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Advanced Accounting Problems

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NEW YORK UNIVERSITY

SCHOOL OF COMMERCE, ACCOUNTS AND .

ACCOUNTING SERIES

ADVANCED ACCOUNTING PROBLEMS

Prepared, Selected and Arranged

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PART I

NEW YORK UNIVERSITY

SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 1

(From N. Y. C. P. A. Examinations)

A and B are engaged in business as traders. A offers to purchase B's interest. It is inexpedient to take an inventory or to examine the books. The following facts have been compiled by the bookkeeper and are to be given full credence. The following data is submitted to an accountant from which he is requested to prepare and to furnish a Profit and Loss Account and a financial statement showing partnership interests. Prepare the statements.

CASH TRANSACTIONS.

A's investment	$ 5,000	Cash payment for merchandise	$98,400
B's investment	2,500	Expenses	800
Cash received from charge sales	98,000	A's drawings	14,000
Cash sales	9,200	B's drawings	1,500

OTHER DATA.

Accounts receivable	$10,000	Accounts payable	$9,000

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 2

Part I

(From N. Y. C. P. A. Examinations)

The following statement comprises the trial balances of a business at the beginning and the end of a fiscal period, together with the volume of the transactions during said period:

		Trial Balance January 1.		Interim Transactions		Trial Balance December 31.	
1.	Cash	$ 1,115		$24,696	$24,696	$1,360	
2.	Merchandise	5,050		17,665	26,874		$ 4,159
3.	Debtors	3,110		25,135	24,229	4,016	
4.	Fixtures	2,800		505		3,305	
5.	Creditors		$1,575	18,922	19,410		2,063
6.	Loan (Int. paid $6)		500		1,000		1,500
7.	Capital		10,000				10,000
8.	Int. and discount			693	360	333	
9.	Rent			900		900	
10.	Insurance			50		50	
11.	Salaries			1,820		1,820	
12.	Advertising			900		900	
13.	Carting			1,705		1,705	
14.	Expense			1,333		1,333	
15.	Drawing, proprietor			2,000		2,000	
		$12,075	$12,075	$96,569	$96,569	$17,722	$17,722

a. The sales book shows sales posted to debtors to the amount of $25,135.

b. The journal shows allowances to debtors for returns of mdse. sales $1,015 and claims on creditors for returns of mdse. purchases $230, also application of debtor's balance to settle creditor's account in the amount of $9,500, both accounts being in the name of the same correspondent.

c. The ledger shows that the nominal accounts entitled Rent, Insurance and Office salaries contain only cash charges, while the nominal accounts entitled Advertising, Cartage, and Expense show cash charges in the total amounts of $100, $200, and $773 respectively, all other charges therein being by invoice duly posted to creditors' accounts.

d. The Merchandise account shows cash charges of $610 and cash credits of $1,509 for cash purchases and cash sales respectively.

e. The invoice books show invoices posted to creditors' accounts to the amount of $19,410.

From the foregoing statement of facts write the several accounts displayed in the trial balance, showing the elements composing each account stated according to the titles of the accounts complementary thereto.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 2

Part II

(From American Institute of Accountants Examination)

From the balance sheet of the Lansdale Monotile Company dated December 31, 1918, as below, together with the information following, show the trial balance before closing.

THE LANSDALE MONOTILE COMPANY

Balance Sheet - Dec. 31, 1918.

ASSETS.

Land and buildings	$500,000	
Less reserve for depreciation	120,000	$380,000
Machinery and equipment	$200,000	
Less reserve for depreciation	80,000	120,000
U. S. Victory bonds		100,000
Merchandise inventory		125,000
Cash		58,000
Accounts receivable	$250,000	
Less reserve for doubtful accounts	12,500	237,500
Notes receivable		100,000
Accrued interest receivable		4,500
Total		$1,125,000

LIABILITIES & CAPITAL.

Capital Stock	$300,000
Notes payable	350,000
Accounts payable	158,000
Interest accrued payable	3,000
Surplus	314,000
Total	$1,125,000

The accruals at the time of closing were:

Interest on notes payable, $3,000; depreciation of buildings, $20,000; interest on notes receivable, $2,000; depreciation of machinery and equipment, $30,000; interest on Victory Bonds, $2,500; provision for doubtful accounts, $12,500. The other nominal accounts closed out were: Sales, $325,000; administrative expense, $50,000; cost of goods sold, $125,000; selling expense, $25,000.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 3

(From Wisconsin C. P. A. Examinations)

The American Manufacturing Company began business on January 1, 1912, and its balance sheet as of January 1, 1913, is stated as follows:

		Assets	Liabilities and Capital
Cash in Bank		$69,433.00	
Office Fund		100.00	
Customers' Accounts		273,842.00	
Inventory, Raw Materials		83,247.00	
" Supplies		4,932.00	
" Finished Goods		42,761.00	
Office Equipment		8,746.00	
Patents		125,000.00	
Real Estate		320,000.00	
Buildings		175,000.00	
Machinery		265,000.00	
Apartment House Property—			
Site	$10,000		
Building	30,000	40,000.00	
Bonds—dated and issued Dec. 31, 1912—maturing and payable at the end of 50 years—interest at 6% payable semi-annually			$200,000.00
Premium on Bonds Issued			20,000.00
Sundry Merchandise Creditors			78,392.00
Reserve for Bad Debts			8,294.00
Reserve for Depreciation on Buildings			10,000.00
Reserve for Depreciation on Machinery			30,000.00
Capital Stock—Preferred—7% Cumulative from January 1, 1913			500,000.00
Capital Stock—Common			500,000.00
Surplus			61,375.00
		$1,408,061.00	$1,408,061.00

Among other items that appear on the books on December 31, 1913, are the following:

	Debits	Credits
Labor	$468,932.00	
Salaries and Superintendence at $10,000	90,360.00	
Supplies—Cash Purchases	37,637.00	
Sales Discounts	18,395.00	
Customers' Returns and Allowances	8,474.00	
Sales		$1,545,572.00
Raw Materials purchased—average cost (per ton $22)	639,034.00	
Shop Expense	9,461.00	

	Debits	Credits
Selling and Delivery Expense	$86,017.00	
Rent from Apartment House		$4,000.00
Taxes, Insurance, and Repairs—Apartment House	1,200.00	
Repairs on Machinery and Building	30,955.00	
Office Expense	2,478.00	
Taxes	7,842.00	
Insurance	6,000.00	
Bad Debts	2,407.00	
Interest on Bonds	12,000.00	
Old Machine (cost $2,000) Sold		1,400.00

Collections from customers amount to	$1,502,927.00
Payments to merchandise creditors amount to	664,626.00
Loaned out on call on December 31, 1913	50,000.00

On March 1, 1913, the company bought an adjoining site on which it began in November, 1913, to erect an addition to its plant, to be completed by March, 1914. The price was $40,000—one-half cash—the company assuming a 6% $20,000 mortgage payable on December 31, 1913. The surveying and legal expenses paid amount to $200. Taxes accrued December 31, 1913, amount to $600.

