ACCOUNTING PROBLEMS:
INTERMEDIATE

ACCOUNTING PROBLEMS: INTERMEDIATE

BY

CHARLES F. RITTENHOUSE, B. C. S., C. P. A.
PROFESSOR OF ACCOUNTING, BOSTON UNIVERSITY COLLEGE OF
BUSINESS ADMINISTRATION

AND

ATLEE L. PERCY, A. B., B. B. A., C. P. A.
ASSOCIATE PROFESSOR OF ACCOUNTING, BOSTON UNIVERSITY COLLEGE OF
BUSINESS ADMINISTRATION

FIRST EDITION

McGRAW-HILL BOOK COMPANY, INC.
NEW YORK: 370 SEVENTH AVENUE
LONDON: 6 & 8 BOUVERIE ST., E. C. 4
1922

WASHINGTON MONOTYPE COMPOSITION COMPANY, WASHINGTON, D. C.

PREFACE

This book of exercises in accounting is the result of work by the authors extending over several years in collecting and preparing problems and exercises of an intermediate grade which would provide the instructor of accounting with a variety of laboratory material of a practical and teachable character. It should be understood that the book is essentially a compilation of problems and exercises illustrated by model statements of various types, rather than a presentation of accounting theory. It is, therefore, intended to be used in conjunction with a text on accounting theory or to supplement the instructor's own lectures on the subject. The work is adapted to second year students or to those even further advanced in their accounting course. It is divided into two parts.

Part I consists of more than forty model forms of financial statements and reports with comments and interpretations. These serve the purpose of familiarizing the student with forms of statements and reports adaptable to representative businesses and institutions, and at the same time they aim to present within certain limits the standardized practice in form and arrangement of such statements. The published balance sheets of representative industrial concerns of this country and Great Britain which are reproduced should broaden the horizon of the student, add to his knowledge of accounts and accounting terms, and serve to develop his power to interpret statements from the point of view of the business executive, banker, and investor.

Part II consists of some four hundred problems and questions in accounting theory classified and arranged to correspond to the topics in accounting which would as a general practice receive consideration in the intermediate state of the student's work. Much more care and thought have been given to the selection of these problems than is apparent on the surface. Many of them are original problems developed from the authors' experiences in accounting work, but the majority are taken from C. P. A. examinations given by different states and from the examinations of the American Institute of Accountants. Only such C. P. A. problems have been selected as have real merit. Many of the problems have been revised for the purpose of making them teachable and clearer of interpretation. The purpose in the main has been to select problems which combine a maximum of benefit with a minimum of clerical work.

While many collections of problems have been published, the authors believe that this is the first time that any serious thought has been given to the pedagogy of such laboratory material. Not only have the problems been carefully classified and graded, but a feature of the work which should be much appreciated by all instructors is the notes and comments which accompany most of the problems. These comments call attention to the major points of the problem, state the nature and the purpose of the problem, the principles involved in its solution, reading references where necessary, and helpful hints and suggestions to assist the student in arriving at an intelligent and finished solution of the problem. Throughout Part II cross references are made to the model forms in Part I, which combined with the proper guidance by the instructor, should develop and maintain a high standard of accounting technique.

A serious effort has been made to have both student and instructor realize that the solution of a problem is of consequence not merely for its own sake, but of far greater importance for the training thus provided in making a practical application of the principles involved in the problem. The solution thus becomes nothing more than a concise, well-planned, and readable presentation of a certain phase of accounting theory. The student should thus acquire much more than a mere "knack" or skill in solving problems. Every problem should be looked upon as an actual "case" given to him for his careful consideration and opinion, with the result of his thought and study presented in proper technical form, and reflecting in as high degree possible his mature and expert judgment.

It is believed that the instructor will find it impossible to make use of all the problems under each topic in a one year course. Accordingly, the assignments from year to year may be varied to a considerable degree, thereby overcoming the dangers that result from assigning identical problems to successive classes.

The carefully compiled bibliography at the close of each section of the book should prove of great help to the student who wishes to make an extended study of a particular topic.

THE AUTHORS

BOSTON, MASS.
July 1, 1922

CONTENTS

PART I

ILLUSTRATIVE FORMS OF FINANCIAL STATEMENTS AND REPORTS

PART II

CLASSIFIED PROBLEMS AND EXERCISES IN THEORY AND PRACTICE

INTRODUCTION

FORM AND ARRANGEMENT OF FINANCIAL STATEMENTS

Importance of Technique.—Financial statements are the most formal documents in accounting, and should, therefore, be prepared with the greatest degree of accuracy and understanding. They may be said to bear the same relation to other phases of accounting as an engraved invitation does to ordinary social correspondence.

The entire accounting system should be arranged with a view to gathering all the information that may be required in the preparation of the financial statements. All other processes in accounting are merely the means to an end. The end to be sought is the presentation through readable and comprehensive reports or statements of the results of business operations and a clear and accurate statement of financial condition. Poor arrangement and carelessness in the preparation of financial statements usually give the impression that the books of account have likewise been kept in a careless and unmethodical manner.

One extreme in regard to form and arrangement, as applied to financial statements, is to throw together a mass of figures and facts in a careless fashion without regard to logical arrangement. Such figures are accordingly more or less unintelligible, and give no definite information as to details. The other extreme is to prepare the statements in such a technical manner that none except those skilled in accounts can read them intelligently.

As a happy medium the facts should be presented in a formal and logical order, but with all items well defined and completely stated, and with the facts presented in proper sequence. The terms should be explicit and the figures accurate. While containing no unnecessary words, they should be so complete that the layman will not be left in doubt as to the meaning of the various items. Such work is distinctly constructive in its nature and requires imagination, an analytical turn of mind, and the ability to think clearly and to see things from the other person's point of view. Good technique requires attention to punctuation, indentations, capitalization, and abbreviations.

Grouping of Items.—All items of like nature should be grouped under appropriate headings so that proper comparison and analysis of the financial facts presented may be made. All items and totals should be properly defined.

Punctuation.—Little punctuation is necessary in financial statements because of the grouping and indentations. The principal marks used are the comma, dash, semi-colon, and parentheses. The comma is used in the customary way for the punctuation of dates, explanatory clauses, etc.

It is recommended that the dash be used after such words as "Less" and "Deduct" when followed by other words on the same line.

The colon is used after all group headings, the items of which appear in tabulated form under such headings.

The parentheses are used to inclose all words and phrases of an explanatory nature such as "cost," "book value," etc., used after certain assets in the Balance Sheet.

The dollar mark should not be used when figures appear in ruled columns but should appear at the head of all unruled columns, and should be repeated when the column is broken by a single or double line. This applies only to pen-written work on ordinary ruled sheets, and not to typewritten work where the dollar mark appears in all columns.

Indentations.—The various indentations are for the purpose of indicating the connection between items and groups of items, and should be given close attention in order that the statement may be more easily read. They should follow as closely as possible the ordinary rules for tabulation of financial facts, the main thing being to make the indentations uniform.

Capitalization.—Practice in the use of capitals should be consistent. One method is to capitalize all words in each item except the articles, prepositions, and conjunctions. Another method is to capitalize only the first word of each item.

Abbreviations.—There should be no abbreviations except in extreme cases. Ditto marks should never appear in a financial statement.

Divisions of the Financial Statement.—In the field of accounting work covered in these exercises we need recognize only the following divisions of financial statements:

Balance Sheet with supporting schedules, known as Exhibit A.

Profit and Loss Statement with supporting schedules, known as Exhibit B.

Statement of Cost of Goods Sold (for manufacturers only), known as Exhibit C.

Sundry other statements are used from time to time, but they are usually subsidiary to the above named statements.

Form of Balance Sheet.—The most common forms of Balance Sheet are known as the Report or Statement form, and the Account or Technical form. The former is known as a one-page or "running" form, the assets appearing at the top, followed by the liabilities and capital. It should be used only when the number of items is small and the entire statement can be placed on a single page without crowding.

The account form, known as the two-page or technical form, is used when the number of items is large, the assets being placed to the left, and the liabilities and capital to the right. All other forms of Balance Sheets are variations of these two forms.

MODEL EXERCISE I

Financial Statements for Sole Proprietorship

GEORGE W. DUNN

Trial Balance—December 31, 1921

(Adjusted)

Cash on Hand and in Bank	$ 5 630 00	
Accounts Receivable	224 296 00	
Notes Receivable	22 600 00	
Inventory, December 31, 1920 (cost)	210 275 00	
Interest Accrued on Notes Receivable	654 00	
Real Estate (book value)	76 540 00	
Store Fixtures (book value)	14 416 00	
Office Furniture and Equipment (book value)	2 760 00	
Interest Prepaid on Notes Payable Discounted	1 350 00	
Advertising Matter on Hand	956 00	
Taxes Prepaid	890 00	
Insurance Prepaid	175 00	
Accounts Payable		$ 84 264 00
Notes Payable		50 000 00
Mortgage Payable		70 000 00
Interest Accrued on Notes Payable		460 00
Interest Accrued on Mortgage Payable		800 00
George W. Dunn, Capital		275 000 00
George W. Dunn, Current	15 600 00	
Sales		852 075 00
Sales Returns and Allowances	17 273 00	
Purchases	649 120 00	
Purchase Returns and Allowances		8 670 00
Freight and Hauling Inward	4 035 00	
Advertising	21 607 00	
Store Clerks' Salaries	18 460 00	
Traveling Salesmen's Salaries	18 644 00	
Traveling Expenses	13 720 00	
Store Supplies Used	1 516 00	
Freight and Hauling Outward	2 060 00	
Office Clerks' Salaries	6 488 00	
Office Expenses	1 780 00	
Maintenance of Real Estate	4 260 00	
Interest on Notes Receivable		1 307 00
Interest on Bank Balances		79 00
Discounts on Purchases		4 890 00
Interest on Notes Payable	5 745 00	
Interest on Mortgage Payable	4 200 00	
Discounts on Sales	2 495 00	
	$1 347 545 00	$1 347 545 00

Inventory, December 31, 1921 (cost) $185,820.00

Required:

(a) Profit and Loss Statement

(b) Balance Sheet

(c) Closing Entries.

Comments.—Mr. Dunn conducts a wholesale jobbing business. He owns a six-story building, using the basement and first two floors for his business and renting the upper floors.

"Maintenance of Real Estate" includes taxes, insurance, repairs to building, depreciation, heat and light, janitor and helpers, etc., and is to be charged as an operating expense in lieu of rent.

Freight and hauling inward on merchandise purchases is considered a part of the cost of goods purchased, and the proper portion thereof is included in the cost of goods on hand, both at the beginning and at the end of the year.

Form I.—Balance Sheet (Report Form).

GEORGE W. DUNN

Exhibit A

Balance Sheet—December 31, 1921

Assets

Current Assets:			
Cash		$ 5 630 00	
Accounts Receivable		224 296 00	
Notes Receivable		22 600 00	
Merchandise on Hand (cost)		185 820 00	
Accrued Items:			
Interest on Notes Receivable		654 00	$439 000 00
Fixed Assets:			
Real Estate (book value)		$ 76 540 00	
Store Fixtures (book value)		14 416 00	
Office Furniture and Equipment (book value)		2 760 00	93 716 00
Deferred Charges to Operations:			
Advertising Matter on Hand		$ 956 00	
Interest Prepaid on Notes Payable Discounted		1 350 00	
Taxes Prepaid		890 00	
Insurance Prepaid		175 00	3 371 00
Total Assets			$536 087 00

Liabilities and Capital

Current Liabilities:			
Accounts Payable		$ 84 264 00	
Notes Payable		50 000 00	
Accrued Items:			
Interest on Notes Payable	$ 460 00		
Interest on Mortgage Payable	800 00	1 260 00	$135 524 00
Fixed Liabilities:			
Mortgage Payable			70 000 00
Total Liabilities			$205 524 00
George W. Dunn's Capital:			
Balance, December 31, 1920		$275 000 00	
Add—Net Profit for the Year (See Exhibit B)	$71 163 00		
Less—Drawings for the Year	15 600 00	55 563 00	330 563 00
Total Liabilities and Capital			$536 087 00

Form 1—Balance Sheet.—This form illustrates the manner of setting up the report form of balance sheet for a single proprietorship. Attention is called to the following points in this statement:

Heading.—This appears on three lines, the first of which contains the name of the proprietor, the second, the words "Exhibit A," and the third, the title and date of statement. Each item should be properly centered and all words underlined. The words "Exhibit A" may appear at the bottom of the page if the balance sheet forms a part of a report which is bound at the top instead of the left side. The date should always be as of the close of the fiscal period.

Grouping.—The two main sections are headed "Assets" and "Liabilities and Capital" respectively. The subheadings under the "Assets" section are "Current Assets," "Fixed Assets," and "Deferred Charges to Operations." The latter should always be shown as the last subheading in the "Assets" group. In this form, current assets appear first. Either current assets or fixed assets may appear first, depending upon the purpose for which the balance sheet is to be used, and the total amount of the respective groups. The current assets usually appear first when the statement is submitted for credit purposes. If the amount of the fixed assets is very large as compared with current assets, then the "Fixed Assets" group may be shown first.

The "Liabilities and Capital" section is subdivided into the following groups: "Current Liabilities," "Fixed Liabilities," and "Capital." The capital should always appear as the last group under the "Liabilities" section, while either fixed liabilities or current liabilities may appear first, depending upon the manner in which the assets are shown. If current assets are shown first, then current liabilities must be shown first, and vice versa.

The words "book value" after each of the items under the "Fixed Assets" group indicate that whatever depreciation has been set aside has been credited to the asset account, and, therefore, the amounts represent the cost of the assets less the depreciation and not the original cost.

Underlining.—All main headings and subheadings are underlined. This is done for emphasis and to make the statement more readable, especially when pen-written. In typewritten statements capitalization of items may serve the same purpose as underlining. Each item that touches the left-hand margin should be underlined, the "Total Assets" and "Total Liabilities and Capital" being underlined with a double line to correspond with the double ruling under the total figures.

Punctuation.—Commas are used to punctuate the date in the heading and the capital section. The period is not necessary in the heading, but may be used if desired.

The colon is used after each of the subheadings and the term "Accrued Items" under the current assets and current liabilities.

The dash is used to separate the title of the statement and the date, and after the words "Add" and "Less" in the capital section.

Parentheses are used for such explanatory words as "cost," "book value," and "See Exhibit B," the latter referring to the profit and loss statement.

The dollar sign appears at the top of each column in typewritten work, and is repeated when the column is broken by ruling. When ruled columns are used, the dollar signs are omitted, especially for pen work.

Indentations.—There are but two indentations—one for the main items under the subheads, and another for the items of similar character under subheads such as "Accrued Items" under "Current Assets" and "Accrued Items" under "Current Liabilities." Care should be taken to keep indentations uniform.

Form II.—Profit and Loss Statement (Report Form).

GEORGE W. DUNN

Exhibit B

Profit and Loss Statement for Year Ending December 31, 1921

Gross Sales		$852 075 00	
Less—Returns and Allowances		17 273 00	
Net Sales			$834 802 00
Deduct—Cost of Goods Sold:			
Inventory, December 31, 1920		$210 275 00	
Gross Purchases	$649 120 00		
Less—Returns and Allowances	8 670 00		
Net Purchases		640 450 00	
Freight and Hauling Inward		4 035 00	
Total Cost of Goods		$854 760 00	
Less—Inventory, December 31, 1921		185 820 00	668 940 00
Gross Profit on Sales			$165 862 00
Deduct—Operating Expenses:			
Store Clerks' Salaries		$18 460 00	
Advertising		21 607 00	
Traveling Salesmen's Salaries		18 644 00	
Traveling Expenses		13 720 00	
Office Clerks' Salaries		6 488 00	
Maintenance of Real Estate		4 260 00	
Freight and Hauling Outward		2 060 00	
Office Expenses		1 780 00	
Store Supplies Used		1 516 00	88 535 00
Net Trading Profit			$77 327 00
Add—Other Income:			
Discount on Purchases		$4 890 00	
Interest on Notes Receivable		1 307 00	
Interest on Bank Balances		79 00	6 276 00
Total Income			$83 603 00
Deduct—Other Expenses:			
Interest on Notes Payable		$5 745 00	
Interest on Mortgage Payable		4 200 00	
Discounts on Sales		2 495 00	12 440 00
Net Profit for the Year (See Exhibit A)			$71 163 00

Form II—Profit and Loss Statement.—This form illustrates a form of profit and loss statement in common use for a trading business—in this instance, for a single proprietorship. Attention is directed to the following details concerning this form of statement:

Heading.—The heading appears in three lines, as in the balance sheet. The profit and loss statement is usually designated as "Exhibit B." The name of the firm appears on the first line, "Exhibit B" appears on the second line, and the third line is used for the title and designation of period covered by the statement. The latter should show not merely the date of the statement, but should state specifically the entire period covered.

Grouping.—This statement is divided into four main sections: (1) the Sales and Cost of Sales section, known as the Trading section; (2) the Operating Expense section; (3) the Other Income section; (4) Other Expenses section. They should appear in the order shown in Form II, unless the statement shows a loss from operations instead of net income from operations, in which case the "Other Expense" group should be added to Loss from Operations, giving a total loss. From this should be deducted Other Income, giving the net profit or net loss for the period. The Trading section should include all items that have to do directly with the cost and sales of merchandise. Freight In is usually added to cost of goods. If, however, no portion of freight is included in the cost of goods on hand at the beginning and at the end of the year, this item should be shown as operating expense (See Form VII). Trading details such as returns, allowances, etc., should be shown when available. Freight Out is usually shown as a selling expense, but may be deducted from sales if it is the custom to prepay all transportation charges and fix a uniform selling price which includes cost of delivery to all points. This is the exception rather than the rule, because of the wide variation in freight charges to various delivery points. Sales and purchase discounts are sometimes shown as deductions from sales and purchases respectively, but are here shown as Other Expenses and Other Income. Trade discounts which are not conditional upon payment of accounts within a specified time but depend upon quantity purchases or sales, etc., should be shown as deductions in the Trading section. Cash discounts, on the other hand, should be handled in the same manner as interest collected or paid, upon the theory that they are a charge or income of the period when the accounts are paid, and are not of the period when the sale or purchase took place.

Underlining.—Attention is called to the fact that all items that touch the left-hand margin are underlined. The subheadings, Cost of Goods Sold, Operating Expenses, Other Income, and Other Expenses, are also underlined. The words "Deduct" and "Add," preceding these group headings, are never underlined. In some instances, these words are omitted entirely. The purpose of the underline is to make the important items stand out, thus enabling the reader to find them more readily.

Punctuation.—The rules regarding punctuation are similar to those suggested for the Balance Sheet, the colon being used after each group heading and the dash after the words Less, Add, and Deduct.

Indentations.—Two main indentations are made following the ordinary rules for tabulation. It is important that the left-hand margin be kept straight, and that the indentations be uniform and not too wide.

Variation in Form of Cost of Goods Sold Section.—Instead of starting with the inventory at the beginning of the period and then adding the net purchases and freight to find the total cost of all goods, and then deducting inventory at the end of period to find cost of goods sold, the net purchases are added to the freight to find total cost of purchases for period. To this figure will be added the *decrease* in inventory at the close of the period as compared with that on hand in the beginning. Under this plan *decrease* in inventory is *added*, while *increase* in inventory is *deducted*, the result in either case being cost of goods sold. Under this plan the items in Form II would appear as follows:

Deduct—Cost of Goods Sold:			
Gross Purchases		$649 120 00	
Less—Returns and Allowances		8 670 00	
Net Purchases		$640 450 00	
Add—Freight and Hauling Inward		4 035 00	
Total Cost of Purchases for Year		$644 485 00	
Add—Decrease in Inventory:			
Inventory, December 31, 1920	$210 275 00		
Inventory, December 31, 1921	185 820 00	24 455 00	
Cost of Goods Sold			$668 940 00

Classification of Expenses.—In this particular statement no attempt is made to classify operating expenses, except that the larger items are shown first. The same order has been followed in grouping the other income and expense items. There are three common methods of setting up the operating expenses:

(1) They may be shown in detail with larger items first, as shown in Form II.

(2) They may be shown in detail by grouping under subheads of Selling, etc. When this form is used, the details are shown short, with group totals in inside column.

(3) They may be departmentized, and only totals for each shown in profit and loss statements, the details being shown in supporting schedules When the last method is used the items would appear as follows:

Deduct—Operating Expenses:		
Selling Expenses (See Schedule 2)	$76 007	
General Administration (See Schedule 3)	12 528	
		$88 535

Operating Expenses include all those ordinary expense items necessary for the operation of the business and those common to all other concerns in the same line of business. Such expense, deducted from gross profit, shows profit from the regular operations of the business before allowing for the cost of obtaining capital with which to operate the business or any unusual charges beyond the control of the management. Such items appear under the Other Expenses group and in this statement are represented by interest on notes and mortgages and discount on sales, all of which are financial items. Loss on bad debts is usually shown under this group as well as donations and other unusual expenses.

Other Income items represent those sources of income other than from the regular trading operations of the business. They include income derived from financial operations such as interest and discount received and any other income aside from the ordinary trading income accounts. In this statement they include interest collected on notes and bank balances and discounts on purchases.

FORM III.—Closing Entries.

GEORGE W. DUNN

Closing Entries—December 31, 1921

Sales	$17 273 00	
To Sales Returns and Allowances		$17 273 00
To close the sales returns and allowances for the year into the Sales account.		
—31—		
Purchase Returns and Allowances	8 670 00	
To Purchases		8 670 00
To close the purchase returns and allowances for the year into the Purchases account.		
—31—		
Purchases	4 035 00	
To Freight and Hauling Inward		4 035 00
To close the cost of freight and hauling inward on Merchandise purchases for the year into the Purchases account.		
—31—		
Purchases	210 275 00	
To Inventory		210 275 00
To close cost of goods on hand 12/31/20 into the Purchases account.		
—31—		
Inventory	185 820 00	
To Purchases		185 820 00
To bring onto the books through the Purchases account the cost of goods on hand 12/31/21.		
—31—		
Sales	668 940 00	
To Purchases		668 940 00
To close the cost of goods sold during the year into the Sales account:		

Inventory 12/31/20		$210 275 00
Gross Purchases	$649 120 00	
Less—Returns	8 670 00	640 450 00
Freight and Hauling Inward		4 035 00
Total		$854 760 00
Less—Inventory 12/31/21		185 820 00
Cost of Sales, as above		$668 940 00

—31—

Sales	165 862 00	
To Profit and Loss		165 862 00
To close the gross profit on sales for the year into Profit and Loss account.		

Gross Sales	$852 075 00
Less—Returns and allowances	17 273 00
Net Sales	$834 802 00
Less—Cost of goods sold	668 940 00
	$165 862 00

Closing Entries—December 31, 1921 (Concluded)

Discounts on Purchases	$4 890 00	
Interest on Notes Receivable	1 307 00	
Interest on Bank Balances	79 00	
To Profit and Loss		$6 276 00
To close the accounts representing miscellaneous income for the year into Profit and Loss account.		
—31—		
Profit and Loss	88 535 00	
To Store Clerks' Salaries		18 460 00
Advertising		21 607 00
Traveling Salesmen's Salaries		18 644 00
Traveling Expenses		13 720 00
Office Clerks' Salaries		6 488 00
Maintenance of Real Estate		4 260 00
Freight and Hauling Outward		2 060 00
Office Expenses		1 780 00
Store Supplies Used		1 516 00
To close the accounts representing the operating expenses for the year into Profit and Loss account.		
—31—		
Profit and Loss	12 440 00	
To Interest on Notes Payable		5 745 00
Interest on Mortgage Payable		4 200 00
Discount on Sales		2 495 00
To close the accounts representing miscellaneous expenses for the year into Profit and Loss account.		
—31—		
Profit and Loss	71 163 00	
To George W. Dunn, Current		71 163 00
To transfer the net profit for the year to George W. Dunn's Current account.		
—31—		
George W. Dunn, Current	55 563 00	
George W. Dunn, Capital		55 563 00
To transfer to George W. Dunn's Capital account the credit balance of his Current account, being the net addition for the year to his capital investment.		

Form III—Closing Entries.—This illustrates the method of closing the nominal accounts in the ledger at the close of the fiscal period. The trading items are closed through Purchases account. An alternate method would be to close these items through a Trading account. The items for the closing entries are taken directly from the Profit and Loss Statement (Form II).

As a general rule the entries should be made in the order in which they appear on the statement. There are a number of variations in the method of closing the ledger, but the method used in Form III has the advantage of being logical, complete, and easily understood.

MODEL EXERCISE II

Financial Statements For A Partnership

HALL AND MARVIN

Trial Balance—June 30, 1922

Land (cost)	$55 000 00	
Building (cost)	37 500 00	
Furniture and Fixtures (cost)	5 820 00	
Cash	7 682 53	
Accounts Receivable	23 731 40	
Notes Receivable	730 00	
Inventory, December 31, 1921 (cost)	24 260 75	
Mortgage Payable		$35 000 00
Accounts Payable		9 840 62
Notes Payable		5 000 00
C. R. Marvin, Salary Account		250 00
Reserve for Depreciation of Building		7 500 00
Reserve for Depreciation of Furniture and Fixtures		1 750 00
Reserve for Loss on Bad Accounts and Notes Receivable		169 80
H. B. Hall, Capital		60 0C0 00
H. B. Hall, Drawings	1 869 00	
C. R. Marvin, Capital		30 000 00
C. R. Marvin, Drawings	4 705 00	
Sales		82 687 19
Purchases	53 321 60	
Freight, Express, and Cartage Inward	1 924 34	
Traveling Expenses	2 107 40	
Salaries and Wages	9 369 72	
Delivery Expenses	1 290 81	
Office Expenses	1 587 10	
Insurance	435 00	
Interest on Notes Receivable		136 24
Interest on Notes Payable	238 90	
Interest on Mortgage Payable	875 00	
Cash Discount on Purchases		486 72
Cash Discounts on Sales	372 02	
	$232 820 57	$232 820 57

Cost of merchandise on hand June 30, 1922, $25,710.40.

Required:

(a) Adjusting journal entries in complete form
(b) Working sheet;
(c) Profit and loss statement
(d) Balance sheet
(e) Closing entries.

Comments.—The firm of Hall and Marvin conducts a wholesale and retail hardware business, owning its own real estate.

By the terms of the partnership agreement, profits and losses are shared two-thirds to Mr. Hall and one-third to Mr. Marvin. Mr. Marvin, who acts as general manager, is allowed a salary of $250.00 a month, which is considered as an expense of operating the business; profits not withdrawn by the partners are not considered a part of their capital investments, but are credited to the partners' Drawing accounts, and may be withdrawn by the partners at their convenience. On December 31, 1921, Mr. Hall's Drawing account contained a credit balance of $3,629.40. Mr. Marvin's Drawing account had no balance.

Freight, express, and cartage inward on merchandise purchases is not considered a part of the cost of goods purchased. The stock is very varied, and to distribute properly the cost of freight and carting among the numerous commodities would be difficult and unsatisfactory.

During the six months ending June 30, 1922, the Sales account has been credited for $86,108.89 representing gross sales, and debited for $3,421.70 representing sales returns and allowance. The Purchases account has been debited for $57,529.46, gross purchases, and credited for $4,207.86, purchase returns and allowances.

In order that the results of the period may be correctly shown, the following items require adjustment:

Unexpired insurance as of June 30	$260 00
Taxes accrued to June 30	102 50
Interest accrued on interest bearing notes receivable to June 30	24 60
Interest accrued on interest bearing notes payable to June 30	75 00
There are office supplies on hand which cost	150 89

Depreciation on the building is figured at the rate of 2% per annum; on the furniture and fixtures at 10% per annum.

It is desired to set aside out of the profits for the period a further reserve for loss on bad accounts and notes receivable amounting to ½% of the net sales.

FORM IV.—Adjusting Journal Entries.

HALL AND MARVIN

Adjusting Entries, June 30, 1922

Unexpired Insurance (No. 1)	260 00	
Insurance		260 00
To bring onto the books as an asset the unexpired insurance as of this date		
—30—		
Taxes (No. 2)	102 50	
Taxes Accrued		102 50
To bring onto the books the liability for taxes accrued to date		
—30—		
Accrued Interest on Notes Receivable (No. 3)	24 60	
Interest on Notes Receivable		24 60
To bring onto the books the interest accrued to date on interest bearing notes receivable:		
J. A. Shore's note of 10/15/21, \$500, 8 mos. 15 days at 6% \$21 25		
R. C. Cram's note of 4/3/22, \$230, 2 mos. 27 days at 6% 3 35		
Total, as above, \$24 60		
—30—		
Interest on Notes Payable (No. 4)	75 00	
Interest Accrued on Notes Payable		75 00
To bring onto the books the interest accrued to date on interest bearing notes payable:		
Note of 4/1/22 favor First Nat'l Bank, \$5,000, 90 days at 6%		
—30—		
Office Supplies on Hand (No. 5)	150 89	
Office Expenses		150 89
To bring onto the books the cost of office supplies on hand as of this date		
—30—		
Depreciation of Building (No. 6)	375 00	
Reserve for Depreciation of Building		375 00
Estimated depreciation on the building for the six months ending 6/30/22. Figured on cost (\$37,500) at the rate of 2% per annum		
—30—		
Depreciation of Furniture and Fixtures (No. 7)	291 00	
Reserve for Depreciation of Furniture and Fixtures		291 00
Estimated depreciation on furniture and fixtures for the six months ending 6/30/22. Figured on cost (\$5,820) at the rate of 10% per annum		
—30—		
Loss on Bad Accounts and Notes Receivable (No. 8)	413 44	
Reserve for Loss on Bad Accounts and Notes Receivable		413 44
To set aside from the profits of the period ½% of the net sales to provide for future losses on bad accounts and notes receivable.		
.005 × \$82,687.19 = \$413.44, as above		

Form IV—Adjusting Journal Entries.—It becomes necessary at the end of each fiscal period to make certain corrections or adjustments in the accounts in order to bring the books into agreement with facts as they actually exist. If the books are to be closed, these entries should be entered in the journal in regular form as shown in Form IV. It is essential that the particulars for these entries be very complete. From the journal, the entries are posted to the ledger, from which an adjusted trial balance is then taken. If a working sheet is used, the adjusting entries are posted to the "Adjustments" column of same as shown in Form V. When monthly statements are desired and the books are to be closed annually, the adjustments may be omitted from the journal and may be shown only in the "Adjustments" column of the working sheet. It is considered better practice even in that case to write them out in proper form on loose paper before entering on working sheet so that proper explanations may be placed on record. The entries should be numbered on the working sheet to correspond with those in the journal.

FORM V.—Working

HALL AND

Working Sheet—Six Months' Period,

	Trial Balance per Books Debits		Trial Balance per Books Credits		Adjustments Debits		Adjustments Credits	
Land	55 000	00						
Building	37 500	00						
Furniture and Fixtures	5 820	00						
Cash	7 682	53						
Accounts Receivable	23 731	40						
Notes Receivable	730	00						
Inventory	24 260	75						
Mortgage Payable			35 000	00				
Accounts Payable			9 840	62				
Notes Payable			5 000	00				
C. R. Marvin, Salary			250	00				
Reserve for Depreciation of Building			7 500	00			#6 375	00
Reserve for Depreciation of Furniture and Fixtures			1 750	00			#7 291	00
Reserve for Loss on Bad Accounts and Notes Receivable			169	80			#8 413	44
H. B. Hall, Capital			60 000	00				
H. B. Hall, Drawings	1 869	00						
C. R. Marvin, Capital			30 000	00				
C. R. Marvin, Drawings	4 705	00						
Sales (Returns $3,421.70)			82 687	19				
Purchases (Returns $4,207.86)	53 321	60						
Freight, Express, and Cartage Inward	1 924	34						
Traveling Expenses	2 107	40						
Salaries and Wages	9 369	72						
Delivery Expenses	1 290	81						
Office Expenses	1 587	10					#5 150	89
Insurance	435	00					#1 260	00
Interest on Notes Receivable			136	24			#3 24	60
Interest on Notes Payable	238	90			#4 75	00		
Interest on Mortgage Payable	875	00						
Cash Discounts on Purchases			486	72				
Cash Discounts on Sales	372	02						
	232 820	57	232 820	57				
Unexpired Insurance					#1 260	00		
Taxes					#2 102	50		
Accrued Taxes							#2 102	50
Accrued Interest on Notes Receivable					#3 24	60		
Accrued Interest on Notes Payable							#4 75	00
Office Supplies on Hand					#5 150	89		
Depreciation of Building					#6 375	00		
Depreciation of Furniture and Fixtures					#7 291	00		
Loss on Bad Accounts and Notes Receivable					#8 413	44		
					1 692	43	1 692	43
Gross Trading Profit								
Net Profit								

Sheet (12 Columns).

MARVIN

December 31, 1921, to June 30, 1922.

Adjusted Trial Balance		Trading		Profit and Loss		Assets and Liabilities	
Debits	Credits	Debits	Credits	Expenses	Income	Assets	Liabilities
55 000 00						55 000 00	
37 500 00						37 500 00	
5 820 00						5 820 00	
7 682 53						7 682 53	
23 731 40						23 731 40	
730 00						730 00	
24 260 75		24 260 75	25 710 40			25 710 40	
	35 000 00						35 000 00
	9 840 62						9 840 62
	5 000 00						5 000 00
	250 00						250 00
	7 875 00						7 875 00
	2 041 00						2 041 00
	583 24						583 24
	60 000 00						60 000 00
1 869 00						5 498 40	3 629 40
	30 000 00						30 000 00
4 705 00						4 705 00	
	82 687 19	3 421 70	86 108 89				
53 321 60		57 529 46	4 207 86				
1 924 34				1 924 34			
2 107 40				2 107 40			
9 369 72				9 369 72			
1 290 81				1 290 81			
1 436 31				1 436 21			
175 00				175 00			
	160 84				160 84		
313 90				313 90			
875 00				875 00			
	486 72				486 72		
372 02				372 02			
260 00						260 00	
102 50				102 50			
	102 50						102 50
24 60						24 60	
	75 00						75 00
150 89						150 89	
375 00				375 00			
291 00				291 00			
413 44				413 44			
234 102 11	234 102 11						
		30 815 24			30 815 24		
		116 027 15	116 027 15				
				12 416 46		Hall	8 277 64
						Marvin	4 133 82
				31 462 80	31 462 80	166 813 22	166 813 22

Form V—Working Sheet.—This form illustrates an ordinary twelve-column working sheet. The working sheet is not a part of the financial statement properly speaking, but is used for analyzing the trial balance and making adjustments preparatory to setting up the balance sheet and profit and loss statement in proper form. If the books are to be closed, its only purpose is to prove the arithmetical results of the statements before setting them up. If the books are not to be closed, the working sheet is almost indispensable for making adjustments, analysis of the ledger, etc.

There is no fixed form of working sheet. The details vary according to the wishes of the individual preparing the same. The form shown herewith contains the essentials as adopted by the best accountants.

Attention is called to the handling of the inventory accounts. The merchandise items are handled through a trading account in the ledger; therefore, trading columns are used in the working sheet. The old inventory, $24,260.75, is charged to trading, while the new inventory, $25,710.40, is credited to trading and set up as an asset, thus keeping the equilibrium of the accounts. The details concerning sales and purchases are also inserted in the trading columns so as to be at hand in preparing the profit and loss statement.

The problem states specifically that freight inward on merchandise purchases is not considered a part of the cost of goods purchased. This item is accordingly shown as an expense in the working sheet and appears as an operating expense in the profit and loss statement (Form VII). When freight is considered as a part of the cost of goods, which is the usual custom, it should be shown in the debit trading column of the working sheet and in the cost of goods sold section of the profit and loss statement.

FORM VI.—Balance Sheet—Variation of Report Form.

HALL AND MARVIN

Balance Sheet, June 30, 1922

Assets			
Fixed Assets:			
Land (cost)		55 000 00	
Building (cost)	$37 500 00		
Less—Reserve for Depreciation	7 875 00	29 625 00	
Furniture and Fixtures (cost)	$5 820 00		
Less—Reserve for Depreciation	2 041 00	3 779 00	88 404 00
Current Assets:			
Cash on Hand		7 682 53	
Accounts Receivable	$23 731 40		
Less—Reserve for Loss on Bad Accounts and Notes Receivable	583 24	23 148 16	
Notes Receivable		730 00	
Accrued Interest on Notes Receivable		24 60	
Merchandise on Hand		25 710 40	57 295 69
Deferred Charges to Profit and Loss:			
Unexpired Insurance		260 00	
Office Supplies on Hand		150 89	410 89
Total Assets			146 110 58
Liabilities and Net Worth			
Fixed Liabilities:			
Mortgage Payable			35 000 00
Current Liabilities:			
Accounts Payable		9 840 62	
Notes Payable		5 000 00	
Accrued Interest on Notes Payable		75 00	
Accrued Taxes		102 50	
Due C. R. Marvin on Salary Account		250 00	15 268 12
Total Liabilities			50 268 12
H. B. Hall's Net Worth:			
Capital Investment		60 000 00	
Add—Profits Accumulated to December 31, 1921	$3 629 40		
Two-thirds Net Profit for Six Months Ending June 30, 1922	8 277 64		
Total	$11 907 04		
Less—Drawings, December 31, 1921, to June 30, 1922	5 498 40	6 408 64	66 408 64
C. R. Marvin's Net Worth:			
Capital Investment		30 000 00	
Deduct—Drawings, December 31, 1921, to June 30, 1922	$4 705 00		
Less—One-third Net Profit for Six Months Ending June 30, 1922	4 138 82	566 18	29 433 82
Total Liabilities and Net Worth			146 110 58

Form VI—Balance Sheet.—This form represents the report form of balance sheet as adapted to the accounts of a partnership.

The reserves are shown as deductions from the correlative assets. Balance due partner on salary account is shown as a current liability.

Special attention is called to the "Capital" section. Each partner's capital is set up separately showing details as to investments, drawings, and share of profits for the current period.

The term "net worth" is used here instead of "capital." While these terms are used synonymously, "net worth" would seem to be more appropriate in a partnership, while "capital" would be the better term for a corporation. Either may be used for single proprietorship.

FORM VII. —Profit and Loss Statement —Report Form.

HALL AND MARVIN

Exhibit B

Profit and Loss Statement for Six Months Ending June 30, 1922

Gross Sales		$86 108 89	
Less—Returns and Allowances		3 421 70	
Net Sales			$82 687 19
Deduct—Cost of Goods Sold:			
Goods on hand, December 31, 1921		$24 260 75	
Gross Purchases	$57 529 46		
Less—Returns and Allowances	4 207 86		
Net Purchases		53 321 60	
Total Cost of Goods		$77 582 35	
Less—Goods on hand, June 30, 1922		25 710 40	51 871 95
Gross Trading Profit			$30 815 24
Deduct—Operating Expenses:			
Freight, Express and Cartage Inward		$ 1 924 34	
Traveling Expenses		2 107 40	
Salaries and Wages		9 369 72	
Delivery Expenses		1 290 81	
Office Expenses		1 436 21	
Taxes		102 50	
Insurance		175 00	
Depreciation of Buildings		375 00	
Depreciation of Furniture and Fixtures		291 00	17 071 98
Net Trading Profit			$13 743 26
Add—Other Income Items:			
Interest on Notes Receivable		$ 160 84	
Cash Discount on Purchases		486 72	647 56
Total Income			$14 390 82
Deduct—Other Expense Items:			
Interest on Notes Payable		$ 313 90	
Interest on Mortgage Payable		875 00	
Cash Discount on Sales		372 02	
Loss on Bad Debts and Accounts Receivable		413 44	1 974 36
Net Profit for the Period			$12 416 46
H. B. Hall—two-thirds		$ 8 277 64	
C. R. Marvin—one-third		4 138 82	
		$12 416 46	$12 416 46

Form VII—Profit and Loss Statement—Report Form.—This form presents little that is new. The chief point of difference between this form as used for a partnership and that for a single proprietorship is the manner of showing the division of profits.

Attention has already been called to the fact that Freight, Express and Cartage Inward is shown as an operating expense rather than as an addition to the cost of goods. Depreciation charges are considered as operating expenses while Loss on Bad Debts is shown under Other Expense Items.

Form VIII.—Closing Journal Entries.

HALL AND MARVIN

Closing Entries, June 30, 1922

Trading	24 260 75	
Inventory		24 260 75
Goods on hand 12/31/21 per inventory		
—30—		
Trading	53 321 60	
Purchases		53 321 60
Net purchases for six months ending 6/30/22		
—30—		
Sales	82 687 19	
Trading		82 687 19
Net sales for six months ending 6/30/22		
—30—		
Inventory	25 710 40	
Trading		25 710 40
Goods on hand 6/30/22 per inventory		
—30—		
Trading	30 815 24	
Profit and Loss		30 815 24
To transfer to Profit and Loss account the gross trading profit for the six months ending 6/30/22 as represented by the balance of the Trading account		
—30—		
Interest on Notes Receivable	160 84	
Cash Discounts on Purchases	486 72	
Profit and Loss		647 56
To transfer to Profit and Loss account the balances of the accounts representing extraneous income for the six months ending 6/30/22		
—30—		
Profit and Loss	17 071 98	
Freight, Express and Cartage Inward		1 924 34
Traveling Expenses		2 107 40
Salaries and Wages		9 369 72
Delivery Expenses		1 290 81
Office Expenses		1 436 21
Taxes		102 50
Insurance		175 00
Depreciation of Building		375 00
Depreciation of Furniture and Fixtures		291 00
To transfer to Profit and Loss account the balances of the accounts representing operating expenses for the six months ending 6/30/22		
—30—		
Profit and Loss	1 974 36	
Interest on Notes Payable		313 90
Interest on Mortgage Payable		875 00
Cash Discounts on Sales		372 02
Loss on Bad Accounts and Notes Receivable		413 44
To transfer to Profit and Loss account the balances of the accounts representing extraneous expenses for the six months ending 6/30/22		
—30—		
Profit and Loss	12 416 46	
H. B. Hall, Drawings		8 277 64
C. R. Marvin, Drawings		4 138 82
To transfer to the partners' drawings accounts the net profit for the six months ending 6/30/22 in the proportion of two-thirds to H. B. Hall and one-third to C. R. Marvin		

Form VIII—Closing Journal Entries.—This form presents the method of closing the merchandise items through a Trading account instead of through Purchases as shown in Form III. No accounts were carried with Sales and Purchases Returns in this problem, so those items are already in the Sales and Purchases accounts, and no closing entries are necessary to place them there. Aside from the method of handling trading items, the method of closing is similar to that shown in Form III.

Form IX.—Balance Sheet,

THE HARMON-

Balance Sheet,

Assets				
Fixed Assets:				
Land (cost)			72 000 00	
Buildings (cost)		$155 000 00		
Less—Reserve for Depreciation		24 500 00	130 500 00	
Sales Department Furniture and Fixtures (cost)		$9 200 00		
Less—Reserve for Depreciation		2 730 00	6 470 00	
Office Furniture and Fixtures (cost)		$5 000 00		
Less—Reserve for Depreciation		1 250 00	3 750 00	
Total Fixed Assets				212 720 00
Goodwill				100 000 00
Sinking Fund Investments:				
Securities and Cash in Hands of Trustees				46 728 50
Outside Investments:				
Securities Owned (cost)—market value $17,268.00			18 760 00	
Vacant Land (cost, including taxes to June 30, 1922)			18 724 30	
Total Outside Investments				37 484 30
Current Assets:				
Cash (in banks and at office)			7 829 89	
Accounts Receivable		$63 284 36		
Less — Reserve for Loss on Doubtful Accounts	$2 789 60			
Reserve for Cash Discounts	1 200 00	3 989 60	59 294 76	
Due from Subscribers to Capital Stock—Common			18 000 00	
Notes Receivable			6 500 00	
Merchandise on Hand (cost)		$160 520 60		
Less—Reserve for Adjustment of Inventory Values		8 500 00	152 020 60	
Office Supplies on Hand			267 50	
Total Current Assets				243 912 75
Prepaid Items:				
Unexpired Insurance			1 950 00	
Interest Prepaid on Notes Discounted			136 70	
Total Prepaid Items				2 086 70
Deferred Charges to Profit and Loss:				
Bond Discount and Expenses Unextinguished			19 500 00	
Organization Expenses Unextinguished			14 300 00	
Total Deferred Charges to Profit and Loss				33 800 00
Total Assets				676 732 25

Note—There are in the treasury 250 shares of common stock donated to the company

Account Form—Corporation.

STREETER COMPANY

June 30, 1922

Liabilities and Capital					
Funded Debt:					
Five Per Cent First Mortgage Sinking Fund Bonds—Due January 1, 1926—Authorized Issue $100,000.00:					
Issued			$92 000 00		
Less—Retired through Sinking Fund			18 000 00	74 000 00	
Six Per Cent Debenture Bonds, Due July 1, 1930				30 000 00	
Total Funded Debt					104 000 00
Current Liabilities:					
Notes Payable				24 000 00	
Accounts Payable				86 732 46	
Dividends Payable:					
On Seven Per Cent Preferred Stock (3½% semi-annual, due July 5, 1922)			$3 500 00		
On Common Stock (4% semi-annual, due July 15, 1922)			7 000 00	10 500 00	
Accrued Items, including interest, wages and taxes				10 727 65	
Total Current Liabilities					131 960 11
Capital Stock—Common, Subscribed and Unissued—300 Shares					30 000 00
Total Liabilities					265 960 11
Capital Stock:					
Seven Per Cent Preferred—Authorized Issue 1500 Shares, Par $100:					
Full Paid and Issued, 1000 Shares				100 000 00	
Common—Authorized Issue 3000 Shares, Par $100:					
Full Paid and Issued, 2000 Shares:					
In Hands of Stockholders, 1750 Shares			$175 000 00		
In Treasury, 250 Shares			25 000 00	200 000 00	
Total Capital Stock				300 000 00	
Working Capital Donated—(Proceeds of sale of 250 shares of common stock from the treasury)				21 630 00	
Appropriated Surplus:					
Reserve for Federal Tax (1922)				5 000 00	
Reserve for Sinking Fund Requirements				55 396 50	
Surplus:					
Balance, December 31, 1921		$30 389 67			
Add—Net Income, Six Months Ending June 30, 1922, per Profit and Loss Statement		22 523 97	$52 913 64		
Less—Reserve for Federal Income Tax (1922)		$5 000 00			
Dividends Declared:					
On Preferred Stock (3½% semi-annual)	$3 500 00				
On Common Stock (4% semi-annual)	7 000 00	10 500 00			
Reserve for Sinking Fund		8 668 00	24 168 00		
Net Surplus				28 745 64	
Total Capital					410 772 14
Total Liabilities and Capital					676 732 25

by the incorporators for the purpose of raising additional working capital.

Form IX—Balance Sheet—Account Form—Corporation.—This form illustrates the method of setting up the account or two-page form of statement commonly used when the items are so numerous as not to go on a single page. It has the advantage of setting the various asset and liability groups opposite each other for comparative purposes.

In this form, valuation reserves are shown as deductions from correlative assets, while the capital reserves (in this instance Reserve for Sinking Fund and Reserve for Federal Income Tax) are shown in the capital section as appropriated Surplus.

Attention is also called to the method of showing treasury stock donated as a footnote. In this form, surplus is analyzed in the balance sheet itself. Frequently the net amount only is shown, the details being set forth in a supporting statement.

The method of handling Federal income taxes should be carefully noted. The Federal income taxes item under current liabilities represents the unpaid installments on 1921 taxes, bill for which was rendered on March 15, 1922. The estimated tax for 1922 to June 30 is set up in the form of a reserve. This item appears as a deduction from net income for the six months ending June 30, 1922, and also as a reserve item under appropriated surplus. It will be carried thus until the actual liability is ascertained, when it will be carried as a current liability.

FORM X.—Profit and Loss Statement—Variation in Report Form.

THE HARMON-STREETER COMPANY

Profit and Loss Statement for the Six Months Ending June 30, 1922

Gross Sales			$746 829 60	
Less—Returns and Allowances			12 364 30	
Net Sales				$734 465 30
Deduct—Cost of Goods Sold:				
Inventory, December 31, 1921		$184 962 38		
Net Purchases:				
Gross Purchases	$569 827 40			
Less—Returns and Allowances	18 260 39	551 567 01		
Freight and Hauling Inward		5 829 50	$742 358 89	
Less—Inventory, June 30, 1922			160 520 60	581 838 29
Gross Profit on Sales				$152 627 01
Deduct—Operating Expenses:				
Selling Expenses:				
Salesmen's Salaries		$26 432 80		
Traveling Expenses		20 869 40		
Shipping Expenses		5 942 60		
Taxes and Insurance on Stock		1 286 50		
Taxes and Insurance on Sales Department Furniture and Fixtures		150 64		
Depreciation of Sales Department Furniture and Fixtures		765 00		
Proportion of Expense of Building Maintenance (75%)		11 446 87	$66 893 81	
General Administrative Expenses:				
Officers' Salaries		$37 853 00		
Office Salaries		12 272 46		
Office Expenses and Supplies		1 781 30		
Taxes and Insurance on Office Furniture and Fixtures		110 75		
Depreciation of Office Furniture and Fixtures		465 00		
Proportion of Expense of Building Maintenance (25%)		3 815 63	56 298 14	123 191 95
Net Operating Income				$29 435 06
Add—Other Income:				
Income on Securities Owned			$924 00	
Interest on Notes Receivable			1 832 50	
Cash Discounts on Purchases			8 269 40	
Profit on Sale of Securities			3 466 77	14 492 67
Total Income				$43 927 73
Deduct—Other Charges:				
Interest on Funded Debt			$2 750 00	
Interest on Notes Payable			1 589 40	
Cash Discounts on Sales			4 387 30	
Premiums on Redeemed Bonds			1 650 00	
Bond Discount and Expenses Written Off			910 00	
Organization Expenses Written Off			2 340 00	
Loss on Bad Accounts			4 277 06	
Loss from Sale of Liberty Loan Bonds			3 500 00	21 403 76
Net Income before providing for Federal Income Tax				$22 523 97
Less—Provision for Federal Income Taxes for 1922				5 000 00
Net Income after provision for taxes				$17 523 97
Add—Surplus, January 1, 1922				30 389 67
Gross Surplus				$47 913 64
Deduct—Surplus Charges:				
Dividends Declared			$10 500 00	
Provision for Sinking Fund			8 668 00	19 168 00
Surplus, June 30, 1922				$28 745 64

Form X—Profit and Loss Statement—Report Form.—This statement, while used for a corporation, presents very little that is new. The items are somewhat more numerous.

Attention is called to the method of showing Surplus at the end of the statement. The net profit available as surplus for the period is added to surplus on hand at beginning of period and from this is deducted the appropriations of surplus, the result being surplus on hand at the close of the period. This serves as an analysis of surplus, the details of which may then be omitted from the balance sheet if desired. Attention is also called to slight differences in terminology and to new accounts introduced especially in "Other Income" and "Other Charges" groups.

The method of showing provision for Federal Income Taxes as a separate deduction should receive special attention.

FORM XI.—Closing Journal Entries—Corporation.

THE HARMON-STREETER COMPANY

Closing Entries, June 30, 1922

Particulars			Debit	Credit
Sales			12 364 30	
To Sales Returns and Allowances				12 364 30
To close into the Sales account the sales returns and allowances for the six months ending June 30, 1922				
Purchase Returns and Allowances			18 260 39	
To Purchases				18 260 39
To close into the Purchases account the purchase returns and allowances for the six months ending June 30, 1922				
Purchases			5 829 50	
To Freight and Hauling Inward				5 829 50
To close into the Purchases account the freight and hauling inward on purchases for the six months ending June 30, 1922				
Purchases			184 962 38	
To Inventory				184 962 38
Cost of goods on hand December 31, 1922				
Inventory			160 520 60	
To Purchases				160 520 60
Cost of goods on hand June 30, 1922				
Sales			734 465 30	
To Cost of Goods Sold				734 465 30
Net Sales for the six months ending June 30, 1922:				
Gross sales		$746 829 60		
Less—Returns and Allowances		12 364 30		
Net Sales, as above		$734 465 30		
Cost of Goods Sold			581 838 29	
To Purchases				581 838 29
Cost of goods sold for the six months ending June 30, 1922:				
Inventory 12/31/21		$184 962 38		
Net Purchases:				
Gross purchases	$569 827 40			
Less—Returns and allowances	18 260 39	551 567 01		
Freight and hauling inward		5 829 50		
		$742 358 89		
Less—Inventory 6/30/22		160 520 60		
Cost of Goods Sold, as above		$581 838 29		
Cost of Goods Sold			152 627 01	
To Profit and Loss				152 627 01
Gross profit on sales for six months ending June 30, 1922:				
Net sales		$734 465 30		
Less—Cost of sales		581 838 29		
Gross Profit, as above		$152 627 01		

Closing Entries, June 30, 1922–Concluded

	Income on Securities Owned	$924	00		
	Interest on Notes Receivable	1 832	50		
	Cash Discounts on Purchases	8 269	40		
	Profit on Sale of Securities	3 466	77		
	To Profit and Loss			$14 492	67
	To close into Profit and Loss account the items of extraneous income for the six months ending June 30, 1922				
	Profit and Loss	123 191	95		
	To Salesmen's Salaries			26 432	80
	Traveling Expenses			20 869	40
	Shipping Expenses			5 942	60
	Taxes and Insurance on Stock			1 286	50
	Taxes and Insurance on Sales Department Furniture and Fixtures			150	64
	Depreciation of Sales Department Furniture and Fixtures			765	00
	Building Maintenance			15 262	50
	Officers, Salaries			37 853	00
	Office Salaries			12 272	46
	Office Expenses and Supplies			1 781	30
	Taxes and Insurance on Office Furniture and Fixtures			110	75
	Depreciation of Office Furniture and Fixtures			465	00
	To close into Profit and Loss account the accounts representing the operating expenses for the six months ending June 30, 1922				
	Profit and Loss	17 903	76		
	To Interest on Funded Debt			2 750	00
	Interest on Notes Payable			1 589	40
	Cash Discounts on Sales			4 387	30
	Premiums on Redeemed Bonds			1 650	00
	Bond Discount and Expenses Written Off			910	00
	Organization Expenses Written Off			2 340	00
	Loss on Bad Accounts			4 277	06
	To close into Profit and Loss account the items of extraneous expense for the six months ending June 30, 1922				
	Profit and Loss	26 023	97		
	To Surplus			26 023	97
	To transfer to Surplus account the net income for the six months ending June 30, 1916				

Form XI—Closing Journal Entries—Corporation.—The method used in handling trading items is similar to that employed in Form III. The expense items are handled in the same manner. The only difference is the method of handling Profit and Loss. This account is closed into Surplus in the case of a corporation.

MODEL EXERCISE III

Financial Statements for a Manufacturing Corporation

MODEL MANUFACTURING COMPANY

Trial Balance—December 31, 1922

Land and Buildings	$110 800 00	
Machinery	30 670 00	
Power Plant Equipment	19 500 00	
Shafting and Belting	2 500 00	
Furniture and Fixtures	4 500 00	
Goodwill	25 000 00	
Securities Owned	15 000 00	
Cash in Banks	9 280 50	
Imprest Cash Fund	300 00	
Accounts Receivable	47 250 00	
Notes Receivable	3 000 00	
Advances to Salesmen	800 00	
Accrued Interest on Notes Receivable	50 00	
Raw Materials (On hand—December 31, 1921, $6,800; gross purchases, $95,600)	102 400 00	
Manufacturing (Goods in process, Dec. 31, 1921)	10 360 00	
Finished Goods, December 31, 1921	46 700 00	
Factory Supplies on Hand	200 00	
Office Supplies on Hand	150 00	
Taxes Paid in Advance	400 00	
Insurance Paid in Advance	360 00	
Interest on Notes Payable Paid in Advance	75 00	
Legal Expenses Deferred	2 600 00	
Capital Stock—Preferred (750 shares, par value $100)		$75 000 00
Capital Stock—Common (1000 shares, par value $100)		100 000 00
Surplus		14 250 00
Real Estate Mortgage Assumed in Purchase of property		60 000 00
Accounts Payable		26 500 00
Notes Payable		5 000 00
Accrued Interest on Mortgage Payable		1 800 00
Accrued Interest on Notes Payable		62 50
Accrued Salaries and Wages		780 00
Accrued Expenses		250 00
Reserve for Depreciation of Buildings		16 700 00
Reserve for Depreciation of Factory Machinery and Equipment		19 100 00
Reserve for Depreciation of Furniture and Fixtures		600 00
Reserve for Loss on Bad Debts		5 280 00

Trial Balance—December 31, 1922—Concluded

Sales of Finished Goods		$239 909 00
Sales Returns and Allowances	$4 260 40	
Purchase Returns and Allowances		1 720 00
Freight and Hauling Inward	1 620 00	
Direct Labor	54 620 00	
Superintendence	5 940 30	
Fuel Used	2 600 00	
Salaries of Engineer and Firemen	3 680 20	
Taxes and Insurance on Factory Buildings	1 562 50	
Depreciation of Factory Buildings	2 289 40	
Taxes and Insurance of Factory Machinery and Equipment	937 50	
Depreciation of Factory Machinery and Equipment	2 500 00	
Repairs to Factory Machinery and Equipment	800 00	
Factory Office Salaries and Expenses	3 580 65	
Advertising	5 000 00	
Salaries of Salesmen	10 650 00	
Traveling Expenses	6 780 30	
Delivery Expenses	2 684 00	
General Office Salaries and Expenses	10 294 60	
Taxes and Insurance on Office Building	300 00	
Depreciation of Office Building	864 00	
Interest on Notes Receivable		280 85
Income on Securities Owned		180 00
Interest on Mortgage Payable	1 800 00	
Interest on Notes Payable	289 00	
Loss on Bad Debts	1 564 00	
Legal Expenses Extinguished	900 00	
	$557 412 35	$557 412 35

Inventories, December 31, 1922:	
Raw Materials	$7 100 00
Goods in Process	12 900 00
Finished Goods	44 800 00

NOTE: During the year, dividends amounting to 7% on the preferred stock and 6% on the common stock have been declared and paid.

Form XII—Balance Sheet—Account Form.—This form illustrates an arrangement of the balance sheet for a manufacturing corporation. Property or Capital Assets are shown first on the asset side while Capital Liabilities including Capital Stock are shown first on the liability side. This is on the theory that Capital Stock is a fixed liability and as such should be placed opposite fixed assets. An objection to this arrangement is that it divides the net worth of the corporation inasmuch as Capital Stock is shown as the first and Surplus as the last item on the liability side. Another objection is that Capital Stock is a proprietorship item and as such cannot be a fixed liability in the sense that obligations to outsiders are liabilities.

FORM XII.—Balance Sheet—Account Form—Manufacturing Corporation.

MODEL MANUFACTURING COMPANY

Exhibit A—Balance Sheet, December 31, 1922

Assets				
Property and Equipment:				
Land and Buildings		$110 800 00		
Less—Reserve for Depreciation		16 700 00	94 100 00	
Factory Machinery and Equipment:				
Machinery	$30 670 00			
Power Plant Equipment	19 500 00			
Shafting and Belting	2 500 00	$52 670 00		
Less—Reserve for Depreciation		9 100 00	43 570 00	
Furniture and Fixtures		$4 500 00		141 570 00
Less—Reserve for Depreciation		600 00	3 900 00	
Goodwill				25 000 00
Investments:				
Securities Owned				15 000 00
Current Assets:				
Cash in Banks			9 280 50	
Imprest Cash Fund			300 00	
Accounts Receivable		$47 250 00		
Less—Reserve for Loss on Bad Debts		5 280 00	41 970 00	
Notes Receivable			3 000 00	
Advances to Salesmen			800 00	
Accrued Items:				
Interest on Notes Receivable			50 00	55 400 50
Inventories:				
Raw Materials			7 100 00	
Goods in Process			12 900 00	
Finished Goods			44 800 00	
Factory Supplies on Hand			200 00	
Office Supplies on Hand			150 00	65 150 00
Deferred Charges to Operations				3 435 00
Total Assets				305 555 50

Capital, Liabilities, and Surplus			
Capital Stock:			
Preferred—750 Shares, par value $100		75 000 00	
Common—1000 Shares, par value $100		100 000 00	175 000 00
Real Estate Mortgage Assumed in Purchase of Property			60 000 00
Current Liabilities:			
Accounts Payable		26 500 00	
Notes Payable		5 000 00	
Accrued Items:			
Interest on Mortgage	$1 800 00		
Interest on Notes Payable	62 50		
Salaries and Wages	780 00		
Other Accrued Items	250 00	2 892 50	34 392 50
Surplus:			
Balance of Surplus Account, December 31, 1921	$25 500 00		
Add—Net Profit for the Year Ending December 31, 1922—See Exhibit B	21 913 00	47 413 00	
Deduct—Dividends Declared:			
On Preferred Stock — Seven per cent	$5 250 00		
On Common Stock — Six per cent	6 000 00	11 250 00	36 163 00
Total Capital, Liabilities, and Surplus			305 555 50

Form XIII.—Profit and Loss Statement—Report Form—Manufacturing.

MODEL MANUFACTURING COMPANY

Exhibit B

Profit and Loss Statement for the Year Ending December 31, 1922

Net Sales of Manufactured Goods:			
Gross Sales		239 909 00	
Less—Returns and Allowances		4 260 40	235 648 60
Deduct—Cost of Manufactured Goods Sold:			
On Hand, December 31, 1921	$46 700 00		
Cost of Goods Manufactured During the Year—See Exhibit C	171 170 55	217 870 55	
Deduct—On Hand, December 31, 1922		44 800 00	173 070 55
Gross Profit on Sales of Manufactured Goods			62 578 05
Deduct—Selling and General Expenses:			
Selling Expenses:			
Advertising	$5 000 00		
Salaries of Salesmen	10 650 00		
Traveling Expenses	6 780 30		
Delivery Expenses	2 684 00		
		25 114 30	
General Administrative Expenses:			
General Office Salaries and Expenses	$10 294 60		
Taxes and Insurance on Office Building	300 00		
Depreciation of Office Building	864 00		
		11 458 60	36 572 90
Net Operating Profit			26 005 15
Add—Extraneous Income Items:			
Interest on Notes Receivable		280 85	
Income on Securities Owned		180 00	460 85
Total Income			26 466 00
Deduct—Extraneous Expense Items:			
Interest on Mortgage Payable		1 800 00	
Interest on Notes Payable		289 00	
Loss on Bad Debts		1 564 00	
Legal Expenses Extinguished		900 00	4 553 00
Net Profit			21 913 00

Form XIII—Profit and Loss Statement—Report Form—Manufacturing— This form illustrates a type of operating statement used for a manufacturing corporation. Aside from a slight rearrangement of items and some changes in terminology, this statement differs very little in form from those already presented.

The details of the cost of goods manufactured are usually shown in a separate statement known as Exhibit C and are so indicated in this form.

FORM XIV.—Statement of Cost of Goods Manufactured.

MODEL MANUFACTURING COMPANY

Exhibit C

Statement Showing Cost of Goods Manufactured

For the Year Ending December 31, 1922

Raw Materials Used:				
On Hand, December 31, 1921 $6 800 00				
Net Purchases:				
Gross Purchases $95 600 00				
Less—Returns and				
Allowances 1 720 00 93 880 00				
Freight and Hauling Inward 1 620 00	102 300	00		
Deduct—On Hand, December 31, 1922	7 100	00	95 200	00
Direct Labor			54 620	00
Manufacturing Expenses:				
Superintendence	5 940	30		
Fuel Used	2 600	00		
Salaries of Engineer and Firemen	3 680	20		
Taxes and Insurance on Factory Buildings	1 562	50		
Depreciation of Factory Buildings	2 289	40		
Taxes and Insurance on Machinery and Equipment	937	50		
Depreciation of Machinery and Equipment	2 500	00		
Repairs to Machinery and Equipment	800	00		
Factory Office Salaries and Expenses	3 580	65	23 890	55
Total Manufacturing Charges			173 710	55
Add—Goods in Process, December 31, 1921			10 360	00
			184 070	55
Deduct—Goods in Process, December 31, 1922			12 900	00
Net Cost of Goods Manufactured			171 170	55

Form XIV—Statement of Cost of Goods Manufactured.—This form contains the details of the cost of goods manufactured, the result or net cost of goods manufactured only being transferred to the Cost of Goods Sold section of the Profit and Loss statement.

The items are grouped under three heads: Raw Materials Used, Direct Labor, and Manufacturing Expenses, the total representing the manufacturing charge for the period. To this must be added Goods in Process at the beginning of the period, and from the total deducted Goods in Process at the close of the period to find net cost of goods manufactured. An alternative arrangement of items is shown in Form XVI.

FORM XV.—Closing Journal Entries for a Manufacturing Company.

MODEL MANUFACTURING COMPANY

Closing Entries, December 31, 1922

Purchase Returns and Allowances		1 720	00		
To Raw Materials				1 720	00
Returns and allowances on purchases of raw materials for the year ending 12/31/22					
Raw Materials		1 620	00		
To Freight and Hauling Inward				1 620	00
Freight and hauling inward on purchases of raw materials for the year ending 12/31/22					
Manufacturing		95 200	00		
To Raw Materials				95 200	00
Cost of raw materials used in manufacturing for the year ending 12/31/22:					
On hand, 12/31/21	$6 800 00				
Net purchases	93 880 00				
Freight and hauling inward	1 620 00				
	$102 300 00				
Less—On hand, 12/31/22	7 100 00				
	$95 200 00				
Manufacturing		54 620	00		
To Direct Labor				54 620	00
Cost of direct labor for the year ending 12/31/22					
Manufacturing		23 890	55		
To Superintendence				5 940	30
Fuel Used				2 600	00
Salaries of Engineer and Firemen				3 680	20
Taxes and Insurance on Factory Buildings				1 562	50
Depreciation of Factory Building				2 289	40
Taxes and Insurance on Machinery and Equipment				937	50
Depreciation of Machinery and Equipment				2 500	00
Repairs to Machinery and Equipment				800	00
Factory Office Salaries and Expenses				3 580	65
Manufacturing expenses for the year ending 12/31/22					
Finished Goods		171 170	55		
To Manufacturing				171 170	55
Cost of goods manufactured for the year ending 12/31/22:					
Goods in process, 12/31/21	$10 360 00				
Raw materials used	95 200 00				
Direct labor	54 620 00				
Manufacturing expenses	23 890 55				
	$184 070 55				
Less—Goods in process, 12/31/22	12 900 00				
	$171 170 55				
Sales of Finished Goods		4 260	40		
To Sales Returns and Allowances				4 260	40
Sales returns and allowances for the year ending 12/31/22					

Closing Entries, December 31, 1922—Concluded

Sales of Finished Goods			173 070 55	
To Finished Goods				173 070 55
Cost of finished goods sold for the year ending 12/31/22:				
On hand, 12/31/21		$46 700 00		
Manufactured during the year		171 170 55		
		$217 870 55		
Less—On hand, 12/31/22		44 800 00		
		$173 070 55		
Sales of Finished Goods			62 578 05	
To Profit and Loss				62 578 05
Gross profit on sales of finished goods for the year ending 12/31/22:				
Net sales		$235 648 60		
Less—Cost of sales		173 070 55		
		$62 578 05		
Interest on Notes Receivable			280 85	
Income on Securities Owned			180 00	
To Profit and Loss				460 85
Extraneous income items for the year ending 12/31/22				
Profit and Loss			36 572 90	
To Advertising				5 000 00
Salaries of Salesmen				10 650 00
Traveling Expenses				6 780 30
Delivery Expenses				2 684 00
General Office Salaries and Expenses				10 294 60
Taxes and Insurance on Office Building				300 00
Depreciation of Office Building				864 00
Selling and general expenses for the year ending 12/31/22				
Profit and Loss			4 553 00	
To Interest on Mortgage Payable				1 800 00
Interest on Notes Payable				289 00
Loss on Bad Debts				1 564 00
Legal Expenses Extinguished				900 00
Extraneous expense items for the year ending 12/31/22				
Profit and Loss			21 913 00	
To Surplus				21 913 00
Net profit for the year ending 12/31/22:				
Gross profit on sales of manufactured goods		$62 578 05		
Extraneous income		460 85		
		$63 038 90		
Less—Selling and general expenses	$36 572 90			
Extraneous expenses	4 553 00	41 125 90		
		$21 913 00		

Supporting Schedules for Financial Statements

FORM XVI.—Analysis of Cost of Goods Manufactured.

THE OAKS MANUFACTURING COMPANY

Exhibit B—Schedule I

Analysis of Cost of Goods Manufactured for Year Ending June 30, 1922

Goods in Process, June 30, 1921			xxxx
Raw Materials Used:			
Inventory, June 30, 1921		xxxx	
Gross Purchases	xxxx		
Less—Returns	xxx		
Net Purchases		xxxx	
Freight and Hauling In		xxx	
Total Cost of Material		xxxx	
Deduct—Inventory, June 30, 1922		xxxx	xxxx
Direct Labor			xxxx
Manufacturing Expenses:			
Factory Superintendence		xxx	
Factory Office Salaries and Wages		xxx	
Purchase Department Expenses		xxx	
Power, Heat, and Light		xxx	
Repairs to Factory Building		xxx	
Depreciation of Factory Building		xxx	
Depreciation of Machinery		xxx	
Taxes on Factory Property		xxx	
Fire and Liability Insurance		xxx	
Experimental Department Expense		xxx	
General Factory Office Expense		xxx	xxxx
Total Factory Cost			xxxx
Deduct—Goods in Process, June 30, 1922		xxxx	
Sales of Waste and Scrap		xxx	xxxx
Net Cost of Goods Manufactured (See Exhibit B)			xxxx

Form XVI—Analysis of Cost of Goods Manufactured.—This form illustrates another method of showing factory operations where the classification of factory expenses is carried out in considerable detail and where it is desired to show the details regarding materials used. Instead of inserting such details in the profit and loss statement, a separate statement is set up, the result of which is inserted in that statement. This statement should contain all expenses applicable to the cost of making the product. They may be summarized under four heads: Goods in Process, Raw Materials Used, Direct Labor, and Manufacturing Expenses.

The order of arrangement of the main items as shown in Form XVI is a logical one, starting as it does with Goods in Process at the beginning of the period under review. An alternate arrangement would be to start with Raw Materials Used and then add Direct Labor and Manufacturing Expenses to find the factory charge for the period (See Form XIV). To this item, *add* decrease or *deduct* increase in value of Goods in Process at close of period.

Care should be taken that no element of administrative, selling, or financial expense is included in this statement or that any manufacturing element is omitted.

Form XVII.—Analysis of Cost of Goods Sold—Departmental.

THE CRALEY FURNITURE COMPANY

Exhibit B—Schedule I

Analysis of Cost of Goods Sold for the Month Ending December 31, 1922

Departments	Inventory Jan. 1, 1922	Gross Purchases	Returns and Allowances	Net Purchases	Inventory Dec. 31, 1922	Cost of Goods Sold
Household Furniture	$56 182 97	$7 307 57	$423 20	$6 884 37	$46 493 60	$16 573 74
Office Furniture	38 201 60	7 508 18	125 00	7 383 18	39 668 75	5 916 03
Carpets and Rugs	12 643 28	3 305 85	240 00	3 065 85	9 951 76	5 757 37
Stoves and Ranges	10 201 64	5 558 57	350 00	5 208 57	11 896 32	3 513 89
Draperies	8 187 93	4 505 28	110 00	4 395 28	10 507 80	2 075 41
Totals	$125 417 42	$28 185 45	$1 248 20	$26 937 25	$118 518 23	$33 836 44

Note.—In a departmental business it is inconvenient to include the details of cost of goods sold in the Profit and Loss Statement. consequently a separate statement known as Exhibit B—Schedule I is set up as shown above. In this statement the first column of figures, representing the inventory on hand at the beginning of the period, added to the fourth column, Net Purchases, less column five, Inventory at the close of the period, will give the figures in the sixth column, Cost of Goods Sold. After all items have been extended to the Cost of Goods Sold column the vertical columns are added and totals are proved with the footing of the last column by handling totals in the same manner as details were handled: namely, footing of the first column plus the footing of the fourth column minus the footing of the fifth column must equal the footing of the last column, $33,836.44.

FORM XVIII.—Analysis of Operating Expenses.

