes under the laws of the state of New Jersey to conduct a manufacturing business, with an authorized capital stock of $1,000,000.00, divided equally between preferred and common. Five incorporators each subscribe for 100 shares of the common stock of a face value of $100.00 per share. John Jones purchases from three manufacturers their fully equipped plants for $950,000.00 in cash, and turns over the said three plants to the newly incorporated company for the $950,000.00 of preferred and common stock and $400,000.00 of first mortgage 5 per cent. bonds, out of a total issue of said bonds in the sum of $500,000.00, leaving $100,000.00 of said bonds in the company's treasury.

Prepare opening entries with necessary explanations of the transactions and a statement of the company's condition after having acquired the three plants.

99.

The Prosperous Company is organized under the laws of the State of New York to conduct a manufacturing business. The authorized capital is $500,000, divided into $250,000 common and $250,000 preferred stock, par values of shares $100. Five incorporators subscribe each for one share of common stock at face value. John Peters, one of the incorporators, purchases from three manufacturing companies their complete plants for $499,500 and transfers said plants to the Prosperous Company for the remaining $499,500 of common and preferred stock and $100,000 of first mortgage 5 per cent. bonds out of a total issue of bonds amounting to $150,000, leaving $50,000 of bonds in the treasury. The incorporators then pay in cash for their respective subscriptions.

The individual assets acquired are as follows: Land and buildings, $75,000; plant and machinery, $200,000; tools, equipment and fixtures, $50,000; inventories, $100,000; accounts receivable good $28,000, doubtful $5,000; cash, $12,000.

Prepare (a) opening entries for the books of the Prosperous Company; (b) initial balance sheet showing the company's financial condition.

100. 224

The Smith Brewing Co. with $1,000,000 capital stock, the Young Brewing Co. with $500,000 capital stock, and the Star Brewing Co. with $400,000 capital stock, agreed to consolidate as the Universal Brewing corporation, the new company to buy all the properties of the old companies at a valuation to be fixed by appraisal, payment therefor to be made in full-paid stock of the new company, the old companies to pay off their own indebtedness.

The appraised values of the old companies are as follows:

	Smith	Young	Star
Real Estate and Buildings.....	$ 680,000	$327,000	$126,000
Plant	390,000	160,000	71,000
Cash	15,000	3,000	1,000
Bills Receivable.............	10,000	6,000	....
Horses, Wagons and Harnesses	4,000	3,000	1,500
Office Furniture............	1,000	1,000	500
Total	$1,100,000	$500,000	$200,000
Total Appraised Value..........................			$1,800,000

On this valuation the Universal Brewing Corporation issued $2,000,000 of stock, shares $100 each, which was divided pro rata among the old companies on the basis of their appraised value, no fractional shares of stock to be issued, odd amounts to be paid old companies in cash.

Give journal entries necessary to set up property accounts and credit old companies with their pro rata on the books of the new company.

At the time of the consolidation the ledger accounts of the Star Brewing Company were as follows:

Real Estate and Buildings	$250,000
Plant	247,000
Cash	1,000
Horses, Wagons and Harness	1,800
Office Furniture	1,200
	$501,000
Capital Stock	$400,000
Bills Payable	50,000
Accounts Payable	51,000
	$501,000

Make the proper journal entries to liquidate in stock of the new company the liabilities other than capital stock, to apportion the remaining stock and cash, and to close the books of the Star Brewing Company.

101.

Describe the method of determining the number of shares of capital stock, both common and preferred, held by each of the several stockholders of a corporation, giving fully the titles of the books wherein the facts are registered and stating how the books are opened and operated.

102.

The Royal Manufacturing Company has been organized with an authorized capitalization of $500,000 (All Common Stock). $420,000 of the stock has been subscribed for, of which $120,000 was paid in cash and $200,000 in property. The remainder is to be paid in four equal installments. The first installment has been called for and collected. Make the original entries covering the above transactions.

103.

The following are subscriptions for stock in the Red Jacket Mining Co.: George C. Goodwin, 500 shares; S. V. Burnett, 250 shares; T. A. Mulholland, 1,000 shares; O. D. Hodgdon, 750 shares, and Charles Bridges, 1,500 shares.

The first, second and third installments of 25% each have been called and paid. The stock certificates are issued to subscribers on payment of the first installment, each installment being recorded on the back of the certificate.

Jan. 1. Mulholland sells 100 shares to Bridges.

Jan. 2. Hodgdon sells 200 shares to Bridges.

Jan. 3. Burnett sells 250 shares to Goodwin.

Jan. 4. Bridges donates 50 shares to the company to be sold for the purpose of acquiring additional working capital.

Show all necessary entries on the books of the company.

104.

Rule a Stock Ledger and enter the following transactions:

The Jordan & Maher Co. is incorporated with an authorized capital stock of $15,000, all of which is issued and paid. The stockholders are as follows: A. J. Bennett, 50 shares; Cyrus Crafts, 35 shares; J. O. Johnson, 30 shares; J. F. Connell, 25 shares, and E. B. Bosford, 10 shares.

Crafts buys all of Bosford's shares; Johnson sells 10 shares to Bennett; Connell sells 15 shares to A. B. Freedman.

CHAPTER VI

105.

The year's cash receipts of a corporation were $250,625.16, disbursements $110,328.28. Are the directors warranted in declaring a dividend on the presentation of these facts alone? Give reason for your answer.

106.

State the points of difference between a statement of receipts and disbursements and a statement of revenues and expenses. Under what conditions would they be alike?

107.

"No dividends can be declared before the expenses of running the business are paid. These expenses include payment of Bills Payable that are due because a bill payable is merely written evidence of an account due. A bond is a promissory note and, therefore, of the same category as bills payable. Since a bond is equivalent to a bill payable, no dividend can be paid out before the bond is paid off."

Examine critically the above statement.

108.

In closing the books of a firm it is found that the accounts receivable include $5,000 of worthless accounts and $10,000 of doubtful accounts. The firm decides to deduct from the gross profits $15,000 for these items. What would you consider the best method of carrying these items on the ledger?

109.

Define: Charging to Capital; Charging to Revenue. What rule controls in determining whether certain payments belong to capital or to revenue?

110.

A Life Insurance Co. has issued $100,000 of stock all fully paid up in cash. During the first year preliminary expenses and expenditures for agency establishment and advertising amount to $15,000. The liabilities exceed the tangible assets by $12,000 at the end of the year. Should the balance sheet be corrected by reducing the capital stock? If not what item would you place on the asset side to offset the $12,000 excess of liabilities?

111. 68

A railway company leases the property of another railway company for a period of 50 years and, as part consideration for the lease, agrees to expend immediately $250,000 on the leased property, in order that it shall have a greater operating efficiency. At the termination of the lease the property is to be returned to the lessor in the same condition as at the time of making the lease, subject to ordinary wear and tear. What entries, if any, would you make on the books of the lessor in respect to the expenditure of the $250,000, and why? What entries required on lessee company books?

112. 69

If a company, duly organized, acquires several plants that are found to be in a "run down" condition, and to require extensive outlay for repairs and renewals to bring them to the required state of efficiency, should such outlay be charged against Capital or against Revenue?

113. 70

Which of the following should be charged to Capital and which against Revenue:

The purchase of good will;
Loss by fire of uninsured property;
Promotion expenses;
The purchase of a lease;
Replacement of machinery;
Repairs to machinery;
Additional machinery.

114. 71

Expenditures are made by a corporation for items of each of the following classes: (a) taking down a machine in one part of a factory, moving it and putting it up in another part, (b) expenses of incorporating the company, including state charges and lawyer's services, (c) brokerage on purchase of a piece of property, (d) commission on an issue of debenture bonds, (e) costs attending a mortgage, (f) furniture and fitting of a city office and salesroom, (g) costs of patents, including solicitor's charges and government fees. Which items should be charged to capital and which to revenue? State reasons for your answer in each case.

115.

In closing the books of a company at the end of its first fiscal year how would you treat:

Organization expenses;
Advertising booklets on hand estimated to last another year;
Cash paid for patents;
Bonus paid to secure contracts having two years to run;
Pig iron on hand costing \$20.00 per ton the market value at the closing date being \$18.00.

116.

"The total income of a business during any given period is the excess of its net proprietorship at the end of that period over what it was at the beginning. Expenditure for labor and materials to be used upon the property are properly divided therefore, into two classes."

(a) What are the two classes mentioned above?

(b) What is the basis of their separation?

117.

A manufacturing concern having increased its capital and invested considerable money in new machinery and in the reconstruction of old machinery, removes to a new location and charges the cost of moving and the reconstruction of the old machinery to one account termed "Installation". Explain fully how this account should be treated in closing the books of the company, and give your reasons.

118.

A corporation manufacturing explosives is compelled to pay exorbitant rates for a very limited amount of insurance, and in consequence was obliged to install an automatic sprinkler system at a cost of \$75,000. This additional fire protection enabled them to secure a full line of insurance, though in mutual companies, and at a much lower rate than was obtained prior to such installation.

At the end of the fiscal year the company received dividends from these mutual insurance companies aggregating $2,000. To what account should the cost of the sprinkler system be charged and to what account should this dividend be credited? State your reasons fully. 76

119.

A suburban traction company, after equipping its line at a very considerable expense for overhead trolley and operating same for several years, decides to adopt a third rail system. Extensive changes are necessary in changing power houses, re-arranging tracks, and altering cars, involving an expenditure of $25,000. In addition considerable machinery and rolling stock, the original cost of which had been treated as capital outlay and was carried on the books at a valuation of $25,000, is rendered obsolete and is disposed of for $3,500, showing a loss of $21,500. The profits from operation for the year are $18,000.

State how you would recommend that the matter be dealt with in the company's accounts and whether the company can pay a dividend. Give Journal entries.

120. 85

When provision is made for bad and doubtful debts and for possible discounts, how are the amounts determined, what entries are made in the books, and how do they appear in the Balance Sheet and Expense and Revenue Statement?

121. 86

A mining corporation has assets comprising, among others, leases, goodwill, rent and royalties paid in advance, and patents. How would you deal with them in the balance sheet and Expense and Revenue Statement? 87

122.

In preparing the balance sheet of a business at the close of a year, how should you treat each of the following items:

(a) Bad and doubtful debts?
(b) Premiums for fire insurance unexpired?
(c) Interest paid in advance on notes payable discounted.
(d) Discount on notes receivable.
(e) Discount on accounts payable?
(f) Actual depreciation of plant?

123.

On January 1, 1915, the condition of a small trading company as determined by an examination of that date was as follows:

Assets		*Liabilities*	
Furniture and Fixtures..	$ 2,000	Capital Stock..........	$ 5,000
Cash	500	Notes Payable..........	3,000
Notes receivable........	3,000	Accts. Payable	6,000
Accounts receivable.....	5,000	Surplus	500
Merchandise on hand...	4,000		
Total	$14,500	Total	$14,500

During the month of January the bookkeeper made all entries in the cash book and in the sales book, but made no journal entries and did not post his ledger. In addition to the entries appearing on the cash book and sales book the following transactions took place during January: Merchandise purchased on credit amounting to $6,000; notes payable amounting to $2,000 renewed; special allowances of $500 made to customers.

The credit sales journal had two columns, one for the billed amounts and the other for the cost of the goods sold. The billed amount was $8,000 and the cost was $5,000.

The following statement gives a summary of the cash receipts and disbursements for January:

Cash Received		
Collected from customers..............	$4,000	
Collected on notes receivable...........	2,000	
Collected on Mdse. sold and not entered in sales book (cost price $500)........	600	
Total cash received....................		$6,600
Cash Payments		
Interest on notes payable...............	$ 45	
Salaries	500	
Rent	200	
Sundry expenses.....................	300	
Accounts payable.....................	5,000	
Total disbursements....................		$6,045

Prepare balance sheet as of January 31, 1915, and a statement of profit and loss based on the book value of the merchandise.

124.

A and B of Colorado engaged as usual partners in a stock raising enterprise with a capital of $10,000 each contributing one-half. A received a salary of $200 per month. At the end of three years they decided to terminate the business and B, who handled all the money of the co-partnership and kept the books, reported the following receipts and payments.

Receipts.		*Payments.*	
A's investment	$ 5,000	Purchases of cattle	$57,000
B's investment	5,000	Loans repaid	14,000
Sales of cattle	80,359	A's Salary	4,200
Loans	15,000	Interest	1,000
		Expenses	9,000
		A's withdrawals	2,200
		B's withdrawals	1,800

A round up and branding of the herd showed 328 head worth $5540. There remained with the bankers a balance of $15,150. Other assets included horses, $800; tools, etc., $100; supplies, $150; accounts receivable, $750. The firm owed the following bills, branding irons, $40; salt, $100; loan at bank, $1,000; unpaid wages, $260. You are asked to prepare such statements as are necessary to show (a) the financial condition of the co-partnership at its termination; (b) the results of the three years' operations; and (c) the interest of each partner.

125.

A land company is incorporated with a capital of $50,000. It purchases a tract of 104 acres of land at $500 an acre, paying therefor $32,000 in cash and giving capital stock for the remainder of the consideration, and at the same time giving a mortgage to a title guarantee company to secure a loan of $35,000, which is to be satisfied by partial payments as lots are sold and released.

Obligations are incurred on book account as follows: for organization expense, $619; for grading and paving, $23,400; for water mains (a separate enterprise to be reimbursed by service charges when ready for operation), $4,000.

Direct expenditures of cash are made for organization expense, $537; for grading and paving, $11,060; for water mains, $1,020; for maps, $700; for advertising, $1,200; for salaries and expenses,

$8,679. Settlements are made with creditors by cash $8,784 and by capital stock issue $10,000; the remaining capital stock is issued for cash.

Lots sold on purchase money mortgages, $24,857; installments collected, $9,442; cancellation of title company mortgage on lots sold, $8,050, and purchase money mortgages pledged for loan of $10,000.

Interest paid to title company, $1,849; interest received on purchase money mortgages, $924. Inventory of lots unsold, including improvements at cost, $66,575, to which latter 10% is to be added for appreciation of value. Maps on hand, $500.

Prepare (1) cash summary, (2) skeleton ledger accounts, (3) profit and loss account, (4) balance sheet, covering the transactions above stated.

126.

The trustees of an estate of $250,000 make the following investments and collect the income:

PURCHASES

Feb. 2—100 shares D. Q. stock, par 100 each, at $109.50.
Mar. 5—10 S. P. bonds, maturing 1950, $1,000 each, 6% Jan. 1 and July 1, at $1010 and accrued interest.
Apr. 10—Bond and mortgage for $5,000, maturing 1916; interest, 5%, Apr. 1 and Oct. 1.
Oct. 6—10 S. P. bonds, maturing 1950, $1,000 each, 6% Jan. 1 and July 1, at $1020 and accrued interest.

SALES

Oct. 5—100 shares of D. Q. stock, par 100 each, at $110.

The D. Q. stock pays quarterly dividends as follows: Apr. 1, 1¼%; July 1, 1½%; Oct. 1, 2%. These dividends are received respectively on April 3, July 5, and October 3.

The interest on S. P. bonds is received July 2 and the interest on the bond and mortgage for 5 months and 20 days is received on the due date.

On April 10 the trustees borrow from the bank $1,100 on collateral note and repay the loan October 10, with interest at 6% per annum.

Prepare cash account, principal and income accounts of each security, interest and dividend account, and trial balance as of October 10.

127. [127]

Lakeview Water Department

Receipts		
Water Rates	$106,352.62	
City's Payment for Public Use of Water	17,549.10	
Plumbers' Licenses	150.00	
Miscellaneous	2,835.03	
		$126,886.75
Disbursements		
Bonds Paid	$ 25,700.00	
Interest on Bonds	18,049.00	
Salaries	17,371.90	
Repairs to Mains	460.21	
Repairs to Hydrants	1,082.61	
Tools and Utensils	495.33	
Supplies and Repairs to Stations	5,583.32	
Fuel	12,319.77	
Barn expense	1,987.94	
Repairs to Service	1,575.56	
Office expense	1,131.27	
Repairs to gates and valves	66.63	
Repairs to Meters	908.31	
Insurance	102.00	
Engineering	88.77	
Miscellaneous	1,327.46	
Special assessment	138.19	
Tax refunded at Lansing	1.03	
Reconstruction	1,789.58	
Temporary loan paid and interest on the loan	2,542.50	
Meter settings, etc.	689.55	
Pipe extensions	23,259.79	
Improvements to stations	7,650.03	
		$124,320.75

From the above data prepare Income Account for the Water Department, assuming that the value of the water furnished the city was $25,500.00.

128

128.

The city of Urban owns its water plant. The total cost of the plant and extensions, new, was $530,000. At the end of the year 1912 the city treasurer makes the following report:

Receipts and Disbursements for Year 1912

Receipts	
Assessed Rates	$33,967.36
Metered Water	14,722.48
Mason Work	836.04
Meter Rentals	172.44
Miscellaneous	71.75
Total	$49,770.07
Disbursements	
Operation	
Pumping Station expenses	$ 6,402.54
Fuel	5,061.46
Office and distribution expenses	10,072.88
Rebate and stoppages	605.76
Maintenance	
Repairs to Distribution	607.35
Repairs to Pumping Station	644.19
Repairs to Meters	581.50
Interest on Bonds and Sinking Fund	30,000.00
New Extension	8,000.00
Insurance	414.88
	$62,390.56

On the basis of the above figures the City Treasurer reports that the water plant has been operated at a deficit of $12,620.49, and recommends that the water rates be raised.

Assuming that the cost new of the depreciable property was $500,000, and that 1½% on cost new is a reasonable annual allowance for depreciation; that the fire protection furnished free to the city by the maintenance of fire hydrants costs (including depreciation and interest on investment) $12,000 per year; that the water furnished the public institutions of the city (public schools, jail, engine house, drinking fountains, etc.) would bring if paid for at meter rates $2,000; that of the $450,000 of 5% bonds originally issued to build the plant $300,000 are still outstanding while $150,000 have been redeemed and cancelled.

On the basis of these assumed figures and the statement of receipts and disbursements construct an income account for this water plant.

What per cent of return is the plant yielding the city on its investment assuming that the present value of the plant (cost new less depreciation) is $465,000?