Inventories at December 31, 1913:	
Supplies	$ 8,129.00
Finished Goods	20,495.00
Raw materials—2,163 tons—the market price of which at Dec. 31, 1913, is $24 per ton	
Real estate owned Jan. 1, 1913, is estimated to be worth	350,000.00
Dividends have been declared payable in April, 1914, of 3½% on preferred capital stock and 2½% on common capital stock.	
Prepaid insurance premiums	1,000.00
Depreciation reserves to be credited, covering:	
Buildings	4,950.00
Machinery	17,625.00
Office equipment	875.00
Bad debts	7,716.00

From the foregoing facts prepare statement of income and expense for the year and balance sheet at December 31, 1913. In a brief report submit any criticisms which suggest themselves to you.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 4

(From N. Y. C. P. A. Examinations)

A. Smith conducts a manufacturing business as sole owner. He holds 90% of the common capital stock and all of the preferred capital stock of the Jones Manufacturing Company.

Mr. Smith has entered into an agreement with the Jones Manufacturing Co. to sell and transfer to it all of the assets of his own business and to deliver for cancellation all of the capital stock of the Jones Manufacturing Company, both common and preferred, in consideration of the issuance to him by the Jones Manufacturing Company of 10,000 shares of a new stock issue of no par value and the payment to him of $105,000 in cash.

The trial balance of A. Smith, before closing, as of December 31, 1921, was as follows:

A. Smith

Trial Balance—December 31, 1921—Before Closing.

	Debit	Credit
Real Estate	$50,000	
Equipment	20,000	
Inventories	110,000	
Purchases—raw material	275,000	
Purchases—factory supplies	25,000	
Direct labor	225,000	
Indirect factory expenses	65,000	
Depreciation of buildings		$ 8,000
Depreciation of equipment		6,000
Cash	35,000	
Accounts receivable	75,000	
Accounts payable		72,500
General expenses	26,000	
Insurance	1,250	
Interest on notes payable	650	
Notes payable		28,000
Interest on notes receivable		850
Notes receivable	37,500	
Accrued pay rolls		4,500
Unexpired insurance premiums	250	
Sales		750,000
Allowance on sales	3,000	
Cash discount on sales	6,000	
Cash discount on purchases		4,500
Selling expenses	12,000	
Investments	410,000	
A. Smith account		502,300
	$1,376,650	$1,376,650

His inventories at December 31, 1921, amounted to $130,000, unexpired insurance premiums to $300, prepaid interest on notes payable to $200, accrued interest on notes receivable to $750. Depreciation should be calculated at the rate of 2% per annum on buildings and at the rate of 10% per annum on equipment. The real estate account represents land at $10,000 and buildings at $40,000. During the year Mr. Smith drew $60,000 for living expenses. Mr. Smith holds an option on the stock of the Jones Mfg. Co., not owned by him, at $210 per share. The investment account represents capital stock of the Jones Mfg. Co. at book values of $185,000 for the preferred and $225,000 for the common.

The trial balance of the Jones Mfg. Co. before closing, as of December 31, 1921, was as follows:

JONES MANUFACTURING COMPANY

	Debit	Credit
Cash	$10,000	
Accounts receivable	105,000	
Notes receivable	32,500	
Notes payable		$ 15,000
Accounts payable		40,000
Unpaid pay rolls		3,250
Sales		650,000
Insurance	3,500	
General expenses	42,500	
Selling expenses	52,000	
Inventories	180,000	
Allowances on sales	2,500	
Cash discounts—net		350
Land	60,000	
Buildings	240,000	
Equipment	200,000	
Raw material purchases	300,000	
Direct labor	150,000	
Indirect factory expenses	85,000	
Depreciation of buildings		9,600
Depreciation of equipment		40,000
Capital stock—preferred		200,000
Capital stock—common		250,000
Real estate mortgage		100,000
Accrued interest on real estate mortgage		2,000
Liberty bonds	5,000	
Interest on real estate mortgage	2,000	
Surplus		159,800
Total	$1,470,000	$1,470,000

The inventories at December 31, 1921, amounted to $225,000, unexpired insurance premiums to $500. The rates of depreciation used were 10% per annum on equipment and 2% per annum on buildings.

It is estimated that when the two businesses are operated as a single enterprise there will be annual savings in the indirect factory expenses of $50,000, in the selling expenses of $24,000 and in the administration expenses of $26,000.

Prepare a balance sheet as at the close of business, December 31, 1921, on the basis of the agreement of sale and a statement of the results of operation for the year ending on that date, showing the results as they would have appeared if the consolidation had been effective for that period on the basis of the agreement of sales by Mr. Smith to the Jones Manufacturing Company, consideration being given to the estimated economies.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 5

Part I

(From Illinois C. P. A. Examination 1913)

From the following three trial balances prepare a consolidated balance sheet as at December 31, 1912, in the form you would draw it up for presentation to the stockholders of the parent company (The Safety Razor Company), showing as separate items therein (a) the total good-will of the combined companies; and (b) the net profits accruing to the new corporation, viz., to the Safety Razor Company.

SAFETY RAZOR COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912

	Dr.	Cr.
Preferred stock		$1,500,000
Common stock		1,500,000
Investments in Subsidiary Companies: 4000 shares of stock of L. W. Co. and 4000 shares of stock of Steel Blade Co., both of $100 each at cost	$2,500,000	
Accounts payable		20,000
Dividends from subsidiary companies		100,000
Administration expenses	25,000	
L. W. Co. current account	100,000	
Steel Blade Company advances	150,000	
Cash	270,000	
Organization expenses	75,000	
	$3,120,000	$3,120,000

L. W. COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912

	Dr.	Cr.
Properties and plant	$325,000	
Goodwill	250,000	
Investment in Steel Blade Company: 2000 shares of a par value of $100 each, cost $300,000	400,000	
Inventories	250,000	
Receivables	195,000	
Cash	90,000	
Capital stock (4000 shares)		$400,000
Accounts payable		125,000
Steel Blade Company		175,000
Surplus (includes $100,000 added to Book Value of investment in Steel Blade Co.)		710,000
Safety Razor Co.		100,000
	$1,510,000	$1,510,000

STEEL BLADE COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912

	Dr.	Cr.
Goodwill	$50,000	
Property and plant	325,000	
Inventories	190,000	
Receivables, general	105,000	
L. W. Company	195,000	
Cash	10,000	
Capital stock (6000 shares)		$600,000
Accounts payable		90,000
Safety Razor Company		150,000
Surplus or deficit		35,000
	$875,000	$875,000

In the preparation of your consolidated balance sheet be guided by the following assumed facts.

(1) That the Safety Razor Co. was formed on March 28, 1912, and acquired its stock ownership in the two subsidiary companies, as shown in its trial balance, on April 1, 1912.

(2) That at January 1, 1912, the L. W. Company had a surplus of $605,000 and the Steel Blade Company a deficit of $50,000.

(3) That no inventory was taken of either of the L. W. Company or the Steel Blade Company between January 1 and December 31, 1912, the business of the companies being continued without interruption notwithstanding the change in ownership of the capital stocks as indicated above.

(4) That prior to December 31, 1912, the L. W. Company declared a dividend of $100,000 payable to the parent company, which was duly taken up on the books of both companies, being passed through the current accounts and charged against the surplus of the L. W. Company prior to December 31, 1912.

(5) That the difference in the current accounts between the Steel Blade Company and L. W. Company represents, as to $10,000, merchandise in transit, and as to the remaining $10,000, a charge for rental of warehouse for the last six months of 1912, which has been credited to the Rent account on the books of the Steel Blade Company.

(6) That it is estimated on reliable authority which may be accepted as final, that from January 1 to March 31, 1912, the net profits of the L. W. Company amounted to $30,000, while during the same period the Steel Blade Company lost $15,000.