THE COPLEY MANUFACTURING COMPANY

Exhibit B—Schedule II

Analysis of Operating Expenses for the Month of January, 1922

Selling Expenses:		
Rent of Offices	$ 800 00	
Rent of Warehouse	175 00	
Salaries and Wages	2 460 00	
Traveling Expenses	750 00	
Advertising	1 800 00	
Stationery and Postage	52 50	
Office Supplies	34 20	
Telephone and Telegrams	22 00	
Depreciation of Office Equipment	9 50	
Depreciation of Store Fixtures	142 70	
Taxes on Stock in Store	175 00	
Insurance on Stock	95 00	
Total		$6 515 90
Shipping and Delivery Expenses:		
Office Salaries and Wages	$ 650 00	
Salaries of Chauffeurs	210 00	
Tires	450 00	
Storage	110 00	
Insurance on Trucks	8 00	
Depreciation of Trucks	150 00	
Repairs to Trucks	82 00	
Gasoline and Oil	72 20	
Stationery and Postage	42 60	
Supplies	12 50	
Depreciation of Office Equipment	2 50	
Sundry Garage Supplies	12 40	
Total		1 802 20
General Administrative Expenses:		
Rent of Offices	$ 250 00	
Office Salaries	1 250 00	
Office Salaries and Wages	428 50	
Directors' Fees	20 00	
Stationery and Postage	148 25	
Office Supplies	30 00	
Telephone and Telegrams	12 50	
Depreciation of Office Equipment	26 50	
Corporate Franchise Tax	75 90	
Miscellaneous Office Expense	32 00	
Total		2 273 65
Total Operating Expenses (See Exhibit B)		$10 591 75

Form XVIII—Analysis of Operating Expenses.—This form illustrates the method of exhibiting an analysis of operating expenses where a condensed form of profit and loss statement is used. It furnishes very valuable information to the management for administrative purposes.

FORM XIX.—Analysis of Surplus.

ANALYSIS OF SURPLUS ACCOUNT, DECEMBER 31, 1919

Balance, January 1, 1919		$35 119 987 38
Less—Reserve for Amortization of War Facilities		1 225 063 73
		$33 894 923 65
Add—Net Profit for the year ended December 31, 1919		17 304 813 33
Premium Received on sale of 150,000 shares of additional Preferred Stock issued		387 000 00
Total		$51 586 736 98
Deduct—7% Dividend on Preferred Stock (#'s 28 to 31 inclusive) for the year ended December 31, 1919	2 247 000 00	
4% Dividend on Common Stock) #'s 16 to 19 incl.) paid during 1919	2 400 000 00	
Reduction of Preferred Stock purchased from cost to par	77 778 46	
Additional Appropriation for Pension Fund	100 000 00	
Income and War Excess Profits Taxes paid during the year, applicable to 1918 earnings	5 558 912 47	10 383 690 93
Net Balance of Surplus, December 31, 1919		$41 203 046 05

Form XIX—Analysis of Surplus.—This form illustrates a method of analyzing and reconciling the Surplus account when it is not desired to show details, either as an addition to the Profit and Loss statement or in the Capital section of the Balance Sheet. The object is to account in detail for the difference between the balance of Surplus at the beginning of the period and the balance at the close of the period after closing.

FORM XX.—Comparative Analysis of Operating Expenses.

THE BOSTON DRY GOODS COMPANY

Comparative Analysis of Operating Expenses, December 31, 1921

	Month of December, 1921	Twelve Months Year to Date	Same Period Last Year	Increase	Decrease	% of Inc. or Dec.
Buying:						
Salaries of Purchasing Agent and Assistants	458 33	5 500 00	5 100 00	400 00		7 84
Stationery and Supplies	34 56	496 40	527 63		31 23	5 91
Taxes, Insurance and Depreciation on Office Furniture	14 63	175 60	175 60			
Rent—5% of Maintenance of Main Building	108 01	1 106 04	1 045 32	60 72		5 71
Miscellaneous Expenses	10 33	212 98	167 89	45 09		26 74
Total Buying Expenses	625 86	7 491 02	7 016 44	474 58		6 76
Receiving and Warehousing:						
Freight and Express Inward	501 93	7 683 12	8 162 47		479 35	5 87
Hauling Inward—35% of Garage and Stable Expenses	866 41	10 292 28	7 975 26	2 317 02		29 05
Salaries of Receiving Clarks and Warehousemen	647 00	6 136 50	5 571 00	565 50		10 15
Stationery and Supplies	19 53	210 47	375 00		164 53	43 34
Taxes, Insurance and Deprec. on Furniture and Fixtures	29 50	354 04	289 60	64 44		22 25
Warehouse Power—Purchased	76 89	837 40	910 53		73 13	8 03
Rent—Maintenance of Warehouse	665 91	6 261 85	5 571 59	690 26		12 39
Miscellaneous Expenses	20 62	173 40	141 84	31 56		22 32
Total Receiving and Warehousing Expenses	2 827 79	31 949 06	28 997 29	2 951 77		10 18
Selling:						
Advertising—Newspapers	204 25	12 981 40	9 362 79	3 618 61		38 63
Advertising—Trade Papers	629 50	9 301 62	7 793 15	1 508 47		19 36
Samples, Catalogs and Pamphlets		3 800 00	4 321 60		521 60	12 07
Salaries of Sales Manager and Assistants	800 00	9 600 00	8 100 00	1 500 00		18 52
Salaries of Salesmen	2 190 50	25 173 40	20 326 75	4 846 65		23 84
Salesmen's Expenses	1 053 19	16 495 72	13 284 51	3 211 21		24 17
Salaries of Store Clerks	856 73	11 242 59	10 963 84	278 75		2 54
Stationery and Supplies	59 28	702 50	664 14	38 36		5 78
Taxes and Insurance on Stock	73 83	886 00	793 40	92 60		11 67
Taxes, Ins. and Depreciation on Furniture and Fixtures	41 89	502 70	502 70			
Rent—67% of Maintenance of Main Building	1 447 40	14 820 98	14 007 24	813 74		5 81
Miscellaneous Expenses	34 58	491 27	632 17		140 90	22 29
Total Selling Expenses	7 391 15	105 998 18	90 752 29	15 245 89		16 79

Shipping:											
Freight and Express Outward	318	72	5 319	64	4 117	27	1 202	37			28 96
Hauling Outward—65% of Garage and Stable Expenses	1 609	05	19 114	24	14 811	21	4 303	03			29 05
Salaries of Shipping Clerks and Packers	400	00	4 800	00	4 650	00	150	00			3 23
Packing Supplies	74	19	942	73	714	86	227	87			31 86
Stationery			93	37	138	15			44	78	32 41
Taxes, Insurance and Depreciation on Furniture and Fixtures	16	00	192	00	176	50	15	50			8 78
Rent—8% of Maintenance of Main Building	172	82	1 769	67	1 672	51	97	16			5 80
Miscellaneous Expenses	5	47	42	81	89	62			46	81	52 23
Total Shipping Expenses	2 596	25	32 274	46	26 370	12	5 904	34			22 39
Credit and Collection:											
Salaries of Credit Manager and Assistants	416	67	5 000	00	4 500	00	500	00			11 11
Collection Expenses	34	19	417	62	675	93			258	31	38 22
Charges on Collections Made by Banks	20	87	491	00	514	40			23	40	4 55
Credit References	4	17	50	00	50	00					
Legal Fees	176	30	542	25	737	89			195	64	26 51
Stationery and Supplies	34	26	296	73	321	51			24	78	7 71
Taxes, Insurance and Depreciation on Office Furniture	12	55	150	62	150	62					
Rent—5% of Maintenance of Main Building	108	01	1 106	04	1 045	32	60	72			5 81
Miscellaneous Expenses	30	72	325	19	300	46	24	73			8 23
Total Credit and Collection Expenses	847	74	8 379	45	8 296	13	83	32			1 01
General Administrative:											
Salaries of Officers	1 675	00	20 100	00	20 100	00					
Salaries of General Office Clerks	946	80	11 976	80	9 821	45	2 155	35			21 95
Officers' Expenses	164	28	1 931	72	1 276	25	655	47			51 36
General Office Stationery and Supplies	182	31	2 360	49	2 693	76			333	27	12 38
Postage	192	19	2 215	00	1 906	48	308	52			16 18
Telephone and Telegrams	9	47	184	62	247	13			62	51	25 29
Ice, Water and Towel Supply	10	00	160	00	173	40			13	40	7 73
Carfares	19	65	247	10	314	50			67	40	21 43
Taxes, Insurance and Depreciation on Office Furniture and Fixtures	75	00	900	00	900	00					
Rent—15% of Maintenance of Main Building	324	05	3 318	13	3 135	94	182	19			5 81
Miscellaneous Expenses	106	72	1 219	62	862	10	357	52			41 47
Total General Administrative Expenses	3 705	47	44 613	48	41 431	01	3 182	47			7 68
Total Operating Expenses	17 994	26	230 705	65	202 863	28	27 842	37			13 72

Special Forms of Financial Statements

Form XXI.—Condensed Balance Sheet.

AMERICAN INTERNATIONAL CORPORATION

General Balance Sheet, December 31, 19—

Investments—Bonds, Stock, etc.		$27 847 508 17
Real Estate		2 040 255 44
Current Assets:		
Cash	$1 538 888 73	
Call Loans	100 000 00	
Inventories of Merchandise	7 474 399 78	
Accounts Receivable	3 394 493 26	
Interest Accrued Receivable	128 811 74	
	$12 636 593 51	
Less—Branch Office and Inter-Company Cash in Transit	219 654 34	12 416 939 17
Other Assets		1 557 000 57
Total		$43 861 703 35

Liabilities and Capital

Capital Stock:		
Preferred Stock—10,000 shares (less 500 shares held in Treasury) 60% paid	$ 570 000 00	
Common Stock—490,000 shares, 60% paid	29 400 000 00	$29 970 000 00
Notes and Accounts Payable		6 364 390 47
Reserves		1 783 902 63
Surplus		5 743 410 25
Total		$43 861 703 35

Note.—There were Contingent Liabilities aggregating $410,041.54 on account of Liabilities of Affiliated Companies

FORM XXII.—Condensed Income Account.

AMERICAN INTERNATIONAL CORPORATION

Summary of Consolidated Income and Profit & Loss for the Year ended December 31, 19—

Income from Interest and Dividends	$2 458 319 37	
Gross Earnings from Operations	5 388 227 97	$7 846 547 34
Deduct:		
Interest	$ 260 403 40	
Domestic and Foreign Taxes	876 309 53	
Other Expenses	2 993 455 18	4 130 168 11
Net Earnings		$3 716 379 23
Surplus at beginning of year		3 507 513 34
Surplus Balances of Companies Acquired during the year		*438 769 00
Gross Surplus		$7 662 661 57
Profit and Loss Charges:		
Dividends	$1 817 325 00	
Miscellaneous Charges and Adjustments (Net)	101 926 32	1 919 251 32
Surplus at end of year		$5 743 410 25

* All the stock of Carter, Macy & Company, Inc., and the Rosin & Turpentine Export Company having been acquired by the American International Corporation, the surplus accounts of these companies are now included in the consolidated statements.

FORM XXIII.—Com

THE BOSTON DRY

Comparative Balance Sh

Assets	Dec. 31, 1921	Dec. 31, 1920	Increase	Decrease
Real Estate and Equipment:				
Land	124 000 00	124 000 00		
Buildings	236 750 00	190 400 00	46 350 00	
Trucks, Wagons and Horses	25 291 60	20 300 00	4 991 60	
Furniture and Fixtures	30 169 50	34 287 95		4 118 45
Garage and Stable Equipment	3 682 72	2 983 40	699 32	
Total Real Estate and Equipment	419 893 82	371 971 35	47 922 47	
Goodwill	250 000 00	250 000 00		
Sinking and Reserve Funds:				
With Trustees for Redemption of Twenty Year 6% Gold Bonds	44 968 73	36 941 30	8 027 43	
Fund for Redemption of Ten Year 4½% Debentures	36 738 20	25 789 60	10 948 60	
Insurance Fund	15 640 56	12 987 32	2 653 24	
Total Sinking and Reserve Funds	97 347 49	75 718 22	21 629 27	
Investments:				
Securities Owned	12 362 50	44 321 97		31 959 47
Vacant Land—Cost plus Accrued Taxes	62 550 50	61 780 00	770 50	
Total Investments	74 913 00	106 101 97		31 188 97
Current Assets:				
Cash	15 813 46	12 463 19	3 350 27	
Accounts Receivable	247 932 16	228 113 43	19 818 73	
Notes Receivable	4 176 30	5 207 85		1 031 55
Accrued Interest on Notes Receivable	98 70	126 32		27 62
Merchandise on Hand	196 211 88	162 486 85	33 725 03	
Office Supplies on Hand	617 29	132 65	484 64	
Garage and Stable Supplies on Hand	802 37	484 21	318 16	
Total Current Assets	465 652 16	409 014 50	56 637 66	
Prepaid Assets:				
Taxes	1 846 50	1 524 90	321 60	
Insurance	217 30	541 65		324 35
Total Prepaid Assets	2 063 80	2 066 55		2 75
Deferred Charges to Operations:				
Bond Discount and Expenses	17 640 00	18 900 00		1 260 00
Organization Expenses	14 000 00	17 500 00		3 500 00
Total Deferred Charges to Operations	31 640 00	36 400 00		4 760 00
Total Assets	1 341 510 27	1 251 272 59	90 237 68	

parative Balance Sheet.

GOODS COMPANY

eet, December 31, 1921

Capital, Liabilities and Surplus	Dec. 31, 1921	Dec. 31, 1920	Increase	Decrease
Capital Stock:				
Preferred—Authorized, 2500 Shares par value $100	150 000 00	150 000 00		
Common—Authorized, 5000 Shares par value $100	450 000 00	400 000 00	50 000 00	
Total Capital Stock	600 000 00	550 000 00	50 000 00	
Funded Debt:				
Twenty Year 6% Sinking Fund Gold Bonds, Due January 1, 1930:				
In Hands of Public	175 000 00	185 000 00		10 000 00
Held by Sinking Fund Trustees	25 000 00	15 000 00	10 000 00	
Ten Year 4½% Debentures, Due July 1, 1926	100 000 00	100 000 00		
Total Funded Debt	300 000 00	300 000 00		
Current Liabilities:				
Accounts Payable	62 731 49	53 906 73	8 824 76	
Notes Payable	25 700 00	37 689 40		11 989 40
Accrued Interest on Bonds	5 250 00	5 250 00		
Accrued Interest on Notes Payable	296 37	468 97		172 60
Accrued Salaries and Wages	982 50	604 47	378 03	
Dividends on Preferred Stock	3 000 00	3 000 00		
Dividends on Common Stock	7 875 00	7 000 00	875 00	
Unclaimed Dividends and Interest	281 90	231 60	50 30	
Total Current Liabilities	106 117 26	108 151 17		2 033 91
Reserves:				
For Depreciation of Buildings and Equipment	45 260 00	36 410 00	8 850 00	
For Loss on Bad Accounts	8 239 64	5 749 37	2 490 27	
For Sinking Fund for Redemption of Twenty Year 6% Gold Bonds	44 968 73	36 941 30	8 027 43	
For Redemption of Ten Year 4½% Debentures	43 738 20	32 689 25	11 048 95	
For Insurance	19 621 14	15 129 60	4 491 54	
Total Reserves	161 827 71	126 919 52	34 908 19	
Capital Surplus—Proceeds of Sale of Treasury Stock	130 000 00	130 000 00		
Undivided Profits	43 565 30	36 201 90	7 363 40	
Total Capital, Liabilities and Surplus	1 341 510 27	1 251 272 59	90 237 68	

FORM XXIV.—Comparative Income Statement.

THE BOSTON DRY GOODS COMPANY

Comparative Income and Expense Statement—December 31, 1921

	Month of December, 1921	Twelve Months Year to Date	Same Period Last Year	Increase	Decrease	% Inc. or Dec.
Net Sales:						
Silk Goods	3 862 93	65 750 62	70 289 40		4 538 78	6 46
Dress Goods	28 860 79	329 370 59	246 364 32	83 006 27		33 69
Suitings	14 203 40	197 832 40	140 117 12	57 715 28		41 19
Prints and Ginghams	17 751 86	230 914 35	155 419 53	75 494 82		48 57
Linen Goods	14 273 54	191 213 07	210 268 50		19 055 43	9 06
Flannels and Sheetings	17 632 18	226 378 24	252 796 18		26 417 94	10 45
Total Net Sales	96 584 70	1 241 459 27	1 075 255 05	166 204 22		15 46
Cost of Goods Sold:						
Silk Goods	3 462 91	58 921 37	64 713 54		5 792 17	8 95
Dress Goods	22 978 64	258 172 98	181 231 87	76 941 11		42 45
Suitings	8 939 30	122 783 47	82 169 02	40 614 45		49 43
Prints and Ginghams	12 707 16	172 934 86	121 805 36	51 129 50		41 91
Linen Goods	10 345 87	135 832 20	158 268 93		22 436 73	14 18
Flannels and Sheetings	13 049 32	172 344 49	180 118 60		7 774 11	4 32
Total Cost of Goods Sold	71 483 20	920 989 37	788 307 32	132 682 05		16 83
Gross Trading Profit	25 101 50	320 469 90	286 947 73	33 522 17		11 68
Operating Expenses:						
Buying	625 86	7 491 02	7 016 44	474 58		6 76
Receiving and Warehousing	2 827 79	31 949 06	28 997 29	2 951 77		10 18
Selling	7 391 15	105 998 18	90 752 29	15 245 89		16 79

Shipping	2 596 25	32 274 46	26 370 12	5 904 34		22 39
Credit and Collection	847 74	8 379 45	8 296 13	83 32		1 01
General Administrative	3 705 47	44 613 48	41 431 01	3 182 47		7 68
Total Operating Expenses	17 994 26	230 705 65	202 863 28	27 842 37		13 72
Net Trading Profit	7 107 24	89 764 25	84 084 45	5 679 80		6 75
Other Income:						
Interest on Notes and Accounts Receivable	210 63	1 762 50	986 72	775 78		78 62
Cash Discounts on Purchases	518 04	7 329 60	6 173 51	1 156 09		18 73
Income on Securities Owned	1 462 50	3 200 00	2 850 00	350 00		12 28
Total Other Income	2 191 17	12 292 10	10 010 23	2 281 87		22 79
Gross Income	9 298 41	102 056 35	94 094 68	7 961 67		8 46
Other Charges:						
Interest on 6% Sinking Fund Gold Bonds	2 000 00	12 000 00	12 000 00			
Interest on 4½% Debentures	375 00	4 500 00	4 500 00			
Interest on Notes Payable	160 75	2 621 70	3 263 75		642 05	15 32
Loss on Bad Accounts	602 45	6 734 18	4 189 60	2 544 58		60 74
Proportion of Bond Discount and Expenses	105 00	1 260 00	1 260 00			
Proportion of Organization Expenses	291 67	3 500 00	3 500 00			
Total Other Charges	3 534 87	30 615 88	28 713 35	1 902 53		6 63
Net Profit	5 763 54	71 440 47	65 381 33	6 059 14		9 27

Form XXV.—Consol

AMERICAN HIDE AND LEATHER COM

Balance Sheet as

Assets

Cost of Properties:				
Including 4517 Shares Preferred and 2259 Shares Common Stock of American Hide & Leather Co. held in trust				$26 838 470 80
Sinking Fund Assets:				
Cash and Accrued Interest				98 407 01
($4,891,000 par value of Bonds in Sinking Fund held by Trustees not treated as an asset—and deducted from Bonds issued per contra				
Current Assets:				
Hides, Skins, and Leather on hand and in process of manufacture and General Supplies		$12 589 481 22		
Less—Reserve for possible depreciation in values		700 000 00		
		$11 889 481 22		
Sundry Debtors for Bills and Accounts Receivable	$4 113 343 61			
Less—Reserve for Doubtful Debts and Discount	259 136 16	3 854 207 45		
Claims and Sundries		15 416 61		
Insurance Premiums unexpired and prepaid interest		143 431 98		
Liberty Loan Bonds at par		800 550 00		
Cash:				
In Banks and on hand		1 077 946 00		17 781 033 26
Total Assets				$44 717 911 07

idated Balance Sheet.

PANY AND SUBSIDIARY COMPANIES

at June 30, 1918

Liabilities

Capital Stock:			
Authorized:			
175,000 7% Cumulative Preferred Shares of $100 each		$17 500 000 00	
175,000 Common Shares of $100 each		17 500 000 00	
Issued:			
130,000 Preferred Shares (Dividends accumulated thereon since 1899 except as to 15½% paid to date)		$13 000 000 00	
115,000 Common Shares		11 500 000 00	$24 500 000 00
First Mortage 6% Bonds:			
Authorized		$10 000 000 00	
Issued		$ 9 000 000 00	
Less—In Treasury	$ 475 000 00		
In Sinking Fund	4 891 000 00		
Held by Trustee as invested proceeds of released property sold	478 000 00	5 844 000 00	3 156 000 00
Current Liabilities:			
Bonds Interest Accrued		$ 170 500 00	
Bills Payable		2 200 000 00	
Trade Accounts		605 715 10	
Wages Accrued		53 120 35	
Taxes and Estimated Excess Profits Tax		594 123 80	3 623 459 25
Sinking Fund for Redemption of First Mortgage Bonds:			
Appropriations and Accretions to June 30, 1917		$4 539 282 13	
Appropriations for year ended June 30, 1918, charged to Profit and Loss		150 000 00	
Interest accretions during year	$ 280 630 00		
Less—Difference between cost and par of Bonds purchased out of interest Accretions and in anticipation of Sinking Fund and other requirements	846 37	279 783 63	4 969 065 76
Surplus:			8 469 386 06
Total Liabilities, Capital and Surplus			$44 717 911 07

FORM XXVI.—**Double Account Form of Balance Sheet.**

ROYAL MANUFACTURING COMPANY

General Balance Sheet, October 31, 1921

Capital Section

Assets			Liabilities		
Property and Equipment:			Mortgages Payable		$ 60 000 00
Land	$300 682 35		Bonds Payable		175 000 00
Buildings	485 000 00		Reserves for Depreciation:		
Factory Machinery and Equipment	138 150 00		Buildings	$128 933 33	
Store Fixtures	19 395 60		Factory Machinery and Equipment	21 714 83	
Office Furniture and Equipment	8 031 50		Store Fixtures	3 323 26	
Auto Trucks	8 400 00	$959 659 45	Office Furniture and Equipment	2 379 33	
Good-will		200 185 97	Auto Trucks	140 00	156 490 75
Patent Rights		15 000 00	General Reserves:		
Bond Sinking Fund		437 50	Loss on Bad Debts	$ 2 445 40	
Investments		14 700 00	Federal Income Tax	2 000 00	
Fourth Liberty Loan		10 000 00	Bond Sinking Fund	437 50	4 882 90
Bond Discount Deferred		7 842 19	Capital Stock—Preferred:		
Total Capital Assets		$1 207 825 11	Authorized	$750 000 00	
Balance Carried to Operating Section		277 068 17	Unissued	202 500 00	547 500 00
			Capital Stock—Common:		
			Authorized	$750 000 00	
			Unissued	215 000 00	535 000 00
			Surplus		6 019 63
Total		$1 484 893 28	Total Capital Liabilities		$1 484 893 28

Operating Section

Current Assets:			
Cash in Bank		$ 32 235 20	
Imprest Cash Fund		150 00	
Advances to Salesmen		324 75	
Accounts Receivable		61 784 47	
Notes Receivable	$7 452 50		
Less—Notes Receivable Discounted	4 780 00	2 672 50	
Interest Accrued on Notes Receivable		16 04	
Income Accrued on Investments		375 00	$97 557 96
Trading Assets:			
Raw Materials		$ 28 649 07	
Goods in Process		3 764 90	
Trading Goods		119 996 56	
Manufactured Goods		44 986 92	
Factory Tools and Supplies on hand		868 30	
Fuel on Hand		300 00	
Catalogs on Hand		2 070 00	
Stationery and Postage on Hand		149 25	200 785 00
Prepaid Items:			
Taxes Prepaid		$ 4 866 92	
Insurance Prepaid		2 013 25	6 880 17
Total			$305 223 13

Balance from Capital Section		$277 068 17
Current Liabilities:		
Accounts Payable	$11 459 00	
Notes Payable	8 966 58	
Employees' Deposits on Liberty Bonds	100 00	
Interest Accrued on Mortgage Payable	1 200 00	
Interest Accrued on Bonds Payable	875 00	
Interest Accrued on Notes Payable	32 08	
Salaries and Wages Accrued	1 416 05	
Dividends Payable—Preferred	4 106 25	28 154 96
Total		$305 223 13

Form XXVII.—English

WALKER & HOM

Balance Sheet, S

Capital and Liabilities

	£	s.	d.	£	s.	d.
Nominal Capital:						
600,412 six per cent. Cumulative Preference Shares of £1 each	600,412	0	0			
220,000 Ordinary Shares of £1 each	220,000	0	0			
	£820,412	0	0			
Issued:						
581,397 Preference Shares of £1 each, fully paid	581,397	0	0			
209,430 Ordinary Shares of £1 each	209,430	0	0			
	790,827	0	0			
Less—Calls in arrear	30,664	0	0	760,163	0	0
Four-and-a-Half per cent. First Mortgage Debenture Stock	200,000	0	0			
Interest to date Less—Tax	1,726	11	5			
1,400 Four per cent. Debentures of £100 each (Showell's)	140,000	0	0			
Interest to date Less—Tax	1,237	1	10			
Four per cent. Mortgage Debenture Stock (Watson, Woodhead & Wagstaffe's):						
Authorised Issue, £250,000—Issued	206,740	0	0			
Interest to date Less—Tax	3,261	11	7	552,965	4	10
(£21,000 of this issue is deposited as security for Loan.)						
Mortgages on Properties and Interest to date secured by Deposit of Deeds or charge upon Properties, and also a charge upon the Properties in the Trust Deeds securing the Company's Debenture Stock				224,616	6	0
Loans, Deposits, etc.				33,650	7	2
Sundry Creditors:						
Trade Accounts, etc.	80,856	13	8			
Rent, Rates and Taxes apportioned	27,039	17	6	107,896	11	2
Unpaid Dividends, etc.				3,669	1	11
Capital Reserve Account				5,553	15	0
Suspense Account for Outstanding Adjustments (re Showell's purchase)				124	6	6
Suspense Account for Outstanding Adjustments (re Watson, Woodhead & Wagstaffe's purchase)				3,424	7	3
General Reserve Fund				50,000	0	0
Profit and Loss Account				110,108	18	0
On behalf of the Board						
				£1,852,171	17	10

J. H. Davies,
C. B. Morgan, } *Directors.*
H. Spary, *Secretary.*

Auditors'

To the Shareholders of Walker & Homfrays, Limited,

In accordance with the provisions of the Companies (Consolidation) Act, 1908, we report to the Share
last, with the books and vouchers relating thereto, and have audited the above Balance Sheet.

During the course of the audit we have obtained all the information and explanations we have required,
a true and correct view of the state of the Company's affairs, according to the best of our information and

Manchester, February 18, 1918.

Form of Balance Sheet

FRAYS, LIMITED

eptember 30, 1917

Property and Assets

	£	s.	d.	£	s.	d.
Woodside Brewery with Freehold, Copyhold, and Long Leasehold. Fully-Licensed Public Houses, Beerhouses and other Properties, as on June 30, 1916	1,258,474	18	3			
Additions during the fifteen months	5,554	12	7			
Less—Compensation received, proceeds of sale of properties and losses thereon	11,411	0	0			
	1,252,618	10	10			
Ingoings, Fixtures, etc.	49,269	2	7	1,301,887	13	5
Properties held on Short Leases and on Yearly Tenancies						
Less—Depreciation for the fifteen months	6,906	1	2			
Fixed Plant:						
As on June 30, 1916	12,140	0	1			
Less—Depreciation, Five per cent. per annum	758	15	1			
	11,381	5	0			
Additions						
Less—Sales during the fifteen months	349	13	6	11,730	18	6
Rolling Stock						
As on June 30, 1916	5,347	9	10			
Less—Depreciation, Twelve-and-a-half per cent. per annum	835	10	11			
	4,511	18	11			
Additions						
Less—Sales during the fifteen months	1,050	2	11	5,562	1	10
Bottling Plant:						
As on June 30, 1916	7,570	14	0			
Less—Depreciation, Twenty-five per cent. per annum	2,365	16	10			
	5,204	17	2			
Additions						
Less—Sales during the fifteen months	2,719	20	7	7,924	7	9
Office Furniture, etc.:						
As on June 30, 1916	1,995	4	0			
Less—Depreciation, Seven-and-a-half per cent. per annum	187	1	0			
	1,808	3	0			
Additions during the fifteen months	168	4	5	1,976	7	5
Stock-in-Trade, comprising Beer, Malt, Hops, Wines, Spirits, Cigars, etc.				24,065	7	2
Sundry Debtors:						
Trade Accounts						
Less—Discount and reserve for Bad Debts	18,486	15	1			
Rent Accounts	5,383	0	7			
Loans	3,321	19	2			
Rates, Taxes, Licences, etc., prepaid	9,380	9	2	36,572	4	0
Manchester Brewery Co., Ltd., Trade Account				1,627	7	10
Dividends Receivable from Manchester Brewery Co., Ltd. (since paid)				28,061	4	11
Investment Account:						
Sundry investments, including thirty of the Company's 4 per cent Debentures of £100 each, at cost price	3,347	10	8			
Shares in Manchester Brewery Co., Ltd., at cost price	366,205	7	5	369,552	18	1
Trustees for Debenture Stockholders:						
Cash at Bank				7,834	1	1
Cash at Bank and in Hand				55,377	5	10
				£1,852,171	17	10

REPORT

holders that we have examined the accounts of the Company for the fifteen months ended September 30

and in our opinion the Balance Sheet of Sept. 30, 1917, as set out above, is properly drawn up so as to exhibit the explanations given to us, and as shown by the books of the Company.

W. BOLTON & Co., *Chartered Accountants.*

FORM XXVIII.—American Bankers Association—Form for Credit Purposes —Firm or Individual—Manufacturer or Merchant.

Form. FIRM OR INDIVIDUAL—Manufacturer or Merchant. FORM DESIGNED AND APPROVED BY THE AMERICAN BANKERS ASSOCIATION.

Statement of..

Business .... Address ....

TO ....

For the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, the undersigned submits the following as being a true and accurate statement of.............. financial condition on the following date, and agree......that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against..............................the undersigned will immediately and without delay notify the Bank; and unless the Bank is so notified, it may continue to rely upon the statement herein as a true and accurate statement of the financial condition of the undersigned.

Condition shown by..............books and inventory of..............................19..........

ASSETS.							LIABILITIES.			
Cash on hand and in bank,							Due on open accounts,			
Accounts of customers (good),							Acceptances:			
Notes and acceptances of customers (good),							(1) Issued in payment for merchandise,			
Merchandise (at cost):							(2) Other acceptances,			
(1) Manufactured,							Notes payable for merchandise,			
(2) Raw material,							Notes payable to own banks,			
(3) Stock in process,							Notes sold through brokers,			
Total quick assets,							Notes payable to others,			
Due from partners' notes, accounts receivable, etc.,							Money on deposit with us,			
Plant and machinery,							Other current debts (itemized)			
Furniture and fixtures,							....			
Real estate (value: mortgage entered in liabilities),							....			
Other assets (itemized)							Total current liabilities,			
....							Debt secured by mortgage—when due..............			
....							....			
....							Net worth,			
....							Reserves,			
....							*Notes receivable and acceptances discounted or sold with endorsement or guarantee (contingent liability),*			
....							....			
TOTAL,							TOTAL,			

Between the date of the above inventory and the present time we have had no serious losses through bad debts or otherwise (except .... and our condition today is fully as good as set forth by the above figures.

Condensed Profit and Loss Statement for Fiscal Year Ending..............................19..........

EXPENSE				INCOME.			
Cost of material or merchandise consumed,				Net sales,			
Actual expense of conducting business. Including rent, taxes, insurance, etc.,				From investments,			
Salary drawn by myself (ourselves),				From discounts on purchases,			
Interest on borrowed money,				From other sources (itemize),			
Bad debts charged off,				....			
Depreciation charged off,				....			
Net profits,				....			
TOTAL,				TOTAL,			

RECONCILEMENT OF NET WORTH

Net worth at close of previous fiscal year, - - - $..............................

Less charges not applicable to current year, - - - $..............................=$..............................

Add net profits as above, - - - $..............................=$..............................

Less—Withdrawals, other than salary as above, - - - $..............................

Net worth, - - - $..............................

FOR SALE BY H. S. BROWN PRINTING & BINDING CO. NEW YORK, N. Y.

(See Reverse Side.)

CONTINGENT LIABILITY.—We have no contingent liability of any kind as endorser or guarantor not noted above (except as follows):

Our merchandise is insured for $ .... Plant, building and machinery, $ ....

Life insurance carried for $ .... Beneficiary ....

None of the accounts or notes receivable included in the within statement have been assigned, pledged or discounted (except as follows): ....

No other contingent liability (except) ....

Neither have any of our other assets been pledged or assigned as collateral for any of our liabilities (except as follows): ....

Assets on which mortgages are a lien ....

Our partnership terminates ....

We have no interest in any other concern except (name affiliations and location) ....

There are no suits pending against our firm (except) ....

The form of obligation used in the financing of our business is the plain note of the firm (endorsed by) ....

None of the endorsers guarantee or endorse the paper of other concerns or individuals (except) ....

Outside resources of endorsers are ....

Our { commercial paper is / acceptances are } placed through (name broker or brokers) ....

Our books { are not / are } audited by a certified public accountant ....

The date of last audit was .... made by ....

BANK ACCOUNTS	LINES GRANTED	Under Discount on Statement Date

GENERAL PARTNERS:

.... Personal worth outside of this business, $ ....

.... Personal worth outside of this business, $ ....

.... Personal worth outside of this business, $ ....

(Please sign firm's name here) ....

Date signed .... By .... (Partner)

FORM XXIX.—American Bankers Association—Form for Credit Purposes —Corporation.

CONFIDENTIAL

CORPORATION

Corporate Name ....

Main Office ....

Branches ....

Business ....

Location of Plant..

ASSETS		LIABILITIES	
Cash on hand and in Bank		Notes Payable for Merchandise	
Notes Receivable of Customers: Current		Acceptances Issued	
Past Due, Cash Value		Notes Payable to Banks	
Accounts Receivable of Customers Current		Notes Payable for Paper Sold	
Past Due, Less than 6 months		Notes Payable to Officers Directors and Stockholders	
Past Due, Over 6 months		Notes Payable to Others	
Acceptances of Customers		Accounts Payable—Not Due	
Merchandise: Finished		Accounts Payable—Past Due	
In Process, Unfinished		Accounts Payable to Officers Directors and Stockholders	
Raw Material		Deposits of Money with this Co. by Officers and Others	
Collateral Pledged to Loans: Notes Receivable		Secured Liabilities by Notes Receivable	
Accounts Receivable		Accounts Receivable	
Trade Acceptances		Trade Acceptances	
Merchandise		Merchandise	
Securities		Securities	
Other Active Assets		Any Other Current Liabilities	
Total Active Assets		Total Current Liabilities	
Due from Controlled or Allied		Mortgages or Liens on	
Concerns: For Merchandise		Real Estate	
For Advances		Bonded Debt	
Stocks, Bonds and Investments		Chattel Mortgages	
Land		Any Other Liabilities—Itemize	
Buildings			
Machinery, Equipment and Fixtures			
Horses, Wagons and Automobiles		Total Liabilities	
Notes Receivable—Due from Officers, Stockholders and Employees			
Accounts Receivable—Due from Officers Stockholders and Employees		Reserve—Itemize	
Good Will, Patents and Trade Marks			
Other Assets—Itemize			
		Capital Stock—Pref. Outstanding	
		Capital Stock—Com. Outstanding	
		Capital Stock—No Par Value	
Deferred Assets		Surplus and Undivided Profits	
TOTAL		TOTAL	

Contingent Liability of Any Kind

Upon Receivables Discounted or Pledged				
Upon Accommodation Paper or Endorsements				
Customers' Accounts Sold and Assigned				
As Guarantee for Others on Notes, Contracts, etc.				
For Bonds or Unfinished Contracts				
For Leases				
Other Contingent Liabilities				
Commitment Liability				
Contract Price of Goods Purchased, Delivery to be made During 192				
Present Market Value of Goods Purchased, Delivery to be made During 192				

Insurance. Fire, on Buildings $ ________ Machinery, Fixtures and Equipment $ ________

Merchandise $ ________ Life in favor of Company $ ________

CONDENSED PROFIT AND LOSS STATEMENT FOR FISCAL YEAR ENDING ________ 192

EXPENSE				INCOME			
Cost of Material or Merchandise Consumed							
Actual Expense of Conducting Business, Including Rent, Taxes, Insurance, etc.				Net Sales			
				From Investments			
				From Discount in Purchase			
Salaries Paid to Officers				From Other Sources—Itemize			
Int. on Borrowed Money, Bonds							
Bad Debts Charged Off							
Depreciation Charged Off							
Net Profits							
Total				Total			

Surplus and Undivided Profits

At Close of Previous Year $											
Less Charges Not Applicable to Current Year	$										
Add net Profits as Above—Itemize	$				$						
Less Dividends (Preferred (Per Cent)	$										
(Common (Per Cent)	$										
(No Par (Per Cent)	$				$						
Undivided Profits									$		

We hereby certify that the foregoing figures are taken from the books of this Company and that they and the statements contained on both sides of this sheet are true and give a correct showing of the financial condition of the Company.

Signed this ________ day of ________ 192__

Name ________

By ________

(State official title)

I—We have audited the accounts of ________ for the period from ________ to ________ and certify that in my our opinion the above Balance Sheet and Statement of Profit and Loss set forth the financial conditions of the firm or company at ________ and the results of its operations for the period.

____

Public Accountants.

WORTH OF ENDORSERS EXCLUSIVE OF THEIR INTERESTS IN THE BUSINESS

	$		$
	$		$
	$		$

FORM XXX.—Statement of Cash Receipts and Disbursements.

ARLINGTON RESEARCH CLUB

Statement of Cash Receipts and Disbursements

For the Year Ending May 31, 1921

Receipts				
Cash on Hand, June 1, 1920				$ 356 48
Membership Dues			$1 490 00	
Entrance Fees			14 00	
Receipts of Classes Conducted:				
Physical Culture		$129 50		
Literature		73 00		
History and Travel		20 00	222 50	
Receipts from Entertainments:				
Annual Guest Night		$107 00		
May Breakfast at Vendome		139 00		
Lecture for District Nurse Fund		107 10	353 10	
Contribution to Endowment Fund			101 50	
Rent of Piano			123 00	
Rent of Stereopticon			42 00	
Sale of Federation Bulletin and Year Books			1 50	
Interest on Bank Balance			9 42	
Total Receipts for Year				2 357 02
				$2 713 50
Disbursements				
Rent of Club Rooms (Including Janitor Service)			$ 249 00	
Expenses of Classes Conducted:				
Physical Culture		$100 50		
Literature		128 00		
History and Travel		20 00	248 50	
Expenses of Entertainments:				
Lectures		$295 50		
Teas		192 78		
Annual Guest Night		228 45		
Children's Day		45 41		
Lecture for District Nurse Fund		17 10		
May Breakfast at Vendome		148 57	927 81	
Administration:				
State and General Federation Fees		$ 39 35		
Expenses of Delegate to the Annual Convention of Women's Clubs		12 40		
Printing and Postage		153 42		
Telephone		18 80		
Repairs:				
Piano	$59 00			
Box Scenes	24 00			
Lantern	2 10	85 10	309 07	
Paid into Endowment Fund			125 00	
Refund of Dues			15 00	
Federation Bulletins			2 00	
Aids and Benevolences:				
Massachusetts Forestry Association		$ 5 00		
Massachusetts Civic League		5 00		
Society for Moral Education		2 00		
Charity		100 00	112 00	
Total Disbursements for Year				1 988 38
Cash on Hand, May 31, 1921				$ 725 12

Respectfully submitted,
(Signed) THEODORE A. BLAKE,
Treasurer.

May 31, 1921

FORM XXXI.—Form of Balance Sheet Recommended by The Federal Reserve Board for Credit Purposes.

FORM OF BALANCE SHEET

Assets.

Cash:
- 1a. Cash on hand—currency and coin
- 1b. Cash in bank

Notes and accounts receivable:
- 3. Notes receivable of customers on hand (not past due)
- 5. Notes receivable discounted or sold with indorsement or guaranty
- 7. Accounts receivable, customers (not past due)
- 9. Notes receivable, customers, past due (cash value, $)
- 11. Accounts receivable, customers, past due (cash value, $)

Less—
- 13. Provisions for bad debts
- 15. Provisions for discounts, freights, allowances, etc.

Inventories:
- 17. Raw material on hand
- 19. Goods in process
- 21. Uncompleted contracts
  Less payments on account thereof
- 23. Finished goods on hand

Other quick assets (describe fully):

Liabilities,

Bills, notes, and accounts payable:

Unsecured bills and notes:
- 2. Acceptances made for merchandise or raw material purchased
- 4. Notes given for merchandise or raw material purchased
- 6. Notes given to banks for money borrowed
- 8. Notes sold through brokers
- 10. Notes given for machinery, additions to plant, etc.
- 12. Notes due to stockholders, officers, or employees

Unsecured accounts:
- 14. Accounts payable for purchase (not yet due)
- 16. Accounts payable for purchases (past due)
- 18. Accounts payable to stockholders, officers, or employees

Secured liabilities:
- 20a. Notes receivable discounted or sold with indorsement or guaranty (contra)
- 20b. Customers' accounts discounted or assigned (contra)
- 20c. Obligations secured by liens on inventories
- 20d. Obligations secured by securities deposited as collateral

- 22. Accrued liabilities (interest, taxes, wages, etc.)

Other current liabilities (describe fully):

Total quick assets (excluding all investments)

Securities:

25. Securities readily marketable and salable without impairing the business
27. Notes given by officers, stockholders, or employees
29. Accounts due from officers, stockholders, or employees

Total current assets

Fixed assets:

31. Land used for plant
33. Buildings used for plant
35. Machinery
37. Tools and plant equipment
39. Patterns and drawings
41. Office furniture and fixtures
43. Other fixed assets, if any (describe fully):

Less—
45. Reserves for depreciation

Total fixed assets

Deferred charges:

47. Prepaid expenses, interest, insurance, taxes, etc.

Other assets (49)

Total assets

Total current liabilities

Fixed liabilities:

24. Mortgage on plant (due date)
26. Mortgage on other real estate (due date)
28. Chattel mortgage on machinery or equipment (due date)
30. Bonded debt (due date)

32. Other fixed liabilities (describe fully):

Total liabilities

Net worth:

34. If a corporation:
(a) Preferred stock (less stock in treasury)
(b) Common stock (less stock in treasury)
(c) Surplus and undivided profits

Less—
(d) Book value of good will
(e) Deficit

36. If an individual or partnership:
(a) Capital
(b) Undistributed profits or deficit

Total

FORM XXXII.—Form of Profit and Loss Statement Recommended by The Federal Reserve Board.

FORM FOR PROFIT AND LOSS ACCOUNT

Comparative Statement of Profit and Loss for Three Years Ending ——— 19—

	Year ending		
	19—	19—	19—
Gross sales	$	$	$
Less—Outward freight, allowances, and returns			
Net sales			
Inventory, beginning of year			
Purchases, net			
Less—Inventory, end of year			
Cost of sales			
Gross profit on sales			
Selling expenses (itemized to correspond with ledger accounts kept)			
Total selling expense			
General expenses (itemized to correspond with ledger accounts kept)			
Total general expense			
Administrative expenses (itemized to correspond with ledger accounts kept)			
Total administrative expense			
Total expenses			
Net profit on sales			
Other income:			
Income from investments			
Interest on notes receivable, etc.			
Gross income			
Deductions from income:			
Interest on bonded debt			
Interest on notes payable			
Total deductions			
Net income—profit and loss			
Add—Special credits to profit and loss			
Deduct—Special charges to profit and loss			
Profit and loss for period			
Surplus, beginning of period			
Dividends paid			
Surplus, ending of period			

FORM XXXIII.—**Certificate of Condition required to be filed by Massachusetts corporations.**

CERTIFICATE OF CONDITION.

[Acts of 1903, Chap. 437.]

Section 45. Every corporation shall annually, within thirty days after the date fixed in its by-laws for its annual meeting last preceding the date of such report, or within thirty days after the final adjournment of such meeting, but not more than three months after the date so fixed for said meeting, prepare a report of condition which shall be signed and sworn to by its president, treasurer and at least a majority of its directors.

It is expected that this blank can be readily filled from the report of affairs made to the stockholders at their annual meeting.

Corporations with a capital of $100,000 or more must appoint an auditor to certify this certificate. (See chapter 437, section 47.) **[The fee for filing this certificate is $10.00, which should accompany the certificate. Checks should be made payable to the order of the "Commonwealth of Massachusetts."]**

We, President, Treasurer
and

Leave this space blank for binding.

being a majority of the directors of the Corporation named below, in compliance with the provisions of chapter 437 of the Acts of 1903, and all acts in amendment thereof and in addition thereto, do hereby certify

(1.) That the name of said corporation is

(2.) That the location of its principal office in this Commonwealth is No.
Street, [City or Town], and outside this Commonwealth, No.
Street, [City or Town], State of

(3.) That the last annual meeting was held on 19

(4.) That the total amount of its authorized capital stock is $

That said capital stock is divided into shares, of which shares are preferred and shares common, and the par value of each share of said stock is { preferred $ / common $

The amount issued and outstanding at said date was
shares preferred
shares common

The total amount then paid thereon was { preferred $ / common $

(5.) That the date of its last fiscal year (which by section 20 of chapter 437 must be not more than 90 days prior to the date fixed in the by-laws for the annual meeting) was and the assets and liabilities of the corporation on said date were as follows:

Assets			Liabilities		
Real estate	$		Capital stock	$	
Machinery			Mortgages		
Furniture, fixtures and tools			Accounts payable		
Autos, trucks and teams			Notes payable		
Merchandise			Surplus		
Notes			Profit and loss		
Accounts receivable					
Cash					
Securities					
Patent rights					
Trade-marks					
Good-Will					
Profit and loss					
Total			Total		

[Over]

(6.) That the names and addresses of all the directors and officers of the corporation and the dates at which the term of office of each expires are as follows:—

Name of Office	Names	Addresses	Expiration of Term of Office
President,			
Treasurer,			
Clerk,			
Directors,			

THE PRESIDENT, TREASURER AND A MAJORITY OF DIRECTORS SHOULD SIGN IN THE SPACE BELOW.

In Witness Whereof, we have hereunto signed our names, this day of in the year nineteen hundred and twenty

Leave this space blank for binding

THE COMMONWEALTH OF MASSACHUSETTS

, ss. 192

Then personally appeared the above-named officers

and severally made oath that the foregoing certificate, by them subscribed, is true to the best of their knowledge and belief.

Before me,

Justice of the Peace.

[If out of Massachusetts, oath may be taken before a commissioner for Massachusetts, or a Notary Public; if within Massachusetts, before a Notary Public or a Justice of the Peace.]

The committee selected at the annual meeting of this corporation, which has an outstanding capital stock of $100,000 or more, at a meeting held at
on the day of , A. D. 192 , has employed
of
as Auditor, pursuant to the provisions of section 47 of chapter 437 of the Acts of 1903, and of chapter 326, Acts of 1909.

Leave this space blank for binding.

AUDITOR'S CERTIFICATE.

(To be used only by corporations having a paid-in capital of $100,000, or more.)

This auditor must not be a bookkeeper, treasurer or other officer of this corporation, who has already signed and executed this statement. (Chap. 300 of the Acts of 1908.)

192 .

I, of the duly selected Auditor of
a corporation duly established by law, hereby certify that I have completed the examination of the books of said corporation, and its certificate of condition *as executed by its officers,* to which this certificate is attached, and that I find that said certificate represents the true condition of the affairs of said corporation as disclosed by its books. This certificate is made by me in compliance with the provisions of section 47, chapter 437, of the Acts of 1903.

Auditor.

THE COMMONWEALTH OF MASSACHUSETTS.

, ss. 192 .

Then personally appeared the above-named .
and made oath that the above certificate by him subscribed is true.

Before me,

Justice of the Peace.

FORM XXXIV.—American Writing Paper Company—Balance Sheet, Profit and Loss Statement, and Surplus Account.

AMERICAN WRITING PAPER COMPANY

Holyoke, Mass.

December 31, 1918

Balance Sheet

Assets

Property Account:			
Reproductive Value of Real Estate, Buildings, Machinery, Water Power, etc., as appraised by The American Appraisal Company, March 31, 1917, with subsequent additions and deductions to December 31, 1918, certified to by them		$21 570 686 84	
Less—Allowance for Depreciation		5 937 150 54	$15 633 536 30
Good Will, Trade Marks, etc.:			
As of date of organization			18 010 150 41
Current:			
Cash		$ 1 053 747 47	
Accounts Receivable—Customers' Less—Allowance for Doubtful Accounts, Discounts, etc.		2 522 008 14	
Merchandise Inventories	$5 800 608 12		
Less—Reserve	330 907 03	5 469 701 09	
Liberty Bonds—Company and Employees		65 810 11	9 111 266 81
Sinking Fund:			
Cash and Treasury Certificates			120 345 92
Other Assets:			
Notes Receivable (Secured)		$ 20 154 44	
Special Loan (Secured)		10 000 00	
Sundry Accounts Receivable		12 985 01	43 139 45
Investments:		$ 32 715 00	
Accrued Earnings		840 00	33 555 00
Deferred Charges:			
Unexpired Insurance Premiums		$ 38 646 09	
Prepaid Taxes		37 093 66	
Sundry Prepaid Expenses, etc.		2 100 00	77 839 75
			$43 029 833 64

Liabilities

Capital Stock:			
Preferred—7% Cumulative:			
Authorized and Issued		$12 500 000 00	
Common:			
Authorized and Issued		9 500 000 00	$22 000 000 00
Bonded Debt:			
5% First Mortgage Sinking Fund Bonds due July 1, 1919			
Authorized and Issued		$17 000 000 00	
Less—Purchased—Held by Trustee	$3 777 000 00		
In Treasury	2 223 000 00	6 000 000 00	11 000 000 00
Current:			
Notes Payable—Bank Loans		$ 840 000 00	
Trade Acceptance		529 772 46	
Accounts Payable		1 320 016 03	
Accrued Wages, Taxes, etc.		128 257 77	2 818 046 26
Bond Purchase Account			623 626 94
Reserve:			
For War Taxes			185 014 53
Surplus			6 403 145 91
			$43 029 833 64

NOTE "A"—The Company was contingently liable on the above date, as endorser on Trade Acceptance and Notes Receivable discounted at Banks, in the sum of $449,451.61.

NOTE "B"—Since the organization of the Company in July, 1899, there has been paid 10% on the cumulative Preferred Stock.

Income Account for the Year

Gross Sales Billed:		
To Customers	$21 023 478 55	
Inter-Division Sales	304 298 63	
Total		$21 327 777 18
Cost of Sales:		
Raw Materials, Conversion, Labor, Mill Expenses, Taxes, Freight, Shipping, etc.	$17 117 682 09	
Depreciation, Maintenance and Repairs, Millwright Labor, etc.	1 017 577 18	18 135 259 27
Gross Profit on Sales		$ 3 192 517 91
Expenses:		
Selling and General Administrative		571 168 34
		$ 2 621 349 57
Other Income:		
Interest and Discount Earned	$ 128 902 11	
Scrap Sales and Sundry Income	142 317 90	271 220 01
		$ 2 892 569 58
Income Charges:		
Discount on Sales, etc.	$ 671 442 68	
Sundry Charges	189 138 02	860 580 70
Net Operating Profit		$ 2 031 988 88
Interest and Reserves:		
Bond Interest, Net to Public	$ 554 359 44	
Reserve for Inventories and War Taxes	225 000 00	779 359 44
Net Addition to Surplus		$1 252 629 44

Surplus Account

Balance—per Books, January 1, 1918		$ 5 553 387 09
Additions:		
Net addition as shown in Statement of Income Account for the Year		1 252 629 44
		$ 6 806 016 53
Deductions:		
Net reduction in value of Mill Property as result of appraisal on property not heretofore appraised, reconstruction, depletion, etc.	$ 393 819 19	
Net Sundry Adjustments	9 051 43	402 870 62
Surplus per Balance Sheet		$ 6 403 145 91

FORM XXXV.—Willys-Over

THE WILLYS-

And Subsidiary

Balance Sheet,

Assets

Property Account:	Factory Property	Branch House Property	Together
Land, Buildings, Plant and Equipment:			
Land	$ 902 180 58	$1 855 919 47	$ 2 758 100 05
Buildings	11 464 888 65	5 037 612 48	16 502 501 13
Machinery and Equipment	11 217 432 21	211 765 63	11 429 197 84
Tools, Dies, Patterns and Drawings (Depreciated Value)	2 239 846 50	15 890 73	2 255 737 23
Furniture and Fixtures	325 779 46	186 608 07	512 387 53
Automobile and Truck Equipment in Service	118 966 57	139 483 10	258 449 67
Leasehold Investments		348 565 83	348 565 83
Totals	$26 269 093 97	$7 795 845 31	$34 064 939 28

Deduct—Reserve for Depreciation and Accruing Renewals:		
Balance at December 31, 1916	$ 1 594 096 81	
Amount provided out of earnings for the year, exclusive of provision for Depreciation of Tools, Dies, Patterns, etc. ($1,030,000.00) deducted from the Asset	1 330 798 12	
Together	$ 2 924 894 93	
Less—Replacement Expenditures and Losses on Dismantled Property	150 111 93	2 774 783 00
		$ 31 290 156 28
Goodwill, Patents, Trade-Marks, etc.		14 059 932 21
Total Property Investment		$ 45 350 088 49
Investments in and Advances to Other Companies		8 021 326 43
Current Assets:		
Inventories of Raw and Worked Material, Supplies, Unassembled Parts, Service Stock and Cars on Hand and in Transit, at or below cost	$40 589 808 12	
Balance due from European Distributing Agent	112 756 14	
Accounts Receivable, Less Reserves	3 642 568 10	
Notes Receivable (Distributors' and other Notes)	1 884 951 68	
Guaranty Securities Corporation Certificates of Beneficial Interest in Customers' Deferred Instalment Notes	978 250 27	
Liberty Bonds Purchased for Employees, less payments thereon	515 165 50	
Miscellaneous Investments	2 094 714 59	
Cash in Banks and on Hand	9 593 870 15	59 412 084 55
Deferred Charges to Future Operations:		
Prepaid Interest, Insurance, etc.		509 201 61
Total Assets		$113 292 701 08

land Company—Balance Sheet.

OVERLAND COMPANY

Companies

December 31, 1917

Liabilities

Capital Stock:				
Authorized:				
7% Cumulative Preferred Stock—100,000 Shares of $100.00 each			$10 000 000 00	
7% Cumulative Convertible Preferred Stock—150,000 Shares of $100.00 each			15 000 000 00	
Common Stock: 2,000,000 Shares of $25.00 each			50 000 000 00	
			$75 000 000 00	
Issued and Outstanding:				
7% Cumulative Preferred Stock			$ 3 473 600 00	
7% Cumulative Convertible Preferred Stock			14 532 500 00	
Common Stock		$41 610 875 00		
Scrip Certificates in respect of fractional shares of Stock		10 006 25		
Together		$41 620 881 25		
Less—Employees' Stock Subscriptions Unpaid		2 235 418 83	39 385 462 42	$ 57 391 562 42
Purchase Money Obligations:				
Real Estate Mortgages assumed				225 000 00
Total Capital Obligations				$ 57 616 562 42
Current Liabilities:				
Notes Payable:				
Bank Loans		$16 119 700 00		
U. S. Government (Advances on Contract)		2 500 000 00		
Sundry Persons		1 818 160 61	$20 437 860 61	
Accounts Payable			6 926 635 34	
Payrolls and Salaries Accrued			353 744 73	
Dealers' Initial Payments			628 065 46	
Taxes and Interest Accrued, Provision for Premiums to Distributors and Dealers, Reserve for Repairs under Guarantee, etc.			1 245 841 41	
Preferred Stock Dividend, declared payable January 1, 1918			315 106 75	29 907 254 30
Reserve Funds:				
For Future Contingencies			$ 1 000 000 00	
For Redemption of Preferred Stock			450 000 00	
Surplus arising from Redemption of Preferred Stock			17 500 00	1 467 500 00
Surplus:				
Balance at January 1, 1917			$27 596 594 21	
Add—Net Profits and Income for the year ending December 31, 1917, as per statement attached			6 121 543 77	
Together			$33 718 137 98	
Deduct:				
Dividends paid and declared:				
In Cash:				
On Preferred Stock	$1 138 340 61			
On Common Stock	4 885 236 75	$6 023 577 36		
In Stock		1 965 991 25		
Provision for Redemption of Preferred Stock		450 000 00		
Good-Will of Subsidiary Company Purchased and Written Off		74 243 47		
Development expense attributable to new work for 1918 delivery written off, per resolution of Directors		902 941 54	9 416 753 62	24 301 384 36
Total Liabilities, Capital and Surplus				$113 292 701 08

FORM XXXVI.—Westinghouse Electric and Manufacturing Company—Consolidated Balance Sheet and Profit and Loss Statement.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY

And Its Proprietary Companies

Consolidated General Balance Sheet

March 31, 1921

Assets	
Property and Plant:	
Factory Plants—Real Estate, Buildings, Equipment, etc.	$ 48 708 477 52
Investments:	
Stocks, Bonds, Debentures, etc., of other Companies including those of European and Canadian Companies	$ 16 624 716 53
Current Assets:	
Cash	$ 11 311 325 92
Cash with Agents and Others	1 013 211 27
Cash on Deposit for redemption of Bonds and for Interest and Dividends	40 992 00
Notes Receivable	7 697 712 25
Accounts Receivable	34 551 599 84
Inventories—Raw Materials and Supplies, Finished Parts and Machines, Work in Progress, Goods on Consignment and Apparatus with Customers—valued Dec. 31, 1920, at cost or market values	80 724 389 22
Total Current Assets	$135 339 230 50
Other Assets:	
Patents, Charters and Franchises	$ 4 601 605 29
Insurance, Taxes, etc., paid in advance	990 488 00
Total Other Assets	$ 5 592 093 29
Total	$206 264 517 84

Liabilities	
Capital Stock:	
Preferred	$ 3 998 700 00
Common	70 813 950 00
Total Capital Stock	$ 74 812 650 00
Funded Debt:	
Seven Per Cent Gold Bonds due May 1, 1931	$ 30 000 000 00
Westinghouse Machine Co. Issues:	
First and Refunding Mortgage Bonds, due Nov. 1, 1940	6 168 000 00
Five Per Cent Bonds, due May 1, 1926	107 000 00
Total Funded Debt	$ 36 275 000 00
Real Estate Purchase Money Mortgage	$ 60 000 00
Current Liabilities:	
Notes Payable	$ 20 775 000 00
Accounts Payable	6 651 601 84
Interest, Taxes, Royalties, etc., Accrued, not due	4 341 472 37
Dividend on Preferred Stock, payable April 15	79 974 00
Dividend on Common Stock, payable April 30	1 416 279 00
Advance Payments on Contracts	8 580 674 18
Subscriptions to Securities, etc.	2 862 689 69
Unpaid Bonds and Interest and Dividends	40 992 00
Total Current Liabilities	$ 44 748 683 08
Reserves:	
Contingent Reserve for further possible Shrinkages in Inventories	$ 5 000 000 00
All Other Reserves	3 102 904 64
Total Reserves	$ 8 102 904 64
Profit and Loss—Surplus	$ 42 265 280 12
Total	$206 264 517 84
Contingent Liability on Foreign Drafts, Acceptances, etc.	$ 601 674 63

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY

And Its Proprietary Companies

Consolidated Statement of Income and Profit and Loss for the Year Ended March 31, 1921

Gross Earnings:		
Sales Billed		$150 980 106 39
Cost of Sales:		
Factory Cost, including all Expenditures for Patterns, Dies, and New Small Tools and Sundry Other Betterments and Extensions; also depreciations of Property and Plant, Inventory Adjustments and Depreciations and all Selling, Administration, General and Development Expenses and all Taxes		138 774 084 58
Net Manufacturing Profit		$ 12 206 021 81
Other Income:		
Interest, Discount, Royalties, etc.	$3 078 735 53	
Dividends and Interest on Sundry Stocks and Bonds Owned	600 728 68	3 679 464 21
Gross Income from All Sources		$ 15 885 486 02
Deductions from Income:		
Interest on Bonds and Notes Payable	$2 764 648 28	
Miscellaneous	503 302 17	3 267 950 45
Net Income Available for Dividends and Other Purposes		$ 12 617 535 57
Surplus, March 31, 1920		43 435 763 55
Total		$ 56 053 299 12
Profit and Loss Charges:		
Dividends on Preferred Capital Stock	$ 319 896 00	
Dividends on Common Capital Stock	5 664 998 00	
Appropriation for Contingent Reserve for further possible Shrinkages in Inventories	5 000 000 00	
Discount and Expenses in re Issue of Ten Year Bonds	2 803 125 00	13 788 019 00
Surplus per Balance Sheet		$ 42 265 280 12

Form XXXVII.—U. S. Steel Balance Sheet and Profit and Loss Statement.

CONSOLIDATED GENERAL BALANCE SHEET

December 31, 1920

Assets		
Property Account:		
Properties Owned and Operated by the Several Companies		
Balance of this account as of December 31, 1920		$1 995 100 483 86
Less—Depletion and Depreciation Fund Balances at December 31, 1920:		
Balances in various Funds	$251 510 823 16	
General depreciation appropriated from Income and applied as follows:		
Invested in redeemed bonds held by Trustees of Sinking Funds, but not treated as assets, and in cash as below	128 140 301 18	
Invested in retired bonds redeemed with Sinking Funds	8 690 813 29	
		388 341 937 63
		$1 606 758 546 23
Advanced Mining Royalties:		
Payments for Advanced Mining Royalties	$ 29 821 048 96	
Less—Fund reserved from Surplus to cover possible failure to realize all of the foregoing	7 000 000 00	
		22 821 048 96
Mining Royalties.—In respect of which non-interest bearing notes of the subsidiary companies have been issued—See Contra		31 196 918 69
Deferred Charges (Applying to future operations of the properties):		
Mine exploration expenses and other charges	$ 2 099 477 72	
Discount on subsidiary companies' bonds sold (Net)	908 327 43	
		3 007 805 15
Investments:		
Outside Real Estate and Investments in sundry securities, including Real Estate Mortgages	$ 6 313 952 54	
Employee's Land Sales Contracts and Mortgages under Home-owning Plan	7 745 872 52	
		14 059 825 06
Sinking and Reserve Fund Assets:		
Cash resources held by Trustees account of Bond Sinking Funds	$ 1 208 653 45	
(In addition Trustees hold $135,147,000 of redeemed bonds, which are not treated as an asset.)		
Contingent Fund and Miscellaneous Assets	10 730 461 03	

Insurance and Depreciation Fund Assets and purchased bonds available for future bond sinking fund requirements, viz.:			
Securities	$52 519 583 75		
Cash	2 529 131 22		
	$55 048 714 97		
Less—Amount of foregoing represented by obligations of Subsidiary Companies issued for capital expenditures made	16 655 475 00		
		38 393 239 97	
			50 332 354 45
Current Assets:			
Inventories, less credit for Reserve and for amount of inventory values representing Profits earned by subsidiary companies on Inter-Company sales of products on hand in Inventories, December 31, 1920.		$258 363 497 08	
Accounts Receivable		138 724 743 29	
Bills Receivable		10 687 973 89	
Agents' Balances		1 750 563 51	
Due from United States Railroad Administration		17 962 307 27	
Sundry Marketable Securities (including U. S. Liberty Loan Bonds and Treasury Certificates)		150 350 616 78	
Time Bank Deposits		869 807 24	
Cash (in hand and on deposit with Banks, Bankers and Trust Companies, subject to cheque)		123 660 954 96	
			702 370 464 02
			$2 430 546 962 56

We have audited the above Balance Sheet, and certify that in our opinion it is properly drawn up so as to show the true financial position of the United States Steel Corporation and Subsidiary Companies on December 31, 1920.

BLANK & COMPANY,
Auditors.

New York, March 9, 1921

CONSOLIDATED GENERAL BALANCE SHEET

December 31, 1920

Liabilities

Capital Stock of U. S. Steel Corporation:		
Common	$508 302 500 00	
Preferred	360 281 100 00	
		$ 868 583 600 00
Capital Stocks of Subsidiary Companies Not Held by U. S. Steel Corporation (*Par Value*)		421 442 50
Bonded and Debenture Debt Outstanding:		
United States Steel Corporation 50 Year 5% Bonds	$224 408 000 00	
United States Steel Corporation 10–60 Year 5% Bonds	174 326 000 00	
	$398 734 000 00	
Subsidiary Companies' Bonds, guaranteed by U. S. Steel Corporation	95 661 000 00	
Subsidiary Companies' Bonds, not guaranteed by U. S. Steel Corporation	60 433 230 74	
		554 828 230 74
Capital Obligations of Subsidiary Companies Authorized or Created for Capital Expenditures Made (held in treasury subject to sale, but not included in assets or liabilities)	$ 25 847 000 00	— — —
Subsidiary Companies' Non-Interest Bearing Notes—Maturing over a period of 37 years, substituted for previously existing mining royalty obligations—Guaranteed by U. S. Steel Corporation (See Contra)		31 196 918 69
Mortgages & Purchase Money Obligations of Subsidiary Companies:		
Mortgages	$ 200 402 59	
Purchase Money Obligations issued in acquirement of Fixed Property	37 768 35	
Mining Royalty Notes (Interest Bearing—Guaranteed by U. S. Steel Corporation)	127 282 23	
		365 453 17

Current Liabilities:		
Current Accounts Payable and Pay Rolls	$ 73 541 861 80	
Accrued Taxes, not yet due, including reserve for estimated Federal taxes	63 063 930 51	
Accrued Interest, Unpresented Coupons and Unclaimed Dividends	7 480 702 45	
Preferred Stock Dividend No. 79, payable February 26, 1921	6 304 919 25	
Common Stock Dividend No. 66, payable March 30, 1921	6 353 781 25	
		156 745 195 26
Total Capital and Current Liabilities		$1 612 140 840 36
Sundry Reserve Funds:		
Contingent, Miscellaneous Operating and Other Reserve Funds	$131 742 048 68	
Insurance Funds	22 310 268 53	
		154 052 317 21
Appropriated Surplus to Cover Capital Expenditures:		
Invested in Property Account—Additions and Construction		140 898 914 10
Undivided Surplus of U. S. Steel Corporation and Subsidiary Companies:		
Capital Surplus provided in organization	$ 25 000 000 00	
Balance of Surplus accumulated by all companies from April 1, 1901, to December 31, 1920	498 454 890 89	
Total Surplus, exclusive of Profits earned by Subsidiary Companies on Inter-Company sales of products on hand in Inventories, December 31, 1920 (see note below)		523 454 890 89
		$2 430 546 962 56

NOTE.—That part of the Surplus of Subsidiary Companies representing Profits accrued on sales of materials and products to other subsidiary companies and on hand in latter's Inventories is, in this Balance Sheet, deducted from the amount of Inventories included under Current Assets.

UNITED STATES STEEL CORPORATION

and Subsidiary Companies

Consolidated Income Account

For the Fiscal Year Ending December 31, 1920

The total earnings were, after deducting all expenses incidental to operations, including ordinary repairs and maintenance (approximately $145,000,000), employes' compensation under merit plan, adjustments in value of material inventories and investments in securities, allowances for amortization of proportion of extraordinary cost resulting from the world war conditions of new facilities and improvements installed, reserves for excess inventory valuations, and taxes (including $37,500,000 for estimated Federal income and excess profits taxes payable in 1921), per General Profit and Loss Account			$185 095 359 28
Less—Interest on outstanding bonds, mortgages and purchase money obligations of the subsidiary companies			8 408 460 87
Balance of Earnings in the year 1920			$176 686 898 41
Less—Charges and Allowances for Depletion and Depreciation applied as follows, viz.:			
To Depreciation and Replacement Funds and Sinking Funds on Bonds of Subsidiary Companies		$ 38 245 601 92	
To Sinking Funds on Bonds of U. S. Steel Corporation		8 438 762 40	
			46 684 364 32
Net income in the year 1920			$130 002 534 09
Deduct—			
Interest on U. S. Steel Corporation Bonds outstanding, viz.:			
Fifty-Year 5 per cent. Gold Bonds		$ 11 360 076 25	
Ten Sixty-Year 5 per cent. Gold Bonds		8 745 483 33	
		$ 20 105 559 58	
Premium paid on Bonds redeemed, viz.:			
On Subsidiary Companies' Bonds	$ 118 104 19		
On U. S. Steel Corporation Bonds	717 228 49		
		835 332 68	
			20 940 892 26
			$109 061 641 83

Add—Net Balance of sundry charges and credits, including adjustments of various accounts			632 585 81
Balance			$109 694 227 64
Dividends for the year 1920 on U. S. Steel Corporation Stocks, viz.:			
No. 76, 1¾ per cent., paid May 29, 1920	$6 304 919 25		
No. 77, 1¾ per cent., paid August 30, 1920	6 304 919 25		
No. 78, 1¾ per cent., paid November 29, 1920	6 304 919 25		
No. 79, 1¾ per cent., payable February 26, 1921	6 304 919 25		
		$ 25 219 677 00	
Common:			
No. 63, 1¼ per cent., paid June 29, 1920	$6 353 781 25		
No. 64, 1¼ per cent., paid September 29, 1920	6 353 781 25		
No. 65, 1¼ per cent., paid December 30, 1920	6 353 781 25		
No. 66, 1¼ per cent., payable March 30, 1921	6 353 781 25		
		25 415 125 00	
			50 634 802 00
Surplus Net Income in the year 1920			$ 59 059 425 64
Less—Appropriated from Surplus Net Income on account of expenditures made on authorized appropriations for additional property and construction			30 000 000 00
Balance carried forward to Undivided Surplus			$ 29 059 425 64
Undivided Surplus on December 31, 1919		$468 048 201 93	
Add—Adjustments		1 347 263 32	
			469 395 465 25
Total Undivided Surplus December 31, 1920, exclusive of capital surplus provided in organization and of Subsidiary Companies' Inter-Company Profits in Inventories			$498 454 890 89

We certify that in our opinion the above Income Account is a fair and correct statement of the Earnings and Income of the United States Steel Corporation and Subsidiary Companies for the fiscal year ending December 31, 1920.

Blank & Company,
Auditors.

New York, March 9, 1921.

