

5-1930

## Students' Department

H. P. Baumann

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### Recommended Citation

Baumann, H. P. (1930) "Students' Department," *Journal of Accountancy*. Vol. 49 : Iss. 5 , Article 6.  
Available at: <https://egrove.olemiss.edu/jofa/vol49/iss5/6>

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# Students' Department

H. P. BAUMANN, *Editor*

## INVESTMENT TRUST AND SUBSIDIARY CORPORATION

Following is a problem set by the examining board of the State of Wisconsin in the examinations held during November, 1929:

You are given the trial balance as of September 30, 1929, of two corporations, an investment trust and its subsidiary. The subsidiary is a close corporation and acts as fiscal agent and as manager for the investment trust, as well as doing a general business with the public as investment counsel and dealer and broker in investment securities.

The subsidiary receives compensation in the form of commissions on the selling price of the Investment Trust Corporation's stock, for the sale of which it has an exclusive contract. It also receives compensation in the form of a management fee for managerial services, under a contract providing for a monthly fee based on a percentage of the investment trust's capital stock outstanding.

Both corporations began business January 1, 1929, and their fiscal years end December 31. Both companies ascertain their profits monthly and you may assume that all necessary adjustments to pro-rate for the nine months' period have been made. Profits of the subsidiary have not been taken up on the books of the parent company.

You are required to prepare balance-sheet and profit-and-loss statement for the Investment Trust Corporation, giving such effect as you consider proper to its 75 per cent. ownership of the Investment Managers Company.

Also prepare data which you would consider appropriate to be used in a letter to stockholders, showing the earnings for the current year to date and the value per share of common stock of the Investment Trust Corporation outstanding at September 30, 1929.

### INVESTMENT TRUST CORPORATION Trial balance—September 30, 1929

	Debit	Credit
Cash in banks . . . . .	\$ 110,342.90	
Accounts receivable—brokers . . . . .	149,580.20	
Stockholders notes (secured by company's stock) . . . . .	1,118,962.70	
Stocks and bonds held for investment (at cost) . . . . .	7,748,477.70	
Adjustment account to reflect market value of investment securities . . . . .	806,967.30	
Investment in subsidiary company—75% of capital stock of Investment Managers Company . . . . .	300,000.00	
Accrued interest on stockholders notes . . . . .	14,073.52	
Accrued interest on bond investments . . . . .	9,768.38	
Accounts payable—brokers . . . . .		\$ 122,391.04
Accounts payable Investment Managers Company . . . . .		28,659.14
Notes payable—banks . . . . .		700,000.00
Accrued interest on bank loans . . . . .		3,106.42
Reserve for accrued dividends on preferred stock . . . . .		64,305.00
Reserve for current year income taxes . . . . .		70,000.00
Preferred stock authorized . . . . .		6,000,000.00
Preferred stock unsubscribed . . . . .	618,163.00	
Common stock authorized . . . . .		600,000.00
Common stock unsubscribed . . . . .	79,210.00	
Paid in surplus (premiums on sale of common stock) . . . . .		2,316,560.00

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Surplus from appreciation of investment securities . . . . .		\$ 806,967.30
Preferred stock dividends declared . . . . .	\$ 96,837.80	
Provision for accrued preferred stock dividends . . . . .	64,305.00	
Dividends on stocks held for investment . . . . .		130,711.00
Interest on bonds held for investment . . . . .		12,239.45
Interest on stockholders notes . . . . .		54,913.70
Dividends from subsidiary company . . . . .		37,500.00
Profit on sales of securities . . . . .		515,758.35
Profit on sales of stock rights . . . . .		76,450.50
Management fees to Investment Managers Company . . . . .	55,993.70	✓
Documentary stamps on stock issued . . . . .	2,936.00	
Interest expense . . . . .	22,997.20	
Provision for current year income taxes . . . . .	70,000.00	
Organization expense . . . . .	14,800.00	
Commission on sales of capital stock . . . . .	256,146.50	✓
	<b>\$11,539,561.90</b>	<b>\$11,539,561.90</b>

INVESTMENT MANAGERS COMPANY  
FISCAL AGENTS FOR INVESTMENT TRUST CORPORATION  
Trial balance—September 30, 1929