Attach your consolidating working papers to the consolidated balance sheet you prepare.

Part II

(From N. Y. C. P. A. Examinations)

A and B buy merchandise to the amount of $4,000, A contributing $2,500 and B $1,500. They sell to C a 1/3 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?

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 6

Part I

On Jan. 1, 1915, The Sand Bank, a savings institution, purchased 500 M. 1st mortgage bonds of the Rapid R. R. Co., paying therefor $513,770.33. The bonds bear interest at the rate of 6% per annum payable semi-annually—J. & J. and mature Jan. 1, 1918. The bonds were purchased to yield 5%.

Prepare:

(a) Schedule of amortization.
(b) Journal entries covering all transactions from purchase to redemption of bonds.
(c) Skeleton ledger accounts.

Part II

(Kansas and Missouri C. P. A. Examinations)

The present value of an annuity of $1 for four periods at 2% is $3.80772870.

What is the value on January 1, 1914, of a 5% per annum bond issue of $100,000, bought on a 4% per annum basis (semi-annual coupons), due January 1, 1916?

Prepare amortization table.

Part III

(N. Y. C. P. A. Examination)

A and B are dealers in bonds and share profits in the proportion of

A seventy-five (75) per cent.
B twenty-five (25) per cent.

A and B engage C to sell bonds, agreeing to pay him a salary equal to twenty-five (25) per cent. of the net profits to be divided between the partners.

During the continuance of C's contract the firm purchases one hundred thousand dollars ($100,000) Waterville Traction Company first mortgage 5% bonds on a 3% basis. The bonds have eighteen (18) months to run, interest payable semi-annually (three interest periods). The firm holds the Waterville bonds till maturity.

Prepare a statement of the Waterville bond account, showing cost, interest and amortization. The total profit to be adjusted is ten thousand dollars ($10,000). Show the division of this profit.

Part IV

On February 1, 1917, The University Savings Institution purchased 500 M. 1st mortgage bonds of the Massachusetts R. R. Co., paying therefor $486,229.67. The bonds bear interest at the rate of 4% per annum payable semi-annually—F. and A. and mature Feb. 1, 1920. The bonds were purchased to yield 5%

Prepare schedule of accumulation and make journal entries from date of purchase to maturity.

Part V

The present worth of an annuity of $1 for four periods at 3% is $3.71709840.

What is the value on Jan. 1, 1916, of a 5% per annum bond issue of $100,000 bought on a 6% per annum basis (semi-annual coupons) due Jan. 1, 1918?

Prepare schedule of accumulation

Part VI

What is the value on Jan. 1, 1916, of a 5% per annum bond issue of $100,000 bought on a 6% per annum basis (semi-annual coupons) due Jan. 1, 1918?

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 7

Part I

(From N. Y. C. P. A. Examinations)

The American Mfg. Co. on January 1, 1909, placed in service a piece of machinery which would depreciate, according to its chief engineer, at the rate of 15% per annum, with allowance for residual value of $2,000. The original cost of the machinery was $86,000, and the board of directors agree to set aside annually a sinking fund which, together with the interest thereon, will amount to $84,000 at the end of the prospective life of the machine. This sinking fund is to be deposited with a trust company on December 31 of each year and a corresponding amount at the end of the last partial year of the life of the machine; interest is to be credited by the trust company at each of these dates at the rate of 4% per annum.

1. Show how the amount of the annual sinking fund payment may be arrived at.
2. Prepare a detailed statement for the board of directors proving that the amount of your sinking fund installments is correct.
3. Give journal entries from the purchase of the machine to the final closing out of the account, assuming that a residual value of $2,000 is realized.

Advanced Accounting Problems: Demonstration Problem No. 7 (concluded)

Part II

(From N. Y. C. P. A. Examinations)

The A corporation to prevent injurious competition purchases from the B corporation, a competitor, the whole of its business as a going concern on January 1, 1910, subject, however, to certain conditions stated below.

The B corporation agrees to continue trading under its old management on behalf of and at the expense of the A corporation until December 31, 1910, when if the profits earned amount to less than $40,000 the A company reserves to itself the right to cancel the agreement for purchase on payment of the difference between the earnings for the year and $40,000.

At December 31, 1910, the profits for the year earned by the B Company amount to $50,000, and the A Company actually takes over the B Company, paying $450,000 in full settlement.

Criticize the following methods of treating the transaction, and state which you consider correct, giving reasons for your opinion.

1. Debit investment account with $500,000 and credit profit and loss with $50,000 earnings.

2. Debit investment account with $450,000.

3. Debit investment account with $500,000 and credit special reserve account with $50,000.

It may be taken as an ascertained fact that the assets are fully worth $500,000 at the time of purchase by the A company.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 8

Part I

(From N. Y. C. P. A. Examinations June, 1912)

Trial Balance of the General Ledger of John Doe, Civil Engineer, December 31, 1911

Cash	$10,572.44	Manhattan Construction	$5,000.00
Furniture and Fixtures	1,054.68	Report No. 1–	
Real estate (Rutherford home)	6,000.00	Swanee Creek R. R.	5,300.00
Investments in stocks	15,457.50	Report No. 2–	
Investments in bonds	3,000.00	Englewood Reservoir	4,500.00
Missouri Pacific Margin		Report No. 3–	
Account	13,000.00	Long Acre Library	3,200.00
Accounts rec.	15,361.32	Connecticut Tramways Co.	1,950.00
General expense	9,800.00	Earnings–consulting	2,000.00
Interest	1,060.00	Report fees	16,000.00
		Sharp & Co., Brokers	11,310.00
		Stocks and bonds	4,300.00
		Capital	21,745.94
	$75,305.94		$75,305.94

Analyses:–

<u>General Expense</u>: Salaries: John Doe $6,000; other salary $1,800; rent $1,000; advertising $600; cable and telegrams $90; stationery and printing $110; other expenses $200.

<u>Interest</u>: Debited with $1,300 charged by Sharp & Co. on margin account; reduced by dividends of $390, credited by Sharp & Co. on margin account. Balance on loans since repaid.

<u>Manhattan Construction Co.</u>: Represents consulting fees received during the year 1911, the contract running from month to month, with no expense to John Doe.

<u>Reports 1–3</u>: Are completed and delivered. Account contains fees less expenses.

<u>Connecticut Tramways Co.</u>: Represents $2,000 received November 1, 1911, and expenses of $50; according to terms of contract, John Doe is to act as consulting engineer for 10 months and receive altogether $5,000.

<u>Report Fees</u>: Fees received under contract for report. $9,000 received on contracts on which no work has been done, balance is earned.

<u>Stocks and Bonds</u>: Are sold. Account represents balance.

Additional Facts: Dividends on stocks received during the year amount to $1,985, of which $1,000 was applied to the account Investment Stocks and $985 was applied to Stocks and Bonds sold.

Prepare (a) a balance sheet at December 31, 1911, with your certificate attached; (b) an income statement showing John Doe's true earning power as a civil engineer; (c) the journal entries supporting your adjustments of the books, if any.

Part II

(From N. Y. C. P. A. Examinations June, 1898)

A partnership on equal terms between A and B is dissolved July 1, 1897, the books on that date showing the following:

A's capital paid in was $16,000, and his drawings were $3,500; B's capital paid in was $2,000, and his drawings were $1,500. Goods purchased, $50,000; sales $40,000; business expenses $1,800. A loss of $1,600 was made on a $5,000 consignment of goods to Liverpool. In the settlement A agrees to pay B an old debt of $3,500.