129. 137

"Income must be accounted for, not when it is received in actual cash, but as it accrues to the corporation." Defend this statement, and illustrate.

130. 141

The auditor of an incorporated company which has been accustomed to making investments in interest-paying securities, in making his statement to the directors presented a balance sheet showing a surplus of $65,000. After discussion, the directors determined that they did not wish to declare a dividend out of the surplus and gave their auditor the following order: "Decrease this surplus by investing $50,000 in the bonds of the XYZ Railroad Co." Presuming there was an item in the aforesaid balance sheet of cash $75,000, what effect will the carrying out of the directors' order have upon the surplus of $65,000?

131. 155

Should fluctuation in the value of the permanent assets of a company be allowed to affect the result of the loss and gain account? Give reasons for your answer.

132. 157

In examining a business to determine and show separately the profits for the two years ending December 31, 1907, it is found that an item amounting to $500 had been omitted from the inventory of December 31, 1905, that an error had been made in the footing of the inventory of December 31, 1906, by which that inventory was overstated to the amount of $250; and that in pricing the inventory of December 31, 1907, an error was made by which that inventory was understated to the amount of $1,000. State fully the effect of these errors on the profit of each of the two years.

133.

158 The East and West Railroad Company hauled many tons of coal during the year to the various distributing points along its line for the use of the locomotives, and upon this Company coal $70,000 freight was charged, such charge being made against the cost of fuel for locomotives, and credited to freight earnings. Was the above method of handling this freight item correct? In answering state your reasons fully.

134.

159 A construction company has a number of contracts partly completed at the close of the fiscal year. Would you carry any portion of the anticipated profit on these contracts into Revenue account? If so, why?

135.

161 An examination of the minutes and other records of the books of a corporation, preceding an audit, discloses that a revaluation of its buildings, plant, and machinery had been made by expert appraisers called in for the purpose. The report of these appraisers states that the values as determined by them are greater than those shown on the books of the company. Should such increased value be entered on the books of the corporation? How would this increased value show, if at all, in the profits and loss account and the balance sheet?

136.

162 In auditing the accounts of a corporation you find that the company utilized its own materials and labor in the construction of extensive additions to its plant, and that it has charged up such work at regular trade prices sufficient to yield to it a substantial profit, which has been credited to the Expense and Revenue Account. Do you see any objection to this course? Explain fully the theory upon which your answer is based.

137.

163 A corporation purchases a tract of land for $25,000.00 and after holding it for 3 years sells half of it for $20,000.00, using the remainder for an extension of its plant.

The president of the company favors crediting Profit and Loss with $7,500, crediting Real Estate Account with $12,500.00. The directors ask your opinion. Write out the letter you would submit.

138.

The statement submitted by the treasurer of a corporation shows receipts of money greatly in excess of disbursements, leaving a balance in hand of more than enough to pay to stockholders a dividend of 6%. The directors declare such dividend pursuant to the statement submitted without asking for any other further information. Was the act of the directors a prudent one under the circumstances? Give reasons for your answer.

139.

A life insurance company has issued $100,000 of stock, all fully paid up in cash. During the first year preliminary expenses and expenditures for agency establishment and advertising amount to $15,000. The liabilities exceed the tangible assets by $12,000 at the end of the year. Should the balance sheet be corrected by reducing the capital stock?

140.

A New York company sells its capital stock at a premium and the directors pass a resolution to declare a dividend out of the surplus thus paid in. Would you call attention to this action if asked to make up the accounts, and if so, why?

141.

"Premiums realized on capital stock are neither income, profits, nor an excess of capital obtained in exchange for a liability." (Esquerre.) Explain.

142.

What, in your opinion, would be the proper accounting record for a business corporation to make of an appropriation from its surplus profits for the amount of a permanent investment in property?

143.

The principal objects of a corporation were to buy, rent, and sell land. The articles of incorporation provided that dividends should be paid out of net earnings. In 1882 the company had a bad debt of $350,000 and they met this by writing up in the balance sheet of that year the value of their lands some $340,000 above cost price, and brought down such increased value into the credit side of the profit and loss account as a set-off against the bad debt, which was in this way treated as written off. Was this legitimate accounting?

144.

In 1885 the above company made a profit on their revenue accounts, out of which the payment of a dividend on preferred stock was proposed. A common shareholder brought suit to restrain the payment of the proposed dividend on the ground that some of the company's lands had, during the year 1885, much depreciated in value and that if such depreciation were debited to the profit and loss account there would be a considerable loss and no fund available for dividends. Was the ground for action a good one?

CHAPTER VII 137

145.

A banking firm with $200,000 of capital stock outstanding shows at the end of a certain year profits for that year amounting to $38,000. The directors write off $8,000 of Premium on Bonds purchased during the year, and $10,000 of the original cost of its fixtures, charging both these amounts to the Undivided Profit account. The bonds had not fallen in market value, and 5% had already been charged to Expense for Depreciation on Fixtures. How would you describe the result of this action on the part of the directors?

146. 143

Describe a sinking-fund. How should the account of such a fund be conducted in the case of a manufacturing corporation that bonds its works for $100,000, payable in 20 years, and wishes to accumulate during that period the sum necessary to retire the bonds at maturity? What amount must be charged the first two years, assuming the interest rate to be 4%?

147.

Draft journal entries showing how a sinking fund of $5,000 a year should be provided for retirement of an issue of bonds, the interest rate being 4½%.

148. 145

(a) The Buffalo Forge Company has just issued $1,000,000 5% First Mortgage Bonds. By the terms of the Trust Agreement the Company is required to set aside each year $50,000 in order to provide a fund for the ultimate redemption of the bonds. At the end of the first year the Company uses $50,000 of its profits to purchase securities of other corporations, which securities it turns over to the Trustee. Name the four accounts which will be affected and give the journal entries.

(b) At the end of twenty years the bonds fall due. The sinking fund assets are sold for cash and the bonds retired. What are the three journal entries which should now be made on the books of the company.

(c) When the sinking fund assets mentioned in (b) are sold $1,048,500 is realized, because of a rise in the market price of the securities. To what account would the above excess of $48,500 naturally be transferred? Could it be legitimately used for the payment of dividends?

149.

A corporation with $200,000 common stock, $100,000 6% income bonds and $100,000 5% 1st mortgage bonds outstanding sets aside $10,000 a year out of profits as a sinking fund with which to retire the 1st mortgage bond issue. During the last four years of the life of the bonds profits were large enough to provide interest and sinking fund on the bonds. After the sinking fund assets have been used to pay off the bonds, the income bondholders bring action to compel payment of the four unpaid dividends.

Have they any reasonable ground for action? Explain fully the reason for your answer.

150.

Among the credits in the Profit and Loss account of a Corporation for 1909 is the following item, "Profit on bonds repurchased for sinking fund, $16,500."

(a) Explain the probable origin of this item.

(b) The par value of the bonds repurchased during 1909 was $266,000. Give the entries made at the time of purchasing the bonds. What entries should have been made?

151.

The Virginia Coal Company was organized January 1, 1906, began operations about January 7, 1906, and kept an ordinary double entry set of books but did not close their accounts at the end of any fiscal year. After an examination and verification of all accounts stated in the trial balance they are accepted as correct except that termed "Sinking Fund Payment" ($22,500).

The mortgage, securing bonds to the amount of $100,000, contains a sinking fund clause providing that the company shall deposit semi-annually with the Sinking Fund Trustee 5c per ton of coal mined; such payments shall be made to trustee during January and July of each year for the preceding six months' period. Money so deposited is to be applied, as soon as practicable, to purchase bonds at not exceeding 115 and accrued interest; compensation and expenses of trustee are also to be paid from the Sinking Fund. Bonds, when redeemed, cannot be canceled, but are to be held by trustee, who shall collect the semi-annual interest thereon and apply it to the same purposes as the 5c per ton payments.

Bonds are dated January 1, 1906, run for 20 years, and bear interest at 6% per annum, payable January 1 and July 1 of each year.

Payments to Sinking Fund Trustees have been made as follows:

July 27, 06	Payment for 6 mo. ending 6/30/06, 5c per ton on 120,000 tons.........	$ 6,000
Jan. 24, '07	Payment for 6 mo. ending 12/31/06, 5c per ton on 150,000 tons.........	7,500
July 28, 07	Payment for 6 mo. ending 6/30/07, 5c per ton on 180,000 tons.........	9,000
		$22,500

On January 30, 1908 the Company paid to the Trustee $5,500 for Sinking Fund payment for the 6 mo. ending Dec. 31, 1907, being 5c per ton on 110,000 tons.

The Trustee submitted statements of receipts and disbursements for account of the Sinking Fund to date (January 31, 1908) as follows:

Cash Received to Dec. 31, 1907

July 27, 1906	S. F. deposit for 6 mo. ending June 31, 1906, 120,000 tons at 5c.............	$6,000	
Jan. 5, 1907	Jan. '07 coupons on 5 bonds.........	150	
Jan. 24, 1907	S. F. deposit for 6 mo. ending Dec. 31, 1907, 150,000 tons at 5c.............	7,500	
July 3, 1907	July '07 coupons on 12 bonds........	360	
July 28, 1907	S. F. deposit for 6 mo. ending June 30, 1907, 180,000 tons at 5c.............	9,000	
			$23,010

Cash Disbursements to Dec. 31, 1907

Aug. 16, 1906	Bonds redeemed—5,000 at 110....		$5,500.00	
	Commission at ¼%.............		12.50	
	Accrued interest		37.50	
				$ 5,550
Feb. 15, 1907	Bonds redeemed:			
	4,000 at 108.........	$4,320		
	2,000 at 110.........	2,200		
	1,000 at 112.........	1,150		
			$7,640.00	
	Commission		17.50	
	Accrued interest		52.50	
				$ 7,710

Aug. 12, 1907 Bonds redeemed:			
9,000 at 90	$8,100		
1,000 at par	1,000		
		$9,100	
Commission		250	
Accrued interest		70	
			$ 9,420
Compensation of Trustee, $100; Advertising, $50			150
			$22,830
Cash balance in hands of trustees, Dec. 31, 1907			$ 180
Received in January 1908, viz:			
S. F. deposit for 6 mo. ending Dec. 31, 1907, 110,000 at 5c		$5,500	
Coupons on 22 bonds in S. F.		660	
Interest allowed on balance to 12/31/08		100	6,260
			$6,440

Prepare entries to state properly on the books of the Virginia Coal Co. all Sinking Fund transactions.

152.

A corporation issues 5% 20-year bonds to the par value of $2,000,000, at 92. Seven years later the company provides for a new issue of 5% 30-year bonds to be used partly in refunding the outstanding bonds and partly in raising new capital. The $2,000,000 of old bonds are refunded by exchanging for them new bonds of the same par value and $140,000 ($7.00 per $100.00 bond) in cash.

(a) What did the company realize on the $2,000,000 of new bonds?

(b) What entries would you make at the time of this refunding operation?

153.

On January 1, 1906, a corporation issued and sold 5% 20-year bonds, interest payable July 1 and January 1, to the par value of $1,000,000, for $900,000.00 cash. These bonds contained a sinking fund provision under which the corporation was obliged to call and cancel 2% of the original issue on January 1, 1911, and each year thereafter until maturity. The bonds were callable at 105 and accrued interest.

In conformity with these provisions the corporation called $20,000 of the bonds at 105 on January 1, 1911, and each year since, and expects to continue the practice.

(a) What was the original discount on these bonds at the time of issue?

(b) What is the unextinguished bond discount on January 1, 1916?

(c) What entries would you have made when you paid the bonds which were called on January 1, 1911?

(d) What is the effective rate of interest on the capital which the corporation secured from the sale of these bonds?

154.

"Discounts and Premiums on Bonds are in effect an addition to or a deduction from the interest rate paid on the bonds over their life." (Dickinson). Defend and illustrate this statement in view of your definition of interest. 254

155.

A. In 1910 a trustee buys for investment $10,000.00 (par value) Penna. R. R. 6% bonds due 1921 at 112. At the end of six months he receives $300.00. How much does a life tenant, who is entitled to all of the "income," receive? 256

B. He buys 100 shares Penna. R. R. stock at 112. At the end of six months he receives a dividend of $300.00. How much does the life tenant receive?

156.

A corporation issues $100,000 of 7% 20-year bonds at $111.56, giving a yield of 6%, and $100,000 of 4% 10-year bonds, at $76.89, giving a yield of 6%. At the end of a half-year they pay $5,500 in interest. Give entries made at time of issuing bonds and of paying interest. 257

157.

To what should the discount on bonds sold for construction purposes and the expense of disposing of such bonds be charged? Give reasons. 258

158.

A corporation sells its first mortgage bonds at $10,000 premium and its second mortgage bonds at $10,000 discount. Give your views as to the proper treatment of these items of premium and discount. 25

159.

Buncombe & Company, Ltd., issued $500,000 5% Debenture Bonds in consideration of $1,080 for every $1,000 bond. The subscribers for these bonds were to pay as follows:

On January 1, $580.00
On July 1, 500.00

All the amounts were received by the company on the due dates. Make the necessary Journal and Cash Book entries and post to the ledger.

160.

An insurance company buys $50,000 7% 10-year bonds at 116 for investment. The bonds will mature at the end of five years.

(1) How should this purchase be entered on the balance sheet?

(2) Give the journal entry which would correctly record the facts upon the receipt of the first yearly interest payment.

161.

The Toledo Paper Company, finding that it can use to advantage additional capital, issues $100,000 1st Mortgage 20-year Bonds bearing 5% interest. It sells these bonds at 96. Give the journal entry on the books of the corporation.

J. M. Davidson buys $10,000 of the bonds of The Toledo Paper Company at the market price of 96. What journal entry will Davidson make?

162.

A corporation issues $100,000 of 5% bonds, payable in fifteen years, with interest payable semi-annually, and receives $105,411.33. This gives a 4½% basis. Six months later the corporation pays interest on the bonds amounting to $2,500.

What entry should the holder of a $1,000 bond make in his books when he receives his first interest?

What entry should the corporation make when it pays its first interest, and how does that entry affect its income sheet, or its balance sheet, or both?

163.

A and B are dealers in bonds and share profits in the proportion of 75% to A and 25% to B. They engage C to sell bonds, agreeing to pay him a salary equal to 25% of the net profits to be divided between the partners.

During the continuance of C's contract the firm purchases $100,000 of Waterville Traction Company first mortgage 5% bonds on a 4% basis. The bonds have eighteen months to run, interest payable semi-annually (three interest periods).

(a) The firm holds the Waterville bonds till maturity. Prepare a statement of the Waterville bond accounts, showing cost, interest, and amortization.

(b) The total profit for the first year of C's contract is $10,000. Show the division of this profit.

164.

Fill in the missing items in the following table and tell how you know what items to add:

Market Int.	Bond Int.	Accumulation	Book Value	Par
			$98,558.06	$100,000
$1,971.16	$1,500.00			
1,980.58	1,500.00			
1,990.20	1,500.00			

Could you fill in the accumulation column directly, without calculating or using the market interest, if you knew the market interest rate? If so, how?

165. 269

The theoretical book value of a 5% bond on January 1st is $10,136.47 (on a basis of 4%), and that is what you pay for it. The value on July 1 is $10,089.20. On July 1 you receive as interest on the bond $250, or at the rate of 5% a year.

What should you credit on your books for that $250?

On August 1 you buy another $10,000 of these bonds for $10,122.83, which includes accrued interest. The theoretical book value of the bond for the subsequent Jan. 1 is $10,040.98.

What will you debit at the time of purchase?

What should you credit when the $250 interest on the last purchase is received on January 1?

166. 270

A corporation issued $500,000 par value 20-year bonds, interest at 4% payable semi-annually. These bonds were sold to yield 5%. After 5 years the corporation, needing more capital, issues $2,000,000 par value, 6%, 20-year bonds, interest payable semi-annually. Part of these are exchanged for the entire original issue of 4% bonds and the remainder are sold. The whole transaction is carried through on the basis of a 5% yield. The value of the 6% bonds on this basis was $2,251,028, while the value at the time of refunding of the 4% bonds was $447,674.25.

Give the journal entries on the books of the corporation at the time of the exchange of the 6% bonds for the 4%'s.

167.

A bond (interest 6% payable semi-annually) whose par value is $1,000, has been purchased to yield 5%. The bond is due two years from the date of purchase. The purchase price is $1,018.81. What entries should be made on the books of the purchaser

(a) When he acquires the bond?

(b) At each interest payment?

(c) At date of maturity?

Give actual figures.

168.

You buy a bond on Jan. 1 for $10,449.13, which is its theoretical value on a 4% basis. On Mar. 1 you buy another like it and pay $10,518.79, which includes accrued interest. On July 1 you receive your semi-annual interest of $250 on each bond. The book value of the two bonds on July 1 is $20,816.22.

What entry should you make on your books for the original purchase?

What for the March 1st purchase?

What for the interest received on July 1?

The book value of the two bonds on the subsequent January 1 is $20,732.55. You sell them on October 1 for $21,030.

How much do you make or lose on the sale?

169.

You buy a bond on Jan. 1, for $10,560, which is its value on a 4% basis. On Mar. 1, you buy another like it and pay $10,665.50, which includes accrued interest. On July 1, you receive your semi-annual interest of $300 on each bond. The book value of the bonds on July 1 is $20,942. What entry should you make on your books at the time of the original purchase? What for the Mar. 1 purchase? What for the interest received on July 1?

The book value of the two bonds on the subsequent Jan 1 is \$20,762. You sell them on Oct. 1 for \$21,200. How much do you make or lose on the sale?

170. 274

A corporation has outstanding \$20,000,000 first mortgage bonds, interest 7%, payable semi-annually on January 1st and July 1. These bonds fall due as follows:

\$5,000,000 on Jan. 1, 1918
5,000,000 on Jan. 1, 1920
5,000,000 on Jan. 1, 1922
5,000,000 on Jan. 1, 1924

This \$20,000,000 issue is to be refunded as of January 1, 1916 on a 3½% basis. Allowance is to be made for the difference in interest for the remainder of the lives of the various bonds, and such difference is to be paid in bonds.