Cash in banks . . . . .	\$ 115,512.80	
Imprest fund . . . . .	1,000.00	
Accounts receivable—customers . . . . .	570,279.16	
Accounts receivable—brokers . . . . .	17,962.30	
Accounts receivable—Investment Trust Corporation . . . . .	28,659.14	✓
Securities purchased for resale (at cost) * . . . . .	83,611.70	
Memberships in stock exchanges . . . . .	221,032.00	
Office equipment . . . . .	26,775.40	
Reserve for depreciation of office equipment . . . . .		\$ 6,426.70
Prepaid insurance and bond premiums . . . . .	11,707.00	
Accounts payable—brokers . . . . .		44,983.00
Notes payable—banks . . . . .		235,000.00
Salesmen's commissions payable . . . . .		37,200.40
Reserve for current year income taxes . . . . .		36,000.00
Capital stock authorized and outstanding . . . . .		500,000.00
Dividends declared . . . . .	50,000.00	✓
Profits on sales of securities . . . . .		65,624.70
Profits from syndicate participations . . . . .		106,084.00
Brokerage and investment counsel fees earned . . . . .		105,041.80
Management fees from Investment Trust Corporation . . . . .		55,993.70
Commissions earned on sales of Investment Trust Corporation stock . . . . .		256,146.50
Income from dividends . . . . .		2,367.50
Income from interest on accounts receivable . . . . .		21,276.30
Salesmen's salaries and commissions . . . . .	98,397.30	
Advertising . . . . .	9,860.10	
Miscellaneous selling expense . . . . .	3,216.60	
Statistical department salaries . . . . .	21,600.00	
Statistical department expenses . . . . .	11,172.50	
Salaries of executive officers . . . . .	44,500.00	
General office salaries . . . . .	70,907.20	
General office supplies and expenses . . . . .	9,158.60	

\* Market value September 30, 1929—\$88,460.00.

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Postage . . . . .	\$	2,410.00
Telephone and telegraph . . . . .		4,425.30
Depreciation of office equipment . . . . .		2,008.15
Insurance and bonds . . . . .		3,384.20
Rent . . . . .		9,000.00
Miscellaneous general expenses . . . . .		6,567.36
Interest expense . . . . .		12,997.79
Provision for current year income taxes . . . . .		36,000.00
		\$1,472,144.60
		\$1,472,144.60

**Solution:**

The following profit-and-loss statement and the consolidated balance-sheet on page 372 are based on the work sheets appearing on pages 370 and 371.

*Exhibit B*

INVESTMENT TRUST CORPORATION AND SUBSIDIARY  
INVESTMENT MANAGERS COMPANY

Statement of profit and loss (by companies and consolidated) for the period,  
January 1, 1929, to September 30, 1929

	Investment Trust Corporation	Investment Managers Company	Inter- company eliminations	Consolidated
<b>Income:</b>				
<b>Trading profits:</b>				
Profit on sales of securities . . . . .	\$515,758.35	\$ 65,624.70		\$ 581,383.05
Profit on sales of stock rights . . . . .	76,450.50			76,450.50
Profit from syndicate participation . . . . .		106,084.00		106,084.00
<b>Total trading profit . . . . .</b>	<b>\$592,208.85</b>	<b>\$171,708.70</b>		<b>\$ 763,917.55</b>
<b>Commissions and management fees:</b>				
Brokerage and investment counsel fees . . . . .		\$105,041.80		\$ 105,041.80
Management fees—Investment Trust Corporation . . . . .		55,993.70	\$ 55,993.70	
Commissions earned on sale of Investment Trust Corporation stock . . . . .		256,146.50	256,146.50	
<b>Total commissions and management fees . . . . .</b>		<b>\$417,182.00</b>	<b>\$312,140.20</b>	<b>\$ 105,041.80</b>
<b>Interest and dividend earnings:</b>				
Dividends on investment stocks . . . . .	\$130,711.00			\$ 130,711.00
Interest on investment bonds . . . . .	12,239.45			12,239.45
Interest on stockholders' notes . . . . .	54,913.70			54,913.70
Dividends on inventory of stocks . . . . .		\$ 2,367.50		2,367.50
Interest on accounts receivable . . . . .		21,276.30		21,276.30
<b>Total interest and dividend earnings . . . . .</b>	<b>\$197,864.15</b>	<b>\$ 23,643.80</b>		<b>\$ 221,507.95</b>
<b>Total income . . . . .</b>	<b>\$790,073.00</b>	<b>\$612,534.50</b>	<b>\$312,140.20</b>	<b>\$1,090,467.30</b>
<b>Expenses:</b>				
Salesmen's salaries and commissions . . . . .		\$ 98,397.30		\$ 98,397.30
Management fees . . . . .	\$ 55,993.70		\$ 55,993.70	
Advertising . . . . .		9,860.10		9,860.10
Miscellaneous selling expense . . . . .		3,216.60		3,216.60
Statistical department salaries . . . . .		21,600.00		21,600.00