UNITED STATES STEEL CORPORATION

and Subsidiary Companies

Condensed General Profit and Loss Account

For the Year Ending December 31, 1920

Gross Receipts.—Gross Sales and Earnings		$1 755 477 025 13
Operating Charges, viz.:		
Manufacturing and Producing Cost and Operating Expenses, including ordinary maintenance and repairs and provisional charges by subsidiary companies for depreciation	$1 440 734 562 52	
Administrative, Selling and General Expenses, employes' compensation under merit plan and pension payments (not including general expenses of transportation companies)	35 945 536 86	
Taxes (except as included in following item)	38 724 289 12	
Allowance for estimated amount of Federal income and excess profits taxes	37 500 000 00	
Commercial Discounts and Interest	10 849 880 54	
	$1 563 754 269 04	
Less—Amount included in above charges for allowances for depletion and depreciation here deducted for purpose of showing same in separate item of charge, as see below	38 245 601 92	
		1 525 508 667 12
Balance		$ 229 968 358 01
Sundry Net Manufacturing and Operating Gains and Losses, including idle plant expenses, Royalties received, etc.	$ 5 726 463 39	
Adjustments of Inventory Valuations (In addition, adjustments of $720,201 are charged in Manufacturing Costs and Operating Expenses) *Dr.*	*14 385 649 46*	
Rentals received	991 569 72	
Compensation accrued in January and February for use of subsidiary railroads under Federal control (estimated)	2 179 000 76	
		Dr. 5 488 615 59
Total Net Manufacturing, Producing and Operating Income before deducting provisional charges for depreciation		$ 224 479 742 42

Other Income and Charges

Net Profits of properties owned, but whose operations (gross revenue, cost of product, expenses, etc.) are not classified in this statement		$ 321 346 76	
Income from sundry investments and interest on deposits, etc.		16 199 187 57	
Allowance for depreciation in book value of U. S. Govt. bonds and other securities owned	*Dr.*	*9 780 769 85*	
			6 739 764 48
Total			$ 231 219 506 90
Less—Charges as follows, viz.:			
Accrued estimated payment by subsidiary railroads to the United States under Transportation Act		$ 4 500 000 00	
Reserved for proportion of actual cost or market value of inventory stocks on hand in excess of pre-war unit values		5 000 000 00	
Allowance for estimated proportion of extraordinary cost resulting from the world war conditions of new facilities and improvements installed		27 000 000 00	
			36 500 000 00
Balance			$ 194 719 506 90
Less—Net balance of Profits earned by subsidiary companies on sales made and service rendered account of materials on hand at close of year in purchasing companies' inventories and which profits have not yet been realized in cash from the standpoint of a combined statement of the business of all companies			9 624 147 62
Total Earnings in the Year 1920 per Income Account			$ 185 095 359 28
Less—Interest Charges on Subsidiary Companies' Bonds, Mortgages and Purchase Money Obligations			8 408 460 87
Balance of Earnings for the year before deducting provisional charges for depreciation			$ 176 686 898 41
Less—Charges and Allowances for Depletion and Depreciation, viz.:			
By Subsidiary Companies		$ 38 245 601 92	
By U. S. Steel Corporation		8 438 762 40	
			46 684 364 32
Net Income in the year 1920			$ 130 002 534 09

FORM XXXVIII.—American Locomotive Com

AMERICAN LOCOM

Montreal Locomotive Works, Ltd., and Ameri

Consolidated Gene

Assets	Dec. 31, 1919	Dec. 31, 1918
Cost of property (less depreciation reserves)	$42 421 288 96	$44 337 304 55
Sundry securities owned	680 128 74	641 702 74
Current Assets:		
Cash on hand and in banks	3 177 631 31	4 407 123 72
Accounts and Bills Receivable	5 889 590 82	15 123 714 94
United States Railroad Administration Certificates of Indebtedness		
United States Treasury Certificates	25 800 000 00	
United Kingdom Three-year 5½% Convertible Gold Notes	980 000 00	
United States Liberty Loan Bonds	4 410 500 00	2 168 350 00
Canadian Victory Loan Bonds	1 574 500 00	510 450 00
Employes' Subscriptions for United States Liberty Loan Bonds (less installment payments)	160 750 50	1 329 384 00
Employes' Subscriptions for Canadian Victory Loan Bonds (less installment payments)	45 374 00	135 576 00
Accrued Interest	283 493 65	25 376 52
Materials and Supplies	5 873 327 96	11 623 701 08
Contract Work in Process	1 297 476 58	9 690 223 52
Locomotives and Parts in Stock	193 342 26	118 453 05
Total Current Assets	$49 686 027 08	$45 132 352 83
Sundry deferred charges	388 355 67	109 245 87
Total Assets	$93 175 800 45	$90 220 605 99

pany—Income Account and Balance Sheet.

OTIVE COMPANY

can Locomotive Sales Corporation—Combined

ral Balance Sheet

Liabilities	Dec. 31, 1919	Dec. 31, 1918
Capital Stock:		
Preferred	$25 000 000 00	$25 000 000 00
Common	25 000 000 00	25 000 000 00
	$50 000 000 00	$50 000 000 00
Bonded debt of constituent companies:		
Locomotive and Machine Company of Montreal, Ltd.	$ 1 500 000 00	$ 1 500 000 00
Richmond Locomotive and Machine Works	432 000 00	432 000 00
Henrico Iron Works Corporation		25 000 00
Total Bonded debt	$ 1 932 000 00	$ 1 957 000 00
Current Liabilities:		
Accounts Payable	$ 1 347 013 66	$ 4 603 895 23
Dividend Payable on Preferred Stock		437 500 00
Dividend Payable on Common Stock		312 500 00
Excess Payments on Contracts not Finally Adjusted	6 510 575 64	
Unclaimed Interest and Dividends	3 319 25	3 147 25
Loans Payable:		
Purchase of Liberty Loan Bonds		2 940 000 00
Other Loans Payable		
Accruals for United States and Canadian Income and War Taxes	5 615 960 11	6 750 800 75
Sundry Accrued Expenses	523 147 06	431 767 26
Total Current Liabilities	$14 000 015 72	$15 479 610 49
Reserves for Accident Indemnity and Miscellaneous Items	$ 834 610 58	$ 996 254 45
Reserve for Additions and Betterments	3 615 930 04	1 363 766 03
Profit and Loss:		
Balance brought forward	21 841 073 61	
Add—Profits for six months' period as shown in condensed income account	952 170 50	
Surplus carried forward	$22 793 244 11	$20 423 975 02
Total Liabilities, Reserves, Capital, and Surplus	$93 175 800 45	$90 220 605 99

AMERICAN LOCOMOTIVE COMPANY

Montreal Locomotive Works, Ltd., and American Locomotive Sales Corporation—Combined

Condensed Income Account

	6 months ended Dec. 31, 1919	12 months ended Dec. 31, 1918
Gross earnings	$20 630 083 81	$70 073 581 93
Manufacturing, maintenance and administrative expenses and depreciation	17 532 188 11	58 115 819 50
Manufacturing profit	$ 3 097 895 70	$11 957 762 43
Interest, etc., on bonds of constituent companies, loans payable, etc.	59 325 99	228 189 02
	$ 3 038 569 71	$11 729 573 41
Deduct for United States and Canadian income and war profits taxes	461 399 21	2 235 304 32
Available profit	$ 2 577 170 50	$ 9 494 269 09
Dividends on preferred stock	875 000 00	1 750 000 00
Dividends on common stock	750 000 00	1 375 000 00
Surplus	$ 952 170 50	$ 6 369 269 09
Reserve for additions and betterments		4 000 000 00
Net credit to profit and loss	$ 952 170 50	$ 2 369 269 09

Profit earned on common stock after deducting preferred dividend	Amount	$1 702 170 50	$ 7 744 269 09
	per share	$6 81	$30 98

FORM XXXIX.—Atchison, Topeka and Santa Fe Railway Company—Balance Sheet and Income Account.

THE ATCHISON, TOPEKA & SANTA FE RAILWAY COMPANY—SYSTEM

Comprising The Atchison, Topeka & Santa Fe Railway Company, Gulf, Colorado & Santa Fe Railway Company, Panhandle & Santa Fe Railway Company, Grand Canyon Railway Co., Kansas Southwestern Railway Company, and Rio Grande, El Paso & Santa Fe Railroad Company.

Income Account for Twelve Months Ending December 31, 1919

Dr.				Cr
Corporate Operating Expenses		$ 616 695 90	Compensation under Federal Control Contract—Accrued	$44 615 087 26
Taxes		3 373 271 26	Income from Lease of Road	160 939 65
Rent for Leased Roads		26 349 66	Miscellaneous Rent Income	252 479 22
Miscellaneous Rents		133 263 43	Miscellaneous Non-Operating Physical Property	93 989 69
Miscellaneous Tax Accruals		32 302 77	Dividend Income	7 214 058 00
Interest on Funded Debt		11 654 259 20	Income from Funded Securities	1 313 084 90
Interest on Unfunded Debt		625 126 68	Income from Unfunded Securities and Accounts	1 856 256 87
Miscellaneous Income Debits		165 276 55	Income from Sinking and Other Reserve Funds	73 159 56
Div. #42 on Capital Stock, Preferred	$3 104 342 50		Miscellaneous Income Credits	4 136 148 07
Div. #43 on Capital Stock, Preferred	3 104 342 50	6 208 685 00		
Div. #56 on Capital Stock, Common	$3 327 142 50			
Div. #57 on Capital Stock, Common	3 338 797 50			
Div. #58 on Capital Stock, Common	3 342 622 50			
Div. #59 on Capital Stock, Common	3 343 132 50	13 351 695 00		
Appropriation for Fuel Reserve Fund		70 260 81		
California-Arizona Lines Bonds Sinking Fund		15 843 97		
The S. F. & S. J. V. Ry. Co. Bonds Sinking Fund		13 306 00		
Balance, being Surplus for 12 Months ending December 31, 1919, Carried to Profit and Loss Account		23 390 818 99		
		$59 715 203 22		$59 715 203 22

Profit and Loss Account to December 31, 1919.

Dr.			Cr.
Surplus appropriated for investment in physical property	$ 64 572 45	Balance brought forward from December 31, 1918	$41 797 635 19
Balance, carried to General Balance Sheet	65 366 689 83	Surplus for twelve months ending December 31, 1919	23 438 818 99
		Sundry Adjustments	194 808 10
	$65 431 262 28		$65 431 262 28

THE ATCHISON, TOPEKA & SAN

General Balance Shee

Assets		Balances Dec. 31, 1919
Railroads, Franchises and Other Property, including Stocks, Bonds, etc. (Exhibit A)		$731 110 400 11
Expenditures for Additions and Betterments, Construction and other Capital Purposes, during Current Fiscal Year (Exhibit B)		22 512 037 77
		$753 622 437 88
Investments, New Acquisitions (Exhibit C)		15 885 799 01
Sinking Fund		819 06
Other Investments		35 394 013 76
		$804 903 069 71
Balance brought down		$172 302 412 01
Current Assets:		
U. S. Government—Accrued Compensation	$53 169 398 06	
Cash	4 282 650 01	
Time Deposits	250 000 00	
Special Deposits	248 641 68	
Loans and Bills Receivable	1 499 589 70	
Traffic and Car Service Balances	17 365 74	
Miscellaneous Accounts Receivable	618 885 69	
Material and Supplies	119 989 00	
Interest and Dividends Receivable	34 449 04	
Other Current Assets	181 13	60 241 150 05
Deferred Assets:		
Working Fund Advances	$ 200 00	
Guaranty Trust Co. of N. Y. Cash Deposit for Fuel Reserve Fund	2 103 945 06	
Other Deferred Assets	26 330 14	2 130 475 20
U. S. Government—Deferred Assets		49 219 874 54
Unadjusted Debits:		
Rents and Insurance Premiums Paid in Advance	$ 139 186 18	
Other Unadjusted Debits	1 431 505 10	1 570 691 28
U. S. Government—Unadjusted Debits		11 987 583 20
		$297 452 186 28

TA FE RAILWAY CO.—SYSTEM

t, December 31, 1919

Liabilities		Balances Dec. 31, 1919
Capital Stock:		
Outstanding (Exhibit D)		$347 047 200 00
Funded Debt:		
Bonds Outstanding (Exhibit E)		285 553 457 70
Balance carried down		172 302 412 01
		$804 903 069 71
Current Liabilities:		
Loans and Bills Payable		
Traffic and Car Service Balances	$ 3 259 22	
Audited Accounts and Wages Payable	309 500 23	
Miscellaneous Accounts Payable	46 555 49	
Interest Matured Unpaid	1 138 367 54	
Dividends Matured Unpaid	225 187 70	
Funded Debt Matured Unpaid	45 000 00	
Unmatured Dividends Declared	6 447 475 00	
Unmatured Interest Accrued	3 158 621 30	
Unmatured Rents Accrued	39 560 47	11 413 526 95
Deferred Liabilities		196 639 49
U. S. Government—Deferred Liabilities		68 057 090 00
Unadjusted Credits:		
Tax Liability	$ 3 499 878 30	
Operating Reserves	3 204 199 94	
Accrued Depreciation—Equipment	46 681 481 40	
Other Unadjusted Credits	10 233 092 60	63 618 652 24
U. S. Government—Unadjusted Credits		278 054 40
Corporate Surplus:		
Additions to Property through Income and Surplus	$86 260 798 44	
Funded Debt Retired through Income and Surplus	34 504 94	
California-Arizona Lines Bonds—Sinking Fund Reserve	108 166 65	
The S. F. & S. J. V. Ry. Co. Bonds—Sinking Fund Reserve	14 118 28	
Reserve for Fuel Lands	2 103 945 06	
	$88 521 533 37	
Profit and Loss—Balance	65 366 689 83	153 888 223 20
		$297 452 186 28

NORTHERN STATES POWER COMPANY

Consolidated Balance Sheet,

Assets

Capital Assets:			
Plant, Property, Rights, Franchises, etc., including Preferred Stock Discount and Expense			$67 590 683 34
Collateral and Other Cash Deposits:			
Collateral Cash Deposited under First and Refunding Mortgage Bonds		$ 12 250 00	
Sinking Fund Cash		7 693 24	19 943 24
Investments in Stocks and Bonds of Other Companies, Associations, etc.			56 475 55
Debt Discount and Expense in Process of Amortization			5 102 845 25
Deferred Charges and Prepaid Accounts:			
Unexpired Insurance		$ 38 164 50	
Prepaid Interest		9 753 49	
Miscellaneous Unadjusted Items		51 177 48	
Rate Investigation Expenses		84 376 08	
Extraordinary Operating Expenses in Process of Amortization		129 593 79	313 065 34
Current Assets:			
Cash on Hand and in Banks		$ 602 700 26	
U. S. Liberty Bonds at Par		105 600 00	
Cash Deposited for Bond Interest		10 320 00	
Accounts and Notes Receivable	$1 400 806 44		
Less—Reserve for Uncollectible Accounts	100 444 05	1 300 362 39	
Unbilled Electricity and Gas		285 579 67	
Standard Gas and Electric Company		790 109 45	
Receivable on Sales of Preferred Stock		209 552 63	
Inventories		1 930 796 24	5 235 020 64
Total			$78 318 033 36

We have audited the books and records of the NORTHERN STATES POWER COMPANY OF DELAWARE AND SUBSIDIARIES for the year ended December 31, 1920, and we hereby CERTIFY that, in our opinion, the attached Consolidated Balance Sheet and Consolidated Income Account correctly reflect the financial condition at December 31, 1920, and the results from operations for the year ended that date.

HENRY AUSTIN & CO.,
Certified Public Accountants.

CHICAGO, March 19, 1921.

OF DELAWARE AND SUBSIDIARIES

December 31, 1920

Liabilities

Capital Stock of Northern States Power Company of Delaware:			
Authorized:			
7% Preferred, 500,000 Shares, $100.00 each		$ 50 000 000 00	
Common, 500,000 Shares, $100.00 each		50 000 000 00	
		$100 000 000 00	
Issued and Outstanding:			
7% Preferred, 204,400 Shares, $100.00 each	$20 440 000 00		
Less—In Treasury	99 200 00	$ 20 340 800 00	
Common, 61,700 Shares, $100.00 each		6 170 000 00	$26 510 800 00
Capital Stock of Subsidiary Companies (In Hands of Public):			
Preferred:			
Ottumwa Railway and Light Company, 7%	$ 501 500 00		
Southwestern Minnesota Division Companies, 7%	109 500 00	$ 611 000 00	
Common		5 000 00	616 000 00
Funded Debt:			
Northern States Power Company of Minnesota:			
25-Year 5% First and Refunding Mortgage Gold Bonds, due April 1, 1941		$ 24 567 500 00	
25-Year 6% First and Refunding Mortgage Gold Bonds, due April 1, 1941		2 000 000 00	
Minneapolis General Electric Company 30-Year 5% First Mortgage Bonds, due December 1, 1934		7 323 000 00	
Southwestern Minnesota Division Bonds		536 000 00	
Ottumwa Railway and Light Company Bonds		1 336 000 00	35 762 500 00
Unfunded Debt—Northern States Power Company of Minnesota:			
10-Year 6% Gold Notes, due April 1, 1926		$ 7 805 000 00	
5-Year Sinking Fund Convertible 7% Gold Notes, due August 15, 1923		1 800 000 00	9 605 000 00
Current Liabilities:			
Notes Payable		$ 1 077 500 00	
Accounts Payable		610 939 33	
Accrued Interest		586 825 07	
Accrued Taxes		848 332 77	
Accrued Preferred Stock Dividends		367 344 43	
H. M. Byllesby & Co.		30 650 36	
Byllesby Engineering and Management Corporation		16 099 57	
Consumers' Deposits		108 724 94	
Miscellaneous Outstanding Liabilities		36 070 02	3 682 486 49
Reserves:			
Depreciation and Replacements		$ 757 489 41	
Special Maintenance, etc.		63 946 96	821 436 37
Surplus			1 319 810 50
Total			$78 318 033 36

FORM XL.—Northern States Power Company and Subsidiaries—Consolidated Income Account—Consolidated Balance Sheet.

NORTHERN STATES POWER COMPANY OF DELAWARE AND SUBSIDIARIES

Consolidated Income Account

For the Year Ended December 31, 1920

And Summary of Surplus Account

Gross Earnings:			
Electric Department			$10 264 733 74
Gas Department			660 593 60
Steam Department			636 993 47
Telephone Department			75 722 93
Street Railway Department			160 735 10
Total Gross Earnings			$11 798 778 84
Operating Expenses and Taxes:			
Operation		$5 610 004 96	
Maintenance		799 938 20	
Taxes		921 897 45	
Total Operating Expenses and Taxes			7 331 840 61
Net Earnings			$ 4 466 938 23
Interest Charges (Net)			2 148 470 28
Net Income Available for Amortization of Debt Discount and Expense, Depreciation and Dividends			$ 2 318 467 95
Deduct:			
Preferred Stock Dividends		$1 341 374 22	
Appropriated for:			
Depreciation	$475 000 00		
Amortization of Debt Discount and Expense	250 000 00	725 000 00	2 066 374 22
Balance Carried to Surplus Account			$ 252 093 73
Surplus, January 1, 1920			1 067 716 77
Total Surplus, December 31, 1920, per Balance Sheet			$ 1 319 810 50

FORM XLI.—University of Chicago Balance Sheet—Statement of Income and Expense.

UNIVERSITY OF CHICAGO

Exhibit A

General Balance Sheet

June 30, 19—

Assets

Endowment Assets:			
Investments of Endowment Funds University Endowments (Schedule 1)	$28 252 746 16		
General Education Board	999 835 49		
		$29 252 581 65	
Cash Awaiting Investment University (Schedule V)	$ 74 337 37		
General Education Board	304 23		
		74 641 60	
			$29 327 223 25
Plant Assets:			
Buildings and Grounds (Schedule II)	$11 427 245 50		
Books, Equipment and Furniture (Schedule III)	2 047 911 83		
		$13 475 157 33	
Investments of Building Funds (Schedule I)		2 553 020 47	
Cash on Hand (Schedule V)		44 353 61	
			$16 072 531 41
Current Assets:			
Investments (Schedule I):			
Special Funds	$ 4 970 00		
General Designated Funds	257 829 86		
Other Current Funds	361 181 56		
White Deposit	33 965 63		
		$ 657 947 05	
Receivable (Schedule IV)		283 728 40	
Materials and Supplies (Schedule III)		49 632 53	
University Press		208 749 38	
Cash on Hand (Schedule V):			
General	$ 28 690 99		
Special	127 051 60		
		155 742 59	
			1 355 799 95
			$46 755 554 61

UNIVERSITY OF CHICAGO

Exhibit A—Continued

General Balance Sheet

June 30, 19—

Liabilities

Endowment Funds:			
University (Schedule VI)		$28 327 083 53	
General Education Board Funds Held in Trust for the University of Chicago		1 000 139 72	
			$29 327 223 25
Plant Funds:			
Capital (Schedule X)	$13 706 649 61		
Deduct amount used as working capital	275 350 16		
		$13 431 299 45	
Building and Equipment Funds (Schedule VIII)		2 641 231 96	
			16 072 531 4
Current Funds:			
Working Capital (see above)		$ 275 350 16	
Special Funds for Designated Purposes (Schedule VII)		18 813 74	
General Funds for Designated Purposes (Schedule IX)		258 029 86	
Income Credits (Schedule XI)		46 554 19	
Reserves (Schedule XII)		495 206 32	
Liabilities (Schedule XIII)		261 845 68	
			$ 1 355 799 95
			$46 755 554 61

The above exhibit is supported by the following schedules which are not reproduced:

Schedule I. Investments
II. University Buildings and Grounds
III Books, Equipment, Material and Supplies
IV. Accounts Receivable
V. Cash on Hand
VI. Endowment Funds and Their Investment
VII. Special Funds for Designated Purposes
VIII. Building and Equipment Funds
IX. General Funds for Designated Purposes
X. Capital
XI. Income Credits
XII. Reserves
XIII. Current Liabilities

UNIVERSITY OF CHICAGO

Exhibit B

Statement of University Receipts and Expenditures

Year Ended June 30, 19—

Receipts

University General:		$1 162 174 52
Matriculation and Diploma Fees	$ 25 987 50	
Lectures and Concerts	1 834 70	
Rockefeller Endowment Income	985 630 08	
Retiring Allowance Fund Income	24 647 58	
Culver-Rosenberger Funds Income	1 750 00	
Gallup Memorial Fund Income	1 431 25	
Packer Annuity Funds Income	561 00	
Emily Talbot Memorial Fund Income	775 00	
Prize Funds Income	412 50	
Permelia Brown Aid Income	1 320 47	
Hitchcock Fund Income	1 200 00	
Business Office Commissions	26 765 98	
Midway Properties Income	7 257 36	
Athletics	28 108 60	
Athletics—High School	959 88	
Locker Rentals	10 431 54	
Interest	27 428 45	
Miscellaneous Receipts	15 690 63	
Operation and Maintenance of Buildings and Grounds:		80 217 12
Room Rents	$ 57 828 75	
University Press Rent	5 000 00	
Commons Heat and Light	5 350 00	
Harper Library Fund Income	9 615 00	
Yerkes Endowment Income	2 423 37	
Libraries, Laboratories and Museums:		34 758 61
Library Fines	$ 1 562 22	
Laboratory Fees and Tickets	30 685 68	
Kent Fund Income	2 510 71	
Department of Arts, Literature and Science:		484 971 20
Graduate Tuition	$ 75 706 01	
College Tuition	303 269 08	
University College Tuition	30 329 23	
Culver Fund Income	35 650 18	
Ogden Fund Income	31 042 98	
Haskell and Barrows Funds Income	1 965 96	
Fellowship and Scholarship Funds Income	5 553 78	
Reynolds Fund Income	1 453 98	
Carried Forward		$1 762 121 45

UNIVERSITY OF CHICAGO

Exhibit B—Continued

Statement of University Receipts and Expenditures

Year Ended June 30, 19—

Receipts		
Brought Forward		$1 762 112 45
Divinity School:		59 217 06
Matriculation Fees	$ 755 00	
Tuition Fees	13 866 82	
Room Rents	6 466 92	
Rockefeller Fund Income	4 967 05	
Baptist Theological Union	13 129 77	
University Endowment Income	19 676 50	
Scholarship Fund Income	355 00	
Law School:		15 202 86
Tuition	$ 15 202 86	
School of Education:		217 473 76
College of Education Tuition	$ 66 481 44	
School of Education Fund Income	21 066 09	
Secondary-School Tuition	80 571 64	
Crerar Fund Income	2 643 77	
McBirney Fund Income	250 00	
Elementary-School Tuition	46 460 82	
School of Commerce and Administration:		63 696 00
Tuition	$ 40 334 29	
Laboratory Fees	3 784 00	
Williams Fund Income	19 577 71	
Publications:		
The receipts of the journals are credited to the expenses, showing the net cost under "Budget Expenditures"		
University Extension:		64 098 00
Lecture-Study Fees	$ 4 975 25	
Correspondence-Study Fees	55 644 50	
Institute of Sacred Literature	3 478 25	
Total Receipts		$2 181 809 13

UNIVERSITY OF CHICAGO

Exhibit B—Continued

Statement of University Receipts and Expenditures

Year Ended June 30, 19—

Expenditures

University General:		$ 351 904 49
Educational:		
Administrative Offices	$ 61 285 05	
Convocation and Diplomas	4 774 88	
Official Documents	20 432 66	
General Expense	9 809 66	
Business:		
Administrative Offices	97 213 11	
Business General	7 995 87	
Student Welfare:		
Housing and Employment Bureaus	9 740 86	
Chapel, Music and Lectures	9 413 04	
Social Activities, Ida Noyes Hall	7 854 37	
Aids and Prizes	1 714 97	
Daily Maroon Subsidy	695 00	
Hitchcock Fund Expense	1 200 00	
University Bank	2 782 15	
Alumni Subsidies	2 250 00	
Athletics and Gymnasium Expense	39 587 96	
Public Health Expense	7 250 28	
Physical Culture Instruction and Expense	19 560 45	
Telephones	7 961 60	
Retiring Allowances	24 647 58	
Annuities	15 735 00	
Operation and Maintenance of Buildings and Grounds:		369 854 84
Administration	$ 11 064 26	
Campus Maintenance	9 720 34	
Furniture	7 908 71	
Engineers, Firemen, Janitors	106 255 65	
Repairs	73 797 49	
Insurance	8 442 75	
Yerkes Observatory Expense	9 951 66	
Harper Library Expense	12 001 10	
Greenwood Hall Expense	6 420 89	
Fuel	92 465 00	
Supplies and Miscellaneous	31 826 99	
Libraries, Laboratories and Museums:		246 300 21
Administration	$ 93 866 97	
Student Service	17 553 93	
Books	20 700 00	
Equipment and Expense	103 880 86	
Binding	10 298 45	
Departments of Arts, Literature and Science:		738 147 91
Deans	$ 8 066 84	
Instruction	633 492 84	
University College Instruction	21 729 59	
University College Expense	8 099 90	
Fellowships	14 855 46	
Scholarships	51 903 28	
Carried Forward		$1 706 207 45

UNIVERSITY OF CHICAGO

Exhibit B—Continued

Statement of University Receipts and Expenditures

Year Ended June 30, 19—

Expenditures			
Brought Forward			$1 706 207 45
Divinity School:			59 217 06
Administration Expense		$ 3 400 00	
Instruction		33 375 00	
Books		1 100 00	
Fellowships and Scholarships		15 180 28	
Dormitories Expense		6 161 78	
Law School:			58 086 61
Administration Expense		$ 3 699 95	
Instruction		46 845 53	
Books		3 000 00	
Scholarships		1 536 44	
Library Administration		2 506 51	
Office Documents		498 18	
School of Education:			245 878 74
(1) College of Education:		$107 678 47	
Administration Expense	$ 6 897 15		
Instruction	93 727 89		
Scholarships, Fellowships and Student Service	7 053 43		
(2) Secondary School:		67 292 37	
Administration Expense	$ 6 161 38		
Instruction	58 476 99		
Student Service and Crerar and McBirney Scholarships	2 654 00		
(3) Elementary School:		37 379 66	
Administration Expense	$ 3 460 00		
Instruction	33 559 66		
Student Service	360 00		
(4) School of Education, General:		33 528 24	
Instruction	$12 291 31		
Equipment and Expense	19 078 49		
Books	2 158 44		
School of Commerce and Administration:			26 799 75
Administration Expense		$ 2 184 29	
Instruction		16 735 24	
Books		1 220 00	
Supplies and Equipment		6 660 22	
Publications:			25 242 31
Journals		$ 24 442 31	
Departmental Publications		800 00	
University Extension:			58 173 00
Lecture-Study Instruction		$ 4 380 00	
Lecture-Study Expense		2 765 74	
Correspondence-Study Instruction		25 369 11	
Correspondence-Study Expense		22 179 98	
Institute of Sacred Literature		3 478 25	
Total			$2 179 605 00

FORM XLII.—Boston City Club—Comparative Profit and Loss Statement —Balance Sheet—Comparative Department Operating Statement.

BOSTON CITY CLUB

Exhibit A

Comparative Profit and Loss Statement

For the Twelve Months Ended December 31, 1920 and 1919

Income	1920	1919
Gross Profit or Loss from Departments—Exhibit B:		
Restaurant	$ 333 73	$ 2 003 55
Bar	* 1 739 01	11 074 41
Cigars	14 052 54	11 215 89
Billiards and Pool	638 60	4 276 31
Rooms	16 469 40	25 218 35
Barber Shop and Shines	483 49	2 118 63
Bowling	* 3 099 11	* 184 84
Total Departmental Gross Profit	$ 27 139 64	$ 51 715 20
Annual Dues	188 121 60	187 841 34
Interest on Bank Balances, etc.	6 386 62	2 710 31
Discount	4 962 07	4 595 14
Newspapers	119 63	51 84
Laundry Commissions	343 99	367 10
House Rent Apportioned to Departments	24 867 00	
Heating Apportioned to Departments	6 871 21	
Lighting Apportioned to Departments	6 142 35	
Total Income (Less Direct Departmental Charges)	$264 954 11	$247 280 93
General Expenses		
House Salaries and Wages	$ 86 749 58	$ 76 125 75
Board of Employees	3 976 97	3 427 17
House Expense—General	15 054 96	13 547 68
Depreciation on Furniture and Fixtures	6 000 00	6 000 00
Fuel	12 640 32	9 586 63
Mortgage Interest	16 079 76	15 760 17
Debenture Interest	10 233 37	12 113 12
Taxes	16 966 40	16 614 40
Stationery and Printing	4 464 96	2 392 51
Lighting	9 484 15	8 311 17
Repairs and Renewals	8 936 20	6 689 59
Telephone (Net)	1 247 28	1 611 32
Insurance	1 500 00	1 500 00
Salary of Civic Secretary	3 008 52	2 669 36
Entertainment Committee	4 224 93	2 895 33
Art and Library Committee	2 187 55	2 522 81
Publicity Committee	4 496 68	2 878 89
House Committee	13 50	35 55
Forum Committee	777 13	1 064 31
Cash Variations	10 21	* 4 34
Total General Expenses	$208 052 47	$185 741 42
Net Profit for the twelve months carried to Surplus Account—Exhibit C	$ 56 901 64	$ 61 539 51

* Loss.

BOSTON CITY CLUB

Exhibit B

Comparative Department Operating Statement

For the Twelve Months Ended December 31, 1920 and 1919

		1920	1920	1919	1919
Restaurant					
Revenue:	From Members		$482 254 89		$377 624 77
	Board of Employees		37 332 81		34 638 50
			$519 587 70		$412 263 27
Expenses:	Supplies Consumed	$291 311 60		$236 546 21	
	Wages	138 041 95		112 035 33	
	Board of Employees	31 111 02		29 233 81	
	General	58 789 40	519 253 97	36 451 47	414 266 82
Gross Profit or Loss—Exhibit A			$ 333 73		*$ 2 003 55
Bar					
Revenue:	From Members		$ 8 325 58		$ 44 831 50
	Sale of Bottles, etc.		21 79		56 42
			$ 8 347 37		$ 44 887 92
Expenses:	Supplies Consumed	$ 3 964 14		$ 23 991 11	
	Wages	3 837 83		5 993 44	
	Board of Employees	258 85		560 95	
	General	2 025 56		3 020 37	
	License		10 086 38	247 64	33 813 51
Gross Profit or Loss—Exhibit A			*$ 1 739 01		$ 11 074 41
Cigars					
Revenue:	From Members		$ 84 726 67		$ 75 288 75
Expenses:	Supplies Consumed	$ 65 626 83		$ 61 023 87	
	Wages	4 147 79		2 627 50	
	General	899 51	70 674 13	421 49	64 072 86
Gross Profit—Exhibit A			$ 14 052 54		$ 11 215 89
Billiards and Pool					
Revenue:	From Members		$ 11 668 82		$ 11 271 34
Expenses:	Wages	$ 5 021 34		$ 4 815 34	
	Board of Employees	545 45		477 10	
	General	5 463 43	11 030 22	1 702 59	6 995 03
Gross Profit—Exhibit A			$ 638 60		$ 4 276 31
Rooms					
Revenue:	From Members		$ 48 133 80		$ 41 302 75
Expenses:	Wages	$ 9 897 40		$ 8 904 09	
	Board of Employees	943 85		542 85	
	General	20 823 15	31 664 40	6 637 46	16 084 40
Gross Profit—Exhibit A			$ 16 469 40		$ 25 218 35
Barber Shop and Shines					
Revenue:	From Members		$ 12 671 70		$ 11 192 40
Expenses:	Wages	$ 9 959 96		$ 7 700 95	
	General	2 228 25	12 188 21	1 372 82	9 073 77
Gross Profit—Exhibit A			$ 483 49		$ 2 118 63
Bowling					
Revenue:	From Members		$ 4 519 78		$ 4 551 78
Expenses:	Wages	$ 3 830 34		$ 3 561 88	
	General	3 788 55	7 618 89	1 174 74	4 736 62
Gross Loss—Exhibit A			*$ 3 099 11		*$ 184 84

* Loss.

BOSTON CITY CLUB

Exhibit C

Balance Sheet

As at December 31, 1920

Assets

Current Assets:				
Cash in Banks and on Hand			$ 69 117 79	
Members' Accounts Receivable:				
House Accounts		$80 287 71		
Annual Dues		4 343 35		
War Tax		356 76		
		$84 987 82		
Less—Reserves for Unpaid Dues and War Tax	$4 700 11			
Less—Reserve for Doubtful Accounts	1 991 89	6 692 00	78 295 82	
Inventories (Food, Beverages, Cigars, etc.)			22 608 86	
Total Current Assets				$170 022 47
Investments:				
U. S. Liberty Loan Bonds			$ 10 000 00	
U. S. Certificates of Indebtedness			75 000 00	
Total Investments				85 000 00
Capital Assets:				
Real Estate—Club Building			$827 389 37	
Furniture and Fixtures			53 963 23	
Linen, Crockery, Glass, etc.			13 692 54	
			$895 045 14	
Less—Reserves for Depreciation			239 360 00	
Total Capital Assets				655 685 14
Redemption Fund—Cash in Bank:				
Unredeemed Debenture Bonds—Due 1908 and Interest				408 51
Deferred Assets:				
Unexpired Insurance				6 874 61
Total Assets				$917 990 73

BOSTON CITY CLUB

Exhibit C—Continued

Balance Sheet

As at December 31, 1920

Liabilities and Surplus

Current Liabilities:				
Accounts Payable			$ 23 324 94	
Accrued Interest			7 572 66	
Employees' Christmas Fund			14 235 77	
War Tax Collections			10 425 73	
Uncalled-for Wages			700 64	
Total Current Liabilities				$ 56 259 74
Prepaid Annual Dues (To December 31, 1921)				102 233 33
Reserve for Debenture Bonds 1908 and Interest				408 51
Capital Liabilities:				
Mortgage Note			$275 000 00	
Debenture Bonds—Due 1923			113 300 00	
Debenture Bonds—Due 1924			70 900 00	
Total Capital Liabilities				459 200 00
Surplus:				
Balance, January 1, 1920			$244 069 05	
Add—Net Profit for the year as per Profit and Loss Account—Exhibit A		$56 901 64		
Add—Initiation Fees Transferred		11 720 00		
		$68 621 64		
Deduct—Reserve for Depreciation on Real Estate	$11 720 00			
Deduct—Net Adjustment of Reserve for Doubtful Accounts	1 081 54	12 801 54		
Net Additions to Surplus			55 820 10	
Balance—December 31, 1920				299 889 15
Total Liabilities and Surplus				$917 990 73

FORM XLIII.—The Mutual Insurance Company—Balance Sheet—Statement of Income.

THE MUTUAL INSURANCE COMPANY

General Balance Sheet—December 31, 1921

Assets	
Bonds: Government	$ 1 758 652 00
State	1 505 568 00
Municipal	8 558 930 00
Railroad	28 220 038 00
Miscellaneous	6 521 621 00
Stocks: Bank	4 525 00
Railroad	2 008 374 00
Miscellaneous	545 919 00
Real Estate	1 808 017 00
Loans on Mortgage	16 493 008 03
Loans on Collateral Security	152 000 00
Loans on Policies	12 776 737 35
Premium Notes secured by Reserves	1 022 555 14
Cash in Bank at Interest and in Office	948 009 93
Ledger Assets	$82 323 954 45
Interest and Rents due or accrued	1 111 988 30
Net Outstanding Premiums	773 742 40
Market Value of Stocks and Amortized Value of Bonds over Book Value	336 103 00
Market Value of Unsold Balance of Estate Foreclosed over Book Value of $1	3 499 00
Gross Assets	$84 549 287 15

Liabilities	
Reserve, Massachusetts Standard 3, 3½ and 4%	$74 422 059 19
Present Value of Future Instalments on Matured Policies	826 513 71
Death and Endowment Claims Awaiting Completion of Proof	293 888 16
Premiums and Interest paid in advance	146 763 69
Commissions, Medical and other Expenses due and accrued	67 169 66
Insurance Taxes accrued and payable in 1918	267 098 50
Distribution of Surplus:	
Apportioned prior to 1918, due	141 224 10
Apportioned to Five-year Distribution Policies, but payable after 1918	152 991 60
Apportioned to Five-year Distribution Policies, payable during 1918	100 030 60
On deposit with Interest	33 783 20
Apportioned December 31, 1917	2 475 000 00
Reserve for Equalization of Mortality and Depreciation of Assets	150 000 00
Reserve for Unreported Death Claims	52 758 00
Surplus, Massachusetts Standard	5 420 006 74
Total	$84 549 287 15

THE MUTUAL INSURANCE COMPANY

Statement of Income for the Year Ending December 31, 1921

Income Credits:		
New Premiums	$ 2 711 699 85	
Renewal Premiums	10 168 806 71	
Total Premiums		$12 340 506 56
Consideration for Instalment Contracts		139 116 85
Shares of Surplus Left on Deposit		12 973 60
Interest on Mortgage Loans		777 706 98
Interest and Dividends on Stocks and Bonds		2 023 313 02
Interest on Collateral Loans		4 391 95
Interest on Bank Balances		25 498 24
Interest on Policy Loans and Premium Notes		692 212 55
Rents		125 142 72
Discount on Endowment Claims paid in Advance		286 76
Total Income		$16 141 149 23
Expenses and Charges:		
Death Claims	$ 3 562 483 37	
Endowment Claims	850 477 26	
Surrender Values	1 186 599 09	
Shares of Surplus	2 211 102 12	
Total Payments to Policyholders	$ 7 810 661 84	
Instalment Claims	92 578 47	
Commissions, Agency and Medical Exp.	1 763 555 88	
Salaries of Officers and Home Office Employees and Legal Expense	323 998 33	
Insurance, Taxes, and License Fees	199 738 40	
Printing, Stationery, Furniture and Supplies	82 984 45	
Real Estate Taxes, Expense and Rent	140 730 23	
Postage, Telephone, Telegraph, Travel, Express, Exchange and Advertising	43 025 21	
Miscellaneous, Unclassified	25 516 55	
Total Expenses and Charges		10 482 789 36
Net Income		$ 5 658 359 87

FORM XLIV.—National Bank Balance Sheet.

STATEMENT OF CONDITION

March 4, 1918

Resources

Loans and Discounts	$226 921 469 12
Overdrafts, Secured and Unsecured	20 685 07
U. S. Certificates of Indebtedness	75 322 500 00
U. S. Liberty Bonds	12 589 957 51
Other Bonds and Securities	20 750 931 50
Stock of Federal Reserve Bank	1 200 000 00
U. S. and Other Bonds borrowed	21 100 000 00
Bonds Loaned	50 000 00
Banking House	2 000 000 00
Due from Banks and Bankers	8 448 141 53
Checks and Other Cash Items	2 018 509 26
Exchanges for Clearing House	33 244 835 05
Cash in Vault and Net Amount due from Federal Reserve Bank	37 108 823 24
Interest Accrued	1 240 456 35
Customers' Obligations % Bank's Contingent Liability	1 340 000 00
Customers' Liability under Letters of Credit and Acceptances	41 312 346 46
	$484 668 655 09

Liabilities

Capital Stock paid in	$25 000 000 00
Surplus Fund	15 000 000 00
Undivided Profits, less expenses and taxes paid	6 269 348 78
Reserved for Taxes, etc.	1 669 848 68
Dividends unpaid	23 080 50
Letters of Credit	14 892 813 49
Acceptances executed for Customers	26 602 970 40
Deposits	356 446 602 54
U. S. and Other Bonds borrowed	21 100 000 00
Unearned Discount	1 336 092 11
Rediscounts with Federal Reserve Bank	14 704 597 19
Liabilities other than those above stated	1 623 301 40
	$484 668 655 09

FORM XLV.—A Massachusetts Trust Company—Balance Sheets.

A MASSACHUSETTS TRUST COMPANY

Banking Department

Assets

United States Bonds	$ 3 069 984
Massachusetts Bonds	391
Federal Reserve Bank Stock	450 000
Bonds deposited with U. S. Treasurer	461 000
Other Stocks and Bonds	11 837 612
Loans on Real Estate	3 181 179
Demand Loans with Collateral	13 987 681
Other Demand Loans	8 531 270
Time Loans with Collateral	14 723 395
Other Time Loans	62 542 935
Acceptances	10 225 796
Exchanges for Clearing House	5 587 230
Overdrafts	9 722
Banking House and Real Estate	3 070 619
Safe Deposit Vaults	276 918
Customers' Liability on Account of Notes Rediscounted	7 139 847
War Savings, Thrift and Revenue Stamps	5 507
Due from Federal Reserve Bank	15 992 401
Due from Other Banks	7 804 292
Cash:	
Currency and Specie	3 305 472
Other Cash Items	407 901
	$172 611 149

Liabilities

Capital Stock	$ 7 000 000
Surplus Fund	9 000 000
Undivided Earnings, less Expenses, Interest and Taxes Paid	997 091
Deposits:	
Demand:	
Subject to Check	105 524 708
For Payment of Coupons, etc.	1 487 005
Certificates of Deposit	7 110 993
Certified Checks	906 630
Treasurer's Checks	3 773 578
Time:	
Certificates of Deposit not Payable within Thirty Days	1 011 289
Open Accounts not Payable within Thirty Days	1 805 418
Due to Reserve Banks	3 500 650
Due to Other Banks	6 773 644
Dividends Unpaid	77 775
Bills Payable, including Certificates of Deposit Representing Money Borrowed	4 500 000
Acceptances	10 831 735
Reserved for Taxes	662 655
Reserved for Depreciation	253 614
Reserved for Interest on Certificates of Deposit and Open Accounts	254 518
Notes Rediscounted	7 139 846
	$172 611 149

Trust Department

Assets

United States Bonds	$ 2 436 117 89
State Bonds	669 680 04
City, County and Town Bonds	4 052 793 25
Railroad Bonds	3 345 863 95
Street Railway Bonds	374 877 12
Miscellaneous Bonds	6 722 093 84
Bank Stocks	3 057 026 04
Railroad Stocks	6 187 199 64
Manufacturing Stocks	1 865 081 68
Miscellaneous Stocks	17 970 074 11
Loans on Real Estate	6 628 466 08
Loans with Collaterals or Sureties	88 445 25
Notes of Individuals	22 920 50
Notes of Corporations	404 403 54
Real Estate Owned	2 455 817 92
Real Estate Acquired by Foreclosure	21 999 31
Other Assets	370 408 16
Deposits in Savings Banks	374 798 49
Deposits in National Banks or Trust Companies	1 627 723 20
	$58 675 790 01

Liabilities

On Trust Accounts	$49 442 849 41
Income	550 331 13
As Executors, Administrators, etc.	8 362 928 91
Income	309 130 56
Income Investments	10 550 00
	$58 675 790 01

Savings Department

Assets

Investments Authorized for Savings Banks:	
Public Funds	$ 12 500 00
Due from National Banks and Trust Companies	724 00
	$ 13 224 00

Liabilities

Deposits	$ 12 958 00
Interest, Rents, etc., less Current Expenses	266 00
	$ 13 224 00

FORM XLVI.—A Massachusetts Savings Bank.

A MASSACHUSETTS SAVINGS BANK

Statement of Condition, October 31, 1919

Assets

Public Funds, Bonds and Notes	$10 409 692 39
Railroad Bonds and Notes	14 865 715 00
Street Railway Bonds	919 000 00
Boston Terminal Co. Bonds	960 000 00
American Tel. & Tel. Co. Bonds	1 084 281 25
Stocks of Banks and Trust Companies	418 650 00
372 Loans on Real Estate (average of each, $59,462.13)	22 119 911 00
250 Loans on Personal Security	7 476 890 00
Bankers' Acceptances	196 948 12
Bank Building and Fixtures (estimated value, $1,517,000; assessed value, $1,517,000)	570 000 00
Real Estate by Foreclosure, etc. (assessed value, $41,700)	31 690 18
Deposits in National Banks or Trust Companies	1 518 628 65
Cash and Cash Items	69 416 74
Total Assets	$60 640 823 33

Liabilities

Due Depositors on 102,820 Accounts, averaging $548.87 each (Accounts opened during year, 8,918; closed, 8,760; increase, 158)			$56 435 174 62
Surplus:			
a. Guaranty Fund (4.97% of deposits; increase during year, $3,020)			2 803 500 00
b. Profit and Loss (decrease during year, $44,100.86)			559 386 63
Current income:			
a. Interest	$707 319 21		
b. Rent	25 833 33	$733 152 54	
Less—Current expenses and rent not charged off		74 211 46	658 941 08
Deposits or Instalments Received on Sales of Liberty Loan Bonds			183 821 00
Total Liabilities			$60 640 823 33

FORM XLVII.—Needham Co-operative Bank Balance Sheet.

NEEDHAM CO-OPERATIVE BANK

Statement, November 1, 1921

Assets		Liabilities	
Real Estate Loans	$1 694 000 00	Dues Capital	$1 413 870 00
Share Loans	65 600 00	Profits All Series	306 844 43
Mortgage	4 700 00	Guarantee Fund	31 030 40
Real Estate	6 865 08	Surplus Account	26 745 71
Liberty Bonds	25 000 00	Forfeited Shares	21 55
Furniture and Fixtures	200 00	Construction Loans	1 395 85
Open Accounts	467 77	Matured Shares Certificates	41 600 00
Cash on Hand	30 275 09	Paid up Shares Certificates	5 600 00
	$1 827 107 94		$1 827 107 94

Shares in Force May 1, 1921	28 355
Issued in 59th Series	3 146
	31 501
Withdrawn, All Series	1 849
Shares in Force, November 1, 1921	29 652
Number of Members, November 1, 1921	2 764
Increase in Assets the past six months	$124 099 49

FORM XLVIII.—Form of Audit Report Covering Audit of a Small Retail Business.

CHARLES M. FURBUSH & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

BOSTON

NEW YORK
120 BROADWAY

89 STATE STREET

January 15, 1922

The Newton Mercantile Company
260 Center Street
Boston, Massachusetts

Gentlemen:

In accordance with your instructions, we have made an examination of your books and accounts as of December 31, 1921, for the purpose of establishing your assets and liabilities as at that date, and of preparing a statement of your financial operations for the year ended December 31, 1921.

We submit the following statements, which are commented upon below:

Exhibit A—Balance Sheet, December 31, 1921.

Exhibit B—Profit and Loss Statement—Year Ended December 31, 1921.

Exhibit C—Estimated Cash Requirements—Six Months Ended June 31, 1922.

Comments on the Balance Sheet

We have verified the items shown on the appended Balance Sheet (Exhibit A), and have satisfied ourselves that it correctly sets forth the company's financial condition at December 31, 1921.

The Accounts Receivable from Employees ($450.30) represents the balances due on account of sales by the company to Mr. Morris ($25.30) and Mr. Wallis ($425.00).

A physical inventory of merchandise was taken as of December 31, 1921, and conservatively priced at cost or market, whichever was lower.

In order to establish the true liability to creditors ($5,120.00) we found it necessary to check the individual accounts with creditors with their invoices and statements, which had been erroneously brought onto the books less the cash discounts.

The Notes Payable comprise the following:

Date	Payee	Due	Rate	Amount
12/1/21	Newton Trust Company	2/1/22	7%	$1 000 00
11/10/21	T. Lawrence Mayer	1/10/22	6%	1 200 00
9/1/21	Roderick N. Shaw	12/1/21	6%	500 00

We obtained independent verification from the Newton Trust Company of the note for $1,000 held by them. The notes due Mr. T. Lawrence Mayer and Mr. Roderick N. Shaw are as shown on the books, and have not been verified independently.

Comments on the Operating Statement

Although the operations for the year have resulted in a profit of only $800.00, it must be borne in mind that the past year was the first year of the company's existence, that business conditions in general during the period have been bad, that undoubtedly losses have had to be taken on goods in stock due to the fall in prices of various articles, and that the inventory as of December 31, 1921, has been conservatively priced.

A condensed summary of the operations for the year is as follows:

		Amount	Ratio to Net Sales
Net Sales		$42 812 51	100 00%
Cost of Sales		30 281 18	70 73
Gross Profit on Sales		$12 531 33	29 27
Operating Expenses:			
Salaries	$5 173 00		
Rent (net)	2 500 00		
Discounts	1 835 62		
Other Expenses	2 000 67		
Depreciation of Furniture and Fixtures	153 08	11 662 37	27 24
Net Profit from Operations		$ 868 96	2 03
Interest Charges (net)		68 96	16
Net Profit for the Year		$ 800 00	1 87

The above summary shows that the operating overhead for the past year has been too large in comparison with the business done, although it has been kept as low as possible under the existing conditions.

Estimated Cash Requirements for Six Months Ended June 30, 1922

We have discussed with Mr. Shaw the outlook of the business for the next six months with a view to ascertaining the estimated cash requirements of the business for that period, and we submit, in Exhibit C appended, a statement setting forth these requirements.

This estimate is based upon an anticipated business of approximately $25,000, for the six months' period, upon purchases being kept at a minimum, and upon every possible economy in operation.

From the appended statement it will be noted that credit will have to be obtained in the amount of approximately $6,500 in order to carry the company through the winter months. This may be accomplished by Bank Loans or by purchases on credit payable during the six months following June 30, 1922. So far as current indebtedness is concerned, the company will thus be in approximately the same position six months hence as it was on December 31, 1921.

In conclusion, we desire to express our appreciation for the courtesy and attention extended to us during the progress of our work, and to express our willingness to be of assistance in giving you any further information you may desire regarding this report and the operation of your books of account.

Respectfully submitted,

(Signed) Charles M. Furbush & Company,
Certified Public Accountants.

NEWTON MERCANTILE COMPANY

Exhibit A

Balance Sheet—December 31, 1921

Assets

Current Assets:			
Cash:			
In Bank	$ 235 60		
Petty Cash	125 10		
Change Fund	15 00	$ 375 70	
Accounts Receivable:			
From Customers—Schedule I	$4 238 60		
From Employees	450 30	4 688 90	
Merchandise Inventory		8 921 10	$13 985 70
Furniture and Fixtures (at cost)			586 20
Deferred Charges to Operations:			
Insurance Prepaid		$ 135 00	
Office Supplies on Hand		72 10	207 10
Total Assets			$14 779 00

Liabilities, Reserves, and Capital

Current Liabilities:			
Accounts Payable—Schedule II		$5 120 00	
Notes Payable		2 700 00	
Accrued Expenses		60 00	
Accrued Interest on Notes Payable		42 80	$ 7 922 80
Reserves:			
For Loss on Bad Debts		$ 428 70	
For Depreciation on Furniture and Fixtures		627 50	1 056 20
Partners' Capital:			
T. Lawrence Mayer:			
Investment	$2 500 00		
Add—50% of profit for year (Exhibit B)	400 00	$2 900 00	
Roderick N. Shaw:			
Investment	$2 500 00		
Add—50% of profit for year (Exhibit B)	400 00	2 900 00	5 800 00
Total Liabilities, Reserves, and Capital			$14 779 00

NEWTON MERCANTILE COMPANY

Exhibit B

Profit and Loss Statement for Year Ended December 31, 1921

		Amount	Ratio to Net Sales
Net Sales		$42 812 51	100.00%
Deduct—Cost of Goods Sold:			
Inventory, January 1, 1921	$3 042 08		
Net Purchases for the Year	36 160 20		
Total Cost of Goods	$39 202 28		
Less—Inventory, December 31, 1921	8 921 10	30 281 18	70.73
Gross Profit on Sales		$12 531 33	29.27
Deduct—Operating Expenses.			
Salaries	$5 173 00		
Rent	3 200 00		
Discounts	1 835 62		
Store Expenses	1 225 50		
Advertising	521 80		
Stationery and Postage	162 75		
Insurance	91 62		
Depreciation of Furniture and Fixtures	153 08	12 363 37	28.81
Net Profit from Operations		$ 167 96	.46
Add—Other Income:			
Rental of Store Space	$ 700 00		
Interest on Bank Balance	8 20		
Cash Variance	14 92	723 12	1.69
Total Income		$ 891 08	2.15
Deduct—Other Charges:			
Interest on Notes Payable		91 08	.21
Net Profit for the Year		$ 800 00	1.94

Distribution of Profit

T. Lawrence Mayer	50%	$ 400 00
Roderick N. Shaw	50%	400 00
		$ 800 00

NEWTON MERCANTILE COMPANY

Exhibit C

Estimated Cash or Credit Requirements for Six Months

Ended June 30, 1922

Cash on Hand—January 1, 1922			$ 235 60
Estimated Cash Collections from Sales and Accounts Receivable		$18 000 00	
Estimated Disbursements:			
Accounts Payable and Accruals, December 31, 1921	$5 222 80		
Note Payable—Newton Trust Company, due February 1, 1922	1 000 00		
Purchases	11 817 80		
Salaries	2 575 00		
Advertising	175 00		
Rent	1 250 00		
Insurance	50 00		
Discounts	670 00		
Store Expenses	500 00		
Stationery and Postage	100 00		
Interest on Notes Payable	75 00		
Accounting Services	300 00	24 735 60	
Excess of Estimated Disbursements over Estimated Receipts			$6 735 60
Estimated Cash or Credit Requirements for the Six Months			$6 500 00

UNIFORM ACCOUNTING SYSTEMS FOR TRADE ASSOCIATIONS

Within recent years a large number of trade associations have made a study of accounting problems peculiar to their particular industry for the purpose of working out uniform systems for use by the members of the association.

The following is a representative list of some of the associations which have prepared and adopted uniform systems:

Steel Barrel Manufacturers Association
The American Boiler Manufacturing Association
The American Face Brick Association
The National Association of Box Manufacturers
Folding Box Manufacturers National Association
The National Association of Brass Manufacturers
National Canners Association
The Casket Manufacturers Association of America
Portland Cement Association
American Association of Pharmaceutical Chemists
National Association of Finishers of Cotton Fabrics
The National Cloak, Suit & Skirt Manufacturers Association
National Coal Association
National Confectioners' Association of the United States
National Association of Dyers and Cleaners
Electrical Manufacturers Council
National Association of Electrical Contractors and Dealers
Biscuit and Cracker Manufacturers Association of the United States
The Steel Founders' Society of America
American Foundrymen's Association
National Foundrymen's Association
National Association of Upholstered Furniture Manufacturers
Heating and Piping Contractors National Association
National Warm Air Heating and Ventilating Association
National Association of Ice Industries
National Implement and Vehicle Association of the United States of America
Label Manufacturers National Association
National Association of Employing Lithographers
Lime Association
Southern Sash, Door and Millwork Manufacturers Association
North Carolina Pine Association
West Coast Lumbermen's Association
California White and Sugar Pine Manufacturing Association
National Paint, and Oil Varnish Association
American Photo-Engravers Association

Writing Paper Manufacturers Association
Cover Paper Manufacturers Association
Newsprint Service Bureau
United Typothetae of America
Atlantic Coast Shipbuilders' Association
Missouri Valley Association Sand and Gravel Producers
National Association of Sheet and Tin Plate Manufacturers
The Central Association of Stove Manufacturers
National Association of Stove Manufacturers
Truck Owners Conference, Inc.
National Machine Tool Builders' Association
The National Tent and Awning Manufacturers Association
American Warehousemen's Association

PART II

CLASSIFIED PROBLEMS AND EXERCISES

IN

THEORY AND PRACTICE

SECTION 1

CONSTRUCTION OF FINANCIAL STATEMENTS

Group A—Single Proprietorship Statements

Problem 1

T. L. DAVIS

Adjusted Trial Balance—June 30, 1922

Cash on Hand and in Bank	$ 2 540 00	
Notes Receivable	7 250 00	
Accounts Receivable	38 425 00	
Interest Accrued on Notes Receivable	35 00	
Merchandise Inventory, June 30, 1921 (cost)	165 900 00	
Land (cost)	12 000 00	
Store Building (book value)	50 000 00	
Store Fixtures (book value)	1 680 00	
Office Equipment (book value)	620 00	
Delivery Equipment (book value)	2 400 00	
Garage Supplies on Hand	140 00	
Store and Office Supplies Unused	86 00	
Advertising Matter on Hand	675 00	
Insurance Prepaid	110 00	
Accounts Payable		$ 52 300 00
Notes Payable		75 000 00
Mortgage Payable		25 000 00
Interest Accrued on Notes Payable		125 00
Interest Accrued on Mortgage Payable		1 250 00
Salaries Accrued		320 00
Taxes Accrued		210 00
T. L. Davis, Capital		125 000 00
T. L. Davis, Current	7 590 00	
Sales		541 250 00
Sales Returns and Allowances	5 420 00	
Purchases	478 000 00	
Purchase Returns and Allowances		2 160 00

Adjusted Trial Balance—June 30, 1922—Continued

Freight, Express, and Cartage In	$ 8 340 00	
Salaries and Wages	22 000 00	
Advertising	4 210 00	
Heat and Light	950 00	
Printing and Stationery	142 00	
Postage and Supplies	290 00	
Telephone and Telegrams	175 00	
Taxes	1 680 00	
Insurance	1 120 00	
Freight Outward	186 00	
Shipping Supplies	92 00	
Automobile Expenses	2 830 00	
Discounts on Purchases		$ 3 225 00
Discounts on Sales	2 190 00	
Interest on Notes Receivable		140 00
Interest on Notes Payable	4 200 00	
Interest on Mortgage Payable	1 250 00	
Depreciation of Building	1 200 00	
Maintenance of Building	320 00	
Depreciation of Equipment	500 00	
Loss on Bad Debts	875 00	
Interest on Bank Balances		62 00
Red Cross Donation	200 00	
Collection Expenses	495 00	
Sales of Boxes, Paper, and Waste		74 00
	$826 116 00	$826 116 00
Inventory, June 30, 1922	$172 500 00	

Required:

(a) Balance sheet—statement form, with current assets first

(b) Profit and loss statement showing detailed expenses

Comments.—In preparing the balance sheet, use the following subheadings:

Assets:
- Current Assets
- Fixed Assets
- Deferred Charges to Operations (See Form I)

Liabilities:
- Current Liabilities
- Fixed Liabilities

It has been Mr. Davis's practice not to carry any reserves on his books, but to credit the annual depreciation to the asset accounts. Such accounts, therefore, appear in the trial balance at the book or depreciated value. This is not the best practice.

In setting up the profit and loss statement, show operating expenses in detail. They are not to be departmentized. List them with the larger items first. (See Form II.)

Special attention should be given to the form and arrangement of the statements. Observe carefully instructions regarding:

Punctuation	Capitalization
Marginal indentations	Underscoring
Abbreviations	Proper grouping of accounts

Study the model forms

Problem 2

W. F. ZIEGLER

Adjusted Trial Balance—September 30, 1921

Land (cost)	$ 12 250 00	
Store Building (cost)	45 000 00	
Reserve for Depreciation of Store Building		$ 4 500 00
Store Equipment (cost)	15 200 00	
Reserve for Depreciation of Store Equipment		4 560 00
Office Equipment (cost)	2 670 00	
Reserve for Depreciation of Office Equipment		800 00
Delivery Equipment (cost)	10 500 00	
Reserve for Depreciation of Delivery Equipment		3 500 00
Cash in Banks	12 500 00	
Petty Cash Fund	350 00	
Notes Receivable	39 250 00	
Notes Receivable Discounted		7 500 00
Interest Accrued on Notes Receivable	110 00	
Accounts Receivable	120 310 00	
Reserve for Loss on Bad Debts		1 160 00
Merchandise Inventory, 9/30/20	152 600 00	
Interest Prepaid on Notes Payable Discounted	540 00	
Insurance Prepaid	620 00	
Garage Supplies on Hand	762 00	
Office Supplies on Hand	249 00	
Advertising Material on Hand	2 231 00	
Interest Collected in Advance on Notes Receivable		75 00
W. F. Ziegler, Capital		225 000 00
W. F. Ziegler, Current	2 968 00	
Notes Payable		90 000 00
Accounts Payable		58 700 00
Mortgage Payable		25 000 00
Salaries and Wages Accrued		700 00
Taxes Accrued		2 310 00
Sales		650 125 00
Sales Returns and Allowances	7 580 00	
Purchases	462 350 00	
Purchase Returns		1 290 00
Discounts on Purchases		9 830 00
Loss on Bad Debts	2 100 00	
Interest on Notes Receivable		320 00
Interest on Notes Payable	4 500 00	
Interest on Mortgage Payable	1 500 00	
Freight and Express In	18 230 00	

Adjusted Trial Balance—September 30, 1921—Continued

Buying and Receiving Expenses	$ 24 460 00	
Selling Expense	104 450 00	
Delivery Expense	14 320 00	
Credit and Collection Expense	4 230 00	
General Administrative Expense	15 280 00	
Maintenance of Real Estate	8 260 00	
	$1 085 370 00	$1 085 370 00

Merchandise Inventory, September 30, 1921, $168,250.

Required:

(a) Balance sheet—account form, with current assets first

(b) Profit and loss statement

Comments.—Use only the primary subheadings in the balance sheet. (Form I.) The various reserves should be shown as deductions from the correlative asset accounts. (Form VI.) Notes Receivable Discounted should be shown as a deduction from the Notes Receivable account.

Interest Collected in Advance on Notes Receivable will be shown as a current liability.

Attention is called to the fact that only departmental expense accounts are shown in the trial balance. When this is done, it is usually customary to file with the profit and loss statement a summarized analysis of the various departmental items, setting forth the details of each. (See Form XXVIII.)

Give careful attention to the technical details of the statements.

Problem 3

JAMES A. CROSBY

Trial Balance, December 31, 1921

Land (cost)	$ 20 750 00	
Wharves and Warehouses (book value)	12 625 00	
Office Building (book value)	9 726 00	
Horses, Wagons, and Equipment (book value)	4 221 40	
Office Equipment (book value)	2 169 75	
Cash	6 785 90	
Accounts Receivable	149 678 40	
Notes Receivable	2 560 00	
Office Supplies on Hand	240 00	
Inventory, December 31, 1920 (cost)	90 284 50	
Accounts Payable		$ 52 869 36
Notes Payable		40 000 00
Sales		734 432 46
Sales Returns and Allowances	12 738 60	
Purchases	608 205 75	
Purchase Returns and Allowances		14 768 91
Wages of Yardmen and Helpers	9 689 42	
Stable Expenses	6 139 60	
Selling Expenses	27 196 41	
General Administrative Expenses	46 132 90	
Interest on Notes Receivable		462 91
Loss on Bad Accounts and Notes Receivable	1 624 00	
Cash Discounts on Purchases		1 729 42
Cash Discounts on Sales	960 47	
Interest on Notes Payable	400 00	
James A. Crosby, Capital		170 842 10
James A. Crosby, Current	2 977 06	
	$1 015 105 16	$1 015 105 16
Inventory, December 31, 1921	$72 237 60	

Required:

(a) Balance sheet—report form with fixed assets first

(b) Profit and loss statement with detailed expenses

(c) Mr. Crosby's business is a growing one, and he desires to expand it considerably. With this idea in mind he applies at his bank for a loan of $60,000 for the purchase of a lot of land adjoining his present property and the erection of new structures. He submits the statements which you have just made as a basis for the loan. Would you, as credit manager of the bank, approve this loan? Give reasons for your answer.

Comments.—Mr. Crosby conducts a lumber business in Boston. The real estate consists of waterfront property and includes wharfage, office building, stable and sheds for the storage of lumber.

The charges for freight and towing are added to the invoice cost of the lumber when it is received, and are charged directly to the purchases account, no account with Freight being kept.

The yardmen and helpers unload and pile the lumber and load the teams when orders are filled. No basis of distribution being shown, this item will be carried as an operating expense. Stable expenses include stable supplies used, repairs to wagons, fodder, veterinary's charges, depreciation, and wages of drivers.

No attempt need be made to classify the operating expenses. List them in order of their importance. (See Form II.)

For the purposes of this problem you may base your answer to (c) on the working capital ratio or the ratio between current assets and current liabilities. The ratio of current assets to current liabilities should be at least two and one-half to one to warrant further extension of credit. The credit man would consider many other elements, but they will not be taken into account in solving this problem.

Problem 4

E. C. EWING

Trial Balance, December 31, 1920

Land (cost)	$ 3 000 00	
Buildings (cost)	15 400 00	
Horses and Wagons (cost)	2 950 00	
Cash	3 469 70	
Accounts Receivable	4 697 50	
Notes Receivable	1 150 00	
Merchandise on Hand, June 30, 1920 (cost)	3 674 95	
Accounts Payable		$ 4 627 70
Notes Payable		1 000 00
E. C. Ewing, Capital		20 600 00
E. C. Ewing, Drawings	600 00	
Sales	434 50	20 221 85
Purchases	11 261 75	234 15
Freight Inward	326 30	
Selling Expenses	1 716 40	
Delivery Expenses	682 36	
General Administrative Expenses	976 84	
Insurance Prepaid	124 50	
Interest Charges	96 87	
Interest Earnings		129 67
Reserve for Depreciation of Buildings		3 080 00
Reserve for Depreciation of Horses and Wagons		590 00
Reserve for Loss of Bad Debts		78 30
	$50 561 67	$50 561 67
Merchandise on Hand, December 31, 1920 (cost)		$2 892 60

Make the proper provision for depreciation of buildings. Estimated life of buildings, twenty years. Charge General Administrative Expense.

Make the proper provision for depreciation of horses and wagons. Estimated life, ten years. The charge is to be divided equally between Freight Inward and Delivery Expenses.

Mr. Ewing desires to set up a further reserve for losses on account of bad debts amounting to one per cent of the net sales for the period.

Interest accrued to date on interest bearing notes payable, $24.50.

Portion of cost of insurance policies applicable to the current period, $62.25. Charge General Administrative Expense.

There are office supplies on hand which cost $34. When acquired these supplies were charged to General Administrative Expense.

Required:

(a) Adjusting entries (See Form IV)
(b) Balance sheet—current assets first
(c) Profit and loss statement
(d) The estimated life of the building is 20 years. On approximately what date was it acquired?
(e) Compute:
  (1) The turnover for the period
  (2) Rate per cent of gross profit on sales
  (3) Rate per cent of gross profit on cost of sales
  (4) Rate per cent of net profit on the average capital for the period.

Comments.—Mr. Ewing conducts a small retail business. Apparently he neither allows cash discounts on sales nor takes advantage of cash discounts offered by creditors; or, if such items do occur, they have been treated as direct deductions from Sales and Purchases, respectively.

For convenience in making up the profit and loss statement the debit and credit footings of the Purchases and Sales accounts are shown instead of the balances of these accounts. The Purchases account has been charged with gross purchases and credited with purchase returns and allowances. The Sales account has been credited with gross sales and debited with sales returns and allowances. This information should be considered when drawing up the profit and loss statement.

In the adjusting entries, when making debits or credits to expense accounts, care should be taken to use the expense accounts already on the books so far as is possible. In this case, general expense accounts only are kept in the general ledger; consequently, only these accounts should be used. New expense or income accounts should be opened only when adjusting extraneous items, and then only when the necessary accounts are not already on the books. Of course, when detailed expense accounts are kept in the general ledger they should be used in making the adjusting entries.

The horses and wagons are used for both hauling inward and hauling outward. Consequently, expenses for repairs, teamsters' salaries, boarding, depreciation, etc., should be divided between Hauling Inward and Delivery Expense.

Group B—Partnership Statements

Problem 5

JONES & MARTIN

Adjusted Trial Balance, June 30, 1920

Office Furniture (book value)	$ 1 625 00	
Store Furniture and Fixtures (book value)	3 970 00	
Machinery (book value)	2 260 00	
Cash	37 902 40	
Imprest Cash Fund	250 00	
Accounts Receivable	167 842 60	
Amounts Due from Consignees	28 249 00	
Notes Receivable	66 209 40	
Interest Accrued on Notes Receivable	1 780 50	
Merchandise on Hand, December 31, 1919 (cost)	160 263 75	
Goods in Hands of Consignees (cost)	20 189 50	
Insurance Prepaid	2 940 83	
Stationery on Hand	540 00	
Accounts Payable		$ 160 290 40
Notes Payable		95 530 50
Interest Accrued on Notes Payable		1 650 80
Taxes Accrued		780 00
Sales		690 607 00
Sales Returns and Allowances	7 890 60	
Purchases	532 738.00	
Purchase Returns and Allowances		8 921 20
Freight Inward	2 769 80	
Sales of Consigned Goods (gross profit)		26 170 80
Advertising	25 962 50	
Salaries of Salesmen	47 580 00	
Traveling Expenses	48 260 25	
Delivery Expense	5 445 70	
Miscellaneous Store Expense	6 699 22	
Office Salaries	23 752 80	
Office Supplies Used	19 260 50	
Taxes and Insurance	5 326 70	
Altering and Trimming Department Expenses	5 740 90	
Commissions	24 236 50	
Interest Earnings		5 290 00
Interest Charges	10 250 15	
Cash Discounts on Purchases		4 659 00
Cash Discounts on Sales	1 769 80	
E. J. Jones, Capital		194 460 00

Adjusted Trial Balance, June 30, 1920—Continued

E. J. Jones, Current	19 763 00	
F. C. Martin, Capital		98 346 70
F. C. Martin, Current	5 237 00	
	$1 286 706 40	$1 286 706 40

Merchandise on hand, June 30, 1920 (cost), $210,730.

Required:

(a) Profit and loss statement
(b) Balance sheet—account form (current assets first)
(c) Write up the closing entries up to and including the point at which the gross trading profit is closed into the Profit and Loss account (omit explanations, but skip a line between each entry)
(d) On July 15, 1920, the concern applied to the First National Bank for a loan of $50,000. Would you, as credit man for the bank, approve this loan, basing your decision on the statements just made up? Give reasons for your answer
(e) The inventory of June 30, 1920, is stated at $210,730. Of this amount $1,680 was included as the proper proportional part of the altering and trimming department expenses for the period. Of the remaining $209,050 how much represents the invoice cost of the proper portion of freight inward?

Comments.—Messrs. Jones and Martin conduct a wholesale millinery business. They rent the second and third floors of a large building in the wholesale district of Boston. Profits are shared in the proportion of two-thirds to Mr. Jones and one-third to Mr. Martin.

In this line of business there are two busy seasons, from January 15 to April 15, and from August 1 to October 1. The chances of goods suddenly becoming more or less unsalable because of changing styles and the possibility of purchasing goods which will not appeal to the buying public are large. While profits are large they must necessarily be so, for the busy seasons must pay for the dull. If a business of this kind is well conducted, when the semi-annual statements are made out, the stock should be pretty well reduced and the business of the past season cleaned up in so far as possible. This is essential in order that the business may be in proper shape to start upon the activities of the approaching season.

The concern owns several sewing machines and other small machines which are used in remodeling and trimming hats, either to suit the requirements of purchasers or because certain styles have become unsalable. This work is carried on in a separate room. The expenses of this department, which include wages of operators, supplies used, etc., are charged to an account called "Altering and Trimming Department Expenses." Inasmuch as these expenses affect the cost of the goods sold, they should be included in that part of the profit and loss statement which is used to arrive at the gross profit on sales. Presumably a certain proportion of these expenses is included in the cost of goods on hand.

The concern makes a practice of sending out certain goods on consignment to be sold, on a commission basis, by the consignees. When a shipment of this kind takes place, an entry is made debiting "Goods in Hands of Consignees" and crediting "Purchases" for the cost of the goods shipped When the goods are reported sold, an entry is made crediting "Sales of Consigned Goods" for the selling price, charging "Commission" for the commission charged by the consignee and "Amounts Due from Consignees" for the difference between the commission charged and the selling price. Another entry is then made debiting "Sales of Consigned Goods" and crediting "Goods in Hands of Consignees" for the cost of the goods sold. Cash received from consignees is credited to the "Amounts Due from Consignees" account through the Cash Book. The balance of the "Sales of Consigned Goods" account thus shows the gross profit on sales of consigned goods.

When making up the profit and loss statement this figure should appear just below and as an addition to the gross profit on sales made by the home office in order to arrive at the total gross profit on sales. See Form VII for method of showing division of the net profit or loss for the period in the profit and loss statement.

In preparing the balance sheet the balance of Goods in Hands of Consignees account should appear just below Merchandise on Hand under current assets. See Form VI for arrangement of Capital section of balance sheet for a partnership. The Commission account will appear as an operating expense in the profit and loss statement.