(a) What amount of bonds must be issued?

(b) This same corporation has outstanding \$10,000,000 of income bonds bearing 5% interest. The auditor decides that the Old Bond account should be debited \$20,000,000, and the New Bond account credited the whole amount of the issue,—the excess of the new over the old bonds being charged against income for 1914. The entries are made accordingly.

As a result of this entry no net income was left to pay the interest on the income bonds.

Have the income bondholders any redress in the matter?

(c) What will be the proper journal entries at the time of the refunding?

(d) What will be the proper journal entries on July 1, 1916 and on Jan. 1, and July 1, 1917 to 1924?

171. 276

There were purchased December 31, 1907, \$100,000 of Altoona 4½'s for \$103,394.43 ex. interest.

On June 30, 1909 half of the bonds were sold for \$52,418.55 ex. interest.

Given that the bonds are semi-annual and that the price paid is such as to net the investor the nominal rate of 4% per annum, that is 2% semi-annually, determine the profit made from the sale and the interest revenue for the two years ended December 31, 1909. Give an analysis of the Bond Ledger account as it would appear at the close of business December 31, 1909.

277

172.

A corporation authorizes an issue of $1,000,000 of bonds. The trust company issues and certifies $500,000 of these bonds to December 31, 1914. On this date the company sells $200,000 of bonds, pledges $200,000 as collateral security for the payment of its notes, and has $100,000 of bonds in the treasury. How should this issue of bonds appear on the balance sheet of the corporation on December 31, 1914?

173.

The payment made for building a bridge is $1,200,000 of the company's 4% bonds. The same bridge could have been built for $1,080,000 in cash. Make the proper journal entries upon the completion of this transaction.

174.

The following argument is presented by an official of the company, in view of the facts stated in Problem 282: "The bridge cannot be built without capital any more than it can be built without drawings. The discount on the bonds is a cost of acquiring the bridge just as much as the wages of the engineer who draws the plans, for the full face value of the bonds must be returned to the bondholders. The bridge should stand on the books as costing $1,200,000." Discuss this argument fully.

175.

The A. B. Banking Co. of New York borrows £20,000 from C. D. & Co., of London, for 60 days at 4%, money being at 6% in New York. The rate of exchange is $4.87\frac{3}{4}$ when the loan is made and $4.88\frac{1}{4}$ when it is repaid. If brokerage is 1/32%, cable charges $15, how much is saved or lost by borrowing abroad? (Interest on basis of 360 days to the year.)

CHAPTERS VIII AND IX

176.

A corporation's income sheet for 1912 showed a surplus for the year of $150,000. In 1913 the surplus appearing on the income sheet was $200,000. Are these figures consistent with the following items appearing on the liabilities side of the balance sheet for the years in question?

	1911	1912	1913
Reserve for Accrued Depreciation....	$120,000	$145,000	$175,000
Reserve for Addition to Plant.......	100,000	150,000	200,000
Contingent Reserve................		100,000	150,000
Surplus	750,000	700,000	800,000

177.

The A. B. C. Co. started business January 1, 1911. The following Balance Sheet is an accurate representation of the condition ot the business.

Real Estate and Buildings	$200,000.00	Capital Stock.......	$350,000.00
Plant and Machinery	280,000.00	Mortgage	150,000.00
Cash and other current assets........	70,000.00	Bills Payable	50,000.00
	$550,000.00		$550,000.00

After operating three years, the Company shows the following Balance Sheet. What is the proprietorship as shown by this statement?

Real Estate and Buildings	$200,000.00	Capital Stock.......	$350,000.00
Plant and Machinery	300,000.00	Mortgage	150,000.00
Cash and other current assets........	157,000.00	Bills Payable.......	60,000.00
Profit and Loss.....	10,000.00	Accounts Payable...	50,000.00
		Reserve for Accrued Depreciation	57,000.00
	$667,000.00		$667,000.00

An examination of the accounts discloses that they are correct except for the following facts: In 1911, 23 machines were purchased at a cost of $25,000 to replace the same number of machines abandoned whose original cost was $13,000; the entire $25,000 was charged to operating expenses as renewals. The allowance for depreciation was $18,000, while $12,000 would have been adequate. In 1912, $9,000, charged to Maintenance, was really improvement to buildings. In this year, the allowance for depreciation was $20,000, while $13,500 would have been adequate. In 1913, 16 new machines, costing $21,000, were purchased and charged to Operating Expense. These replaced 16 machines whose original cost was $12,500. Depreciation to the amount of $19,000 was charged when $14,000 would have been adequate.

(a) Rewrite the Balance Sheet for January 1, 1914 in the light of these discoveries.

(b) What is the proprietorship as shown by the Balance Sheet as so reconstructed?

178.

A manufacturing corporation handling a patent device issued bonds aggregating $375,000, payable in installments of $25,000 annually for fifteen years. Having in mind possible competition and obsolescence of its property, it was provided that the sinking fund installments be charged against earnings. The president of the company had a contract under which he was to receive a bonus of 5% of the net profits in addition to his salary, but it was specifically provided that as to him the charges against earnings should not include the sinking fund installments. In making up the first year's accounts the auditors decided that the depreciation reserve, as nearly as could be determined, should be stated as $25,000 and this amount was included among the operating expenses. When their report was submitted to the directors, the president referred to his contract and stated that the sinking fund provision and depreciation were synonymous and that he was entitled to 5% of the earnings before any deduction was made for depreciation. The matter is referred to you as an accountant; what is your opinion?

179.

The secretary of a manufacturing corporation which has no surplus has undertaken to close the books. The balance to the credit of the profit and loss account is just sufficient to enable the directors to declare a small dividend, which they propose to do. At this juncture the services of an accountant are secured. He finds that no provision for depreciation has been made, and that all expenditures for repairs and renewals, amounting to more than the proposed dividend, have been charged direct to plant account. Show the nature of any corrective entries which should be made. What would be the effect on the balance sheet of such entries?

180.

The State of New York requires telephone companies to maintain a Depreciation Reserve to take care of the actual depreciation of tangible assets. The Treasurer of a certain telephone company reported Cash in Bank $15,000 among his assets. Among his liabilities he reported a loan from the same bank of $12,000. He was receiving 3% interest on the cash in bank and paying 6% interest on the loan from the bank. When asked why he did not use the cash in Bank instead of borrowing he replied: "Your requirement with respect to Depreciation Reserves prevents me from doing so." Write him a brief letter setting him right. Tell him how he should keep these accounts.

181.

When auditing the books and accounts of a concern operating a large machine shop you find that the machinery and tools have been regularly depreciated each year, that their value as shown by the books is considerably less than the value as shown by an independent appraisal, and that the firm has set up the higher values as shown by the appraisal on the books. To what account would you recommend the corresponding credit to go, and for what reasons?

182. 183

Defend the statement that Maintenance should be charged not when the repairs are actually made, but should be spread on some uniform basis over the life of the particular item of plant involved.

183. 186

The actual cost of repairs in a certain plant for the years 1908-1913 inclusive was as follows:

1908	$ 400,000
1909	600,000
1910	550,000
1911	450,000
1912	640,000
1913	600,000
	$3,240,000

If Maintenance charges had been made on the basis of an even percentage of Gross Earnings, they would have been as follows:

1908	$ 420,000
1909	585,000
1910	540,000
1911	495,000
1912	630,000
1913	570,000
	$3,240,000

Assuming that the method suggested in 185 had been followed and the charges to Income for Maintenance had been on the even percentage basis here shown, what entries would have been made each year to provide for Maintenance?

184.

A syndicate owning in fee large tracts of timber land makes a contract with a lumber company to sell 1,000,000,000 feet of standing timber, at the rate of $3 per M feet. The lumber company agrees to cut and pay for this timber within a period of six years, and guarantees that the following shall be the minimum amount to be cut and paid for in each of the six years, payments to be made in cash at the end of each six months:

1st year	80,000,000 feet	$ 240,000	June 30	$ 120,000
			Dec. 31	120,000
2d "	90,000,000 "	270,000	June 30	135,000
			Dec. 31	135,000
3d "	100,000,000 "	300,000	June 30	150,000
			Dec. 31	150,000
4th "	120,000,000 "	360,000	June 30	180,000
			Dec. 31	180,000
5th "	150,000,000 "	450,000	June 30	225,000
			Dec. 31	225,000
6th "	200,000,000 "	600,000	June 30	300,000
			Dec. 31	300,000
Total	740,000,000 feet	$2,220,000		$2,220,000

The syndicate desiring to anticipate the payments under its contract, applies to its bankers for the cash value of the contract, offering as security the contract itself and a mortgage on the timber land. What is the present worth of the contract, calculated on a 6% basis?

185.

Before making the charges referred to below, the profit and loss account of a corporation for the year shows a credit balance of $60,000. The accounts receivable are $40,700, and the plant and machinery account is $55,000. The 6 per cent preferred stock is $50,000 and the common $150,000. It is decided (1), to provide, out of the above named profit and loss balance 7½ per cent depreciation on plant and machinery; (2) to write off as uncollectable $1,500 of the accounts receivable and to make a reserve of 2 per cent on the remainder of the accounts receivable to provide for possible losses thereon; (3) to provide for the preferred stock dividend for the year; (4) to provide for a bonus of $7,500 to the employees; (5) to provide for a dividend on the common stock of 15 per cent for the year and (6) to carry the balance then remaining on the profit and loss account to undivided profit account.

Draft the journal entries to give effect to the above.

186.

(a) Defend the statement that Maintenance should be charged not when the repairs to plant are actually made, but should be spread on some uniform basis over the life of the particular item of plant involved.

(b) The actual cost of repairs in a certain plant for the years 1908-1913 inclusive was as follows:

1908	$ 400,000
1909	600,000
1910	550,000
1911	450,000
1912	640,000
1913	600,000
	$3,240,000

If Maintenance charges had been made on the basis of an even percentage of Gross Earnings, they would have been as follows:

1908	$ 420,000
1909	585,000
1910	540,000
1911	495,000
1912	630,000
1913	570,000
	$3,240,000

Assuming that the method suggested in (a) has been followed, and the charges to Income for Maintenance had been on the even percentage basis here shown, what entries would have been made each year to provide for Maintenance?

187.

The following is the Balance Sheet of the X. Y. Z. Co. on Dec. 31, 1910.

Real Estate and Plant	$420,000	Capital Stock	$500,000
Bills Rec.	60,000	Bills Payable	100,000
Accts. Rec.	19,000	Accts. Payable	20,000
Supplies	5,000	Profit and Loss	20,000
Cash	40,000		
Merchandise	96,000		
	$640,000		$640,000

(a) An investigation shows that a decrease in the value of the real estate of $12,000 has been written off the real estate account and debited to Profit and Loss; also that improvements in the plant amounting to $16,000 have been charged to expense. Make the corrected Balance Sheet.

(b) Suppose the investigation had shown an appreciation in the value of the Real Estate of $20,000 which had been carried to Profit and Loss, and that repairs and replacements to the amount of $18,000 had been charged to expense. Correct the Balance Sheets and the above valuation of the active assets.

188.

	Product by year.	Present value of output at 5%.
1900	12	$77.70445
1901	11	69.58975
1902	11	62.06919
1903	11	54.17264
1904	5	45.88131
1905	10	43.17532
1906	10	35.33403
1907	9	27.10077
1908	9	19.45578
1909	12	11.42856
	100	

The above table gives, in the first column, the net earnings, by years, for a certain machine, before deducting depreciation. In the second column is shown the present value of these future earnings, at the beginning of each of the years, computed on a 5% basis.

(a) From the data above presented compute (1) the depreciation by years, on the basis of declining value (2) the annual profit.

(b) Construct a table showing the depreciation by years on the basis of an even charge, and, also, the profit by years.

(c) Which of the above methods of writing off depreciation gives greatest uniformity as regards (1) annual profit; (2) rate of return on the investment; (3) cost per unit of product? Explain fully.

189.

What do you understand by the term "depreciation," and how should it be provided for on the books of a manufacturing company owning its plant and equipment? Wherein does the charge for depreciation differ from the charge for repairs and renewals? Can the charges for depreciation be avoided through any system of bookkeeping? 238

190.

Describe two methods of treating the allowance for depreciation of machinery on both the books and the balance sheet. 23

191.

What are the various methods of determining the amount to be written off the cost of a lease for a term of years? Explain which method you prefer and give your reasons. 240

192.

A mercantile company buys the leasehold to a site for $10,000. The leasehold has 5 years to run. How would you treat this transaction in the accounts (a) at the time of purchase, (b) each year during the remaining life of the leasehold? Give entries. 241

193.

A company leases for a term of fifty years certain unimproved property for factory purposes, paying a ground rent therefor of $1,000 a year. The company erects certain buildings at a cost of $40,000, which are to pass to the owner of the fee at the termination of the lease. Without going into the mathematics of the matter state how you would treat this proposition in the books of account. 24

194.

A public service corporation that regularly sets aside from its profits a sufficient amount to provide for depreciation and credits the amount to Depreciation Reserve, removes part of its old plant and replaces it with a larger and more costly one. The old plant is sold for scrap. How should the cost of the new plant and the proceeds from the sale of the old plant and the excess of cost of old plant over scrap be treated in the accounts of the company? Give reasons.

195.

The following statistics are taken from the books of a corporation:

Capital Stock	$400,000
Merchandise Inventory	95,400
Machinery	125,000
Undivided Profits	800
Surplus (Credit)	32,900

To cover actual depreciation suffered during past years but which has not been written off before, the directors decide to set aside a machine depreciation reserve of 10%; they also decide to pay a dividend of 5%. What entries are necessary?

196.

A factory cost $100,000.00. Depreciation amounting to $40,000.00 has been charged. An engineer's appraisal shows actual value of $80,000.00. Should there be any adjustment of the plant account, and how would the matter of depreciation or appreciation affect the current year's profit and loss account?

197.

You find in the journal of a corporation's books the following entries:

Depreciation	$12,000	
To Plant		$12,000
Undivided Profits	10,000	
To Depr. Reserve		10,000
Depr. Res. Fund	10,000	
To Cash		10,000

(a) Interpret these entries.

(b) What effect have these entries on the asset side and on the liability side of the balance sheet?

(c) What effect have these entries on the amount of profits available for dividends?

198. 247

"The method that should be adopted to ascertain the net earnings of a street railway company, is to deduct from the gross earnings,

(a) Operating Expenses, and maintenance;
(b) Interest upon the bonded indebtedness;
(c) Depreciation; and
(d) Where the city franchise or ordinance operated under is of limited duration, then a sinking fund necessary to retire bonds, when the franchise expires, for then the business ceases."

The above extract is from an "Argument for the Establishment of Rules and Principles That Should Guide the Board of Public Works in Assessing Street Railway Property."

You, as City Auditor, are asked to write an opinion on the correctness of the principles above set forth, especially (d).

199. 248

A gas company with a capital of $5,000,000 and a surplus of $1,000,000 had made no provision for the depreciation of its property till the directors reviewed the valuation of the property accounts and decided to write off $2,000,000, thus creating an apparent deficit of $1,000,000. The net earnings during the year following the writing down of the assets amounted to $1,250,000 before any depreciation was charged, and the directors proposed to pay out as dividends $1,000,000. What opinion would you express as to this proposition, if called on by the board before final action was taken?

200. 249

The company referred to in the last problem, five years subsequent to the time of writing down its assets, reconsidered the action taken at that time and instructed its accounting officer to write back the valuation of the assets and thus apparently add $2,000,000 to its surplus. (1) What entries would be required? (2) If you were auditing the accounts of a corporation which owned practically all of the capital stock of this gas company, how would you regard both the writing down and the writing up of the assets of the subsidiary company on the accounts of the company you were auditing?

201. 250

An individual buys a fleet of ships. He then forms a corporation to take them over at double the sum paid by him, payable one-half in debenture bonds of the company, and one-half in its capital stock. A sinking fund is to be provided for the gradual retirement of the debenture bonds. A public accountant is called in at the end of five years to make up the accounts. He insists on creating a depreciation fund based on the full consideration paid by the corporation. The directors argue that the depreciation fund should be based on the amount of debenture bonds issued, on the theory that the capital stock issued to the vendor was in the nature of a bonus and did not represent any real value. State your views regarding the two propositions.

202.

Below is a table of locomotives abandoned by the A. B. R. R. during the years 1907-1912. From the data given compute a depreciation rate for locomotives on this railroad.

4000	$ 9,900.00	$1,400.00	23	1911
4001	9,900.00	1,500.00	23	1911
4003	9,900.00	1,500.00	22	1911
4004	9,900.00	4,000.00	6	1911
4005	9,900.00	3,500.00	6	1911
4006	9,900.00	4,000.00	5	1911
4007	9,900.00	3,500.00	6	1911
4008	9,900.00	3,700.00	5	1911
4051	5,500.00	441.38	36	1909
4052	5,500.00	626.40	36	1909
4110	9,050.00	800.00	29	1908
4111	7,700.00	479.15	25	1908
4112	7,250.00	897.01	37	1909
4113	7,700.00	469.44	27	1908
4115	7,250.00	469.44	11	1908
4117	9,050.00	878.12	27	1911
4119	7,250.00	527.25	36	1908
4120	7,250.00	727.47	38	1911
4122	7,700.00	1,340.74	25	1910
4127	7,250.00	856.30	33	1911
4128	7,250.00	886.34	32	1910
4129	7,250.00	891.57	31	1909
4130	7,250.00	485.63	30	1908
4131	7,250.00	481.93	30	1908
4132	9,000.00	1,058.04	32	1911
4134	9,000.00	504.51	30	1909
4135	9,000.00	874.28	28	1909
4137	9,000.00	443.54	27	1908

4145	9,000.00	438.45	27	1908
4286	10,552.00	527.25	28	1908
4287	10,552.00	770.95	19	1909
4289	10,552.00	770.95	20	1907
4290	9,050.00	1,038.10	17	1909
4291	10,552.00	1,390.92	22	1910
4292	10,552.00	794.80	21	1909
4293	10,552.00	850.00	20	1909
4296	10,552.00	547.60	28	1908
4298	10,552.00	491.18	27	1908
4299	7,614.22	892.70	24	1912
4300	7,614.22	1,172.97	24	1912
4301	7,614.22	1,000.00	24	1912
4302	7,614.22	1,700.00	23	1911
4303	7,614.22	1,200.00	24	1912
4304	7,614.22	1,200.00	24	1912
4306	7,614.22	1,246.55	24	1912
4308	9,125.00	898.83	21	1910
4309	9,125.00	1,350.00	23	1912
4310	9,125.00	1,197.05	23	1912

203.