INVESTMENT TRUST COMPANY  
INVESTMENT MANAGERS COMPANY  
Consolidating work sheet—September 30, 1929

	Investment Trust Corporation		Investment Managers Company		Eliminations and adjustments		Consolidated profit and loss		Consolidated balance-sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Debits</i>										
Cash in banks	\$ 110,342.90	\$ 115,512.80							\$ 225,855.70	\$
Accounts receivable—brokers	149,580.30	17,962.30							167,542.60	
Stockholders' notes (secured by company's stock)	1,118,962.70								1,118,962.70	
Stocks and bonds held for investment (at cost)	7,748,477.70								7,748,477.70	
Adjustment account to reflect market value of investment securities		806,967.30								806,967.30
Investment in subsidiary company—75% of capital stock of Investment Managers Company	300,000.00		(A)	300,000.00						
Accrued interest on stockholders' notes	14,073.52								14,073.52	
Accrued interest on bond investments	9,768.38								9,768.38	
Preferred stock unsubscribed	618,163.00								618,163.00	
Common stock unsubscribed	79,210.00								79,210.00	
Preferred stock dividends declared	96,837.80								96,837.80	
Provision for accrued preferred stock dividends	64,305.00								64,305.00	
Management fees to Investment Managers Company	55,993.70		(B)	55,993.70						
Documentary stamps on stock issued	2,936.00							2,936.00		
Interest expense	22,997.20							22,997.20		
Provision for current year income taxes	70,000.00			36,000.00						
Organization expense	14,800.00								14,800.00	(S)
Commission on sales of capital stock	256,146.50				(D)	256,146.50			14,800.00	(M)
Imprest fund									1,000.00	
Accounts receivable—customers		1,000.00							570,279.16	
Accounts receivable—Investment Trust Corporation		570,279.16								
Securities purchased for resale (at cost)		28,659.14			(C)	28,659.14			83,611.70	
Memberships in stock exchanges		83,611.70							221,092.00	
Office equipment		221,092.00							26,775.40	
Prepaid insurance and bond premiums		26,775.40							11,707.00	
Dividends declared		11,707.00								
Salesmen's salaries and commissions		50,000.00			(E)	37,500.00			98,397.30	
Advertising		98,397.30							9,860.10	
Miscellaneous selling expense		9,860.10							3,216.60	
Statistical department salaries		3,216.60							21,000.00	
Statistical department expenses		21,000.00							11,172.80	
Salaries of executive officers		11,172.80							44,800.00	
General office salaries		44,800.00							70,157.20	
General office supplies and expenses		70,157.20							9,410.00	
Postage		9,410.00							4,435.30	
Telephone and telegraph		4,435.30							2,008.15	
Depreciation of office equipment		2,008.15								