Problem 6

MERVILLE AND MORROW

Trial Balance, September 30, 1920

(Before adjusting)

Cash in Bank	$ 1 520 00	
Petty Cash Fund	100 00	
Accounts Receivable	20 425 00	
Reserve for Loss on Bad Accounts		$ 272 00
Delivery Equipment (cost)	4 200 00	
Reserve for Depreciation of Delivery Equipment		840 00
Office Equipment (cost)	3 500 00	
Reserve for Depreciation of Office Equipment		350 00
Merchandise Inventory, September 30, 1919	8 106 00	
Acceptances Receivable	13 140 00	
Acceptances Receivable Discounted		5 800 00
Notes Payable Discounted		9 000 00
E. E. Merville, Loan		5 000 00
Accounts Payable		18 360 00
Salaries Accrued		540 00
E. E. Merville, Capital		10 000 00
W. C. Morrow, Capital		8 000 00
E. E. Merville, Current	1 850 00	
W. C. Morrow, Current	1 575 00	
Sales		165 225 00
Sales Returns and Allowances	3 304 00	
Purchases	150 250 00	
Freight and Cartage Inward	2 820 00	
Purchase Returns and Allowances		2 165 00
Liability Insurance	195 00	
Advertising	924 50	
Office Salaries	3 820 00	
Postage	190 00	
Salaries of Salesmen	3 435 00	
Printing and Stationery	125 00	
Rent	3 500 00	
Heating and Lighting	210 00	
Legal Expense (collections)	50 00	
Insurance on Stock and Fixtures	420 00	
Interest on Bank Balance		9 50
Sales Discounts	2 602 70	
Purchase Discounts		2 910 25
Interest on Notes Payable	105 00	
Telephone and Telegrams	28 90	

Trial Balance, September 30, 1920—Continued

Taxes	$ 152 00	
Sales of Junk		$65 00
Cash Variance	2 55	
Delivery Expense	1 353 00	
Traveling Expenses	550 00	
Sundry General Expenses	83 10	
	$228 536 75	$228 536 75
Merchandise Inventory, September 30, 1920	$9 875 00	

The following information is to be considered in making such adjustments in the above accounts as may be necessary as of September 30, 1920:

(1) Oil, tires, and other automobile supplies on hand, $243.75.

(2) Unused postage, $16.10.

(3) Salaries Accrued, $438.

(4) Salaries of Salesmen includes advances on account of October salary, $125.

(5) The notes payable owing at bank were discounted as follows: September 1, 1920, $5,000 payable in 2 months, discounted at 6%. September 10, 1920, $4,000 payable in 30 days, discounted at 6%.

(6) The bank statement shows interest on balances not recorded, $5.20.

(7) Goods amounting to $1,200 received from Siegel & Company on September 30 have been taken into the inventory but do not appear on the books.

(8) The insurance on stock and fixtures was taken out September 30, 1919, for a period of three years.

(9) Rent is $100 in arrears.

(10) Adjust the reserve for loss on bad accounts to an amount equivalent to 1½% of the sum due from customers.

(11) Provide for depreciation as follows: Delivery equipment 20% per annum. Office equipment 10% per annum.

(12) Profits and losses are to be shared in proportion to the original investments of the partners.

Required:

(a) Adjusting entries with complete particulars

(b) Working sheet (Use twelve columns)

(c) Balance sheet—Account form (Form IX)

(d) Profit and loss statement (list operating expenses separately).

Comments.—Assuming that September 30 is the close of the fiscal year, the journal entries will be set up in proper form and posted to the working sheet. (See Form IV.)

See model of twelve-column working sheet on pages 22 and 23. (Form V.)

Set up Interest Prepaid on Notes Payable Discounted account in adjustment (5). Charge this account and credit Interest on Notes Payable for the interest on Notes Payable from September 30 until due date of the notes.

Cash Variance will be treated as an expense and shown as "Other Expenses" in the profit and loss statement.

Problem 7

The firm of William Black & Company conducts a trading business at 500 Broadway, Syracuse, N. Y. The cashier has had general supervision of the bookkeeping, and having been in the employ of the firm a long time, in addition to the above duties, he has also acted in the capacity of confidential secretary.

On the evening of the 31st of October, 1918, a fire was discovered in that part of the office where the books and filing system were located. The actions of the cashier on the following morning added color to the mysterious conflagration. An investigation revealed the startling fact that nearly all of the accounting records were destroyed. The cashier found it convenient to visit friends in another city. The members of the firm started an investigation. The work of gathering the available information and preparing such exhibits as may be possible, under the circumstances, is placed in your hands.

A rough copy of the Balance Sheet of December 31, 1917, is found in a dust-covered pigeon-hole. It reveals the following: Capital account, \$22,500; real estate, \$18,000; store fixtures, \$1,500; office fixtures, \$1,200; reserve for depreciation of store fixtures, \$75; reserve for depreciation of office fixtures, \$60; delivery equipment, $700; reserve for depreciation of delivery equipment, $70; cash balance, $2,900; merchandise inventory, $11,400; due creditors, $2,243.10; due from customers, $1,865; notes receivable on hand, $4,690; notes payable outstanding, $2,540; mortgage payable, $14,000; interest payable accrued, $700; wages accrued, $350; insurance prepaid, $123.60; advertising prepaid, $200; expense accrued, $40.50.

From various sources, the following information as to the business transacted between January 1, 1918, and October 31, 1918, was assembled: Purchases, $26,500; sales, $31,900; notes issued, $18,500; returns to creditors, $180; notes receivable from customers, $27,500; returns by customers, $220.50; interest paid, $1,000; wages paid, $7,290; expenses paid, $536; repairs to building, $640; due from customers on open account, $2,444.50; due to creditors, $2,563.10; notes receivable on hand, $974.85; notes payable outstanding, $4,815; cash in safe, $176.92; pass book balance, $3,716; checks outstanding, $1,807.15.

Merchandise inventory, October 31, 1918, $16,800; wages accrued, $145; interest receivable accrued, $95; interest payable accrued, $110; advertising prepaid, $38; insurance prepaid, $49.30.

Increase the reserve for depreciation of store and office furniture 7%; delivery equipment 10%; and create a reserve for depreciation of real estate 2%, and for doubtful accounts 3% of the customers' balances.

Required:

A working sheet, profit and loss statement, and a balance sheet are suggested as proper means of reflecting the condition of the company's affairs as at the last date named. You will set them up in proper form.

Comments.—This problem illustrates a typical use of the working sheet where it becomes necessary not only to make adjustments at the close of the period but also to record current transactions which are missing because of the destruction of the records. Such items must be gathered from various sources.

In this problem the first two columns of the working sheet may be used for the balance sheet as of December 31, 1917; the next two for current transactions, followed by two each for the trial balance as at the time of fire, adjustments as at October 31, 1918, adjusted trial balance, profit and loss items, and balance sheet items. Such an arrangement would necessitate the use of fourteen columns. The same purpose would be served by using one set of columns for both current transactions and adjustments and omitting the trial balance at the time of fire. Under this plan trading columns may be used if desired and but twelve columns would be required. The latter plan is recommended.

From the information available it will be necessary to find by deduction certain cash items among the current transactions. For instance, the amount due from customers on open account as at October 31, 1918, is given at $2,444.50. Presumably this is the correct amount. From data available the balance due is found to be $6,044.50, found as follows: (Bal. Jan. 1, $1,865 plus Sales, $31,900) minus (Notes received, $27,500 plus returns, $220.50). Therefore, it may be assumed that the difference, or $3,600, was received in cash, for which an entry must be made as follows:

Cash	$3 600	
Accounts Receivable		$3 600

It will be necessary to handle Accounts Payable, Notes Payable, Notes Receivable and Cash in a similar manner. A convenient way of getting the proper balance is by setting up skeleton ledger accounts

A final analysis of the Cash account will develop a cashier's shortage which may be carried as an asset or may be treated as a loss, depending upon whether the cashier is bonded, whether there is a possibility of the shortage being made good, or whether it is considered as a total loss. In any event the profit and loss statement should reflect the net profit or loss to date of fire, the shortage being shown at the end of the statement if treated as a loss.

The balance sheet will be set up in the usual report form with items properly classified.

Problem 8

TAYLOR, WOOD AND COMPANY

Trial Balance, September 30, 1920

F. H. Taylor, Capital		$16 578 04
C. F. Woods, Capital		24 831 48
L. F. Johnson, Capital		2 602 03
F. C. Taylor, Drawing	$100 00	
C. F. Wood, Drawing	50 00	
L. F. Johnson, Drawing		35 00
Notes Receivable	1 000 00	
Interest	35 04	
Accounts Receivable	10 740 46	
Inventory, September 1	23 525 05	
Shipping Supplies	196 50	
Office Supplies	192 75	
Insurance Unexpired	267 50	
Horses and Wagons	742 50	
Furniture and Fixtures	2 475 00	
Real Estate	12 150 00	
Notes Payable		5 000 00
Accounts Payable		7 181 84
Traveling Expenses	225 00	
Rent	300 00	
Discount	3 60	
Freight Inward	47 59	
Purchases	7 597 27	
Wamsutta Mills Stock	1 150 00	
Office Salaries	655 00	
Shipping Department Salaries	65 00	
Delivery Expenses	111 75	
Sales		10 593 69
Discounts on Purchases		61 27
Discounts on Sales	112 43	
Collection and Exchange	7 45	
Returned Purchases		297 84
Returned Sales	172 20	
Reserve for Bad Debts		121 60
Office Expenses	15 00	
Cash	5 365 70	
	$67 302 79	$67 302 79

The above accounts are representative of a wholesale dry goods business conducted by three partners under the firm name of Taylor, Wood & Co. The trial balance covers a period of one month.

The merchandise on hand September 30 amounts to $22,372.76; furniture and fixtures are valued at $2,450; horses and wagons, $735; insurance unexpired, $260; shipping supplies on hand, $93.25; office supplies on hand, $106.50; real estate, $12,250; Wamsutta Mills stock, $1,150.

The note of the firm for $5,000 is a demand note issued September 26 and bearing interest at 6%; the note of $1,000 held by the firm was received on September 9 and bears interest at 6%.

The real estate owned by the firm is a building at 74 Chestnut St., which cost $12,000, and which is occupied by a tenant. At the time of closing the books on August 31 the value of the property was increased to $12,250; on that date rent accrued for August of $100 was charged to the Real Estate account; September 2, $200 rent was received from the tenant for August and September, which was credited to Real Estate, leaving the present balance of $12,150

The building occupied by the firm for business purposes is rented at $300 per month.

The ten shares of Wamsutta Mills stock were bought on August 13 for $105 per share; the book value was increased August 31, at the time of closing the books, to $1,150. No dividend has been received on the stock.

One per cent of the gross sales is to be set aside as a reserve for bad debts.

By the terms of the partnership agreement, 6% interest is to be allowed each partner on his capital account. Taylor is allowed a monthly salary of $150; Wood, $200; Johnson, $225. The salary of each partner for September has been credited to the respective drawing accounts.

An analysis of the Interest account shows interest accrued on notes receivable as of August 31, $12.75; interest accrued on notes payable, $166.67; interest paid during September, $208.33; interest received, $19.37.

Required:

(a) Adjusting entries
(b) Profit and loss statement for September
(c) Balance sheet—account form
(d) Closing entries—skeleton form.

Comments.—The adjusting entries in the problem need careful attention. First, record the accrued interest on notes receivable and notes payable from date of each to September 30.

The real estate should be carried at cost. The estimated increase in value should not appear on the books as a profit until the property has been disposed of at a profit. It will be necessary, therefore, to remove from this account the appreciation of $250. Charge this item to the partners and credit the Real Estate account. The rent items will also be removed from the Real Estate account and carried to the proper accounts.

In like manner, the appreciation on Wamsutta Mills Stock will be charged to the partners and credited to the stock account. Fluctuations in market value of stocks should not be reflected in the ledger accounts. The profit or loss on the stock will be taken when the stock is disposed of.

Figure the interest on the partners' capital for one month at 6% on the adjusted figures, after taking into consideration the above items.

Salary accounts will be kept with partners. Therefore, September salary should be removed from the Drawing accounts, and transferred to the Salary accounts.

An entry will be made to open detailed interest accounts as per analysis, and to close out the general interest account charged with $35.04.

See Form III for method of setting up closing journal entries.

Problem 9

Alexander, Brown, and Clark entered into a partnership agreement on January 1, 1920, their business being the operating of a dry goods store in Galesburg, Illinois. At December 31, 1920, the trial balance of the partnership, before making any adjustments, was as follows:

Alexander, Capital		$50 000 00
Brown, Capital		30 000 00
Clark, Capital		20 000 00
Merchandise Inventory, 1/1/20	$125 000 00	
Accounts Receivable, Customers	75 000 00	
Accounts Receivable, Employees	3 000 00	
Cash in Bank	5 000 00	
Cash on Hand	1 000 00	
Notes Payable		60 000 00
Accounts Payable		15 000 00
Sales		500 000 00
Purchases, including Freight	323 000 00	
Salaries and Store Expenses	125 000 00	
Bad Debts Written Off	2 500 00	
Interest Paid on Notes Payable	6 000 00	
Alexander, Salary Paid	2 500 00	
Brown, Salary Paid	4 000 00	
Clark, Salary Paid	3 000 00	
	$675 000 00	$675 000 00

The following adjustments are to be made:

(1) Interest at 6% per annum charged or credited to partners. Accept the amounts in capital accounts as being capital at January 1, 1920.

(2) Mr. Alexander owns the store and will be credited in monthly installments on first of each month (in advance) with $10,000 for rent. Interest at 6% per annum to be allowed on these credits.

(3) Of the interest paid on notes payable, $2,000 applies to period subsequent to December 31, 1920.

(4) Provide for unpaid taxes, $1,000; and for unpaid wages, $1,500.

(5) A reserve of $1,500 is necessary for bad and doubtful accounts.

(6) The inventory at December 31, 1920, is valued at $150,000.

(7) Of the profits, if any, after giving effect to these adjustments, credit 10% to Bonus to Department Managers and Salesmen.

The profits or losses are divisible in the following proportions: Alexander, 40%; Brown, 33⅓%; Clark, 26⅔%.

Required:

(a) Balance sheet as at December 31, 1920

(b) Profit and loss statement for the year 1920

(c) Statement of each partner's capital account, showing transactions for the year.

(*Adapted from Illinois C. P. A. Examination*)

Comments.—The adjustments in this problem need careful attention. In (1) the item "Interest at 6% per annum charged or credited to partners" may be construed to mean that the interest on capital investment is not to be passed through the profit and loss account, but is to be adjusted directly through the capital accounts. In order to do this it will be necessary to find each partner's share of the interest charge on partner's capital according to the ratio in which profits are shared. If the partner's proportion of the interest charge is greater than the amount of interest due him on his capital investment, his capital account will be charged with the difference; if less, his capital account will be credited. Under this plan the aggregate net charges to certain partners will just equal the aggregate credits to others and will form the basis of the adjusting entry referred to above.

In (2) find the aggregate time an installment of $10,000 would be on interest to be equivalent to $10,000 payable monthly. For instance, the first installment would bear interest for 12 months, the second for 11 months, etc.

In (7) Bonus to Department Managers and Salesmen is in the nature of a liability, and if there should be any such item in this statement it would appear in the balance sheet as a liability in the same manner as wages accrued.

Group C—Corporation Statements

Problem 10

From the following accounts, prepare a balance sheet that will exhibit a correct view of the net worth:

Accounts Receivable	$ 50 000
Accounts Payable	20 000
Bonds Outstanding	100 000
Cash on Hand	100 000
Common Stock Outstanding	100 000
Dividends on Preferred Stock Due and Unpaid	10 000
Inventories at Cost	10 000
Notes Receivable	5 000
Notes Payable	213 000
Plant Account (cost)	200 000
Preferred Stock Outstanding	100 000
Profit and Loss Account (debit balance)	126 000
Reserve for Depreciation	30 000
Reserve for Federal Taxes	2 000
Reserve for Shrinkage of Inventory Values	5 000
Reserve for Possible Loss in Accounts Receivable	1 000
Reserve for Bonds past due	10 000
Treasury Stock (common)	50 000
Treasury Stock (preferred)	50 000

Required:

Balance sheet—Report form—Fixed assets first.

(*From North Carolina C. P. A. Examination*)

Comments.—This problem is for the purpose of affording practice in the arrangement of a corporate balance sheet. Reference is made to Forms IX and XII for suggestions regarding form and arrangement.

The capital items should be shown as the last group on the liabliity side, and it is recommended that the Treasury Stock be shown as a deduction from the stock outstanding.

Problem 11

THE SOMERTON MANUFACTURING COMPANY

Trial Balance, December 31, 1921

Cash in Bank	$ 56 000 00	
Imprest Cash Fund	350 00	
Merchandise Inventory, January 1, 1921	95 760 00	
Furniture and Equipment	18 200 00	
Consigned Goods Account	12 750 00	
Ajax Mining Stock, 3,000 shares, par $100	300 000 00	
Premium Paid for Leasehold	25 000 00	
Accounts Receivable	275 460 00	
Accounts Payable		$ 65 290 00
Notes Payable		20 000 00
Purchases	620 275 00	
Sales Returns and Allowances	4 896 00	
Sales		975 240 00
Wages	110 650 00	
Rent	12 000 00	
Taxes	3 865 00	
Factory Expenses	45 385 00	
Office Salaries	9 575 00	
Sundry Expenses	22 860 00	
Income from Investments		15 300 00
Capital Stock		400 000 00
Surplus, January 1, 1920		137 196 00
	$1 613 026 00	$1 613 026 00

The above trial balance is taken at the close of the fiscal year before adjusting and closing entries have been made. The following items must be taken into consideration in making up the financial statements:

(a) Leasehold was acquired January 1, 1921, and expires December 31, 1930.

(b) Goods on hand, December 31, 1921, $95,900.

(c) Provision is made for discounts and bad debts to the extent of 5% of the balance of customers' accounts at the close of the period.

(d) The notes payable are held by the bank. They were discounted on December 1, 1921, and fall due March 1, 1922. The discount at 6% was charged to Sundry Expenses when the notes were negotiated.

(e) A dividend of 6% was declared on December 20, 1921, on the Ajax stock, payable January 10, 1922.

(f) Provide for depreciation of furniture and equipment at 10%.

(g) Wages accrued since the last pay day amount to $1,200 on December 31, 1921.

(h) The directors have declared a 10% dividend payable to all stockholders of record on January 15, 1922.

Required.

(a) Necessary adjusting entries
(b) Balance sheet as of December 31, 1921—report form
(c) Profit and loss statement for year ending December 31, 1921.

Comments.—Consigned Goods account consists of goods consigned at cost to selling agents in New York City for sale on a commission basis. The cost of these goods amounted to $12,000, and charges on same have been paid to the amount of $750. No report has been received on these goods.

The Leasehold Premium must be written off over the life of the lease.

This company is engaged in the production of an assembled machine. They purchase all their parts from other manufacturers and assemble them for the market. The cost of the sales will therefore be represented by the Inventory, January 1, 1921, plus Purchases, Wages, Rent, Taxes, and Factory Expenses, less Inventory, December 31, 1921.

Problem 12

The directors of a manufacturing company submit the following trial balance to an accountant, requesting that he inform them as to what percentage of dividend they may safely declare out of the year's net income:

Trial Balance—December 31, 1922

Real Estate	$94 000 00
Plant and Machinery	80 000 00
Patents and Good-Will	160 000 00

Inventory, January 1, 1922	$58 000 00	
Purchases	165 000 00	
Labor	176 000 00	
Coal	12 000 00	
Salaries, General	22 000 00	
Salaries, Management	10 000 00	
Insurance	1 750 00	
Repairs	2 000 00	
Claims and Allowances	12 500 00	
Prepaid Freight (included in invoice price)	3 000 00	
Interest and Discount	1 500 00	
Cash	16 000 00	
Investments	31 000 00	
Miscellaneous Expenses	8 600 00	
Accounts Receivable	84 000 00	
Deficit, January 1, 1922	2 000 00	
Capital Stock		$422 000 00
Sales		438 350 00
Accounts Payable		20 000 00
Notes Payable		52 000 00
Dividends on Stocks Owned		3 000 00
Rentals		4 000 00
	$939 350 00	$939 350 00

Inventory, December 31, 1921, $53,000. Four employees, A, B, C, and D, receive as additional salaries the following percentages of the earnings measured by the net income: A, 25%; B, 12½%; C, 6¼%; and D, 6¼%.

Depreciation for the period of 6 months ending December 31, 1921, was not put upon the books. No additions have been made to the fixed assets within a year.

Estimated discounts on the Accounts Receivable and Payable were not put upon the books January 1, 1922. These were, respectively, $400 and $750.

The last two semi-annual dividends on preferred stock are unpaid.

Required:

(a) Balance sheet as of December 31, 1916

(b) Profit and loss statement for the year

(c) What ratio of dividend would you recommend?

(*From New York C. P. A. Examination*)

Comments.—This problem presents a few points somewhat out of the ordinary and should therefore be given careful study. While the statement is made that the last two semi-annual dividends on preferred stock are unpaid there is nothing in the problem to indicate how much of the capital stock is preferred stock. If the financial statement at the close of the period should show a surplus, it would be well to indicate the portion of such surplus applicable to preferred dividends before any other dividend could be declared. This cannot be done in this case.

As there is no distinction made between raw materials and finished goods in the inventory, the cost of sales may be represented by the inventory, January 1 plus purchases less inventory, December 31, and for the purpose of this problem, labor, coal, repairs, etc., may be treated as operating expenses. After finding the net profit an additional charge will be made for the bonus to A, B, C, and D. This may be deducted at the end of the profit and loss statement.

The depreciation for the six months prior to December 31, 1921, should be brought on at a normal rate and charged to the Deficit, January 1, 1922. Current depreciation should also be provided for.

Estimated discounts on the Accounts Receivable and Payable were not put upon the books January 1, 1922. While sales discounts are sometimes set up by charging anticipated Sales Discounts and crediting a Reserve for Sales Discounts, it is inadvisable to anticipate purchase discounts as this has the effect of anticipating profits. As accounts receivable are quite large some provision should be made for anticipated loss on bad debts. The item Prepaid Freight represents the amount due from customers for prepaid freight.

Problem 13

The trial balance of the A. B. Co., on January 1, 1912, appears as follows:

Cash	$50 100	Reserve for Disc. Accts., Receivable, 1/1/11	$12 000
Accts. Receivable, gross	400 000	Reserve for Disc. Mdse., Invty., 1/1/11	12 000
Notes Receivable	30 000	Accts. Payable	90 000
Merchandise Inventory, 1/1/11, gross	240 000	Notes Payable	600 000
Merchandise Purchases, to 1/1/12	1 250 000	Sales	1 500 000
Prepaid Interest, 1/1/11	12 500	Purchase Discounts, Collected on Settlements with Creditors	59 500
Interest, paid to 1/1/12	36 000		
Expenses, paid to 1/1/12	156 000		

Reserve for Disc. Accts. Payable, 1/1/11	$ 4 000	Reserve for Bad Debts, 1/1/11	$ 3 000
Bad debts, Charged off to 1/1/12	2 500	Mdse. Returned to Creditors, to 1/1/12	50 000
Returned Sales Customers	100 000	Collected on Accts. Charged to P. & L. in 1910	500
Salaries	20 000	Credit Insurance, received on 1910 Losses	1 000
Taxes	5 000	Profit & Loss, 1/1/11	55 000
Plant	250 000	Capital Stock	225 000
Discounts Allowed Customers	51 900		
	$2 608 000		$2 608 000

The following information is stated:

Accounts Payable, January 1, 1911, Gross, $80,000.

Accounts Receivable, January 1, 1911, Gross, $300,000.

Notes Payable, January 1, 1911, $500,000. Interest paid at 5% to July 1, 1911.

On July 1, 1911, $500,000 is renewed at 6% for 1 year and $100,000 additional is borrowed at same rate for one year.

Inventory, January 1, 1912, $320,000 Gross

Goods bought on terms of 5% 30 days.

Goods sold on terms of 4% 30 days.

Reserve for Bad Debts, January 1, 1912, to be 1% on Gross Accounts Receivable

Required:

(a) Necessary adjusting entries

(b) Profit and loss statement

(c) Balance sheet.

(*From Massachusetts C. P. A. Examination*)

Comments.—This problem requires careful analytical reasoning. It is evident that the Reserve for Discount Accounts Receivable for $12,000 shown in the trial balance represents the amount set up January 1, 1911, being 4% of $300,000 accounts receivable on hand at that time. This has remained untouched throughout the year, the discounts allowed customers being charged to the account Discounts Allowed Customers, $51,900. An entry should be made closing the reserve against the Discounts Allowed Customers. A new reserve will then be created for Discounts on Accounts Receivable as of January 1, 1912 (4% of $400,000).

The inventory of merchandise has been taken at invoice price. As the actual cost was 5% less, a reserve was set up January 1, 1911, for this amount (5% of $240,000). This reserve should now be closed out, bringing the inventory down to cost. An entry will then be made setting up the reserve as of January 1, 1912 (5% of $320,000).

Purchase discounts have been handled in like manner. At the beginning of the year, Reserve for Discount Accounts Payable was charged with 5% of $80,000. The discounts taken during the year have been credited to Purchase Discounts instead of to the reserve account. Charge Purchase Discounts and credit the reserve account.

Bad debts charged off during the year should be charged to the reserve account. Make proper entry to adjust and then set up reserve as of January 1, 1912, to bring reserve up to 1% of accounts receivable as shown in trial balance.

Interest is paid in advance to July 1, 1912, in the sum of $18,000. It will, therefore, be necessary to adjust Prepaid Interest account so as to show this amount.

The statements will be set up in the usual form except that discounts allowed customers is deducted from sales and purchase discounts from purchases, instead of showing same after "Net Profit from Operations."

Problem 14

Write a reply to the following letter, and prepare a balance sheet as requested therein:

Dear Sir:

Our bank has asked us for a statement for credit purpose. Will you please prepare one for us?

Our plants stand at their cost price, which is $60,400. We have set up a reserve for a depreciation of $10,200. There is a mortgage for $20,000 on the plant and interest on the mortgage is at 6%, and is paid up to three months ago.

We hold $10,000 of notes receivable, and have discounted $25,000 of notes with the bank. Our accounts receivable, which we consider good, amount to $18,000, including $3,000 due from one of our employees personal account. Our trade accounts receivable are subject to 5% discount if paid at due date, and only $1,000 is now past due. Our accounts in suspense amount to $4,000. I believe these are 50% good.

We have ordered a new machine to cost $6,000, but it has not yet been delivered. We have endorsed a note for $6,000 for our friends, the A. B. Company, but I am confident they will take care of it when it is due.

Our accounts payable amount to $4,200. Our insurance amounts to $400 a year, and has six months to run. We have a note at the bank for $5,000, interest paid to date.

We own fifty shares of stock in the company from which we buy raw material. This stock cost us $2,800 and is surely worth it, though we might have difficulty in selling it in a hurry. Our inventory is taken at a low selling price, which is some 10% more than it cost us. The amount is $17,600. In addition, we have a special contract for one of our customers. The contract price is $25,000. We have spent $12,000 on it, and expect to have to spend $4,000 more, and we have received $10,000 on account. Our cash in bank is $4,800, and cash in hand, $200.

I have told you all the facts I think you need. Perhaps some are not required, but I want to give the bankers all the information they ought to have in the way they expect to get it.

I do not, of course, expect you to accept any responsibility for the figures in the statement, but simply to prepare the statement in the best form you can from this letter. If you have any suggestions as to how I can better meet the bank's requirements, please let me have them.

(Signed) R. P. Jones.

Required:

Prepare a balance sheet following the form recommended by the Federal Reserve Board. (Form XXXI.)

(*From American Institute Examination*)

Comments.—Care should be used in handling the accounts receivable items. The trade accounts receivable amount to $15,000. Of this amount, $1,000 is past due, leaving $14,000 not past due, and subject to a 5% discount. Set up a reserve for 5% of $14,000. This is perhaps more than will be taken, but it is better to overestimate this item than to underestimate it. Inasmuch as the accounts receivable in suspense are estimated to be worth only 50%, a reserve should be created for the $2,000 not considered good.

Show order for machine as a footnote to the balance sheet. Handle the contingent liability on account of endorsement in the same manner. The merchandise inventory must be reduced to cost figures.

In handling the contract, it is considered better accounting not to anticipate profits until completed. Carry as an asset the net amount expended on account of contract. The details may be shown in parentheses.

Problem 15

From the following trial balance of the Sampson Company, December 31, 1919, after closing, prepare a statement of financial condition, such as might be presented to bankers:

Debits		Credits	
Prepaid Insurance	$ 1 850	Reserve for Customers' Discounts	$ 13 500
Plant Property	350 000	Notes Payable	35 000
Notes Receivable	16 500	Surplus—Capital	240 000
Finished Goods	47 800	Profit and Loss	243 650
Patents, Trade-Marks and Good-will	500 000	Reserve for Credit Losses	15 000
Prepaid Interest	525	Accounts Payable	62 000
Goods in Process	53 750	Reserve for Depreciation of Plant Property	85 000
Cash	52 425	Salaries and Wages Payable	2 350
Advances to Salesmen	750	Preferred Stock*	100 000
Materials and Supplies	25 500	Common Stock†	400 000
Treasury Preferred Stock	5 000	Dividends Payable	2 000
Customers	145 900	Accrued Taxes Payable	1 500
	$1 200 000		$1 200 000

* 1,000 shares, par value $100 each, preferred as to assets and dividends.
† 80,000 shares of no par value, issued at a stated value of $5.00 a share.

Required:

Set up a balance sheet using as a model the form recommended in the bulletin of the Federal Reserve Board: "Approved Methods for the Preparation of Balance Sheet Statements" (See Form XXXI).

(*From American Institute Examination*)

Problem 16

Y AND Z COMPANY

Trial Balance—July 1, 1920

Cash	$ 4 005 07	
Accounts Receivable	250 317 02	
Real Estate	16 520 00	
Merchandise Inventory, January 1, 1920	210 319 07	
Discounts Allowed Customers	35 318 72	
Bad Debts Charged Off	4 414 84	
Merchandise Purchases	738 898 43	
Expenses	47 397 80	
Notes Receivable	1 436 11	
Machinery	3 780 00	
Sales		$ 916 389 04
Accounts Payable, Merchandise		175 119 28
Notes Payable		42 500 00
Discounts Received on Merchandise Settlements		29 320 16
Capital Stock		125 000 00
Surplus		24 078 58
	$1 312 407 06	$1 312 407 06

You are asked by a creditor to examine the books of the Y and Z Company and present a balance sheet as of July 1, 1920, together with a profit and loss statement, showing the results of the business for the preceding six months.

On January 1, 1920, the merchandise inventory was $210,319.07 and on July 1, 1920, it was $110,318.67. You find these amounts in accordance with the stock sheets turned over to the bookkeeper by the stock clerk.

On January 1, 1920, the accounts receivable were $216,895.98, and on July 1, 1920, they were $250,317.02, and on January 1, 1920, the merchandise accounts payable were $22,524.05, and on July 1, 1920, they were $175,119.28; you find that the totals of the customers' and creditors' accounts on the sales and purchases ledgers on these dates are in agreement with the controlling accounts.

Prepare statements which in your opinion will correctly represent the condition of this company, and which give the creditor a true statement of its earning capacity for this period.

Required:

(a) Balance sheet as of July 1, 1920

(b) Profit and loss statement for six months ending July 1, 1920.

(*From Massachusetts C. P. A. Examination*)

Comments.—The inventory figures and the amount due from customers and to creditors both at the beginning and the close of the period are apparently for comparative purposes. There is insufficient data furnished to enable us to reconcile the balances of accounts receivable and accounts payable at the beginning of the period with the balances at the end.

Both inventory figures will be used in the statements while the accounts receivable and accounts payable balances on January 1 may be ignored. The amount due from customers shows a slight increase while the amount due creditors has increased eight-fold. The inventory shows a shrinkage of $100,000.

The cash seems rather small in comparison with the large amount due creditors. The stock has been turned a trifle more than five times.

Approximately one-fourth of the sales are as yet unpaid; therefore, the average term of credit must be 90 days. The discounts allowed by customers amount to almost 4% of the sales. This seems like a large discount item for sales made on a 90-day basis.

Group D—Manufacturing Statements

Problem 17

From the following items prepare the operating statement of the A Manufacturing Company for the fiscal year ending June 30, 1919. Your statement should clearly set forth the cost of goods made, cost of goods sold, selling expenses, etc.

Advertising	$6 000 00
Association Membership Dues	200 00
Cash Discount on Purchases	3 900 00
Cash Discount on Sales	2 100 00
Commissions Paid	7 750 00
Depreciation, Machinery and Equipment	3 750 00
Depreciation on Buildings	3 600 00
Direct Labor	135 000 00
Dividends Paid	10 000 00
Dividends Received on Stocks	1 500 00
Donations and Charity	300 00
Factory General Expense	1 200 00
Factory Office Salaries	7 000 00
Factory Supplies	900 00
Federal Income, Profits and Taxes	20 000 00
Heat, Light, and Power	4 000 00
Insurance, Fire	1 000 00
Insurance, Life (President's Life)	500 00
Interest on Bonds Payable	3 500 00
Interest on Notes Receivable	900 00
Interest on Notes Payable	1 600 00
Interest on Bonds Owned	1 400 00
Officers' Salaries	25 000 00
Office Salaries	9 500 00
Postage	2 100 00
Property Taxes	3 750 00
Raw Material Consumed	110 000 00
Repairs to Machinery and Equipment	1 250 00
Returned Sales	5 000 00
Sales	605 000 00
Salesmen's Salaries	21 000 00
Stationery and Printing	3 700 00
Subscription to Trade Papers	25 00
Superintendent of Factory	11 000 00
Telephone and Telegraph	1 900 00
Traveling Expense	4 500 00
Sundry General Expense	1 250 00

The inventories of finished goods and work in process are as follows:

	July 1, 1918	June 30,1919
Finished Goods	$35 000 00	$40 000 00
Work in Process	52 200 00	25 400 00

Required:

(a) Statement of cost of goods manufactured for year ending June 30, 1919

(b) Profit and loss statement for year ending June 30, 1919.

(*From Wisconsin C. P. A. Examination*)

Comments.—An operating statement only is called for in this problem, the figures submitted being only such as are required for such purpose. While all the data submitted in this problem might be included in one operating statement headed "Manufacturing, Trading and Profit and Loss Statement," or some such title, especially as many of the manufacturing details are omitted, it is usually considered better practice to set up two statements, one for the purpose of showing the cost of the manufactured product for the period (Forms XIV and XVI), the result of which is then transferred to a profit and loss statement in the usual form (Form XIII). The requirements in this problem call for such statements.

Include in the Analysis of Cost of Goods Manufactured Statement all items that have to do directly with the manufacturing process. Inasmuch as the details concerning raw materials are not given, only the amount consumed can be shown in the statement. Items that represent both administrative and factory expenses, and for which no basis of apportionment is given, such as Property Taxes, etc., may be included in the manufacturing statement.

Selling, administrative and financial items will be shown in the profit and loss statement in the usual form (Form XIII). Federal Income Taxes will be shown as a separate deduction from the net income before providing for Federal Taxes. (See Form X.)

Problem 18

From the following accounts appearing on the trial balance, prepare, without using figures, statements which you consider best calculated to set forth the operations of the year and the financial position at December 31, 1916, assuming that you are preparing these statements on behalf of a bank which desires paper available for rediscount with the federal reserve bank.

Accounts Payable
Accounts Receivable
Advertising
Buildings
Capital Stock
Capital Stock Unsubscribed
Cash on Deposit
Depreciation, Buildings, 1916
Depreciation, Machinery, 1916
Discount Allowed on Sales
Discount Received on Purchases
Doubtful Accounts Receivable
Factory Expense
Finished Goods Inventory, December 31, 1915
Freight and Cartage Inward
Freight and Cartage Outward
Fuel
Good-Will
Insurance, Buildings and Machinery
Insurance, Finished Goods
Insurance Unexpired, Buildings and Machinery
Petty Cash
Insurance Unexpired, Finished Goods
Interest Accrued on Investments
Interest Accrued on Mortgage Payable
Interest Paid
Interest Received
Investments
Labor Factory Payroll
Land
Machinery
Material Inventory, 12/31/15
Material Purchases
Mortgage on Plant
Notes Payable
Notes Receivable
Office Expenses
Commissions Paid Salesmen
Office Furniture and Fixtures
Office Payroll
Organization Expenses (to be distributed over three years from January 1, 1916)
Payroll Factory Accrued
Payroll Office Accrued
Salaries General Officers
Prepaid Taxes and Real Estate
Profit and Loss, 1915 Surplus
Repairs, Buildings
Repairs, Machinery
Reserve for Bad and Doubtful Accounts
Reserve for Depreciation, Buildings
Reserve for Depreciation, Machinery
Returns and Allowances on Sales
Salaries Salesmen
Sales
Salesmen Accounts—Advances on Salaries
Taxes, Income U. S.
Subscriptions and Donations
Taxes, Real Estate
Work in Process Inventory, December 31, 1915

The inventories, December 31, 1916, not on the books were:

Finished goods
Material work in process

Required:

Balance sheet—account form.

(*From American Institute Examination*)

Comments.—Follow as closely as possible form recommended by Federal Reserve Board for use of member banks. (Form XXXI.)

Problem 19

MACFARLANE MANUFACTURING COMPANY

Trial Balance—April 30, 1916

Land and Buildings (cost)	$ 68 000 00	
Machinery and Equipment (cost)	36 800 00	
Office Furniture and Fixtures (cost)	12 300 00	
Sales Room Equipment (cost)	9 840 00	
Factory Tools and Supplies (on hand Dec. 31, 1915)	834 00	
Cash	2 960 00	
Accounts Receivable	43 680 39	
Subscriptions to Capital Stock—Common	8 000 00	
Securities Owned (cost)	12 500 00	
Good-Will	10 000 00	
Patent Rights	8 400 00	
Raw Materials (on hand Dec. 31, 1915, $15,432.60; purchases, $46,380.40)	61 813 00	
Manufacturing (in process Dec. 31, 1915)	20 268 80	
Finished Goods (on hand Dec. 31, 1915)	36 261 15	
Bond Discount and Expenses	9 000 00	
First Mortgage Bonds		$70 000 00
Accounts Payable		17 576 16
Capital Stock—Preferred (authorized issue, 1,000 shares, par $100 each)		70 000 00
Capital Stock—Common (authorized issue, 2,000 shares, par $100 each)		85 000 00
Surplus (undivided profits, Dec. 31, 1915)		13 869 20
Capital Stock—Common, Subscribed		16 000 00
Sales of Finished Goods		85 239 41
Salesmen's Salaries and Expenses	8 269 40	
Delivery Expenses	3 732 89	
Office Clerks' Salaries	5 321 76	
General Office Supplies Used	1 869 30	
Taxes	486 00	
Insurance	1 240 00	
Direct Labor	14 178 32	
Indirect Labor	5 650 00	
Factory Heat, Light, and Power	2 730 46	
Reserve for Depreciation of Buildings		15 000 00
Reserve for Depreciation of Machinery and Equipment		7 682 40
Reserve for Depreciation of Office Equipment		2 800 00
Reserve for Depreciation of Sales Room Equipment		968 30
	$384 135 47	$384 135 47

Adjustments:

Cost of buildings, $45,000; estimated life, 30 years.

Estimated life of machinery and equipment, 8 years.

Estimated life of office furniture and fixtures, 10 years.

Estimated life of salesroom equipment, 10 years.

Factory tools and supplies on hand, April 30, 1916, $500.

The first mortgage bonds were issued January 1, 1916, and mature January 1, 1926. The bond discount and expenses are to be written off over that time.

The bonds bear interest at the rate of 6% per annum, payable January 1 and July 1.

Insurance prepaid, $620.

Raw materials on hand, April 30, 1916	$10 400 00
Goods in process, April 30, 1916	36 126 50
Finished goods on hand, April 30, 1916	28 740 80

Required:

(a) Adjusting entries
(b) Manufacturing statement
(c) Profit and loss statement
(d) Balance sheet—account form
(e) Closing entries.

Comments.—Give careful attention to Illustrative Forms for suggestions regarding arrangement of the balance sheet and statements.

Problem 20

Thompson and Brown are partners operating under the name of Thompson and Company. The following is a trial balance of the partnership books at December 31, 1920:

Cash	$ 103 000 00
Accounts Receivable	187 000 00
Notes Receivable	10 000 00
Land	50 000 00
Buildings	200 000 00
Machinery and Tools	300 000 00

Office Furniture	$ 10 000 00	
Factory Fixtures	20 000 00	
Good-Will	100 000 00	
Work in Process, Inventory, 1/1/20	100 000 00	
Raw Materials, Inventory, 1/1/20	75 000 00	
Raw Materials Purchased	300 000 00	
Productive Labor	200 000 00	
Non-Productive Labor	100 000 00	
Insurance—Factory	10 000 00	
Taxes—Factory	5 000 00	
Repairs—Machinery	12 000 00	
Repairs—Building, Factory	2 000 00	
Repairs—Office Fixtures	500 00	
Manufacturing Supplies	7 000 00	
Salesmen's Salaries	20 000 00	
Salesmen's Expenses	12 000 00	
Salesmen's Commissions	10 000 00	
Advertising	50 000 00	
Freight Out	10 000 00	
Cartage Out	2 000 00	
Packing Supplies	4 000 00	
Packing Labor	10 000 00	
Office Salaries—Clerks	15 000 00	
Office Stationery	3 000 00	
Cost Department Salaries	12 000 00	
Factory—Stationery	3 000 00	
Postage—Office	6 000 00	
Telephone—Telegrams	4 000 00	
Donations	500 00	
Legal Expenses	1 000 00	
Auditing	1 000 00	
Miscellaneous Factory Expenses	5 000 00	
Miscellaneous General Expenses	10 000 00	
Interest Paid	2 000 00	
Heat, Light, and Power	24 000 00	
Reserve for Depreciation		$ 80 000 00
Cash Discount on Sales	7 000 00	
Allowances on Sales	37 000 00	
Interest Earned		1 500 00
Cash Discount on Purchases		10 500 00
Sales		879 359 28
Accounts Payable		92 640 72
Notes Payable		100 000 00
C. W. Thompson—Capital		100 000 00
J. R. Brown—Capital		800 000 00
C. W. Thompson—Drawing	14 000 00	
J. R. Brown—Drawing	10 000 00	
	$2 064 000 00	$2 064 000 00

The inventories at December 31, 1920, were as follows:

Raw Materials	$125 000 00
Manufacturing Supplies	2 000 00
Packing Supplies	2 000 00
Prepaid Insurance	1 000 00
Advertising	5 000 00
Office Stationery	1 000 00
Accrued Interest—Notes Receivable	500 00
Work in Process	200 000 00

You are to make provision for the following:

Depreciation:	
Buildings	3%
Machinery and Tools	10%
Factory Fixtures	10%
Office Fixtures	10%
Taxes accrued and unpaid December 31, 1920	$ 3 000 00
Accrued Productive Labor	3 000 00
Accrued Non-Productive Labor	1 000 00
Accrued Salaries of Salesmen	500 00
Accrued Commissions of Salesmen	10 000 00
Bad Debts to be written off	3 000 00
Accrued Interest—Notes Payable	500 00

The partnership agreement provides that 6% interest on capital is to be credited to each partner's account and profits are to be divided, Thompson 60% and Brown 40% respectively. Brown is to receive a salary of $10,000 and Thompson a salary of $6,000. The salaries had not been credited to their accounts at December 31, 1920.

Required:

(a) Adjusting entries in proper form
(b) Balance sheet—account form
(c) Profit and loss statement
(d) Cost of goods manufactured statement.

(From Ohio C. P. A. Examination.)

Problem 21

The Bond Machine Manufacturing Company commenced business January 1, 1919, with a paid-up capital of $800,000. The following is a trial balance of the general ledger at December 31, 1919:

Cash	$10 000 00
Accounts Receivable	100 000 00
Notes Receivable	13 000 00
Liberty Bonds	100 000 00
Land	25 000 00
Factory Buildings	150 000 00
Machinery and Tools	250 000 00
Office Furniture	5 000 00
Factory Fixtures	15 000 00
Good-Will	200 000 00
Raw Materials	350 090 00
Productive Labor	213 000 00
Non-Productive Labor	87 000 00
Insurance, Factory	6 000 00
Taxes, Factory	4 000 00
Heat, Light, and Power, Factory	20 000 00
Repairs, Machinery	32 000 00
Repairs, Office Furniture	300 00
Repairs, Buildings, Factory	6 000 00
Manufacturing Supplies	6 590 00
Salesmen's Salaries	30 000 00
Salesmen's Expenses	20 000 00
Salesmen's Commissions	26 000 00
Advertising	25 000 00
Freight Out	12 000 00
Cartage Out	3 000 00
Packing Supplies	6 000 00
Packing Labor	4 000 00
Office Salaries (Clerks)	12 000 00
Office Stationery	4 000 00
Cost Department Salaries	10 000 00
Factory Stationery	2 000 00
Postage (Office)	3 000 00
Telephone and Telegraph	3 000 00
Donations	5 000 00
Legal Expenses	1 000 00
Auditing	1 000 00
Miscellaneous Factory Expenses	3 000 00
Miscellaneous General Expenses	4 000 00
Interest on Own Bonds	3 000 00
Interest on Notes Payable	900 00

Cash Discount on Sales	$ 5 000 00	
Allowances on Sales	3 000 00	
Executive Salaries	40 000 00	
Interest on Notes Receivable		$1 000 00
Interest on Liberty Bonds		2 000 00
Interest on Bank Balance		1 000 00
Cash Discount on Purchases		7 000 00
Sales		759 119 00
Capital Stock		800 000 00
Mortgage Bonds		100 000 00
Accounts Payable		128 761 00
Notes Payable		20 000 00
	$1 818 880 00	$1 818 880 00

The inventories at December 31, 1919, were as follows:

Raw Materials	$75 000 00
Manufacturing Supplies	1 500 00
Packing Supplies	1 000 00
Prepaid Insurance	2 000 00
Advertising	3 000 00
Office Stationery	500 00
Accrued Interest on Notes Receivable	240 00
Accrued Interest on Liberty Bonds	2 000 00
Work in Process	150 000 00

You are to make provision for the following:

Depreciation:	
Buildings	3%
Machinery and Tools	10
Factory Fixtures	10
Office Fixtures	10
Taxes Accrued and Unpaid, 12/31/19	$4 000 00
Accrued Productive Labor	4 000 00
Accrued Non-Productive Labor	1 000 00
Accrued Salaries of Salesmen	500 00
Accrued Commissions of Salesmen	4 000 00
Bad Debts to be written off	1 040 00
Accrued Interest on Notes Payable	300 00

Of the total non-productive labor, $10,000 was for repairing machinery. There was expended on new machinery, built for own use and installed during the year, $4,000 for materials and $6,000 for productive labor. None of these expenditures were charged out.

Executive salaries are to be divided as follows: 30% to selling expenses, 20% to manufacturing expenses, and the balance to administrative expenses.

Required:

(a) Necessary adjusting entries
(b) Balance sheet—account form
(c) Profit and loss statement
(d) Cost of goods manufactured statement.

(From Ohio C. P. A. Examination)

Problem 22

The following is the balance sheet of the A. B Company January 1, 1915:

Assets	
Cash	$52 864 00
Accounts Receivable	197 425 00
Inventories:	
Raw Material	84 268 00
Finished Goods	31 597 00
Office Furniture and Fixtures	7 500 00
Land	180 000 00
Buildings	150 000 00
Machinery	250 000 00
	$953 654 00
Liabilities	
Accounts Payable	$35 482 00
Dividends Payable, Preferred Stock, February 1, 1915	7 500 00
Dividends Payable, Common Stock, February 1, 1915	10 000 00
Mortgage Bonds, 20-year at 6%, dated January 1, 1915	100 000 00
Premium on Bonds	5 000 C0
Capital Stock, Preferred	250 000 00
Capital Stock, Common	500 000 00
Reserve for Bad Debts	4 718 00
Surplus	40 954 00
	$953 654 00

The transactions for the year ending January 1, 1916, have been as follows:

Cash Received from Customers	$793 501 00
Rent Received	600 00
There have been purchased 1,232,000 pounds raw material at 20c per pound	
Sales have been made	823 334 00
Discount and Allowances on Sales	23 519 00
Bad Debts Written Off	2 143 00
Disbursements have been made for:	
Accounts Payable	243 356 00
Factory Expense	7 489 00
Factory Labor	351 426 00
Factory Repairs	23 843 00
Office Expense	1 927 00
Selling Expense	52 914 00
Salaries	58 471 00
Taxes	7 853 00

Inventories, January 1, 1916:

Raw material, 412,595 pounds having a market value of 22c per pound; and finished goods, $30,842. The land is estimated to be worth $200,000.

Semi-annual dividends of 3% on Preferred and 2% on Common declared in June and December, payable August 1 and February 1. Reserves for depreciation of buildings, 3%; machinery, 5%; office furniture and fixtures, 10%. Bad and doubtful debts reserve should be 2% of accounts receivable.

Required:

(a) Balance sheet as of January 1, 1916

(b) Profit and loss statement for year ending December 31, 1916

(c) Statement of cost of goods manufactured for period.

(From the American Institute Examination)

Comments.—It will be necessary to bring into the accounts the transactions of the year beginning January 1, 1915, in order to obtain the balances with which to make up the statements called for.

It is suggested that these entries be carried directly to a working sheet and an adjusted trial balance taken as of December 31, 1915. This working sheet need not be submitted with the solution.

Proper charge should be made for bond interest for one year. Write off 1/20 of the Bond Premium. The balance will be carried as a deferred credit in the balance sheet. It may be assumed that the semi-annual bond interest of $3,000 was paid on July 1, 1915, the due date if the interest is payable semi-annually as is customary.

The inventory of raw materials on January 1, 1916, should be taken at cost rather than market, the former being the lower. The estimated value of the land, $200,000, as of January 1, 1916, may be shown short in the balance sheet in parentheses to indicate the present value, but the apprecia, tion should not be extended to the asset column.

While there is no record that the dividends payable February 1, 1915· and shown in the balance sheet of that date as a liability have been paid, it may be assumed that they were paid on that date. It may also be assumed that the June dividends, payable August 1, have been paid. The December 1915 dividends, payable February 1, 1916, will be shown as liabilities.

Problem 23

At the close of its fiscal year, December 31, 1915, the Trial Balance of The Nau-Pace Company was as follows:

Real Estate	$ 225 000 00	
Fixed Machinery	150 000 00	
Movable Equipment	18 000 00	
Shaftings, Pulleys, etc.	10 500 00	
Stable Equipment	3 500 00	
Office Equipment	2 915 90	
Drawings and Patterns	9 000 00	
Patents	75 000 00	
Capital Stock		$ 500 000 00
First Mortgage Bonds		100 000 00
Profit and Loss		
Surplus		86 140 28
Dividends		300 00
Interest on Bonds	5 000 00	
Other Interest Paid	1 323 10	
Interest Received		2 469 50
Cash Discount on Purchase		13 389 52
Cash Discounts on Sales	2 861 50	
Sales		1 540 816 75
Return Sales	8 258 25	
Cash	27 750 65	
Notes Receivable	50 750 00	
Accounts Receivable	298 650 25	

Raw Materials	$ 622 190 90	
Finished Goods, Jan. 1, 1915	62 735 06	
Goods in Process, Jan. 1, 1915	24 747 27	
Fuel	38 688 28	
Insurance	4 000 00	
Taxes	5 000 00	
Notes Payable		$ 40 000 00
Accounts Payable		46 585 85
Reserve for Depreciation:		
Machinery and Equipment		50 000 00
Buildings		30 000 00
Patents		22 058 80
Bad Accounts		6 240 75
Salaries, Offices and Clerks (general)	56 150 00	
General Office Supplies	2 950 75	
Postage, Telegraph, and Telephone	1 560 00	
Miscellaneous General Expenses	850 00	
Advertising	35 000 00	
Salaries and Expenses, Salesmen	72 350 31	
Agents' Commissions	30 141 40	
Credit Department Salaries	$7 560 00	
Miscellaneous Expenses, Selling	610 00	
Stable Expenses	3 963 46	
Direct Labor (mfg.)	508 311 39	
Indirect Labor (mfg.)	44 981 01	
Superintendence, Factory	6 000 00	
Factory Supplies	8 547 18	
Repairs, Machinery and Equipment	7 418 52	
Repairs of Buildings	2 860 47	
Power. Heat, and Light	2 875 80	
	$2 438 001 45	$2 438 001 45

You are to take into consideration the following facts:

(1) Real estate, machinery and other factory equipment, and patents are stated at cost.

(2) Of the real estate $25,000 is for land and $200,000 is for buildings.

(3) All capital stock authorized has been issued and is outstanding.

(4) Allowances for depreciation are:

> Machinery and Factory Equipment, $15,000.
> Building, 3% on cost.
> Patents 1/17th of cost.

(5) $15,000 is to be set aside as a reserve for bad accounts.

(6) Ten per cent of the book values of Stable Equipment and

Office Equipment, and 1/6th of the book value of Drawings and Patterns are to be charged off.

(7) Inventories at the close of the fiscal year were:

Raw Materials	$63 580 40	Factory Supplies	$1 525 00
Finished Goods	58 864 56	Office Supplies	500 00
Goods in Process	27 024 52	Prepaid Insurance	500 00
Fuel	4 823 43		

(8) The accruals are:

Taxes	$ 7 000 00	Interest on Bonds	$1 000 00
Direct Labor	12 618 75	Advertising	4 718 50
Indirect Labor	2 040 50		

(9) The depreciation on stable equipment (see item 6) is to be charged to Stable Expenses, and one-third of the latter is apportioned to Manufacturing Expenses and two-thirds to Selling Expenses.

(10) The cost of fuel used is to be charged to Power, Heat, and Light.

(11) Maintenance of Real Estate is to be charged with cost of repairs to buildings, depreciation on buildings, 20% of taxes for the year, and $1,000 for insurance. The total cost of such maintenance is to be shown as an item of manufacturing expense on the statement of Cost of Sales.

(12) The portion of insurance remaining after charging Maintenance of Real Estate is to be allocated to manufacturing expenses.

(13) Thirty per cent. of the taxes for the year is to be apportioned to manufacturing expenses and 50% is to be charged against income (Gross Income).

(14) Of the salaries of officers and clerks, general, $3,600 should be apportioned to selling expenses.

(15) Amongst the notes receivable is a note for $5,000, pertaining to a previous fiscal year, which is considered to be worthless. No provision was made for such loss.

Required:

(a) Adjusting entries
(b) Profit and loss statement
(c) Balance sheet—account form
(d) Cost of goods manufactured.

(From Ohio C. P. A. Examination)

Comments.—Because of the extended adjustments it is recommended that a working sheet be used in solving this problem. The working sheet need not be submitted with the solution.

Problem 24

The main office of a manufacturing concern keeps the general books of the company and sells the finished product which is billed to it by the factory at cost. The cost books of the factory show the following facts on January 1, 1914:

Cash Fund (Imprest), $500; Raw Materials and Supplies, $15,910.32; Work in Process, made up of: Material and Direct Labor, $55,816.25; Factory Expenses, $10,592.16; and Management Expenses, $6,200.83. Finished Product, $40,219.57. A portion of the payroll distributed but not yet paid, $3,553.42.

During the year 1914 the transactions were as follows:

Purchases of Raw Materials, $91,113.20; Wages Paid, $143,273.49; Factory Expenses, Charged, $63,383.83; Management Expenses, Charged, $40,315.33; Sale of Power to another company occuping adjacent buildings, $100 per month.

The raw materials and supplies used amounted to $90,265.72; the management charges distributed, to $40,315.33, and Factory expenses distributed, $63,519.10. There are also on hand unpaid local bills which have not been entered on the books amounting to $135.27, all of which were for factory expense.

The finished product made during the year, figured at cost, amounted to $338,652.32; the amount of finished product transferred to the main office was $340,192.45.

At the close of the year, December 31, 1914, there was unpaid and undistributed the factory payroll for four days amounting to $2,942.10 and also 550 hours of overtime, payable at the rate of time and one-quarter, the regular day rate being 35c per hour.

Required:

Write up all the ledger accounts on the factory books and show the final trial balance of December 31, 1914.

(*From Massachusetts C. P. A. Examination.*)

Problem 25

A company of bicycle manufacturers makes up its accounts December 31, 1907, for the year. The following are the debits to the profit and loss account:

Raw Material on hand January 1, 1907	$12 500 00
Finished Machines on hand January 1, 1907, 1,600 wheels at $30	48 000 00
Purchases of Material	62 500 00
Labor, productive	82 500 00
Manufacturing Expenses: Coal, repairs, paint, varnish, superintendents' salaries, unproductive labor, and sundry other expenses	23 000 00
Agents' Commissions	90 000 00
Branch Expense: Rents, salaries, and miscellaneous	40 000 00
Selling expense: Travelers' Expenses and salaries, discounts, rebates, and miscellaneous	30 000 00
Bad Debts	8 000 00
Depreciation on Machinery and Plant	5 500 00

The sales for the year 1907 were 6,000 wheels, yielding $540,000; the raw material on December 31, 1907, taken at cost, were $4,000, and the finished wheels in stock ready for sale numbered 800.

Required:

From the above data, prepare a statement showing

(a) Number of wheels manufactured

(b) Cost per wheel

(c) Gross manufacturing profit

(d) The final net result, including in the profit and loss account the stock of finished wheels on hand December 31, 1907, at their cost as shown by the accounts.

(*From Michigan C. P. A. Examination.*)

Refer to page 229 for theory questions on financial statements.

Group E—Financial Statements Prepared from Single Entry Records

Problem 26

The books of William Selby, which have been kept by single entry, show the following results at the close of business, April 30, 1921: Investment of Selby, January 1, 1921, $5,000; due from customers, $3,000; notes on hand, $1,500; interest accrued, $75; cash in bank, $3,560; insurance prepaid, $125; rents payable accrued, $180; owing to creditors, $1,950; outstanding notes, $500; total of purchase invoices, $15,350; mortgage in favor of Selby, $3,000, on which there is owing interest for six months at 6%. The sales book shows sales on account, $2,500, for cash, $4,580, and for notes, $3,520. Cost of expenses not available. Inventory of furniture amounts to $450; goods on hand, $1,520.

Required:

(a) Prepare a statement showing the net worth on April 30, 1921, together with the profit or loss for the period from January 1 to April 30, 1921

(b) Outline the necessary journal entry to change the books to double entry, assuming that the same books are to be continued.

Comments.—The data given in this problem has been gathered from various sources such as books of entry, ledger, inventories, etc., as is customary in single entry, a complete record not being kept in the ledger. It will be necessary to select those items representing assets and liabilities on April 30, 1921, set them up in statement form, and find the net worth, which will then be compared with the investment to find the profit or loss. This statement is in effect a balance sheet, but inasmuch as the accounts in single entry are not in balance, it is customary to call it a Statement of Assets and Liabilities.

Problem 27

C. W. Brooke began business July 1, 1921, with assets and liabilities consisting of accounts receivable, $8,500; accounts payable, $4,000; merchandise, $5,000; cash, $1,000. On December 31, 1921, his assets and liabilities consisted of cash, $100; accounts payable, $6,000; notes payable, $1,000; furniture and fixtures, $800; merchandise, $12,500; accounts receivable, $8,000; office supplies, $100. During the period, Brooke had invested $2,000 additional and had withdrawn at different times sums amounting to $3,000. His books are kept by single entry.

Required:

(a) Prepare a statement of assets and liabilities as of June 30, supplemented by a statement showing what the net profit or loss has been for the six months

(b) Make entry or entries which will result in changing the books to double entry, assuming that the same ledger is to be continued.

Comments.—In this problem it will be necessary to find the net worth at the beginning as well as at the end of the period named. Instead of setting up two separate statements in order to arrive at the desired results a comparative statement of assets and liabilities will be prepared with columns at the right showing increase and decrease of the various items. See Form XXIII.

Attention is called to the fact that where there are withdrawals or additional investments of capital, a comparison of net worth at beginning and close of period shows increase or decrease in capital and not net profit or net loss. Therefore, if capital shows an increase, withdrawals will be added and additional investments deducted in order to show the profit or loss for the period.

After ascertaining the profit or loss an entry will be made in single entry form charging or crediting the proprietor with the loss or profit as the case may be. This entry will result in adjusting the capital account in the ledger so that it will agree with the capital as shown by the financial statement. In order to change the books to double entry an entry is then made in double entry form, the debits consisting of the assets as shown by the financial statement and the credits consisting of the liabilities and capital. If a new ledger is to be used this entry is then posted, after which all transactions may be entered in double entry form. If the old ledger is to be used, only those items are posted that do not appear in the ledger, the others being checked off. This results in bringing the ledger into balance and the procedure may thereafter be according to the double entry method.

Problem 28

Gaylord and Laird have been doing business as equal partners and have kept their books by single entry. They wish to admit Davis as a partner and have their books kept by double entry. Their books and inventory taken show the following assets and liabilities on September 1, 1921: Merchandise, $9,240; cash, $850; notes receivable, $2,500; real estate, $3,000; accounts receivable, $6,940; store fixtures, $570; Gaylord's investment account, credit, $6,400; Laird's investment account, credit, $5,390; accounts payable, $4,175; bills payable, $975.

Davis is admitted and invests cash, $3,000; merchandise, $2,000; bills receivable, $1,500.

Required:

(a) Prepare statement of assets and liabilities and show net profit and each partner's net worth

(b) Make entries necessary to open set of double entry books

(c) Make entry showing admission of Davis.

Problem 29

On January 1, 1920, J. M. Dickey began business as a retail dry goods merchant. His capital at the time consisted of merchandise, $12,300; cash, $1,150; furniture and fixtures, $600. He sold most of his goods for cash, although credit was extended in certain cases.

The books were kept by single entry and consisted of a ledger, journal, and cash book.

At the end of 3 months, Mr. Dickey desired to ascertain whether he was making any money. The clerks were set to work taking inventory, and the bookkeeper was instructed to prepare a list of outstanding accounts receivable and payable. This produced the following results:

Merchandise on hand	$24 062 62
Accounts Receivable	2 165 74
Accounts Payable	15 203 21
Cash in Bank	2 572 43
Cash in Drawer	224 12

Paid invoices showed purchases of office equipment during the period amounting to $275.

Invoices have been received and entered on the books covering the purchase of goods amounting to $375.20, which goods have not yet arrived.

Feeling the need of more working capital, Mr. Dickey sold on February 10 certain bonds which he had been holding as investments, realizing thereon $1,250, which amount was placed in the business.

Required:

(a) Statement or statements showing the assets and liabilities and the net profit or loss for the period

(b) Entry to accomplish the opening of a set of double entry books.

Comments.—It may be assumed that the inventory of furniture and fixtures has been increased by the purchases during the period to the extent of $275. The value of the goods in transit has been entered on the books and is included in the Accounts Payable as given above, but not in the Inventory. It will, therefore, be added to the inventory in preparing the statements.

Problem 30

A set of single entry books for 1912 is sent to you with an order to prepare a profit and loss statement for the year and a balance sheet at December 31. The starting capital was $34,500.

	January 1	December 31
Accounts Receivable	$26 500 00	$44 000 00
Accounts Payable	7 500 00	9 750 00
Merchandise	8 500 00	9 500 00
Plant and Machinery	10 000 00	10 000 00
Furniture and Fixtures	700 00	700 00

A summary of cash book for the year shows as follows:

Received:	
Accounts Receivable	$30 000 00
Capital paid in	2 500 00
Disbursed:	
Bank Overdraft, January 1	$ 3 700 00
Accounts Payable	12 500 00
General Expense	5 000 00
Wages	7 750 00
Personal Account	1 500 00

Leaving a bank account of $2,000, and currency on hand, $50.

Provide 5% interest on capital, disregarding additions during the year and personal drafts, deducting 10% for plant and machinery depreciation, 5% for furniture and fixtures, and 5% for bad debt reserve.

Required:

(a) Comparative statement showing net profit for the year
(b) Profit and loss statement for the year
(c) Balance sheet as of December 31, 1912

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

Comments.—This problem not only calls for a statement showing net profit, but also for a detailed profit and loss statement. A number of items for the latter must be found by deduction. The amount of net sales may be determined by adding cash collections to the increase in accounts receivable, and net purchases by adding the increase in accounts payable to the cash payments on account of same. It may be assumed that all the accounts payable are the result of merchandise purchases.

Problem 31

T. M. Williams, who has been keeping his books by single entry, desires to have them placed upon a double entry basis, and submits to you the following data concerning his business for the year ended September 30, 1922.

T. M. Williams, Investment	$25 000 00
T. M. Williams, Drawings	2 635 00
Cash in Bank as per Bank Statement	18 500 00
Due from Customers	6 230 00
Due to Creditors	8 625 00
Notes on Hand	4 695 00
Notes Outstanding (Bank Loan)	2 500 00
Land and Buildings Owned	16 500 00
Mortgage Owing on Real Estate	12 500 00
Interest Accrued on Mortgage	375 00
Total Purchases for the year	42 840 00
Total Sales for the year	46 285 00
Inventory of Goods on Hand	8 240 00
General Expenses	3 520 00
Rent of Office Due and Unpaid	150 00
Interest Accrued on Notes Receivable	75 00
Interest Prepaid on Notes Payable at the Bank	45 00
Insurance Premiums Unexpired	240 00

Required:

(a) Statement showing profit or loss for the year
(b) Detailed profit and loss statement
(c) Entries to change to double entry, new books to be opened.

Problem 32

The books of the Butter, Egg, and Cheese Company, with an authorized and outstanding capital stock issue of $25,000, are kept by single entry.

It annually inventories all of its assets and liabilities, and from such inventory prepares a financial statement. At December 31, 1913, this inventory is as follows:

Assets

Office cash	$ 1 584 00
Balance Bank A	10 824 00
Accounts Receivable	29 521 00
Ten shares stock in competing company	1 000 00
Plant and Equipment	64 938 00
Merchandise Inventory	21 737 00
Prepaid Expenses	5 081 00

Liabilities

Overdraft Bank B	$ 5 003 00
Accounts Payable	19 747 00
Mortgage Payable	25 000 00
Notes Payable	20 000 00

From a comparison of the financial statements at the beginning and end of year you find that the above item of Plant and Equipment is stated in an amount less by $11,460 than it was at the beginning of the year, plus additions during the year.

The financial statement for the beginning of year showed a surplus of $35,703.

From your analysis of the disbursements and unpaid accounts payable at beginning and end of year, you find a total of purchases amounting to $661,910, and expenses for salaries, wages, supplies, repairs, etc., amounting to $120,115.

The purchases, however, included $450 paid out for John Smith, an employee, for which he had not reimbursed the company; and the total expenses of $120,115 included $250 in the hands of a buyer as a working fund.

The inventory of merchandise at the beginning cf the year was $18,125, and of prepaid expense, $2,653.

There was canceled on the customers' ledger during the year $3,206 of uncollectible accounts.

There was paid for interest and discount on notes payable $1,061, and for interest on mortgage $1,500.

A 10% dividend was declared but not paid.

Required:

From the foregoing prepare:

(a) Balance sheet as at December 31, 1913

(b) Profit and loss statement exhibiting net sales, cost of sales, and gross and net profit for the year.

(*From Ohio C. P. A. Examination*)

Comments.—The balance sheet called for will be the usual statement of assets and liabilities. The dividend declared will be included with the liabilities. The net worth will be made up of the Capital Stock and the present surplus. A comparison of the surplus December 31 with the surplus at beginning of year represents the net increase in capital to which must be added the dividends to find the profit for the period.

In preparing the profit and loss statement, inasmuch as the data as to sales is not available, it will be necessary to use the net profit as shown by the balance sheet as a basis, and work back to the sales.

The $11,460 shrinkage in plant value may be treated as depreciation.

Care must be exercised in arriving at the miscellaneous expenses for the year. This may be found by adding the amount of expenses prepaid at the beginning of the year to expenses paid during the year, and deducting expenses prepaid at end of year.

Problem 33

The following statement of assets and liabilities is taken from a single entry system of books. Prepare a balance sheet that will exhibit a correct view of the net worth of the business.

Cash on hand, $10,000; bonds outstanding, $50,000; reserve for contingencies, $10,000; plant account, $100,000; reserve for bad accounts, $2,000; notes receivable, $50,000; accounts receivable, $100,000. Reserve for unpaid Federal income taxes, $8,000; dividends declared and unpaid, $5,000; reserve for shrinkage of inventory values, $6,000; common stock account, $100,000; reserve for amortization of bonds outstanding, $50,000; accounts payable, $5,000; inventories at cost or market, whichever is lower, $60,000; treasury stock (100 shares, par value), purchased at cost, $15,000; depreciation reserve, $20,000; notes payable, $20,000.

Required:

(a) Balance sheet, statement form. Use current date

(b) Entry necessary to change the books to double entry.

(*From North Carolina C. P. A. Examination*)

Problem 34

A dispute arises between two partners carrying on a retail business under the name of Levy & Mayer, and you are called in to adjust the accounts between them, when you find the following conditions:

The books have been kept by single entry, and it is impracticable to go over the accounts in sufficient detail to complete the double entry. It is three years since the firm has had an accounting, when a balance sheet was prepared (copy of which is handed to you), and contains the following:

Assets—December 31, 1918:	
Store Fixtures	$15 000 00
Leasehold (5 years to run)	5 000 00
Merchandise on Hand	35 000 00
Customers' Accounts	10 000 00
Cash on Hand and in Bank	12 500 00
Prepaid Expenses	2 500 00
	$80 000 00
Liabilities:	
Accounts Payable	$15 000 00
A. B. Levy—Special Loan	20 000 00
A. B. Levy—Capital	30 000 00
W. K. Mayer—Capital	15 000 00
	$80 000 00

You are informed that Mr. Levy's loan bears interest at 6% per annum, and that the capital accounts are to be credited with interest at 5%. Also that Mr. Mayer, who has active charge of the business, is to receive 20% of the profits in lieu of other salary, the remaining 80% of the profits to be divided between the partners in proportion to the capital contributed.

The inventory as taken as at December 31, 1921, was as follows:

Merchandise	
Good condition	$50 000 00
Old styles and partly soiled	7 500 00
Obsolete and useless	1 500 00
	$59 000 00
Customers' Accounts	
Good	$12 500 00
Doubtful	2 500 00
Bad	1 000 00
	$16 000 00
Accounts Payable	$17 500 00

You also found that on June 30, 1920, Mr. A. B. Levy's special loan had been repaid with interest, and that a 5% loan had been obtained from the bank for $10,000, and that the cash in bank and on hand at December 31, 1921, was $15,000, while the bank interest prepaid was $250, and insurance premiums prepaid amounted to $5,000. The partners' drawings on account of profits and interest and commissions were found to be as follows:

	A. B. Levy	W. K. Mayer
In 1919	$12 000 00	$16 000 00
In 1920	15 000 00	15 000 00
In 1921	18 000 00	20 000 00
	$45 000 00	$51 000 00

After consultation with the partners it was agreed to write 50% off the value of the "Old Style and Partly Soiled" goods, and off the Doubtful Accounts Receivable; and to consider the Bad Accounts and Obsolete and Useless materials to be of no value.

Required:

(a) A statement showing how you arrive at the profit and loss for the three years, showing also the disposition thereof

(b) The partners' capital accounts

(c) A balance sheet at December 31, 1921, after making the necessary adjustment of the accounts.

(From Illinois C. P. A. Examination)

Refer to page 237 for questions on the theory of single entry accounts.

Group F—Special Types of Statements

Problem 35

Charles Cabell, William West, and Henry Hart form a partnership for the purpose of engaging in the manufacture of plug and smoking tobacco. Cabell invests $75,000; West, $50,000; and Hart, $25,000. Profits or losses are to be shared as follows: Cabell, one-half; West, one-third; Hart, one-sixth. Interest is not to be allowed on capital nor charged on drawings, but each partner's drawings in any one year are not to exceed one-tenth of his capital in the business.

At the end of their first fiscal year their ledger shows the following balances:

Charles Cabell, Capital Account		$75 000 00
William West, Capital Account		50 000 00
Henry Hart, Capital Account		25 000 00
Charles Cabell, Withdrawal Account	$5 842 17	
William West, Withdrawal Account	4 179 16	
Henry Hart, Withdrawal Account	2 033 88	
Land and Buildings	25 000 00	
Machinery	11 026 92	
Furniture and Fixtures	1 866 13	
Cash	8 730 45	
Accounts Receivable	131 244 49	
Notes Receivable	4 999 97	
Accounts Payable		6 138 16
Notes Payable		118 060 62
Sales—Plug Tobacco		249 472 43
Sales—Smoking Tobacco		61 882 25
Sales—Stems		841 95
Leaf Tobacco	200 044 57	
Licorice and Flavoring	21 918 66	
Boxes	8 572 10	
Labor	25 182 47	
Stamps	48 476 24	
Power, Light, and Heat	3 571 60	
Factory Expense	7 380 55	
Hauling	1 451 30	
Salaries	12 443 71	
Office Expense	4 228 87	
Insurance	1 682 90	
Interest and Discount	9 164 47	
Postage	1 211 97	
Attorney's Fees	769 25	

Salesmen's Salaries, Commissions, etc.	$38 795 15	
Advertising	5 149 09	
Lost Accounts	1 429 34	
	$586 395 41	$586 395 41

Ten per cent. is to be charged off from Machinery account, to cover depreciation, and a reserve equal to 2 per cent. of the Accounts and Bills Receivable is to be created, to cover possible undeveloped losses.