Prepare requisite accounts, and show final balance payable by one partner to the other.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 9

Part I

(From Michigan C. P. A. Examinations, Dec., 1913)

The Star Dept. Store, organized January 1, 1911, suffers a fire loss just before inventory Dec. 31, 1913. The books disclose the following facts:

	Dec. 31, 1911	Dec. 31, 1912	Dec. 31, 1913
Inventory, beginning	44,244.04	51,894.68	50,396.40
Purchase during year	171,133.33	173,478.81	157,188.09
Allowances on purchases	11,900.12	15,182.62	8,293.54
Sales	197,474.49	209,397.00	195,937.98
Allowances on sales	4,294.37	4,594.50	5,179.19
Advertising	3,487.39	3,334.45	2,987.56
Salaries	8,295.92	9,196.72	9,196.72
Wages	16,684.30	16,628.75	17,531.22
Delivery	567.34	567.38	1,053.34
Depreciation of furniture	169.31	372.92	112.94
Stationery and printing	282.40	309.30	300.00
Gas	75.09	45.55	62.02
Rent	5,350.00	5,400.00	5,400.00
Insurance	927.15	856.42	770.40
Interest	1,571.02	1,506.89	1,695.80
Light	612.53	567.40	525.06
Water	29.21	28.51	27.63
Taxes	438.80	597.00	891.07
Telephone	33.75	52.27	54.00
General	2,041.30	3,343.37	2,581.32
Traveling	352.94	351.93	278.28
Furniture and fixtures–depreciated	9,000.00	9,500.00	10,500.00

You are asked by the appraisers:

(a) To determine the value of the assets destroyed.

(b) To arrive at correct amounts to effect a complete adjustment under the following concurrent policies containing the 80% co-insurance clause.

	Stock	Furniture
Home Insurance Co.	$10,000	$2,000
Glen Falls Insurance Co.	15,000	3,000
Globe Insurance Co.	5,000	1,000
Equitable Insurance Co.	10,000	2,000

(c) If the property loss had been 50%, what amounts would have been the proper adjustments?

Part II

(From N. Y. C. P. A. Examinations, June, 1914)

John Adams lost his stock of merchandise May 1, 1914, through a flood on the Mississippi River.

Adams applied to the local Mutual Flood Insurance Society for reimbursement, claiming a loss of $5,886.35 on merchandise stock. From the following data ascertain his merchandise inventory:

Net profits, May 1, 1914	$4,452.91
Drawings	1,598.00
Legal expenses	17.50
Interest debit	313.00
Advertising	14.00
Commissions, debit	961.01
Insurance	196.23
Sales	81,688.04
Inventory, December 31, 1911	1,568.62
Purchases	55,415.82
Labor, productive	19,499.58
Telephone	416.06
Sundry factory expenses	3,201.92
Repairs	16.00
Surplus, May 1, 1914	2,854.91

NEW YORK UNIVERSITY

SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 10

Part I

(From N. Y. C. P. A. Examination, June 29, 1910)

1. The Patent Specialty Company was organized July 1, 1907, with a capital of $100,000, to manufacture novelties. The following transactions occurred:

July 1, 1907, one half of capital stock was subscribed and issued, 10 per cent being called and paid on that date in cash. Legal and other incorporation expenses amounting to $500 were paid.

August 20, 1907, patent, covering novelty, was purchased for $50,000 payable one half in stock and one half in cash; the stock was issued and delivered, $2,000 paid in cash and note given for balance, due in one month, 6 per cent interest. The patent was subject to royalty granted to the Novelty Company, which terminated at date of purchase. All accrued royalties were to pass with patent and no royalty rights were granted by the Patent Specialty Company.

August 27, 1907, the Village Board of Trade donated a lot, valued at $5,000 in consideration of agreement to erect and equip a plant at cost of not less than $25,000.

September 13, 1907, a further call of 70 per cent was paid. The note was paid at maturity.

December 31, 1907, the following facts existed:

Payments on account of salaries, interest, insurance, etc., amounted to $2,250, with $250 accrued; contracts for construction and equipment amounting to $35,000 had been given which were 75 per cent completed and 40 per cent paid; royalties amounting to $2,725 had been received and $190 was accrued.

Prepare journal entries to cover foregoing and statement to display financial condition at December 31, 1907.

Part II

(From Wisconsin C. P. A. Examinations, 1915)

In your examination of the Auto Delivery Truck account of a company you find the following entries:-

		Debits		
Jan. 1, 1914,	Trucks 1, 2, 3, 4, at $1,200			$4,800
July 1,	Truck No. 5			1,500
Aug. 1,	Truck No. 6			1,500
		Credits		
Aug. 1, 1914,	Truck No. 2			$ 900
Sept. 1,	Truck No. 4			750
	Balance, Sept. 1, 1914		$6,150	

The Reserve for Depreciation of Auto Trucks account stood credited on January 1, 1914, with $1,800.

Upon analyzing the transactions represented by these items you find the following facts:

(a) Truck 5, purchased July 1, replaced Truck 1. The portion of the reserve for depreciation accumulated on January 1 for Truck 1 amounted to $900. Truck 5 was purchased on open account.

(b) Truck 2 was traded in for $850 on the purchase of Truck 6, costing $1,500. The difference was paid in cash. The reserve which had been accumulated for depreciation on Truck 2 on January 1 amounted to $300.

(c) Truck 4 was totally destroyed in an accident Sept. 1. The reserve for depreciation on this truck amounted on January 1, 1914, to $300 and it was insured for $750.

Assume the rate of depreciation to be 25% per year.

Give journal entries which would properly record the above facts, and show the balances of all accounts affected as of September 1, 1914.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 11

Part I

(From N. Y. C. P. A. Examination of June 28, 1910)

1. The Homes Realty Company was organized January 1, 1906, 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 3% 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, 1907:

Property account (original purchases of 1,000 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 received, and $235 accrued interest on mortgages at December 31, 1907.

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

New York Office expense	1,435.00
Philadelphia office expense	2,647.82
Salaries of salesmen	8,500.00
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.

Part II

(From N. Y. C. P. A. Examinations)

Henry White has been engaged at a salary of $40 per month to take charge of the branch store of J. Hawkins in Lynbrook. The following are the assets and liabilities of the branch store on the day White assumed charge: cash, $275; mdse. on hand, $2,990; notes receivable, $180; accounts payable, $340; notes payable, $210.

At the end of 15 months White offers to purchase a one-half interest in the branch store and to pay therefor a sum equal to 50% of Hawkins' net capital as shown by the books. From the following facts make up a profit and loss account and a statement showing (a) Hawkins' net profit; (b) Hawkins' net capital; (c) amount to be paid by White to Hawkins.

Merchandise bought, $3,450; insurance paid, $162.50; expenses paid, $135; rent paid, $300; merchandise sold, $5,905; value of furniture on hand, $90; inventory on hand, $3,245; salary paid to White, $500; accounts receivable due, $475; notes receivable, $325; due creditors on open accounts, $375; due on notes, $290; interest paid, $12.50; interest received, $10; value of unexpired insurance premium, $55; withdrawals by Hawkins during period, $200.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 12

Part I

(From N. Y. C. P. A. Examinations)

The trial balance of Jones & Smith, Chicago branch, shows Dec. 31, 1904, the following:

Home office		$2,000.00
Due from customers	$2,500.00	
Cash on hand	1,000.00	
Expenses	1,900.00	
Merchandise		3,400.00
	$5,400.00	$5,400.00

Inventory, $1,000.00.