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<p>Insurance and bonds ..... 3,384.20</p> <p>Rent ..... 9,000.00</p> <p>Miscellaneous general expenses ..... 6,567.36</p> <p>Interest expenses ..... 12,997.79</p> <hr/> <p style="text-align: right;"><b>\$11,539,561.90</b></p>	<p style="text-align: right;">107,374.04</p> <p>885,000.00</p> <p>3,106.52</p> <p>64,305.00</p> <p>106,000.00</p> <p>6,000,000.00</p> <p>600,000.00</p> <p>2,316,560.00</p> <p>806,967.30</p>	<p style="text-align: right;">130,711.00</p> <p>12,239.45</p> <p>54,913.70</p> <p>581,383.05</p> <p>76,450.50</p> <p>6,426.70</p> <p>37,200.40</p> <p>106,084.00</p> <p>105,041.80</p> <p>55,993.70</p> <p>256,146.50</p> <p>2,367.50</p> <p>21,276.30</p> <p>500,000.00</p>	<p style="text-align: right;">125,000.00 (M)</p> <p>75,000.00</p> <p>(879,196.65) (S)</p> <p>{ 75,732.35 (M)</p>
<p>Accounts payable—brokers ..... \$ 122,391.04</p> <p>Accounts payable—Investment Management Company ..... (C) 28,659.14</p> <p>Notes payable—Banks ..... 235,000.00</p> <p>Accrued interest on bank loans ..... 3,106.42</p> <p>Reserve for accrued dividends on preferred stock ..... 64,305.00</p> <p>Reserve for agent's income taxes ..... 70,000.00</p> <p>Preferred stock authorized—Investment Trust Corporation ..... 6,000,000.00</p> <p>Common stock authorized—Investment Trust Corporation ..... 600,000.00</p> <p>Paid in surplus (premiums on sale of common stock) ..... 2,316,560.00</p> <p>Surplus from appreciation of investment securities ..... 806,967.30</p> <p>Dividends on stocks held for investment ..... 130,711.00</p> <p>Interest on bonds held for investment ..... 12,239.45</p> <p>Interest on stockholders' notes ..... 54,913.70</p> <p>Dividends from subsidiary company ..... 37,500.00</p> <p>Profit on sales of securities ..... 515,753.35</p> <p>Profit on sales of stock rights ..... 76,450.50</p> <p>Reserve for depreciation of office equipment ..... 6,426.70</p> <p>Salesmen's commissions payable ..... 37,200.40</p> <p>Profits from syndicate participations ..... 106,084.00</p> <p>Brokerage and investment counsel fees earned ..... 105,041.80</p> <p>Management fees from Investment Trust Corporation ..... 55,993.70</p> <p>Commissions earned on sales of Investment Trust Corporation stock ..... 256,146.50</p> <p>Income from dividends on stocks ..... 2,367.50</p> <p>Income from interest on accounts receivable ..... 21,276.30</p> <p>Capital stock authorized and outstanding ..... 500,000.00</p> <p>Capital surplus ..... (A) 375,000.00</p> <p>Net profit for the period ..... (A) 75,000.00</p> <p>Minority interest in profit (25% of \$302,929.40) ..... 75,732.35</p>	<p style="text-align: right;">\$11,539,561.90</p> <p style="text-align: right;">\$ 44,983.00</p> <p style="text-align: right;">28,659.14</p> <p style="text-align: right;">235,000.00</p> <p style="text-align: right;">3,106.42</p> <p style="text-align: right;">64,305.00</p> <p style="text-align: right;">36,000.00</p> <p style="text-align: right;">6,000,000.00</p> <p style="text-align: right;">600,000.00</p> <p style="text-align: right;">2,316,560.00</p> <p style="text-align: right;">806,967.30</p> <p style="text-align: right;">130,711.00</p> <p style="text-align: right;">12,239.45</p> <p style="text-align: right;">54,913.70</p> <p style="text-align: right;">37,500.00</p> <p style="text-align: right;">515,753.35</p> <p style="text-align: right;">76,450.50</p> <p style="text-align: right;">6,426.70</p> <p style="text-align: right;">37,200.40</p> <p style="text-align: right;">106,084.00</p> <p style="text-align: right;">105,041.80</p> <p style="text-align: right;">55,993.70</p> <p style="text-align: right;">256,146.50</p> <p style="text-align: right;">2,367.50</p> <p style="text-align: right;">21,276.30</p> <p style="text-align: right;">500,000.00</p> <p style="text-align: right;">375,000.00</p> <p style="text-align: right;">75,000.00</p> <p style="text-align: right;">75,732.35</p>	<p style="text-align: right;">\$11,997,868.86</p> <p style="text-align: right;">\$11,997,868.86</p> <p style="text-align: right;">\$1,090,467.30</p> <p style="text-align: right;">\$1,090,467.30</p> <p style="text-align: right;">\$753,299.34</p> <p style="text-align: right;">\$753,299.34</p>	

Key to eliminations:

- (A) Holding company's interest in subsidiary.
- (B) Inter-company management fees.
- (C) Inter-company accounts payable and accounts receivable.
- (D) Inter-company commissions on sales of holding company's capital stock.
- (E) Holding company's portion of dividends paid by subsidiary.