The unexpired insurance premiums amount to $331.11.

Inventories are as follows:

Finished Goods	$38 189 42
Goods in Process	11 209 36
Leaf Tobacco	49 128 98
Licorice and Flavoring	1 511 68
Boxes	1 073 04
Stems	43 31

Required:

(a) Statement of cost of goods manufactured

(b) Profit and loss statement

(c) Balance sheet—account form

(d) Necessary adjusting entries.

(From Virginia C. P. A. Examination)

Comments.—This problem illustrates the preparation of financial statements for a type of manufacturing business somewhat out of the ordinary. The essentials of the statements will be the same as those for an ordinary manufacturing concern. Include in the manufacturing statement the elements of material, labor, and factory expense. Material in this instance consists of leaf tobacco, licorice and flavoring, and boxes. The boxes in this business are so closely associated with the manufacturing process that they will be included under that head. The factory expense items will include all those expenses usually shown under this heading. While the item of stamps, meaning revenue stamps, is a large one in the tobacco business, and is closely identified with the manufacturing process, it is more in the nature of a selling expense and should be so shown in the profit and loss statement.

The sales accounts should be entered in the profit and loss statement separately and totalled, showing total sales.

The balance sheet presents no difficulties.

Problem 36

Spark Plug and Auto Supply, Inc., is the manufacturer of a patented spark plug and is also dealer in automobile supplies. From the following trial balance (as of October 31, 1919), and information prepare balance sheet and profit and loss statements showing cost of manufacture of spark plugs and gross and net profits on sales.

Advertising	$26 450	
Accounts Receivable	180 105	
Accounts Payable		$42 500
Bills Receivable	35 000	
Bills Payable Trade Creditors		22 700
Bills Payable First National Bank		150 000
Bonds 5% 1st Mortgage		250 000
Building Factory	225 000	
Bad Debts Written Off	7 850	
Capital Stock:		
Common Fully Paid		
Authorized $250,000		
Issued		100 000
6% Preferred:		
Authorized and Issued		300 000
Dividend Preferred Stock	18 000	
Delivery Expenses	7 140	
Delivery Equipment and Trucks	9 250	
Directors' Fees	2 500	
Discount on Sales	12 200	
Freight: Raw Materials	12 050	
Freight: Automobile Supplies	2 345	
Finished Goods	34 320	
First National Bank Current Account	51 850	
General Expenses	14 770	
Goods in Process	13 250	
Heat, Light, and Power	22 200	
Interest on Bonds	9 375	
Insurance and Taxes: Factory	17 400	
Labor: Productive	233 846	
Labor: Non-Productive	99 444	
Liberty Bonds	195 000	
Loose Tools	15 270	
Machinery and Plant	165 090	
Office Furniture and Fixtures	1 200	
Payroll		4 278
Patent Rights	30 000	
Purchases: Raw Materials	450 960	

Purchases: Automobile Supplies	$141 690	
Repairs	14 050	
Rent: Warehouse	3 875	
Reserve for Depreciation: Buildings		$20 500
Reserve for Depreciation: Machinery		16 836
Reserve for Bad Debts		8 000
Real estate: Factory Site	150 000	
Shop Supplies and Expenses	15 560	
Surplus		173 011
Sales: Spark Plugs		1 063 020
Sales: Automobile Supplies		137 595
Salaries: Office and General	14 500	
Salaries: Salesmen	34 600	
Traveling Expenses	22 300	
	$2 288 440	$2 288 440

Inventories, November 1, 1918:	
Raw materials	$14 500
Automobile supplies	22 450
Inventories, October 31, 1919:	
Raw materials	27 300
Automobile supplies	19 200
Finished goods	50 400
Goods in process	17 205
Loose tools	10 500

Reserve for bad debts to be adjusted to 5% of open accounts.

Depreciation for the 12 months ended October 31, to be allowed as follows: Factory buildings, 2%; Machinery, 5%; Delivery equipment, 10%; Furniture and fixtures, $200.

Disregard fractional parts of a dollar.

Patent rights expire October 31, 1925.

Advertising, $950 applies to next season.

Taxes on factory building accrued, $1,400.

First mortgage 5% gold bonds are a first charge on all the assets of the company. Interest payable quarterly on the first of February, May, August, and November.

Required:

(a) Necessary adjusting entries in skeleton form
(b) Cost of goods manufactured statement
(c) Profit and loss statement
(d) Balance sheet.

(From American Institute Examination)

Comments.—In solving this problem no attempt need be made to allocate costs between spark plugs and automobile supplies. Charge the manufacturing expenses to spark plugs even though some of heat, light, etc., may be used in the sales office. Set up a manufacturing statement showing cost of spark plugs made. The inventories of raw materials and of automobile supplies as of November 1, 1918, it will be noted, are included in the respective purchase accounts as shown in the trial balance.

In the first section of the profit and loss statement, show gross profit on spark plugs. Follow this with a section showing gross profit on automobile supplies. These results added show total gross profit, from which will be deducted the operating expenses in the usual manner.

The credit to payroll, $4,278, may be assumed to be wages accrued but not due.

Use the account form of balance sheet and show reserves as deductions from the correlative assets.

Problem 37

At the end of their fiscal year you are given the following rial balance and information from the Gem Corporation, whicht owns a young bearing orange grove.

TRIAL BALANCE

December 31, 1920

Capital Stock		$100 000 00
Gem Orange Grove	$100 000 00	
Cost—New Trees and Setting Out	7 000 00	
Improvements and Betterments	2 500 00	
Live Stock	1 000 00	
Wagons and Harness	500 00	
Tools and Implements	1 000 00	
Field Boxes	600 00	
Irrigating Plant	10 000 00	
Box Material, Paper, Nails	1 800 00	
Horse Feed	900 00	
Fertilizer	4 500 00	
Seeds	500 00	
Payrolls	4 000 00	
Salaries	7 500 00	
General Expenses	1 500 00	
Insurance	50 00	
Taxes	100 00	

Interest	$800 00	
Sales of Fruit		$12 000 00
Prepaid Freight	3 300 00	
Commissions and Brokerage	200 00	
Notes Payable		30 000 00
Surplus		5 750 00
	$147 750 00	$147 750 00

You are given the following information:

Inventories—	
Wagons and Harness	$300 00
Tools and Implements	650 00
Field Boxes, used for bringing fruit to packing house	400 00
Box Material, Paper, Nails	600 00
Horse Feed	300 00
Fertilizer	700 00
Insurance, one policy due 4/1, 1921.	

You are told that 15,000 boxes of fruit had been shipped and that the amount estimated to be still on the trees was 9,000 boxes; that about 30 acres of vegetables, consisting of cabbages, lettuce, and cucumbers, had been planted between the rows of trees; that the fertilizer for the year before, when there were no vegetables, had cost $2,500 and the labor pay rolls for caring for the grove for that year had been $1,200. You find that $500 charged as labor pay rolls was for putting up fruit, and that of the $7,500 in salaries, only $2,500 was chargeable to this year and the $5,000 was for former period.

Required:

(a) Balance sheet as of December 31, 1921

(b) Profit and loss statement for the fiscal year

(c) Necessary journal entries to properly adjust the accounts.

(*From Florida C. P. A. Examination*)

Comments.—For this type of business it is difficult to prepare statements that will in themselves adequately set forth the financial position. The fruit on the trees and the vegetables in the ground being of a perishable nature may never be realized upon. On the other hand, they may be sold so as to produce a large income. The statements should, therefore, be supplemented with footnotes and comments setting forth rather fully those things bearing directly upon the financial prospects of the concern that cannot be included in the statements themselves.

The cost of sales in this case is represented by the cost to produce or the cost of placing the fruit in the packing house.

Problem 38

The following is the trial balance of the X. Y. Z. Coal Mining Company as of December 31, 1918:

Cash	$ 5 674 50	
Breaker and Machinery	145 000 00	
Office Building	5 000 00	
Blacksmith Shop	4 000 00	
Inside Construction	15 675 00	
Car and Mine Rail Account	7 534 50	
Horses and Mules	5 600 00	
Accounts Receivable	35 112 25	
Notes Receivable	10 000 00	
Capital Stock—Common		$ 50 000 00
Capital Stock—Preferred		100 000 00
Coal Sales		257 890 00
Accounts Payable		12 500 00
Surplus		17 709 35
Depreciation on Buildings and Machinery Reserve		12 000 00
Supplies	8 240 00	
Payroll—Outside	24 701 50	
Payroll—Inside	110 434 25	
Salaries—Superintendent, etc.	6 000 00	
Salaries—Office Clerks	4 500 00	
Office Expense	1 147 35	
General Expense	750 00	
Claims for Injuries	4 000 00	
Insurance (Expires July 1, 1919)	5 500 00	
Repairs to Buildings	4 075 00	
Repairs to Construction	3 445 00	
Barn Expense	1 500 00	
Selling Expense	4 500 00	
Royalty Account	30 500 00	
Water	800 00	
Fuel	935 00	
Timber and Props	5 475 00	
	$450 099 35	$450 099 35

The total output for the year was 132,300 tons.

An examination of the books and accounts shows that the following charges had not been entered: Horses and Mules, $2,000; Car and Mine Rail account, $1,450; Claims for Injuries, $1,000. During the year the bookkeeper, through error, charged $3,415 to Inside Construction instead of to Inside Pay Roll.

The coal is mined on lease that averages 20 cents per ton.

The inventory is as follows: timber and props, \$1,500; powder, \$555; oil, etc., \$175. In preparing the above statements allowance for depreciation on buildings, machinery, and other properties may be considered at the rate of 5% per annum.

Required:

(a) Profit and loss statement for the fiscal year
(b) Balance sheet as of December 31, 1918
(c) Cost summary showing average cost and net profit on each ton of coal sold.

(From New York C. P. A. Examination)

Comments.—The expenses of mine operations in digging, hoisting, and preparing coal for shipment may be likened to the manufacturing costs of the ordinary manufacturing concern in preparing articles for sale.

The company leases the mine on a royalty basis according to the output for the year. In this case the total output was 132,300 tons on a lease averaging 20 cents per ton. The royalty payments will be considered as a part of the cost of production. Royalties are prepaid to the extent of \$4,040 inasmuch as the Royalty account is charged with \$30,500, while the charge for the fiscal year is \$26,460.

Depreciation on mine properties is also considered a part of cost of production. All inside costs will be charged to production. They refer to expenses incurred within the mine, while outside costs refer to expenses incurred after the coal is brought to the surface.

Mines are usually leased for a definite number of years, and, consequently, costs of construction and buildings should be written off over the life of the lease. In this case, the depreciation being 5%, the life of the lease may be assumed to be 20 years, and all properties will be written down on that basis.

The insurance may be assumed to be for one year, the date of policy not being given, and that one-half of it is unexpired.

Since no mention is made of coal in stock, it may be assumed that the entire output has been disposed of.

Set up a profit and loss statement showing gross profit and net profit in the usual manner. Include in cost of sales all inside expenses such as supplies, inside payroll, repairs to construction, barn expenses, royalties, water, fuel, timber, and props, and depreciation of construction, cars, and rails. Outside costs will be carried as operating charges.

In preparing cost summary, show production cost, outside cost, total cost, and net profit per ton.

The balance sheet will be set up in the usual form.

Problem 39

The following is a trial balance June 30, 1916, before closing, of the ledger of a textile mill.

Land	$ 10 000 00	
Buildings	75 000 00	
Machinery	119 138 73	
Tenements	1 670 66	
Finished Goods Inventory, 1/1/16	66 984 43	
Stock in Process Inventory, 1/1/16	57 042 38	
Yarn	259 882 12	
Cash	12 769 19	
Petty Cash	106 39	
Accounts Receivable	46 085 68	
Mortgage Receivable	875 00	
Labor	25 979 27	
Supplies	2 974 31	
Repairs	956 63	
Oils	50 84	
Coal	1 443 20	
Starch	1 390 00	
Water	122 65	
Finishing	15 381 54	
Brokerage	660 50	
Commission	4 580 67	
Discounts Allowed	1 246 84	
Insurance	679 92	
Taxes	1 502 81	
General Expense	389 39	
Freight and Express	974 34	
Telephone and Telegraph	68 72	
Traveling Expense	274 85	
Interest Paid	409 80	
Discount on Notes Payable	1 408 00	
Profit and Loss	20 694 80	
Dividends	3 375 00	
Capital Stock—Preferred 6% Cumulative		$100 000 00
Capital Stock—Common		263 800 00
Accounts Payable		40 864 56
Notes Payable		187 500 00
Cloth Sales		137 818 07
Waste Sales		922 94
Tenement Rents Received		339 50
Discount Taken		2 873 59
	$734 118 66	$734 118 66

Inventories and Items, June 30, 1916:

Finished Goods		$104 190 24
Stock in Process		71 242 39
Yarn		135 661 63
Coal		1 000 00
Starch		900 00
Supplies		1 150 00
Interest Accrued on Notes Payable		389 41
Interest Prepaid on Notes Payable		211 11
Wages Accrued		2 051 05
Unexpired Insurance		600 00
Prepaid Taxes		402 26
Prepaid Water Rents		100 00
Bad Debts		100 00
Estimated Discounts to be taken on Accounts Payable		817 29
Estimated Discounts to be allowed on Accounts Receivable		460 86
Depreciation rates per annum are:		
Machinery	5%	
Tenements	3%	
Mill Buildings	2%	

Depreciation for the period of six months ending December 31, 1915, was not put upon the books. No additions have been made to the fixed assets within a year.

Estimated discounts on the accounts receivable and payable were not put upon the books January 1, 1916; these were respectively $400 and $750.

The last two semi-annual dividends on preferred stock are unpaid.

Required:

(a) Balance sheet as of June 30, 1916
(b) Profit and loss statement for six months
(c) Necessary adjusting entries.

(*From Massachusetts C. P. A. Examination.*)

Comments.—Include in cost of production stock in process, yarn, coal, starch, supplies, repairs, oils, water, finishing, etc. A combined manufacturing and profit and loss statement may be prepared, or a separate cost of goods manufactured statement may be used as desired.

The problem indicates that estimated discounts to be taken on accounts payable should be taken into the statements. This is not considered best practice, as it means anticipating profits to that extent. The entry to accomplish this would be to charge Estimated Discounts on Accounts Payable (asset) and credit Purchase Discounts (income).

Problem 40

The following trial balance of the B. C. Cotton Company is taken from the books after inventories and deferred charges have been posted. The accounts are ready to close for the period. The consigned goods account has been inactive for six months and will continue so for the present. Prepare statements to show for the quarter ending March 30, 1918, total manufacturing expenses, cost of goods made, cost of goods sold, and net profit, and submit a balance sheet as of March 30, 1918.

Cloth		$268 337 28
Labor	$33 862 99	
Light	132 72	
Royalties	50 00	
Oils	38 62	
Finishing	7 455 55	
Cash	119 126 06	
Liberty Bonds	1 000 00	
Supplies	1 276 06	
Starch	800 00	
Fuel	1 455 99	
Water	202 24	
Freight Inward	1 353 99	
Accounts Receivable	63 492 58	
Accounts Payable		313 45
Notes Payable		225 000 00
Building and Machinery	341 378 14	
Tenements	1 610 99	
Insurance	350 00	
Taxes	567 71	
General Expense	542 88	
Rents Receivable		378 87
Commissions	7 121 42	
Interest Paid	2 539 90	
Discount Taken		4 016 26
Purchases, Material	162 403 68	
Surplus		168 866 14
Discount Allowed	899 50	
Capital Stock		362 500 00
Waste Sales		1 401 39
Inventory, Finished Goods, 3–30	114 069 57	
Process, 3–30	31 464 02	
Materials, 3–30	113 860 99	
Fuel, 3–30	1 250 00	
Starch, 3–30	800 00	
Supplies, 3–30	1 300 00	

Prepaid Taxes, 3–30	$208 96	
Unexpired Insurance, 3–30	660 41	
Prepaid Interest, 3–30	5 100 00	
Consigned Goods, 3–30	14 438 42	
	$1 030 813 39	$1 030 813 39

Inventories of finished goods have been credited to Cloth Account and inventories of goods in process and materials to Purchase Account.

Inventories, January 1, 1918:	
Finished goods, January 1, 1918	$132 833 85
Goods in process, January 1, 1918	22 258 01
Materials, January 1, 1918	143 566 55

Required:

(a) Balance sheet as of March 30, 1918

(b) Cost of goods manufactured statement for three months

(c) Profit and loss statement.

(*From American Institute Examination*)

Comments.—In order to prepare the statements as desired, it will be necessary to find sales and purchases for the period. This will be done by eliminating the inventories from the cloth and purchase accounts.

Cloth account as per trial balance	xxxxx
Add—Inventory, Finished Goods, 1/1/18	xxxx
Total	xxxxx
Less—Inventory, Finished Goods, 3/30/18	xxxx
Sales of Cloth for period	xxxxx

The purchases would be handled just the reverse. Add Goods in Process, March 30, 1918, and Inventory of Material, March 30, 1918, to the trial balance figure for purchases, and from this total deduct the Goods in Process, January 1, 1918, and Inventory of Material, January 1, 1918. The result will be purchases for the period.

The Waste Sales may be shown as other income in the profit and loss statement. Consigned Goods will be shown as a current asset in the balance sheet.

Problem 41

From the following statement of facts set up the trial balance of the Broad Exchange Bank, December 31, 1918, after closing, and prepare therefrom a condensed statement of condition as of the same date:

Due from banks, $74,975; time certificates of deposit, $10,000; cashier's cheques, $496,349.75; rediscounts, $400,000; customers' loans, $500,000; bills purchased, $550,000; exchanges for clearing house, $320,000; due to banks, $834,000; certified cheques, $12,500; cash, $956,750; demand certificates of deposit, $2,500; transit department, $100,000; on deposit with Federal Reserve Bank, New York, $48,500; demand loans, $125,000; time loans, $80,000; bonds and mortgages owned, $100,000; coupon deposits, $3,750; on deposit with National City Bank, $53,062.50; depositors, $765,910; banking house, $200,000; furniture and fixtures, $25,000; capital stock issued and outstanding, $500,000; securities owned, $96,812.50; surplus, $201,090.25; accrued interest receivable, $1,075; interest purchased, $125; unearned discount, $5,200.

Required:

(a) Trial balance as of December 31, 1918

(b) Condensed statement of condition as of December 31, 1918.

(From American Institute Examination)

Comments.—See Model Form XLIV for condensed statement of condition.

Problem 42

The following trial balances have been taken from the books of George T. Wallace at the close of business on December 31, 1920, and June 30, 1921, respectively:

	December 31, 1920		June 30, 1921	
George T. Wallace, Capital		$41 076 54		$41 076 54
George T. Wallace, Current	$2 000 00		$3 500 00	
Cash	11 977 05		12 303 25	
Sales		99 486 05		121 794 75
Sales Returns and Allowances	210 00		195 00	

Purchases	$39 822 82		$40 963 25	
Purchase Returns		$650 00		$630 00
Real Estate and Buildings	30 913 27		30 083 27	
Tools	1 507 04		1 903 23	
Machinery and Equipment	12 091 07		19 093 09	
Delivery Equipment	1 890 00		2 240 00	
Accounts Receivable	39 027 09		51 270 00	
Notes Receivable	1 850 00		1 500 00	
Accounts Payable		19 760 00		18 892 10
Notes Payable		17 000 00		19 000 00
Insurance Premiums	225 00		275 00	
Insurance Prepaid	210 00		160 00	
Taxes	345 00		690 00	
Heat and Power	1 024 00		1 165 00	
Salesmen's Expenses	2 496 00		1 890 00	
Salesmen's Salaries	4 000 00		3 600 00	
Office Expenses	250 00		125 00	
Traveling Expenses	360 00		394 00	
Loss on Bad Accounts	125 00		210 00	
Interest Charges	96 00		75 00	
Delivery Expenses	329 00		356 00	
Office Salaries	2 600 00		2 500 00	
Freight Inward	1 560 00		1 482 00	
Inventory, 6/30/20	23 064 25			
Inventory, 12/31/20			25 420 30	
	$177 972 59	$177 972 59	$201 393 39	$201 393 39

Inventory, June 30, 1921, $20, 219.25.

Required:

(a) Comparative balance sheet—statement form with current assets first

(b) Comparative profit and loss statement for the period.

Comments.—See Model Forms XX and XXIII.

Problem 43

The following trial balances have been taken from the ledger of Thatcher and Jones after all adjusting entries were posted:

	June 30, 1920		September 30, 1920	
Cash	$ 1 600 00		$ 1 350 00	
Goods on Hand (end of period)	5 400 00		5 600 00	
Purchases (cost of sales)	5 890 00		7 480 00	
Purchase Discounts		$ 135 00		$ 265 00
Freight Inward	1 165 20		1 543 20	
Sales		13 350 00		13 200 00
Sales Discounts	72 10		104 30	
Sales Returns	9 10		3 46	
General Administrative Expenses	954 36		768 90	
Selling Expenses	456 78		314 67	
Interest Earnings		9 00		10 10
Loss on Bad Debts	35 60		29 30	
Office Equipment	544 50		610 50	
Reserve for Depreciation of Office Equipment		27 00		54 00
Store Fixtures	250 00		260 00	
Reserve for Depreica-tion of Store Fixtures		50 00		75 00
Delivery Equipment	540 00		760 00	
Reserve for Depreciation of Delivery Equipment		54 00		108 00
Notes Receivable	1 200 00		1 530 00	
Notes Payable		1 435 00		1 206 80
Reserve for Bad Debts		35 10		65 70
Insurance Unexpired	75 00		60 00	
Office Supplies	20 00		18 00	
Wages Accrued		140 00		150 00
Accounts Payable		3 500 00		3 250 00
Accounts Receivable	4 510 00		2 850 60	
A. J. Thatcher, Capital		2 500 00		2 500 00
A. J. Thatcher, Current	500 00		50 00	
E. F. Jones, Capital		2 500 00		2 500 00
E. F. Jones, Current	542 46		51 67	
	$23 765 10	$23 765 10	$23 384 60	$23 384 60

Required:

(a) Comparative balance sheet—statement form

(b) Comparative profit and loss statement.

Problem 44

A public library presents the following trial balance of its ledger:

Allen Fund for Purchase of Historic Literature		$ 92 000
Smith Fund for Purchase of Civil War Literature		18 000
Receipts from Lost Books		100
Membership Annual Fees		14 500
Income from Allen Fund		3 680
Income from Smith Fund		540
Salaries and Sundry Expenses	$ 8 640	
Rent	6 400	
Purchase of Historic Literature	3 400	
Purchase of Civil War Literature	450	
Cash in Bank	4 930	
Securities Allen Fund	90 000	
Securities Smith Fund	15 000	
	$128 820	$128 820

Required:

Prepare a report showing the financial status of the library.

(From New York C. P. A. Examination)

Group G—Analysis and Interpretation of Financial Statements

Problem 45

The balance sheet of the Simplex Manufacturing Company for the year ending September 30, 1920, contains the following items:

Total Assets	$1 341 510 27
Total Liabilities	406 117 26
Reserve for Depreciation of Plant and Machinery	45 260 00
Reserve for Loss on Bad Debts	8 239 64
Reserve for Bond Sinking Fund	44 968 73
Reserve for Extension of Plant	43 738 20
Reserve for Insurance	19 621 14
Capital Stock Issued and Outstanding (par $100)	600 000 00
Capital Surplus, Proceeds of Sale of Treasury Stock	130 000 00
Profit and Loss Surplus	43 565 30

Required:

Calculate the book value of the capital stock outstanding Show in detail how you arrive at your figure.

Comments.—The book value of stock is found by dividing the net worth of the concern by the number of shares of stock outstanding, in this problem, 6,000 shares. The net worth may be found in two ways, either by deducting the total liabilities and valuation reserves from the total assets, or by adding together the net worth or capital items. The essential thing is to be able to distinguish valuation reserves from proprietorship or capital reserves, the latter being nothing more or less than surplus under another name.

Problem 46

The financial statements of the Acme Manufacturing Company contain the following items as of December 31, 1920.

7% Preferred Stock, par $100, issued and outstanding	$2 000 000
Common Stock, par $100, issued; including 5,000 shares treasury stock donated to secure additional working capital	2 000 000
Balance of Surplus, January 1, 1920	750 000
Net Profit for the year 1920 (Bond Interest deducted)	950 000
First Mortgage 6% Gold Bonds outstanding	1 200 000

From the above information compute the following, indicating all processes and amounts used to arrive at your results.

Required:

(a) Rate of net profit earned on all capital stock outstanding

(b) Rate of net profit earned available for common stock outstanding

(c) Rate of net profit earned on invested capital

(d) Ratio of net earnings to interest on bonds

(e) Earnings per share on common stock outstanding

(f) Book value per share of common stock outstanding

(g) Book value per share of common stock assuming that the treasury stock had been sold at $75 and the proceeds credited to Capital Surplus

(h) Assuming that the asset Plant was brought on the books at an inflated value in order to cover an issue of the common stock later donated to the corporation, and that when the stock was sold at $75 the proceeds were credited to the asset account instead of to capital surplus, would your answer be different from that given in (g)?

Problem 47

JAMES MANUFACTURING COMPANY

Balance Sheet as at December 31, 1920

Assets

Cash		$9 000
Notes Receivable		2 000
Accounts Receivable		3 000
Subscriptions Receivable		6 000
Patents		40 000
Plant, Machinery, and Equipment		20 000
Total Assets		$80 000

Liabilities

Accounts Payable		$4 000
Notes Payable		6 000
Mortgage Payable		10 000
Capital Stock Subscribed		12 000
Treasury Stock Donated		3 000
Capital Stock:		
Common:		
Authorized, 1,000 shares no par value		
Unissued 200 shares no par value		
Issued 800 shares no par value and sold at $10 a share	$ 8 000	
Less— 300 shares no par value in treasury @ $10	3 000	5 000
Preferred:		
Authorized, 400 shares @ $100	$40 000	
Unissued 100 shares @ $100	10 000	
Issued 300 shares @ $100	$30 000	
Less— 10 shares in treasury bought back at par	1 000	29 000
Surplus:		
Balance as of January 1, 1920	$21 000	
Less—Dividend declared 12/15/20 and prepaid 12/25/20 in unissued preferred stock	10 000	11 000
Total Liabilities, Capital and Surplus		$80 000

Required:

(a) Amount of working capital

(b) Ratio of current assets to current liabilities

(c) Book value per share of the common stock

(d) Rate of stock dividend on capital invested

Problem 48

The following balance sheet has been published by the X Company as showing the condition of the business after the sale of $10,000,000 of the first preferred stock and all of the second preferred stock noted therein. A prospective purchaser of some of the stock asks you to tell him book values of each class of stock, amounts of net tangible and net quick assets for the appropriate class or classes of stock, and to advise him whether to purchase the first preferred at 95 or the common at 90.

Assets	
Land, Buildings, Machinery	$ 7 000 000
Good-Will and Patents	8 000 000
Investments	500 000
Cash	10 715 000
Inventories	13 000 000
Accounts and Notes Receivable	10 000 000
Other Current Assets	450 000
Deferred Charges	335 000
	$50 000 000
Liabilities	
Capital Stock:	
7% Cumulative First Preferred	$15 000 000
7% Cumulative Second Preferred	5 000 000
Common Stock, 75,000 shares of no par value	6 000 000
Notes and Accounts Payable	13 000 000
Dividends Payable	52 500
1919 Federal Taxes	1 000 000
Reserve for Depreciation	3 447 500
Surplus	6 500 000
	$50 000 000

The par value of the preferred stock shares is $100. It is expected that a quarterly dividend of $2 per share will be paid upon the common stock.

In your report, mention such matters as it would seem advisable to know in addition to those contained in the statement given above.

Required:

(a) Book value per share of each class of stock
(b) The amount of working capital
(c) The amount received per share for common stock issued to date.

(From Wisconsin C. P. A. Examination)

Problem 49

The stockholders of a trading corporation decide to sell their business to a competitor, and an agreement is made whereby the purchaser is to pay for the stock, the value shown by the books at the close of business December 31, 1914, plus a value for Goodwill to be determined by you as accountant upon the basis of the earnings for five years preceding December 31, 1914.

The balance sheet at the beginning of business January 1, 1914, was as follows:

Assets		
Cash		$37 227 61
Accounts Receivable		10 026 76
Special Accounts Receivable		1 819 40
Notes Receivable		635 00
Inventories		36 473 22
Unexpired Insurance		699 44
Furniture and Fixtures	$24 028 36	
Less—Reserve	14 978 01	9 050 35
Horse and Wagon Account		2 928 16
		$98 859 94
Liabilities		
Capital Stock		$50 000 00
Surplus		48 859 94
		$98 859 94

The following trial balance was taken from the books December 31, 1914:

Accounts Receivable	$ 13 672 21	
Advertising	578 10	
Notes Receivable	700 00	
Capital Stock		$ 50 000 00
Cash	22 394 81	
Claims and Allowances	234 69	
Commission	60 63	
Accounts Payable		4 556 68
Discount Purchases		4 165 98
Discount Sales	1 218 50	
General Expense Account	4 442 33	
General Expense	1 595 69	
Fuel and Light	2 484 96	
Furniture and Fixtures	24 112 46	
Furniture and Fixtures Repairs	337 79	
Freight and Cartage In	4 409 62	
Freight and Cartage Out	429 68	
Horse and Wagon Account	2 928 16	

Horse and Wagon Repairs	$ 169 68	
Horse Feed	421 18	
Interest		$183 01
Inventory, January 1, 1914	36 473 22	
Insurance	2 020 30	
Labor	24 473 80	
Out of Balance (Suspense Account)	13 68	
Printing and Stationery	634 16	
Profit and Loss	176 14	
Purchases	215 686 51	
Rent	4 000 00	
Reserve for Depreciation		14 978 01
Salary	9 059 14	
Sales		258 101 22
Special Accounts	2 132 29	
Special Accounts		714 79
Surplus		44 795 96
Taxes	100 29	
Traveling Expense	2 535 63	
	$377 495 65	$377 495 65

The inventories of December 31, 1914, were Merchandise, $53,134.65; Unexpired Insurance, $975.96. 10% depreciation is to be allowed upon the book value of the Horse and Wagon account and the Furniture and Fixtures account. The net earnings for the four years were as follows:

1910	$3 132 74
1911	4 728 93
1912	6 241 24
1913	5 876 29

Dividends have been paid each year at the rate of 6%.

Required:

(a) Profit and loss statement for the year 1914

(b) Determine the value of the good-will and explain your method

(c) Balance sheet of December 31, 1914

(d) What is the book value of the stock, per share? Total number of shares is 500.

(From Massachusetts C. P. A. Examination)

Comments.—Set up the financial statements in the usual manner. A suggested method of valuing the good-will is to find the average profits for the past 5 years. Capitalize this amount at a normal rate and compare this capitalization with the net worth of the corporation.

Problem 50

THE SEWARD COMPANY

Balance Sheet—December 31, 1920

Assets			
Real Estate, Buildings, Plant, Machinery, Equipment and Good-Will			$2 000 000
Investments in Stocks and Bonds at Cost (market value $100,000)			150 000
Current Assets:			
Inventories:			
Raw Material (market value)		$230 000	
Finished Stock at Selling Prices, less Discount 5 per cent.		200 000	
Consignment (selling value)		50 000	
Supplies (estimated)		200 000	
		$680 000	
Accounts and Bills Receivable, including Advances to Employes		225 000	
Stock in Treasury (unissued):			
Preferred	$150 000		
Common	237 000	387 000	
Investments in Subsidiary Companies		425 000	
Cash and Miscellaneous Items		50 000	1 767 000
			$3 917 000
Liabilities			
Capital Stock:			
Preferred Stock			$1 000 000
Common Stock			1 800 000
Bonds and Bankers' Loans			625 000
Reserves:			
For Depreciation		$110 000	
Less—Renewal Expenditures written off		135 000	
Balance (debit)		$ 25 000	
For Bad Debts		5 000	
Other Contingencies		50 000	30 000
Current Liabilities:			
Accounts Payable		$115 000	
Other Indebtedness		231 000	
Accrued Items		52 000	398 000
Surplus			64 000
			$3 917 000

Required:

(a) Write a brief criticism of the balance sheet from the standpoint of form and arrangement and of the company's financial condition

(b) Assuming the markup on finished goods to be 50% you are asked to recast the statement using the form that in your opinion will best set forth the condition of the business.

(*Adapted from Massachusetts C. P. A. Examination*)

Comments.—The balance sheet should be entirely rewritten in accordance with good practice. Make such adjustments as can be made from the information at hand and call attention to those that cannot be made. The finished stock and consignments should be written down to cost, the adjustment being made through surplus. The reserve for contingencies may be used to offset any deficit that may be shown.

Problem 51

THE B. F. GOODRICH COMPANY

Consolidated Balance Sheet

December 31, 19—

Assets

Capital Assets:	
Real Estate, Buildings, Plant, Machinery and Sundry Equipment less Reserve for Depreciation	$12 679 151 72
Patents	583 650 00
Good-Will	57 798 000 00
	$71 060 801 72
Investments in Other Companies, etc.	1 197 058 00
Societe Francaise B. F. Goodrich—representing the net investment at December 31, 191–	570 987 32
20,587 Shares of 7% Cumulative Preferred Stock in Treasury at Par	2 058 700 00

Current Assets:			
Inventory of Raw Materials, Partly Manufactured and Finished Stock		$12 614 926 67	
Trade Accounts Receivable after deducting Reserve to cover Doubtful Accounts, Discounts, and Allowances		4 699 938 10	
Other Accounts Receivable		777 266 85	
Bills Receivable		586 274 70	
Cash in Banks and on Hand		723 053 50	$19 401 459 82
Deferred Charges to Future Operations:			
Prepaid Insurance, Interest, Taxes, etc.			222 950 01
			$94 511 956 87

Liabilities

Capital Stock:			
600,000 shares of Common Stock of $100 each		$60 000 000 00	
300,000 shares of 7% Cumulative Preferred Stock of $100 each		30 000 000 00	$90 000 000 00
(Redeemable in case of dissolution, liquidation, merger or consolidation at $125 per share)			
Current Liabilities:			
Bills Payable		2 799 736 24	
Accounts Payable		489 031 53	
Sundry Accrued Liabilities		217 206 47	3 505 974 24
Reserve for Contingencies			300 000 00
Surplus			
Balance at December 31, 191–		$806 235 24	
Add—Net Profit for the year ending December 31, 191–, as per annexed statement		2 599 747 39	
		$ 3 405 982 63	
Deduct—Dividends Paid. 7% on Cumulative Preferred Stock for the year ending December 31, 191–	$2 100 000		
1% on Common Stock	600 000	2 700 000 00	705 982 63
Contingent Liability			
(Societe Francaise B. F. Goodrich)		$573 000 00	
Bankers loans secured by assets of the French Company and by the guarantee of the B. F. Goodrich Company (a New York Corporation)			
			$94 511 956 87

THE B. F. GOODRICH COMPANY

Profit and Loss Account

For the Year Ending December 31, 19–

Net Sales		$39 509 346 52
Deduct—Manufacturing, Selling, and General Administrative Expenses		36 451 233 98
Profit from Operations		$ 3 058 112 54
Add—Miscellaneous Income		491 316 72
		$ 3 549 429 26
Deduct—Reduction of Treasury Preferred Stock from Cost to Par Value	$168 417 03	
Provision for Depreciation	541 358 09	
Interest on Bills Payable	239 906 75	949 681 87
Net Profit Carried to Balance Sheet		$ 2 599 747 39

Required:

(a) Define capital assets; contingent liability; consolidated balance sheet; 7% cumulative stock

(b) How was the treasury stock preferred acquired? What entry pertaining to this stock was made during the year?

(c) What is the ratio between current assets and current liabilities?

(d) What, in your opinion, is included under "Other Accounts Receivable" and "Sundry Accrued Liabilities?"

(e) Would there appear to be any relation between the amount of good-will and the issue of common stock? What proportion of the total assets is represented by good-will?

(f) What is the book value of the common stock?

(g) Do you approve of the amount of reserves for depreciation and for doubtful accounts not being shown?

(h) Was the dividend paid on the common stock earned during the current year?

Problem 52

THE AMERICAN SUGAR REFINING COMPANY

and Its Constituent Companies

Condensed General Balance Sheet, December 31, 1917

Assets

Real Estate and Plants, including Refineries, Warehouses, Cooperage, Railroads, Tank Cars, Wharves, and Stables, with their machinery and equipment, and timber and other lands owned in fee or through ownership of the entire Capital Stock of constituent companies, at cost less depreciation	$ 45 931 123 93
Investments, General	24 782 540 68
Investments, Insurance Fund	9 500 000 00
Investments, Pension Fund	1 750 000 00
Merchandise and Supplies, including raw and refined sugar, syrup, material in process of manufacturing boneblack, cooperage, and other stock and supplies on hand	9 142 074 71
Prepaid Accounts, Insurance, Taxes, Etc.	309 051 18
Loans	1 121 266 10
Accounts Receivable	3 322 489 23
Accrued Income, Interest earned, and dividends declared but not yet collected	1 047 043 91
Cash on hand, with Trust Companies, Banks and Short Term Loans	40 493 252 19
	$137 398 841 93

Liabilities

Capital Stock:			
Preferred	$45 000 000		
Common	45 000 000		$ 90 000 000 00
Sundry Reserves:			
For Insurance		$ 9 500 000 00	
For Pension Fund		1 750 000 00	
For Improvement of Plants		3 367 514 84	
For Trade Mark Advertising		2 000 000 00	
For Contingencies		823 647 99	17 441 162 83
Accounts, Taxes, and Loans Payable			8 097 115 45
Dividends declared, payable January 2, 1918, and former dividends unclaimed			1 599 036 75
Surplus:			
Balance, December 31, 1916		$18 348 711 69	
Add—Amount transferred in 1917 as stated in Income and Profit and Loss Statement		1 912 815 21	20 261 526 90
			$137 398 841 93

Profit and Loss Statement

Comparative Statement years 1915, 1916 and 1917

	1915	1916	1917
Credits:			
Profit from Operations	$ 2 991 465 39	$ 9 756 379 42	$ 10 055 291 41
Interest on Loans and Deposits	880 609 09	792 990 70	1 006 002 25
Income from Investments	2 312 646 21	2 905 737 10	3 129 948 70
Net Profit from Investments		248 336 34	21 554 85
	$ 6 184 720 69	$ 13 703 443 56	$ 14 212 787 21
Amount of Appropriations for Improvement of Plants expended in new construction, and offset in Depreciation on Plant and Equipment below	$ 685 470 76		
Amount deducted from surplus of former years	701 992 24		
	$ 7 572 183 69	$ 13 703 443 56	$ 14 212 787 21
Debits:			
Depreciation, Renewal and Replacement	$ 790 304 71	$ 2 000 000 00	$ 2 000 000 00
Sundry Reserves	481 906 98	3 383 562 09	4 000 000 00
Dividends Declared	6 299 972 00	6 299 972 00	6 299 972 00
	$ 7 572 183 69	$ 11 683 534 09	$ 12 299 972 00
Amount added to Surplus of former years		2 019 909 47	1 912 815 21
	$ 7 572 183 69	$ 13 703 443 56	$ 14 212 787 21

Balance Sheet

	1915	1916	1917
Assets:			
Real Estate and Plants	$ 48 763 560 47	$ 47 246 442 89	$ 45 931 123 93
Investments, General	22 577 772 00	23 972 036 34	24 782 540 68
Investments, Insurance Fund	8 000 000 00	9 000 000 00	9 500 000 00
Investments, Pension Fund	1 000 000 00	1 250 000 00	1 750 000 00
Merchandise & Supplies	16 963 384 52	18 654 839 97	9 142 074 71
Prepaid Accounts	252 834 04	1 527 643 32	309 051 18
Loans	3 803 274 90	1 222 193 00	1 121 266 10
Accounts Receivable	4 607 398 09	3 833 259 72	3 322 489 23
Accrued Income	468 844 67	555 907 03	1 047 043 91
Cash	15 624 806 32	22 717 453 53	40 493 252 19
	$122 061 875 01	$129 979 775 80	$137 398 841 93
Liabilities:			
Capital Stock	$ 90 000 000 00	$ 90 000 000 00	$ 90 000 000 00
Sundry Reserves	10 137 705 62	13 475 267 87	17 441 162 83
Accounts & Loans Payable	3 999 462 92	6 555 963 24	8 097 115 45
Dividends declared & outstanding	1 595 904 25	1 599 833 00	1 599 036 75
Surplus	16 328 802 22	18 348 711 69	20 261 526 90
	$122 061 875 01	$129 979 775 80	$137 398 841 93

Questions

(a) Give two examples of a funded reserve in the above balance sheet.

(b) What amount of current assets does the balance sheet show? What is the ratio between current assets and liabilities?

(c) Ascertain what dividends were declared by this company payable on January 2, 1918, and after doing so determine the amount of unclaimed dividends.

(d) How do you explain the item among the assets, "Accrued income, interest earned, and *dividends declared but not yet collected?*"

(e) After allowing for the dividend paid on the preferred stock during the year, what were the earnings per share on the common stock?

(f) What evidences of strength do you observe in the statements of this company?

(g) Determine the book value of the common stock.

(h) Explain the nature of the Reserve for Trade Mark Advertising. Give the probable function of the account.

(i) The Reserve for Pension Fund and the corresponding Pension Fund have been increased $500,000 during the year. By what entries was this brought about?

(j) The report of the company states that the number of stockholders has increased during the year from 18,949 to 19,758 and that the average holdings have decreased from 47½ shares to 45½ shares. Is this change to be regarded in a favorable or an unfavorable light?

(k) From a study of the comparative figures for 1915, 1916 and 1917, write a full report upon the growth and development of the company during these years as revealed by such figures.

(l) During the first Liberty Loan Campaign, the company financed the purchase of Liberty Bonds by employees to a total amount of $471,300. representing subscriptions by 6,876 employees. The company is being reimbursed at the rate of $1 per week for each $50 bond. Make complete recommendations with reference to handling this matter through the accounting records, and the manner of showing same on this balance sheet.

(m) Explain this quotation from the detailed report: "Betterments have been capitalized to the extent of $866,323.56."

(n) The total business of the company for the year exceeded $200,000,000. What is your opinion of the rate of return shown by the profit from operations of $100,055,291.41 as compared with rate which ordinarily prevails in a manufacturing concern?

Problem 53

PITTSBURGH PLATE GLASS COMPANY

Statement of Assets and Liabilities

December 31, 1920

			Assets	Liabilities
Assets				
Investment			$35 968 524 36	
Merchandise		$ 9 218 910 92		
Material and Working Accounts		7 018 286 33		
Bills and Accounts Receivable		11 561 073 22		
Bonds, Sundry		211 547 50		
Bonds, Liberty Loan		502 127 73		
Cash and Cash Items		2 472 680 48		
Quick Assets			30 984 626 18	
Treasury Stock			6 894 91	
Liabilities				
Capital Stock Authorized		$37 500 000 00		
Less—Unissued Capital Stock		622 400 00		$36 877 600 00
Fractional Shares Issued				50 240 00
Sundry Credits:				
Bills Payable		None		
Accounts Payable (Current)		$ 3 132 797 82		3 132 797 82
Insurance Fund				261 981 69
Reserve for Possible Inventory Deflation				4 850 000 00
Reserve for Estimated Federal Income and Excess Profits Taxes Payable in 1921				5 500 000 00
Profit and Loss				
Surplus, January 1, 1920		$19 491 615 68		
Surplus paid in by Paint, Varnish, Dry Color, Brush, and Chemical Divisions		804 905 61		
Earnings for Year 1920 after above reserves for Taxes and Inventory Deflation	$10 858 095 80			
Less—Depreciation and Obsolescence	2 262 180 01	8 595 915 79		
		$28 892 437 08		
Less—Common Stock and premium issued and paid to retire Preferred Stock	$ 197 916 92			
Federal Income and Excess Profits Taxes on 1919 Profits	2 896 490 22			
Cash Dividends	3 355 964 00			
Stock Dividends	6 154 640 00	$12 605 011 14		
Balance in Surplus Accounts 12/31/20				16 287 425 94
			$66 960 045 45	$66 960 045 45

Questions

(a) Net earnings of $8,595,915.79 are equivalent to what per cent on capital stock? on invested capital?

(b) Investment account shows over $35,000,000. How may such a large amount be accounted for?

(c) Federal taxes for two full years amounting to $8,396,490.22 have been deducted from profits and surplus account. How is this accounted for?

(d) Explain the nature of Reserve for Possible Inventory Deflation.

(e) What do you assume to be included under title (a) Material and Working Accounts; (b) Merchandise.

(f) What entry was made on books for item "Depreciation and Obsolescence?"

(g) What is the working capital ratio?

(h) Explain the item "Fractional Shares Issued."

(i) Find book value of capital stock.

(j) How was Treasury Stock acquired?

(k) Set up the balance sheet in better form.

Problem 54

EASTMAN KODAK COMPANY OF NEW JERSEY

and Subsidiary Companies

Combined Balance Sheet

December 31, 19—

Liabilities

Capital Stock:			
Authorized:			
100,000 shares Preferred Stock		$10 000 000 00	
250,000 shares Common Stock of $100 each		25 000 000 00	
		$35 000 000 00	
Issued:			
Preferred Stock		$6 165 700 00	
Common Stock	$19 586 200 00		
Less—In Treasury	63 400 00	19 522 800 00	$25 688 500 00

Current Liabilities:			
Accounts Payable		$1 511 010 27	
Dividends Declared			
Quarterly Dividends			
(Payable 1-1-19):			
Preferred Stock	$ 92 485 50		
Common Stock	488 070 00	580 555 50	$2 091 565 77
Welfare Fund Reserve			1 025 520 91
Other Funds and Reserves:			
For Capital Purposes		$469 196 53	
For Renewal of Plant		3 250 000 00	
For Depreciation		2 858 518 81	
For Contingencies		360 137 34	6 937 852 68
Surplus as per Annexed Account			17 507 435 47
			$53 250 874 83

Assets

Cost of Properties (including Real Estate, Buildings, Plant, Machinery, Patents and Good-Will, and Investments in Other Photographic Companies)			$32 014 370 90
Deferred Charges to Profit and Loss Account (Insurance, Taxes, etc., Paid in advance)			139 651 67
Welfare Fund Assets:			1 025 520 91
Current Assets:			
Merchandise, Materials and Supplies on hand		$ 9 733 650 12	
Accounts and Bills Receivable (net)		3 317 703 12	
Marketable Bonds and Stock (Market Value, $1,606,912.50)		1 385 913 99	
Cash:			
On deposit at Interest	$ 4 228 072 87		
At Banks on Current Accounts and on hand	1 405 991 25	5 634 064 12	20 071 331 35
			$53 250 874 83

Surplus Account

Balance at December 31, 19—	$12 186 287 52
Less—Transferred to Welfare Fund	500 000 00
	$11 686 287 52

EASTMAN KODAK COMPANY OF NEW JERSEY

and Subsidiary Companies

Combined Balance Sheet—Continued

December 31, 19—

SURPLUS ACCOUNT—Continued

Net Profits of Combined Companies for year ending December 31, 19—		$13 999 047 45	
Deduct—Dividends Paid and Accrued:			
Four quarterly dividends of 1½% each on Preferred Stock	$369 942 00		
Four dividends of 2½% each and extra Dividends amounting to 30% on Common Stock	7 807 957 50	8 177 899 50	
Balance, Amount to Surplus			5 821 147 95
			$17 507 435 47

Questions

(a) The above balance sheet as it appeared in the original report was prepared in double page form, liabilities being shown on the left-hand page and assets on the right.

With what practice does this conform? What reasons exist for such an arrangement?

(b) Explain the method illustrated of showing Treasury Stock Common.

(c) Define funded reserve. What example of a funded reserve appears in this balance sheet?

(d) What do you assume to be the purpose of the following reserves?

For Capital Purposes
For Contingencies

(e) Assuming that the preferred stockholders do not share in the distribution of earnings in excess of the established rate of 6%, what is the book value of the common stock now outstanding?

(f) Do you think the reserve for depreciation is excessive?

(g) The auditor's certificate states that "full provision has been made for bad and doubtful accounts receivable."

What evidence, if any, is there in the balance sheet that this has been done?

(h) What were the earnings per share of the Common Stock for the year in excess of preferred dividend requirements?

(i) What criticism, if any, have you to offer in regard to the order of arrangement of assets and liabilities?

Problem 55

ARMOUR AND COMPANY

Financial Statement for Fiscal Year ending October 28, 1916

Assets

Capital Assets:		
Lands, Building, Plants, Machinery, etc.	$ 54 116 062 70	
Refrigerator and Other Cars	3 913 677 00	
Car Trust Agreement	4 848 416 00	
Investment in Allied Companies	28 152 522 31	$ 91 030 678 01
Current Assets:		
Inventories of Product, Material and Supplies	$ 57 120 917 52	
Miscellaneous Marketable Investments	11 091 429 64	
Bills Receivable	5 354 017 00	
Accounts Receivable	56 282 021 37	
Cash on Hand and in Banks	7 893 408 79	137 742 694 32
		$228 773 372 33

Liabilities

Current Liabilities:		
Bills Payable	$ 27 865 600 00	
Accounts Payable	13 155 831 29	$ 41 021 431 29
Reserve (for bond interest)		918 824 31
Capital Liabilities:		
Bonds		50 000 000 00
Capital Stock	$100 000 000 00	
Surplus	36 833 116 73	136 833 116 73
Net Capital Investment		$228 773 372 33

A dividend of $2,000,000 was paid January 15, 1916, out of 1915 earnings.

ARMOUR AND COMPANY

Income and Expenditures

Income

Net Profit on Manufacture and Sales after deducting charges for repairs and depreciation, including also earnings of subsidiary allied companies		$27 162 164 48

Expenditures

Interest on Bonds		$ 1 809 783 51
Interest on Borrowed Money		1 925 424 67
Administrative Expense		1 960 602 26
Taxes, Insurance, etc.		1 366 354 04
Net Earnings	$20 256 000 00	
Less—Donation to Pension Fund	156 000 00	20 100 000 00
		$27 162 164 48

A dividend of 2% has been declared payable January 15, 1917.

Questions

(a) The net earnings of $20,100,000 are equivalent to what per cent on the capital stock? on the invested capital?

(b) The gross sales for the year amounted to $525,000,000. The net profit for the year is equivalent to how many cents on each dollar of sales?

(c) The report states that a dividend of 2% has been declared payable January 15. Do you find such a dividend stated among the liabilities?

(d) Explain the exact nature of the following assets:

Car Trust Agreement.
Investments in Allied Companies.
Miscellaneous Marketable Investments.

(e) What is meant by the item: Reserve for Bond Interest?

(f) What is the book value of the stock?

(g) Re: Pension Fund

Begun by an Endowment Fund of $1,000,000 being appropriated by the company in 1911. The company makes an annual contribution to the fund (this year $156,000 or about 1½% of the capital stock) and employees receiving from $520 to $7,500 per year contribute 3% of their annual salaries. This is deducted from the June salary. Employees leaving the service before retirement are entitled to a refund.

Officers and employees may be pensioned, men at 57 and women at 50, if preceded by 20 years of continuous service. Compulsory retirement age is 65.

Pensions are computed at 2% of the salary at retirement, multiplied by number of years of continuous service.

In case of death after 15 years of continuous service, the widow or dependents of the employee receive a pension computed on a basis of one per cent for each year's service; if such decedents have participated in the

Pension Fund, his dependents are entitled to a return of all amounts paid into the fund plus compound interest at 4%.

You are asked to recommend a method of recording on the books all transactions pertaining to the Pension Fund; also to prescribe any special books pertaining thereto which you deem necessary.

Problem 56

F. W. WOOLWORTH COMPANY

Figures of operations for the year ended December 31, 1921, with comparisons, are given below:

	1921	1920
Net Sales	$147 654 647	$140 918 981
Net Income *	†13 792 960	9 775 251
Preferred Dividends	770 000	857 500
Balance	$ 13 022 960	$ 8 917 751
Common Dividends	5 200 000	4 600 000
Surplus	$ 7 822 960	$ 4 317 751
Previous Surplus	14 361 365	25 144 435
Total Surplus	$ 22 184 325	$ 29 462 186
Stock Dividend		15 000 000
Preferred Stock Premium	145 375	100 821
Profit and Loss Surplus	$ 22 038 950	$ 14 361 365

* After depreciation, Federal taxes, etc.

† After $1,743,170 depreciation in inventories and reserve of $3,500,000 for Federal taxes, contingencies, etc.

The general balance sheet as of December 31, 1921, compares as follows:

Assets

	1921	1920
Real Estate, Buildings, etc.	$ 20 427 644	$ 16 424 127
Good-Will	50 000 000	50 000 000
Treasury Stock	472 045	2 611 920
Securities	1 330 834	1 340 903
Mortgage Receivable	74 250	82 000
Inventories	16 194 461	18 500 668
Accounts Receivable	703 033	468 308
Cash	11 050 799	4 267 345
Prepayments	83 910	148 383
Dividends Accrued	10 803	45 185
Deferred Charges	6 517 020	5 405 132
Totals	$106 864 799	$ 99 293 971

Liabilities

Preferred Stock	$ 10 000 000	$ 12 000 000
Common Stock	65 000 000	65 000 000
Mortgage Payable	1 914 500	1 524 500
Accounts Payable	661 965	831 988
Dividends Payable	175 000	210 000
Depreciation Reserve	3 474 384	2 966 117
Reserve for Taxes, etc.	3 500 000	2 300 000
Employment Benefit Fund	100 000	100 000
Surplus	22 038 950	14 361 366
Totals	$106 864 799	$ 99 293 971

Analyze the above figures for the purpose of determining the following:

(a) Net earnings applicable to common dividends as compared with 1920.

(b) Comparison of cash position of 1920 and 1921.

(c) Comparison of inventories considering that there has been an increase in gross business.

(d) Comparison of working capital.

(e) Net profits per dollar of sales.

(f) Reduction in preferred stock.

(g) Write a brief report summarizing the above findings and discussing the position of the company at the close of the year as compared with the beginning.

Problem 57

UNITED FRUIT COMPANY

The figures of operations for the year ended December 31, 1921, with comparisons, follow:

	1921	1920	Decrease
Net earning	$18 827 979	$43 661 238	$24 833 259
Other income	1 751 856	954 035	*797 821
Total net	$20 579 836	$44 615 274	$24 035 438
Interest charges	8 905	25 187	16 281
Balance	$20 570 930	$44 590 087	$24 019 156

Estate taxes	3 595 167	15 581 779	11 986 612
Net profit	$16 975 763	$29 008 307	$12 032 543
Dividends	8 000 000	6 518 990	*1 481 010
Surplus	$ 8 975 763	$22 489 317	$13 513 553
Previous surplus	25 980 010	49 109 722	23 129 712
Total profit and loss surplus	$34 955 774	$71 599 040	$36 643 265
Direct charges to profit and loss balance		†50 000 000	50 000 000
Balance	$34 955 774	$21 499 040	†$13 356 734
Direct credits to profit and loss		4 380 970	4 380 970
Balance credit of profit and loss	$34 955 774	$25 980 010	$ 8 975 763

* Increase. † Capital stock distribution.

The condensed balance sheet as of December 31, 1921, as compared with December 31, 1920, is given below·

Assets

Property:	1921	1920
Tropical Lands and Equipment	$ 88 454 682	$ 78 197 713
Domestic and European Property	8 812 417	8 729 118
Steamships (tonnage 239,297)	23 189 097	19 203 833
Steamships under Construction	1 608 660	6 729 766
Totals	$122 064 857	$112 860 431
Investments:		
United States and British Government Securities	$9 227 553	$13 742 183
Other Investments	6 057 265	5 982 593
	$ 15 284 818	$ 19 724 777
Set aside for payment of 4½% debentures		382 316
Current Assets:		
Cash	$11 176 326	$20 392 302
Notes Receivable	28 952	213 044
Accounts Receivable	5 298 614	7 349 066
Sugar and Molasses Stock	1 240 467	3 105 264
Totals	$ 17 744 361	$ 31 059 477
Deferred Assets:		
Loans to Planters	$1 120 707	$842 437
Other Items	1 345 194	972 546
Totals	$ 2 465 902	$ 1 814 984
Deferred Debits	979 692	503 795
Transit Items	1 773 141	1 338 343
Total Assets	$160 312 775	$167 684 126

Liabilities

Capital Stock:		
United Fruit Company	$100 000 000	$ 50 000 000
*Capital Stock Distribution		50 000 000
Fund Debt:		
4½% Deb. 1923		$ 195 500
4½% Deb. 1925		131 500
Total		$ 327 000
Current Liabilities:		
Drafts Payable	$1 070 511	$1 998 931
Accounts Payable	3 375 945	5 514 748
Dividend Payable	2 000 000	2 000 000
Totals	$ 6 446 457	$ 9 513 680
Deferred Liabilities:		
Costa Rica Ry. Material Account	$243 125	$243 125
Costa Rica Ry. Replacement Res.	363 520	331 738
Rentals Accrued	260 483	162 024
Other Deferred Liabilities	424 802	246 373
Totals	$ 1 291 930	$ 1 083 262
Deferred Credits	2 046 652	815 380
Surplus:		
Steamship Construction Reserve	2 312 068	9 102 237
Tax Reserve	12 630 726	20 862 555
Insurance Reserve	629 165	
Profit and Loss	34 955 774	25 980 010
Totals	$ 50 527 734	$ 55 944 803
Total Liabilities	160 312 775	167 684 126

* Issued January 15, 1921, to stockholders of record December 20, 1920.

Questions

(a) Compare the earnings per share of 1921 with 1920.

(b) Compare ratio of current assets to current liabilities for 1921 and 1920.

(c) Can you determine from the statement to what extent the company has reduced its operating costs?

(d) What was the market value of the stock on December 31, 1921? The book value?

(e) When and how were the 4½% Debentures of 1923 and 1925 paid off?

(f) Distinguish between deferred assets and deferred debits; deferred liabilities and deferred credits.

(g) Explain "Capital stock distribution $50,000,000."

(h) Define "Transit Items."

Problem 58

A corporation has the following items in its balance sheet: Accounts Payable, Accounts Receivable, Cash, Capital Stock, Expense Accrued not due, Expense Paid in Advance, Good-Will, Merchandise, Machinery, Notes Payable, Patents, Real Estate, Reserve for Depreciation of Plant, Surplus, Trade Marks, and Treasury Stock.

You are asked to figure the value of the stock. State which items you would take to get the gross, and which items you would deduct from the gross to get the net amount, and how you would obtain the value of each share.

(*Massachusetts C. P. A.*)

Problem 59

The ledger of a manufacturing corporation contains a Fire Insurance Fund account. The treasurer submits, for credit purposes, a statement showing, as "Surplus Funds," the sum of the amount at the credit of the Insurance Fund account, and of the amount at the credit of Surplus account. State (a) your comments thereon; and (b) the reasons supporting your answer.

(*Massachusetts C. P. A.*)

Problem 60

A manufacturer renders the following statement for credit purposes:

Assets		Liabilities	
Residence	$ 30 000	Mortgage, Residence	$ 12 000
Plant	140 000	Mortgage, Plant	60 000
Inventory	90 400	Notes Payable	25 000
Accounts Receivable	3 500	Accounts Payable	19 650
Cash	625	Surplus	147 875
	$264 525		$264 525

From this statement, what inferences would you draw as to the condition of his business?

(*Massachusetts C. P. A.*)

Problem 61

PASSAIC FALLS WOOLEN MANUFACTURING CO.

Balance Sheet—June 30, 1918

Assets:	
Land	$ 10 000 00
Buildings (brick)	100 000 00
Machinery	150 000 00
Steam Power Plant	25 000 00
Treasury Stock Common, 250 shares costing	20 000 00
Accounts Receivable	50 000 00
Inventories, June 30, 1918	75 000 00
Cash	20 000 00
	$450 000 00
Liabilities.	
Capital Stock—common, par $100.00	$125 000 00
Capital Stock—preferred 7% cumulative, par $100.00	100 000 00
Accounts Payable	130 000 00
Undistributed Earnings, June 30, 1917	60 000 00
Profits, year ended June 30, 1918	35 000 00
	$450 000 00

Adjust the above figures in regard to the following:

(1) Land is appraised at $15,000 and is to be adjusted to that value.

(2) Give effect in the statements to depreciation of the wasting fixed assets for the year ended June 30, 1918, at rates considered fair.

(3) Dividends on the Preferred Stock have not been paid for years ended June 30, 1917, and June 30, 1918.

(4) Inventories are valued $5,000 below cost.

Required—From the above balance sheet and data:

(a) Prepare corrected balance sheet in appropriate form for the information of stockholders

(b) Show statement of adjustments to profits and surplus.

(*From American Institute Examination*)

Problem 62

The following is a comparative balance sheet at December 31, 1910, and at December 31, 1911, presented to the Board of Directors of the Western Company at its meeting January 5, 1912.

Assets	12/31/1910	12/31/1911
Land	$ 20 000 00	$ 25 000 00
Buildings	45 000 00	45 000 00
Machinery and Tools	86 000 00	89 000 00
Horses, Wagons, and Harnesses	10 500 00	10 500 00
Patents	6 000 00	6 000 00
Good-Will	25 000 00	25 000 00
Cash	28 300 00	10 300 00
Accounts Receivable	29 600 00	26 550 00
Investments and Bonds		15 000 00
Inventory, Goods in Process	10 800 00	14 690 00
Inventory, Materials and Supplies	6 750 00	10 300 00
Agency Investments		3 680 00
	$267 950 00	$281 020 00

Liabilities		
Bonds and Mortgages Payable		$ 20 000 00
Notes Payable	$ 35 000 00	2 000 00
Accounts Payable	16 400 00	19 350 00
Reserves for Depreciation	2 500 00	6 750 00
Discount on Bonds		1 000 00
Capital Stock:		
Preferred	150 000 00	150 000 00
Common	50 000 00	50 000 00
Surplus	14 050 00	31 920 00
	$267 950 00	$281 020 00

The land increase was due to appraisal based on rise of values of factory sites in the immediate vicinity.

Together with the above balance sheet, there was submitted to the Board a statement of income and profit and loss showing the profits of the year to have been $22,120.

The directors state to the auditor that in view of the decrease of cash and accounts receivable, of the absence of dividends, and of the increase of capital liabilities, they are unable to ascertain what has become of the profits of the year.

Required.—Prepare a statement to show clearly how the Western Company has applied such resources of the year 1910 as have been lost in 1911, and the resources and profits of the year 1911.

(*From Massachusetts C. P. A. Examination*)

Group H—Financial Statements—Theory Questions

T-1

In a general way what is the difference between a financial statement and a balance sheet?

(*Michigan C. P. A.*)

T-2

Distinguish between the function of the profit and loss statement and that of the balance sheet.

T-3

On what theory does the English form of balance sheet differ from the continental and American form? Give an argument either for or against the English form.

(*New York C. P. A.*)

T-4

What is the mechanism of the double account form of balance sheet? Explain the connection between its sections.

(*New York C. P. A.*)

T-5

(a) What determines the form and arrangement of the balance sheet?

(b) What, if any, are the existing limitations to the accuracy of any balance sheet?

(*Ohio C. P. A.*)

T-6

In which section of the balance sheet and in what order would you show the following items: wages, accounts payable, taxes, notes payable, interest accrued payable?

(*American Institute*)

T-7

Give either the classification of notes and accounts receivable suggested in the *Federal Reserve Bulletin* for April 1917, for use in audited statements for credit purposes, or an alternative classification.

(*American Institute*)

T-8

There is a confusion in the minds of many people between statements of "revenue and expense" on the one hand and of "receipts and payments" on the other hand. Discuss the distinctive features of such statements showing wherein they differ.

(*American Institute.*)

T-9

How would you distinguish between plant and machinery expenditures chargeable to capital assets accounts and those chargeable to ordinary repair and maintenance accounts?

T-10

How would you classify the following items in preparing a certificate of condition, to be filed with the Secretary of the Commonwealth?

(a) Prepaid Insurance.

(b) Duty paid on foreign merchandise received, invoice for same being unpaid.

(c) Investments in stocks.

(d) An ascertained loss on a contract for the purchase of merchandise to be delivered in the following month.

(*Massachusetts C. P. A.*)

T-11

In preparing a balance sheet of a corporation how would you classify or deal with securities:

(a) Representing the entire ownership of a plant?

(b) Representing an interest in a competing company?

(c) Representing an investment of a sinking fund?

(d) Representing the investment of a temporary surplus of cash?

(e) Stocks or bonds issued by the company itself?

(*American Institute*)

T-12

Explain fully in what way, if at all, the following should enter into trading and profit and loss statements of a grocery business, with reasons for inclusion or exclusion:

(a) Partners' salaries.

(b) Profit on sale of real estate.

(c) Partners' drawings.

(d) Overvaluation of opening inventory.

(e) Estimated losses in realization of trading assets.

(*Massachusetts C. P. A.*)

T-13

How would you indicate on the balance sheet as of December 31st:

(a) Preferred dividend (cumulative) due the previous November 1st, not declared.

(b) Ordinary dividend for the year, declared the following January 22nd.

(c) Ordinary dividend declared December 30th, payable February 1st?

(American Institute—adapted)

T-14

A corporation has a controlling account in the general ledger for accounts receivable. The balance of the controlling account is $80,000. The debit balances of the individual accounts total $100,000 and the credit balances total $20,000. Is a statement correct which uses the controlling account balance as an asset? If not, what would you do? Give reasons.

(Michigan C. P. A.)

T-15

A concern needed an addition to its plant. Not having enough ready capital they borrowed money and when the interest was paid it was charged to the Plant account on the theory that it was not an expense in the ordinary conduct of the business, and, therefore, could not be charged to the regular interest and discount account but might with propriety be charged as a part of the addition. Is the theory sound?

(Michigan C. P. A.)

T-16

A manufacturing concern during a slack period used its own labor and material for the purpose of construction, and charged the Plant account with the value of the work done at the price it would have cost if outsiders had been employed. What would you say about this?

(Michigan C. P. A.)

T-17

(a) What is meant by "Working Capital?"

(b) What facts govern as to the amount of working capital required?

(c) In what ways may working capital be increased?

(*Ohio C. P. A.*)

T-18

Explain how the following items would appear in the balance sheet:

1. Notes receivable discounted.
2. Actions pending against your client.
3. Cumulative preferred dividends payable.
4. Liability as guarantor for third parties.
5. Liability as accommodation signer on note.
6. Contingent liabilities under contracts.
7. Unpaid balances on contracts not yet fulfilled.
8. Collateral in possession of your banker to secure payment of a note.

(*Wisconsin C. P. A.*)

T-19

In reporting upon an audit you include as an asset "Advances to Officers $20,000." The advances have been authorized and there is every probability that they will be repaid. The president instructs you to make up a new balance sheet and include this item among "Accounts Receivable." How would you answer him?

(*Maryland C. P. A.*)

T-20

Enumerate the essential heads of information which ought to be brought out in statements prepared for the information of bankers for credit purposes. Would you or would you not amplify such information in a statement prepared for the information of

(a) Officers and directors?

(b) Shareholders of a company?

(*American Institute.*)

T-21

What do you understand by the terms:

(a) Contingent assets?

(b) Contingent liabilities?

Give three illustrations of each. Should they be set up on the books of the company? Should they appear on a certified balance sheet of the company? If so, where and how stated?

(*American Institute*)

T-22

In the accounts of a large corporation you find an account with Liberty Bonds, charged with $200,000, representing the cost of bonds subscribed and paid for by the company. At the date of the balance sheet to which you are to certify, the bonds had a market value of $187,500. What attitude would you take as to their valuation in the balance sheet?

(*American Institute*)

T-23

(a) Should cash discounts earned be credited against the cost of goods purchased, or credited to profits? Explain why.

(b) What is meant by "turnover?"

(c) How can the amount of the "turnover" be shown in the Trading Statement?

(*Michigan C. P. A.*)

T-24

A soap company has adopted the policy of giving away premiums in connection with its sales, by means of coupons which are to be redeemed in quantities provided as per a printed list. How should these premiums be treated in preparing a balance sheet and profit and loss statement?

(*Michigan C. P. A.*)

T-25

The Gordon Manufacturing Company purchases its machinery on the installment plan, payments being made monthly, and bill of sale not rendered until the machinery is paid in full. December 31, 1921, they have several machines in service not fully paid for. How should the value of the machinery and the installments paid be shown on the balance sheet?

T-26

The X Company has recently purchased the patent rights to a new type of vending machine, which they are manufacturing in quantities. In order to get them on the market quickly they are shipping large quantities of these machines to general agents on approval, the agents reporting weekly the total number of machines sold. The machines were charged to the ledger accounts of the general agents when shipped and credited to the regular sales account. How should these items be handled in preparing the balance sheet and profit and loss statement at the end of the fiscal period?

T-27

A corporation has among its notes receivable, a note given for stock subscriptions; also, a note given by an officer of the company to cover an overdraft on his salary account. The notes payable include a note in favor of another officer for money advanced to the business. How would you show these items in the balance sheet?

(*Michigan C. P. A.*)

T-28

The books of a company when closed for the fiscal year show a substantial net profit. No dividends were paid during the year and there is no cash available with which to pay dividends. What would account for this condition?

(*Massachusetts C. P. A.*)

T-29

The federal reserve board stipulates that paper to be eligible for re-discount must be supported by a statement of the borrower showing a satisfactory excess of quick assets over current liabilities.

(a) For such purposes what items are
  1. Quick assets?
  2. Current liabilities?

(*American Institute*)

T-30

A company that has constructed a dam across a river has found it necessary to retain a large legal force to handle damage suits coming up from claims that the reservoir and back water have damaged property around them. The plant has been in operation for 4 years. How should these legal fees be shown in the financial statements at the close of each fiscal period?

Group I—Theory Questions—Single Entry Accounts

T-31

In a single entry system a statement of operations could not be constructed. What statements would you prepare in order to meet the requirements of determining the selling value of its net worth?

(*North Carolina C. P. A.*)

T-32

(a) Name the arguments for double entry bookkeeping as opposed to single entry bookkeeping.

(b) What facts can be determined from books kept by double entry which cannot be determined from books kept by single entry?

(*Michigan C. P. A.*)

T-33

Describe the process of changing a set of books from single entry to double entry.

(*Virginia C. P. A.*)

T-34

(a) What are the sources of data for the financial statements of a firm keeping their books under the single entry system?

(b) How may the profit or loss for a fiscal period be determined from a single entry set of books?

T-35

Discuss briefly the following statement: "Single entry is an obsolete system and has no place in modern business."

(*California C. P. A.*)

Bibliography

Financial Statements

BELL, WILLIAM H. Accountants' Reports. New York, 1921.

BENNETT, GEORGE E. Accounting Principles and Practice. New York, 1920. Vol. I, Chaps. XIII–XIV.

BENNETT, ROBERT J. Corporation Accounting. New York, 1917. Chaps. XXIV–XXVI.

COLE, WILLIAM MORSE. Accounts: Their Construction and Interpretation. Boston, 1915. Chaps. V and IX.

The Fundamentals of Accounting. Boston, 1921. Chap. XX.

COX, HENRY C. Advanced and Analytical Accounting. Business Accounting, Vol. IV. New York, 1920. Chaps. XXI–XXIV.

DICKINSON, ARTHUR L. Accounting Practice and Procedure. New York, 1914.

ESQUERRE, PAUL J. The Applied Theory of Accounts. New York, 1914. Part V.

ESQUERRE, PAUL J. Practical Accounting Problems. Theory Discussion and Solutions. Part I. New York, 1921.

GREELEY, HAROLD DUDLEY. Theory of Accounts. Vol. I, Business Accounting. New York, 1920. Chaps. XI and XIV.

GREENDLINGER, LEO. Financial and Business Statements. New York, 1919. Modern Business, Volume 22.

HASKINS AND SELLS. Bulletin. New York, 1921. Supplement July 15, 1921.

HATFIELD, HENRY R. Modern Accounting. New York, 1913. Chaps. IV, V and VII.

KESTER, ROY B. Accounting Theory and Practice. Vol. II. New York, 1918. Vol. III, Chap. II. New York, 1921.

KLEIN, JOSEPH J. Elements of Accounting, New York, 1915. Chaps. VII and IX.

MCKINSEY, JAMES O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. II, Chaps. XXXIV, XLII, XLIII. Vol. III, Chaps. L–LVII.

MONTGOMERY, ROBERT H. Auditing Theory and Practice. New York, 1915.