Draft the necessary journal entries to close the accounts on the branch books, and the entries to be made in the home office to make the books agree.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 12

Part II

(From N. Y. C. P. A. Examinations)

A New York company doing business in London received the following trial balance from its London office at the end of the fiscal year:

Plant	£100,000	
Accounts receivable	75,000	
Accounts payable		35,000
Expenses	10,000	
Income		100,000
Merchandise	20,000	
New York Office account		135,000
Remittance account	60,000	
Cash	5,000	
	270,000	270,000

The New York books showed as **follows:**

Capital stock		$1,000,000.00
Patents	$ 600,000.00	
London Office account	656,100.00	
Remittance account		291,712.50
Expenses	10,000.00	
Cash	25,612.50	
	1,291,712.50	1,291,712.50

The remittance account consisted of four 60-day drafts on London for £15,000 each which were sold in New York at 4.85 1/2, 4.86, 4.86 1/2, and 4.86 3/4, respectively.

Make such journal entries as are necessary to incorporate with the New York accounts the results of the year's business in London (conversion to be made at the average rate of exchange of the four remittances) and establish the new balance of London office account so that it will agree with the London books when converted into sterling at 4.87 1/4, the rate of exchange ruling on the last day of the year.

Show also trial balance of the New York books after closing.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 12

Part III

(From N. Y. C. P. A. Examinations)

The capital of three partners, A, B and C, in a manufacturing business January 1, 1896, was $26,000, of which A owned 1/5, B 2/5 and C 2/5. On December 31, 1896, one year thereafter, the condition of the business was found to be as follows:

ASSETS.

Real estate and buildings		$15,000
Plant and machinery		7,000
Stock on hand		2,000
Book debts		6,000
Cash in bank		2,500

LIABILITIES.

Creditors, bills payable		8,000
Partners' withdrawals:		
A (including interest)	$1,500	
B (" ")	1,200	
C (" ")	2,000	4,700

After crediting up interest on capital at the rate of 6%, show the net result for the year, and distribute the same, in the proper proportions, to the partners' accounts. Prepare the individual partners' accounts, showing the condition of each at the end of the year.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 13

(From Mass. C. P. A. Examinations, 1914)

The balance sheet of the A. B. C. Company is as follows:

ASSETS

Current:			
Cash	$25,000		
Accounts Receivable	350,000		
Notes Receivable	1,000	$376,000	
Work in Progress, at cost	$500,000		
Less Advanced Payments	400,000		
	$100,000		
Merchandise, Materials, and Supplies	250,000	350,000	
Investments:			
Acme Co. Bond	$1,000		
Stock in Other Companies	200,000	201,000	$927,000
Plant:			
Real Estate, Main Plant	$1,000,000		
Less Reserve for Depreciation	50,000	$950,000	
Real Estate, Branch	$400,000		
Less Mortgage	50,000	350,000	
Machinery and Equipment	$1,000,000		
Less Reserve for Depreciation	75,000	925,000	2,225,000
Good-Will:			$3,152,000
Good-Will Account	$1,000,000		
Patent Rights	600,000		
Organization Expense	100,000	$1,700,000	
Deferred Charges:			
Unexpired Insurance	$20,000		
Prepaid Interest	5,000		
Personal Advances	2,000	27,000	
Accounts Receivable in Suspense		300,000	2,027,000
Deficit			3,016,000
			$8,195,000

LIABILITIES

Current:		
Accounts Payable	$300,000	
Accrued Wages	10,000	
" Taxes	5,000	
" Commissions	10,000	$325,000
Notes Payable		800,000
		$1,125,000
Capital Stock:		
Preferred	$2,000,000	
Common	5,000,000	7,000,000
Reserves:		
For Completion of Contracts		70,000
		$8,195,000

A reorganization is effected by a new company, the X. Y. Z. Company, taking over the business. The new company starts with the following bonded debt and capitalization:

First Mortgage 6% 20-year Bonds	$1,000,000
7% Preferred Stock	2,000,000
Common Stock	1,250,000
	$4,250,000

The stockholders of the old company agree to participate in the reorganization upon the following terms:

Ninety (90) per cent of the preferred stockholders pay $15 per share on their holdings, $100 par value, and surrender their stock, and receive in exchange $15 first mortgage 6% bonds, and equal shares preferred stock of the new company, $100 par value, and also receive $7 per share in lieu of accrued dividends.

Ten (10) per cent of the preferred stockholders do not pay the $15 per share, but surrender their stock in exchange for preferred stock of the new company to an amount equal to 80% of their holdings and $7 per share in lieu of accrued dividends, computed upon 80% of their holdings.

Common stockholders surrender their stock and pay $5 per share on the whole outstanding common stock of the old company, par value, $100, and receive in exchange $20 in first mortgage bonds of the new company and one (1) share common stock of the new company, par value $100, for each 4 shares so surrendered.

The balance of the bonds were used at par to pay debts of the old company, one-half each on notes payable and accounts payable, and $300,000 of notes payable is paid in cash. Accrued profit on work in progress is estimated at $100,000.

Draft balance sheet of the Z. Y. Z. Company after conclusion of reorganization.

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ADVANCED ACCOUNTING PROBLEMS

Demonstration Problem No. 14

(From N. Y. C. P. A. Examination of January 29, 1907)

On June 30th Ward & Parker, merchants, announce their inability to meet their obligations and make an assignment for the benefit of creditors.

From an examination of their books, supplemented by other information, their condition appears to be as follows:

LIABILITIES	
Creditors, unsecured	$31,250
" partly secured	29,875
" fully secured	21,250
Taxes and wages of employees (preferential)	875
ASSETS	
Cash on hand	6,875
Chattels	17,500
Bills receivable	5,312
Warehouse receipts and other securities	35,000
Sundry debtors	3,250
LOSSES	
Profit and loss account, sundry losses	16,875
Trade expenses, current period	9,250
PERSONAL	
Ward, capital account, Cr.	12,500
" personal drawings, Dr.	11,250
Parker, capital account, Cr.	20,062
" personal drawings, Dr.	10,500
Accounts receivable show	3,250
Bad accounts	1,250
Doubtful accounts	750
Expected to produce	250

The securities are in the hands of creditors pledged to secure payment of their accounts, viz.:

In hands of partly secured creditors	$ 3,750
In hands of fully secured creditors	31,250
The chattels are expected to realize	11,250

Prepare a statement of affairs and a deficiency account.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 2A

The books of G. O. West, real estate agent, for the year 1906, disclose the following opening and closing balances and intervening volume of transactions.

Titles of accounts	Balances Dec. 30, 1905		Transactions in 1906		Balances Dec. 31, 1906	
Cash	$9,760.08		$137,797.62	$135,893.70	$11,664.00	
Tenants	1,060.00		34,656.00	34,788.00	928.00	
Rents accrued		$1,060.00	34,788.00	34,656.00		$ 928.00
Owners		2,500.00	34,610.00	34,788.00		2,678.00
Clients	260.00	5,929.00	100,934.00	102,070.00	104.00	6,909.00
Trade creditors		444.00	4,841.40	5,007.40		610.00
Fees				125.00		125.00
Commissions				3,118.92		3,118.92
Discounts				180.00		180.00
Expenses			1,000.00		1,000.00	
Personal drawings			2,000.00		2,000.00	
Office furniture	500.00				500.00	
Capital		1,647.08				1,647.08
	$11,580.08	$11,580.08	$350,627.02	$350,627.02	$16,196.00	$16,196.00

An analysis of the books afforded further information as follows:

Tenants were allowed $71 for repairs made by them, which sum was applied on account of rent and charged to owners.