Exhibit A

INVESTMENT TRUST CORPORATION AND SUBSIDIARY  
INVESTMENT MANAGERS COMPANY  
Consolidated balance-sheet—September 30, 1929

Assets	Liabilities and net worth
Current assets:	
Cash:	
In banks.....	Accounts payable—brokers..... \$ 167,374.04
On hand.....	Notes payable—banks..... 935,000.00
\$ 225,855.70	Accrued interest on bank loans..... 3,106.42
1,000.00	Salesmen's commissions payable..... 37,200.40
\$ 226,855.70	\$ 1,142,680.86
Accounts receivable:	
Brokers.....	Reserve for current year income taxes..... 106,000.00
Customers.....	Minority interest..... \$ 125,000.00
737,821.66	Capital stock..... 54,232.35
1,118,962.70	Surplus..... 179,232.35
Notes receivable—stockholders	
(Secured by stock of Invest-	Net worth:
ment Trust Corporation)	Capital stock:
Securities for resale—at cost	Preferred..... \$6,000,000.00
(Market value \$88,460.00)...	Less—Unsub-
Accrued interest:	scribed.... 618,163.00
On stockholders' notes.....	\$ 5,381,837.00
On bond investments.....	Common—
9,768.38	authorized
\$ 14,073.52	\$ 600,000.00
9,768.38	Less—Unsub-
\$ 2,191,093.66	scribed.... 79,210.00
	\$ 5,902,627.00
Investments:	Surplus:
Stocks and bonds (at market	Capital sur-
value, less cost).....	plus:
which is \$806,967.30 above	Premium
cost).....	on sale of
Memberships in stock ex-	common
changes.....	stock.... \$2,316,560.00
	Apprecia-
Fixed assets:	tion of
Office equipment.....	invest-
Less—Reserve for depreciation	ment se-
	curities
Deferred charges and prepaid ex-	Arising
penses:	from con-
Prepaid insurance and bond	solidation
premiums.....	75,000.00
Organization expense.....	\$ 3,198,527.30
	Earned sur-
	plus:
	Appropri-
	ated for
	dividends
	on pre-
	ferred
	stock,
	but not
	declared
	\$ 64,305.00
	Balance
	( <i>exhibit</i>
	C).....
	421,053.85
	485,358.85
	3,683,886.15
	9,586,513.15
	<u>\$11,014,426.36</u>
	<u>\$11,014,426.36</u>

## Students' Department

Statistical department expense.....	\$ 11,172.50		\$ 11,172.50
Salaries—executive officers.....	44,500.00		44,500.00
General office salaries.....	70,907.20		70,907.20
General office supplies and expenses.....	9,158.60		9,158.60
Postage.....	2,410.00		2,410.00
Telephone and telegraph.....	4,425.30		4,425.30
Depreciation of office equipment.....	2,008.15		2,008.15
Insurance and bond premiums.....	3,384.20		3,384.20
Rent.....	9,000.00		9,000.00
Miscellaneous general expense.....	6,567.36		6,567.36
Documentary stamps on stock issued	\$ 2,936.00		2,936.00
Interest expense.....	22,997.20	12,997.79	35,994.99
<b>Total expenses.....</b>	<b>\$ 81,926.90</b>	<b>\$309,605.10</b>	<b>\$ 55,993.70</b> <b>\$ 335,538.30</b>
Net profit before federal income taxes.....	\$708,046.10	\$302,929.40	\$256,146.50 <b>\$ 754,929.00</b>
<i>Deduct</i>			
Estimated federal income taxes.....	70,000.00	36,000.00	106,000.00
<b>Total net profit.....</b>	<b>\$638,046.10</b>	<b>\$266,929.40</b>	<b>\$256,146.50</b> <b>\$ 648,929.00</b>
<i>Deduct</i>			
Minority interest in profits.....		66,732.35	66,732.35
<b>Surplus net profit.....</b>	<b>\$638,046.10</b>	<b>\$200,197.05</b>	<b>\$256,146.50</b> <b>\$582,196.65</b>

