1916-17

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

ACCOUNTING PRINCIPLES

PROFESSOR COLE

1. Show entries for the following:

(*a*) An allowance is made at the close of the year for estimated bad debts outstanding, in Accounts Receivable, on sales of the year ($9000).

(*b*) John Doe, a customer whose account for $900 was included in Accounts Receivable at the close of the year, gives us a note for his balance with interest ($915).

(*c*) We discount Doe's note for $900.

(*d*) Doe fails to pay his note, and we take it up for $915.

(*e*) We write off his debt to us against the allowance for bad debts made previously.

(*f*) Two years later, John Doe pays his debt, with interest ($1025).

(*g*) This $1025 gives us an unexpecced margin for an experiment in advertising, and we devote $300 of it to finishing off a new advertising office in our building, $200 to buying equipment for it, and the rest to advertising expense.

(*h*) The experiment proves a failure, for the advertising yields virtually no result.

2. The following statistics, among others, are reported by a railroad. Show which of them are useful for a study of comparative balance sheets, and indicate their use for that purpose. (*a*) locomotive miles; (*b*) locomotives owned; (*c*) car miles; (*d*) cars owned; (*e*) train miles; (*f*) ton miles; (*g*) average load of loaded cars; (*h*) locomotive maintenance per mile run; (*i*) tons of various commodities carried.

3. Trust funds come into your possession as follows: Cash, $4800; Bonds (all of the same issue), $27,000; Real Estate (a section of a block of new houses, each house of the same value as the others in the section), $60,000; Stocks (three separate issues, but all at the same market value), $30,000. The property belongs to three persons who have equal shares. Do you need to know, for the purposes of accounting for the trust, whether the shares of the beneficiaries are divided or are undivided? Explain.

4. (*a*) What elements enter into the valuation of a transferable annuity which terminates in twenty years?

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(*b*) What elements enter into the determination of an annual charge to a corporation for ten years to pay for an annuity to begin at the end of ten years and to continue for twenty years?

(*c*) To what account should you debit the ten annual payments which you make to buy the annuity?

(*d*) Should the debits to that account be more or less than the amount actually paid? If so, to what should the difference go?

5. The Interstate Commerce Commission has allowed railroads to carry as an asset discount on bonds sold. In what sense is such discount an asset?

How permanent is such an asset? If not permanent, (*a*) how does it get written of? and (*b*) what is the effect upon other accounts of such writing off?

6. A business had the following balance sheet on January 1, 1916:

Real Estate	$40,000	Capital Stock	$60,000
Plant	20,000	Notes Payable	23,000
Raw Material	17,000	Accounts Payable	40,000
Goods-in-Process	16,000	Accrued items	7,000
Finished Goods	12,000		
Accounts Receivable	18,000		
Fixtures	4,000		
Cash	3,000		
	$130,000		$130,000

During the year it bought $25,000 worth of raw material, paid for $30,000 of raw material, issued $40,000 worth of raw material, paid $50,000 in wages (including $3,000 accrued brought over from the year before), paid $30,000 of general expenses (including $4000 of old accrued items), sold $160,000 of finished goods, collected $140,000 on sales, and paid $9000 in dividends. Its balance sheet a year later was as follows:

Real Estate	$35,000	Capital Stock	$60,000
Plant	18,000	Notes Payable	5,000
Raw Material	2,000	Accounts Payable	35,000
Goods-in-Process	18,000	Accrued items	8,000
Finished Goods	9,000	Allowance for Bad Debts	5,000
Accounts Receivable	34,000	Surplus	13,000
Fixtures	4,000		
Cash	6,000		
	$126,000		$126,000

Show the income sheet, and give any other valuable information (disclosed by the figures given) about the operations of the year. If the second balance sheet is consistent with the first, explain any apparent discrepancies; if erroneous, point out the errors.

[Summary journal entries for all the transactions of the year are recommended as a means of reaching conclusions.]

41
7
47
26
8
5
134
41
93

119
93
26

Final. 1917.

Sup 5
Dis on bond 10
To Sinkd 15

Cash

1.04
1.04
416
4
1.04
.0816
3.00
5000

Cash 10
Disc 5
To Capital 15

Interest 5

5