

1916-17

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

(Second half-year)

ACCOUNTING PRACTICE

PROFESSOR COLE

*Devote one hour to question 1*

1. A neighboring factory turns out a by-product which you can utilize. The output of that product (call it oxum) is of five grades, and the quantity varies widely with temporary conditions, but you can use only a limited supply. You have a contract by which you buy a maximum quantity of each grade each month at a fixed price on a cash (net 10 ds) basis, but you accept larger shipments with the agreement to sell on commission any excess above your own agreed purchase. Such sales you make both on time and for cash, but you guarantee payment of the time sales on a cash basis.

You use oxum in making another product (call it ozate), a part of which you sell at wholesale on invoices dated ahead with discounts, and the rest of which you use in the manufacture of your principal product (call it ozantium), to be sold under the same conditions as ozate.

Outline the scheme of accounts you would propose — listing the accounts to be kept (with descriptive titles) for oxum, ozate, and ozantium, and showing the forms of books to be used to reduce labor to a minimum but to give all necessary information.

2. On January 21 you take over as executor the estate of a testator who died on January 16. You find the following financial condition:  
Real estate, occupied, \$12,000 (by will to go to the widow).  
Real estate, rented, \$20,000 (by will to go to the son); rents paid to January 1; annual rental, \$2400.

Notes receivable, \$7000; interest, 6%, last paid on Nov. 1.  
 Claim against B for loan, \$6000; interest paid to January 1  
 at 6%.

Stock, market value par, \$3000.

Dividend on stock, declared January 18, \$75.

Life insurance, payable to the estate, \$20,000.

Fire insurance, taken January 1 last, 3 years, \$350 premium  
 paid.

Household furniture, \$7500.

Liabilities at death, and in connection therewith, \$700.

Show your entries on opening new books for the estate.

Show your entry, if any is required, for collection of rent on  
 April 1, of interest (on note) on May 1, of dividend on March  
 1, and of collection on June 1 of a judgment, on a suit entered  
 by the deceased a year before death, amounting to a lump sum  
 of \$1000.

3. The trial balance of the general ledger of a business on Decem-  
 ber 31 is as follows:

Real Estate . . . . .	\$35,000	
Merchandise . . . . .		\$20,000
Accounts Receivable . . . . .	60,000	
Accounts Payable . . . . .		25,000
Notes Payable . . . . .		15,000
Fixtures, etc. . . . .	10,000	
Partner A . . . . .		60,000
Partner B . . . . .		40,000
Commission . . . . .		7,000
Operating expenses . . . . .	48,000	
Cash . . . . .	14,000	
	<u>\$167,000</u>	<u>\$167,000</u>

It is now decided to open a private journal and private  
 ledger, and to continue on the old books only items needed for  
 the general office. The inventory of merchandise is found to

be \$40,000, the real estate must be depreciated \$3,000, and  
 the partners draw \$5,000 cash each: the balance of profit is to  
 be credited to partners equally. Show the entries for closing the  
 old books so as to show on them and leave on them only the  
 necessary information, and show the entries for the private  
 journal including the closing at the end of the year.

Show the final trial balance of each ledger after closing, and  
 show the general balance sheet.

4. Convert the general balance sheet of Question 3 into a double-  
 account balance sheet, assuming that this is the end of the  
 first year of the business.

5. (a) Comment upon the following series of entries:

Subscriptions . . . . .	\$50,000	
To Capital Stock . . . . .		\$50,000
Issue of stock for subscriptions		
Cash . . . . .	20,000	
Stock in Other Companies . . . . .	20,000	
To Subscriptions . . . . .		40,000
Subscriptions paid		
Treasury Stock . . . . .	20,000	
To Working Capital . . . . .		20,000
Donations of stock, par \$20,000		
Cash . . . . .	95,000	
Working Capital . . . . .	15,000	
To Bonds . . . . .		100,000
Treasury Stock . . . . .		10,000
Sale of bonds at 95, with a bonus of 10% in stock.		

- (b) Show the balance sheet as you think it ought to stand at  
 this point, — as a result of the above entries if you accept  
 them, or as it would be after the substitution of your own  
 entries if you object to any.

Final. 1917.

104 72  
 72  
 — 32

70      60  
 35      50  
 175      15  
 — 1225      105  
 105  
 — 22750