*Exhibit C*

### INVESTMENT TRUST CORPORATION AND SUBSIDIARY

Analysis of surplus account for the period January 1, 1929,  
to September 30, 1929

Net profits per profit-and-loss statement ( <i>Exhibit B</i> ).....	\$ 754,929.00
<i>Deduct:</i>	
Provision for federal income taxes.....	\$106,000.00
Preferred stock dividends declared.....	96,837.80
Provision for accrued preferred stock dividends.....	64,305.00
Minority interest in profits.....	66,732.35
	333,875.15
<b>Balance, September 30, 1929.....</b>	<b>\$ 421,053.85</b>

*Data to be used in a letter to stockholders*

Consolidated statement of income and surplus for the period January 1, 1929,  
to September 30, 1929

Gross income.....	\$1,090,467.30
<i>Deduct</i> —expenses, including interest.....	335,538.30
	754,929.00
Net profit, before provision for federal income taxes.....	\$ 754,929.00
<i>Deduct</i> —estimated federal income taxes.....	106,000.00
	648,929.00



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Net profit for the period . . . . .		\$ 648,929.00
Deduct—minority interest in profits of subsidiary		66,732.35
		\$ 582,196.65
Surplus net profits . . . . .		\$ 582,196.65
Deduct—		
Preferred stock dividends paid . . . . .	\$ 96,837.80	
Surplus appropriated for preferred stock dividends accrued but not declared . . . . .	64,305.00	161,142.80
		\$ 421,053.85

The problem does not give the number of shares of common stock outstanding or the par value of such stock. If the par value is \$100 per share, the earnings per share would be  $(\$421,053.85 \div 5,207.9)$  or \$80.85. If the par value is \$10.00 per share, the earnings would be \$8.09 per share.

The book value of the common stock may be determined as follows:

Net worth of the company . . . . .		\$9,586,513.15
Deduct—		
Preferred stock outstanding . . . . .	\$5,381,837.00	
Accrued dividends on preferred stock . . . . .	64,305.00	5,446,142.00
		\$4,140,371.15

If the outstanding common stock is 5,207.9 shares, the book value per share is  $(\$4,140,371.15 \div 5,207.9)$  or \$795.01.

If the outstanding common stock is represented by 52,079 shares, the book value is \$79.50.

The following problem was set by the Board of Examiners in Accountancy University of Illinois, at the examination given November 12, 1929:

From the following information, prepare a statement of application of funds covering the fiscal year ending October 31, 1929:

"F" COMPANY  
Comparative balance-sheets

	October 31,	
<i>Assets</i>	1928	1929
Cash . . . . .	\$ 52,441.18	\$ 40,020.55
Customers' receivables . . . . .	189,245.20	180,671.32
Inventories . . . . .	536,782.43	473,488.17
Prepaid expenses . . . . .	5,221.85	12,673.34
Cash surrender value of life insurance policy . . . . .	18,238.47	
Investment in subsidiary company . . . . .	107,640.00	93,960.00
Unamortized discount on bonds . . . . .	32,150.00	27,220.00
Land . . . . .	50,000.00	72,000.00
Buildings, machinery, etc. . . . .	344,502.16	482,153.35
	\$1,336,221.29	\$1,382,186.73
<i>Liabilities and net worth</i>		
Trade accounts payable . . . . .	\$ 48,382.96	\$ 79,845.58
Accrued taxes . . . . .	4,815.00	6,238.99

*Students' Department*

Purchase-money obligations on machinery . . .	\$		\$	45,000.00
6½% first mortgage bonds . . . . .		268,500.00		261,000.00
Reserve for depreciation . . . . .		126,749.31		78,344.76
Capital stock . . . . .		650,000.00		730,000.00
Sinking fund reserve . . . . .		100,000.00		110,000.00
Earned surplus . . . . .		137,774.02		71,757.40
		<u>\$1,336,221.29</u>		<u>\$1,382,186.73</u>
Total liabilities and net worth . . . . .				