PATON, WILLIAM H., and STEVENSON, R. A. Principles of Accounting. New York, 1918.

SPRAGUE, CHARLES E. The Philosophy of Accounts. New York, 1917. Chap. V.

SALIERS, EARL A. Accounts in Theory and Practice. New York, 1920. Part V, Pages 191–218.

Financial Statements Made Plain. The Magazine of Wall Street. New York, 1917.

WALL, ALEXANDER. The Bankers' Credit Manual. Indianapolis, 1919. Chaps. IV–VI.

WILSON, R. P., and CARPENTER, H. J. Analysis of Financial Statements. Chicago, 1918.

Manufacturing Accounts

Bennett, George E. Accounting Principles and Practice. New York, 1921. Vol. ii. Chap. xv.

Greendlinger, Leo. Accounting Practice. New York, 1914. Chap. xxii.

Hatfield, Henry R. Modern Accounting. New York, 1913. Chaps. xv–xvi.

McKinsey, James O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. ii, Series B, Chap. xliv.

Rittenhouse, Charles F., and Clapp, Philip F. Accounting Theory and Practice. Unit ii. New York, 1919. Chap. xii.

Saliers, Earl A. Accounts in Theory and Practice. New York, 1920. Part vi. Pages 251–269.

Single Entry

Bennett, George E. Accounting Principles and Practice. New York, 1920. Vol. i, Chap. ii.

Esquerre, Paul J. The Applied Theory of Accounts. New York, 1920. Chap. v.

Greeley, H. D. Theory of Accounts. Vol. i, Business Accounting. New York, 1920. Chaps. xxxiv–xxxv.

Kester, Roy B. Accounting Theory and Practice. New York, 1917. Vol. i, Chaps. lv and lvi.

Klein, Joseph J. Elements of Accounting. New York, 1915. Chap. iv.

Lisle, George. Accounting in Theory and Practice. London, 1909.

MacFarland, G. A., and Rossheim, I. D. A First Year in Bookkeeping and Accounting. New York, 1915. Chap. iv.

McKinsey, James O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. ii, Series B, Chap. xxxvi.

SECTION II

CORPORATION ACCOUNTS

Group A—Opening the Books of a New Corporation

Problem 63

S. V. Bendel, W. J. Clark, and R. M. Dean organize the Bendel Manufacturing Company with an authorized capital stock of $50,000, divided into shares of $100 each. The charter is dated April 1, 1922, at which time all the stock is subscribed, full payment made in cash, and the stock certificates issued.

Required:

(a) Opening entries in the financial books of the corporation
(b) Entries required in the corporate books
(c) Entry to record payment of incorporation fee.

Comments.—This problem illustrates the use of the simplest form of entry for opening the books of a corporation. When the entire authorized stock issue is subscribed and paid for in full at the time the corporation is organized, the only entry necessary in the financial books is to debit cash and credit capital stock.

Problem 64

The S. W. Heath Company was organized June 1, 1922, with an authorized capital stock of $25,000, par value of shares $50 each, at which time all of the stock had been subscribed for, payable in 30 days. July 1, 1922, the subscribers made full payments for their stock in cash, and the certificates were issued in proper form.

Required:

(a) Entries in the financial books of the corporation to record the above facts

(b) Entries in the corporate records on June 1 and July 1.

Comments.—When the authorized stock issue is all subscribed as of the date of incorporation, and is to be paid for in full at a later date, an entry should be made following the closing of the subscription list debiting Subscriptions Receivable and crediting Capital Stock Subscribed. Later, when the stock is paid for and the certificate issued, an entry is made debiting Cash and crediting Subscriptions Receivable, and another entry made debiting Capital Stock Subscribed and crediting Capital Stock to record the issue of the stock.

Problem 65

The Mansfield Company was incorporated January 1, 1923, with an authorized capital stock of $100,000, consisting of $50,000 6% Preferred Stock and $50,000 Common Stock, divided into shares of $100 each. Seventy-five per cent of the Preferred Stock and 50 per cent of the Common Stock had been subscribed for. The subscriptions were paid February 1, and the stock certificates issued.

Required.—Show in general journal form entries covering the above, bringing onto the books the authorized stock issue.

Comments.—Separate accounts must be opened with each class of stock. When the authorized stock issue is not all subscribed as of the date of incorporation or when the subscriptions are to be paid for in installments extending over a considerable period, certificates not to be issued until stock is fully paid, it is sometimes advisable to make an entry at time of incorporation debiting Unissued Stock and crediting Capital Stock Authorized (separate accounts for each class of stock). This problem calls for such an entry. The subscriptions to the stock should be recorded as usual. When the stock is issued, debit Capital Stock Subscribed and credit Unissued Stock.

Problem 66

The Duplex Manufacturing Company was organized under the Business Corporation Law of Massachusetts, September 1, 1922, with an authorized issue of five thousand shares of no par value stock. Three thousand shares of the stock were issued to A in payment for his plant valued at $250,000; one thousand shares were issued for cash at $60 per share; and five hundred shares were subscribed at $75 per share, payable in 30 days. The subscribed stock was paid for October 1, and the shares issued.

Required:

(a) Make in general journal form entries covering the above, including payment of incorporation fee

(b) Indicate how the outstanding stock should be shown in the balance sheet on October 31, 1922.

Comments.—No par value stock should be brought onto the books at value actually received for same or value at which subscribed. The number of shares should be indicated in each case. The first entry in this problem would be as follows:

Plant	$250 000	
Capital Stock (3,000 shares)		$250 000

The remaining entries would be in the usual form for par value stock except that the values should be those actually received.

Problem 67

The Rich Manufacturing Company was incorporated May 1, 1921, to take over the business established by William Rich. It was agreed between Rich and the other incorporators that of the $100,000 in capital stock which he received in exchange for his business, he would donate to the corporation 20% to be sold to provide cash to make necessary expansion. On July 10, $10,000 of the stock so donated was sold to investors at 60.

Required:

Make entries to record the above.

Comments.—Debit Plant Equipment for business acquired by the corporation from Rich.

Charge Treasury Stock and credit Capital Stock Donated for par value of stock donated by Rich under date of May 1. Credit Capital Surplus for proceeds of sale of treasury stock. When the stock is issued reverse that portion of the entry made when stock was received applicable to shares disposed of (Capital Stock Donated to Treasury Stock).

Problem 68

A mining company is organized with a capital stock of $500,000, in shares of $5 each. The entire capital stock is issued in payment for the properties acquired by the company. The stockholders then return to the company as a gift, 25,000 shares, which are to be sold by the company for the purpose of providing working capital. The company afterwards sells 10,000 of these shares at $2.50 each, and the remainder at $2.75 each.

Required:

Prepare journal entries covering above transactions, illustrating two methods of handling the donated stock.

Comments.—It may be assumed that the cash is received and shares issued.

The first method would be as illustrated in the previous problem.

The second method assumes the book value of properties to be inflated to the extent of the donation. The Properties account should, therefore, be credited instead of Capital Surplus.

Problem 69

Company A received its certificate of incorporation from the Commonwealth of Massachusetts on January 10, 1922. The company was authorized to issue 10,000 shares of Preferred Stock and 10,000 shares of Common Stock of the par value of $100 each. The subscribers of record agreed to take 1,000 shares of Preferred and 2,000 shares of Common Stock, and paid the treasurer 10% of the amount subscribed.

January 15, 1922, the company sold 1,000 shares of Preferred to a firm of brokers at 101, and received the balance owing by the subscribers of record in cash. The stock being fully paid, certificates were issued to all subscribers of record.

January 25, 1922, several stockholders donated $500 shares of Common Stock for use in financing the company.

January 30, 1922, sold 100 shares of the donated stock held by the treasurer at 79; also sold 100 shares of Preferred at 102; and gave as a bonus three shares of Treasury Stock with each block of ten shares of Preferred.

January 31, 1922, the directors declared dividends as follows: On the preferred, ¾%; on the common, ½%, payable February 15 to the stockholders of record as of January 31.

Required:

(a) Journal entries for above transactions (without explanations)

(b) Prepare trial balance as of January 31, 1922.

Comments.—The stock not being all subscribed the Unissued and Authorized Stock accounts may be used.

For the purpose of this problem, the dividends may be charged to Surplus.

Problem 70

A company is formed with a nominal capital of $500,000 in 50,000 shares of $10 each. Of these, 40,000 are subscribed for. $1 per share is payable on application, and $2 per share on allotment. A call of $3 per share is made four months after the date of allotment, and a further call of $3 three months after the date of the first call.

The deposit, with the amount per share due on allotment, is paid in full, but in respect to the first call $110,000 only is received, and on the second call $95,000 only. The amounts received are paid into the company's banking account.

Required:

(a) Prepare journal entries to record the above transactions
(b) Submit a list of ledger balances.

(From Massachusetts C. P. A. Examination)

Comments.—The $1 per share paid on application and the $2 per share paid on allotment are credited to Subscriptions Receivable account. The two calls made at later dates for $3 per share make it advisable to set up accounts with Installment 1 and Installment 2. There remains $1 per share to be paid on this stock, and therefore the shares are not issued until this is paid.

Problem 71

A corporation having issued its capital stock at par buys 1,000 shares at 95. It later sells 500 of these shares at 98, 300 at 85, and 200 at 101.

Required:

(a) Give the journal entries covering these transactions
(b) How should the items appear on the balance sheet immediately after purchasing the stock, and immediately after each of the sales?

(From American Institute Examination)

Comments.—The first sentence is understood to mean that the corporation buys 1,000 shares of its own stock, which thus becomes treasury stock.

Problem 72

The Marion Plating Company was organized on April 1, 1922, with an authorized capital stock of $200,000 divided into 4,000 shares at the par value of $50 each.

At a meeting of the directors there was purchased from H. A. Bush, at a valuation of $150,000, all his right, title, and interest in various patents held by him.

The balance of the stock was subscribed for on April 1 by E. S. Altieri and F. W. Balcomb in equal amounts.

In order to raise funds with which to exploit the invention, Mr. Bush donated to the company 2,500 shares of stock. Of this, 2,000 shares were sold before April 15 at an average of 40, and 200 shares were used in giving a bonus of 10% in stock.

The first installment of $10 per share was received April 15 from both Mr. Altieri and Mr. Balcomb.

The organization expenses were $500; this was paid April 15.

Required:

(a) Journal entries to express the above facts

(b) A trial balance as of April 15.

Problem 73

The Excelsior Company is organized under the laws of the State of New York with an authorized capital of $1,000,000, divided into $500,000 Common and $500,000 Preferred Stock, the par value of the Preferred being $100 and the par value of the Common being $50. Three incorporators, John Doe, Richard Roe, and Samuel Straight, each subscribes for one share of Preferred Stock at the par value. John Doe, one of the incorporators, transfers his complete manufacturing plant to the Excelsior Company for the remaining Preferred Stock and $300,000 in Common Stock. The individual assets acquired are: Land and Building, $100,000; Plant and Machinery, $150,000; Furniture and Fixtures, $75,000; Inventories, $84,000; Accounts

Receivable, $63,000; Cash, $77,700. The incorporators pay in cash for their subscriptions. The organization expenses were $2,500 paid in cash:

Required:

(a) The opening entries for the books of the Excelsior Company

(b) The initial balance sheet.

Comments.—Set up an account with good-will for the excess of the stock issued over the value of the assets acquired.

Problem 74

A corporation is organized under the laws of the State of Michigan, with Capital Stock $250,000, of which $100,000 is Preferred and $150,000 is Common Stock, shares $100 each. The purchasers of Preferred Stock at par are to receive an equal amount of Common Stock free. All the Preferred Stock is subscribed and paid for, leaving $50,000 of Common Stock unsubscribed. It is found that the remaining Common Stock cannot be sold for sufficient cash for requirements, and the holders of Preferred Stock donate to the Treasury $50,000 of their Common Stock. The Common Stock is sold at 50 cents on the dollar.

Required:

Provide journal entries covering the above (explain each entry fully).

(*From Michigan C. P. A. Examination*)

Comments.—The Common Stock issued to preferred stockholders free of charge may be charged to a Bonus account.

The last sentence is construed to mean a sale of both the balance of the unissued Common Stock and the Treasury Stock on hand at 50% of par value.

Problem 75

A Massachusetts corporation was organized with a capital of $100,000—10,000 shares of $10 each. At the meeting of the incorporators it was resolved to purchase certain patent rights from and for the whole of the capital, less 100 shares held by the incorporators and paid for at par. Afterward the former owner of the patent rights agreed to sell to the company 5,900 shares for the sum of $29,500, or $5 per share, which was accepted, and B was appointed trustee to hold the stock in his name as trustee, and was authorized by the directors to sell the stock at $8 per share, which he succeeded in doing.

Required:

(a) Give proper entries for the above transactions

(b) How would the profits on this transaction affect the dividends of the stockholders?

(From Massachusetts C. P. A. Examination)

Comments.—No entry need be made for appointment of B as trustee. When the sale is made. carry the profit to Capital Surplus account.

Problem 76

A corporation is organized with a capital stock of $100,000 to acquire a business formerly conducted by A. The business shows sundry assets, $150,000, and sundry liabilities, $80,000. Three shares of stock are sold at par to X, Y, and Z, who afterward become directors of the new corporation. All of the remaining stock is issued to A, who immediately donates $10,000 of stock to the treasury to procure additional capital. Two months later $5,000 of the donated stock is sold at 48, and 6 months later the remainder was sold at 62.

Required:

(a) Show in general journal form entries covering the above

(b) Submit a trial balance of ledger accounts.

Group B—Changing a Partnership to a Corporation

Problem 77

Messrs. Elwell and Rogers, partners, engaged in manufacturing, decide to form a business corporation under the laws of Massachusetts, under the name of the Rogers Manufacturing Company, with an authorized capital of $100,000. In consideration of the entire issue of capital stock, the corporation purchased all of the assets except cash, and assumed all of the liabilities of the partnership, except the loan owed Rogers as shown by the following balance sheet dated November 30, 1920.

Balance Sheet—November 30, 1920

Assets	
Plant and Machinery	$35 000
Stock on Hand per inventory	20 525
Accounts Receivable	22 750
Notes Receivable	1 500
Cash	5 225
Total Assets	$85 000
Liabilities	
Elwell's Capital	$42 500
Rogers' Capital	36 300
Accounts Payable	5 250
Rogers' Loan	700
Wages Due and Unpaid	250
Total Liabilities and Capital	$85 000

Required:

Sketch in general journal form entries necessary:

(a) To close out the books of the above partnership

(b) To open the books of the Rogers Manufacturing Company.

Comments.—In closing out the partnership books, where the form of proprietorship is changed to that of a corporation, a very definite procedure should be followed. The entries should be set up as if it were a sale to outsiders, an account being opened with the corporation as vendee.

In this problem the entries would be as follows:

(1) Bring onto the books the good-will incidental to the sale of the business by charging Good-Will and crediting the partners' accounts in the proportion in which profits are shared.

(2) Charge the assets (including good-will) sold to the vendee company by debiting the vendee company and crediting the various asset accounts.

(3) Credit the vendee company for the liabilities assumed by debiting the various liability accounts and crediting the vendee company.

(4) Credit the vendee company for the shares of capital stock received from them in payment for the net assets by debiting Capital Stock of Rogers Manufacturing Company and crediting Rogers Manufacturing Company, Vendee.

(5) Pay off the Rogers Loan not assumed by the vendee company, crediting cash.

(6) Distribute the stock received from the vendee company and the cash remaining in the business by charging the partners' accounts and crediting Capital Stock of Rogers Manufacturing Company and Cash. In the absence of any special agreement, the distribution will be in the ratio that each partner's net capital bears to the total net capital at time of distribution.

In making entries to open the corporation books:

(1) Make the usual entry to set up the capital stock authorized.

(2) Bring onto the books the assets (including good-will) acquired from the vendor firm by debiting the various asset accounts and crediting the vendor firm.

(3) Bring on the various liabilities assumed by the vendee corporation by debiting the vendor firm and crediting the proper liability accounts.

(4) Charge the vendor firm for the capital stock issued to it in settlement for the net assets taken over by debiting the vendor firm and crediting Unissued Stock.

Problem 78

G. W. Pitts & Company, who have been conducting a wholesale grocery business, have decided to incorporate. Their assets and liabilities are stated as follows:

Balance Sheet—April 30, 1922

Assets

Real Estate and Improvements	$64 500	
Inventory	15 500	
Accounts Receivable	5 400	
Cash	2 600	
Total Assets		$88 000

Liabilities

Accounts Payable	$ 7 800	
Notes Payable	25 000	$32 800
G. W. Pitts, Capital	$30 000	
R. M. Price, Capital	20 000	
J. G. Riley, Capital	5 200	55 200
Total Liabilities and Capital		$88 000

Profits are shared as follows: Pitts, one-half; Price, one-fourth; and Riley, one-fourth.

The corporation known as The Pitts-Price-Riley Company is incorporated May 1, 1922, with an authorized capital stock of $150,000, par value $100 per share. The following subscriptions were received for stock at par: R. M. Price, 100 shares; J. G. Riley, 250 shares; Dion & Company, brokers, 500 shares. The subscriptions are fully paid in cash, and the certificates issued.

The corporation takes all the assets of the partnership except cash and assumes payment of the accounts payable, but not notes payable.

The real estate and improvements are taken over at a valuation of $100,000, and the Good-will is considered worth $20,000. The purchase price is to be paid as follows: Cash, $33,100; Bonds, $50,000; Stock, $50,000.

Required:

(a) The entries necessary to close the books of the partnership and open the books of the corporation

(b) Balance sheet of corporation, May 31, 1922.

Comments.—The procedure in this problem will be similar to that outlined for the previous problem. It will be necessary to adjust the Real Estate account, crediting the increase in value to the partners in proper proportion. The good-will of $20,000 will be brought onto the books and credited to the partners in profit and loss ratio. Credit the vendee corporation for the cash, bonds, and stock received in payment for the net assets. The payment of the notes payable and the distribution of assets will be as outlined for the previous problem.

Problem 79

Foster, French & Company, a partnership conducting a manufacturing business, decide to incorporate.

A balance sheet taken on December 31, 1922, shows the following assets and liabilities:

Balance Sheet—December 31, 1922

Cash	$ 5 000	Accounts Payable	$ 40 000
Accounts Receivable	30 000	Foster, Capital	50 000
Plant and Sundry Assets	155 000	French, Capital	50 000
		Gilman, Capital	25 000
		Gould, Capital	25 000
	$190 000		$190 000

Profits and losses are shared in proportion to capital investments.

On January 1, 1923, they incorporate the Salem Manufacturing Company with a capital stock of $200,000, consisting of 1,000 shares each of Common and Preferred Stock, with a par value of $100.

All the assets of the firm, except cash, are taken over by the new corporation, and all of the liabilities are assumed. In exchange for the property of the old firm, 900 shares each of Preferred and Common Stock are issued to the partners in the proportion shown by their capital accounts, which stock, including the cash on hand, is distributed equitably among the partners. The remaining stock is subscribed for at par by outside parties, their subscriptions being paid in full on January 15.

On February 1, the four incorporators donate to the corporation $20,000 of Common Stock in proportion to their holdings to be sold to produce further working capital.

April 1, 100 shares of the donated stock is reported sold at an average price of 75.

Required:

(a) Entries to close partnership books

(b) Entries to open corporation books and to record succeeding transactions

(c) Balance sheet of the Salem Manufacturing Company as of April 1, 1923.

Comments.—Attention is called to the fact that the stock received from the vendee and the cash remaining on hand are distributed in proportion to partners' net capital at time of distribution and after bringing on the good-will, if any.

Problem 80

Crosby & Company, desiring to incorporate their business, secure a charter under the laws of the Commonwealth of Massachusetts on December 30, 1921, the Crosby Chemical Company being organized for the purpose of manufacturing chemicals, and for the sale of the products of such manufacture. The capital stock of the company consists of 3,000 shares, par value of $100 each. Two shares each are issued to A and B for services rendered the corporation. The balance of the stock is issued to the partners in payment for formulae, trade marks, and patents, and for the net assets of Crosby & Company's business, a balance sheet of which is as follows:

Balance Sheet—January 1, 1922

Assets		
Real Estate	$25 000	
Machinery	30 000	
Fixtures	15 600	
Manufactured Goods	15 220	
Materials and Supplies	29 222	
Prepaid Insurance	1 856	
Cash	12 106	
Accounts Receivable	28 418	
Total Assets		$157 422
Liabilities		
Notes Payable	$ 2 000	
Accounts Payable	3 143	
J. A. Crosby	77 025	
Thomas Ross	75 254	
Total Liabilities		$157 422

Required:

(a) Entries to close the books of Crosby & Company

(b) Entries to open the books of the corporation.

Comments.—The difference between the par value of stock issued to partners and the book value of the business is charged to Formulae, Trade Marks, and Patents account.

Inasmuch as practically all the stock of the corporation is held by the old partners, the cash is transferred with the other assets.

Clearness and completeness in stating all necessary particulars should receive your consideration.

Problem 81

Charles Capon and Albert Carver have been partners in the wholesale drug business for a number of years. They decide to incorporate, and a corporation to be known as the People's Drug Company is organized under the laws of Maine, with a Capital Stock of $100,000, of which $60,000 is 6% Preferred Stock and the remainder Common Stock.

The balance sheet of the partnership on July 1, the date of of incorporation, is as follows:

Assets		Liabilities	
Cash	$ 2 000	Notes Payable	$ 2 000
Real Estate	40 000	Accounts Payable	8 000
Accounts Receivable	20 000	Charles Capon, Capital	30 000
Notes Receivable	5 000	Albert Carver, Capital	30 000
Furniture and Equipment	3 000		
	$70 000		$70 000

All of the Preferred Stock is issued in equal parts to Capon and Carver in exchange for the net assets of the old business. The Common Stock is all subscribed for at par by outsiders, and their subscriptions are paid August 15.

The company closed its books December 31, at which time the profit and loss statement showed a net profit of $5,496.83. The regular quarterly dividend was declared on the Preferred Stock and a dividend of 2% on the Common Stock, payable January 15.

Required:

(a) Entries necessary to close the partnership books

(b) Entries on corporation books to record issue of both classes of stock, assets acquired and liabilities assumed

(c) Entries to close profit and loss account and for the declaration of the dividends and their payment.

Problem 82

A and B were partners, trading under the name of A, B & Company. June 30, 1922, the following balances appear on their ledger:

A, Capital	$70 000
B, Capital	50 000
Real Estate	22 000
Buildings	20 000
Machinery and Tools	44 000
Furniture and Fixtures	2 000
Accounts Receivable	50 000
Cash	7 000
Materials and Merchandise	53 000
Accounts Payable	35 000
Bills Payable	48 000
Bills Receivable	5 000

On June 30, 1922, the business is incorporated as the X Company, on the following plan:

(1) Capital stock, $150,000.

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

(3) X Company pays A, B & Company $30,000 for the goodwill of the business.

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

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

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

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

Required:

(a) Prepare closing entries for books of A, B & Company

(b) Statement setting forth the partners' accounts down to their final closing, beginning with the balances shown by the books on June 30, 1922

(c) Opening entries for the X Company.

(From Washington C. P. A. Examination)

Comments.—The statement called for in (b) may be shown in the form of ledger accounts with each item fully explained.

Problem 83

Thomas Jones and William Thompson are trading in partnership as wholesale grocery merchants, sharing profits equally. On January 1 their balance sheet is as follows:

Assets	
Stock in Trade	$27 245
Furniture	2 752
Debtors	37 625
Cash	752
Good-Will	5 000
	$73 374

Liabilities	
Bank of British North America	$10 000
Creditors	27 528
Jones	25 243
Thompson	10 603
	$73 374

An agreement is made to amalgamate with Joseph Smith and George Brown, also trading in partnership, and sharing profits respectively 2/3 and 1/3. Their balance sheet on January 1 is as below:

Assets

Stock in Trade	$35 424
Furniture	3 840
Debtors	42 741
Bank of Toronto	3 415
	$85 420

Liabilities

Creditors	$35 818
Smith	22 176
Brown	27 426
	$85 420

A company is formed to take over the business, under the name of Smith, Jones & Company, Limited, with authorized capital $200,000, divided into 2,000 Common shares of $100 each. George Wilkins, John Lister, and Robert Ryder subscribe for 20 shares each, for which they pay cash.

The Jones and Thompson business is taken over at book figures, except that good-will is raised to $10,000, and $1,000 is set up as a reserve for doubtful debts. The Smith and Brown business is taken as shown, with an addition of $15,000 for good-will, and $1,500 reserve for doubtful debts. The partners in the two businesses are to take shares for their interests, making up an even amount by paying cash if required. All cash is deposited in the Bank of British North America.

Required:

(a) Journal entries to show the various transactions incident to taking over the businesses and allotment of shares, giving the number of shares allotted each party

(b) Balance sheet of Smith, Jones & Company, Limited

(c) Entries necessary to close the books of the partnerships.

(*From Final Examination of the Manitoba Institute of Chartered Accountants*).

Group C—Corporate Bond Issues

Problem 84

The directors of the Consolidated Railway Company vote an issue of $850,000 First Mortgage 5% Bonds on March 1, 1912, due in 1940. The entire issue is subscribed for by E. H. Sloane & Company, Investment Bankers, at 98, and paid for in cash.

Required.—Make proper entry to show the issue of the bonds.

Comments.—An entry is made at the time of the sale of the bonds to E. H. Sloane & Co. charging Cash and Bond Discount and crediting First Mortgage 5% Bonds at par. The bond discount will then be carried as a deferred asset and amortized over the life of the bonds, the entry at the end of each fiscal period being to charge Bond Interest and credit Bond Discount. This has the effect of increasing the amount of interest paid each period, and increases the nominal rate of interest 5% to what is known as the effective rate.

When the bonds are not all sold at the time of issue an account may be brought on to the books for Unissued Bonds and one for Bonds Authorized, in the same manner as Unissued Stock and Capital Stock Authorized. As the bonds are sold they are credited to Unissued Bonds account. This method is not recommended. It is usually considered better practice not to bring the bonds onto the books until sold.

Problem 85

The Cleveland Paper Company, finding that it can use additional capital to advantage, issues $100,000 first mortgage 20-year Gold Bonds bearing 5% interest. It sells these bonds at 96. J. W. Pittenger buys $10,000 of the bonds.

Required:

(a) Proper entry to record issue of the bonds by the corporation

(b) Entry on Pittenger's books to record purchase of the bonds.

Comments.—Bonds sold are brought onto the books by the issuing company at par, the difference between that and the amount received for them being set up as Bond Discount or Bond Premium. Bonds purchased for investment purposes are usually brought onto the books at cost. Pittenger will therefore bring these bonds on at cost charging an Investments account. If such bonds are to be held until maturity they should be written up or down as the case may be, the annual increments being reflected through the income account. In this way the discount or premium will be written off over the life of the bonds, and they will stand on the books at par at the time they are paid by the issuing company.

Problem 86

Corporation XYZ floated a series of 150 bonds (coupon), par value \$1,000 each. The interest at 5½% is payable January 1 and July 1. Jones & Smith took over a block of 100 of the bonds at 97½ and accrued interest to date of purchase (September 24), and gave the company their check in payment.

Required:

(a) Journal entry on books of corporation

(b) Journal entry on books of Jones & Smith.

Comments.—Jones and Smith agree to pay interest on the face of the bonds purchased from July 1 to September 24 at 5½%. In the corporate books this may be credited to Interest on Bonds, and in Jones & Smith's books may be charged to Income from Investments. The effect of this arrangement is that the corporation pays interest from the date of sale and the purchaser receives interest from the same date.

Problem 87

A municipal corporation sold thirty days after their date \$600,000 thirty-year, 6%, Street Improvement Bonds at 96 and accrued interest.

Required:

Give the journal entries for the books of the municipality and state what final disposition is to be made of the discount.

(*From North Carolina C. P. A. Examination*)

Group D—General Problems Involving Corporate Accounts

Problem 88

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

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

Required:

(a) Opening entries for the books of the Prosperous Company (Explain fully)

(b) Initial balance sheet showing the company's financial condition.

(*From New York C. P. A. Examination*)

Comments.—It will be necessary to set up an account with good-will for the excess of the stock and bonds issued over the net value of the assets acquired, a reserve being set up for the doubtful accounts receivable.

Problem 89

A corporation is organized to conduct a manufacturing business with a declared capital of $2,000,000, divided into 20,000 shares of the par value of $100, of which 15,000 shares or $1,500,000 shall be Preferred Stock and 5,000 shares or $500,000 Common Stock. The corporation proposes to issue $500,000 in consolidated mortgage bonds to be used toward the purchase of sundry properties. The amount of capital with which the corporation begins business is $50,000, being the proceeds of the sale of 500 shares Preferred Stock for cash.

To carry out the purposes of said corporation, the real estate, water power, machinery, good-will, etc., of certain existing corporations has been purchased at an appraised valuation of $2,000,000, viz., Diamond Manufacturing Company, $200,000; Eureka Manufacturing Company, $300,000; Champion Manufacturing Company, $500,000; American Manufacturing Company, $600,000; Aetna Manufacturing Company, $400,000, and in payment full paid stock and bonds have been issued at par on a basis of 60% in Preferred Stock, 20% in Common Stock, and 20% in bonds.

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

Required:

The entries necessary to open the books of the new corporation and to record the purchase of properties as stated.

Comments.—It is assumed that the 500 shares of preferred stock referred to as having been sold, have been issued and are outstanding.

A Vendee account should be opened for each corporation from which properties are acquired, so as to bring onto the books more complete information regarding the purchase, and forestall possible legal questioning relative to the value placed upon the various properties acquired.

Entries such as above should be supported by complete and carefully worded particulars so that proper statistics will be available when desired.

Problem 90

The Norwood Electric Company was incorporated January 1, 1922, for the purpose of engaging in the manufacture of electrical specialties. The authorized capital stock was 500 shares 5% Preferred Stock, par value $100, and 500 shares of Common Stock with no par value.

The Common Stock was fully subscribed at $90 per share and certificates issued on January 10, at which time a 10% call was made and payment received in cash.

The incorporation and other expenses of organization amounted to $500, and were paid in cash.

On April 10, the corporation purchased a patent for the sum of $72,000 on the following terms: $50,000 in Preferred Stock of the company, $2,000 cash, and a note for $20,000 bearing interest at the rate of 6%, due July 10.

On July 1 a second call of 50% on the subscriptions was made and payments received in cash.

The note was paid on July 10.

Certain appliances covered by the patent were manufactured and marketed jointly with the Atlas Manufacturing Company. The Norwood Electric Company's share of the profits amounted to $65,000, which was received in cash.

During the year, interest, salaries, and general expenses amounting to $8,000 were paid. Wages accrued and unpaid amounted to $600.

The Chamber of Commerce of Norwood agreed to donate to the company a factory site on consideration that the corporation build a plant costing not less than $50,000, and employ therein at least 40 men for a period of 3 years. The offer was accepted and a contract was entered into with the Suburban Construction Company to erect a factory building at a cost of $50,000. At the end of the year, the building was partly completed, and cash payments of $20,000 had been made to the contractor.

Required:

(a) Journal entries to record all of the above

(b) Balance sheet as of December 31, 1922.

Comments.—Unissued stock is not recorded in this problem as the Common Stock is no par value stock, and to record it would necessitate placing an arbitrary value on same.

Attention is called to the fact that the Common Stock is installment stock, the certificates being issued before payment is made. Calls made upon subscriptions should be recorded so as to indicate that calls were made and show the status of the Subscription and Call accounts. The calls may be designated as Installment 1, Installment 2, etc.

Organization expenses are usually carried as deferred charges and written off over a period of years. In this instance, the amount is small in comparison with the profits and should be written off at once.

A Vendee account may be opened so as to record details of purchase of patent.

The real estate donated for a factory site should be carried in the balance sheet as a contingent asset, as the title does not vest until the performance of all the stated conditions. A memorandum entry similar to that made for stock donations may be made in journal.

Set up memorandum accounts for the contract entered into for the erection of the factory, and charge Building in Construction for the payments on account.

Problem 91

H. M. Bradford is an inventor and holds patent rights, processes, and inventions which are used by different companies in the manufacture of gas and electric engines and electrical appliances. He decides to organize a corporation for the purpose of selling gas and electric engines, pumps, irrigation machinery, and a full line of electrical appliances. A central jobbing house is to be established in Boston, and selling agencies will gradually be opened in all the principal cities.

The corporation is organized under the laws of the State of Maine, March 1, 1920, the incorporators being H. M. Bradford and three of his business associates. The corporation name is The H. M. Bradford Co. The authorized capitalization is $100,000 divided into 500 shares of 7% non-cumulative Preferred Stock, par value $100 per share, and 500 shares of Common Stock, par value $100 per share.

In order that the four incorporators may qualify as directors, each is given two shares of Common Stock. Bradford assigns to the corporation all of his patent rights and trade marks in exchange for 100 shares of Preferred and 492 shares of Common Stock. He at once donates to the corporation all of his Preferred Stock and 242 shares of his Common Stock to be sold to procure working capital. He also assigns to each of the other three incorporators for a private consideration one-fourth of the remainder of his holding of Common Stock.

Russell & Co., stockbrokers, are engaged to sell the unissued Preferred Stock held in the treasury, their commission to be paid in treasury stock. They sell to John Waters 50 shares of the Preferred Stock, taking in payment real estate valued at $3,500, and cash $1,500. For making this sale, Russell & Company are given 25 shares of Preferred and 75 shares of Common Stock.

Bradford is elected general manager of the company at a salary of $2,000 per year and traveling expenses. The payments made during the month of March are as follows: Office Furniture, $200; Office Rent, $50; Bradford's salary for the month; Organization Expenses amounting to $250 (this included lawyer's fee, stenographer's services, publicity, state corporation fee, corporation seal, accountant's fee, corporation books of account, etc).

Required:

(a) Make journal entries covering the above transactions (Explain fully)

(b) Prepare trial balance.

Comments.—The stock given to the incorporators may be treated as Organization Expenses.

Since the treasury stock given to Russell & Company as commission for selling stock is donated stock, it need not appear as an expense charge on the books; as the effect of such a charge would be to increase both expenses and surplus, one offsetting the other. Such a charge is sometimes made, however, for statistical purposes

Problem 92

The Crowley Manufacturing Company was organized April 1, 1922, with a capital stock of $5,000,000, one-half Preferred Stock and one-half Common Stock. Five shares of Common Stock are sold to the incorporators at par for cash. The company issues to S. A. Edison $1,500,000 Preferred Stock and $1,000,000 Common Stock, in consideration of the assignment by him of certain patents, rights, and contracts.

Later Edison agrees to surrender to the treasurer of the Crowley Manufacturing Company $1,000,000 Common Stock and $500,000 Preferred Stock to be used for the development of the company as the directors see fit. Still later, Edison agrees with the Crowley Manufacturing Company to surrender $1,000,000 Preferred Stock and take in lieu therefor $1,000,000 in Common Stock. Edison makes a further agreement with the Crowley Manufacturing Company to deliver to it all of the stock in the Eclipse Company, appraised at $350,000, and to pay the Crowley Manufacturing Company $150,000, for which he is to receive $500,000 in Preferred Stock of the Crowley Manufacturing Company.

Required:

(a) Entries in general journal form to record all of the above transactions on the books of the Crowley Manufacturing Company

(b) Entries to record above on the books of Edison.

Problem 93

A company was organized with $1,000,000 capital stock which it placed at par, and $1,000,000 5% bonds which it sold at 90, this being a 6% basis. It paid to contractors, etc., for construction $1,800,000, and this amount of investment ran, on the average, for one year before the property was ready for operation. When operation began, the company had, therefore, paid one year's interest on the issue of bonds. No dividends were paid on the stock. In addition to the sum named above, the company also paid $10,000 for legal expenses in connection with incorporation and $5,000 for franchise and other fees.

Required:

(a) Journal entries covering above transactions
(b) Balance sheet of the accounts when the property was ready for operation.

(*From American Institute Examination*)

Comments.—This problem illustrates the important principle of capitalizing expenses incurred during the construction period. This is allowed by many public service commissions, and has the sanction of good accounting practice. Hence, the interest on the bond issue before the property was ready for operation is a proper charge to Construction.

Problem 94

The Pencoyd Iron Works desires to enlarge its plant. It proposes to finance the undertaking by an additional issue of $500,000 Common Stock. Stockholders of record are notified that they will be permitted to subscribe to the new issue *at par* up to 25% of their present holdings. The market value of the stock is $125 a share. R. G. Wells, who owns 100 shares of Pencoyd stock, does not wish to exercise his right to purchase the new stock, and wishes to sell his right. What should he receive for it?

Required:

(a) Compute the theoretical value of Wells' stock right
(b) Set up the entry that would appear on Wells' books for the sale of his right.

Comments.—The right to purchase stock at a specified price granted by a corporation to its stockholders before the stock is offered to the public is transferable, and may be sold at private sale or through brokers in the same manner as the stock itself. The proceeds of such sale represent a capital income and should be credited to some such account as Sale of Stock Rights, indicating the name of the stock in each case.

Problem 95

The stockholders of the Fiske Leather Company approved the plan of the directors to increase the capital stock of the company from $7,200,000 to $14,400,000 (par value $100). The sum total of assets above the amount of capital stock and debt is now more than $6,750,000 and is invested in plant, working capital, and other assets. Under the stock increase each stockholder receives a stock dividend of three shares for each four shares held, and a transferable right to subscribe at par for one share for each four old shares held.

Required:

(a) Using accounts with Authorized and Unissued Stock, give entry for increased capitalization

(b) Give entry for the declaration and payment of the stock dividend

(c) Morse owns 100 shares. Give the amount of his dividend

(d) Morse decides to sell his "stock rights." Establish a value for these rights on February 28, 1921, the market value on that date being 160.

Comments.—The $6,750,000 excess of assets over capital stock and debt does not enter into the solution. This refers to the surplus of the corporation at the time of the increase in capital and is given as a justification of same.

It may be assumed that before the new stock is issued proper authority has been secured from the state for the increased capitalization.

Problem 96

The American Telegraph and Telephone Company issued on March 1, 1913, $67,000,000 of 20-year convertible 4½% bonds. These bonds were made convertible at par into Common Stock of the company at $120 per share (par value $100) from March 1, 1915, to March 1, 1925.

September 1, 1916, Brown, who owns $10,000 bonds, deposits them with the company and receives in exchange common Stock.

Required:

(a) The number of shares received by Brown, and assuming the dividend on Common Stock to be 8%, the difference in his annual income

(b) Journal entry to record the conversion on the books of the corporation.

Problem 97

Frame any entries necessary to record the action of the directors as it appears in the minutes of the meeting of August 15, 1917, of which the following is a synopsis, and the action of the officers taken pursuant to authority conferred on them by such minutes:

The treasurer reported that the profits for the year as audited amounted to $59,287. Voted that a dividend of $40,000 be paid on October 1 to the stockholders of record September 15, and that $10,000 of the profits be appropriated as a reserve for relief of employees disabled while in the service of the United States and invested in Liberty Bonds.

The treasurer reported that he had an offer of $1,000 in settlement of a debt of $3,000 of the A. B. C. Company, which had been written off as irrecoverable in 1914. He was authorized to accept the same in full settlement.

The president reported that he had secured tenders for new building planned in the amount of $185,000. He was authorized to execute a contract accordingly.

The president reported that a firm of bankers had offered to purchase $200,000 of the company's 20-year 5% bonds to be dated October 1, 1917, at 93 and accrued interest. He was authorized to accept the offer and deliver bonds on that date.

Required:

(a) Entries to dispose of profits, dividend, and appropriations
(b) Entry to record settlement with A. B. C. Co.
(c) Entry to record execution of contract for new building
(d) Entry for sale of bonds.

(*From the American Institute Examination*)

Problem 98

A corporation's profits for the year ended December 31, 1921, amount to $451,000. The by-laws require a reserve equal to 10% of any dividend paid to the common stockholders, and any surplus remaining after such dividend has been paid is also to be applied to the reserve until it amounts to $250,000. The reserve at December 31, 1920, was $156,020. The capital is $2,000,000—one-half cumulative preference 5%, and one-half common, all fully paid. On December 31, 1921, the preferred dividend is 2½ years in arrears. On December 31, 1920, Profit and Loss account was in debit $202,000.

Required:

State how you would dispose of the profit for 1921, illustrating your answer by means of journal entries.

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

Comments.—This problem is for the purpose of testing the judgment of the student. Remember that the deficit and the cumulative dividend in arrears must be taken care of first. The object should be to make such distribution as will satisfy both the common and the preferred stockholders.

Problem 99

The owner of 300 acres of coal land organized a corporation with $1,000,000 capital stock (par $100) deeding his land to the corporation in consideration of three thousand shares, fully paid. The remaining shares were sold for cash. The net profit for the first year was $110,000 and a dividend of 8% was declared. The dividend having increased the market quotations of the stock, the stockholders voted to increase the book value of the land and mines and distribute pro rata among themselves $500,000 fully paid stock. At the end of the second year, the corporation showed a loss for that year of $100,000; therefore, it was determined to reduce the capital stock $250,000.

Required:

Journal entries for these transactions and balance sheet at the end of the second year.

(From North Carolina C. P. A. Examination)

Problem 100

A company is formed at January 1, 1922, with a capital of $1,750,000, consisting of 17,500 shares of the par value of $100 each.

Of these, 16,250 shares are sold to subscribers at par for cash.

The following is a summary of the transactions of the company during the first 12 months of carrying on business:

The preliminary and formation expenses are $12,500, which are paid in cash.

They purchase freehold and leasehold current going iron works and collieries from A. B. and Company for $1,250,000.

They take over from them the necessary plant and machinery at $375,000, and a stock of iron, coal, etc., at $229,250.

The vendors take in part payment of their purchase money $50,000 on first mortgage bonds, and $125,000 in shares of the company, fully paid. There is $1,665,000 paid to them in cash.

The company expends during the year $54,200 in additions to the plant and machinery by purchases from sundry creditors to the extent of $41,300, and by payments through Cash account of $12,900.

They purchase materials from sundry creditors to the extent of $461,500, and they purchase for cash to the extent of $67,310. They pay for wages, rents, royalties, tools, wagon hire, repairs, etc., $842,700.

Their sales from iron and coal to sundry debtors amount to $1,526,585. They receive in cash from sundry debtors $1,040,-700.

They draw on sundry debtors bills to the extent of $419,740.

They transfer of the above amount to sundry creditors $54,510, and the bank credits their account with $331,400, the proceeds of those discounted.

They pay in cash to sundry creditors, $231,415.

They accept for creditors, bills of exchange to the extent of $142,110; of this amount they meet $86,005 through their banking account, the balance being still current at the end of the year. They borrow on First Mortgage Bonds $375,000, which is paid into their banking account as received.

They pay to their bankers for interest and commissions $8,040; for salaries, office expenses, and management, $15,670; law charges, $410, and for directors' and auditors' fees, $3,010.

They write off 5% from the original amount of the plant and machinery for depreciation, but nothing from the additions.

They also write off the following amounts: $25,000 from the freehold and leasehold property to cover minerals taken from the freehold and to provide for the expiration of the leases; $3,005 for bad debts, and one-fifth from the preliminary expenses.

The discount allowed to sundry debtors amounted to $5,530.

There is due at the close of the year $2,250 for interest on bonds, and the value of the stock of materials then on hand is $154,285.

All receipts are paid into the bank, and all payments are made by check.

Required:

(a) Journal entries covering the above transactions for the year (with explanations)
(b) Profit and loss statement
(c) Balance sheet.

(From Illinois C. P. A. Examination)

Problem 101

The X Company is incorporated under the Business Corporation Law of Massachusetts, January 1, 1916, with an authorized capital of $100,000. One share of stock is given to each of the three incorporators, A, B, and C, in order that they may qualify as directors; five shares are given to a lawyer, D, as compensation for legal services performed in organizing the corporation; an investment banker undertakes the sale of the remainder of the stock to investors, less fifty shares of stock which he is to receive as compensation for his services. The subscription books remain open until March 1. Payments for the stock are to be made in four equal installments on the first day of March, June, September, and December.

On March 1, the banker reports that all the stock is subscribed for and the first installment is called and paid. Fifty shares of stock are issued to the banker for his services. Stock certificates are issued to all subscribers.

June 1, the second installment is called and paid.

September 1, the third installment is called and paid by all subscribers except F, who subscribed for 10 shares.

December 1, the fourth and last installment is called and paid, F again defaulting on the payment of his installment

January 10, 1917, the treasurer of the X Company offers F's shares for sale at public auction. The shares are sold to G for $700. The expenses of the sale amount to $25. A stock certificate for the ten shares is issued to G. After deducting expenses and interest on unpaid installments at 6% the surplus of the sale is remitted to F upon the surrender of his certificates.

Required:

(a) Make necessary entries in journal form to cover the above

(b) In case $400 is the highest bid at auction for the shares what action would the directors take?

(c) Instead of offering F's shares for sale at auction, the directors elected to bring action at law against him for the amount due from him, together with interest thereon. The action is entered on February 1, 1917, for $535, covering interest and charges. Judgment is obtained on March 1. At the end of thirty days, as the judgment remains unpaid, the directors declare all amounts previously paid by him forfeited to the corporation, an entry of transfer of the stock to the corporation is made, and the original certificate is declared void. Make necessary entries in general journal form.

Comments.—This problem illustrates the method of realizing upon unpaid stock subscriptions. The student is referred to the Business Corporation Law of the Commonwealth for the legal procedure necessary. There are some points of difference between the method of procedure in the case of installment stock (stock issued but unpaid) and ordinary stock (stock unissued and unpaid). They should be noted carefully.

Referring to last paragraph of the problem, charge the unpaid subscription and all expenses to F personally; credit him with the proceeds of sale of stock, and remit balance of his account in cash.

Group E—Corporations—Theory Questions

T-36

What are the distinguishing characteristics of the "corporation" as compared with other forms of business organization? What privileges does it carry and what, if any, are its disadvantages?

(*American Institute*)

T-37

(a) Explain the books and accounts needed by a corporation that are not needed by a firm.

(b) Name the various kinds of stock and explain what the different kinds represent.

(c) How would the following affect the individual holders or subscribers: secret reserves, excessive dividends, bankruptcy, and voluntary dissolution of the corporation?

(*Michigan C. P. A.*)

T-38

A corporation is under contract to furnish pure water. Owing to its present source of supply becoming polluted it is obliged to install a plant to pipe water from a great distance, the old plant being abandoned. The abandoned plant is carried on the company's books at $100,000. The new plant will cost $200,000. The new water supply will be the same as regards quantity with no increase in the rates. How would you treat the above as regards capital and income?

(*North Carolina C. P. A.*)

T-39

A corporation is formed to engage in manufacturing. Pending the sale of underwritten capital stock, money is borrowed for the erection and equipment of a plant. How should the interest on this loan be treated in the books of account?

(*North Carolina C. P. A.*)

T-40

A Massachusetts corporation in need of funds makes the following arrangement with three of its directors. They individually pledge their stock, par value $15,000, $10,000, and $5,000, and receive loans of $7,500, $5,000, and $2,500, with which they purchase new stock at par. It is their intention, when the loans are paid by the corporation, to return this $15,000 worth of stock.

(a) May this stock be purchased by the company?

(b) What should be the entries on the books of the corporation?

(*Massachusetts C. P. A.*)

T-41

(a) When may the account "Treasury Stock" properly be raised on the books of a corporation?

(b) What relation does authorized but unissued capital stock bear to the accounts of a corporation?

(*Ohio C. P. A.*)

T-42

You find that a corporation has purchased one thousand dollars worth of its own stock for nine hundred dollars. The bookkeeper has made an entry debiting Treasury Stock for $900. If the entry is right, explain in detail the reason. If wrong, make the correcting entry and explain in detail why it was wrong and why yours is right.

(*Michigan C. P. A.*)

T-43

What are organization expenses? How are they to be treated in accounts? At what point do expenses cease to be organization expenses and become operating expenses?

Is the deficiency in the early years of a corporation's activities (whether an actual loss or a deficiency between the earnings and the normal rate of return) similar to organization expenses? How should such deficiencies be treated in the accounts? To what extent is such a deficiency similar to interest paid during construction? Should such deficiencies be carried on the balance sheet? If so, should they be written off, and how and when? May the deficiencies representing the difference between actual earnings and normal rate of return be capitalized, in the strict sense of having capital stock issued to a corresponding sum? State clearly just who is affected, and how, by the different methods of treating the items mentioned above.

(*American Institute*)

T-44

The Central Manufacturing Company, with a capital of $200,000 (2,000 shares, par 100), owns 1,000 shares, par 100, in the General Manufacturing Company whose capital is $200,000 (2,000 shares, par 100). The Central Manufacturing Company increases to $400,000 capital and takes over the General Manufacturing Company share for share.

Are the Central Manufacturing Company shares which come in place of the General Manufacturing Company shares "Treasury Stock" or "Stock not Issued?"

State an argument or reason or authority for your answer.

(*Massachusetts C. P. A.*)

T-45

(a) How would you deal in the balance sheet of a corporation with shares recovered from a vendor to whom they had been issued as fully paid and who had returned them in settlement of a claim for fraudulent misrepresentation in respect of the property sold by him to the corporation?

(b) How would you deal with these shares for the purposes of a dividend?

(*American Institute*)

T-46

When a corporation undertakes its own construction work on what basis is it permissible for it to make charges to Property account in respect thereof? On what basis would you personally recommend that the charges should be made?

Give your reasons.

(*American Institute*)

T-47

Three persons (A, B, and C) after two weeks of negotiations agree on July 15 to buy the business of John Doe Company (a manufacturing corporation) and to take over the assets as of July 1, 1915, and assume the results of operations from July 1. A, B, and C form a new corporation on July 31 which acquires the business through A, B, and C as of July 1. The result of the business for the month was a profit of $25,000. How should this profit be treated in the accounts of the new corporation? Give reasons.

(*Massachusetts C. P. A.*)

T-48

A corporation on September 1, 1920, issued $5,000,000 5-year 6% convertible notes, redeemable at 105 and interest in whole or in part on 60 days' notice, subject to the right of conversion into the stock of the company at the rate of 10 shares of stock for each $1,000 par value of notes, the said stock having no par value. December 31, 1921, the company reported $735,000 notes converted into stock at the above rate. They also purchased on open market $2,000,000 notes at 105 and accrued interest. Give entries covering above and state how the items would appear on the balance sheet as of December 31, 1921.

Group F—Theory Questions—Corporate Stock Issues

T-49

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

(*Virginia C. P. A.*)

T-50

(a) What various factors determine the desirable amount of authorized capital stock?

(b) Should good-will ever be capitalized?

T-51

In its prospectus a corporation represents that it has an issue of "cumulative, non-voting, non-participating, six per cent preferred stock."

Give your interpretation of this expression.

(*Massachusetts C. P. A.*)

T-52

In setting up the balance sheet of a corporation which has an issue of 100,000 shares of stock of no par value, but a stated value of $5 a share, and an excess of assets over liabilities of $1,500,000, how would you show the capital on the balance sheet?

(*American Institute*)

T-53

(a) A company with $500,000 of Common Capital Stock, par value $100 per share, and a Surplus account of $100,000 decides to change its capitalization from a par to a no-par basis. It therefore calls in its 5,000 shares of par value stock and issues in place thereof 10,000 shares of no-par value stock. How should the transaction be recorded? What effect, if any, will the change to a no par value basis have on the surplus account?

(b) Suppose that a new company is organized with 10,000 shares of no par value stock and that this new company takes over all the assets and liabilities of the old company at their book value, issuing all of its capital stock in payment therefor. How would the transaction be recorded on the books of the new company?

(*American Institute*)

T-54

(a) A and B, partners, organize a corporation with a capital stock of $500,000, to take over their business. The corporation issues its entire capital stock to A and B in payment for their plant and equipment, which is valued at $300,000. The entry recording this transaction is as follows:

Plant	$500 000	
To Capital Stock		$500 000

For the purpose of furnishing working capital A and B each donates to the corporation $100,000 of their stock. What entry would you suggest to show the exact state of affairs at this point?

(b) Assuming the plant to be valued at $500,000, give the proper entry to record the stock donation.

Give reasons for your entries.

(*Kansas C. P. A.*)

T-55

(a) State the purpose for which subscription privileges or "rights" may be given stockholders.

(b) How may a stockholder use the "right?"

(c) What is the value of a "right" in the following case:

The par value of the outstanding capital stock of a corporation is $1,000,000, market value $150 per share. The stockholders of a certain date are offered $500,000 more of this same class of stock at $125.

(*Wisconsin C. P. A.*)

T-56

A corporation is organized with an authorized capital stock of $50,000 of which only $40,000 is sold, and stock certificates issued therefor. Conflicting methods of recording the capital stock on the books are urged by rival accountants as follows:

(a) Treasury Stock to Capital Stock, $50,000. Cash and Properties to Treasury Stock, $40,000.

(b) Cash and Properties to Capital Stock, $40,000.

Which method is the better, and why? Can you suggest another method of recording this transaction?

(*Adapted Maine C. P. A.*)

T-57

The following paragraphs have appeared in recent announcements of stock issues. Comment upon each of them, including the specific points mentioned below.

(a) "The First Preferred 7% stock is redeemable by lot at 110 and accrued dividend on four weeks' notice." In your comment, state the exact value of this feature to the investor.

(b) "Net tangible assets are $287 per share and net quick assets exceed $125 per share of First Preferred Stock, and no dividends shall be declared and paid upon common shares, which will reduce the net quick assets below $110 for each share of First Preferred Stock then outstanding." In your comment, state exactly what these terms, "net tangible assets" and "net quick assets," mean.

(c)

Capitalization	
7% Cumulative Preferred Stock ($100 par)	$25 000 000 00
Common Stock ($15 par)	15 000 000 00
Founders' Stock (No par value)	100 000 00

In your comment, discuss Founders' shares in its various aspects —purpose of issue, voting rights, payment for stock, right to dividends, etc.

(*Wisconsin C. P. A.*)

T-58

An expression of your opinion is desired regarding the following: Is it legal or sound business policy to declare a dividend out of current earnings while capital is impaired?

Is it ever justifiable to pay dividends with borrowed money?

(*American Institute*)

T-59

The Directors of the A company are contemplating a preferred stock issue, and are confronted with the proposition of making the preferred issue attractive to investors and at the same time protecting their own equity as common stockholders.

After making an audit of the A company, an appraisal was made which showed that the assets were worth double the book value. It thereby doubled the value of the authorized common stock outstanding.

(a) If the directors asked your advice as to doubling the authorized common stock of the corporation by the declaration of a stock dividend, what would you reply?

(b) If the directors asked your opinion as to the advisability of changing the common stock from a par value basis to the non-par basis, what reasons would you give in reply?

(*Wisconsin C. P. A.*)

T-60

A corporation has two classes of stock fully issued:

\$5,000,000—7% Cumulative Preferred as to dividend and assets. 10% dividends are in arrears.

\$12,000,000—Common, on which no dividend has been paid.

The corporation proposes to retire by purchase \$2,000,000 common. What would be the effect, if any, on the interest of the preferred stockholders? Give reasons supporting your answer.

(*Massachusetts C. P. A.*)

T-61

(a) How would you treat money received on stock subscriptions from persons who afterward forfeited their stock by non-payment of other installments?

(b) A company buys \$5,000 of its own stock for \$4,000. The entry that is made debits Treasury Stock \$5,000, credits cash \$4,000 and credits Loss and Gain \$1,000. State why you approve or disagree.

(*Michigan C. P. A.*)

T-62

A corporation is authorized to sell its preferred stock at par value of \$100 and with every four shares sold is permitted to give a 25% bonus in common stock, that is, one share of common stock free. State how this bonus stock would be shown in the financial statements at the close of the fiscal period.

Group G—Theory Questions—Dividends

T-63

What is a dividend? State when and how dividends become effective. State how declaration and payment of dividends are usually recorded in books of account.

(*Michigan C. P. A.*)

T-64

Give journal entry to express the declaration of a dividend. How would you treat unclaimed dividends?

Can you mention any distinction between dividends declared out of income and dividends declared out of profits realized from the increment of invested values?

(*American Institute*)

T-65

What do you understand by the term "Dividends Paid out of Capital?" What in your opinion would constitute such payment, and mention any circumstances that may occur to you to justify such payment?

(*Maryland C. P. A.*)

T-66

The Bruce Company started in business with the following capitalization, viz.: 10,000 shares, par value each \$25 of non-cumulative 7% stock and 6,000 shares common stock of the same par value. When it began business the liabilities of the company exceeded its actual assets by \$12,000, which it carried in a Suspense account.

Three years elapsed during which some losses were made and charged to Profit and Loss which showed a credit balance of

$15,000. You are called in to settle a dispute which has arisen between the preferred and common stockholders as to the disposition of this balance, the preferred holders claimed it should be used to extinguish the Suspense account and the common holders that it should be used to pay them a 10% dividend. What would you advise and why? Answer fully.

(*Maryland C. P. A.*)

T-67

Discuss preferred shareholders' right to recover from corporation when dividend is earned but not declared.

(*Wisconsin C. P. A.*)

T-68

Discuss the subject of dividends:

(a) When declared out of premium secured from sale of capital stock.

(b) When company's sole investments are in diminishing (or wasting) assets.

(*Wisconsin C. P. A.*)

T-69

A corporation was formed which acquired several plants, issuing therefor $17,000,000 bonds and $24,000,000 stock. It was well known at the time that this capitalization exceeded the true value of the assets (including good-will) acquired, to an extent of $11,000,000. In the first year, after paying expenses and interest on bonds, the business yielded considerable net income. May such net income be used to pay dividends, or must it be first applied towards making up the $11,000,000?

(*American Institute*)

T-70

In view of the Supreme Court decision that stock dividends are not income, it is probable that many stock dividends will be declared within the near future. Summarize:

(a) The reasons for issuing stock dividends.

(b) The reasons against issuing stock dividends.

(c) The decision of the Court as to why stock dividends are not income.

(d) If a corporation is organized with capital stock of no par value, summarize the reasons why stock dividends would, or would not be declared.

(*Wisconsin C. P. A.*)

T-71

The preferred stock of a corporation is entitled to cumulative dividends at 7% per annum. For the past ten years the company has paid dividends on this stock at the rate of 5% per annum. How should the arrears of dividends appear on the company's balance sheet?

(*Massachusetts C. P. A.*)

T-72

A corporation has an issue of $100,000 of cumulative preferred stock bearing 6 per cent dividends. No dividends have been paid for two years. How would you disclose the facts in a balance sheet dated December 31, 1920, if

(a) A dividend of $12,000 on the preferred stock was declared on December 27, payable January 15, and there is a remaining surplus of $5,000?

(b) No dividends have been declared and there is a surplus of $17,000.

(c) No dividends have been declared and there is a surplus of $4,000?

(d) No dividends have been declared and there is a deficit of $7,000?

(*American Institute*)

Group F—Liquidation of Corporations

Problem 102

The Doylestown Hardware Company, because of competition, is forced into liquidation. The balance sheet of the corporation on January 1, 1922, is as follows:

THE DOYLESTOWN HARDWARE COMPANY

Balance Sheet—January 1, 1922

Assets		Liabilities	
Store and Equipment	$20 000	Notes Payable	$ 6 000
Office Furniture	2 000	Accounts Payable	17 000
Inventory	12 000	Capital Stock	50 000
Notes Receivable	5 000		
Accounts Receivable	30 000		
Cash	4 000		
	$73 000		$73 000

The cash book showed the results of liquidation to be as follows:

Cash Receipts:

Store and Equipment, $25,000; Office Furniture, $1,200; Stock in Trade, $7,500; Notes Receivable, $3,500; Accounts Receivable, $21,000.

Cash Payments:

Notes Payable, $6,000; Interest on Notes Payable, $90; Accounts Payable, $17,000; Expenses, $3,500.

The legal formalities have been complied with, and the charter surrendered.

Required:

Journal entries to effect liquidation and close the books of the corporation.

Comments.—The work required in this problem is entirely in the form of journal entries and care should be used in stating the entries and the particulars for each entry.

The problem is for the purpose of illustrating the entries necessary to close the books of a liquidated corporation. The procedure in this case is as follows:

(1) Debit Cash with amount received in realizing on the assets and credit the various asset accounts;

(2) Charge the various liability and expense accounts, and credit Cash for amounts paid for expenses and in liquidation of the liabilities;

(3) Close the profit realized from the sale of store and equipment into

a Profit and Loss in Liquidation account by debiting Store and Equipment account and crediting Profit and Loss in Liquidation;

(4) Close the losses sustained in realizing on the remaining assets into the Profit and Loss in Liquidation account by charging this account and crediting the accounts with assets disposed of at less than book value;

(5) Close the expenses incurred during the period of liquidation into Profit and Loss in Liquidation by debiting this account and crediting the detailed expense accounts;

(6) Transfer the loss incidental to liquidation of the business from the Profit and Loss in Liquidation account to a Deficit account;

(7) Charge Capital Stock account and credit a Stockholders account for the capital stock of the corporation and charge Stockholders and credit Deficit as follows:

Capital Stock	$50 000	
Stockholders		$50 000
Stockholders	00 000	
Deficit		00 000

(8) The final entry is to record the distribution of proceeds of liquidation to stockholders by debiting Stockholders and crediting Cash. After making this entry, all accounts should be in balance.

Problem 103

The following is the trial balance of the Rawdeal Corporation, June 1, 1920, on which day the directors resolve that the secretary of the corporation be authorized to call a meeting of the stockholders to vote on the immediate dissolution of the company.

Trial Balance—June 1, 1920

Land and Building	$ 55 000	
Machinery and Machine Tools	35 000	
Shop and Hand Tools	5 000	
Furniture and Fixtures	9 700	
Raw Materials	10 350	
Accounts Receivable	23 400	
Cash	11 320	
Bond (Secured by 6% Mortgage on Land and Building)		$ 26 000
Interest Accrued on Bond		312

Accounts Payable		$21 700
Reserve for Depreciation of Building		5 300
Reserve for Depreciation of Machinery		9 000
Reserve for Depreciation of Furniture and Fixtures		4 100
Surplus		23 358
Capital Stock		60 000
	$149 770	$149 770

The stockholders' meeting was held on July 1, 1920, and dissolution was voted.

The company sold the land and building to the mortgagee for $44,000 as of August 15, 1920.

On September 1, 1920, the cash book showed:

Debits:

Land and Building, $17,363; Machinery, $25,340; Shop and Hand Tools, $2,100; Furniture and Fixtures, $3,700; Raw Materials, $7,950; Accounts Receivable, $23,130.

Credits:

Accounts Payable, $21,700; Expenses, $1,530.20.

Required:

Journal entries to effect dissolution and close the books of the corporation.

(*Adapted from New York C. P. A. Examination*)

Comments.—The procedure in this problem is similar to that in the preceding problem. It will be necessary, however, to close the Reserve accounts into the correlative asset accounts so as to arrive at the book value of the assets before transferring the profit or loss on realization to the Profit and Loss in Liquidation account.

The loss on liquidation as shown by the Profit and Loss in Liquidation account in this case is transferred to Surplus account, and the balance of Surplus is then credited to the stockholders.

As the Land and Building was sold to the mortgagee, the Bond and Interest Accrued on Bond accounts should be offset against the asset account, Land and Buildings, before closing that account. The cash received for the Land and Building, $17,633, represents the difference between the purchase price $44,000 and the Bond account plus accrued interest to date of sale. It would be well, therefore, to make an entry charging Bond Interest and crediting Interest Accrued on Bond for $325, the interest from June 1 to August 15, two and one-half months at 6 per cent. The total interest would then be credited to Land and Building account as indicated above.

Group G—Amalgamations and Mergers of Corporations

Problem 104

Corporation C is organized in Massachusetts with an authorized Capital Stock of $500,000, divided equally between Preferred and Common stock, the shares being of the par value of $100 each. Sufficient shares of Common Stock are subscribed and paid in cash to effect the incorporation, and a contract is entered into for the taking over of the business of Corporation A and of Corporation B, the balance sheets of which, at the time of the transfer, displayed financial condition as follows:

Corporation A

Assets		Liabilities	
Plant and Machinery	$ 35 000	Common Stock	$ 50 000
Raw Material	6 500	Preferred Stock	42 500
Work in Process	9 200	Preferred Stock Scrip	7 500
Finished Product	16 700	Surplus	5 400
Accounts Receivable	33 500	Accounts Payable	14 200
Notes Receivable	14 500		
Deferred Charges	1 200		
Cash	3 000		
	$119 600		$119 600

Corporation B

Assets		Liabilities	
Plant and Machinery	$ 51 000	Capital Stock	$100 000
Inventory of Merchandise	32 000	Accounts Payable	31 500
Accounts Receivable	47 500		
Cash	1 000		
	$131 500		$131 500

The contract provides, in settlement for the properties and businesses acquired, that preferred stock be issued in each case to the extent of the excess of the asset values, as stated, over the liabilities, and that an equal amount of common stock be issued in payment for the good-will.

Required:

(a) Opening entries for C and journal entries to record the taking over of the accounts of Corporations A and B

(b) Balance sheet of Corporation C after recording the above

(c) Entries to close the Books of A.

(*Adapted from New York C. P. A. Examination*)

Comments.—This problem illustrates the type of consolidation in which a new company is formed to take over the assets and liabilities of the A and B Corporations, which are then dissolved.

Make opening entry for C in the usual form. If in doubt as to the number of shares necessary "to effect the incorporation" consult the Business Corporation Law.

In taking over the assets of the Corporations A and B, it will be necessary to bring on the good-will purchased with Common Stock as per agreement. This provision should be carefully noted. Deferred Charges listed as an asset by Corporation A may be assumed to be prepaid expenses, and, as such, are properly chargeable as an asset in the accounts of C. Credit the Vendor for assets taken over including good-will, and charge him with liabilities assumed and stock issued in payment for net assets as per contract.

In closing A Company's books, open a Vendee account, charging same with assets and crediting with liabilities, also charge Vendee with good-will, crediting same to Capital Surplus. The stock received from C is then debited and Vendee credited, balancing the latter account.

The Surplus and Capital Stock accounts are then closed into a Stockholders account. An entry to record distribution of stock is now made, closing all accounts.

Problem 105

The Arnold Manufacturing Company, with $1,000,000 capital stock; The Burke Manufacturing Company, with $500,000 capital stock, and the Crown Manufacturing Company, with $400,000 capital stock, agree to consolidate as the Great Lakes Manufacturing Company, the new company to buy all the properties of the old companies, at a valuation to be fixed by appraisal, payment therefor to be made in fully paid stock of the new company, the old companies to pay off their own indebtedness:

The appraisal values of the old companies are as follows:

	Total	Arnold	Burke	Crown
Real Estate and Building	$1 133 000	$ 680 000	$327 000	$ 26 000
Plant	621 000	390 000	160 000	71 000
Cash	19 000	15 000	3 000	1 000
Notes Receivable	16 000	10 000	6 000	
Horses and Wagons	8 500	4 000	3 000	1 500
Office Furniture	2 500	1 000	1 000	500
	$1 800 000	$1 100 000	$500 000	$200 000

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

At the time of the consolidation, the ledger accounts of the Crown Manufacturing Company were as follows:

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

Required:

(a) Journal entries necessary to set up property accounts and credit old companies with their pro rata on books of new company

(b) The proper journal entries to liquidate in stock of the new company the liabilities other than capital stock and to apportion the remaining stock and cash, and to close the books of the Crown Manufacturing Company.

Comments.—This problem presents little that is new. Open books of the Great Lakes Manufacturing Company in the usual manner. Bring on assets acquired at appraised value, and set up good-will for excess of stock issued over appraised value of assets, credit the vendor corporations with the appraised value of their assets plus a pro rata share of the good-will. Note the provision regarding fractional shares of stock. An account may be opened with the odd share of stock under the title of "Vendors' Stock." This account is credited when the odd share is sold and the cash is distributed to vendors in proper ratio.

The procedure for closing Crown Manufacturing Company books is similar to that outlined for Problem 104.

Problem 106

The Newtown Gas Company had operated a gas plant for several years for the purpose of supplying local consumers. On January 1, 1920, the United Gas Corporation was incorporated for the purpose of acquiring various local plants and merging them. The capital stock of the United Corporation was $1,000,000. First Mortgage 6% bonds were authorized to the extent of $500,000. The United Corporation acquired all of the capital stock of the Newtown Company, issuing therefor $100,000 of its capital stock and $50,000 bonds. On April 1, 1920, the Newtown Company was taken over and a new set of books opened. At the date of the merger, the balance sheet of the Newtown Company stood as follows:

THE NEWTOWN GAS COMPANY

Balance Sheet—April 1, 1920

Assets		Liabilities	
Cash	$ 2 500	Notes Payable	$ 5 000
Inventory	650	Accounts Payable	2 800
Accounts Receivable	3 520	Capital Stock	50 000
Notes Receivable	2 100	Surplus	37 829
Material and Tools	1 859		
Plant, Machinery and Franchises	85 000		
	$95 629		$95 629

Required:

(a) Journal entries to open books of the United Gas Corporation

(b) Journal entries to close the books of the Newtown Gas Company.

Problem 107

The Burnwell Gas Company was incorporated on January 1, 1920, with an authorized capital of $300,000 (2/3 Preferred Stock and 1/3 Common, all the shares being of the par value of $100) to acquire and conduct the business of the Safety Gas Company, whose general balance sheet shows the following on December 31, 1919:

Assets

Buildings, Machinery and Equipment	$100 000
Mains, Conduits, Meters, and Connections	70 000
Franchises, Rights, Privileges, etc.	50 000
Materials and Supplies	15 000
Tools and Emergency Equipment	10 000
Cash	11 800
Accounts Receivable	35 200
	$292 000

Liabilities

Notes Payable	$ 10 000
Accounts Payable	52 000
Capital Stock (2,000 shares)	200 000
Surplus	30 000
	$292 000

On January 15, 1920, all the Preferred Stock and Common Stock of the Burnwell Gas Company was issued to the twenty stockholders of the Safety Gas Company, in exchange for their holdings of stock in the latter company, in the proportion of two shares of Preferred and one share of Common for each two shares of stock exchanged.

At a meeting of the board of directors of the Safety Gas Company held January 20, 1920, it was resolved to carry out the provisions of a plan or merger in accordance with which the Safety Gas Company was to transfer its assets and liabilities to the Burnwell Gas Company and surrender its charter. A certificate of merger was issued at the close of the meeting.

At a meeting held January 31, 1920, the board of directors of the Burnwell Gas Company resolved to open accounts on the general books of the company with the individual assets and liabilities taken over and assumed, at the figures shown by the balance sheet of the Safety Gas Company on December 31, 1919, with the following exceptions: (a) franchise, etc., to be raised to $70,000; (b) surplus not to be carried.

As to the January operating transactions, they were recorded in special books in order that they might be embodied at the proper time in the books of the Burnwell Gas Company.

Required:

(a) Chronological journal entries reflecting on the books of the Burnwell Gas Company the different stages of the merger.

(b) Journal entries closing the books of the Safety Gas Company.

(*Adapted from New York C. P. A. Examination*)

Comments.—This problem illustrates one of the methods of merging corporations. Make opening entry for the new company in the usual form. Bring on the assets and liabilities of the Safety Gas Company, opening up a Vendee account. The method of closing Safety Gas Company's books will be as outlined for previous problems.

Group H—Holding Companies and Consolidated Balance Sheets

Problem 108

The Armstrong Manufacturing Company has been engaged in the manufacture of a certain commodity for a number of years. In order to insure a ready market for their output, a separate company is organized which is to market the product of the Armstrong Company. The new company is to be known as the Smith Trading Company.

The Smith Trading Company is incorporated for $100,000, of which $90,000 is subscribed for by the Armstrong Company, and the balance sold to outsiders for cash. The product is billed to the Trading Company at cost to the Manufacturing Company.

On December 31, 1921, the Armstrong Manufacturing Company balance sheet is as follows:

THE ARMSTRONG MANUFACTURING COMPANY

Balance Sheet—December 31, 1921

Assets		Liabilities	
Land	$ 30 000	Accounts Payable	$ 35 000
Buildings	130 000	Capital Stock	300 000
Equipment	20 000	Surplus	65 000
Raw Materials	40 000		
Finished Goods	45 000		
Cash	15 000		
Due from Smith Trading Company	30 000		
Investment in Smith Trading Co. Stock	90 000		
	$400 000		$400 000

The Smith Trading Company submitted a balance sheet as of the same date as follows:

THE SMITH TRADING COMPANY

Balance Sheet—December 31, 1921

Assets		Liabilities	
Land	$ 20 000	Accounts Payable	$ 5 000
Buildings	50 000	Due Armstrong Company	30 000
Equipment	10 000	Capital Stock	100 000
Inventory of Goods	20 000		
Accounts Receivable	25 000		
Cash	10 000		
	$135 000		$135 000

Required:

Prepare a consolidated balance sheet showing the condition of the two companies as a single organization, and showing only the status of the organization with reference to the outside public.