In making up the accounts the master allowed deductions from profits for bad debts, for rents, for interest paid—debiting to rents and interest received; he allowed for the market value of the materials on hand when the infringement began, for the cost of those acquired afterwards to carry on the business and for the usual salaries of the managing officers. He refused to allow the extraordinary salaries which it appeared by the books had been paid, being satisfied they were dividends of profit. He refused to allow the value at the time they were issued, of materials bought for purposes of infringement. The market was a rising one.

He refused to allow manufacture's profit and interest on the capital stock.

Discuss the propriety of the accounting.

204.

The following figures are taken from the locomotive records of a railroad company.

	Inventory at cost	Acquisitions at cost	Retirements at cost	Depreciation
1908	12,868,491	0	103,106	
1909		373,766	435,172	
1910		1,442,765	368,381	
1911		1,401,316	214,075	
1912		0	289,365	

Complete the fourth column in the above statement, using a straight line depreciation rate on original cost for locomotives of 3.5%.

205.

A manufacturing corporation has been operating five years and has among other accounts the following, viz.: Plant account, $600,000; Reserve for Depreciation, $150,000; Surplus, $100,000. The officers ask you as accountant to certify a statement embracing the above items in the following form: "Plant," $600,000; Surplus and reserve accounts, $250,000. State (a) whether you approve same and (b) the reasons supporting your answer.

206.

A manufacturer is desirous of securing a partner and furnishes a statement covering five years' operations as follows:

Assets		Liabilities	
Buildings ....$	20,000.00	Accounts and Bills Payable ....$	30,000.00
Machinery and Fixtures	75,000.00	Sales average per year	500,000.00
Inventory Mdse. and Supplies	50,000.00	Wages paid per year.	170,000.00
Cash	5,000.00	Expense, Selling and General, per year..	35,000.00
Accounts Receivable.	40,000.00	Material Purchased..	260,000.00

Buildings are on leased ground, lease expires in ten years, annual land rental $1,000.00. Buildings revert to owner at expiration of lease.

New machinery when installed ten years ago cost $50,000.00. Additional since cost $25,000.00; no depreciation has been charged off. All repairs and replacements charged to expense.

What, in your opinion, would be a fair price to be contributed for a half interest? Explain fully.

207.

The accounts of a certain manufacturing corporation for the year ending Dec. 31 showed a profit of $85,000 and the directors proposed to pay $75,000 in dividends on preferred stock. The holders of common stock brought action, alleging that the value of the property had depreciated, and a large part of the capital of the company lost and that there could not be any profits applicable to the payment of a dividend until such loss and depreciation had been made good. Comment.

208.

A certain public service corporation with all its property in one state is incorporated in another state. It has outstanding $32,000,000 of securities while the appraised value of its property is $25,000,000. In making application for a charter in the state in which its property is located this corporation claims that in addition to the $25,000,000 appraised value of its properties it has a "going value" or "going concern value" of an additional $7,000,000, thus bringing its total property up to the amount of its outstanding securities.

(a) State what you understand by "going" value, pointing out the difference, if any, between this and good-will.

(b) Suppose you are delegated by the State to ascertain the propriety of the corporation's claim of $7,000,000 going value. State what steps you would take to verify or disprove the claim.

232

209.

(a) Explain the meaning of the term "good-will." (b) When may it properly appear upon the books of a company as a valuable asset? (c) What factors should be taken into consideration in placing a valuation on good-will?

210. 233

$50,000 of stock is issued for a "going concern" whose property accounts showed it to have a net worth of $45,000. Nothing was said about good will when the contracts were made between the owners and the new company. How would you treat the $5,000 difference?

211. 234

Is there a reason why the goodwill carried as an asset on the books of a prosperous and growing manufacturing concern should be depreciated, amortized or otherwise written off, and if so what would be the effect of such a depreciation, amortization or writing off?

212.

In auditing the books of a corporation capitalized at $250,000 you find that three years previously they acquired the business of a co-partnership included in which was an asset called "goodwill" valued at that time at $25,000, since which time the same has not been written down. The average profits of the corporation for the three years have been 9% on the capitalization. How would you treat the item goodwill? Give reasons.

213.

A corporation capitalized at $100,000.00 carries as an asset $50,000.00 for goodwill. During the year it earns net $25,000.00 and pays a 10% dividend. What disposition would you advise being made of the remaining $15,000? Give reasons.

214.

Comparative Balance Sheet.

	1913	1912
Assets—		
Plants, patents, goodwill	$71,060,813	$70,685,722
Investments	1,768,045	1,635,958
Treasury stock	2,058,700	2,227,117
Inventory	12,614,926	16,226,639
Accounts receivable	5,477,195	6,370,890
Bills receivable	586,274	606,944
Cash	723,053	803,225
Prepaid insurance, taxes	222,950	229,619
Total Assets	$94,511,956	$98,786,114
Liabilities—		
Common stock	$60,000,000	$60,000,000
Preferred stock	30,000,000	30,000,000
Bills payable	2,799,736	6,479,411
Accounts payable	489,031	653,185
Accrued liabilities	217,206	547,283
Contingent reserve	300,000	300,000
Surplus	705,983	806,235
Total Liabilities	$94,511,956	$98,786,114

In the capital asset item, real estate, buildings, machinery, etc., are listed at $12,679,151; patents at $583,650 and goodwill at $57,798,000.

The income account for the year 1913, shows the following facts

Net Sales	$39,509,346
Expenses	36,451,233
Balance	3,058,113
Misc. Income	491,316
Total Income	$ 3,549,429
Treasury Stock reduced from Cost to par value	$ 168,417
Depreciation	541,359
Interest on Bills Payable	239,906
Net Profit	$ 2,599,747
Preferred Dividends	2,100,000
Common Dividends	600,000
Deficit for year	$ 100,253

"Profits for the B. F. Goodrich (rubber) Company and subsidiary companies in the year ended Dec. 31, 1913, applicable to dividends was $2,599,747."—The Chicago Record-Herald, Feb. 24, 1914.

(a) Comment on the above statement assuming that the figures in the Company's financial statements are correct.

(b) What would you say as to the value of the goodwill item appearing in the balance sheet?

CHAPTER XI

215.

The following accounts are found on the books of a corporation: reserve fund; depreciation on furniture; bad debt reserve; bond redemption account; bills receivable; rents of properties owned; dividend on preferred stock. State which would enter the profit and loss account and balance sheet, and which would show debit and which credit balances.

216.

"A balance sheet can only be an approximation to facts, the degree of approximation depending upon the skill and accuracy with which the estimates are made." (Dickinson, Accounting Practice and Procedure.) Explain.

217.

For each of the businesses whose figures are shown below, indicate whether there is a discrepancy, a deficit, or neither of these. The figures are for the balance sheet. (Show your figures in the form of a Balance Sheet)

Partners	$65,000	Capital Stock	$65,000
Merchandise on hand	34,000	Merchandise on hand	34,000
Accounts Rec.	35,000	Accounts Rec.	45,000
Accounts Pay	15,000	Accounts Pay	15,000
Cash	12,000	Cash	13,000
Real Estate	45,000	Real Estate	35,000
Bills Pay	47,000	Bills Pay	49,000
		Profit and Loss	2,000

218.

On the basis of the following balance sheets show what has become of the profits earned, no dividend having been declared:

ASSETS.

	1913	1914
Real Estate	$ 50,000	$ 52,000
Plant and Machinery	85,000	76,500
Patents and good-will	20,500	20,500

Horses and Wagons	15,000	12,750
Inventory	49,000	65,000
Accounts Receivable	35,000	33,000
Cash	22,000	21,150
Agency Investments		15,000
Total	$276,500	$295,900

LIABILITIES.

Capital Stock	$200,000	$200,000
Creditors, open accounts	16,000	17,000
Bills Payable	30,000	
Mortgage		25,000
Profit and Loss	30,500	53,900
Total	$276,500	$295,900

219.

ASSETS.

	1912	1913
Real Estate	$ 55,000	$ 57,000
Plant	95,000	85,500
Accts. Rec.	45,500	43,500
Mdse. (Invy.)	59,000	73,750
Cash	12,000	11,150
Investments		10,000
Total	$266,500	$280,900

LIABILITIES.

Capital Stock	$200,000	$200,000
Accts. Pay.	20,000	12,000
Bills Pay.	26,000	
Surplus	20,500	28,900
Mortgage		20,000
Contingent		10,000
Reserve		10,000
Total	$266,500	$280,900

What were the profits for the year? Prepare tabulation showing what has been done with these profits.

220.

ASSETS.

	1912	1913
Real Estate and Plant	$ 60,000	$ 57,000
Machinery	10,000	9,000
Merchandise	39,321	44,771
Accounts Receivable	30,219	26,109
Loans to Directors	10,000	15,000
Cash	10,600	7,260
Total	$160,140	$159,140

LIABILITIES.

Capital Stock	$100,000	$100,000
Notes Payable	20,000	22,000
Accounts Payable	30,140	27,140
Surplus	10,000	10,000
Total	$160,140	$159,140

Assume that you are the Cashier of a local bank and a request is made by the corporation whose balance sheets are shown above for a loan of $20,000. State whether or not you would grant the accommodation and give your reasons fully.

221.

A concern owns a parcel of real estate which cost it $500,000. There is a purchase money mortgage on it for $350,000. You are asked to enter the same in the balance sheet at $150,000 net. Would you comply with this request? Give reasons.

222.

Dartmouth Manufacturing Corporation.
General Balance Sheet, October 1.

Assets	1907	1908	1909
Real Estate	$ 458,709	$ 473,553	$ 466,614
Machinery	616,675	644,468	726,397
New Construction			644,184
Merchandise	393,570	634,735	669,953
Cash & Debts Receiv.	653,681	548,013	706,227
Totals	$2,122,635	$2,300,769	$3,213,375

Liabilities	1907	1908	1909
Common Stock	$ 600,000	$ 600,000	$1,200,000
Preferred Stock			337,820
Funded Debt	450,000	450,000	800,000
Bills Payable			150,000
Accounts Payable	20,529	24,505	61,940
Reserve for Bonds	150,000	175,000	200,000
Reserve for Depreciation	100,000	175,000	175,000
Profit and Loss	802,106	876,264	288,615
Totals	$2,122,635	$2,300,769	$3,213,375

(a) What were the profits for the year ending Oct. 1, 1909, assuming that no cash dividends have been paid and that the increase in common stock outstanding represents a stock dividend.

(b) Where did they get the money to make the extensions added in 1908-09? Why didn't they use the surplus to make these extensions?

223.

The Canavan Mining Company is organized under the laws of Arizona to buy and develop certain silver mines near the Mexican border. The Capital Stock, fully paid in cash at par, is $500,000.00. At the end of the third year of operation the Company has the following assets:

Mining lands	$496,712.18
Buildings and Improvements	53,287.82
Cash	33,244.20
Machinery	31,000.00
Merchandise and Supplies	8,614.38
Bills and Accounts Receivable	11,385.62
Silver Bullion	69,000.00

The Company owes $20,000 on open account and has accrued liabilities amounting to $2,244.20. (a) Set up the balance sheet and determine the total profits for the three years, assuming the above to be the values of the assets after proper allowances have been made for depreciation, and that no dividends have been paid the first year and 8% in each of the other two years. (b) Answer the same questions as in (a) on the assumption that the values given above represent original cost and that a reserve for depreciation for mining lands amounting to $180,000 has been set up, and another for depreciation of buildings, improvements, and machinery amounting to $20,000; and that no dividends have been paid.

224.

A company authorizes its officers to borrow $100,000 for its account and give as security $200,000 of the first mortgage bonds of the company. How should this transaction be treated on the balance sheet?

225.

Below is shown the liability side of a corporate balance sheet for the year ending Dec. 31, 1912. There are also shown various assumed balance sheets for the year ending Dec. 31, 1913. Give the history of the business during the year 1913 as shown by the assumed balance sheets (a) to (g).

	Dec. 31,	Liabilities Dec. 31, 1913		
	1912	(a)	(b)	(c)
Capital Stock......	$ 800,000	$ 800,000	$1,200,000	$ 800,000
Bonds	500,000	750,000	500,000	500,000
Bills Payable......	960,000	840,000	600,000	740,000
Accounts Payable..	320,000	160,000	300,000	280,000
Surplus	30,000	60,000	10,000	70,000
Total	$2,610,000	$2,610,000	$2,610,000	$2,390,000

	Liabilities 1913			
	(d)	(e)	(f)	(g)
Capital Stock.....	$1,000,000	$1,000,000	$1,200,000	$1,000,000
Bonds	600,000	750,000	300,000	400,000
Bills Payable.....	960,000	800,000	600,000	760,000
Accounts Payable..	320,000	320,000	400,000	270,000
Surplus	30,000	80,000		*
Total	$2,910,000	$2,950,000	$2,500,000	$2,430,000

* A deficit of $20,000 appears on the asset side of the balance sheet.

226.

The following is a comparative balance sheet at December 31, 1910, and December 31, 1911, presented to the directors of the Western Company at their meeting of January 5, 1912:

Assets	1910	1911
Land	$ 20,000	$ 25,000*
Buildings	45,000	45,000
Machinery and Tools	86,000	89,000
Horse, Wagon and Harness	10,500	10,500
Patents	6,000	6,000
Good-will	25,000	25,000
Cash	28,300	10,300
Accounts Receivable	29,600	26,550
Investments—Bonds		15,000
Inventory of Goods in Process	10,800	14,690
Inventory of Materials and Sup.	6,750	10,300
Agency Investment		3,680
	$267,950	$281,020
Liabilities		
Capital Stock:		
Preferred	$150,000	$150,000
Common	50,000	50,000
Bond and Mortgage Payable		20,000
Notes Payable	35,000	2,000
Accounts Payable	16,400	19,350
Reserves for Depreciation	2,500	6,750
Premium on Bonds		1,000
Surplus	14,050	31,920
	$267,950	$281,020

*Increase due to appraisal based on rise in values of factory sites in the immediate vicinity.

Together with the above balance sheet there was submitted to the Board of Directors a statement of income and profit and loss showing the profits of the year 1911 to have been $22,120. The directors state to the auditors that, in view of the decrease of cash and of the increase of capital liabilities, they are unable to ascertain what has become of the increased profits of the year. The auditor prepares and submits to the directors, before the meeting is adjourned, an account properly named, which is so arranged as to show clearly how the Western Company has applied such resources of the year 1910 as have been lost in 1911, and the resources and profits of the year 1911.

Prepare the account rendered by the auditor.

227.

Condensed General Balance Sheets The Chemical Co., December 31.

Assets	1907	1908	1909
Manufacturing Investment, at cost	$14,320,656	$14,334,087	$14,491,886
Investments in other Corporations	2,971,290	2,962,757	3,008,613
Merchandise on hand, at Factory cost	2,179,734	1,981,011	1,905,153
Receivables as follows:			
Customers' accounts	1,147,346	1,027,383	1,007,959
Due from Corporations controlled	1,391,960	1,409,513	1,925,655
Loans	40,992	37,566	2,581
Cash	572,866	679,946	2,063,290
Reserved Fund for Fire Insurance (Cash and Securities at Market Values)	329,902	389,206	436,512
Miscellaneous Assets	76,384	83,742	88,358
Totals	$23,031,130	$22,905,211	$24,930,007
Lialibilities			
Preferred Stock	$11,000,000	$11,000,000	$12,500,000
Common Stock	7,410,300	7,410,300	7,410,300
Accounts payable but not due	522,023	401,687	314,499
Loans	450,000	350,000	
Profit Sharing Fund			109,346
Funded Reserve for Fire Insurance (Contra)	329,902	389,206	436,512
Reserve for U. S. Corporation Tax			15,000
Dividend Payable January	165,000	165,000	187,500
Surplus	3,153,905	3,189,018	3,956,850
Totals	$23,031,130	$22,905,211	$24,930,007

(a) What were the profits for the years 1908 and 1909 as nearly as may be determined from the above balance sheets, assuming that the dividend rate is 1½% quarterly on preferred stock. No dividends have been paid on common.

(b) Give the journal entries made in 1909 affecting the accounts "Reserved Fund for Fire Insurance" and "Funded Reserve for Fire Insurance."

(c) Is the "Profit Sharing Fund" a valuation account, a surplus account, or a liability account?

(d) Give a history of the business as shown by the balance sheets for the two years.

228.

For the years ending December 31, 1913 and 1914, the balance sheets of The Acme Specialty Company are as follows:

Assets	1913	1914
Real Estate and Plant	$300,000.00	$280,000.00
Machinery and Tools	100,000.00	90,000.00
Raw Materials and Goods in Process	46,313.00	37,642.00
Finished Products	53,687.00	62,358.00
Bills and Accounts Receivable	71,600.00	60,084.00
Sinking Fund	28,400.00	33,916.00
Depreciation Fund		30,000.00
Cash	5,049.66	14,128.87
Totals	$605,049.66	$608,128.87
Liabilities		
Common Stock	$200,000.00	$200,000.00
6% Preferred Stock	100,000.00	100,000.00
5% Bonds, 1st Mortgage	100,000.00	100,000.00
Bills and Accts. Payable	84,011.44	78,128.72
Accrued Liabilities	3,099.56	6,084.28
Sinking Fund	28,400.00	33,916.00
Reserve for Bad Debts	4,499.00	3,999.87
Reserve for Depreciation	25,000.00	25,000.00
Surplus	60,039.66	61,000.00
Totals	$605,049.66	$608,128.87

No machinery or real estate has been sold during the year.

At the end of 1914 the company paid a dividend of 6% on the Preferred Stock and 3% on the Common. What were the total profits for the year? How was depreciation provided for?

229.