Owing to the death of the president, the face value of the insurance policy, amounting to \$50,000.00, was realized on during the year, the excess over the cash surrender value being credited to current earnings.

The investment in subsidiary company represents the purchase of 5,980 shares of stock of which 760 shares were sold during the year at \$25.00 per share, the profit having been credited directly to surplus.

Equipment which had cost \$125,260.50, and on which depreciation of \$72,666.15 had been accrued at October 31, 1928 (no further depreciation was provided), was sold in 1929 for \$20,000.00; the loss was charged off as a current operating expense.

A stock dividend of \$65,000.00 was declared and paid in January, 1929, while stock of a par value of \$15,000.00 was given to employees as a bonus and charged to factory expense.

The purchase-money obligations mature June 30, 1931.

*Solution:*

The suggested time for the solution of this problem was 30 minutes, which the candidate would find was not sufficient to enable him to prepare working papers, which are used in this solution for explanatory purposes only. The problem can be solved readily without the use of working papers other than "T" accounts for surplus and profit and loss.

In his reading of the problem the candidate should note that certain extraneous debits and credits were made against current earnings instead of the surplus account, which entries should be considered with those charges not requiring an outlay of funds to determine the funds provided by profits. The adjustments necessary to correctly state these facts appear at the end of the working papers.

The purchase-money obligations on machinery, \$45,000.00, due June 30, 1931, is not a current liability, but is a non-fund payment for machinery.

An assumption that \$7,500 of the first mortgage bonds will be purchased during the coming year, and should, therefore, be shown as a current liability, because this amount was purchased during the past year, can not be sustained by the facts given in the problem.

"F" COMPANY

Statement of application of funds for the year ended October 31, 1929

Funds provided:

By net profits:

Net profits, per books . . . . . \$ 3,663.38

Adjustments of profits:

Loss on sale of equipment . . . \$ 32,594.35

Less—cash received in excess

of cash surrender value of

life insurance . . . . . 31,761.53      832.82

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Adjusted profit . . . . .	\$		4,496.20	
<i>Add</i> —charges to profits not requiring funds:				
Bonus stock charged to factory expense . . . . .	\$		15,000.00	
Depreciation on buildings, machinery, etc. . . . .		24,261.60		
Bond discount written off . . . . .		4,930.00	44,191.60	\$ 48,687.80
<hr/>				
By receipt of face value of life insurance policy . . . . .				50,000.00
By sale of 760 shares of stock of subsidiary company . . . . .				19,000.00
By sale of equipment . . . . .				20,000.00
By decrease in working capital and prepaid expenses (per schedule) . . . . .				109,723.89
<hr/>				
Total funds provided . . . . .				<u>\$247,411.69</u>
<hr/>				
Funds applied:				
To increase in fixed assets:				
Land . . . . .			\$ 22,000.00	
Buildings, machinery, etc. . . . .	\$262,911.69			
<i>Less</i> —purchase money obligations . . . . .	45,000.00	217,911.69	\$239,911.69	
<hr/>				
To reduction of 6½% first mortgage bonds outstanding . . . . .				7,500.00
<hr/>				
Total funds applied . . . . .				<u>\$247,411.69</u>

“F” COMPANY

Schedule of working capital and prepaid expense

	October 31		Changes in	
	1928	1929	working capital Decrease	Increase
Current assets:				
Cash . . . . .	\$ 52,441.18	\$ 40,020.55	\$ 12,420.63	
Customers' receivables . . . . .	189,245.20	180,671.32	8,573.88	
Inventories . . . . .	536,782.43	473,488.17	63,294.26	
<hr/>				
Total current assets . . . . .	\$778,468.81	\$694,180.04		
<hr/>				
Current liabilities:				
Trade accounts payable . . . . .	\$ 48,382.96	\$ 79,845.58	31,462.62	