Owners were charged for commissions on collections $869.70, trade creditors bills for repairs $3,566 and insurance $52.

Clients were charged, insurance $668, coal $906, fees $120, commissions on sales $1,004.

Advanced Accounting Problems: Practice Problem No. 2A (concluded)

Trade creditors presented bills for office supplies $50, insurance written $576, coal $815.40; they were allowed $180 for discount on settlements made.

Commissions on sales, collections, insurance written, and coal orders were closed into the general commission account, and Supplies account was transferred to Expense.

The cash transactions were as follows: Receipts - tenants, $34,717; clients, $102,070; commission on sales, $1,010.62; Payments - owners, $30,051.30; clients, $98,231; trade creditors, $4,661.40; personal drawings, $2,000; Expense, $950.

Prepare an ARTICULATION STATEMENT, showing in each account the several elements of debit and credit and giving each element the title of the Articulating account wherein the contra credit or charge appears.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 3A

(From C. P. A. Examinations)

The trial balance of the Interstate Manufacturing Company, on June 30, 1907, after closing entries have been made, is given below:

Patents and goodwill	$250,000	
Office furniture	8,746	
Inventory, June 30, 1907:		
Raw material	83,247	
Supplies	4,932	
Finished goods	42,761	
Petty cash	200	
Land	270,000	
Buildings	165,000	
Machinery	235,000	
Cash	69,433	
Accounts receivable	273,742	
Common capital stock		$500,000
Preferred capital stock		500,000
Bonds (6 per cent 50 year 1st mtge., issued June 30, 1907)		200,000
Premium on bonds		20,000
Preferred stock dividends payable Aug., 1907		17,500
Common stock dividends payable Aug., 1907		12,500
Reserve for bad and doubtful accounts		8,294
Undivided surplus		66,375
Accounts payable		78,392
	$1,403,061	$1,403,061

During the year ending June 30, 1908, the company purchased 29,047 tons of raw material at $22 per ton, which was delivered before the books were closed. Of the amount purchased, payment has been made for 26,647 tons. They have also made payments for the following accounts: Accounts payable, $78,392; salaries, $80,360; selling expense, $86,017; labor, $468,932; shop expense, $9,461; taxes, $7,842; shop repairs and maintenance, $30,955; office expense, $2,478; and supplies, $37,637.

Customers have paid $1,502,927 in cash, and have been given cash discounts amounting to $18,395. Returns and allowances amount to $8,474. Bad debts written off, $2,407. Rent, (income) $500, and sales, $1,515,572.

Fifty thousand dollars was loaned on call on June 30, 1908, the market value of the collateral security being $72,100.

The inventory on June 30, 1908, is made up of finished goods, $20,495;

supplies, $8,129, and 2,163 tons of raw material, the market price of which is $24 per ton. The land is estimated to be worth $300,000.

Semi-annual dividends of 3 1/2% on the preferred stock and 2 1/2% on the common stock have been paid from the earnings of the half year ended December 31, 1907. Dividends at the same rate have been declared on the preferred and common stock for the last half of the fiscal year, payable in August, 1908.

The following annual rates of depreciation are to be assumed and reserves created: Buildings, 6%; machinery, 15%; office furniture, 20%. It is intended that the reserve for bad and doubtful accounts shall equal 3% of the balance of accounts receivable.

Required: 1. Balance sheet—June 30, 1908.
2. Statement of income and profit and loss for the year ended June 30, 1908.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 4A

(From C. P. A. Examinations)

The Oswell Mfg. Co., the Barrett Mfg. Co., and the Padden Mfg. Co. amalgamated their interest on January 1, 1909, and organized the Consolidated Mfg. Co., with an authorized capital stock of $2,000,000 divided into 20,000 shares, par value, $100. The individual balance sheets of each respective firm taken to represent the true and exact condition of affairs at that date are as follows and the agreement among the subscribers to the stock is also stated.

Oswell Mfg. Co.

Plant and machinery		$50,000	Mortgage on plant (5% int.)	$25,000
Real estate and bldgs.		40,000	Notes payable	14,000
Furniture and equipment		20,000	Accounts payable	24,000
Horses and trucks		10,000	Capital stock	125,000
Raw materials	$19,000		Surplus	15,000
Finished goods	32,000			
Supplies	4,000	55,000		
Notes receivable		9,000		
Accounts receivable		12,000		
Cash		7,000		
		$203,000		$203,000

Barrett Mfg. Co.

Plant, equip. and mach.	$100,000	Mortgage on bldgs.	$100,000
Real estate and bldgs.	250,000	Int. acc. mortgage on bldgs.	1,125
Horses and wagons	18,000	Bank loans	14,500
Office equipment	2,000	Notes payable	67,275
Inventory, finished goods, etc.	118,000	Accounts payable	47,100
		Dividends payable	30,000
Notes receivable	22,000	Capital stock	300,000
Accounts receivable	119,000	Surplus	87,000
Loans receivable	16,000	Reserve for depreciation	22,500
Cash	30,000	Reserve for bad debts	5,500
	$675,000		$675,000

The Padden Mfg. Co.

Plant and machinery	$75,000	Accounts payable	$111,000
Inventories	76,500	Capital stock	150,000
Accounts receivable	82,500	Surplus	39,000
Cash	66,000		
	$300,000		$300,000

The average yearly net profits of each respective firm for a period of five years have been as follows:

Oswell Mfg. Co.	$19,020
Barrett Mfg. Co.	47,400
Padden Mfg. Co.	15,120
	$81,540

Of the total capitalization, $1,600,000 to be issued to the incorporators for the properties and goodwill to be sold to the new company after the assumption of all liabilities of each respective firm, $400,000 to be offered for sale to the public.

Vendor firms to donate 1,000 shares treasury stock to be available as a bonus if necessary to the sale of the 4,000 shares as yet unissued.

The 15,000 shares issued and outstanding with vendors to be allocated among them as follows:

(a) Each vendor firm to receive an amount of stock equal to the net assets, including cash, of his firm.

(b) Each vendor firm to receive also additional stock equal to the capitalized net earnings of his respective firm, at 6%, after deducting from the amount to be capitalized 6% of original investment (capitalization).

(c) Such stock as is then unallotted to be divided between the vendor firms share and share alike.

The Consolidated Mfg. Co. continued operations for one year, at the end of which it showed profits of $190,000 before allowing for depreciation and before providing a reserve for possible bad debts.

It sold during the year the 4,000 shares of stock at par, giving as a bonus 400 shares of the treasury stock.

It also sold 500 additional shares of the treasury stock at $85 per share.

It is reported that the profits of $190,000 mentioned above were represented by an increase in cash $42,000, additional merchandise to the amount of $12,000, increase in accounts receivable $48,000, decrease in accounts payable, $88,000.