A company owns all the capital stock of another company. This company has outstanding an issue of bonds not guaranteed by the company holding the stock. The assets of this subsidiary company are deemed insufficient to cover the bonds, so that the capital stock has no value. The owning company desires the auditor to prepare its balance sheet, setting up the assets of this subsidiary company along with other assets directly owned and the bonds as liabilities. Is it proper for him to do so under the circumstances? Give reasons for your answer.

230.

Comparative General Balance Sheet and Income Accounts of General Railway Signal Company, December 31.

Assets	1908	1909
Patents, including Youngs' system	$3,269,350	$3,332,089
Factory bldg., land and improvements	717,828	729.349
Machinery, tools and fixtures	635,731	655,794
Material in stock	902,236	893,595
Bonds owned (Century Tel. Con. Co.)	85,550	85,550
Cash	60,541	54,267
Bills and accts. receivable	262,115	325,315
Deposit		6,923
Bond discount and tax	53,664	51,048
Prepaid items	7,982	4,937
Deficit		6,088
Totals	$5,994,997	$6,144,955
Liabilities		
Common stock	$3,000,000	$3,000,000
Preferred stock	2,000,000	2,000,000
Funded debt,		
Pneumatic Signal Co., bonds	110,000	88,000
General Railway Signal Co., bonds	515,000	529,000
Bills and accts. payable	350,169	526,195

Accrued interest on bonds	17,610	1,760
Surplus	2,218	
Totals	$5,994,997	$6,144,955

	Gross Profit	Expenses	Net Earnings	Interest (paid)	Balance	Deprec'n	Balance
1906	$510,427	$230,286	$280,141			$ 38,063	$242,078
1907	453,073	240,200	212,873	52,113	160,760	156,898*	3,862
1908	260,663	213,319	47,344	47,333	11	19,113	19,102 def.
1909	233,434	182,869	50,565	43,818	6,747	15,054	8,307 def.

* Made up as follows: depreciation, $50,345; reserve account, $15,000, and moving and extraordinary expenses, $89,465—total, $156,898.

(a) Give the history of the business for the year 1909.

(b) The preferred stock is entitled to 6% cumulative dividends. In case of dissolution, the preferred stockholders get the amount of their stock and unpaid dividends before payment can be made on common stock. Dividends have accumulated to 10½%. Assuming that the patents are worth 80% of the stated figure, how much would the common stock holders receive in case of dissolution?

231.

Criticize the following balance sheet from both the auditor's standpoint and that of the company's financial position. Assume that the bond indebtedness outstanding is $200,000.

ASSETS.

Real Estate, Buildings, Plants, Machinery, Equipment, and other permanent Investment, including Good Will		$1,000,000
Investment in Stocks and Bonds at Cost (Market Value, $60,000)		100,000
Current Assets		
Raw Materials	$ 170,000	
Finished Stock at Selling Prices, less 5% Discount	100,000	
Consignments (Selling Value)	50,000	
Supplies (Estimated)	200,000	
Accts. and Bills Rec. including advances to employees	125,000	
Stocks in Treasury (Unissued)		
Preferred	150,000	
Common	137,225	
Investments in Subsidiary Companies	225,500	
Cash and Miscellaneous Items	50,500	$1,208,225
		$2,308,225

LIABILITIES.

Capital Stock:		
Preferred		500,000
Common		750,000
Bonds and Bankers' Loans		575,000
Current Liabilities:		
Accounts Payable	$ 15,225	
Other Indebtedness	231,000	
Accrued Items	2,000	
		248,225
Reserves:		
For Depreciation	$ 50,000	
Less Renewal Expenditures, written off	65,000	
Balance (Debit)	15,000	
For Bad Debts	20,000	
Other Contingencies	5,000	
		10,000
Surplus (less Dividends Paid) including appreciation in Real Estate and other Capital Assets and Profit on Inventorying Raw Materials at Market Prices		225,000
		$2,308,225

232.

The following is a comparative Balance Sheet of the Arban Seed and Oil Co. for the dates given.

ASSETS.

	Jan. 1, 1913	Jan. 1, 1912
Current Assets:		
Cash	$ 33,450.74	$ 27,830.81
Bills Receivable	1,499.11	1,221.10
Accounts Receivable	139,222.73	108,437.79
Merchandise on hand and in process	458,890.79	561,726.14
Thomas Jones	7,264.09	9,370.79
Railroad Claims	8,878.68	7,241.42
Car. Mileage	91.09	1.94
Plant Assets:		
Land	15,513.52	15,513.52
Buildings and Plant	107,033.43	101,652.30
Machinery and Equipment	249,603.68	232,673.85
New Process	27,480.33	26,140.00
Pumping and Station Equipment	12,498.90	12,498.90
Tank Cars	30,739.59	30,739.59
Furniture and Fixtures	11,317.06	10,274.80
Tools	8,934.76	7,983.24

Deferred Charges to operation; Interest on Bills Payable prepaid	123.00	87.50
Insurance Prepaid	4,673.00	1,324.80
Profit and Loss	188,000.00	169,000.00
Total	$1,305,214.50	$1,323,718.49

LIABILITIES.

Common Stock	$ 350,000.00	$ 350,000.00
Preferred Stock	350,000.00	350,000.00
Bills Payable	590,000.00	600,000.00
Accounts Payable	8,186.60	17,278.79
Accrued Interest	723.40	634.00
Accrued Wages	2,724.50	2,845.70
Accrued Taxes	3,580.00	2,960.00
Total	$1,305,214.50	$1,323,718.49

In addition to the information conveyed by the above statement, you have the following facts. First, the item of Accts. Receivable contains an overdue account for $50,000.00 of the Ebenezer Manfg. Co. This account is now in litigation and there is no liklihood that the Arban Oil and Seed Co. will realize anything on it. Second, the plant has been running six years, during which time no depreciation has been charged on plant, equipment, or machinery, some machinery, together with its foundations, has been wrecked and replaced by new machinery on newly constructed foundations without any credits to plant and machinery. Third, the company paid, in 1912, a six per cent dividend on the preferred stock. Fourth, the profits for the current year will not be any larger than they were in 1912. Fifth, the asset item "Thos. Jones" represents an overdraft by him while an officer of the corporation, and is not collectible.

(a) A man who owns $150,000 preferred and $150,000 common stock of this corporation dies with liabilities amounting to $220,000. His executor presents the above statements, together with the additional information, to you and asks you whether or not the estate is insolvent. Give him your answer supported by the analysis of the corporation's affairs on which that answer is based.

(b) What were the profits for the year?

(c) Make a comparative statement showing where the money used to pay dividends was obtained.

233.

Harbison-Walker Refractories Co. Comparative General Balance Sheet, September 30.

Assets	1908	1909
Property Account	$28,755,434	$28,716,152
Betterments completed	1,118,409	1,136,196
Betterments uncompleted	76,299	237,809
*Deferred Charges	310,907	288,787
Inventories at cost	1,335,862	1,578,317
Accounts Receivable	891,775	1,227,864
Bills Receivable	36,018	33,009
Cash	703,822	566,526
Investment Securities:		
Investment of Reserves	182,000	182,000
Co.'s bonds purchased, held in Treas.	312,000	267,000
Other Securities	61,559	247,390
Totals	$33,784,085	$34,481,050

Liabilities		
Common Stock	$18,000,000	$18,000,000
Preferred Stock	9,600,000	9,600,000
Bonds (Total issue $3,500,000 purchased cancelled as per sinking fund requirements)	2,440,000	2,205,000
Bond interest and taxes not due	44,446	50,897
Reserve to cover premium at redemption of bonds	13,020	9,131
Clay and Coal Depletion Fund	111,529	125,706
Accounts Payable	123,442	362,608
Pay Rolls	45,523	62,099
Sundry Reserves	236,163	213,620
Surplus	3,169,962	3,851,989
Total	$33,784,085	$34,481,050

* Including clay and coal outfits (1909, $217,986), advanced royalties, stripping, prospecting, uncompleted extraordinary repairs, etc.

(a) State the facts exhibited by the above balance sheet for 1909 in narrative form, showing the net proprietorship and earnings for the year Sept. 30, 1908, to Sept. 30, 1909, as far as these can be determined from the balance sheet; and discuss their accounting practices.

(b) What was the sinking fund installment for the year?

234.

In the preparation of a manufacturing and trading account and a balance sheet, state on what basis the following assets should be valued: (1) raw materials, (2) product in process of manufacture, (3) manufactured product, (4) bills receivable, and (5) accounts receivable. Give fully your reasons.

235.

The following figures are shown on a balance sheet for January 1, 1912.

Real Estate	$100,000	Capital stock	$400,000
Machinery	500,000	Funded Debt	200,000
Merchandise	150,000	Bills Payable	50,000
Accounts Receivable	50,000	Accounts Payable	75,000
Cash	50,000	Surplus	125,000
	$850,000		$850,000

The following is the income sheet for the year 1911:—

Sales	$1,000,000	
Goods in process, Jan. 1, 1912	30,000	
Stores on hand, Jan. 1, 1912	20,000	
Merchandise, Jan. 1, 1912	100,000	
	$1,150,000	
Less selling costs	250,000	$900,000
Goods in process, Jan. 1, 1911	$ 20,000	
Stores on hand, Jan. 1, 1911	15,000	
Merchandise on hand, Jan. 1, 1911	80,000	
Supplies purchased	175,000	
Wages paid	320,000	

Wages due and unpaid	30,000	
General manufacturing expenses	200,000	
Cost of product		$840,000
Net profit		$ 60,000
Dividends declared, but not yet paid		32,000
Surplus for the year		$ 28,000

Is the balance sheet consistent with the income sheet? If not, assume the ledger and the totals of both sides of the balance sheet to be correct, and any error to have been caused by unwarranted combinations or cancellations of accounts, and then correct the balance sheet.

Show the trial balance as it stood before the books were closed for December 31.

236.

The balance sheet, on January 1, 1911, of the corporation whose balance sheet for January 1, 1912, was given in Problem 235, was as follows:—

Real Estate	$100,000	Capital Stock	$400,000
Machinery	500,000	Funded Debt	200,000
Goods in Process	20,000	Bills Payable	40,000
Finished Goods	80,000	Accounts Payable	60,000
Stores	15,000	Surplus	97,000
Accounts Receivable	75,000	Dividends	28,000
Cash	35,000		
	$825,000		$825,000

What more can you now tell about the business for the year 1911 than you could tell from the figures given in Question 235.

237.

DIAMOND MATCH CO., INCOME ACCOUNT, YEARS ENDED DEC. 31.

	Gross Earnings	Deprecia'n Maint'nce	Net Earnings	Other Profit	Reserve Accounts	Divi-dends	Surplus for Year
1906	$2,307,624	$313,854	$1,993,770	$......	$......	$1,550,000	$443,770
1907	2,610,836	314,760	2,296,076	......	......	1,600,000	696,076
1908	2,279,911	385,187	1,894,724	......	79,848	1,600,000	214,876
1909	2,196,877	477,095	1,719,782	47,865	300,000	1,280,000	187,647
1910	2,221,668	371,186	1,850,482	......	150,000	960,000	740,482
1911	2,406,443	382,430	2,024,013	......	150,000	960,000	914,013

GENERAL BALANCE SHEET, DECEMBER 31.

Assets—	1911	1910	1909	1908	1907
Property account	$ 9,847,816	$ 9,861,510	$ 9,909,819	$10,061,063	$ 8,721,580,
Patents, trademarks, etc.	3,000,000	4,000,000	5,000,000	5,000,000	5,000,000
Inventory	4,869,509	4,382,853	4,350,699	4,436,224	3,120,655
Notes and accounts receivable	1,935,304	3,064,628	1,936,284	1,744,959	1,622,923
Deferred charges	139,796	114,432	129,421	....	....
Cash	1,465,625	735,464	551,520	540,520	303,802
Total	$21,258,050	$22,158,887	$21,877,743	$21,782,766	$18,768,960
Liabilities—					
Capital stock	$16,000,000	$16,000,000	$16,000,000	$16,000,000	$16,000,000
6% convertible debentures	2,000,000	404,100	....	....	....
5% coupon bonds	....	1,000,000	1,500,000	2,000,000	....
Def. pay. California purchase	1,077,097	1,378,556	1,524,356	1,949,964	650,000
Notes and accounts payable	340,300	1,635,032	1,118,721	907,012	1,479,507
Interest and taxes accrued	107,336	125,980	128,953	......	......
Payrolls (paid Jan. 15)	59,573	85,675	82,591	......	......
Reserves	1,153,662	923,475	657,535	247,850	176,389
Surplus	520,082	606,069	865,587	677,940	463,064
Total	$21,258,050	$22,158,887	$21,877,743	$21,782,766	$18,768,960

In 1907 there was written off against surplus for reduction in value of pine lands and stumpage $703,497. For reduction in patents, rights, trade marks, etc., $917,371.

(a) On the basis of the figures presented above explain the changes in surplus for each year.

(b) What was the surplus appearing on the balance sheet for Dec. 31, 1906?

(c) Give a history of the business for the years 1907 to 1911, as shown by the figures presented.

238.

The Holmes Realty Company was organized January 1, 1913, to own and sell suburban lots, and is operated by a manager under an agreement of which the following is a digest:

> "The company is to furnish and maintain offices at New York and at the site of the company's property in the suburbs of Philadelphia, and also to pay salaries of clerks and salesmen. The manager is to receive 5% commission on the sales.
>
> "The property is to be reappraised at the beginning of each year by adding to the account 4% on the book figure of the property unsold at the beginning of the preceding year, and by adding the amount of any losses which may have occurred in the preceding year, such additions for losses to be canceled in subsequent years if they are made up by profits. The figures so added shall be pro-rated over the remaining lots for sale, and the manager is bound not to sell any property at less than the book figure."

The books have been kept for two years without adjusting and closing entries, and the accounts show the following figures at December 31, 1915:

Property account (original purchases of 1000 lots of equal value)	$400,000.00
Capital stock	400,000.00
New York office expense	3,085.00
Philadelphia office expense	5,178.32
Salesmen's salaries	17,500.00
Sales 220 lots for	111,425.00
Deposits on account of sales not yet closed	215.00
Mortgages held on property sold	38,000.00
Cash	49,096.43
Creditors' accounts (for office supplies)	643.75
Interest on mortgages received	576.00

There is also an amount of $125 interest due and not yet received and $235 accrued interest on mortgages at Dec. 31, 1907.

These figures for expenses and sales appear up to Dec. 31, 1906:

New York office expense	$ 1,435.00
Salaries of salesmen	8,500.00

Philadelphia office expense	2,647.82
Sales 60 lots for	29,000.00

Prepare a detailed exhibit of operations, also balance sheet as at the beginning of the third year with exhibit of the Property Account.

239.

The bookkeeper of a manufacturing concern could produce only the following statement from its records on January 1, 1907:

Manufacturing expense	$ 4,622.89
Capital Stock	10,000.00
Plant and equipment	17,500.00
Cash	832.14
Gross sales	8,469.10
First Mortgage Bonds (due 12/31/07)	15,000.00
Materials and supplies (inventory)	4,289.34
Notes payable	5,000.00
Accounts payable	5,423.23
Interest on bonds (7 mos.)	393.75
Interest on notes and accounts payable	282.40

On January 1, 1907, the management is changed and you are later retained as a public accountant to conduct an examination and prepare a balance sheet as of January 1, 1908.

You find that during the preceding year the directors have subscribed in cash to $7,500 additional capital stock and have retired all the notes and accounts payable and that no interest was paid on these accounts for the year. You also find that the plant and equipment was revalued at $15,000 and 5% of this amount was charged off to provide for depreciation, while an additional 2½% was ordered placed in Reserve Account to cover repairs and renewals, the entire 7½% being charged directly to Profit and Loss. The bonds outstanding fell due on December 31, 1907, and were paid, principal and interest, in cash.

An inventory of materials and supplies places their value at $2,328.19, the practice being to charge all purchases directly to Manufacturing expense and to credit back the amount of the inventory.

The accounts payable (all for material and non-interest bearing) amount to $546.28.

Of the accounts receivable, January 1, 1907, $4,968.18 was collected and the balance charged off as uncollectible.

In addition to the material used from stock during the year, and the amount still due for material purchased, the manufacturing expenses were $3,720.52, all paid in cash, the total manufacturing expenses being 31% of the gross sales for the year ending January 1, 1908. Of these 91.3% was collected in cash and the balance, all of which is considered good, remains on the books in accounts receivable.

Produce a comparative balance sheet of January 1, 1907-08, and state the amount of gross sales for the year.

240.

At the close of the year 1907 the books of a manufacturing company show a credit balance in the profit and loss account of $20,000, and a merchandise account, based on appraisement of inventory at selling prices of $36,000, but an appraisement of the same inventory at cost prices would amount to $27,000.

The trading, income, and profit and loss accounts for the year 1908 show the following balances:

Sales	$100,000
Discount on sales	1,500
Returns and allowances	500
Purchases	75,000
Freight on purchases	3,000
Discount on purchases	600
Shipping expenses	2,000
Selling expenses	5,000
Office and general expenses	10,000
Insurance	300
Taxes	200
Depreciation of machinery, fittings and furniture	1,000
Accounts written off as uncollectible	300
Interest on notes and accounts receivable	1,900
Interest on notes and accounts payable	700

At the end of the year 1908 the books were closed on the basis of an inventory, appraised at selling prices, amounting to $40,000. If this inventory had been appraised at cost prices it would have amounted to $30,000.

Prepare from these items one statement showing the correct trading and income results for the year, and another statement of Profit and Loss Account opened with the credit balance shown by the books at the beginning of the year.

241.