## Students' Department

"F" COMPANY											
Application off under—working papers for the year ended October 31, 1929											
	October 31	1929	1928	Year's excess	Adjustments	Working capital	Funds				
Assets				Debits	Credits	Debit	Credit	Increase	Decrease	Applied	Provided
Cash.....	\$ 52,441.18	\$ 40,020.55		\$ 12,420.63				\$ 12,420.63			
Customers' receivables.....	189,745.20	190,671.32		8,573.88				8,573.88			
Inventory.....	586,782.43	473,488.17		63,294.26				63,294.26			
Prepaid expenses.....	6,221.85	12,673.34		7,451.49				7,451.49			
Cash surrender value of life insurance policy.....	18,238.47	63,980.00			18,238.47 (F)	\$ 18,238.47					
Investment in subsidiary company.....	107,640.00	27,200.00			13,680.00 (A)	13,680.00					
Investment on bonds.....	32,150.00	79,200.00			4,980.00 (K)	4,980.00					
Land.....	50,000.00	79,000.00		29,000.00						\$ 22,000.00	
Buildings, machinery, etc.....	344,502.10	482,163.36		137,661.19	(G)	125,260.50 (L)	\$ 45,000.00			217,911.60	
<b>Total assets.....</b>	<b>\$1,336,221.29</b>	<b>\$1,362,186.73</b>									
<i>Liabilities and net worth</i>											
Trade accounts payable.....	\$ 48,382.96	\$ 79,845.58		\$ 31,462.62						\$ 31,462.62	
Accrued taxes.....	4,815.00	6,238.99		1,423.99						1,423.99	
Purchase money obligations on machinery.....		45,000.00		45,000.00 (L)		45,000.00					7,500.00
6½% first mortgage bonds.....	268,500.00	261,000.00		7,500.00	(J)	24,261.60 (G)					
Reserve for depreciation.....	126,749.31	78,344.76		48,404.55		65,000.00 (B)					
Capital stock.....	650,000.00	730,000.00				80,000.00 (H)					
Sinking fund reserve.....	100,000.00	110,000.00				10,000.00 (C)					
Earned surplus.....	137,774.02	71,757.40		66,016.62		10,000.00 (E)					
<b>Total liabilities and net worth.....</b>	<b>\$1,336,221.29</b>	<b>\$1,362,186.73</b>		<b>\$269,023.85</b>	<b>\$269,023.85</b>						
Analysis of surplus changes (reversing all debits and credits):											
Gain on sale of 760 shares of stock of subsidiary.....				\$65,000.00		5,320.00 (A)				65,000.00	
Stock dividend declared.....				10,000.00						10,000.00	
Provision for sinking-fund reserve.....						3,663.38 (D)					
Net profit.....						66,016.62 (E)					
Net decrease.....				<u>\$75,000.00</u>		<u>\$75,000.00</u>					
Funds provided by profits:											
Net profit.....						(F)	31,761.53 (D)			3,663.38	
Cash received in excess of cash surrender value of life insurance.....										32,504.35 (G)	
Loss on sale of equipment.....										15,000.00 (H)	
Bonus stock charged to factory expense.....										24,261.60 (I)	
Depreciation on buildings, machinery, etc.....										4,150.00 (J)	
Bond discount written off.....										50,000.00 (K)	
Face value of life insurance received.....										10,000.00 (L)	50,000.00
Sale of 700 shares of stock of subsidiary.....										10,000.00 (M)	10,000.00
Proceeds of sale of equipment.....										20,000.00 (N)	20,000.00
<b>Decrease in working capital and prepaid expenses.....</b>								109,723.89			109,723.89
								<u>\$117,175.38</u>	<u>\$117,175.38</u>	<u>\$247,411.60</u>	<u>\$247,411.60</u>

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Accrued taxes . . . . .	\$ 4,815.00	\$ 6,238.99	\$ 1,423.99
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Total current li- abilities . . . . .	\$ 53,197.96	\$ 86,084.57	
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Working capital . . . . .	\$725,270.85	\$608,095.47	\$117,175.38
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Decrease in working capital . . . . .			\$117,175.38
<i>Deduct</i> —increase in pre- paid expenses . . . . .	\$ 5,221.85	\$ 12,673.34	7,451.49
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Decrease in working capital and prepaid expenses . . . . .			\$109,723.89
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