You are asked to submit the following:

1. Opening journal entries for the books of the Consolidated Mfg. Co.
2. Journal entries to create from the profit of $190,000 a reserve for depreciation, and a reasonable reserve for bad debts, the amount in each case being your own estimate with reason.
3. Journal entries showing declaration and payment of a 6% dividend.
4. Final balance sheet of the Consolidated Mfg. Co.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 5A

(Wisconsin Examination, May, 1916)

On January 1, 1916, the C Co. was formed with a capital stock of $6,000,000, of which $5,000,000 was common and $1,000,000 preferred. The C Co. as of January 1, 1916, purchased the capital stocks of the A and B companies, balance sheets of which at December 31, 1915, are shown below. The preferred stock of the C Co. was sold to the public for cash at par, the stockholders of the A Co. received the entire $5,000,000 of the common stock of the C Co. for their holdings in the A Co., while the stockholders of the B Co. were paid $500,000 in cash for their holdings in the B Co.

Prepare a consolidated balance sheet showing the financial position of the C Co. as of January 1, 1916, after giving effect to the foregoing transactions. Your working papers should show the process by which you arrive at the final balance sheet figures.

It should also be understood that the A Co. had in its inventory at Dec. 31, 1915, materials valued at $250,000, purchased from the B Co. on which the B Co. had made a gross profit of 20%.

A Co. Balance Sheet, December 31, 1915

Real estate, bldgs., equipment and machinery	$1,000,000	C/S, 15,000 shares, $100 each	$1,500,000
Inventories	1,500,000	Notes payable, B Co.	100,000
Accounts receivable	500,000	Others	400,000
Cash	50,000	Accounts payable, B Co.	100,000
Prepaid insurance and taxes	10,000	Others	700,000
		Surplus	260,000
	$3,060,000		$3,060,000

B Co. Balance Sheet, December 31, 1915

Real Estate, bldgs., mach. and equip.	$250,000	C/S, 1,000 shares, $100 each	$100,000
Inventories	75,000	Accounts payable	140,000
Accounts receivable:		Surplus	262,000
A Company	100,000	Contingent liability in respect of notes of A Co. discounted at banks, $100,000	
Others	50,000		
Cash	25,000		
Prepaid insurance and taxes	2,000		
	$502,000		$502,000

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 6A

Part I

On May 1, 1917, The Roosevelt Savings Institute purchased 100 M. first mortgage 5% gold bonds of the Clinton R. R. Co. interest payable May 1, and November 1 for $103,662.74 at which figure they yielded 4%. On May 1, 1920, having received the interest due on that date the company sold the bonds for $101,265.

Prepare:
Journal entries covering above.
Bond account, showing profit or loss on sale.

Part II

On May 1, 1917, the executor of an estate purchased 100 M. 3% gold bonds of the Quebec Railroad Co. for $98,096.14 interest payable May 1 and November 1. The bonds which were purchased at a price to yield 4% mature May 1, 1919.

Prepare schedule of accumulation, journal entries covering transactions to and including May 1, 1919, and ledger accounts.

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SCHOOL OF COMMERCE, ACCOUNTS AND FINANCE

ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 7A

(From Massachusetts C. P. A. Examinations, 1916)

A corporation authorized a total issue of $500,000 of 25-year 5% bonds in denominations of $1,000 and $500, with interest payable January 1 each year. The whole issue was sold to underwriters on January 1, 1914, at 90.

The trust deed provides that "there shall be established a fund to be called 'the bond sinking fund,' to the account of which there shall on the 31st of December of each year be carried a sum equal to 7% of the total par value of the bonds issued, and that, out of the moneys so carried to the account of the said fund, the company shall pay the interest on the bonds as the same becomes due, and the balance of said moneys shall be expended each year in purchasing the bonds of the company in the open market."

In January, 1915, the company purchased $10,000 of its bonds at 97 and retired and cancelled them. In January, 1916, the market price of the bonds was 98.

(a) How many bonds may be purchased from the bond sinking fund in January, 1916?

(b) Make journal entries for all the transactions from the date of the sale of the bonds to and including the purchase for the sinking fund in January, 1916.

(c) Show trial balance after posting above entries.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 8A

(From C. P. A. Examinations)

The Farmers Co-operative Telephone Company is organized to furnish telephone service to its community and has obtained subscribers for 5,000 telephones.

To finance the venture it arranged to issue $500,000 of 7% cumulative preferred stock and $500,000 of first mortgage 6% gold bonds. The mortgage indenture provided that a sinking fund equal to 4% of the total issue should be set aside annually out of the profits of the company to provide for the redemption of the bonds. It is estimated that the average annual cost of maintaining and operating a telephone will be $25, exclusive of overhead expenses, estimated to be $50,000 per annum.

On January 1, 1916, 2,000 telephones were installed. The balance of the installation was to be completed at the rate of 750 telephones every three months. What is the amount of the minimum annual rental which the company would have to secure for each telephone in order to pay the dividends on the stock and interest on its bonds exclusive of interest earned on the sinking fund?

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 9A

(From C. P. A. Examinations)

The Bayonne Mfg. Co., which was burned out in the night of Sept. 16th, filed with the insurance companies a claim for $95,436.70, which you are called in to verify or disprove. You find the following balance sheet as of August 1, 1912:

Assets		Liabilities and Capital	
Cash	$ 9,224.67	Capital stock	$50,000.00
Accounts receivable	88,669.43	Accounts payable	59,611.46
Notes receivable	2,473.62	Notes payable	42,183.24
Mdse. inventory	42,618.97	Surplus	14,203.16
Machinery	20,419.04		
Furniture and fixtures	2,000.00		
Prepaid taxes and insurance	592.13		
Total assets	$165,997.86	Total liabs. & cap.	$165,997.86

At the close of business September 16th their ledger showed the following balances:

Capital stock		$ 50,000.00
Surplus		14,203.16
Cash	$ 5,418.22	
Accounts receivable	118,871.14	
Notes receivable	6,217.24	
Accounts payable		72,898.66
Notes payable		63,114.02
Machinery	21,619.34	
Furniture and fixtures	2,147.30	
Inventory August 1, 1912	42,618.97	
Dividends	6,000.00	
Sales		162,917.31
Mdse purchases	103,430.22	
Labor	37,619.14	
Power, light and heat	3,716.47	
Factory expense	7,119.11	
Office salaries	2,250.00	
Office expenses	319.54	
Selling expenses	4,716.92	
Insurance	318.16	
Taxes	751.38	
	$363,133.15	$363,133.15

The company's gross profits on sales has been very uniform, averaging 20 per cent. ever since the business started. Ten per cent. for depreciation has been written off every year from machinery and furniture and fixtures.

Insurance policies aggregating $100,000 cover the merchandise, machinery, and furniture and fixtures, and all contain the 80% co-insurance clause.

The merchandise and furniture and fixtures were a total loss. The salvage in machinery is valued at $2,500, at which the insured decided to retain it.

Prepare statement showing value of property destroyed by fire.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 10A

(From C. P. A. Examinations)

The balance sheet of H. Parks showed the following on December 31, 1917: Cash in bank, $815; real estate, appraised value, $20,000; machinery, $40,000; accounts receivable, $7,227.50; accounts payable, $28,000; notes payable, $22,000; inventories: finished stock, $11,000; goods in process, $850, and materials and supplies, $107.50.