On Dec. 31 1912, the trial balance of the M company was as follows:

Real Estate	$ 300,000.00	Discount earned ...	$ 10,120.52
Buildings	158,000.00	Accounts payable ..	75,871.38
Equipment	847,500.00	Depreciation Reserve	58,272.00
Goodwill	50,000.00	Common stock	1,000,000.00
Cash	46,474.20	Preferred stock	500,000.00
Discount Allowed ..	5,600.14	Sales	1,371,491.17
Interest, General ...	3,300.20	Taxes accrued (est)	5,300.00
Insurance paid in advance on plant.	3,030.89	Bills Payable	35,000.00
Accounts Receivable	156,028.75	Accrued interest on bills payable	900.12
Inventory of raw material and work in progress Dec. 31, 1911	184,567.39	First Mortgage bonds (4%)	100,000.00
Operating, maintenance, manufacturing and general expenses	709,988.65	Surplus	26,520.50
Depreciation	25,000.00		
Purchases	691,985.47		
Bond interest (one-half year to June 30, 1912)	2,000.00		
Total	$3,183,475.69	Total	$3,183,475.69

The inventory of raw materials and work in progress on Dec. 31, 1912, is valued at $309,062.05. Before the books are finally closed it is determined to (1) make a reserve of one-half of one per cent on $140,000 of the accounts receivable to provide for possible bad and doubtful accounts; (2) add $1,000 to the taxes accrued (estimated) account; (3) carry to depreciation reserve account a further sum of $5,000. Interest on bonds to Dec. 31st is also to be provided for.

It is found that bona fide renewals of equipment, costing $17,500, have been charged to operating expenses; that repairs to equipment, amounting to $6,000, have been charged to equipment account; that $1,500, proceeds of old machinery sold, have been credited to the sales account; and that a bill of $1,560.25 for raw material received and used, has not been entered on the books. These items are to be taken into account before the books are closed. Three per cent of the net profits for the year is then to be reserved for special compensation to the management.

Make journal entries to give effect to the various adjustments above described and to close the books, creating (1) a combined Manufacturing and Trading Account, (2) a Profit and Loss Account and (3) a Balance Sheet.

242.

What are secret reserves? Show at least two instances, illustrating the reasons for their creation and the methods of establishing them.

243.

(1) A corporation has set aside out of profits $250,000 and has invested the same in government securities at par. Will this affect the Assets side, or the Liabilities side of the balance sheet, or both? Make up a simple balance sheet after these profits have been so invested.

(2) How should the fund and investment appear on the balance sheet if the value of the securities should rise?

(3) If the securities should fall in price?

244.

ASSETS

Real Estate	$ 2,347,816
Plant and Machinery	7,500,000
Inventory	4,869,509
Notes Receivable	1,000,000
Accounts Receivable	935,304
Bond Discount	139,796
Sinking Fund (Redeemed Bonds 6% Convert.)	1,700,000
Cash	1,465,625
Profit and Loss	779,918
	$20,737,968

LIABILITIES.

Capital Stock	$10,000,000
6% Convertible Debentures	2,000,000
5% Income Bonds	1,500,000
Mortgage to secure purchase price of Real Estate	1,077,097

Notes and Accounts Payable............	340,300
Interest and Taxes Accrued..............	107,336
Sinking Fund Reserve..................	1,700,000
Reserve for Accrued Depreciation on Plant and Machinery........................	2,800,000
Reserves for Additions to Plant..........	1,213,235
	$20,737,968

(a) Rearrange the above Balance Sheet in more intelligible form.

(b) State the facts exhibited by the above Balance Sheet in narrative form.

(c) What is the net proprietorship?

(d) Assume that after three years the 6% Convertible Debenture Bonds are all redeemed with Sinking Fund accruals. The Reserve for Accrued Depreciation to Plant has been increased to $1,500,000, and the Profit and Loss item on the asset side is $600,000. The Capital Stock remains at $10,000,000. What will the proprietorship be at that time?

(e) What entries would you make to simplify the Balance Sheet at that time?

(f) Assume that the proposed additions to plant are made and cost $1,300,000 in cash. What is the proprietorship?

(g) What entries would you make now to simplify Balance Sheet?

245.

Assets		Liabilities	
Land and Buildings....	$500,000	Capital Stock.........	$300,000
Machinery & Tools....	150,000	Bonds	500,000
Raw Materials........	43,600	Bills and Accts. Pay....	60,000
Goods in Process......	50,700	Accrued Items........	12,000
Finished Product......	25,700	Surplus	18,000
Bills & Accts. Rec.....	85,000		
Furniture & Fixtures..	5,000		
Investments	18,000		
Cash	12,000		
	$890,000		$890,000

(a) Assuming that the figures on the above balance sheet represent actual market values, how much would the stockholders receive in case of dissolution?

(b) Assume that the above balance sheet represents the true condition of a corporation on January 1, 1895; that the bonds, which have just been issued, are 20-year 5% First Mortgage Bonds; that the company has agreed to set aside in a Sinking Fund, out of profits, a sum which will be sufficient to retire the bonds at maturity; that the company has faithfully carried out this agreement and on January 1, 1915, the funds which it has set aside are sufficient to retire the bonds. You are required to reconstruct the above balance sheet as of January 1, 1915, (1) before the bonds are actually retired, and (2) after retirement.

(c) What journal entries are required each year for the setting aside of the sum agreed upon?

246.

General Balance Sheet, X. Y. Z. Co., December 31.

Assets.	1911	1910
Plant, machinery, patents, goodwill, etc.	$ 6,978,288	$ 6,922,185
Securities owned	1,121,670	1,121,670
Treasury securities	237,000	237,000
Cash	92,385	241,966
Accts. and Bills Rec.	1,143,211	1,116,893
Sinking fund assets	182,906	200,787
Inventories	1,405,138	1,109,835
	$11,160,598	$10,950,336

Liabilities.	1911	1910
Capital stock	$ 6,485,800	$ 6,485,800
Bonded debt	2,000,000	2,100,000
Interest on bonds	122,213	122,388
Accounts and bills payable	196,740	119,717
Reserve for taxes, etc.	9,002	12,495
Sinking fund	682,906	600,787
Surplus	1,663,937	1,509,149
	$11,160,598	$10,950,336

(a) What is the origin of the sinking fund of $682,906 appearing on the liability side?

(b) How has the sinking fund been invested?

(c) In 1911 the corporation paid a dividend of 4%. What were the profits for the year?

247.

BALANCE SHEET OF AMERICAN HIDE AND LEATHER COMPANY AND ITS SUBSIDIARIES, JUNE 30.

	1911	1910	1909	1908	1907	1906
Assets—						
(a) Cost of properties	$26,516,185	$26,519,209	$26,413,969	$26,412,839	$26,479,073	$26,483,282
Sinking fund	48,056	43,243	37,161	32,365	26,790	1,122,155
Materials and supplies	7,299,815	8,626,360	8,776,616	6,700,138	6,305,659	7,254,160
Bills and accounts receivable	1,713,265	1,742,524	2,105,089	1,780,076	2,170,705	2,099,757
Cash	389,678	528,020	317,133	386,189	298,337	284,591
Miscellaneous	59,867	91,941	84,182	77,059	76,773	78,243
Total	$36,026,866	$37,551,299	$37,734,150	$35,388,666	$35,357,337	$37,322,188
Liabilities—						
Preferred stock	$13,000,000	$13,000,000	$13,000,000	$13,000,000	$13,000,000	$13,000,000
Common stock	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000
First Mortgage 6% bonds	6,126,000	6,412,000	6,678,000	6,939,000	7,194,000	8,525,000
Current liabilities	673,033	2,306,544	1,798,877	862,400	823,209	1,963,031
Sinking fund, 1st mortgage bonds	2,447,056	2,156,233	1,884,161	1,618,366	1,357,790	1,122,155
Surplus	2,280,777	2,176,522	2,873,111	1,468,900	1,482,338	1,212,002
Total	$36,026,866	$37,551,299	$37,734,150	$35,388,666	$35,357,337	$37,322,188

Including 4,517 shares preferred and 2,259 shares common stock of the American Hide Leather Co. held in trust.

Of the $9,000,000 of bonds issued, $6,126,000 are outstanding, $475,000 are in the Treasury of the company and $2,399,000 have been purchased and are now held by the trustee in the sinking fund.

(a) Account for the net changes in assets and liabilities for each year from 1907 to 1910, so far as the above figures enable you to do so.

(b) What would be your answer to the question, "How is the Sinking Fund of $2,447,056 invested?"

(c) Give the journal entries which resulted in the changes in the Sinking Fund and First Mortgage Bond accounts.

248.

In the case of a company which has issued cumulative preferred stock, but has not earned enough to pay such dividends in full for several years, how would you deal with the arrears of dividends due, if at all, on the company's balance sheet? Give reasons.

249.

The Metropolitan Investment & Brokerage Company declares a dividend of 5%. On going over their records it is found that the directors have written up the value of some of the securities owned, which they contend is in harmony with current market values. The accounts show that the dividend proposed to be paid has not been earned unless the increment in value referred to is included as a profit. What is your view of the action of the directors? State your reasons fully.

250.

	Debits	Credits
Land and Buildings	$ 20,000	
Furniture and Fixtures	20,000	
Merchandise 1/1/13	12,000	
Advertising	5,000	
Sales		$ 95,000
Proprietor—A. D. Lydic		80,034
Delivery Equipment	1,200	
Rent	1,500	60
Salaries accrued		50
Bad Debts	3,500	
Cash	25,162	
Notes Payable		5,000
Salaries	2,500	
Accrued Interest on Notes Rec.	275	
Commissions	7,000	
Purchase allowances		240
Interest Accrued on Notes Payable		275
Interest on Notes Receivable		275
Commission accrued		400
Accounts Payable		12,473
Purchase Returns		180
Interest on Notes Payable	350	
Accounts Receivable	35,700	
Sales allowances	750	
Prepaid Rent	250	
Sales returns	200	
Notes Receivable	10,000	
Insurance	300	

Purchases	60,000	
Office Expense	1,800	
Reserve for Bad Debts		3,500
	$197,487	$197,487

Merchandise Inventory, 12/31/14, $16,000. Estimated value of goodwill, $5,000. Unexpired insurance, $38.

(a) Prepare a six-column statement.

(b) Mr. Lydic enters into a partnership agreement with J. P. Thomas whereby the latter agrees to purchase a half-interest in the business for $63,000. Frame the journal entries to close the books of A. D. Lydic and to open the books of the new firm, Lydic & Thomas.

251.

A corporation is organized with an authorized capital stock of $100,000, of which $50,000 is paid in cash immediately. Subscriptions are received for an additional $25,000 payable in four installments at semi-annual intervals, at 110.

Six per cent bonds for a par value of $50,000 are issued at 90.

For the first year the income sheet is as follows:

Gross profits on merchandise	$40,000
Operating expenses	20,000
Net earnings	$20,000
Bond interest	3,000
Net income	$17,000
Dividends	15,000
Surplus for the year	$ 2,000

The balance sheet is as follows:

Stock Subscriptions	$ 13,750	Capital stock	$ 50,000
Unissued unsubscribed stock	25,000	Capital stock subscribed, unissued	25,000
Bond Discount	5,000	Capital stock unsubscribed, unissued	25,000
Cash, and other assets	130,750	Bonds	50,000
		Accounts Payable and other debts	20,000
		Premium	2,500
		Surplus from operation	2,000
	$174,500		$174,500

Aside from brevity (or combination of unlike assets and debts) are the income sheet and the balance sheet satisfactory?

Interpret the items.

252.

A corporation charges all new machinery purchased to "New Machinery" account. This is merely a suspense account. At the end of the year, a portion of this account, equal to the cost of old machinery abandoned during the year, is credited out and charged to operating expenses, as Replacements. The remainder is credited out and charged to Machinery,—a property account.

In 1913 the company issued bonds to the par value of $1,000,000, which sold at a permium of 12%. The following entries were made:

Cash	$1,120,000	
To Bonds		$1,000,000
To New Machinery		120,000

What is the effect of these entries on the balance sheet?

253.

A company insures the life of its manager for its own benefit in the sum of $50,000, the annual premium being $1,250. Explain the method you would adopt of treating the disbursement at the annual accounting during the period the policy was in force.

254.

A corporation has on its books $210,000 of accounts receivable, of which $49,000 are long overdue and apparently worthless. The inventory of finished goods, taken at contract price less 5%, amounts to $124,000, and from this sum has been deducted $45,000 "to provide for any losses." How would you deal with this state of affairs in reporting to the Bank Commissioner on the condition of the corporation for savings bank loans?

255.

F. G. Waite and H. R. Wilcox, partners sharing equally in business, have determined to change their system of bookkeeping from purely single entry to double entry, continuing the use of the old ledger. The following statement shows the footings of the open accounts in their ledger:

	Dr.	Cr.
F. G. Waite (Partner)..........	$ 250.25	$5,000.75
H. R. Wilcox (Partner).......	1,360.00	6,000.00
A. M. Sanderson...............	320.00	150.25
Martin Chever..................	841.60	541.60
Hendricks & Co................		1,120.00
Smith & Robbins...............	482.50	2,200.00
E. R. Bender..................	500.00	640.40

The inventories are: Mdse. $6,135; Traders' National Bank stock, (10 shares) $1,000; cash on hand and in bank, $3,924.82; bills receivable as per bill book, $5,320.43; bills payable as per bill book, $2,531.60.

Formulate a journal entry that, when posted, will change the ledger to double entry form, checking in the journal such items as do not need to be posted. Give all the figures by which the result is obtained.

256.

T. F. Curry and W. J. Schmitt are partners in business, sharing equally in gains and losses. Their books have been kept by single entry, but they desire to change them to the double entry method. The following is an abstract of their affairs at this date:

Assets and Liabilities as per Ledger: T. F. Curry, investment, $12,500; withdrawals, $2,500; W. J. Schmitt, investment, $12,500; withdrawals, $2,000; sundry accounts receivable, $8,500; sundry accounts payable, $6,000.

Other assets and liabilities not in ledger: Merchandise as per inventory, $18,000; cash in bank, $5,500; bills receivable, $2,300; bills payable, $2,000; bank stock, $2,000; real estate $5,000.

Determine the amount of gain and loss of each partner at this date, and formulate proper journal entry for conversion of single entry ledger into a double entry ledger.

257.

A. B., a retailer, whose books have been kept by single entry requests you to install a double entry system. The ledger contains the following accounts: Expense, $900; A. B.'s drawings, $3,000; customers' accounts, $15,000; creditors, $4,000. Upon inquiry you find A. B. has cash, $4,000; merchandise, $8,000; factory property worth $15,000, subject to a mortgage of $10,000. Make the journal entries necessary to change his accounts from single to double entry. You are to use the ledger containing the above named accounts.

The YCX Co. takes a large number of notes (bills receivable) from its customers, and when in need of funds discounts or sells them; how may the accounts be managed so as to show the company's liability as indorser on the paper discounted?

258.

A promoter secures options upon the plants of three competing companies, A, B and C. He proposes to organize the Doe Co. with an authorized capital of $700,000, of which $300,000 is common and $400,000 is preferred stock each having a par value of $100 a share. His plan includes $150,000 of 4% first mortgage bonds convertible at the holders option into preferred stock at 105 or redeemable at the company's option at 110 plus accrued interest. The companies A, B and C have the following status respectively, excluding cash:

	Assets	Liabilities	Surplus	Deficit	Capital
A	$171,000	$56,000	$15,000		$100,000
B	165,000	80,000		$5,000	90,000
C	108,000	47,000	6,000		55,000

The promoter's options provide that these companies are to sell their properties on the basis of $125,000 to A, $100,000 to B, and $75,000 to C, payable ¼ in cash, ½ in preferred stock and ¼ in bonds of any company that may be formed to take over these properties. It is also agreed that if the promoter elects to exercise his options and acquire the properties covered, the liabilities of each company are to be assumed by the purchasing company.

M, N and O incorporate the Doe Co. as outlined above, each subscribing for 10 shares of common stock, paying 50% in cash so as to qualify as incorporators and directors. At the first director's meeting the bonds are authorized and the Doe Co. through its directors agrees with the promoter to take over his options, issuing in payment thereof to him $250,000 in common stock of the company. It is also agreed in consideration of such stock that the promoter is to furnish $100,000 in cash. To provide additional working capital and to assist in its financing the promoter donates to the company $75,000 in common stock. The Doe Co. takes over the property and liabilities of the other corporations. $100,000 of the preferred stock is underwritten by bankers at 110 in cash with a bonus of one share of common with every four shares of preferred. To be able to fund a part of its assumed liabilities the Doe Co. sells the balance of its bonds at 90 giving a bonus to the purchaser of 20% in common stock and applies the proceeds to pay off the liabilities assumed. As the result of various bargains other creditors agree to take $75,000 of the common stock available for issue and sale at an average price considering the various stock bonuses given of 80. All common stock has been issued. $50,000 of the bonds are converted after issuance into preferred stock at 105, the holder paying the premium in cash to the company. The directors then exercise their option and retire and cancel $25,000 of the company's bonds at 110 paying the premium in cash, balance in preferred stock (Neglect accrued interest.)

Draft Journal entries to give effect to the above facts upon the books of the Doe Co. and present a properly drawn Balance sheet showing the position of the company, after these entries have been posted.

259.

A corporation is organized to conduct a manufacturing business with an authorized capital of $20,000 divided into 200 shares of the par value of $100, of which 150 shares shall be preferred and 50 shares common stock. The corporation purposes to issue $5,000 in consolidated mortgage bonds to be used toward the purchase of sundry properties. The amount of the paid up capital with which the corporation begins business is $500, being the proceeds of subscription of 5 shares preferred stock.

To carry out the purpose of said corporation, the real estate, water power, machinery, goodwill, etc., of certain existing corporations has been purchased at an appraised value of $20,000, viz. Star Mfg. Co., $2,000; Earl Mfg. Co., $3,000; Ajax Mfg. Co., $5,000; Acme Mfg. Co., $6,000; Coe Mfg. Co., $4,000. In payment full paid stock and bonds have been issued at par on a basis of 60 per cent in preferred stock, 20 per cent in common stock and 20 per cent in bonds.

Material and supplies are to be paid for in cash when their value is determined.

Formulate the entries necessary to open the books of the new corporation.

260.

What proportion of $15,000—commission paid for negotiating a sale of bonds whose par value was $1,000,000—interest 5%—and which were sold at 90 to run 10 years—should be treated as an asset at the end of the first year? Give reasons.

261.