Comments.—In preparing a consolidated balance sheet it is important to bear in mind that all inter-company accounts are eliminated in order that the financial condition of the enterprise as a whole may be shown only in its relation to the outside world.

In solving this problem, therefore, attention is called to the following:

(1) The amount due the Armstrong Company from the Smith Company is eliminated because it represents an intercompany debt, and does not affect the financial condition of the company as it concerns outsiders. The amount due Armstrong Company is directly offset by the liability as shown on Smith Trading Company's books.

(2) The investment of the Armstrong Company in the stock of the Smith Company is eliminated because it represents the value of the net assets of the Smith Company, which assets are shown in detail in the consolidated balance sheet. If the stock investment account were included in the consolidated balance sheet it, would have the effect of stating twice the value of the assets held by the holding company.

The amount of the capital stock of the Smith Company owned by the Armstrong Company is eliminated. Capital Stock represents an ownership interest in the net assets. As the investment account is eliminated from the Armstrong Company assets a corresponding portion of the Smith Company Capital Stock is also eliminated. The balance of the stock being held by outsiders is known as the minority interest and is shown separately on the consolidated balance sheet.

SOLUTION

CONSOLIDATED WORKING PAPERS

December 31, 1921

Assets	Armstrong Manuf't'g Company	Smith Trading Company	Inter Co. Eliminations	Consolidated Figures
Land	$ 30 000 00	$ 20 000 00		$ 50 000 00
Buildings	130 000 00	50 000 00		180 000 00
Equipment	20 000 00	10 000 00		30 000 00
Raw Materials	40 000 00			40 000 00
Finished Goods	45 000 00	20 000 00		65 000 00
Due from Smith Company	30 000 00		$ 30 000 00	
Accounts Receivable		25 000 00		25 000 00
Investment in Smith Company Stock at par	90 000 00		90 000 00	
Cash	15 000 00	10 000 00		25 000 00
	$400 000 00	$135 000 00	$120 000 00	$415 000 00
Liabilities				
Accounts Payable	$ 35 000 00	$ 5 000 00		$ 40 000 00
Due Armstrong Company		30 000 00	$ 30 000 00	
Capital Stock:				
Armstrong Company	300 000 00			300 000 00
Smith Company		100 000 00	90 000 00	10 000 00
Surplus	65 000 00			65 000 00
	$400 000 00	$135 000 00	$120 000 00	$415 000 00

THE ARMSTRONG MANUFACTURING COMPANY and THE SMITH TRADING COMPANY

Consolidated Balance Sheet—December 30, 1921

Assets

Current Assets:		
Cash	$ 25 000 00	
Accounts Receivable	25 000 00	
Finished Goods	65 000 00	
Raw Materials	40 000 00	$155 000 00
Fixed Assets:		
Land	$ 50 000 00	
Buildings	180 000 00	
Equipment	30 000 00	260 000 00
Total Assets		$415 000 00

Liabilities and Capital

Current Liabilities:		
Accounts Payable		$ 40 000 00
Capital Stock:		
Armstrong Company	$300 000 00	
Minority Interest in Smith Trading Company	10 000 00	310 000 00
Surplus		65 000 00
Total Liabilities and Capital		$415 000 00

Problem 109

A is an operating company and B is a holding company. The following statements are taken from the books of the respective companies, viz.:

A COMPANY

Assets:		
Cash on Hand	$ 35 000 00	
Book Accounts Receivable	25 000 00	
Stock Inventory	21 000 00	
		$ 81 000 00
Prepaid Accounts		7 000 00
Sinking Fund Trustee		15 000 00
Premiums on Sinking Fund Bonds		700 00
B Company Advances		45 000 00
Investments, B Company Stock		25 000 00
Other Investments		5 000 00
Plant, Franchises, etc.		1 400 000 00
		$1 578 700 00
Liabilities:		
Book Accounts Payable	$ 12 000 00	
Wages	8 000 00	
Bills Payable	50 000 00	
Accrued Accounts	12 000 00	
		$ 82 000 00
Reserve Accounts		65 000 00
Bonds		750 000 00
Capital Stock		500 000 00
Surplus		181 700 00
		$1 578 700 00

B COMPANY

Assets:		
Cash on Hand	$ 14 000 00	
Accounts Receivable	6 000 00	
		$ 20 000 00
Investments:		
A Company's Stock	$500 000 00	
Other Investments	500 000 00	
		1 000 000 00
Plant, Franchises, etc.		1 250 000 00
Deficit		22 000 00
		$2 292 000 00

Liabilities:		
Book Accounts Payable	$ 7 000 00	
Bills Payable	130 000 00	
Accrued Accounts	10 000 00	
		$ 147 000 00
Due A Company		45 000 00
Bonds Issued		1 100 000 00
Capital Stock Issued		1 000 000 00
		$2 292 000 00

Required:

A balance sheet combining the assets and liabilities of the two companies. (Submit your working papers with your solution.)

(*From Pennsylvania C. P. A. Examination*)

Comments.—The stock of each company held by the other is eliminated from the assets and from the combined capital stock, the assets received by the companies for this stock showing elsewhere on the balance sheet.

The advances by A Company to B Company are offset by the amount due A Company appearing as a liability on B Company's balance sheet. These items are therefore eliminated.

Problem 110

A holding company, X, owns all of the capital stock of subsidiary companies Y and Z. The balance sheets of the various companies are as follows:

X COMPANY

Balance Sheet—June 30, 1921

Assets		Liabilities	
Cash	$ 15 000 00	Accounts Payable	$ 1 000 00
Notes Receivable	12 000 00	Notes Payable	35 000 00
Due from Y Company	25 000 00	Capital Stock	100 000 00
Inventory	4 000 00	Surplus	15 250 00
Prepaid Expense	250 00		
Investment in Y and Z Companies' Stock (par)	55 000 00		
Plant	50 000 00		
	$151 250 00		$151 250 00

Y COMPANY

Balance Sheet—June 30, 1921

Assets		Liabilities	
Cash	$ 4 000 00	Accounts Payable	$12 900 00
Accounts Receivable	10 000 00	Notes Payable*	10 000 00
Notes Receivable	1 000 00	Due X and Z Companies	30 000 00
Inventory	8 000 00	Capital Stock	25 000 00
Prepaid Expenses	500 00	Surplus	1 500 00
Plant	55 000 00		
	$78 500 00		$78 500 00

* Includes $2,000 note owing by Y Company to X Company.

Z COMPANY

Balance Sheet—June 30, 1921

Assets		Liabilities	
Cash	$ 2 000 00	Notes Payable	$15 000 00
Notes Receivable	1 000 00	Accounts Payable	4 000 00
Accounts Receivable	3 500 00	Capital Stock	30 000 00
Due from Y Company	5 000 00	Surplus	2 200 00
Inventory	5 000 00		
Prepaid Expense	200 00		
Plant	34 500 00		
	$51 200 00		$51 200 00

Required:

Prepare consolidated balance sheet. (Submit working sheet.)

Problem 111

The Copley Manufacturing Company has owned the controlling interest in The H. E. Smith Company and The Clifford Company since the subsidiaries were organized. From the balance sheets of the respective companies given below, prepare a consolidated balance sheet. Attach thereto your working papers showing how the consolidated balance sheet figures were arrived at.

THE H. E. SMITH COMPANY

Balance Sheet—December 31, 1920

Assets		Liabilities	
Plant and Equipment	$ 50 000	Capital Stock	$ 75 000
Inventories	30 000	Accounts Payable	27 000
Advance to The Clifford Company	3 500	Notes Payable—Copley Mfg. Co.	8 500
Customers	26 000	Dividends Payable	3 000
Cash	5 000		
	$113 500		$113 500

THE CLIFFORD COMPANY

Balance Sheet—December 31, 1920

Assets		Liabilities	
Plant and Equipment	$ 97 500	Capital Stock	$125 000
Inventories	47 400	Accounts Payable	46 500
Customers	25 000	Advances from The H. E. Smith Co.	3 500
Advances to Copley Mfg. Co.	7 500	Surplus	6 250
Cash	3 850		
	$181 250		$181 250

COPLEY MANUFACTURING COMPANY

Balance Sheet—December 31, 1920

Assets		Liabilities	
Investment in the Capital Stock of the H. E. Smith Co., 750 shares	$100 000	Capital Stock	$250 000
Investment in the Capital Stock of The Clifford Company, 1,000 shares	90 000	Advances from The Clifford Company	7 500
Notes Receivable of The Smith Company	8 500	Surplus	3 000
Dividends Receivable	3 000		
Cash	59 000		
	$260 500		$260 500

Par value per share of all companies $100.00.

Required:

Consolidated balance sheet and working papers.

Comments.—Prepare consolidated working papers in the usual form. In eliminating the Investment in the Capital Stock of the H. E. Smith Company, it should be noted that the entire issue or 750 shares, with par value of $75,000, was purchased for $100,000. The excess of purchase price over the net assets as represented by Capital Stock will be shown on consolidated balance sheet as good-will.

It should be noted also that a minority interest exists in The Clifford Company since the holding company owns but 1,000 of the 1,250 shares outstanding. As the holding company has owned the controlling interest since The Clifford Company was organized, it may be assumed that the surplus has been earned since The Copley Company secured control, and was not purchased by them. Therefore, the minority stockholders have an equity in the surplus. Attention is also called to the fact that the 1,000 shares were purchased for $90,000, or at less than par. The difference may be eliminated from good-will.

Problem 112

The stockholders of corporations A, B, and C desire to merge same into a new corporation, the capital of which shall be the amount of the net worth of the consolidated corporations. Prepare a consolidated balance sheet showing the combined net worth of the three corporations.

The final and audited balance sheets are here given:

CORPORATION A

Assets		Liabilities	
Cash	$ 5 000 00	Accounts Payable	$ 5 000 00
Due by Corporation B	20 000 00	Notes Payable	20 000 00
Due Corporation by C	5 000 00	Due C Corporation	10 000 00
Inventories at cost or market, whichever is lower	130 000 00	Bonds Outstanding	100 000 00
Plant	50 000 00	Reserve for Losses	5 000 00
Stock in Corporation B	100 000 00	Capital Stock	100 000 00
Bonds in Corporation B	40 000 00	Surplus	160 000 00
Bonds in Corporation C	50 000 00		
	$400 000 00		$400 000 00

CORPORATION B

Assets		Liabilities	
Cash	$ 8 000 00	Accounts and Notes, Miscellaneous	$20 000 00
Accounts and Notes, Miscellaneous	55 000 00	Due A Corporation	20 000 00
Due by C Corporation	5 000 00	Bonds Outstanding	50 000 00
Inventories at cost or market, whichever is lower	50 000 00	Capital Stock	100 000 00
Plant Account	60 000 00	Surplus	48 000 00
Bonds of A Corporation	50 000 00		
Treasury Bonds	10 000 00		
	$238 000 00		$238 000 00

CORPORATION C

Assets		Liabilities	
Cash	$215 000 00	Accounts and Notes Payable	$ 35 000 00
Due by Corporation A	10 000 00	Due Corporation A	5 000 00
Accounts and Notes Receivable, Miscellaneous	56 000 00	Bonds Outstanding	50 000 00
Inventories at cost or market, whichever is lower	50 000 00	Reserve for Losses	2 000 00
Plant Account	100 000 00	Due to B Corporation	5 000 00
		Capital Stock	100 000 00
		Surplus	234 000 00
	$431 000 00		$431 000 00

Required:

(a) Consolidated working papers

(b) Consolidated balance sheet with assets and liabilities properly classified.

(*From North Carolina C. P. A. Examination*)

Problem 113

Company A purchased on January 1, 1917, the entire capital stock of Company B at $175 per share, and the entire stock of Company C at $80 per share.

You are handed the balance sheet as understated at June 30, 1917, and are requested to prepare a consolidated balance sheet of the A Company and its subsidiary companies at that date.

There are no intercompany accounts or inventories.

Balance Sheet—Company A

Property and Good-Will	$ 850 000	Capital Stock	$2 250 000
Stock of Subsidiary Companies	1 500 000	Current Liabilities	150 000
Current Assets	700 000	Surplus, January 1	525 000
		Undivided Profit for one-half year	125 000
	$3 050 000		$3 050 000

Balance Sheet—Company B

Property and Good-Will	$ 650 000	Capital Stock	$ 400 000
Current Assets	60 000	Current Liabilities	10 000
		Surplus, January 1	200 000
		Undivided Profit for one-half year	100 000
	$ 710 000		$ 710 000

Balance Sheet—Company C

Property (as appraised January 1, 1917)	$1 130 000	Capital Stock	$1 000 000
Current Assets	180 000	Current Liabilities	240 000
		Surplus, January 1	30 000
		Undivided Profit for one-half year	40 000
	$1 310 000		$1 310 000

Required:

Consolidated Balance Sheet of A Company and its subsidiary companies as of June 30, 1917, together with working papers.

(*From American Institute Examination*)

Comments.—The Surplus of subsidiaries on January 1 represents part of the book value of the stock purchased on that date. The undivided profits for one-half year are added to A Company surplus.

The purchase price of B Company stock is $700,000 of which $400,000 represents par value, $200,000 surplus at date of purchase, and the balance, $100,000, good-will. When the purchase price of stock in a subsidiary exceeds the book value of the stock purchased (as indicated by the capital stock and surplus shown on the subsidiary's books at time of purchase) the excess is shown on the consolidated balance sheet as an addition to Good-Will.

The purchase price of C Company Stock is $800,000. The par value of this stock is $1,000,000, the surplus at date of purchase $30,000, making the book value of the stock $1,030,000. The excess of the book value over the purchase price, therefore, amounts to $230,000, which may be added to Surplus or deducted from Good-Will. The latter treatment is more conservative and will be followed in this problem.

Property and good-will are merged in this problem so that the amount of the original good-will is unknown. For the purpose of the problem it may be assumed that there is sufficient good-will to justify the deduction of the $23,000 from the Property and Good-Will item.

Working papers will be set up in accordance with the above suggestions.

Problem 114

The balance sheet of the American Pin Company on June 30, 1920, was as follows:

THE AMERICAN PIN COMPANY

Balance Sheet—June 30, 1920

Assets		Liabilities	
Land, Buildings, and Equipment	$335 000 00	First Mortgage 6% Gold Bonds	$100 000 00
Bronx Pin Ticket Co. Stock (par value $50,000)	57 400 00	Taxes Accrued	3 250 00
Patents	15 000 00	Salaries and Wages Accrued	4 327 82
Working and Trading Assets	37 500 00	Accounts Payable	123 749 83
Cash	10 000 00	Notes Payable and Interest	80 125 00
Accounts Receivable	32 000 00	Interest Accrued on Bonds Payable	2 500 00
Due from Bronx Pin Ticket Company	375 82	Reserve for Depreciation of Building	35 000 00
Prepaid Expenses	1 500 00	Capital Stock—Preferred	75 000 00
		Capital Stock—Common	50 000 00
		Profit and Loss Surplus	14 823 17
	$488 775 82		$488 775 82

The American Pin Company having acquired all the capital stock of the Bronx Pin Ticket Company, the balance sheet of which appears below, it is proposed to merge the two companies as of July 1, 1920.

THE BRONX PIN TICKET COMPANY

Balance Sheet—June 30, 1920

Assets		Liabilities	
Land, Buildings, and Equipment	$260 000 00	First Mortgage 5% Gold Bonds	$ 50 000 00
Blauser Pin Tray Co. Stock	35 000 00	Taxes Accrued	2 750 00
Patents	22 625 00	Salaries and Wages Accrued	3 147 83
Working and Trading Assets	10 000 00	Accounts Payable	144 720 30
Cash	10 365 27	Due American Pin Company	375 82

Accounts Receivable	$37 943 86	Notes Payable and Interest	$31 372 53
Sinking Fund	3 236 92	Interest Accrued on Bonds Payable	1 250 00
Prepaid Expenses	1 200 00	Reserve for Depreciation of Plant	27 500 00
		Capital Stock	50 000 00
		Profit and Loss Surplus	69 254 57
	$380 371 05		$380 371 05

(*Adapted from American Institute Examination*)

Required:

(a) Entries on the books of the American Pin Company in general journal form

(b) Entries on the books of the Bronx Pin Ticket Company in general journal form

(c) Balance sheet of the American Pin Ticket Company after merger.

Comments.—This problem illustrates the merger of a holding company and its subsidiary. The holding company having acquired all the stock of the subsidiary, the accounts of the latter will be taken onto the books of the holding company (The American Pin Company); all inter-company accounts eliminated; and the books of the subsidiary (The Bronx Pin Ticket Company) closed.

The American Pin Company's entries would be as follows:

(1) Charge each asset account taken over, and credit Bronx Pin Ticket Company (open account) for the total.

(2) Charge Bronx Pin Ticket Company for total of liabilities assumed and credit each liability account.

(3) Charge Bronx Pin Ticket Company for balance of that account and credit Bronx Pin Ticket Company Stock account for enough to balance that account, and credit the balance to Surplus. It is to be noted that the net assets of the Bronx Pin Ticket Company as represented by its Capital Stock and Surplus amount to $119,254.57, while in the investment account on the books of The American Pin Company this is carried at $57,400. The difference represents the excess of book value of net assets acquired over that at which they are carried in the investment account. When the assets take the place of the investment account, the result is an increase in the Surplus of the American Pin Company, hence the above entry.

The entries to close Bronx Pin Ticket Company books would be as usual except assets are charged to American Pin Company to open account instead of a Vendee account. The liabilities will be credited to same account and the balance closed to Capital Stock and Surplus which closes all accounts.

Group I—Holding Companies and Consolidations—Theory Questions

T-73

What are the three leading types of corporation consolidation? Discuss in detail the advantages and disadvantages of each form from the standpoint of the corporation.

(*Pennsylvania C. P. A.*)

T-74

In the case of a consolidation of three manufacturing concerns, how would you determine the good-will of the consolidated company?

(*Illinois C. P. A.*)

T-75

In making an examination for an intended purchaser of a business, what are the principal matters that should be looked into?

(*Maine C. P. A.*)

T-76

In the case of a merger or consolidation of several companies it becomes necessary to equalize certain conditions. Name some items of this kind that would need attention.

T-77

Explain in what respect the balance sheet of a holding company fails to give satisfactory information in regard to the actual financial condition of the corporation.

T-78

State at least four different methods of showing to the stockholders the financial condition of a holding company and the subsidiaries.

(*Wisconsin C. P. A.*)

T-79

If in consolidating the accounts of a holding company and its subsidiary companies you find that in the case of the subsidiary companies the holding company owns only 60% of its voting stock, state briefly how you would treat the subsidiary company's accounts in the consolidated balance sheet and why your proposed treatment reflects the true financial position of the combined companies more clearly than other methods with which you are familiar.

(*American Institute*)

T-80

Four corporations which have been doing business with each other consolidated. In each set of books accounts are open with the other three. How will these be treated in the consolidated balance sheet?

(*Michigan C. P. A.*)

T-81

In making up a consolidated balance sheet of a holding or parent company and two subsidiary companies where, in the case of one of the subsidiary companies, its entire capital stock has been acquired at less than par, and in the case of the other, at a substantial premium, how would you deal with such discount and premium, respectively, in the consolidated balance sheet? In the event that all the stock of the subsidiary companies was not owned by the parent company, how should such proportion of said stock belonging to the minority stockholders, together with the proportion of surplus appertaining thereto, be stated in the balance sheet?

(*Maryland C. P. A.*)

T-82

At the close of a fiscal period you find the inventories of a subsidiary company contains merchandise, transferred from another subsidiary company at a price above the cost to manufacture. How would you treat such inventories in making the balance sheet of the holding company? If included at the prices shown on the books of the subsidiary company, how would you treat the apparent profit?

(*North Carolina C. P. A.*)

T-83

A paint company holding notes receivable from a subsidiary company to the extent of $100,000 indorses and discounts said notes with its banks, thus creating a contingent liability. In preparing a consolidated balance sheet of the two companies, state if, where, and how the liability would appear.

(*Illinois C. P. A.*)

T-84

Corporation A, which owns all of the capital stock of Corporation B, purchases stock in Corporation C, and sells to subsidiary Corporation B at a profit of $50,000.

How would this transaction affect the balance sheet of Corporation A?

(*North Carolina C. P. A.*)

T-85

Holding company A owns 80 per cent of the stock of company B. Company B loses $50,000 in a year's operation. Holding company A loans company B $50,000 and takes its notes for the amount. How would the whole transaction appear in holding company A's books and in its balance sheet and profit and loss statements? Give reasons for your answer.

(*North Carolina C. P. A.*)

T-86

In the process of consolidating several competing establishments, Corporation A, the holding company, acquires $98,000, out of a total of $100,000, of the capital stock of Company B. At the time of the purchase, the balance sheet of Company B showed surplus and undivided profits of $50,000. Company A bought the stock of B at 200%. Almost immediately after the purchase Company B paid a cash dividend of 25%. In what ways would the payment of this dividend affect (a) the balance sheet of B; (b) the balance sheet of A; (c) the consolidated balance sheet of A and its subsidiary companies? Give your reasons for your answer.

(*American Institute*)

Group J—Bonds and Sinking Funds

Problem 115

The Yardley Textile Company on September 1, 1921, issued \$500,000 First Mortgage 6% Sinking Fund Coupon Bonds, interest payable semi-annually. The deed of trust provides that \$30,000 shall be taken from profits on September 1, 1923, and each year thereafter, for the purpose of providing a sinking fund. This money shall be turned over to sinking fund trustees who shall purchase outstanding bonds of the company at 105. The bonds purchased are to be carried as live bonds and interest on same added to the fund. The entire bond issue was sold to a syndicate at 95. The bond discount is to be written off over the life of the bonds.

Required:

Outline in journal form entries on the corporate books to record the issue and sale of bonds, payment of interest, payment to sinking fund trustees, redemption of bond by trustee, amortization of bond discount, etc., up to and including September 1, 1924.

Comments.—For the purpose of this problem it may be assumed that the trustee purchased bonds to the extent of his funds as provided by the sinking fund installment.

Problem 116

The Bucks Public Service Corporation issued and sold to a bond house at 92, \$100,000 General Mortgage 5% bonds, dated January 1, 1922, due in 20 years, interest payable semi-annually.

The deed of trust provided that the corporation should pay the sum of \$5,000 annually from earnings to sinking fund trustees, who should use the fund accumulated, beginning two years from the date of bond issue, for the purpose of redeeming such bonds as may be available at not more than 103. Such bonds as may be redeemed by the trustees are to be cancelled.

Required:

(a) Assuming that money is worth 6%, how many bonds can be redeemed January 1, 1924?

(b) Journal entries to record the issue of bonds, payment of interest, bond discount written off, provision for annual payment of sinking fund installments, redemption of bonds by trustees to the extent of funds available, etc., up to January 1, 1925.

Problem 117

You are called upon to state what is the annual sinking fund necessary to redeem a principal sum of $1,000,000 due 30 years hence, assuming that the annual sums set aside are invested at compound interest at 5%. State what computation you would make to arrive at the result desired. You need not work out the computation.

(From American Institute Examination.)

Problem 118

A company is under obligation to pay $10,000 to sinking fund trustees "out of profits." The following transactions take place:

1917

December 31: $10,000 cash paid to sinking fund trustees.

1918

January 5: Trustees invest in $10,000 of the 5% bonds of the company at 98 and interest (from January 1).

July 1: Coupons on the above bonds collected.
December 31: $10,000 paid to sinking fund trustees.

1919

January 1: Coupons collected.
2: $11,000 bonds bought for sinking fund at 95.
July 1: Coupons collected.
December 31: Paid $125 for expenses of sinking fund.
31: Paid $10,000 to sinking fund trustees.

1920

January 1: Coupons collected.
10: $10,000 bonds bought at 101 and interest.

Required:

Journal entries on the company's books for the above transactions.

(From American Institute Examination)

Problem 119

X. Y. Z. Corporation has an authorized issue of $5,000,000 First Mortgage 5% bonds, in $1,000 denominations; $2,502,000 of these are in the hands of the public, and the balance in escrow in the hands of trustees, to be taken down only to take up the bonds of underlying companies, or for new construction up to 80% of the expenditures; but the net earnings above operating expenses and taxes for the previous year must equal at least one and three-fourths times the interest on all outstanding bonds including those to be taken down. The net earnings for a certain year were $273,990.44. There were also in the hands of the public the following bonds of subsidiary companies: $106,000 5's, and $295,500 $4\frac{1}{2}$'s. The expenditures for construction amounted to $300,000.

Required.—State how many bonds can be taken down for construction, showing how you arrive at the result.

(From Massachusetts C. P. A. Examination)

Comments.—This problem is largely one of mathematics and should be closely studied. In figuring the total interest on bonds now outstanding, interest on bonds of subsidiary companies should be included. This is done under the assumption that the holding company guarantees the interest on the bonds of the subsidiaries, which is frequently done.

The term "taken down" used in connection with the bonds in escrow means that the bonds are to be turned over to the company by the trustees and sold to the public, the proceeds to be used as indicated.

Problem 120

Under the terms of the mortgage, securing the issue of bonds by a corporation, there is a sinking fund provision, by which 2 per cent per annum must be turned over to the trustees, who are empowered to invest the cash in their hands in purchasing these bonds whenever they can be obtained at par or below. During the year under review they have bought $50,000 at 90 flat and received one-half year's interest thereon at 6%. Show the entries on the company's books. Indicate whether its profit and loss or its surplus is affected by the discount and the interest.

(*American Institute*)

Problem 121

A corporation issued 10-year First Mortgage bonds on April 1, 1914, bearing 6% interest, payable semi-annually (April and October). The bonds provided for annual contributions to a sinking fund trustee, a trust company that allowed 2% compound interest. The bonds were sold at a premium and payment was received therefor on April 1, 1914. Show pro forma entries as of the following dates: (a) April 1, 1914; (b) October 1, 1914; (c) April 1, 1915; (d) April 1, 1924.

(*Maryland C. P. A.*)

Problem 122

The stockholders of a corporation authorize an issue of \$1,000,000 of bonds; \$500,000 of these bonds, duly registered and certified by the trustee, were returned to the corporation and disposed of as follows: The Corporation sold \$100,000 for cash at 99½, \$100,000 at 101, pledged \$200,000 as collateral security for the payment of its notes and retained \$100,000. How should this issue of bonds appear on the balance sheet of the corporation?

(*Maryland C. P. A.*)

Problem 123

The Fort William Manufacturing Company has created a first and second issue of mortgage bonds which have been placed through a syndicate. The first mortgage bonds are to run 20 years and were sold at 115. The second mortgage bonds are to run 40 years and were sold at 60. State how the same should be entered on the books of the company, assuming the total par value of the first mortgage to be \$5,000,000 and the second \$2,500,000.

(*Maryland C. P. A.*)

Group K—Bonds and Bond Sinking Funds—Theory Questions

T-87

Name five classes of bonds, describing briefly each class with regard to issue, purpose, redemption, etc.

(*Michigan C. P. A.*)

T-88

A distinction is made between funded debt and unfunded debt. Please define and compare, discussing the advantages and disadvantages, if any, attaching to each.

(*American Institute*)

T-89

An issue of mortgage bonds of the par value of $100,000 and running for 5 years has been sold at 90, the money to be used in the erection of new buildings. How should the transaction be recorded and why?

(*Michigan C. P. A.*)

T-90

(a) What factors determine the interest rate of bonds?

(b) What is meant by the nominal rate of interest? The effective rate?

(c) How may the effective rate of interest be determined?

T-91

An insurance company buys $50,000 7% 10-year bonds at 116 for investment. The bonds will mature at the expiration of 5 years. How should this purchase be entered on the balance sheet? What should be done with the premium?

(*Maine C. P. A.*)

T-92

A corporation, having issued first mortgage bonds to the amount of $50,000, sets aside out of profits $5,000 each year and pays off at par bonds to a similar amount.

How shall these items appear in a balance sheet at the end of 5 years?

(Massachusetts C. P. A.)

T-93

What reason can you give for the creation of a reserve for a sinking fund when the reserve is not to be funded? Explain fully.

(New York C. P. A.)

T-94

(a) Give a definition of a sinking fund and state how the term is used generally in bond recitals.

(b) Indicate the pro forma entries for

1. The creation of a sinking fund reserve.
2. The creation of a sinking fund.

(c) State the disposition of a Reserve for Sinking Fund account which is no longer necessary.

(d) State the plan most frequently approved by writers on corporation finance as being the most satisfactory for accomplishing the purpose for which a sinking fund is created.

(Wisconsin C. P. A.)

T-95

A municipality borrowed $150,000 for 5 years at 4%, interest payable annually. To meet the debt when it became due a sinking fund was created by depositing at 5% compound interest an equal sum at the expiration of each of the 5 years. What was the annual amount deposited?

(Michigan C. P. A.)

T-96

A company under its articles of incorporation is required to set aside a certain percentage of its profits at the close of each year to provide a sinking fund for retiring its bonded indebtedness when it matures.

(a) Give necessary entries to be made in the books, setting up the reserve at the close of each year.

(b) Give entries required when the bonds are paid off at maturity.

(c) What relation has the sinking fund provision to depreciation?

(*Massachusetts C. P. A.*)

T-97

Explain the relationship between a sinking fund and an allowance for depreciation. It is claimed that in municipal enterprises the requirement that rates must be high enough to provide both for a sinking fund to pay off the bonds and also for a Reserve for Depreciation with which to replace the plant results in a double charge to consumers. Criticize or explain this theory.

(*American Institute*)

T-98

A city wishes to borrow $90,000 for 30 years, this debt to be extinguished either by a sinking fund or by an issue of serial loan bonds payable so much per annum. Which, in your opinion, would be the better method and why? Answer fully, and differentiate clearly between these two methods of extinguishing the debt.

(*Massachusetts C. P. A.*)

Bibliography

Corporations

Bell, Spurgeon. Accounting Principles. New York, 1921. Chaps. xxiv–xxix.

Bennett, Robert J. Corporation Accounting. New York, 1916.

Cole, William Morse. Accounts: Their Construction and Interpretation. Boston and New York, 1915.

The Fundamentals of Accounting. Boston, 1921. Chap. xvi.

Conyngton, Thomas. Corporate Organization and Management. New York, 1917.

Cox, Henry C. Advanced and Analytical Accounting. Business Accounting, Vol. iv, New York, 1920. Chaps. v–vi and xiv–xv.

Dewing, Arthur Stone. The Financial Policy of Corporations. New York, 1921.

Dickinson, Arthur Lowes. Accounting Practice and Procedure. New York, 1913. Chap. viii.

Esquerre, Paul-Joseph. Applied Theory of Accounts. New York, 1914. Chaps. ii–iv.

Practical Accounting Problems—Theory Discussion and Solutions—Part i. New York, 1921.

Gerstenberg, Charles W. Materials of Corporation Finance. New York, 1915.

Gilman, Stephen. Principles of Accounting. Chicago, 1916. Chap. x.

Greeley, Harold Dudley. Theory of Accounts—Vol. i, Business Accounting. New York, 1920. Chap. xxxiii.

Greendlinger, Leo. Financial and Business Statements. New York, 1919. Modern Business, Vol. 22, Accounting Practice. New York, 1914.

Hatfield, Henry Rand. Modern Accounting. New York, 1913.

Kester, Roy B. Accounting Theory and Practice. New York, 1917. Vol. i, chaps. xlviii–xlix. Vol. ii, 1918.

Klein, Joseph J. Elements of Accounting. New York, 1918. Chap. vi.

Madden, John T. Accounting Practice and Auditing. New York, 1917. Chaps. xi–xii.

McKinsey, James O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. ii, Series B, chaps. xxxbii–xli.

Paton, William A., and Stevenson, R. A. Principles of Accounting. New York, 1918. Chaps. xii–xiv.

Rittenhouse, Charles F., and Clapp, Philip F. Accounting Theory and Practice. New York, 1919. Vol. ii, chaps. vii–xvii.

Saliers, Earl A. Accounts in Theory and Practice. New York, 1920. Part iv, pages 145–186.

Walker, William H. Corporation Finance. New York, 1917.

Mergers, Holding Companies and Consolidated Balance Sheets

Bennett, Robert J. Corporation Accounting. New York, 1917. Chaps. xxviii–xxxii.

Cox, Henry C. Advanced and Analytical Accounting. Business Accounting, vol. iv. New York, 1920. Chaps. xxvi–xxviii.

Dickinson, Arthur Lowes. Accounting Practice and Procedure. New York, 1913. Chap. viii.

Esquerre, Paul-Joseph. Applied Theory of Accounts. New York, 1914. Chap. xxxviii.

Greendlinger, Leo. Financial and Business Statements. New York, 1919. Modern Business, vol. 22, chap. xx.

Kester, Roy B. Accounting Theory and Practice. New York, 1918. Vol. ii. Pages 331–338 and chaps. xxviii–xxix and chap. xxxiv.

Klein, Joseph J. Elements of Accounting. New York, 1915. Pages 145–154.

Montgomery, Robert H. Auditing Theory and Practice. New York, 1915. Chap. xxi.

Wildman, John R. Principles of Accounting. New York, 1914. Chap. xxvi.

Bonds and Bond Sinking Funds

Bell, Spurgeon. Accounting Principles. New York, 1921. Chap. xxvii.

Bennett, Robert J. Corporation Accounting. New York, 1917. Chaps. xiv–xxii.

Cox, Henry C. Advanced and Analytical Accounting. Business Accounting, vol. iv. New York, 1920. Chaps. ix–xi.

Dickinson, Arthur Lowes. Accounting Practice and Procedure. New York,
1914. Pages 133–143 and 148.

Esquerre, Paul-Joseph. The Applied Theory of Accounts. New York, 1914. Chap. xxviii.

Hatfield, Henry R. Modern Accounting. New York, 1913. Chap. xiv.

Kester, Roy B. Accounting Theory and Practice. Vol. ii. New York, 1918. Chaps. xv, xx and xxv.

Rittenhouse, Charles F., and Clapp, Philip F. Accounting Theory and Practice, vol. ii. New York, 1919. Chap. x-xi.

Wildman, John R. Principles of Accounting. New York, 1913. Chaps. xxvi and xxix.

SECTION III

DEPRECIATION, RESERVES AND SURPLUS

Group A—Depreciation and Reserves

Problem 124

A machine costing \$81 is estimated to have a life of four years, with a residual value of \$16.

Required:

(a) Set up a schedule showing the annual depreciation under each of the following methods: Straight line, Constant percentage of diminishing value, Annuity method, Sinking Fund method (for convenience in arithmetical calculation, assume the rate of interest to be 10%)

(b) Submit the formula used for each method, showing how you arrived at the figures shown in the schedule

(c) Discuss the significance of each of the methods.

(From American Institute Examination)

Comments.—The figures in this problem are such that the results may be readily worked out by arithmetic from the formulae.

In preparing the schedule called for in (a), set the figures up in four columns properly labelled at the top for the various methods.

Problem 125

A machine which cost \$10,000 has an estimated life of 12 years and a scrap value of \$75. The periodic charge for depreciation as determined from formula for annuity method at 4% interest is \$1,060.50.

Required:

(a) Set up a schedule covering the first three years of the life of the asset

(b) Assuming that Reserve for Depreciation account is to be kept, show the journal entry that would be made at the end of the first year.

Problem 126

	Cost	Estimated Life	Scrap Value
Buildings	$50 000	50 years	$1 000
Machinery	20 000	20 years	2 000
Tools	5 000	5 years	100
Patterns	10 000	3 years	100

Required.—Explain clearly and show figures illustrating three different methods of arriving at the amount to charge annually for the depreciation of the above items.

(From Wisconsin C. P. A. Examination)

Problem 127

A machine costing $10,000 was estimated to have a life of 10 years, with a residual value of $1,000. At the close of each year a charge of $900 was made and a similar amount credited to "Reserve for Depreciation." Just prior to closing the books at the end of the tenth year the machine was discarded and sold, bringing $2,000, and a similar machine was bought costing $15,000.

Required.—Journal entries to close the books at the end of the tenth year in order to cover these transactions and to make necessary adjustments. Interest is not to be calculated.

(*From American Institute Examination*)

Problem 128

A corporation has been accustomed to charge the purchase of machinery to the Machinery account at cost, and each year to charge the Manufacturing account and to credit a Reserve for Depreciation account with an amount which will offset the cost of the machinery by the time it is estimated that it will be advisable to scrap the machines. During the period that you have been employed to audit the account, you find that the corporation has sold two machines for $500 each, and this amount has been credited to the Machinery account. One of them cost $1,000, and the amount reserved for depreciation on this machine is $600. The other cost $1,500, and the amount reserved for depreciation is $850.

Required.—Adjusting entries to correct the books.

(*From Massachusetts C. P. A. Examination*)

Problem 129

The Auburn Manufacturing Company has an account with Fixtures showing a total cost of $46,880 which were bought as follows:

1915	$ 5 115	1919	$1 005
1916	3 002	1920	4 505
1917	2 150	1921	6 115
1918	17 810	1922	7 178

No depreciation has ever been provided, a condition which it is now desired to correct. The estimated life is ten years from the date of purchase.

Required.—Make entry for setting up a reserve account covering depreciation for the entire period during which the fixtures have been used, including depreciation for the current year ending December 31, 1922.

Comments.—Instead of figuring depreciation for each year separately the aggregate for each item may be used; for instance, 80% of the first item represents depreciation; 70% of second, etc. The total depreciation for 1922 represents a charge to Depreciation or to Profit and Loss, while that of previous years should be charged to Surplus.

Problem 130

An account with Reserve for Depreciation of Delivery Equipment showed on December 31, 1920, a balance of $940.80. The Delivery Equipment account of the same date showed a balance of $13,968.40.

In August, 1920, a horse died which cost $300, no entry being made at the time. Three years' depreciation had already been provided for at the time of the horse's death at the rate of 10% per annum, based on cost.

In October, 1920, a horse which cost $275 was sold for $175, the difference between cost and selling price having been charged to the Reserve account. This horse was bought at the same time the other one was and the same depreciation has been provided for.

Required.—Make necessary adjusting entries.

Problem 131

The Keystone Machine Company has followed the policy of crediting depreciation on fixed assets directly to the ledger accounts kept with such assets, arbitrary amounts being written off to cover depreciation at the close of each fiscal period. At the time of closing the books on June 30, 1917, on the advice of an accountant, it is decided to abandon such an unscientific policy and the accountant is authorized to outline a series of entries by which proper reserve accounts may be opened covering the entire period during which the assets have been in use.

To enable the accountant to do so, the following data are obtained regarding the accounts:

Buildings:	
Cost	$90 000 00
Depreciation written off to 12/31/16	16 700 00
Estimated life from 12/31/16	20 years
Machinery and Equipment:	
Cost	$50 000 00
Cost of replacements	5 000 00
Depreciation written off to 12/31/16	14 375 00
Estimated life from 12/31/16	8 years
Power Plant:	
Cost	$8 000 00
Cost of replacements	1 500 00
Depreciation written off to 12/31/16	4 000 00
Estimated life from 12/31/16	4 years
Office Equipment:	
Cost	$ 6 500 00
Cost of replacements	700 00
Depreciation written off to 12/31/16	1 635 00
Estimated life from 12/31/16	8 years
Horses, Wagons and Harness:	
Cost	14 500 00
Cost of replacements	1 200 00
Depreciation written off to 12/31/16	7 340 00
Estimated life from 12/31/16	6 years

Required.—Prepare journal entries, with complete explanations, by which the new policy may be put into effect, provision being made at the same time for the depreciation applicable to the current 6 months' period.

Comments.—This problem requires considerable thought. In the first item, Buildings, the current depreciation will be based on the book value of the property at 12/31/16, inasmuch as the estimated life of 20 years dates from that time. On a basis of 20 years, the depreciation for the current 6 months will therefore be 2½% of $73,300 ($90,000−$16,700), or $1,832.50.

In the item Machinery and Equipment, a new element, that of replacements, is introduced. The replacements were no doubt charged to the asset, while the depreciation was credited to the same account, so that the asset has actually been written down for the difference or $9,375 ($14,375−$5,000). The entry, then, to write the asset up to cost and set up the reserve for depreciation as of 12/31/16 is to charge Machinery and Equipment account and credit Reserve for Depreciation of Machinery and Equipment for $9,375. This is equivalent to setting up the reserve for the entire depreciation of $14,375, and then charging same with the $5,000 replacements which would be the proper procedure. The book value and current depreciation would then be found as in the item for Buildings.

The remaining items will be handled the same as the Machinery and Equipment item.

Problem 132

In your examination of the Automobile 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, 1914, Truck 5		1 500
Aug. 1, 1914, Truck 6		1 500
Credits		
Aug. 1, 1913, Truck 2		$ 900
Sept. 1, 1914, Truck 4		750
Balance, September 1, 1914	$6 150	

The Reserve for Depreciation for Automobile Delivery Truck 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 accumulated for depreciation on Truck 2 on January 1 amounted to $300.

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

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

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

(*From Wisconsin C. P. A. Examination*)

Comments.—In solving this problem, start with the balance of the Automobile Delivery Trucks account on January 1, 1914, which is $4,800, representing the cost of Trucks 1, 2, 3, and 4 at $1,200 each. Disregard the other items in the account, and set up journal entries for data in (a), (b), and (c) as they should have been set up at the time the transactions occurred. This will result in restating the asset account for Trucks and will affect various other accounts, the balances of which will be listed as a part of the solution.

Problem 133

The Western Hardware Company has the following fixed assets:

	Cost	Estimated Scrap Value	Estimated Life in Years
Buildings	$100 000	$35 000	20
Machinery	70 000	25 000	15
Tools	20 000	5 000	10
Patterns	10 000		8

Required:

(a) Determine the average life of the above assets

(b) After determining the average life of the fixed assets, state the amount of annual depreciation by the straight line method.

(From American Institute Examination)

Problem 134

The A Manufacturing Company has four general types of depreciable assets.

	Rate	Cost	Scrap Value
Buildings	2%	$51 000	$1 000
Machinery A	10%	11 000	1 000
Machinery B	20%	12 000	2 000
Office Equipment	10%	4 100	100

The directors desire to keep but one Reserve for Depreciation account, and they request you to determine the composite rate which may be used in determining the annual depreciation charge.

Required.—Determine the composite rate as requested, tabulate the necessary facts used in determining it, and comment upon the practicability of such a plan.

(From Wisconsin C. P. A. Examination)

Group B—Depreciation and Reserves—Theory Questions

T-99

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

(*C. P. A.*)

T-100

(a) Explain the theory upon which periodical depreciation charges are based.

(b) How is the inclusion of such charges in production costs justified?

(c) How should a Reserve for Depreciation be shown in the balance sheet? Why?

(*Ohio C. P. A.*)

T-101

Should depreciation be written off the accounts of a corporation whose property is of a wasting nature, such as a quarry or a mine?

Give reasons.

T-102

The A Company had an appraisal made early in January and after completing the annual audit for the A company, the directors authorize you to record upon the books the proper values as given in the appraisal. Among the terms used in the appraisal company's report are the following:

1. Sound value.

2. Depreciated value.
3. Replacement value.
4. Insurable value.
5. Book value.

Define each of these terms and state definitely just what values it would be proper to record upon the books.

(*Wisconsin C. P. A.*)

T-103

The Cereal Food Company manufactures a brand of breakfast food according to a secret process. Their engineers design a special machine for its manufacture, ten machines of this design being made by the Beckworth Machine Company.

The cost of each machine is $3,600; the estimated life is 10 years; the scrap value $100.

As an accountant, you are asked to work out a method for reckoning depreciation on the machine, the depreciation to be included in the cost to produce the food. Your attention is called to the fact that the business has been quite profitable due largely to the extensive advertising done by the company. Their success, however, has attracted capital in large quantities to this field and new companies are constantly being organized for the manufacture of a variety of competing foods, with the result that the ability of the company to maintain their present sales and profits is rather uncertain. Prepare your report covering the following points:

(a) Method of reckoning depreciation.
(b) Method of bringing it on the books.
(c) Treatment of repairs.

T-104

The directors of a manufacturing corporation assert that, because the selling value of the land on which the plant is situated has increased beyond the probable amount of plant depreciation, no allowance for plant depreciation is necessary.

State (a) your view of the propriety of this; and (b) the reasons supporting your answer.

(*Massachusetts C. P. A.*)

T-105

The book value of the plant of a corporation has been reduced to a nominal sum. Under this condition, state: (a) whether periodically, a reservation should be made of an amount estimated to cover depreciation; and (b) the reasons supporting your answer.

(*Massachusetts C. P. A.*)

T-106

A corporation makes a practice of charging to expense and carrying to depreciation reserve account every half year a certain percentage of the book value of its plant and machinery. Should repairs and renewals be charged to profit and loss, or can they properly be charged to depreciation reserve account? Give reasons in full.

(*Massachusetts C. P. A.*)

T-107

A mill sells a lot of its old machinery for $7,300, and credits the amount to Repairs account. State (a) your opinion thereof, and (b) the reasons supporting your answer.

(*Massachusetts C. P. A.*)

T-108

Give some general principles which will guide you in determining whether too much or too little provision has been made for depreciation of buildings, machinery, tools, good-will, patents, franchises. Would a flat rate cover all these assets satisfactorily?

(*American Institute*)

T-109

On pointing out the insufficiency of the provision for depreciation on machinery, which the directors admit, you are met with the argument, supported by evidence, that the real estate values have appreciated to an even greater extent than the entire depreciation of other assets. As this latter is not taken up on the books you are asked to allow the one to offset the other. Give reasons for your agreement or disagreement.

(*American Institute*)

T-110

The X Y Z Company established for 10 years has a machinery and equipment account which has been increased from year to year as new equipment purchases have been made. It appears also that certain renewals and repairs have been charged to this account. Each year a credit has been made to the account for depreciation, offset by a corresponding debit to profit and loss account, the ratio of depreciation being adequate. The company now disposes of a part of its plant at a price equal to what was paid for it 7 years previously and credits the entire amount to Machinery and Equipment account. What adjustments, if any, are needed to correct the account?

(*American Institute*)

T-111

You are asked by a client to discuss with him the question of reserves for depreciation and depletion of his various capital assets. State your position on this subject and enumerate the considerations you would advance in support thereof. Would you or would you not be guided by the rules laid down by the internal revenue authorities in deciding upon the rates to be used?

(*American Institute*)

T-112

How should a re-appraisal of capital assets be treated on the books of a going concern—

(a) When it involves an appreciation?

(b) When it involves a depreciation?

(*American Institute*)

T-113

It has recently been urged that if the replacement cost of fixed assets is greatly in excess of their cost, depreciation should be computed on replacement values, so that the reserve for depreciation will be equal to the replacement value when the time comes for abandoning the old property and acquiring new. It is contended that if this procedure is followed the company will have sufficient cash to make replacements without impairing the capital. State your opinion in regard to this matter.

(*American Institute*)

Group C.—Adjustments and Analysis of Surplus

Problem 135

An accountant is engaged by a certain concern to draw up financial statements and to close the books as of December 31, 1920. He finds that no provision for accrued or prepaid items was made when the books were closed December 31, 1919, and he also locates certain errors as indicated in the following: Accrued wages and salaries, December 31, 1919, $1,460; December 31, 1920, $2,000; Insurance paid in advance, December 31, 1919, $360; December 31, 1920, $180; Accrued interest on mortgage, December 31, 1919, $1,200; December 31, 1920, $1,200.

Goods received prior to December 31, 1919, and included in the inventory of that date but not entered on the books until January, 1920, $9,000. Error in taking inventory, December 31, 1919, $2,500 too little. Depreciation on real estate—estimated—for 1919, $6,500; for 1920, $7,000.

Required.—The necessary adjusting entries with full particulars.

Comments.—All items affecting profits of previous periods are adjusted through the Surplus account. In the first item given above, if the accrued wages and salaries had been properly recorded on December 31, 1919, Salaries and Wages account would have been charged $1,460, and the profit for the period ending on that date would have been reduced by that amount. In making adjusting entry on December 31, 1920, therefore, Surplus account is charged with $1,460. If wages and salaries had been accrued to the extent of $1,460 on December 31, 1919, and the accrual amounts to $2,000 on December 31, 1920, then the difference, or $540, is the amount chargeable to the current period's profits through the regular expense account, Salaries and Wages. The completed adjustment on December 31, 1920, will then appear:

Surplus	$1 460	
Wages and Salaries	540	
Wages and Salaries Accrued		$2 000

The same general principle is followed in adjusting the other items given in this problem. If the adjustment increases profits of previous periods, Surplus account is credited and vice versa. The points to bear in mind are: (1) that each period must be credited with income and charged with expenses applicable to that period; (2) that in so doing at the end of a series of fiscal periods, Surplus represents prior periods' profits, while the usual expense and income accounts represent the current period's profits; (3) that the adjustment is made on the books at the close of the last fiscal period only—in this problem on December 31, 1920.

Problem 136

In taking up the audit of the accounts of a company for the year ending December 31, 1922, you find that the adjustments made at the previous audit for the year 1921 have not been taken on the books, and that, therefore, the books are not in agreement with the audited accounts as of that date. Assuming the following were the adjustments referred to, what, if any, disposition would you make of the items at this audit, illustrating your answer with journal entries, viz.:

To record:

(1) Invoices for Merchandise in Transit at December 31, 1921, not on books	$ 5 000 00
(2) Invoices for Merchandise received, but not entered	10 000 00
(3) Reserve for Bad Debts (said debts were written off in 1922)	2 000 00
(4) Factory Expense Bills for 1921 not entered until January, 1922	750 00
(5) Pay-Roll accrued at December 31, 1921	6 000 00
(6) Insurance Premiums paid in advance at December 31, 1921	500 00
(7) Taxes for year ending December 31, 1921, not entered until May, 1922	1 000 00
(8) Reserve against excess valuation of Inventory, December 31, 1921	10 000 00
(9) Depreciation not taken up on books prior to January, 1921, $5,000; year ending December 31, 1921, $1,000	6 000 00
(10) To write off an unlocated difference in the Accounts Receivable Controlling Account at December, 1921, which, however, was located and canceled in 1922	1 500 00

Required.—Necessary adjusting entries as of December 31, 1922.

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

Comments.—Assuming that the books are closed for 1922, it will be necessary to reopen the Profit and Loss account and adjust items applicable to 1922 through that account. Items affecting 1921 profits will be adjusted through Surplus account.

It may be assumed in (2) that the merchandise has not been received, and, therefore, is not included in the inventory. This being the case, no entry is necessary.

Item (3) means that bad debts applying to 1921 were written off in 1922, and adjustment should be made accordingly.

Problem 137

The books of the X Manufacturing Company were audited to December 31, 1920, and in making up the Balance Sheet and Profit and Loss Account at that date the auditors recommended the following adjustments:

(a) Transferred to Profit and Loss $4,231.07 which had been charged to real estate and buildings in error.

(b) Provided for depreciation of buildings, etc., $7,200.

(c) Adjusted salaries amounting to $1,400 due for 1920 services but not entered on the books until January, 1921.

(d) Reduced the amount of Inventory because of errors, $12,000.

The same auditors were again called in to audit the books to June 30, 1921, and found that the above adjustments had not been entered on the books. They also found that during the half year $1,000 had been charged to real estate, buildings, etc., instead of to expense; that no provision had been made for depreciation for the period amounting to $3,600 and that the inventory had been footed $10,000 too much. Also, that the unexpired insurance amounted to $750 more than was entered on the books. The following are condensed trial balances of the X Manufacturing Company books as the auditor found them as of December 31, 1920, and June 30, 1921:

	December 31, 1920		June 30, 1921	
Real Estate, Buildings, etc.	$102 840 26		$115 226 80	
Capital Stock		$200 000 00		$200 000 00
Debentures		100 000 00		100 000 00
Cash	14 672 14		22 143 21	
Accounts Payable		9 431 17		11 698 21
Accounts Receivable	22 436 10		28 250 40	
Loans		10 000 00		5 000 00
Stocks and Bonds	17 502 50		19 150 00	
Inventory	246 153 42		288 360 14	
Unexpired Insurance	1 471 23		742 26	
Surplus		85 644 48		85 644 48
Profit and Loss, 1914				71 530 12
	$405 075 65	$405 075 65	$473 872 81	$473 872 81

Required:

(a) A correct balance sheet, June 30, 1921

(b) State the adjusted amount of profits for the half year to June 30, 1921

(c) Prepare an analysis of the surplus account for the period ended June 30, 1921.

(*Adapted from Massachusetts C. P. A. Examination*)

Comments.—The answers to this problem are worked out in reverse order to that stated in the requirement— (c), (b), and (a).

The condensed trial balances given in the problem are, in effect, balance sheets. In preparing (c), use six-column paper, heading the columns as follows:

Balance Sheet		Adjustments		Adjusted Balance Sheet	
Assets	Liabilities	Dr.	Cr.	Assets	Liabilities

It may be headed "Reconciliation Statement, June 30, 1921."

It is suggested that the necessary adjustments be journalized and transferred to a working sheet.

In the first two columns place the balance sheet above for June 30, 1921. In the adjustment columns, enter the adjusting entries, numbering each entry properly so that the debits and credits may be readily identified. In the last two columns place the adjusted figures of the balance sheet. The data for (a) will then be taken from the adjusted figures in the last two columns and set up in proper form. The answer to (b) will also be found in the adjusted balance sheet columns.

The condensed trial balance or balance sheet for December 31, 1920, is not used at all in solving the problem.

The adjustments are simple and need no comment.

Problem 138

Watson and Daggett are engaged in the manufacture of lathes, and at the time of closing the books June 30, 1920, the following facts are discovered by the accountant:

March 1, the Essex Machine Company ordered the delivery of two lathes, which had been manufactured for them and had been held for shipping instructions since September, 1919. The lathes had been charged to the Essex Machine Company on September 21, 1919, but by an oversight were included in the inventory taken December 31. One machine was billed at $962.50 and the other at $750.

The inventory taken December 31 was also found to contain the following clerical errors:

Finished stock, $3,100 too much.

Raw materials, $1,000 too little.

L. P. Fuller, a customer of the company, failed and his affairs were settled in the bankruptcy court. A final dividend was received March 1, 1914, leaving an unpaid balance of $610 which was charged off to Profit and Loss. Fuller began business anew, and desiring to make settlement in full with all creditors as he is able to do so, sends the company his check for $300 on account on June 30, 1915. What entry should the bookkeeper make?

If the $610 had been charged to a Reserve for Doubtful Accounts, what entry would you advise at the time of recovering the $300?

Required.—Journal entries to record adjustments in accordance with above data.

Problem 139

THE HALL MANUFACTURING COMPANY

Balance Sheets

Assets	December 31 1920	December 31 1921
Current Assets	$ 84 000	$ 84 800
Fixed Assets	301 000	393 000
Good-Will	30 000	28 000
Discount on Bonds		2 000
Investments	25 000	
Deferred Assets	800	1 250
	$440 800	$509 050
Liabilities		
Current Liabilities	$ 80 000	$ 15 000
Bonds Payable	200 000	300 000
Reserve for Depreciation	20 000	29 000

Reserve for Bad Debts	$1 200	$1 500
Reserve for Construction	16 000	20 000
Capital Stock	100 000	100 000
Surplus	23 600	43 550
	$440 800	$509 050

An analysis of the Surplus account shows that the land was appreciated $30,000 during the year as the result of an appraisal; good-will was depreciated $2,000; a dividend of 10% was declared and paid during the year; machinery which cost $7,000 was sold during the year for $6,000, the loss being charged against the reserve account; $4,000 was added to the reserve for construction; the asset value of tools was reduced $5,000.

Required:

From the above prepare the following:

(a) Statement showing profit of the business from operations

(b) Statement showing analysis of surplus account for the year.

Problem 140

Following is a transcript of the Surplus account of a company covering the years 1916–1918:

Credits

December 31, 1916	Net Profit	$129 600
December 31, 1917	Net Profit	110 000
June 30, 1917	Adjustment of Inventory	2 000
December 31, 1918	Net Profit	118 000

Debits

January 15, 1916	Dividend	$ 20 000
July 15, 1916	Dividend	20 000
January 15, 1917	Dividend	20 000
July 15, 1917	Dividend	20 000
December 31, 1917	Good-will reduced	100 000
January 15, 1918	Dividend	20 000
July 15, 1918	Dividend	20 000

Early in 1918, accountants are called in to make an examination of the books and to estimate the amount of Federal Income Tax which the company will pay. They discover the following:

(a) No depreciation of the machinery was written off in 1916. They reckon the depreciation for this year to be $5,000.

(b) Error in inventory of December 31, 1916, of $1,000 too much, which was never corrected.

(c) Wages accrued as of December 31, 1917, estimated to be $3,000, were ignored.

(d) Insurance premiums prepaid of $500 as of December 31, 1917, were ignored.

(e) Error in inventory of December 31, 1918, resulting in the inventory being $2,000 less than it should have been.

(f) A patent costing $5,000 was charged to Manufacturing Expenses in 1918.

(g) Insurance Prepaid as of December 31, 1918, of $300, not shown on the books.

(h) A Suspense account with a debit balance of $130 representing unlocated errors in trial balances to be closed out.

Required.—Make adjusting entries for the above and set up an entirely new Surplus account for the three years, embodying all adjustments, and balancing the account as of December 31 each year, and carrying forward the balance to the following year.

Comments.—This problem illustrates the analysis of Surplus account for tax purposes. In making the analysis and adjustment of the account as it stands, it will be divided into three groups, each representing one year. The entries will be made as if there were three accounts labelled Surplus 1916; Surplus, 1917, and Surplus, 1918. For instance, the first entry (a) will be as follows:

Surplus, 1916	$5 000	
Reserve for Depreciation of Machinery		$5 000

After making the journal entries, set up a ledger account for Surplus. Credit this account with 1916 profit, and charge it with 1916 dividends, the depreciation referred to above, and any other adjustments. Since there are no credit adjustments for 1916, the account is balanced, ruled, and the balance brought down as of January 1, 1917. The same process will be repeated for 1917 and 1918.

Group D—Surplus and Reserves—Theory Questions.

T-114

(a) What is a Reserve Account?

(b) Name and define the two principal classes of reserves and distinguish between them as to origin, purpose, and ultimate disposition.

(c) What is a funded reserve?

(*Ohio C. P. A.*)

T-115

How would you distinguish between
(a) Earned surplus
(b) Paid-in surplus
(c) Capital surplus
(d) Appropriated surplus?

(*American Institute*)

T-116

(a) What items do you consider should be charged or credited direct to surplus?

(b) Would you regularly make small adjustments of subsequently discovered errors through this account?

(c) Is the balance at credit of Surplus ever in any circumstances a liability, and, if so, to whom?

(*American Institute*)

T-117

Give some idea of what taxes you would charge against income and what against surplus. Of the former, which, if any, would you take up into manufacturing costs? What provision, if any, would you make for income and excess profits taxes in closing accounts before the passing of a pending act levying these taxes, either in general circumstances or when profits are partly divisible under some special contract or arrangement?

(*American Institute*)

T-118

A company had its fixed assets valued by an expert, and the appraisal disclosed a valuation greatly in excess of the book value. The excess in value was credited to Surplus. If you see any objection to this procedure, state how you would treat the matter, giving your reasons.

(*Ohio C. P. A.*)

T-119

A manufacturing company sells land for which it has no use, at a price much in excess of the book value. How would you treat this excess on the books of the company, and on its balance sheet?

(*Ohio C. P. A.*)

T-120

How should substantial changes in the value of capital assets be treated in the accounts in respect to surplus?

(*Massachusetts C. P. A.*)

T-121

A corporation increases its capital stock, which it sells at auction, receiving therefor, as premiums above the par value, \$3,000. The treasurer credits this amount to Profit and Loss account, and, in his statement, shows it as part of the profits.

State: (a) your opinion thereof; (b) to what account, if other than Profit and Loss, the amount should be credited; (c) how it should be shown in the treasurer's statement; and (d) your reasons.

(*Massachusetts C. P. A.*)

T-122

It frequently happens that a corporation contracts to purchase property at an agreed price, which on the face of the contract is declared to be its value, and that by another clause in the contract, or by another contract, the vendors agree to provide, in addition to the property, a certain sum for working capital or even for free surplus.

It is sometimes maintained that this free sum so provided is a profit or surplus of the new corporation available for payment of dividends if the directors so determine.

Write a brief expression of your opinion as to the proper treatment of the sum turned back.

(*American Institute*)

T-123

A corporation owns nearly all of a block of land. The remaining portion is purchased subject to an existing lease. The corporation sets aside out of surplus an amount believed to be sufficient to extend its plant over the entire block at the expiration of the lease. What ledger title should be given to the amount set aside, and how should the amount be set up on the balance sheet?

(*American Institute*)

T-124

The balance sheet of a corporation shows the following credit balances:

Reserve for depreciation
Reserve for extension of plant
Reserve for bad and doubtful debts
Sinking fund reserve
Insurance reserve
Reserve for pensions
Reserve for contingencies
Reserves for taxes

What would you assume to be the nature of each of these items? Can better terms be substituted for any of those used? In what circumstances would each of the above accounts be debited, and when debited what would be the corresponding credit? If the business were to be sold for the amount of its net worth as shown by the balance sheet, which of these items would represent a proper addition to the capital stock in determining the selling price?

(*American Institute*)

T-125

Indicate, by appropriate journal entries, the various debits and credits you would make in setting up the following reserves for a balance sheet, explaining briefly how you would determine the proper amount of each reserve:

(a) Reserve for bad and doubtful debts
(b) Reserve for trade discounts
(c) Reserve for cash discounts
(d) Reserve for state, county, and city taxes accrued.

(*American Institute*)

Bibliography

Depreciation, Reserves, and Surplus

BENNETT, ROBERT J. Corporation Accounting. New York, 1917. Chap. XXIII.

COLE, WILLIAM MORSE. Accounts: Their Construction and Interpretation. Boston, 1915. Chap. VIII.

The Fundamentals of Accounting. Boston, 1921. Chap. XVIII.

COX, HENRY C. Advanced and Analytical Accounting. Business Accounting, vol. IV. New York, 1920. Chaps. VII, VIII, XII and XIII.

DICKINSON, ARTHUR LOWES. Accounting Practice and Procedure. New York, 1915. Pages 148–152 and chap. VII.

ESQUERRE, PAUL-JOSEPH. Applied Theory of Accounts. New York, 1914. Chap. XXXII.

Practical Accounting Problems. Theory Discussion and Solutions, part I. New York, 1921. Problem 15.

GREELEY, HAROLD DUDLEY. Theory of Accounts. Vol. I, Business Accounting. New York, 1920. Chap. XXIX.

GREENDLINGER, LEO. Accounting Practice. New York, 1914. Chap. XXV.

Financial and Business Statements. New York, 1919.

HATFIELD, HENRY RAND. Modern Accounting. New York, 1913. Chaps. VII and XIII.

KESTER, ROY B. Accounting Theory and Practice. New York, 1918. Vol. II, chaps. VI–XI and XXIII.

KLEIN, JOSEPH J. Elements of Accounting. New York, 1913. Chap. VIII.

MACFARLAND, G. A., and ROSSHEIM, I. D. A First Year in Bookkeeping and Accounting. New York, 1915. Chap. XXI.

MADDEN, JOHN T. Accounting Practice and Auditing. New York, 1917. Chap. II.

MCKINSEY, JAMES O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. II, Series B, chap. XLVII.

MONTGOMERY, ROBERT H. Auditing Theory and Practice. New York, 1915. Chap. XVIII.

PATON, WILLIAM A., and STEVENSON, R. A. Principles of Accounting. New York, 1918. Chaps. XXII and XXIII.

SALIERS, EARL A. Principles of Depreciation. New York, 1916.

WALL, ALEXANDER. The Bankers' Credit Manual. Indianapolis, 1919. Chap. XI.

WILDMAN, JOHN R. Principles of Accounting. New York, 1914. Chaps. XXX, XXXI and XL.

SECTION IV

PARTNERSHIP PROBLEMS

Group A—Admission of a Partner

Problem 141

Allan and Baker form a partnership and agree to share profits and losses in proportion to capital invested. Allen invests $20,000, and Baker, $10,000. Crane offers to buy a one-third interest in the business for $10,000.

(a) Make necessary entry to give Crane his interest and adjust capital accounts so that the interests of all three partners will be equal.

(b) How should the $10,000 be divided between Allan and Baker?

Comments.—In this problem it is evident that Crane is *buying* an interest from the old partners, and that his purchase money is to go to them personally. The capital of the firm will, therefore, not be increased. He buys a one-third interest in the combined capital of Allan and Crane. The only entry necessary is to credit Crane for his interest and charge the old partners for enough to make the capitals equal. The cash need not be brought onto the partnership books at all, but is shared by the old partners in proportion to capital given up.

Problem 142

Burns and Fox bought merchandise to the amount of $12,000. Burns contributed $7,500; Fox, $4,500. They afterward sold Wolf a one-third interest for $6,000. How much of this amount should Burns and Fox receive, respectively, in order to make Burns, Fox, and Wolf equal partners?

(From New York C. P. A. Examination)

Comments.—It should be noted that Wolf *buys* a one-third interest in assets amounting to $12,000 for $6,000. He, therefore, pays a bonus of $2,000, which in an ordinary firm would be termed Good-Will. This bonus represents a profit to the partners, Burns and Fox. An entry should be made to credit Wolf with his interest and charge Burns and Fox with such an amount as will make the capital accounts of all partners equal. The profit should be divided in proper ratio. Burns and Fox is each entitled to his share of the profits plus the amount of investment given up by each in order to make the three men equal partners.

Problem 143

Ahern and Briggs have been conducting a shoe business. September 1, 1921, Ahern's capital account stands credited with $50,000, and Briggs' with $25,000. The firm is in need of a superintendent, and offers to sell a one-third interest to Carver for $20,000. Make the necessary entry to admit Carver. How will the cash be divided?

Comments.—In this problem, a one-third interest in net assets shown on the books at $75,000 is *sold* for $20,000, or $5,000 less than the book value. Charge the old partners' capital accounts and credit Carver's capital account for his proper proportion of the net assets. The difference between the value of Carver's share in the net assets and the amount paid by him for his share is a loss to be shared by Ahern and Briggs in their profit sharing ratio. To find cash each receives, deduct from the value of the share of assets given up, the share of loss due to sale.

Problem 144

Chaffee, Dean, and Eller are partners with capital balances as follows: Chaffee, $14,000; Dean, $20,000; Eller, $26,000. Hearn desires to buy a one-fourth interest in the firm. The partners place a value of $12,000 on the good-will which is to be set up on the books before Hearn is admitted.

(a) What amount should Hearn pay the old partners for his interest?

(b) Make proper entries to record the good-will and to adjust the capital accounts so as to credit Hearn with his interest, the old partners to retain their relative interests.

Comments.—It is evident that Hearn must pay the old partners a sum equal to one-fourth of the net assets plus the good-will. The Good-Will will then be charged and the old partners credited in their profit-sharing ratio, after which each partner will be charged with his proper proportion, and Hearn credited with enough to give him his one-fourth interest.

Problem 145

Two partners, Walker and Preston, find at the end of the first year's business that the balance sheet shows Walker's interest to be worth $18,000, and Preston's, $9,000. The good-will of the firm is worth $3,000. Each partner draws profits in proportion to his investment.

The partners decide to take in another partner, and to give him a one-quarter interest in the new firm. What sum must the new partner contribute? How will the partnership accounts appear after the payment of the new capital? How will the profits be divided?

(*From California C. P. A. Examination*)

Comments.—The good-will of $3,000 must be brought onto the books and divided between Walker and Preston in the same ratio as profits are shared. If the new partner is to invest such an amount as will give him a one-quarter interest in the business, the existing net worth must be equal to three-fourths of the new capital. Find the new capital, and the difference between that and the present capital will be the amount which the incoming partner must invest.

It is to be noted that the new partner *contributes* capital; and, therefore, the net worth of the firm will be increased to the extent of his investment and the good-will.

Problem 146

William Smith, having been in business for himself a number of years, decides to take in a partner. His assets aggregate $18,000 and his liabilities $10,000. He makes the following proposition to his brother-in-law, John Gray, who has been his office manager for many years; the proposal is made in writing as follows:

Give me $5,000 in cash and I will make you an equal partner, changing the firm name to Smith & Gray, Smith to draw a salary of $75 per week and Gray, $60 per week.

Gray accepts this offer by writing across the face of the communication, in red ink; "This suits me. I accept." A few days later Gray turned over to Smith $1,200 in currency and a check for $3,800.

Required.—Prepare necessary entries and name the books in which they should be made, it being understood that the books of account previously kept by William Smith are to be continued by the partnership.

Problem 147

(a) Frank has $5,000 invested in a business. He sells Johns a one-half interest for $3,000.

(b) Frank has $5,000 invested in a business. By investing $3,000, Johns is given a one-half interest in the business.

Make proper entries under (a) and (b).

(*From Michigan C. P. A. Examination*)

Problem 148

At the end of the first year of a partnership, Grover has an interest of $18,000, and Spencer, of $9,000, each drawing profits in proportion to his capital. O'Malley desires to secure a one-third interest in the firm. The partners are willing to admit him, and value their good-will at $6,000.

In what two ways may O'Malley secure his interest?

What will be the amount of his investment in each case?

Set up journal entries to illustrate your answer.

Problem 149

A and B carried on business in partnership and divided profits and losses in proportion to their capital, three-fifths and two-fifths, respectively. On January 1, 1915, A's capital was $52,500 and B's $35,000, as shown by a balance sheet of that date. They agreed to admit C as a partner from the same date on the following terms:

(1) Assets and liabilities and capital to be taken as shown in the balance sheet.

(2) $12,500 to be added to the assets for good-will.

(3) The amount of good-will to be added to A's and B's capital in the proportion in which they divide profits.

(4) C to pay to the partnership such a sum as will give him a one-fifth interest in the business.

Required:

(a) State what amount of capital C has to bring in

(b) Set out the capital account of each partner in the new partnership

(c) State in what proportion the profits will be divided in the future, A and B, as between themselves, sharing in the same proportion as before.

(From Washington C. P. A. Examination)

Comments.—The terms upon which C is admitted are stated very clearly. No entry is necessary for (1). For (2) and (3) charge Good-Will and credit A and B in the proportion stated.

For (4), as C *contributes* to the partnership such a sum as will entitle him to a one-fifth interest, the net worth, after bringing on the good-will, represents four-fifths of the new capital. Therefore, one-fifth of this amount will represent what C has to bring in.

The capital accounts of the various partners should be set up in statement form showing details of adjustments and the balance at the close.

A transfer of an interest in the capital of a firm usually carries with it a like share in profits. Therefore, A and B will each be obliged to relinquish one-fifth of his share of profits to C, A giving up one-fifth of his three-fifths, and B one-fifth of his two-fifths. Their share in profits will then remain in same relative proportion as before, each having given up one-fifth of his share.

Problem 150

December 31, 1915, the following trial balance was taken after closing from the books of Dudley and Sealy:

Assets		Liabilities	
Cash	$ 460 000	Accounts Payable	$ 800 000
Accounts Receivable	550 000	Notes Payable	490 000
Notes Receivable	75 000	Dudley, Capital	525 000
Merchandise	830 000	Sealy, Capital	450 000
Real Estate	350 000		
	$2 265 000		$2 265 000

Profits and losses are shared equally.

On the date mentioned above an agreement is made to admit Willard into the partnership; he is to invest in the business sufficient cash to give him a one-third interest. Inspection of the accounting records shows that of the accounts and notes receivable now carried on the books, $30,000 of accounts receivable and $45,000 of notes receivable are worthless. A physical inventory shows the cost of goods on hand to be $890,000. The good-will is valued at $150,000.

Make the entries necessary to adjust the books and to show the admission of Willard. Show a trial balance taken from the books after these entries have been made and posted.

Comments.—It is necessary to make adjusting entries to write off the worthless accounts and notes, to write up merchandise, and to set up good-will. The net profit or loss resulting from these adjustments is carried to the capital accounts. The adjusted capital will then represent two-thirds of the new capital, inasmuch as Willard's investment increases the capital.

Problem 151

Allen and Brown are equal partners. Their balance sheet on June 30, 1921, was as follows:

Assets		Liabilities	
Merchandise	$ 35 000	Accounts Payable	$ 50 000
Accounts Receivable	61 000	Bank Overdraft	15 000
Furniture and Fixtures	2 500	Allen, Capital	21 000
Cash	500	Brown, Capital	16 000
Investments	3 000		
	$102 000		$102 000

Connelly is to enter the firm. Preliminary thereto, Allen and Brown revise their balance sheet by writing off $15,000 for bad debts; $500 from Furniture and Fixtures; 15% from inventory; 25% for loss on investments; and they establish a good-will of $5,000. Connelly pays enough to entitle him to a one-third interest in the adjusted net assets.