On January 1, 1918, he agrees with S. Burns to sell him a one-half interest in the business for $20,000 to be contributed to new firm, the new firm to take the assets of Parks with the exception of the real estate, and assume all the liabilities; and that the goodwill of the business of Parks should be rated at $20,000 in the new firm books. It was discovered shortly after the commencement of business of the new firm that the inventory of finished goods was incorrect, and that the value should have been stated at $8,500 instead of $11,000, and that of the accounts receivable only $6,227.50 were collectible, one of the debtors, owing $1,000, having failed and absconded, leaving no assets, previous to the formation of the co-partnership, which fact was known to Parks, and his bookkeeper had been instructed to charge off the account but failed to do so. No correction was made of these discrepancies.

On December 31, 1918, the books showed that Parks had drawn out $3,000, and Burns an equal amount; the merchandise account showed a credit balance of $78,000, while the balances of other accounts were: accounts receivable, $15,400; expense, $1,500; machinery, $40,000; manufacturing expense, $22,000; wages, $44,000; rent, $1,500; profit and loss (debit), $600; accounts payable, $45,000; cash, $22,000; goodwill, $20,000. The inventories at the close of the year were: finished goods, $28,000; goods in process, $1,500, and materials and supplies, $1,500. No amount has been charged off for depreciation of machinery, which should be ten per cent.

Make proper entries to correct the books.

Give balance sheet after corrections.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 11A

(From N. Y. C. P. A. Examinations)

Two concerns engaged in the same line of business agree to consolidate for the purpose of maintaining prices, but will continue to operate each plant separately. They organize the Empire State Mfg. Co. with a capital stock of $200,000 consisting of 2,000 shares of $100 each, the members of the X Company agreeing to subscribe for 1,000 shares and to pay for them in cash, while the members of the Y Company for 1,000 shares, also payable in cash. The stock is issued to the following:

Comprising the X Company: C, Cert. No. 1 for 250 shares; D, Cert. No. 2 for 250 shares; E, Cert. No. 3 for 250 shares, and F, Cert. No. 4 for 250 shares.

Comprising the Y Company: G, Cert. No. 5 for 250 shares; H, Cert. No. 6 for 250 shares; I, Cert. No. 7 for 250 shares, and J, Cert. No. 8 for 250 shares.

The cash is paid into the treasury of the Empire State Mfg. Co. on the issuance of certificates to the respective subscribers.

The X Company's balance sheet as of May 31, 1909, was as follows: Cash, $125,000; materials and supplies, $25,000; accounts receivable, $300,000; plant and buildings, $400,000; accounts payable, $20,000; capital (1,000 shares $100 each), $100,000; surplus, $730,000. Their annual sales have been $800,000.

The Y Company's balance sheet as of the same date is as follows: Cash, $50,000; materials and supplies, $25,000; accounts receivable, $200,000; plant, $500,000; goodwill, $700,000; accounts payable, $150,000; capital (10,000 shares $100 each) $1,000,000; surplus, $325,000. Their annual sales have been $600,000.

The Empire State Manufacturing Co. purchases and pays cash for the stock of materials and supplies for both mills. It rents from the X Company its plant and agrees to pay an annual rental of $90,000 and in addition thereto will pay the officers managing the X plant an annual salary of $90,000 for their services. The rent for the Y Company plant is agreed on at $60,000 and the officers are to receive an annual salary of $60,000. It is agreed that all additions to the plants and all repairs and maintenance are to be paid for by the Empire State Manufacturing Co.

Operations of both plants are continued and at the end of the fiscal year, May 31, 1910, the balances appearing on the books of the Empire State Manufacturing Co. are as follows:

(From N. Y. C. P. A. Examinations)

Cash	$200,000
Accounts receivable	200,000
Additions to plant	60,000
Accounts payable	160,000
Capital stock	200,000

The trading transactions of the respective mills are as follows:

X COMPANY'S MILL	
Purchases–raw materials and supplies	$160,000
Labor	300,000
Factory expense	100,000
Repair and maintenance of plant	80,000
Office expense	60,000
Rent of plant	90,000
Officers' salaries	90,000
Sales	907,000

Y COMPANY'S MILL	
Purchases–raw materials and supplies	$140,000
Labor	250,000
Factory expense	75,000
Repair and maintenance of plant	70,000
Office expense	50,000
Rent of plant	60,000
Officers' salaries	60,000
Sales	778,000

The stock as of May 31, 1910, consisted of:

Materials and supplies—X Company's mill	$10,000
Materials and supplies—Y Company's mill	15,000
Labor due, not paid—X Company's mill	5,000
Labor due, not paid—Y Company's mill	10,000

(a) Open the books of the Empire State Manufacturing Company; (b) prepare balance sheet as of May 31, 1910, and (c) consolidated statement of income and profit and loss showing profits for each mill. As the mills have been kept in perfect repair no depreciation is to be considered; outstanding accounts are considered good. Provide for a dividend of 10%.

(d) Prepare percentage table of each mill, showing to four (4) decimals the percentage of each of the following items against the total cost of production:

Materials and supplies
Labor
Factory expense
Repairs and maintenance
Rent of plant

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 12A

N. Y. C. P. A. Examination - June 30, 1921.

A San Francisco corporation builds a plant and established a branch in Glasgow, Scotland. At the expiration of its fiscal period a trial balance is forwarded to the San Francisco office, as follows:

Plant	£250,000	
Accounts receivable	187,500	
Expenses	25,000	
Inventory (end of fiscal period)	50,000	
Remittance account	150,000	
Cash	12,500	
Accounts payable		£ 87,500
Income from sales		250,000
San Francisco office		337,500
	£675,000	£675,000

A trial balance of the San Francisco books at the same date was as follows:

Capital stock		$2,500,000.00
Patents	$1,500,000.00	
Glasgow account	1,640,250.00	
Remittance account		729,281.25
Expenses at San Francisco	25,000.00	
Cash	64,031.25	
	$3,229,281.25	$3,229,281.25

The Remittance Account is composed of four sixty (60) day drafts on Glasgow for £37,500 each, which were sold in San Francisco at $4.85-1/2, $4.86, $4.86-1/2 and $4.86-3/4 respectively.

Prepare a balance sheet of the San Francisco books after closing and a statement of assets and liabilities of the Glasgow branch reconciled with the San Francisco books. Close the books at rate of exchange on last day of fiscal period $4.87-1/4 (conversion of remittance to be made at the average rate of the four bills).

Note: Return this question paper with your answers.

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ADVANCED ACCOUNTING PROBLEMS

Practice Problem No. 13A

(From N. Y. C. P. A. Examinations)

Johnson, Kaplan and Lambert had been in partnership for two years, having begun business with investments of $5,000, $7,000, and 8,000 respectively. Their agreement provided that profits and losses should be divided in proportion to original capital investments, and that no interest was to be allowed on capital. The books were badly kept, and on December 31, 1917, showed the following balances, which were not disputed by any of the partners: Johnson net credit, $3,000; Kaplan net debit, $3,370; Lambert net credit, $4,650; cash in banks and on hand, $804.20; expense debit, $4,550; interest credit, $250; accounts receivable, $2,240; investment account, $12,000.

The business in which the firm was engaged was that of factory selling agents. It holds a number of one year sales contracts under which the minimum guaranteed will net $15,000 in commissions, although it is believed that the amount may run to $20,000. The factories make shipments to customers direct and send monthly statements to the firm of shipments and commissions. The investment account represents holdings at par of 75% of the capital stock of a company on whose books there appears a deficit of $2,700.

Johnson and Kaplan have agreed to sell their interest in the business, including the firm name, to Lambert for 200 cents on the dollar, taking notes covering 18 months.

Prepare a statement showing the settlement between partners, and a balance sheet after the settlement.