B began business a year ago keeping only single entry books. He started with the following assets and liabilities:

Cash	$50,000	Mortgages (Land)	$50,000
Land	20,000	Accounts Payable	500
Patents	10,000	Bills Payable	2,000
Notes Receivable	10,000		
Bonds	5,000		
Accounts Receivable	1,000		

Today his assets and liabilities are as follows:

Cash	$ 5,000	Bonds	$10,000
Land and Buildings	30,000	Accounts Payable	2,000
Patents	8,000	Accrued Wages	500
Trade Marks	5,000	*Note.*	
Notes Receivable	15,000	(B's drawings, $1,000.)	
Accounts Receivable	20,000		
Material and Supplies	12,000		
Finished Goods	10,000		

Prepare a tabulation showing what the profits were and what became of them.

262.

The balance sheet of a firm is summarized as follows:

ASSETS.

Cash, stock, and accounts receivable	$67,500
Manufacturing Plant	15,000
Total	$82,500

LIABILITIES.

Notes and accounts payable	$49,500
Capital	37,500
Total	$87,000

Would you consider this firm insolvent? Give reasons for your answer.

263.

The New York Steamship Company issued income debentures for $500,000, the deed of trust providing that an amount equal to 5% of the total issue be set aside out of the earnings of the company each year for the retirement of the bonds.

December 31, 1900, the assets of the company amounted to $1,200,000, the capital stock of $500,000, other liabilities $100,000, profits for the year $70,000.

The company received $30,000 from the government for transportation of troops during time of war, which amount did not appear on the books as an asset, the cost of transporting the troops having been charged to profit and loss account in prior years.

Explain by journal entries (a) how the redemption fund for the retirement of the income debentures should be treated, (b) how the income of $30,000 for transportation should be treated.

264.

A manufacturer makes extensive investments in stocks and bonds, buying and selling from time to time as the market conditions warrant and clearing all such transactions through his regular books of account. How should such transactions be isolated from his manufacturing operations and what books and accounts should he employ to record the details of the principal and income from such investments?

265.

Draw up a form for the record of household accounts that may be used as a combined cashbook, journal and ledger. Give the headings and provide five distribution columns for expenditures, and also columns for controlling accounts for both accounts payable and accounts receivable.

266.

An inventory of a going concern, taken under your supervision and direction and requiring two weeks to complete, is commenced one week prior to the close of the fiscal year. How would you instruct (a) as to the general care and custody of stock under inventory and (b) as to the recording of incoming and outgoing goods during stock taking?

267.

You are asked the following question:

"It costs $15.00 per thousand to manufacture a certain article laid down in the stock room. This cost includes labor, material and manufacturing, overhead. The sales, advertising, and shipping expense is 15% of sales, what is the relation between cost of manufacture and cost of sales?"

(a) What is your answer?

(b) Prepare a formula for the computation of the relation between cost of manufacture and cost of sales.

268.

What entry should be made on the books of a company of goods sent out on consignment? When the goods have been sold and the consignee sends in his account sales, what entries should be made?

269.

A company manufacturing a proprietary article offers certain premiums to its customers on the return of its wrappers, the premium offers being indicated in a published schedule. At the time of making out the annual balance sheet only a few of the premiums have been distributed. How should this matter be treated in the balance sheet?

270.

The ledger of a corporation has an account entitled "First Mtg. Bond Script", showing a credit balance of $967.54. What does this balance represent, and how would you treat the item in the balance sheet?

271.

State the full procedure leading up to the entry of the following transactions in the shares of a corporation, the par value of which is $100:

April 5, 1901. James Williamson receives certificate for $75 for 100 shares full paid.

May 3, 1901. James Williamson requests a transfer to George T. Jenkins of 30 of his 100 shares.

Outline a form of stockholders' ledger and properly enter the above items therein.

272.

The Iron City Nut & Bolt Company is financially embarrassed. At a meeting of the stockholders it is decided to raise additional capital by the issue of 5,000 shares of 6% Preferred Stock, par $100. This stock is sold on the open market at an average price of 103. Give the journal entries.

273.

Three manufacturers, each having an independent business and wishing to effect a consolidation of their respective interests, organize the United States Manufacturing Company, a corporation with an authorized capital stock of $1,500,000, half common and half preferred. They sell to the new corporation all of their real estate, buildings, machinery, tools, fixtures, merchandise and supplies, in consideration of $1,500,000, and agree to accept in payment $750,000 preferred and $750,000 common stock of the new corporation. The three vendors then donate to the treasury of the corporation $150,000 of preferred and $150,000 of common stock to provide for working capital. The company sells $100,000 of its preferred stock in the treasury for 80% cash, giving a bonus to the purchaser of 20% in common stock.

For the purpose of raising additional funds for improvements and additions to plant, the corporation mortgages its real estate and buildings as security for an issue of bonds amounting to $250,000. These bonds the company sells to bankers at 90%, giving as a bonus 10% of preferred stock and 20% of common stock.

Draft entries to express correctly the above transactions on the books of the corporation, and prepare a statement of assets and liabilities of the company.

274.

A corporation issues $300,000 of stock in exchange for a manufacturing plant and supplies, with the understanding that one-half of the stock is to be donated back to the corporation. After the consummation of this agreement $100,000 of the stock is sold at 80 for cash. Next, $50,000 of the stock issued to the original owners of the plant is repurchased at 70 and held for future sale. Show the balance sheet after these transactions.

275.

A corporation receives subscriptions for stock to the amount of $100,000 at 120. The amount is paid in cash. What entries should be made for these transactions?

Another $100,000 is subscribed, to be paid in five instalments, at 120. When two of the instalments have been paid, what entries should have been made for the transactions of this subscription?

A financial panic occurs and the last instalment is defaulted by the subscribers to the amount of one-twentieth of the total subscription, a default of $1,200 (thus forfeiting $4,000 of par value and $800 of premium already paid in by them in instalments), but the other subscriptions are paid and the stock is issued. What entries should record all these events?

Show the final trial balance for the result of all these entries.

276.

A village makes the following appropriations for the year 1915 and levies a tax therefor:

Bond redemption	$2,000
Bond interest	800
Salaries	2,700
Contingent expenses	500
Police	1,600
Poor	750
Care of streets	1,200
Lighting	950
Education	3,000

(1) Outline an entry that will properly open the village books.

(2) How will collection of taxes be recorded?

(3) How will disbursements against appropriations be recorded?

(4) What will the balance of the accounts at any date show?

277.

A municipality sells improvement bonds, the proceeds forming a fund out of which is defrayed the cost of certain improvements, the total expense of these improvements being assessed on the property benefited. Bond redemptions are to be made out of assessments collected. What accounts would be required for recording the foregoing transaction, and for what items would these accounts be debited or credited?

278.

Highland county undertakes two public improvements, viz.: a road estimated to cost $50,000, and a sewer estimated to cost $40,000. The work is to be paid for out of proceeds of county bonds falling due at various dates and redeemable from assessments levied against property presumably benefitted, to the amount of the actual cost of the work and incidental charges when these are determined.

Bonds to the above amounts are accordingly sold, realizing a premium of 1%, which is to be added to the respective funds; the cost of the two undertakings when completed is $50,000 and $40,500 respectively, for which assessments are accordingly levied.

Assessments are subsequently collected as follows: For roads $30,200, with accrued interest of $1,310; for sewers, $29,400, with accrued interest of $1,250. The interest in each case goes into the related funds. Road bonds of the par value of $20,000 and sewer bonds of the par value of $15,000 mature and are redeemed.

Frame journal entries, post to ledger accounts, and prepare a trial balance from which the status of the county debt and of the funds and assessments at the conclusion of the above transactions can be ascertained and determined.

279.

The books of a manufacturing concern, operating under a system of cost accounts, shows the following conditions at the opening of the fiscal year: Raw materials in storeroom, $15,621.42; factory pay roll, applied and distributed but not paid, 2 days, $831.78; partly manufactured goods at prime cost, $63,888.44, and the further value of $8,037.17, to cover factory burden, also $12,074.92 to cover management charges; finished wares in stock at total cost of $21,656.01.

The financial operations during the ensuing year include: Purchases of raw materials $80,416.45; factory pay rolls $125,793.90; factory expense, including wages not applied to cost accounts, $24,846; management expenses, $38,100; interest paid on loans $1,200; income from investments, $5,004.

The manufacturing operations during the same year comprehend: Raw materials issued on requisition for consumption, $79,820.34; wages, applied and distributed to manufacturing cost, $120,250.40; and to factory expenses $5,959.39, included in the sum stated in the preceding paragraph.

Finished goods transferred from factory to warerooms, at prime cost, covering materials $78,542.58, and labor $118,333.75.

The trading operations during the same year comprehend: Cost of goods sold $251,949.90; proceeds from goods sold $302,339.88.

At the close of the year the partly completed goods included, in addition to prime cost, the further elements of value to cover factory and management expenses in the amounts respectively of $8,439.02 and $12,678.66, and the factory pay roll for three days, amounting to $1,247.67, which has been applied and distributed, though not due till the close of the current work.

The basis of the apportionment of On Cost or Overhead Charges was as follows: Factory expense, 20% to materials and 80% to labor; management expenses, 30% to materials and 70% to labor.

The transactions of the pervious year in round amounts were used in calculating the current year's apportionments, viz: Materials, $75,000; labor, $115,000; factory expense, $24,000; management expense, $36,000.

Open the general ledger accounts that control the cost accounts; show the operation of each and the net profits resulting; also calculate the percentage to be added to each $1 of material and of labor to give the total cost.

280.

A manufacturing company after erecting and equipping its factory, placing orders for materials and hiring a working force of skilled mechanics, commences operations. In addition to the financial accounts, arrangements have been made to conduct cost accounts from the outset, and the current details thereof grouped under Account Titles and collated upon "forms" show the following activities:

Form I Receiving Sheet.	
Raw materials received into storeroom..............	$ 7,701.37
Form II Consumption Sheet—Materials	
Raw materials consumed..........................	6,651.69
Form III Consumption Sheet—Manufacturing	
Partly made goods consumed, combining values of	
materials	3,225.82
and of labor..................................	3,106.26
Previously expended, and to which further material and labor were added.	

Form IV Production Sheet.	
Manufactured product, combining values of material..	9,877.51
and of labor..............................	13,127.13
As per manufacturing reports, discharging requisitions collated on forms II and III.	
Form V Cost Sheet.	
Finished wares transferred from factory to warehouse, carrying prime cost of materials.................	5,890.69
and of labor..............................	8,875.04
Adding further to the materials cost $353.44 and $828.69, and to the labor cost $1,331.26 and $1,775 for factory expenses and management expenses respectively in each instance.	
Form VI Disposition Sheet.	
Total cost of finished wares sold.................	14,827.84
Proceeds of sales..............................	17,145.40

The register of manufacturing reports shows total application of direct labor to cost in the amount of $10,020.87, and the payrolls show expenditure for labor in the amount of $10,466.16.

Only requisitions discharged by manufacturing reports collated on the Consumption Sheets for credit to accounts in the Materials and Manufacturing Ledgers.

The medium for posting the charges to finished wares accounts and the offsetting credits to manufacturing accounts is the Cost Journal.

All materials, manufacturing and finished wares accounts carry units and price in each specific account, but only aggregates or controlling accounts are here dealt with.

Frame Consumption Journal and Cost Journal entries. Show the subjects and the amounts of charges and credits to the several ledgers in the cost system, also the charges and credits to General Ledger accounts from data developed by the Cost records.

281.

How would you proceed to ascertain the net sales, purchases, expenses and net profits of a business for a given period when the ledgers, sales books, purchase books and supporting documents have been destroyed by fire, and the only records available are the cashbook, bank pass book and book of monthly balances, the latter containing all the ledger balances and annual balance sheets? It is to be understood that no unusual transactions had taken place.)

282.

A fire in the office of a firm of traders partly destroyed its books of account that had been fully posted in anticipation of proving their correctness. The following ledger accounts were found to be legible:

Purchases net	$23,000
Cash discounts lost	320
Cash discounts gained	1,150
Sales net	18,000
Bills receivable	11,000
Upon inquiry the bank balance was ascertained	43,000
Bills receivable had been discounted at the bank, amounting to	15,000
An inspection of the checks paid by the bank showed amount paid creditors, including $20,000 notes payable	33,000

A balance sheet prepared at the last closing of the books and containing the following items was produced by one of the partners:

Cash	$20,000	Accts. Pay	10,000
Accounts Rec	42,000	Notes Pay	20,000
Loans Rec	8,000	Mortg. Pay	12,000
Real Estate	30,000	Capital	84,000
Notes Rec	14,000		
Inventory	12,000		

The firm stated that the real estate, loans receivable, and mortgages payable remained as shown in the balance sheet.

An inventory of goods in storage amounted to $15,000.

With this information open a new set of books showing the position of the firm at the time of the fire.

283. 94

A fire insurance company began business with a capital of $400,000 and a surplus of $400,000 paid in cash. At the end of the year its books show the following:

Income: gross premiums $707,135.84 less re-insurance rebates and return premiums $94,971.27; interest on mortgage loans, received in cash $6,803.65 and interest accrued and due $1,349.87; interest on collateral loans, received in cash $1,014.44 and accrued and due $4,228.32; interest on bonds and dividends on stocks, received in cash $16,841.65 and accrued and due $186; profit on sale of assets $4,204.52.

Outgo: Gross amount paid for losses $115,048.22, less salvages $14,900; gross claims for losses in process of adjustment $32,263.83; gross claims for losses resisted $8,618.50, less due and accrued for re-insurance $11,412.71; commissions or brokerage paid in cash $123,-544.19, and due or to become due $9,519.24; salaries, fees, and all other charges of officers, clerks and other employees paid $24,755.68; rents paid $4,224.93; taxes, licenses, insurance department fees paid $9,764.99; all other expenses paid $20,820.12; due and accrued expenses $621.29; due and accrued return premiums $9,597.36; due and accrued re-insurance premiums $6,856.48. The market value of securities owned was $20,625 less than their cost.

The risks in force at the end of the year carried premiums of $580,867.07, of which sum $424,747.65 was the aggregate premiums on risks running one year or less, and $156,119.42 was on risks running more than one year, the unearned premiums on which amounted to $111,950.46.

Set up the income accounts, making due allowance for unearned premiums.

284.

Robert Adams and William Stevens are equal partners. On the night of July 3 their stock and fixtures were destroyed by fire. A trial balance, which Adams had at his home, showed the following condition of the ledger at the close of business, June 30th:

Robert Adams	$ 600.00	$ 5,450.00
William Stevens	600.00	7,450.00
Cash	3,309.00	
Fixtures	1,500.00	
Merchandise Purchases	32,600.00	
Merchandise Sales		24,800.00
Notes Receivable	1,000.00	
Notes Payable		4,000.00
Interest	120.00	50.00
Expense	780.00	
Customers	4,500.00	
Creditors		3,259.00
	$45,009.00	$45,009.00

The property is fully covered by insurance. The insurance company, for the purpose of estimating the value of the merchandise destroyed, has agreed to allow 35 per cent. as the average gross gain on the sales and to pay 66⅔ per cent. on the value of the fixtures as shown by the ledger. On the basis of this agreement, state the result of the business and the capital of each partner.

285. 291

291 The Richardson Engraving and Printing Company has an authorized capital stock of $50,000.00, owned by William Richardson, $10,000.00; Silas Johnson, $15,000.00 and Thomas Acton, $25,000.00.

The plant was destroyed by fire September 23, 1908. All the books and records were saved except the sales records, which were not written up for September. The insurance companies paid $28,000.00 on the plant and $7,000.00 on the stock, which was distributed to the stockholders as received in proportion to their holdings. Cash was received from September sales amounting to $13,500.00. On September 30 the trial balance disclosed the following condition:

Capital Stock		$ 50,000.00
Stock on Hand June 1, 1908	$ 8,750.00	
Plant	30,000.00	
Accounts Receivable	19,640.00	
Accounts Payable		12,590.00
Reserve for Bad Debts......		1,250.00
Insurance Adjustment		28,000.00
Cash	3,900.00	
Engraving		77,600.00
Printing		99,350.00
Merchandise Purchases.....	58,800.00	
September Sales, not allocated		24,175.00
Wages	130,180.00	
Rent	1,800.00	
Salaries	5,750.00	
Profit and Loss Surplus.....		855.00
William Richardson	7,000.00	
Silas Johnson	10,500.00	
Thomas Acton	17,500.00	
	$293,820.00	$293,820.00

The accounts receivable realized $18,320.00, and the liquidation expenses were $1,850.00. The stockholders turned in their stock for cancellation and received their proportionate amount of cash. Prepare journal entries closing the books of the corporation and a profit and loss account.

286. 296

A firm manufacturing but one grade of cloaks, insured against burglary, claims to have been robbed on the night of September 10. The proof of the loss, filed by the insured, contains two items for 600 cloaks, $12,000, and silk, 1,000 yards, $1,500.

An inventory of stock on hand, consisting of cloaks, cloth and silk, had been taken January 1, amounting to $118,500, the particulars of which have been lost or destroyed.

An analysis of the firm's books produced the following information:

Purchases of cloth, 37,500 yards at $1;
Purchases of silk, 10,000 yards at $2;

6,000 cloaks were manufactured, consuming 40,000 yards of cloth and 10,000 yards of silk. 9,000 cloaks were sold between January 1 and September 10.

Cost of sales, per cloak, for material	$10
Cost of sales, per cloak, for labor and sundries	7
	$17

Inventory, September 11: 2,500 cloaks at $17.
12,500 yards cloth at $1.
5,000 yards silk at $2.

Prepare a report proving or disproving the claim.

287. 297

Three months after the close of a fiscal year you are requested to audit a set of books to the end of the fiscal year. How do you ascertain if the cash called for by the books was actually on hand and in the bank?

288. 298

You are asked to test the correctness of a set of books kept by single entry by applying the double entry system to the entries made. What would you do, without writing a new set of books. Take as a basis the following ledger accounts:

Dr.		John Doe		Cr.
1913			1913	
Jan. 2 Balance	$1,000		Feb. 2 Cash	$ 600
20 Mdse.	500		Discount	12
			Returns	400

Richard Roe

Jan. 25	Freight charges...	$ 200	Jan. 20 Mdse.	$1,000
Feb. 2	Acceptances	1,500		
2	Mdse. returned...	300		

289.