(a) What amount does Connelly invest?

(b) Set up balance sheet of new firm.

Group B—Dissolution of Partnership

Problem 152

Murphy and Nelson, of Laredo, Texas, engaged as equal partners in a stock-raising enterprise with a capital of $10,000, each contributing one-half.

Murphy received a salary of $200 per month.

At the end of three years they decided to terminate the business, and Nelson, who handled all the money of the copartnership and kept the books, reported the following receipts and payments:

Receipts		Payments	
Murphy's Investment	$ 5 000	Purchases of Cattle	$57 000
Nelson's Investment	5 000	Loans Repaid	14 000
Sales of Cattle	80 359	Murphy's Salary	4 200
Loans	15 000	Interest	1 000
		Expenses	9 000
		Murphy's Drawings	2 200
		Nelson's Drawings	1 800

A round-up and branding of the herd showed 328 head of live stock belonging to the partnership estimated to be worth $5,540.

There remained with the bankers a balance of $16,159 and other assets were as follows: Horses, $800; Accounts Receivable, $750; Tools, etc., $100; Supplies, $150. Liabilities were as follows: Due T. Ranch for branding irons, $40; Salt, $100; Loan at Bank, $1,000; Unpaid Wages, $260.

Required:

(a) Balance sheet showing financial condition of the copartnership at its termination

(b) Profit and loss statement showing results of the three years' operations

(c) Detailed statement of each partner's interest to provide a basis for dissolution of the partnership.

Comments.—This problem presents a common type of partnership settlement, where a complete set of books has not been kept. From the data given, first prepare an ordinary report form of balance sheet. Note that while Murphy was to receive a salary of $200 per month he has drawn during the three years but $4,200. The balance of salary due should therefore be set up as a liability on the balance sheet. All other assets and liabilities are clearly set forth in the problem.

Prepare the profit and loss statement with as much detail as possible. The accounts receivable for $750 represent sales in addition to those shown under cash receipts.

Cattle represent the trading goods in this problem. All other inventories will be shown as deductions from operating expenses to which they have been charged. The items, Branding Irons and Salt, are not included in the $9,000 expense item, and will be added thereto. These items are, however, included in the Tools and Supplies inventories as shown in the problem. The details of partners' accounts are to be set up in statement form rather than in ledger form.

Problem 153

Thatcher and Jones are partners, Thatcher having invested $20,000 and Jones $9,000; profits and losses are shared equally. Upon liquidation, losses are suffered so that the amount available for distribution to the partners is only $10,000. How should the $10,000 be divided?

Comments.—Upon liquidation of a partnership it is first necessary to find the loss on account of liquidation of the assets and charge same to partners in their profit-sharing ratio. No liabilities being shown, the assets must equal the total net worth as shown by the partners' capital accounts. After charging loss on account of liquidation to capital accounts, each partner is given enough cash to balance his account, which will equal the amount of cash on hand.

Problem 154

Andrews, Ballou, and Clifton are partners, their capital accounts showing Andrews, $60,000; Ballou, $20,000, and Clifton, $45,000. Upon dissolution the assets of the concern are sold for $54,700.

(a) How should the deficit be divided?

(b) Ballou is insolvent and the claim against him is worthless. How should the amount available for distribution be divided?

(c) Show the partners' accounts as they would appear after the books had been finally closed.

Comments.—(a) The same procedure should be followed as in Problem 153.

(b) The deficit in Ballou's capital account should be charged to Andrews and Clifton in the ratio in which they share profits in this case, one-half each.

Problem 155

Willis and Lewis are partners, sharing profits and losses equally. The partnership is dissolved December 31, 1922, at which time Willis's capital investment is $10,000, and Lewis's, $2,500. The total liabilities of the firm are $25,000, which includes $5,000 due Willis on loan account, and $2,500 due Lewis on loan account. The assets of the firm are disposed of for $30,000 on May 1, 1923. Prepare accounts closing the partnership and showing the position in which the partners stand to each other. No allowance for interest is required.

Comments.—Set up a balance sheet, and determine the loss due to liquidation. The distribution of the loss will leave Lewis with a deficit. The amount due outside creditors is first paid, then the loan of Willis. Willis would probably insist that sufficient cash be withheld from amount due Lewis on loan to cancel the deficit in his capital account.

Show solution in form of skeleton journal entries.

Group C—Partnership Liquidation by Installments

Problem 156

Ames, Beale, and Conley have suffered heavy losses. They decide to liquidate their assets, pay off their liabilities, and retire from business. Ames is given authority to close up the affairs of the firm, and is to pay off the partners in monthly installments as the assets are converted into cash. The balances of the capital accounts on June 30, 1921, are as follows:

Ames	$50 000
Beale	30 000
Conley	20 000

Profits and losses are shared in proportion to capital. After paying expenses and liabilities, the following amounts are available for distribution:

July 31, 1921	$24 000
August 31, 1921	32 000
September 30, 1921	35 000

No more can be collected.

Required.—Prepare a statement showing distribution of the various installments and the final loss in liquidation.

Comments.—When profits and losses are shared in the same ratio as capital, the distribution of assets would be handled in the same manner as a distribution of profits. In this problem, therefore, Ames, Beale, and Conley would be paid one-half, three-tenths, and one-fifth, respectively, of the $24,000 available for distribution on July 31, an entry being made to charge their capital accounts and credit Cash. Proceed in like manner with the remaining installments. The balance of the capital accounts after payment of the third installment will represent the loss which should be charged off, closing all accounts.

Problem 157

Davis, Gilman, and Heath each has a credit to his capital account of $60,000. They share profits as follows: Davis, 60%; Gilman, 30%; and Heath, 10%. The accounts show a trading loss of $30,000, leaving assets of $150,000.

The partners decide to liquidate and pay off the partners in installments as the assets are converted into cash. On September 1, 1921, they have cash to the amount of $60,000 to distribute.

(a) How should the first installment of $60,000 be divided?

(b) A second installment of $48,000 is available November 30, 1921. Show distribution of same.

(c) A final installment of $36,000 is ready for distribution January 1, 1922. Show distribution.

Comments.—First divide the trading loss of $30,000 among the partners in the profit-sharing ratio given above. This leaves Davis with a capital balance of $42,000; Gilman, $51,000; and Heath, $57,000.

(a) When profits and losses are not shared in the same ratio as capital, as illustrated in this problem, at time of distribution of first installment it cannot be foreseen as to what the balance of the assets will realize. To make an equitable distribution of the first installment the remaining assets should be treated as a potential loss to be divided in profit-sharing ratio. The credit balance resulting from such a loss would be the basis for distribution of the first installment. The potential loss in this case amounts to $90,000, the partners' shares being $54,000, $27,000, and $9,000, respectively. This leaves the capital accounts as follows: Davis, deficit, $12,000; Gilman, balance, $24,000; Heath, balance, $48,000. Davis's deficit will be borne by Gilman and Heath in the ratio in which they share profits as between themselves; namely, Gilman, three-fourths ($9,000) and Heath, one-fourth ($3,000). The capital accounts now stand: Davis, none; Gilman, $15,000; and Heath, $45,000. Of the first installment, therefore, Davis receives nothing; Gilman, $15,000; and Heath, $45,000. The new capital balances now are: Davis, $42,000; Gilman, $36,000; Heath, $12,000.

(b) The capital and profits still being shared on a different ratio, the procedure above must be repeated, $42,000 being treated as the potential loss which, when distributed, leaves capital balances of $16,800, $23,400, and $7,800, respectively, which will be the basis of distribution of the second installment. The resulting capital balances are $25,200, $12,600, and $4,200, respectively.

(c) The capital accounts are now in agreement with profit-sharing ratio, and the third installment will be distributed in accordance with such ratio as illustrated in problem 156 above.

Problem 158

Three partners contribute capital as follows: X, $90,000; Y, $45,000; Z, $15,000. They share profits in the proportion of X, 50%, Y, 30%, and Z, 20%. X's salary is $5,000, Y's salary is $3,000, Z's salary is $2,000. At the end of their fiscal period Z dies. The books are closed and the net assets ascertained to be $152,500. X and Y liquidate the firm's affairs and distribute the surplus assets quarterly as follows:

First quarter	$42 410 20	
Second quarter	74 622 30	
Third quarter	31 967 50	$149 000 00

Prepare a statement of the partners' accounts, showing how the distribution of assets should be made together with the apportionment of the loss.

(*From New York C. P. A. Examination*)

Comments.—Credit each partner with his salary, which makes a total capital of $160,000. As the assets amount to only $152,500, there is a loss of $7,500 to be distributed to the partners in profit-sharing ratio. Having done this, proceed as in problem 157.

Problem 159

A, B and C were in partnership, A's capital being $90,000, B's, $50,000, and C's, $50,000. Their agreement is to share profits in the following ratio: A, 60%; B, 15%; C, 25%. During the year C withdrew $10,000. Net losses on the business during the year were $15,000, and it is decided to close out the business. It is uncertain how much the assets will ultimately yield, although none of them is known to be bad. The partners therefore mutually agree that as the assets are liquidated, distribution of cash on hand shall be made monthly in such a manner to avoid, so far as feasible, the possibility of paying to one partner cash which he might later have to repay to another. Collections are made as follows: May, $15,000; June, $13,000; July, $52,000. After this no more can be collected. Show the partners' accounts, indicating how the cash is distributed in each installment, the essential feature in the distribution being to observe the agreement given above.

(*From American Institute Examination*)

Problem 160

Burke, Tracy, King, and Rand enter into partnership with a capital of $100,000. Burke invests $40,000; Tracy, $30,000; King, $20,000; and Rand, $10,000. They are to share profits or losses in the following proportions: Burke, 35%; Tracy, 28%; King, 22%; and Rand, 15%.

At the end of six months there is a loss of $8,000, and meantime the partners have drawn against prospective profits as follows: Burke, $400; Tracy, $600; King, $600; and Rand, $400. They dissolve partnership and agree to distribute proceeds of firm assets monthly as realized.

The realization and liquidation lasts four months, and the transactions are as follows:

	Assets realized	Liabilities liquidated	Expenses and losses on realization
First month	$ 30 190 00	$ 7 900 00	$ 400 00
Second month	50 300 00	6 100 00	750 00
Third month	20 010 00	3 800 00	340 00
Fourth month	9 500 00	2 200 00	110 00
	$110 000 00	$20 000 00	$1 600 00

Prepare partners' accounts showing the amount payable monthly to each one.

(*Adapted from New York Examination*)

Comments.—Distribute the $8,000 loss to partners' accounts in proper proportion. Close the drawing accounts into capital, and then proceed as in previous problems. The cash to be distributed each month is found by deduction.

Problem 161

A, B, and C were partners in a business on the following basis:

	Capital Contributed	Share of Profits	Salaries
A	$45 000 00	50%	$6 000 00
B	22 500 00	40%	4 000 00
C	7 500 00	10%	2 400 00

At the end of the second year's business, A died. The partners' drawing accounts before crediting their year's salaries appeared with the following debit balances: A, $2,572; B, $1,218; C, $1,710.

The net assets of the business after finally closing the books were found to be $74,780. B and C liquidate the affairs of the partnership. Three distributions of the proceeds of liquidation were made as follows: $25,000; $35,000; $11,780.

Required.—You are asked to prepare a tabulation showing the share of each of the distributions to each of the partners.

(From Wisconsin C. P. A. Examination)

Problem 162

A, B, C, and D have decided to dissolve partnership. To that end, they have liquidated all their liabilities, and at the date of the first division of cash among the partners the conditions are as follows:

Partners	Capital	Loans	Profit and Loss ratio
A	$22 000	$ 7 000	40%
B	19 000	6 000	30%
C	12 000	14 000	20%
D	7 000	13 000	10%
	$60 000	$40 000	100%

Cash available for distribution	$ 20 000
Other assets not yet realized (of doubtful value)	80 000
	$100 000

State which partners should participate in the distribution of the $20,000; how much cash each should receive; whether the payments should be applied against the capital accounts or the loan accounts. Explain the procedure of determining the distribution. Assume that none of the partners has any private property.

(*From American Institute Examination*)

Group D—Miscellaneous Partnership Problems

Problem 163

A invests $50,000, B, $25,000, and C, $10,000, as the capital of the firm of A, B, and C. The partnership agreement provides that they shall share profits and losses equally. At the end of a business term the balance sheet shows as follows:

Assets		Liabilities	
Cash	$ 500	Notes Payable	$ 10 000
Accounts Receivable	58 000	Accounts Payable	75 000
Merchandise Inventory	56 000	Partner's Capital, A	55 000
Manufacturing Plant	41 000	Partner's Capital, B	27 500
Various Stocks and		Partner's Capital, C	5 000
Bonds at Market Prices	17 000		
	$172 500		$172 500

The business is sold out, the assets realizing $140,000 gross. The expenses of the sale, including commissions, were $5,000. Show final accounts of the partners.

(*From New York C. P. A. Examination*)

Comments.—The balance sheet in this problem does not necessarily represent the condition of the firm at the end of the first fiscal period, but rather at the end of some subsequent period. Assuming that A has made no withdrawals, his account at the date of balance sheet contains $5,000 profit. The investment figures may, therefore, be ignored in solving the problem. Using the balance sheet figures as a basis, the usual process of liquidation will be followed as illustrated in previous problems.

The term "assets realizing $140,000 gross" may be assumed to mean that the expenses have not been deducted from receipts from sale of assets.

You are required to set up journal entries outlining the process of liquidation, and prepare a statement of the partners' accounts, showing distribution of loss on realization and cash.

Problem 164

A and B, on winding up their partnership, found their assets realized as follows:

	Book Value	Realized
Factory Premises	$10 000	$3 000
Machinery	7 500	2 500
Merchandise	5 500	4 500
Accounts Receivable	9 500	6 500

Their unpaid liabilities were $10,500. A's capital stood at $15,000, and B's capital at $7,000. In respect to profits and losses, they were equal partners.

Divide the proceeds of the realization between them after paying off the liabilities, and debit them as having been paid the proportion to which each was entitled, and show what amount would be payable (if any) by either partner to the other to settle the accounts.

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

Comments.—First set up a trial balance of the items at the book value to be sure that the accounts are in balance.

An account known as Realization and Liquidation may be opened. This will first be debited with all the assets to be realized at the book value, and credited with liabilities to be liquidated. It will then be charged with liabilities liquidated and credited with assets realized at the actual figure realized, the contra entry in each case being Cash. The balance of the Realization and Liquidation account will then represent the amount of loss on liquidation which will be charged to the partners in proper proportion, and the cash on hand distributed in the usual manner.

Problem 165

According to the terms of the partnership agreement, profits and losses are to be shared as follows: Austin, one-half; and Beebe and Charlton, one-fourth each. Interest is to be charged on drawings at 6% and credited on capital at 5% per annum.

The capital accounts of the firm for the year ending September 31, 1921, are as follows:

	Austin	Beebe	Charlton
Balance, September 30, 1920	$25 468	$16 245	$ 6 852
Additional Investment, June 30, 1921			4 000
Balance, September 30, 1921	$25 468	$16 245	$10 852

The drawing accounts of the partners for the year show the following results:

	Austin	Beebe	Charlton
April 15, 1921	$1 500	$500	
July 5, 1921	1 000		$350
Balance, September 30, 1921	$2 500	$500	$350

You are asked to compute the interest on the partners' capital and drawings for the year, and make journal entries for the same, after which you will distribute the final net profit of the firm by means of a journal entry. The net profit, exclusive of interest, is $12,500.

Comments.—In computing interest in this problem, find the time by compound subtraction. For instance, the time from April 15 to September 30 would be five months and fifteen days. Use common interest. Allow interest on capital for time invested, and charge interest on drawings from date of withdrawal to the end of the year.

Problem 166

A, B, and C were partners carrying on business with a capital December 31, 1900, of $60,000, of which A's share was $30,000; B's, $20,000; and C's, $10,000; each partner was entitled to 5% interest on his capital; profits or losses to be shared as follows: A, 7/12; B, 1/4, and C, 1/6. The partners agree, July 1, 1901, to dissolve. After all partnership assets had been realized and all debts paid, except $500 legal expenses, there remained a balance in bank of $48,750. Final settlement takes place December 31, 1901. Cash in bank bears interest at 2% from October 1, 1901. Show a statement for settlement and partners' capital accounts as of December 31, 1901.

(From New York C. P. A. Examination)

Comments.—Find loss on realization by deducting balance in bank from total capital plus outstanding liabilities. While the agreement to dissolve the partnership was made on July 1, the capital draws interest until December 31, as the capital was tied up until that date. Figure interest on bank balance by ordinary method, and for exact days. Assume that the legal expenses are not paid until date of final settlement, December 31, 1901. In addition to the statement of partner's capital accounts called for in the problem, set up journal entries covering adjustments necessary to record the interest and effect a final distribution of cash.

Problem 167

A, B, and C engage in business, A contributing $10,000 and B $5,000, while C, in lieu of any capital contribution, agrees to undertake the active management at a salary of $3,000 per year, to be paid monthly.

After allowing 5% interest on capital, they are to divide the net result in the proportions of 5, 3, and 2, respectively.

At the end of eighteen months they ascertain the position to be unfavorable and decide to wind up. The assets realize $12,500; there are no liabilities except for capital and interest thereon and one month's salary due C.

Make up the partners' accounts, showing the amount to be received by each.

(From Massachusetts C. P. A. Examination)

Problem 168

A and B form a partnership, A investing $30,000 and B, $50,000. They agree to share expenses and profits and losses equally. They further agree to and do leave their original investments intact. At the end of the first year the profits from the operations of the business amount to $30,000, against which A has drawn in twelve equal monthly installments on the last day of each month an aggregate amount of $9,000; B has drawn against his profits on the last day of each quarter the sum of $2,500.

Prepare journal entries adjusting interest at 5% per annum between the partners in respect to both their investment and drawing accounts, and render statements showing the amount each partner has in the business at the end of the year.

(*From Massachusetts C. P. A. Examination*)

Comments.—Attention is called to the fact that drawings of $750 per month during the year on the last day of each month is equivalent to an interest charge on $750 for sixty-six months at 5%. In like manner, drawings of $2,500 on last day of each quarter is equivalent to an interest charge on $2,500 for eighteen months at 5%.

Problem 169

A and B, partners, finding themselves in want of further capital in their business, and both being possessed of real property, A deposited deeds with the bankers of the firm as security for a loan of $2,000 to the firm. B arranged on some of his own property a mortgage for $1,500 with a private friend and paid the proceeds into the firm's bank account. The bankers were eventually obliged to realize the security held by them which produced, after payment of all expenses, the sum of $2,850.

Prepare entries recording these transactions in the firm's books.

(*From Massachusetts C. P. A. Examination*)

Comments.—Note that A merely deposits personal collateral to secure a firm loan, while B raises money on his private property and advances same to the firm in the nature of a loan. When security in both cases is realized by the bank, it amounts to a transfer of the firm's obligation to the bank to A.

Group E—Partnerships—Theory Questions

T-126

On buying an interest in a business, what entries should be made in the books of the business—

(a) When a direct sale is made of an interest, the money not to be used in the business?

(b) When the money paid for the interest in the business is to be used in the business?

(*Michigan C. P. A.*)

T-127

(a) If the partners' capital accounts show capital investments to be unequal, profits being shared equally, which partner loses, with no allowance for interest on capital?

(b) If the capital investments of the partners are equal and profits are shared unequally, which partner loses if interest is not allowed on capital invested?

(c) Under what conditions would neither partner lose if interest were not figured on investments?

T-128

Fiske and Miller share profits equally. Interest is to be allowed on capital at the rate of 5% per annum. Fiske invests \$20,000 and Brown \$25,000. During the fiscal year ended September 30, 1922, the firm suffers a loss of \$2,000. What entries should be made under these circumstances?

T-129

Is there any difference in the rights of firm creditors as compared with those of the creditors of the separate partners? Explain.

(*C. P. A.*)

T-130

(a) Is a surviving partner entitled to compensation for winding up the affairs of the firm?

(b) In absence of agreement may a partner claim compensation for managing the office of the firm?

T-131

On dissolution, through death, of a partnership, is the surviving partner, in the absence of an express agreement, entitled to continue the business, or must he account for the good-will of the business to the representatives of the deceased?

(C. P. A.)

T-132

(a) A's Current, Loan, and Salary accounts all show credit balances. How would these items appear on the balance sheet?

(b) Under what conditions would you recommend that a Salary account be kept with a partner?

T-133

A firm having decided to liquidate and close out its affairs, has converted all its assets into cash and has paid its outside creditors. There are loans to the firm by partners in addition to their capital investment. Assuming that profits are shared in a different ratio from capital, and there is insufficient cash to pay capital in full, how should the assets be distributed?

T-134

A partnership is dissolved as at January 1, both partners being in debt to the firm. Subsequently the assets are sold at less than the book value, and the liabilities are partly liquidated. The partners pay their indebtness as of January 1. How must the liquidating loss be adjusted as between the partners? Why?

(*Kentucky C. P. A.*)

T-135

In an equal partnership with three partners, one was unable to meet his share of the investment with cash and gave his note drawing interest for part. When he paid the interest, the bookkeeper credited each of the other partners for one-half of the same. He objected and the matter is referred to you at the time of audit. He claims that it should have been credited to the Interest and Discount account and thus have been divided between all three. Write your decision and reasons therefore.

(*Michigan C. P. A.*)

Bibliography

Partnership Accounting

COLE, WILLIAM MORSE. Accounts: Their Construction and Interpretation. Boston and New York. Pages 342–346.

ESQUERRE, PAUL-JOSEPH. The Applied Theory of Accounts. New York, 1916. Chap. I.

GREELEY, HAROLD DUDLEY. Theory of Accounts. Vol. I, Business Accounting. New York, 1920. Chaps. XXXI–XXXII.

GREENDLINGER, LEO. Accounting Practice. New York, 1914. Chaps. XV–XVI.

HATFIELD, HENRY RAND. Modern Accounting. New York, 1919. Chap. XVII.

KESTER, ROY B. Accounting Theory and Practice. Vol. I, New York, 1917, Chaps. XXXIII–XXXIV. Vol. II, New York, 1920, Chap. XXXV.

KLEIN, JOSEPH J. Elements of Accounting. New York, 1915. Chap. V.

LISLE, GEORGE. Accounting in Theory and Practice. London, 1909.

MADDEN, JOHN T. Accounting Practice and Auditing. New York, 1917. Chaps. III–VI.

RITTENHOUSE, CHARLES F., and CLAPP, PHILIP F. Accounting Theory and Practice, Unit II. New York, 1919. Chaps. I and II.

SECTION V

CONSIGNMENTS, BRANCHES AND SELLING AGENCIES

Group A—Consignments and Joint Ventures

Problem 170

A ships to B on consignment, under date of April 4, merchandise to the value of $1,500, paying $15 cartage and $6 insurance.

B receives the consignment April 20, paying freight, $70, and cartage, $12. He subsequently disposes of the merchandise by sales as follows: April 30, $400; May 30, $800; June 30, $600, on which latter he pays storage charges, $30. He charges commissions on sales 5%, credits net interest at 6%, and transmits account sales with remittance of net proceeds to A, who receives them July 10.

Required.—Prepare Consigned Goods account as appearing on A's ledger and Consignments In account as appearing on B's ledger.

Comments.—This problem calls for Consigned Goods account only on the books of consignor. The detailed accounts with charges and sales of consigned goods may, therefore, be omitted. Charge Consigned Goods account with cost of goods consigned and all charges prepaid, and credit this account with proceeds of account sales rendered by consignee. This is the simplest method of handling consignments accounts on consignor's books. The objection to this method is that details of the transaction are not spread upon the books, and appear only in the account sales which is placed on file.

On the consignee's books, the account Consignments In is charged with expenses of handling the goods, such as storage, insurance, freight, etc., and with commission charged and with any advances. This account is credited with sales of consigned goods and with interest allowed. The balance represents the net proceeds of consignment due the consignor. This amount should be remitted in cash or by note, or transferred to credit of consignor's personal account.

Problem 171

Douglass & Company, of Cleveland, on September 1, 1921, shipped to Lloyd Brothers, Boston, on a 5% commission basis, goods to the value of $8,500, and prepaid freight amounting to $400. The goods were received by Lloyd Brothers on September 20. They were found to be damaged in transit to the extent of $1,500, certificate of which is duly forwarded to the consignor by the consignee. October 1, Douglass & Company draw at sight on Lloyd Brothers on account of the shipment to the amount of $2,500. The draft is paid by the consignee upon presentation. October 10, an account is rendered for sales to date amounting to $5,000 and a check remitted for proceeds. The balance of sales amount to $7,000. The charges exclusive of commission amount to $700. A final account is rendered November 1. Interest is not considered.

Required.—Entries in journal form covering the above transactions on the books of the consignor so as to show details of transactions and the profit on the consignment.

Comments.—In addition to the account with Consigned Goods, accounts will be set up with Commission, Charges, Sales of Consigned Goods, Consignees, etc. To show profit on the consignment, the various charges, commission, and cost of goods will be closed into the Sales account.

Problem 172

Sharp & Watson, Boston, received merchandise from Lane & Son, Philadelphia, for sale on their account and risk. The consignees paid freight, $73.50; cooperage, $17. They accepted draft of consignor on account for $1,000. An allowance for damaged goods returned was made by consignee, $72. A shortage on sales was adjusted for $8.75. Total sales, $2,625. Consignees render an account: insurance, 3/4%; storage, $26; commission, 5%; net proceeds placed to credit of consignor.

Required.—Entries in journal form covering the above transactions as they would appear on the books of the consignee.

Comments.—In addition to consignments In account, set up accounts for the various charges.

Problem 173

June 1.—Shipped the Bronx Commission Company, New York, to be sold on consignment, goods costing $1,500.

June 2.—Paid Armstrong Transfer Company $68.75 for drayage and loading the goods on the car.

June 10.—The consignee accepted a 10-day draft for $1,000 on account of consignment. Paid $2 for telegram on account of draft.

June 15.—The consignee remits check for $500 on account of shipment.

June 20.—Consignee transfers to us note received in part payment of goods sold amounting to $125.

June 30.—Consignee renders an account sales and remits check for $426.50 for balance due.

Required:

(a) Entries in journal form covering the above data on the books of the consignor. Use memorandum accounts with consignee and do not show separately profit or loss from consignments

(b) Account sales as rendered by consignee.

Comments.—Set up memorandum accounts with Consignee and Consigned Goods for cost of goods shipped. Do not take this amount from Inventory or Purchases account. Open an account for Charges, Commission, etc., as indicated in previous problems. Credit consignee for advances. When account sales is received, record sales and charges, crediting consignee for latter and charging for former. Adjust the memorandum accounts and close them out. The result will be to show details of charges and sales while cost of the sales and profit on consignment is not shown separately.

Problem 174

Jan. 1.—Received from Merville & Company, Cleveland, 10,000 baskets of grapes invoiced at 15¢ per basket, to be sold on consignment.

Jan. 2.—Paid Boston & Albany Railroad $227.50 freight on consignment.

Jan. 3.—Sold 5,000 baskets grapes at 20¢.

Jan. 5.—Sold on account 2,000 baskets grapes at 22¢.

Jan. 10.—Paid consignor's sight draft for $500.

Jan. 12.— Sold balance of consignment at 18¢ per basket.

Jan. 15.—Rendered an account to consignor: storage, 3/4¢ per basket; drayage, 1¢ per basket; insurance, $15; commission, 5%; net proceeds placed to credit of consignor.

Required:

(a) Entries in journal form to record above data on the books of consignee. Use memorandum accounts to record receipt of goods at invoice price

(b) Account sales rendered to consignor.

Comments.—Charge Consigned Goods and credit consignor for invoice value of goods received. Set up the usual accounts with Charges, Commissions, etc. When goods are all disposed of and account sales is rendered to consignor, adjust and close out the memorandum accounts. The consignor's personal account is then credited with balance due as shown by account sales.

Problem 175

Two merchants, C. F. Munton and W. A. Spencer, agree to share equally in a joint adventure in trade to the West Indies.

On March 1st, 1917, they charter a small vessel and purchase and ship materials which cost them $197, for which Munton gives his check.

This cargo they consign to John Smith, their agent at Havana, which he disposes of, and in return ships on board the same vessel 4,000 cases of Commodity A, and 100 cases of Commodity B;

and he draws on Munton at sight for $125, this being the amount of the agent's charges and disbursements over and above the net proceeds of the cargo consigned to him. Munton accepts and pays the bill. On April 1st the vessel arrives, whereupon Munton pays sundry charges of $337.50. Spencer pays the freight, amounting to $493. On April 4th Munton sells 1,000 cases of Commodity A to Henry Chamberlain for $239.58, and collects $150 and on April 10th Spencer collects the rest.

About this time, Mr. Spencer happens to have occasion for 1,400 cases of Commodity A, which he takes on April 14th, and with Munton's consent values it at $291.66. He also takes 10 cases of Commodity B, valued at $47.50. Munton sells the other 1,600 cases of Commodity A on April 20th to John Walters for $383.33, and a month after accepts $382.50 in full payment.

Mr. Munton next sells on April 25th the other 90 cases of Commodity B in barter for 30 cases of Commodity C, which he and Spencer divide equally between them.

The goods being thus disposed of, Munton presents his bill of charges, which comes to $22.66, and desires to have accounts stated between Mr. Spencer and him.

Required.—Set up the ledger accounts of the joint adventure, recording the foregoing transactions under the following accounts: Joint Adventure, C. F. Munton, W. A. Spencer, Henry Chamberlain, John Walters.

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

Comments.—Charge the Joint Adventure account with all costs and expenses in connection with the venture and credit same with all returns. The balance of the account will then represent the profit or loss from the venture. The first entry, therefore, from the above data is as follows:

Joint Adventure account	$197 00	
C. F. Munton		$197 00

Problem 176

A. B. & Co. agree with C. D. & Co. that the latter shall ship on consignment to Honolulu on joint account 20 cases of Commodity X, the invoice price of which is $2,100, less 2½ per cent. A. B. & Co. pay the packing charges, $25; also freight, insurance and other charges, $90, and they draw on their correspondents in Honolulu in advance for $1,600 at 90 days, which is discounted at a cost of $20, and the proceeds handed to C. D. & Co. as part payment. These transactions may be dated March 1st, 1909. On the 30th of November, 1909, A. B. & Co. receive the account sales and net proceeds, $418, and they then pay C. D. & Co. the balance due to them.

Required.—Prepare a Joint Consignment Account charging interest on the amount lying out at 5 per cent per annum for eight months, closing it by dividing the loss; also an account to be rendered by A. B. & Co. to C. D. & Co. closed by payment of the balance, and prove that the losses borne by each are equal.

(From Illinois C. P. A. Examination)

Comments.—Open accounts with Joint Consignment, A. B. & Company, and C. D. & Company, and proceed as in the previous problem.

"Charging interest on the amount lying out" is construed to mean that each company is to be credited, and the Joint Consignment account charged with interest for eight months at 5% on the balance to the credit of each company after entering transactions as of March 1, 1909.

After charging A. B. & Company and crediting the Joint Consignment for the net proceeds, $418, the balance of the Joint account represents the loss which is to be divided equally between A. B. & Company and C. D. & Company.

Problem 177

For the purpose of making a joint speculation A contributes $3,000, B, $2,000, and C, $1,000, and they agree to share the profits or losses in proportion to the amounts contributed. October 15, 1900, A deposited the $6,000 with his broker, giving instructions to buy 300 shares New York Central and 300 shares Chicago, Burlington, & Quincy. The order was executed October 16, 1900, N. Y. C. at 130⅝ and C. B. & Q. at 127.

April 10, 1901, under instructions from A, N. Y. C. was sold at 151¼ and C. B. & Q. at 191½, a check being received from the broker to close the account. How much does A owe B and C for their interests in the deal, calculating interest at 6% (365 days to the year), commission at ⅛%, and revenue tax of $2 for each 100 shares?

Required.—Set up ledger account with Brokers and prepare statement showing final settlement between A, B, and C.

(*From New York C. P. A. Examination*)

Comments.—Charge Broker account with margin, sales of stock, and interest on margin. Credit this account with purchases of stock, commissions, tax, and interest on purchase price of stock plus commission. The balance represents amount due A, which after deducting the margin is the profit to be divided among A, B, and C.

Problem 178

A, B, and C agree to purchase and sell coffee for their joint account. They purchase 3,000 bags of coffee for $58,500 and one month thereafter sell the same at 16¢ per pound (say 130 pounds to the bag.) The warehouse charges, labor, cartage, weighing, brokerage, etc., amount to $600.

A contributes cash			$20 000 00
B contributes note at 4 months		$19 000 00	
Discount on same at 6%		?	?
C contributes cash		$18 800 00	
C contributes note at 3 months	$2 500 00		
Discount on same at 6%	?	?	?
			$59 982 50

It was arranged that each should contribute equally to the requisite purchase money, in default of which, interest at 6% per annum for the month covering the transaction was to be calculated between them, to equalize their respective contributions.

Required.—Prepare an account of the venture; also separate accounts of A, B, and C, showing the share of each in the final net proceeds.

(*From C. P. A. Examination*)

Comments.—In solving this problem a Joint Cash account as well as a Joint Merchandise account should be used, and in addition accounts will be kept with A, B, and C. Debit Cash and credit each contributor for his cash contribution (assuming that the notes were discounted at the bank). Handle the Joint Merchandise account in the usual manner, charging for costs (at which time Cash is credited) and crediting for returns (at which time Cash is debited). The profit on the venture is then credited to the contributors. Interest on the contributions is adjusted through the personal accounts only, after which each is given the balance of his account in cash, which closes all accounts.

Problem 179

Drew & Company and Land & Company ship merchandise to South America on joint account. Land & Company gave Drew & Company $1,200 in cash and their acceptances at six months for $3,000. Drew & Company were to provide balance of cash required, to manage the venture and to receive a commission of 2% on amount of invoice for merchandise. The profits are to be divided equally.

Drew & Company paid Smith & Brown for merchandise $5,000 and discounted Land & Company's acceptances for $3,000 at 2% discount. Drew & Company prepaid freight $420, insurance, $60. In due time Drew & Company received from South America an account sales for merchandise and a draft for the net proceeds, payable in London for $3,200, out of which Drew & Company paid $3,000 to retire bills for that amount.

Later Drew & Company received a draft for $3,100, being balance of proceeds of sale of merchandise. The joint account with Land & Company was closed and a check for the balance due them was paid to Land & Company.

Required.—Prepare a statement showing details of the joint account, also a statement of Land & Company's account.

(*From Kentucky C. P. A. Examination*)

Group B—Consignments and Joint Ventures—Theory Questions

T-136

Differentiate between Consignments, Adventures, and Joint Accounts. How should Consignments Received to be realized for and on behalf of another, be best treated? How should the managing partner of a joint venture treat the same in his books? Illustrate.

(*Michigan C. P. A.*)

T-137

(a) How should a trading company, acting also as agent for an individual trader, show on its balance sheet the unsold consigned goods of the principal?

(b) How should the principal show the goods on his own balance sheet?

(*American Institute*)

T-138

State two ways of treating consignments inward, when goods are to be sold subject to commission, at the price at which they are consigned. Give the arguments for and against each method and your views thereon.

(*New York C. P. A.*)

T-139

In auditing the accounts of an engineering corporation you find a number of engines have been shipped to dealers on consignment, against which the dealers have made deposits of 75 per cent of the invoice price. The engines were invoiced out to the dealers at the regular contract prices, being carried in Accounts Receivable, the deposits referred to being credited to the same accounts. In drawing up the balance sheet, how would you consider these items should be stated, and upon what basis of valuation?

(*Massachusetts C. P. A.*)

T-140

The amount of outstanding accounts receivable by a selling house for account of a consignor, whose account is unguaranteed, is $762,000; the selling house has advanced thereon, to the consignor, $80,000. The consignor shows, in his balance sheet: "Outstanding Accounts Receivable, $682,000," as embracing the above. State (a) your opinion of the propriety thereof, and if you would treat the items differently, (b) how and (c) why.

(*Massachusetts C. P. A.*)

Group C.—Branch Houses and Selling Agencies

Problem 180

The trial balance of Ashley and Bitzer, Boston Branch, on September 30, 1921, was as follows:

Accounts Receivable	$ 5 000	
Cash in Bank	2 000	
Expenses	3 800	
Purchases	27 200	
Sales		$34 000
Home Office		4 000
	$38 000	$38 000

Goods on hand, $2,000.

Required:

(a) Necessary journal entries to close the nominal accounts on the branch books

(b) Entries in the home office to make the books agree.

Comments.—(a) Close ledger of branch in the usual manner, the net profit being credited to Home Office account.

(b) Charge Branch Office account and credit Branch Profit and Loss for profit as shown by branch books.

Problem 181

A branch office business was started the first of the year, the head office advancing $5,000 cash. During the first year merchandise was shipped to Branch, invoiced at $75,000.

An auditor checking up the business at the close of the year finds the following:

Merchandise sales were $60,000, with selling price of goods 20% advance on invoice.

Proper vouchers were on file duly receipted for following payments:

Rebates and allowances on damaged goods	$ 1 500 00
Salaries and other expenses	4 500 00
Freights	2 500 00

The books also showed:

Remittances to head office	$35 000 00
Uncollected accounts	15 000 00

and the balance of the sales having been realized in cash, less rebates and allowances as noted.

The cash on hand and inventory of unsold goods, together with the foregoing records, properly account for everything.

Required.—Prepare statements such as an auditor would make in reporting to the head office, balancing the business of the branch house.

(From Illinois C. P. A. Examination)

Comments.—Prepare profit and loss statement for the branch, setting it up in the customary form. All the data for this statement is given in the problem except the amount of the inventory of goods on hand at the close of the period, which is found by deduction.

The balance sheet items Cash and Accounts Receivable will also be found by deduction from information furnished in problem. The balance sheet will be quite simple, the total of the assets representing the balance of the Main Office account on the branch books.

Problem 182

Harold J. Smith & Co. place you in charge of a branch store with goods valued at $2,150 and cash $75. You are to receive a salary of $40 per month, and 10% of the gross profits. During the year you pay store expenses of $210. The goods shipped from main store during the year amounted to $21,000, and your sales are $24,000. At the end of the year your books showed accounts receivable $400, and merchandise on hand, $2,000. It is decided to close the branch at the end of the year, and Smith takes over the accounts receivable and merchandise at book value.

Required:

(a) Branch profit and loss statement for the year
(b) Cash account showing balance due Smith & Co. at the end of the year
(c) An abstract of the ledger account with Smith & Company.

Comments.—In preparing the Cash account, assume that salary for a year has been paid and that sales were converted into cash with the exception of the accounts receivable, $400.

Problem 183

The condition of the Atlantic Co. at the close of business, December 31, 1919, is reported by them as follows:

Assets

Real Estate	$ 150 000 00
Machinery	200 000 00
Cash	24 500 40
Accounts Receivable	320 800 50
Merchandise	375 480 70
	$1 070 781 60

Liabilities

Capital Stock	$ 500 000 00
Mortgage on Real Estate	100 000 00
Accounts Payable	67 000 00
Notes Payable	100 000 00
Surplus	200 000 00
Profit and Loss	103 781 60
	$1 070 781 60

The Company has a branch to which it sells its goods at 20% over inventory prices and carries this account together with other branch assets as a receivable.

The statement of the branch on same date was:

Assets

Fixtures	$ 6 205 79
Cash	1 107 55
Accounts Receivable	12 478 14
Merchandise at Price Billed to Branch	5 241 95
	$25 033 43

Liabilities

Atlantic Company	$25 033 43

Required:

(a) What was the inventory value of the branch merchandise?

(b) Prepare a corrected balance sheet of the Atlantic Company set up in proper form.

(*From Massachusetts C. P. A. Examination.*)

Comments.—The merchandise at branch is carried at 120% of cost. This must be reduced to cost and added to merchandise at main office.

The Accounts Receivable item on the main office balance sheet includes the value of Main Office account as shown on branch books, $25,033.43. Deduct this amount and distribute the branch assets to the proper accounts.

Problem 184

A manufacturing concern having a branch in another town presents the following trial balances on January 1, 1912:

Main Office

Plant	$125 500	Capital Stock	$250 000
Material and Supplies (inventory Jan. 1, 1911)	68 300	Notes Payable	30 000
Purchases	245 800	Accounts Payable	42 630
Labor	163 400	Net Sales	480 300
General Expense	24 900	Profit and Loss (Jan. 1, 1911)	31 820
Insurance—(1 yr. to Jan. 1, 1912)	3 400		

Accounts Receivable (worth 95%)	$84 600		
Cash	4 870		
Dividends Paid	20 000		
Branch	93 980		
	$834 750		$834 750

Branch

Plant	$ 35 200	Net Sales	$ 97 620
Material and Supplies (inventory Jan. 1, 1911)	16 500	Main Office	93 980
Purchases	62 450		
Labor	40 610		
Insurance—(1 yr. to Apr. 1, 1912)	1 260		
General Expense	7 820		
Accounts Receivable (worth 100%)	24 600		
Cash	3 160		
	$191 600		$191 600

Inventories of material and supplies on January 1, 1912, were: Main office, $45,300; branch, $28,400.

No inventories of finished goods, as same were sold on contract for daily shipments, and are all billed up on closing.

In closing on January 1, 1911, the branch charged off all insurance.

General Expense includes salaries, office expense, taxes, etc.

Selling Expense has been deducted from the sales.

Required.—Construct one profit and loss statement and closing balance sheet for the entire concern, omitting estimate for depreciation.

(*From Massachusetts C. P. A. Examination*)

Comments.—Prepare consolidated trial balance, eliminating the Branch and Main Office accounts, and adjusting Insurance and Accounts Receivable. Dividends Paid should be eliminated against Profit and Loss, January 1, 1911.

Problem 185

The Gordon Manufacturing Company opened a branch store on July 1, 1920, in Boston, and installed X as manager. From that date to June 30, 1921, the following transactions took place.

(1) Merchandise to the value of $12,380.75 was shipped during the year direct from the warehouse of the main office.

(2) Freight charges on the above shipments were prepaid by the main office to the amount of $1,091.30.

(3) Uncollected customers' accounts at June 30, 1921, amounted to $4,210.25.

(4) Salaries and other expenses unpaid, June 30, 1921, amounted to $602.10.

(5) Merchandise to the value of $8,520.60 was bought by and paid for direct by the branch.

(6) The total sales of all kinds during the year ended June 30, 1921, amounted to $35,118.75.

(7) Branch expenses paid (including salaries of salesmen and office clerks, rent, light, advertising, etc., but exclusive of the unpaid items above referred to), $7,268.50.

(8) Charge of $725 rendered by the main office in respect to the proportion of management salaries and expenses chargeable to the branch office.

(9) Inventory of materials on hand June 30, 1921, $1,210.25.

A separate set of books was kept at the branch.

Required:

- (a) The necessary entries to record the foregoing transactions on both the branch and main office books
- (b) The necessary closing journal entries for branch books
- (c) The necessary entries to take up the profit or loss on the main office books
- (d) The necessary statements to show the profits or losses from trading
- (e) A summary of the transactions between the branch and the main office as shown by the Branch account on the books of the main office.

Problem 186

A Boston concern is about to open a branch selling office in Detroit. Full stock of goods will be carried in this office, the goods to be billed to the Detroit branch at selling price, freight on shipments to Detroit being paid by the Boston office. All sales made by the Detroit office are billed from Detroit, a copy of the bill being sent to the Boston office.

Once a month a summary of sales billed is also submitted to the Boston office for checking purposes. All bills are payable at the Boston office.

All the expenses of the branch are paid from the main office with the exception of petty expenses, for which a Petty Cash Fund is provided.

If any sales are made by the Boston branch outside of a given territory, commission must be allowed to the dealer in whose territory such sales are made.

Submit a list of the accounts which you would open on the books of the main office to show a proper accounting for the business done at the branch.

Define the functions of such accounts and state what special books, if any, you would recommend for taking care of the business.

Problem 187

The Marion Wholesale Provision Company has a number of retail branches which are supplied with goods from the wholesale store, but they keep their own sales ledgers, receive cash against ledger accounts, and pay in the whole of their cash every day to head office. They send out their own statements of account monthly. All wages and branch expenses are drawn by check from head office on the imprest system.

The following particulars are supplied by the branches:

	A	B	C
Six months' sales to June 30, 1920	$13 500	$13 000	$11 500
Returns from customers	100	120	80
Allowances to customers	25	20	30
Cash received on ledger accounts	11 900	12 000	10 000
Cash sales	7 100	6 250	6 500
Stock at commencement	2 700	2 400	2 500
Stock at end	3 100	2 900	2 400
Debtors, January 1, 1920	6 250	6 000	5 500
Debtors, June 30, 1920	7 650	6 810	6 890
Bad debts	75	50	
Goods received from wholesale, less returns	10 600	10 300	10 000
Rent and taxes paid	400	350	375
Wages and sundry expenses	1 900	1 780	1 750

Required:

(a) Compile each branch ledger account in the head office books

(b) Prepare a profit and loss statement by branches and in total.

Problem 188

A commission house, composed of three partners, is selling agent for sundry consignors whose accounts are unguaranteed. The rate of commission is 3% of the net sales. The fiscal terms end June 30 and December 31. The partners' capital accounts are to be credited with interest at 6% per annum and with the net earnings which are to be apportioned as follows:

J. Doe, 60%; R. Roe, 30%; J. Smith, $10%. No interest is to be computed on J. Doe's drawing account; that account is to be credited with 1% of the net sales. Following is the trial balance, December 31, 1920:

Cash	$ 16 800	Sundry Creditors	$ 100
Advances to Sundry Consignors, Account of Sales	105 700	Sundry Consignors' Sales Accounts	235 600
Accounts Receivable, for Account of Sundry Consignors	235 600	J. Doe, Capital Acct. (June 30, 1920)	100 00
		R. Roe, Capital Acct. (June 30, 1920)	90 00

J. Doe, Drawing Acct.	$5 800	J. Smith, Capital Acct. (June 30, 1920)	$4 000
Salaries	3 400	Commissions	18 000
Rents	700	Interest Received from Consignors, on Advances Account of Sales (to Dec. 31, 1920)	2 900
Traveling	600		
Teaming	200		
Miscellaneous Expenses	800		
	$369 600		$369 600

The net sales, during the six months, were $600,000.

Required:

(a) Profit and loss statement for the six months ended December 31, 1920, showing gross profit, operating expenses, interest credited to partners, and distribution of net earnings

(b) Balance sheet, December 31, 1920. Show details of capital accounts.

(*From Massachusetts C. P. A. Examination*)

Comments.—The commission house in this case may sell on credit, but as such accounts are not guaranteed, the commission house is not liable to the consignors for sales on credit until the accounts have been paid; consequently, the net proceeds of such sales are not remitted to the consignors until all accounts have been collected. On the other hand, the net proceeds of cash sales are remitted at once. Credit is taken for the commission on charge sales, being deducted from cash sales or from the first payment made on account of charge sales, the net proceeds being remitted to the consignor.

Net sales for the period ended December 31, 1910, amount to $600,000. An item of "Accounts Receivable for Account of Sundry Consignors $235,600" appears in the trial balance. Cash has therefore been received for sales to the amount of $364,400, from which the commissions on the sales for the entire period have been deducted, the proceeds, $346,400, having been remitted in cash. This results in the consignors' accounts receivable being exactly offset by an account with Sundry Consignors Sales, representing the liability of the commission house to the consignors on uncollected accounts.

The Advances to Sundry Consignors, $105,700, are cash advances to consignors whose goods have been sold on account, interest being charged the consignor on such advances. When collections are made, the advances will of course be deducted and the balance remitted to the consignor.

Prepare the profit and loss statement in the usual form as far as possible. Start with income consisting of commission and interest; deduct operating expenses; and from the results secured, deduct interest on partners' capital and Doe's commission of 1% on sales. This will give net income, which should be divided in the agreed ratio.

Problem 189

A San Francisco corporation builds a plant and establishes 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 $4.85½, $4.86, $4.86½ and $4.86¾ respectively.

Required.—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, $4.87¼ (conversion of remittance to be made at the average rate of the four bills).

(From New York C. P. A. Examination)

Group D--Branch Houses—Theory Questions

T-141

What results are sought to be secured in the keeping of accounts with branch houses? Under what circumstances would you debit or credit such accounts? What would the balance of any such account show?

(*C. P. A.*)

T-142

On June 30, 1921, the home office of the Boston Textile Company mailed $5,000 to its Cleveland branch and telegraphed the Cleveland office to that effect. How will the Cleveland branch handle this item on their books so that its account with the home office will be in agreement with the home office account with the Cleveland branch as of July 1, 1921?

T-143

Should a manufacturing concern invoice its goods sent to a branch house (1) at selling price, or (2) at the prevailing wholesale price of the same or similar goods obtainable in open market, or (3) at cost? State the reasons fully.

(*American Institute*)

T-144

A corporation, having several branch offices, maintains a general ledger account with each branch and charges, at selling value, all goods sent to the branches for stock. When preparing the balance sheet at the closing period, the balances due from the branch offices are included with the accounts receivable. If you see any objections to this method, state them and explain how you would deal with the accounts.

(*Ohio C. P. A.*)

T-145

A manufacturing concern having several branch offices for the sale of its product is in the habit of billing the branches at a wholesale price and expects each branch to show a profit. A balance sheet is prepared in which the current accounts with the branches (after closing out their profits and losses into head office) are carried as accounts receivable. These branches carry a considerable stock of merchandise and have their own accounts receivable and possibly some outstanding accounts payable. How would the above balance sheet have to be modified in order to show correctly the financial condition of the business?

(*American Institute*)

Bibliography

Consignments and Joint Ventures

BENNETT, GEORGE E. Accounting Principles and Practice. New York, 1920. Vol. II, chaps. XIII and XIV.

ESQUERRE, PAUL-JOSEPH. The Applied Theory of Accounts. New York, 1920. Chaps. XVII and XVIII.

Practical Accounting Problems. Theory Discussion and Solutions. Part I. New York, 1921. Problem 20, pages 340–353.

GREENDLINGER, LEO. Accounting Practice. New York, 1914. Chap. XXIII.

KESTER, ROY B. Accounting Theory and Practice. New York, 1917. Vol. I, chaps. L and LI.

MADDEN, JOHN T. Accounting Practice and Auditing. New York, 1917. Chaps. VII–VIII.

MCFARLAND, G. A., and ROSSHEIM, I. D. A First Year in Bookkeeping and Accounting. New York, 1915. Chap. XX.

MCKINSEY, JAMES O. Bookkeeping and Accounting. Cincinnati, 1921. Vol. II, series B, chap. XXVIII.

WILDMAN, JOHN R. Principles of Accounting. New York, 1914. Chap. XXVIII.

Branches and Selling Agencies

BENNETT, GEORGE E. Accounting Principles and Practice. New York, 1920. Vol. II, chap. XII.

COLES, A. Company Accounts. London.

ESQUERRE, PAUL-JOSEPH. Practical Accounting Problems. Theory [Discussion and Solutions. Part I. New York, 1921. Problem 8, pages 153–163.

GREENDLINGER, LEO. Accounting Practice. New York, 1914. Chap. XXI.

KESTER, ROY B. Accounting Theory and Practice. New York, 1918 Vol. II, chaps. XXX and XXXI.

MADDEN, JOHN T. Accounting Practice and Auditing. New York, 1917 Chap. XIII.

SECTION VI

MISCELLANEOUS PROBLEMS

Group A.—Fire Loss and Insurance Adjustments

Problem 190

A fire in a manufacturing concern resulted in a loss on machinery, $5,000; merchandise, $10,000; office equipment, $3,000; which amount of $18,000 was agreed on and paid by the insurance companies.

Required.—Give the journal entries necessary to record properly the above transactions on the books of the concern.

(*From New York C. P. A. Examination*)

Comments.—A Fire Loss Adjustment account should be used. Charge this account with all losses on account of the fire, at which time the proper asset account should be credited. Credit Fire Loss Adjustment with any salvage values and amount received from the insurance companies.

Problem 191

The books of a concern recently burned out contained evidence of purchases, including inventory, of $200,000, and sales of $40,800 since the last closing. Upon investigation, however, the auditor ascertained that a sale of merchandise had been made just prior to the fire, and not recorded in the books, at an advance of two-fifths over cost, less a 10% cash discount, on which the profit was $31,928. The past history of the business indicated an average gross profit of 50% on cost of goods sold.

Required:

(a) What amount should be claimed as fire loss?

(b) What rate of gross profit do the transactions finally yield?

(*From American Institute Examination*)

Problem 192

On April 1, 1921, the garage occupied by the Acme Grocery Company was totally destroyed by fire, together with its entire contents, including trucks and other equipment of the above company.

The following accounts are found on the books of the company at the time of the fire: Delivery Equipment, \$8,000; Reserve for Depreciation of Delivery Equipment, \$1,600; Unexpired Insurance on Delivery Equipment, \$240.

Depreciation has been credited at the rate of 10% per annum up to January 1, 1921. The insurance is paid in advance until December 31, 1921. The Insurance Company settled for the book value of the equipment.

Required.—Necessary journal entries with complete particulars to record the above and adjust all accounts affected.

Comments.—Set up a Fire Loss Adjustment account as in the preceding problem. The various adjustments will be made in the following order:

(1) Provide for depreciation from the beginning of the fiscal period to the date of the fire.

(2) Close the reserve account into the asset account.

(3) Close the book value of the asset account into the Fire Loss account.

(4) Write off the unexpired insurance, charging the proportion to time of fire to Expense, and the balance to Fire Loss.

(5) Assuming that cash is received from the Insurance Company in settlement of the claim, credit the same to Fire Loss Adjustment account.

(6) Close the Fire Loss account into Surplus.

Problem 193

A company has several delivery trucks charged to Truck account at cost, against which it has set up depreciation at the end of each year by a credit to a separate Reserve for Depreciation of Trucks, debiting the amount to Profit and Loss account.

A truck was purchased January 1, 1918, for $4,000. Depreciation has been provided at 20% per annum. On December 31, 1919, the truck is wrecked by collision. $1,000 is obtained from the insurance company, and $250 from salvage.

Required.—Entries necessary to adjust the ledger accounts.

(*American Institute*)

Problem 194

On the evening of September 30, 1921, a fire broke out in the plant of the Zanesville Manufacturing Company and partially destroyed the power plant and equipment, the loss on the power plant building amounting to $30,000, and the equipment to $50,000. The power house was insured in the amount of $40,000, and the equipment, $100,000. The policies containing the 80% coinsurance clause were taken out on April 1, 1921, for a term of three years, the premium amounting to $1,850. On April 1, 1921, the value of the power house and equipment as shown on the balance sheet was as follows:

Power House Building (cost)	$ 80 000	
Less—Reserve for Depreciation	18 000	$ 62 000
Power House Equipment (cost)	$225 000	
Less—Reserve for Depreciation	77 500	$147 500

Depreciation has been figured at the rate of 5% per annum on the power house building, and 10% on the equipment.

A settlement was effected with the insurance company on the above basis.

Required.—Journal entries necessary to record all of the adjustments on account of the fire.

Comments.—All of the principles illustrated in this problem have been illustrated in previous problems with the exception of the 80% coinsurance clause. Where the policy contains this clause the insurance company will be liable only for that proportion of the loss that the face of the policy bears to 80% of the value of the property at the time of the fire (book value here). For instance, in the case of the Power House Building, it will be necessary to first find the book value of the property. The depreciation for the six months from April 1 to September 30, the date of the fire, at 5% amounts to $2,000, which added to the reserve already set up makes that amount $20,000, which deducted from the cost, $80,000, leaves the book value $60,000. 80% of this book value amounts to $48,000. The face of the policy being only $40,000, the insurance company will only be liable for 40,000/48,000 or 5/6 of the loss. 5/6 of $30,000 loss amounts to $25,000. The loss on Power House Equipment will be figured in a similar manner.

The journal entries to adjust the accounts will be made as in previous problems.

Problem 195

The Graham Mercantile Company have a fire. It is ascertained that at the time of the fire their merchandise inventory was $10,000, on which they sustained a loss of $5,000. Their merchandise was insured for $7,000, subject to a coinsurance clause of 80%. What should the insurance company offer them in settlement of this loss?

(*Arkansas C. P. A.*)

Problem 196

It is now becoming quite common practice for corporations to insure the lives of their principal officers, so that upon their deaths the corporations may be in a measure reimbursed for the loss to the business. You are asked to indicate what sort of entries would be made by the company, from time to time, if it paid the insurance premiums on a policy of insurance for $50,000 carried on the life of its president under the four classes of insurance policies indicated below:

10 year renewable term policy
20 payment life policy
Straight life policy
20 year endowment policy

Also indicate what entries should be made in the books for the receipt of the $50,000 principal of the different classes of policies, supposing the president of the company died during the fifth year of the insured term.

(*American Institute*)

Problem 197

The A. J. Schissler Company suffered a fire on June 25, 1921, resulting in the loss of its building, furniture, and the greater part of its stock. A trial balance taken on June 30, 1921, before any adjustments are made, shows the following:

THE A. J. SCHISSLER COMPANY

Trial Balance—June 30, 1921

Cash	$11 320 21	
Notes Receivable	1 317 72	
Accounts Receivable	2 559 94	
Merchandise	3 342 80	
Consignment 1	302 50	$ 336 87
Consignment 2	518 60	484 50
Consignment 3 (cost)	1 955 00	

Real Estate	$7 125 00	
Furniture and Fixtures	207 90	
General Expense	549 62	
Merchandise Discount	133 77	$217 21
Discount	32 11	81 77
Interest	2 04	25 24
Notes Payable		2 742 27
Accounts Payable		4 686 37
Capital Stock		20 000 00
Surplus		792 98
	$29 367 21	$29 367 21

The furniture is a total loss. The damaged stock was sold for $1,500. A cash settlement is made with the insurance companies for $8,000; $3,000 on stock and $5,000 on building.

In preparing the financial statements, you find that the books contain a general Merchandise account, an analysis of which shows the following charges and credits:

Merchandise debits	
Inventory, January 1, 1921	$ 3 372 55
Purchases	14 152 39
Freight and Cartage In	377 52
Merchandise credits	
Sales—regular	$10 059 46
Sales of damaged goods	1 500 00
Insurance settlement	3 000 00

The cost of goods damaged and destroyed by the fire is estimated at $8,920.38. The cost of goods consigned to commission merchants—charged to Consignments in the above trial balance—amounting to $2,776.10, is not included in the purchases for June. These goods were shipped in May.

The Real Estate account shows a debit of $12,125, representing the original cost, and a credit of $5,000, representing the insurance settlement. The building lot is appraised at $6,000.

Required:

(c) Make the necessary adjusting entries, including the entry necessary to close the Merchandise account and open the detail accounts: Inventory, Purchases, Sales, Freight and Cartage In, and Fire Loss

(b) Statement showing fire loss

(c) Profit and loss statement showing the profit on sales to time of fire, followed by final net loss

(d) Balance sheet in usual form

(e) Necessary entries to close all the accounts.

Comments.—Set up a Fire Loss account to which all losses on account of fire will be transferred, and to which will be credited the amount received from the insurance company.

The credits to the consignment accounts represent the proceeds of the account sales. Consignments 1 and 2 will therefore be closed into Profit and Loss account. Consignment 3 will be carried as an asset in the balance sheet, as it represents the cost of goods consigned and in the hands of commission merchants.

Problem 198

A firm manufacturing but one grade of cloaks, insured against burglary, claims to have been robbed on the night of September 10.

The proof of the loss filed by the assured contained two items for 600 cloaks, $12,000; silk, 1,000 yards, $1,500.

An inventory of the stock on hand, consisting of cloaks, cloth and silk, had been taken January 1, amounting to $118,500, the particulars of which have been lost or destroyed.

An analysis of the firm's books produced the following information:

Purchase of cloth, 37,500 yards at $1.

Purchases of silk, 10,000 yards at $2.

6,000 cloaks were manufactured, consuming cloth, 40,000 yards at $1. silk, 10,000 yards at $2.

9,000 cloaks were sold between Jan. 1 and Sept. 10.

Cost of sales, per cloak, for material	$10 00
Cost of sales, per cloak, for labor and sundries	7 00
	$17 00

Inventory, September 11—2,500 cloaks at $17; 12,500 yards cloth at $1; 5,000 yards silk at $2.

Required.—Prepare a statement proving or disproving the claim.

(*From New York C. P. A. Examination*)

Problem 199

The office of a firm of traders doing business in San Francisco was destroyed by an earthquake. The books of account, which had been fully posted, were badly damaged. The following ledger accounts were found to be legible:

Purchases, net, $69,000; Discounts Lost, $640; Discounts Gained, $3,450; Sales, $54,000; Bills Receivable, $33,000. Inquiry at the bank disclosed a balance on deposit, $129,000. Bills receivable amounting to $45,000 had been discounted at the bank. An audit of the checks paid by bank showed that $99,000 had been paid creditors (including $60,000 notes payable). A balance sheet prepared at the last closing of the books was produced, containing the following items:

Cash, $60,000; Accounts Receivable, $126,000; Loans Receivable, $24,000; Real Estate, $90,000; Notes Receivable, $78,000; Capital, $318,000; Notes Payable, $60,000.

Required.—A trial balance supplying the missing accounts.

(From New York C. P. A. Examination)

Group B—Suspense Items and Adjustments

Problem 200

In taking off a trial balance a bookkeeper finds that his debit footing exceeds the credit by \$131.56, which amount he carries to a Suspense Account. Later he discovers that a purchase amounting to \$417.50 had been debited to a creditor as \$192.94; that \$312.50 for depreciation of machinery had not been posted to Depreciation account; that \$500 withdrawn by the proprietor had been charged to Wages account; that a discount allowed to a customer of \$76.13 had been posted to the wrong side of Merchandise Discount account; and that the total of sales returned was footed \$5 short.

Required.—Give entries showing how you would remedy these errors, and starting with the original difference prepare a supplementary schedule showing whether the books are now in balance.

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

Comments.—Make adjusting entries to correct all errors, charging or crediting Suspense account for those items not affecting other accounts. For instance, in the first item, in order to correct the creditor's account it will be necessary to credit same with \$610.44, the entry being:

Suspense Account	\$610 44	
Accounts Payable		\$610 44

After making entries, set up a Suspense Ledger account with a credit of \$131.56. To this will be added the credits to Suspense and from it will be deducted the debits. The result will determine whether or not the books are in balance.

Problem 201

July 1.—X Company arranges with Broker B to discount accounts receivable amounting to \$24,000, consisting of fifty accounts, on a 20% margin, commission 5% gross.

Aug. 1.—A Company, whose account amounts to \$500, fails, and the broker returns the account to X Company, who gives proper credit for the same. At the same time, the broker reports collection of ten accounts aggregating $4,000.

Sept. 1.—Broker B reports the remainder of the accounts collected and remits balance of collections.

Required.—Set up entries covering the above transactions.

Comments.—This problem illustrates the practice of discounting accounts receivable sometimes indulged in by firms in financial difficulty. At the time the accounts are discounted a contingent liability account called "Customers Accounts Discounted" should be credited. As the customers accounts are paid the contingent liability account is charged and the customer credited.

Problem 202

Brown has a customers' ledger, a purchase ledger, and a general ledger, the latter containing controlling accounts with the other two. When his bookkeeper submitted to him trial balances of the three he observed that White owed him $100, subject to a cash discount of 2½%, and an allowance for outward freight of $1.68, neither of which items has been entered in the books; and that he owed White $100, subject to a discount of 4%, which had not been entered. He directed the bookkeeper to adjust the accounts by a remittance of stamps.

Required.—Draft entry or entries that will close the two personal accounts and maintain the reconcilement of the ledgers.

(From Massachusetts C. P. A. Examination)

Problem 203

When auditing the books of a company which are not in balance the following errors are discovered:

1. A check drawn for $110 is entered in the cash book as a collection of $100 and posted to the debit of the creditor's account as $110.

2. A customer's credit memo of $25 is included as a sale and posted to the credit of the customer's account as $20.

3. The debit side of the cash book is underfooted $100, and a check drawn for $100 in payment of a creditfor's account is not entered in the cash book.

4. Discounts received of $250 are posted as discounts allowed.

5. Capital stock to the par value of $5,000 was issued and charged to the president. $2,500 of this stock was sold by him at par and the proceeds credited to the Capital Stock account. The balance of the issue, $2,500, was later canceled, the Capital Stock account charged and the president's account credited with that amount.

Required.—Prepare journal entries for accounts in the general ledger and subsidiary ledgers which are controlled by accounts in the general ledger, to correct the foregoing errors.

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

Comments.—The instructions are very clear as to what adjustments to make. Set up the journal entries for the adjustments with complete particulars as to why the entry is made. The propriety of making some of these adjustments might well be commented upon in solving the problem.

Problem 204

THE LANDSDALE MONOTILE COMPANY

Balance-sheet—December 31, 1918

Assets			Liabilities and Capital	
Land and Buildings	$500 000		Capital Stock	$ 300 000
Less—Reserve for Depreciation	120 000	$ 380 000	Notes Payable	350 000
Machinery and Equipment	$200 000		Accounts Payable	158 000
Less—Reserve for Depreciation	80 000	120 000	Interest Accrued Payable	3 000
U. S. Victory Bonds		100 000	Surplus	314 000
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	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.

Required.—Trial balance before closing.

(*From American Institute Examinations*)

Group C—Miscellaneous—Theory Questions

T-146

The Insurance account as kept upon the books of the Good Merchandise Company is charged with the premiums paid on the following kinds of insurance: Fire Insurance on Buildings, Merchandise and Fixtures; Sprinkler Leakage; Employer's Guarantee Bond; Safe Burglary; Robbery and Hold Up; Automobile Fire, Theft, and Liability; General Liability; Elevator Liability; Steam Boiler; Tornado; Plate Glass; Use and Occupancy; Insurance on Officers' Lives.

You are asked to indicate the proper treatment to be given each of the above items; i. e., indicate the name of the account or accounts to which they should be charged, give the adjusting entries, state the section of the profit and loss statement in which each would appear, etc.

(*Wisconsin C. P. A.*)

T-147

The entire stock on hand of a mercantile concern is destroyed by fire. The financial books are saved.

How would you ascertain the amount of loss to claim against the insurance company?

(*Massachusetts C. P. A.*)

T-148

A fire occurred in the plant of A. C. Company, resulting in an estimated loss of $50,000, and settlement was made with the insurance companies on that basis.

Upon receipt of check for $50,000 from the insurance companies, the treasurer of the company instructed the bookkeeper to credit the amount received to an Unexpended Fire Insurance Suspense account. All repairs and renewals together with all other expenses incident to the fire were charged by the treasurer's instructions to a Fire Repairs account.

After the work had been completed, this account, which then showed a total of $35,000, was closed into the account with Unexpended Fire Insurance Suspense. No disposition has been made of the credit balance of $15,000 remaining in said account.

Taking into consideration all of the facts as stated above, including the matter of Federal taxes, do you approve of the above method of handling the case? If not, what procedure would you recommend?

T-149

(a) Explain the method of quoting French exchange in U. S. money.

(b) With reference to the above, explain the following phrase in a certain work on foreign exchange: "The higher the rate, the lower the quotation."

(c) What is the present rate of exchange on France? Give date used.

(New York C. P. A.)

T-150

A company in the manufacturing business has had an unusually profitable year due to large purchases of material made the previous year at a very low price. In reporting the earnings for the year during which the contract was made and the year in which the material was received and consumed, would you consider any adjustments necessary in view of the above? Answer fully.

(North Carolina C. P. A.)

T-151

Assuming an automobile manufacturing company made a contract for rubber tires at $35 each with the understanding that it was to receive a rebate of $5 a tire if the purchases exceeded

40,000 tires and that at the end of the season when the accounts were made up, say on July 31, it was found that 45,000 tires had been purchased and a claim for the rebates was thereupon made and a check in settlement was received on August 31 following. On July 31 there were 15,000 tires on hand. At what price should they be valued for inventory purposes and how should the rebate be dealt with in the accounts for the year ending July 31?

(*Illinois C. P. A.*)

T-152

At the date of closing two contracts are in hand and uncompleted; one for $1,200, estimated to cost $900, is three-quarters finished and is already charged to customer at $1,200; the other is $2,000, estimated to cost $1,500, is half finished, and no entry has been made therefor. Suggest entries necessary to adjust these accounts so that anticipation of profits will not occur.

(*New York C. P. A.*)

T-153

At the time of taking inventories and closing its accounts, preparatory to ascertaining its financial condition, a corporation has obligations under contracts to pay for raw materials to arrive, on which no payments have been made. At the time of closing the accounts, the prices of the contracts are in excess of the market prices for deliveries corresponding with the contracts. State: (a) how this condition should be reported in the accounts and statement of financial condition, and (b) your reasons.

T-154

An ice company sells coupon books to its customers; the coupons are to be used in paying for ice delivered. These coupon books are paid for in advance by the customers. What accounts should be opened on the company's books to record such transactions and how should the sale of coupons and deliveries of ice appear therein?

(*Wisconsin C. P. A.*)

T-155

Give some principles to determine a proper disposition of the cost of enlarging a plant including a partial re-building of the old portion.

In case you have insufficient data to enable you to apply these principles satisfactorily, offer some solution of the difficulty.

(*American Institute*)

T-156

In a certain department of a large dry-goods house purchases for a year were $30,000. They were in the first place marked up for "selling" purposes to $45,000. Later additional mark-ups amounting to $2,000 were made and mark-downs were also recorded aggregating $5,000. At the end of the fiscal period there were found to be on hand goods of the marked selling value of $10,000. State how you would ascertain their inventory value for the purpose of closing the books and calculate the amount. Explain fully.

(*American Institute*)

T-157

Define and differentiate the following kinds of accounts:

(a) Real and Nominal.

(b) Personal and Impersonal

(c) Current and Summary.

(d) Controlling and Specific.

(*Michigan C. P. A.*)

T-158

(a) What different methods should be employed in books of account for keeping track of notes endorsed for accommodation and notes endorsed in the regular order of business?

(b) How would you indicate in books of account the contingent liability arising in each case?

(*Michigan C. P. A.*)

T-159

A company packs a coupon in each box of goods sold. The company agrees to redeem 100 coupons with premiums costing \$1 apiece. 25% of the coupons are never presented for redemption.

Prepare sample journal entries for the bookkeeper to follow which will give the last of each month the expense for the month of the coupons given out, the amount of premiums on hand, and the gross and net liability for outstanding coupons, and state briefly how these entries will produce the result wanted.

(*Massachusetts C. P. A.*)

T-160

A manufacturng company ships its products in packages costing 7½¢ each. They are charged to customer at 10¢ each but subject to credit when returned in good order at same price as charged. At close of year, Package account shows an apparent gain, being the difference between cost of package and amount of contingent sales. What disposition should be made of the ledger gain at close of year?

(*Michigan C. P. A.*)

T-161

A milk company sells to its customers strips of tickets which are good in payment of the milk delivered to them. These tickets are paid for in advance by the customers. What accounts would you expect to find on the books and how should the entries be handled showing the transactions of the sales of tickets and the deliveries of milk?

(*Michigan C. P. A.*)

T-162

Where land is donated to a manufacturing concern under conditions requiring a number of years for their fulfillment, how would you treat the transaction on the books of the donee?

(*Ohio C. P. A.*)

T-163

In some trades it is customary to deduct cash discounts from invoices before taking the same into the accounts. What is the theoretical objection, if any, to so doing?

(*Ohio C. P. A.*)

T-164

A concern leases certain premises for a long term and makes extensive alterations and additions at its own expense. How would you treat such expenditures in the accounts?

(*Ohio C. P. A.*)

T-165

Explain the purpose and manner of keeping a private ledger as a part of the financial books of a corporation or firm and how the entries on same should be handled on the general ledger. Explain fully.

(*Maryland C. P. A.*)

Bibliography

Miscellaneous

Bennett, George B. Accounting Principles and Practice. New York. Vol. i, 1920. Vol. ii, 1921.

Cox, Henry C. Advanced and Analytical Accounting. Business Accounting, vol. iv. New York, 1920. Chap. xx.

Esquerre, Paul-Joseph. Applied Theory of Accounts. New York, 1920. Chap. xii.

Greeley, Harold Dudley. Theory of Accounts. Vol. i. Business Accounting. New York, 1920.

Kester, Roy B. Accounting Theory and Practice. New York. Vol. i, 1917. Vol. ii, 1918, chap. xxxii.

Wildman, John R. Principles of Accounting. New York, 1914. Chap. xli.

INDEX

3.00

2-12-23

Library

Graduate S ... stration