The balance of cash on hand at the date of audit according to the cashbook and ledger is $15,906.27; the bank passbook on the same date shows a balance of $16,527.02. Which amount should appear on the balance sheet? Why?

290.

Given the following reconciliation of cash at the close of an audit, state categorically how it may be verified:

June 30, cash on hand as per cash book.......		$8,549.17
Balance as per bank book at close of business..	$16,549.72	
Add check of J. B. Jones, not deposited......	1,450.00	
	17,999.72	
Deduct checks drawn, not presented.........	10,154.29	
	7,845.43	
Cash in drawer............................	703.74	8,549.17

291.

30 You are called in to examine the books of a firm whose bookkeeper and cashier has absconded. He is known to be an embezzler to the amount of at least $2,000. The books have been kept by double entry and are apparently correct. How would you proceed to determine the total amount of the embezzlement? Mention the different methods that the embezzler might have used to hide his stealings.

292.

A, the party of the first part, enters, March 1, on the performance of a contract for $50,000, payable in two installments of $25,000 each, the first of which is due on completion of a specific part of the work, but subject to 10% to be retained by the party of the second part as security for the continuation of the undertaking; the second, together with the security retained as aforesaid, is to be paid on final acceptance of the completed work.

A has a capital of $4,000 available for the payment of labor, which proves insufficient. He therefore takes in as associates on April 1 B, who contributes $3,000, and C who contributes $1,000, B and C to share profits in the proportion of 3/8 and 1/8 respectively, and to receive interest on capital at 6 per cent per annum.

The first installment of the contract falls due and is paid on May 1, at which date there had been expended by the contractors for labor and incidentals $7,502 and obligations for material and supplies furnished on credit had been incurred and were outstanding to the account of $13,900, of which all but $1,500 are forthwith settled from the installment money.

On receipt of the first installment, B and C withdraw their capital and realize the profits earned at the completion of the first stage of the work, leaving A to continue alone, it being carefully estimated and mutually conceded that a further outlay of $26,158 will be sufficient to finish the work and cover all reasonable contingencies.

Show by skeleton ledger accounts the cash payable by A to B and C respectively on their withdrawal from the partnership, and state the resources and obligations that remain to A on entering on the second part of the work.

A and B are partners trading under the name A, B & Co. On June 30, 1910, the following balances appear upon their ledger:

A capital account	$7,000
B capital account	5,000
Real estate	2,200
Buildings	2,000
Machinery and tools	4,400
Furniture and fixtures	200
Accounts receivable	5,000
Cash	700
Materials and merchandise	5,300
Accounts payable	3,500
Bills payable	4,800
Bills receivable	500

On this date the business is incorporated as the S Co., on the following plan:

(1) Capital Stock, 150 shares, $15,000, $5,000 preferred, $10,000 common.

(2) S Co. takes over the assets and liabilities of A, B & Co. at the book figures as above, except (a) real estate of the book value

of $500, which is retained by A, B & Co.; (b) the accounts receivable which are taken over at $4,800.

(3) S Co. pays A, B & Co. $3,000 for the good will of the business.

(4) Payments to A, B & Co. are made as follows: $5,000 in first mortgage bonds and the balance in common stock.

(5) Stock not issued to A, B & Co. is sold for cash to sundry persons at par.

(6) Real estate retained by A, B & Co. is taken by A from the firm at a valuation of $700 and is to be charged to his capital account.

After the completion of these transactions A and B dissolve partnership.

You are asked to prepare (1) closing entries for the books of A, B & Co., (2) opening entries for the S Co.

293.

Some proprietors keep a private ledger of their business, to which bookkeepers and clerks have no access. Explain the purpose of such a book, and show what accounts it usually contains and how it is made to agree with the general ledger.

294.

The machinery used by a firm has been purchased on the instalment plan, with monthly payments, and under the stipulation that the title shall pass only when the last payment has been made. At the close of the fiscal year there are yet several payments to be made. The firm also pays a royalty on the output of some of the machines secured on this plan. How should the auditor in his annual statement deal with the machinery, the instalments paid, and the royalty?

295.

A company issues annually over 10,000 checks on three separate banks, recording each one on the check stub and then transcribing each check in detail on the general cash book. Suggest a change in method which would facilitate the work and point out advantages gained.

296.

In auditing an account the auditor finds that Robert Brown had bought a bill of goods amounting to $500, payable on August 10, less 2%. He had, however, made payments thereon as follows:

June 2	$100
June 15	100
July 3	100

On what date would he be required to make payment of the remaining $200 to entitle him to the 2% discount under the original terms of sale?

297. 311

A firm, having several branches, maintains an account with each branch in the ledger and charges all such accounts with goods sent the agents for stock. When the inventory of stock is taken, the balance of each branch account is treated as an ordinary Accounts Receivable and is included in the general debts owing to the firm. If you see any objection to this method say how you would deal with the accounts.

298. 316

A retail book-store agrees to deliver certain sets of books at $20, on payment of $2 down, the purchaser agreeing to make $3 payments for each of the six months next following. It is expected that sales on this plan will aggregate several hundred sets. Suggest method of keeping the accounts, so that results may be readily shown.

299. 317

One of the early experiences of the firm of Gardner & Kestin, Certified Public Accountants, was to make an investigation of the books and accounts of Evans, Smart & Byford (which firm had become involved in business difficulties and was compelled to stop payment) and to prepare from the following data a statement of affairs, accompanied by a deficiency account: Unsecured creditors, A $35,000, B $27,500, C $26,000, D $24,500, E $17,500, F $15,000 and G $2,000; creditors for rent, salaries, etc. $1,250, of which $750 was preferential; debtors $42,500, of which $37,500 was good, $1,825 doubtful (estimated to produce $625) and $3,125 bad; bills receivable, H $3,000, J $4,250, K $2,500 and L $1,500; land and buildings $25,000, plant and machinery $8,500, stock on hand $5,000, furniture and fixtures $1,500, cash on hand $15,000, sundry profits $37,500, sundry losses $30,000, trading expenses $17,500. Evans' capital account was $5,000, Smart's $3,750, Byford's $3,750; Evans' drawings were $10,000, Smart's $15,000, Byford's $17,500.

Show how you would have prepared the statements required had you been employed to do the work.

300.

John Thompson exhibits the following balance sheet of his business, dated June 30, 1900:

Cash	$ 750	Sundry creditors	$ 6,000
Book debts	9,500	Bills payable	7,500
Stock on hand	6,500	Bank (overdraft)	3,000
Fixtures, etc.	1,750	Balance	2,000
Total	$18,500	Total	$18,500

On questioning Thompson it was found that he had omitted the following from his balance sheet: $250 owing for rent; $75 owing for taxes; $2,500 borrowed at 5% from his wife three years ago, no payment having been made on account of either principal or interest; a draft for $500 accepted by a firm without consideration, falling due in 30 days. His private and household debts amounted to $600.

The item entered on his balance sheet as cash included his personal I. O. U.'s for $600.

Of the book debts about $3,500 might be considered bad and the rest good. The stock was good except $1,000 which would not produce more than $100. The fixtures, if sold, would not realize more than $250. The only other assets were household furniture worth about $1,250 and residence valued at $7,500 subject to a first mortgage for $5,000 at 4%, and also a second mortgage held by his bank as security for overdraft.

Prepare a statement of affairs.

301.

Wallace Hopkins, while perfectly solvent and doing a profitable manufacturing business, had so tied up his capital in plant and materials that he was unable to pay his debts and was on the point of suspending for want of funds to pay for labor, and his creditors were preparing to commence legal proceedings to enforce a settlement. The condition of his affairs at this time was as follows:

Assets		Liabilities	
Plant	$25,198	Creditors	$20,230
Cash	212	Capital	50,000
Materials, raw and partly finished	40,400	Surplus	4,900
Finished goods	6,070		
Accts. Rec.	3,250		
	$75,130		$75,130

At a meeting of the creditors he said that while his plant was entirely efficient, it was all of special character and would realize on forced sale only the value of scrap, that the unfinished goods would require the employment of skill and processes known only to him, and that while forced suspension would yield to his creditors not over 50%, it would ruin him absolutely.

The creditors decided to advance him a loan of $5,000 to continue operations and allow him additional credit for materials and expenses. A trustee was appointed to see that the proceeds were used solely for recuperation of the business.

The subsequent operations of the trustee were as follows. Purchases on book account, charged to materials $5,100, to expense $12,100; sales on book account $57,802; losses on bad debts $300; cash receipts (loan from creditors) $5,000; settlement from debtors $58,100; cash payments for labor $12,500; for expense $4,350; for plant $600. Creditors, $42,030; Wallace Hopkins, personal drawings, $3,000.

There remained raw materials $4,000; finished goods, $22,388.

Prepare (1) realization and liquidation account, (2) trustee's cash account, (3) balance sheet of the estate as restored to Wallace Hopkins.

302.

In the valuation of a certain Gas Light & Coke Company for rate purposes, the appraiser takes cost-new as the value of the physical property for rate purposes rather than cost-of-reproduction-less-depreciation. He found the cost-new of the physical property to be $49,023,947 and the existing depreciation to be $6,786,538. The company had a specific reserve of $1,617,095 for depreciation. The appraiser states that while this amount is inadequate, still the specific reserve allotted to depreciation is largely a bookkeeping transaction and as it possessed other funds from which amounts could be transferred by book entry to depreciation reserve when occasion required, the company should be assumed to have a fund adequate to meet existing depreciation and that therefore, the value-new rather than the depreciated value should be used. The appraiser says:

"The difference between the reproduction cost new of the physical property and its present value is $6,786,538, which represents the estimated depreciations through wear and tear and obsolescence. The rate of return to which the investor is entitled should be applied on the fair present value of the property. If the property has depreciated, and no allowance has been made to restore the capital so consumed, the rate of return must apply on the depreciated value of the plant instead of on the cost new. The company in this case has charged operating expenses annually with an amount which it deemed sufficient to offset the depreciation. The reserve for depreciation on December 31, 1909, as shown by the company's books, was $1,617,095. In some respects, the amount shown to the credit of such a specific reserve is largely a bookkeeping transaction, the important consideration in each instance being, whether the company actually possesses property which, if not set aside for specific depreciation purposes, could be set aside without doing violence to any other obligation. This is believed to be the situation here. Its earnings have exceeded, by a liberal margin, all necessary requirements, but instead of creating a reserve for depreciation sufficiently large to represent the estimated depreciation of the property, such surplus earnings have been placed to the credit of other accounts from which they may be transferred by book entry to the depreciation reserve when occasion requires. Since such assets are ample in amount, the value of the physical property through the addition of these amounts is considered on the basis of its cost new."

The following are the balance sheets of this corporation about the time of this appraisal:

Assets	1910	1909
Real estate, franchise tunnels, street mains, meters, serv. etc.	$82,699,338	$79,086,611
Materials	1,468,113	1,433,648
Securities	128,459	200,711
Accounts receivable	1,010,087	1,320,434
Deposits with Agencies	295,155	286,735
Gas Bills Receivable	990,993	922,565
Bills Receivable	52,227	52,227
Cash	4,819,934	3,546,428
Total	$91,464,306	$86,849.359

Liabilities	1910	1909
Capital stock	$35,000,000	$35,000,000
Bonded debt	40,096,000	37,096,000
Deposits, security for gas bills	259,615	265,837
Accounts payable	1,271,536	921,547
Coupons past due	295,155	286,735

Bond interest accrued......	389,525	339,525
Depreciation and Reserves..	2,029,195	1,520,767
Profit and loss.............	12,123,280	11,418,948
Total	$91,464,306	$86,849,359

The above illustrates a common misunderstanding as to the nature of the Depreciation Reserve.

(a) Explain fully. (b) Show how this error with respect to the Depreciation Reserve invalidates the conclusion that in this case Cost new is the proper basis for rates.

303. 325

A real estate company buys a tract of land for $9,500.00 and divides it into 74 lots. After spending $5,300.00 in improvements the property is estimated to be worth $25,000.00 in excess of the expense of selling it. Four corner lots are actually sold on this basis for a lump sum of $1,800. Allowing $60 for the expense of selling them, what profit is to be written up for the sale?

304. 326

"Where an ordinary bond is bought at a premium, this is a lump sum to offset the receipts from future interest payments whose rate is higher than the market rate." Explain and illustrate fully.

305. 327

(a) "The cost of bonds bought at discount differs from that of bonds bought at a premium in that there is not the same certainty of the discount being eventually earned as of the premium being lost."

(b) In commenting on the above statement, Dr. Sprague says, " 'Earned' and 'lost' are not happy expressions here. *The premium is not lost at maturity, but has gradually been refunded to us; and the discount is not earned, but gradually withheld from us.*"

Illustrate and explain fully the *italicized* sentence.

306.

What is the cost per square foot per annum of a station site which cost $60 per square foot, allowing 5% interest and taxes at the rate of $15.00 per thousand of actual value?

Suppose by going 4 blocks out you can get land at $5 per square foot. The station occupies 20,000 square feet. What is the difference in cost per annum between the two sites?

307.

Machine No. 11.

Cost $4,000.

Scrap only sufficient to cover the cost of removal and restoring floor conditions.

Estimated life, 10 years.

Interest rate 5%.

Insurance rate 5% for a period of 10 years.

Repairs and maintenance $40 per year.

What is the machine rate per hour for the above costs?

308.

"The relation of overhead charges to direct labor costs is in no sense a measure of the efficiency of a plant." (Evans.)

1. Prove and illustrate the above quotation.

2. Show that in the light of the above quotation the productive process in the form of the job should be taken as the unit in cost accounting.

309.

"Two main principles have emerged,

"1. The reduction of non-productive work to different classes of 'service' rendered to actual production; and

"2. The grouping of all indirect expense into these *natural* classes instead of into purely accountancy classifications such as the consolidation of all charges for depreciation, for rent, for interest, for repairs, etc., irrespective of the purposes for which these charges were incurred." (Church "Production Factors," p. 113.)

Explain.

310.

"If low shop expense percentage is the aim, it is easily accomplished by not spending money to bring the tool equipment up to a proper standard." (Evans, p. 92.)

Explain and illustrate the above statement.

How would the inefficiency of poor tool equipment be disclosed by a cost system on the production factor plan?

311.

A certain factory employs 259 men. The total number of direct labor hours for the month of April is 48,000 hours and the amount of wages is $12,250. The total burden for the month amounts to $11,000.

Job No. 45 is the construction of a heavy machine. The direct labor spent on it amounted to 3,000 hours with a direct wage of $950. The material entering into the machine cost $1,128.

(a) What will be the total factory cost of the job according to the hourly burden plan and the percentage of wages plan?

(b) Suppose the job required the use of three machines on which the rates are as follows:

A—1,000	hours,	rate	$0.124	per	hour.
B— 400	"	"	0.152	"	"
C—1,200	"	"	0.210	"	"

What would be the total factory cost according to this plan?

(Give reasons for the differences in the costs according to these three methods of distributing burden.)

What possible conditions in the shop would account for these differences?

312.

A concern is engaged in manufacturing steel ranges.

Cost of Steel Range, Style A93.

Foundry Department.

Process A.

Labor	$5.50
Material	8.00
Other Expenses	6.00

Capital used $7,500—2 days. Market price $23.50.

	Process B.	Process B[1].
Labor	$1.80	$0.90
Material	1.50	1.60
Other Expenses	3.20	3.50
	Capital $3,000—1⅓ days.	$5,400 one day.

Assembling.

	Process C.	Process C^1.
Labor	$0.70	$0.40
Material	1.30	1.30
Other Expenses	1.20	1.46
Capital	$900—⅓ da.	$2,400—¼ da.

Sales Expense $4.25 Selling Price $61.50

(a) Would it be better to continue producing the castings made by process A or to buy them?

(b) The concern can use for the second process either Process B or B^1. Which is preferable?

(c) For the third operation, which is preferable, C or C^1?

(d) Work out the cost of each process and the cost of the finished article according to all the different combinations of processes possible.

313.

A certain railroad, being about to be foreclosed under a consolidated deed of trust, a committee of the consolidated bondholders, the members of which were large holders of stock and prior bonds, drafted "a plan for purchase and reorganization," effective Jan. 1, 1880. This provided that the old stock should be deposited, and that the new company should issue (1) first mortgage 6% bonds to be used to find the past due and maturing interest on the prior bonds and for permanent construction and improvement; (2) preferred 7% stock to represent the par value of outstanding consolidated bonds; and (3) common stock to represent the outstanding common stock. Holders of the common stock were not to be entitled to shares or to vote until preferred stock had paid five successive annual dividends of 7%. A reincorporation was effected on this basis. At the end of five years the common stockholders brought action, setting forth that earnings and income which had been wrongfully converted to pay for improvements and extensions, would, if applied to dividends, have been sufficient to pay for five successive dividends of 7% each on the preferred stock, and that the common stockholders were therefore, entitled to representation.

The net earnings as reported by the company were as follows:

Net earnings for 1880	$133,084.69
" " " 1881	244,037.94
" " " 1882	438,989.89
" " " 1883	488,799.13
" " " 1884	400,303.40
" " " 1885	272,451.77

In 1881 steel rails were laid. The cost of this, less the value of old rails removed was $133,779.03, all of which sum was charged to operating expenses. In 1882 a similar charge was made to the amount of $31,224.56. In 1883, of $65,000.00; in 1884, $10,000.00; in 1885, $9,996.35.

In 1881 new sidings and spurs were charged to operating expenses to the amount of $45,430.00. In 1882 the amount so charged was $9,640.00; in 1883, $16,960.00; in 1884, $11,640.00; in 1885, $5,400.00.

In 1883 two steamers owned by the company were enlarged and made more efficient, at a cost of $40,286.44, which was paid out of and charged to earnings.

In the spring of 1884, $142,000 was expended for 8 new freight engines and 200 coal cars. The funds for this purchase were raised by loan, which was paid off by the company at the rate of $3,000.00 per month and the sum so paid in addition to interest on the loan was charged to operating expenses and withdrawn from earnings. $15,000.00 was thus charged in 1884 and $36,000.00 in 1885.

The amount of preferred stock on which the 7% was to be paid annually was $6,500,000. Make out a statement showing whether or not the common shareholders were entitled to representation on Jan. 1, 1886.