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Examination questions: Accounting Theory, Friday Afternoon, November 20, 1931

Michigan Board of Accountancy

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EXAMINATION QUESTIONS

Accounting Theory

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Question 1:

You are called upon by members of a partnership to suggest the points relative to accounting which should be covered in their partnership agreement. Give at least eight provisions of such an agreement which are important to a proper accounting.

Question 2:

The capital account of George Mohr, sole proprietor of a certain business establishment, was $26,419.30 at June 30, 1931.

Make the proper entries to admit Fred Price as a partner under each of the following conditions:

(a) Price pays $25,000.00 for a one-half interest, the money to remain in the business. The capital of the new firm is to be $50,000.00.

(b) Price pays $15,000.00 for one-half interest, Mohr to keep the money and the firm capital to remain at $26,419.30.

(c) Price pays $14,000.00 for a one-third interest, the money to remain in the business, and the capital of the new firm to be increased to $42,000.00.

Question 3:

The greater portion of the business transacted by The Georgian Company is on a contract basis. Customers are billed periodically as work on their contracts progresses.

On December 31, 1930, the status of unfinished contracts was summarized as follows:

Job No.	Cost to Date	Estimated Cost to Complete	Contract Price	Billings to December 31, 1930
4163	$46,318.26	$5,000.00	$75,000.00	$55,000.00
4166	59,416.83	11,500.00	60,000.00	48,750.00
4172	8,727.45	19,400.00	40,000.00	10,000.00
4173	12,487.27	41,100.00	60,950.00	12,450.00
4174	3,804.93	12,300.00	15,000.00	2,000.00
4179	22,063.60	60,000.00	125,000.00	
Totals	152,818.34	149,300.00	375,950.00	128,200.00

No profit or loss is taken up on the books until the contract is completed; the cost to date is treated as an inventory item under current assets while billings thereon are set up on the balance sheet as deferred income immediately following current liabilities. The company is able to compute the cost to complete each contract with great accuracy.

Do you approve of the accounting procedure followed and the balance sheet valuations and arrangement?

Question 4:

In the preparation of a balance sheet of a dealer in period furniture and objects d'art, to be used for credit purposes, you ascertain that for the past twenty years his stock in trade has had an average turnover of once every three years. Would you include the said stock in trade among the current assets? Would it make any difference in your method of handling the inventory if you were told that the balance sheet was not to be used for credit purposes?

Question 5:

You are asked to draw up schedules for the bookkeeper of M. Company to cover the following items which he must adjust monthly:

(a) Insurance premiums.

(b) Interest.

What forms would you use that would provide a detailed analysis of the balance sheet and profit and loss figures? Explain how these forms would be used.

Question 6:

The International Traffic Bureau is a personal service organization representing American importers in their claims against marine transit companies for overcharges in ocean freight and for deterioration of merchandise during transit. As compensation the Bureau receives in cash twenty-five per cent of all claims settled; it pays all its own legal and other expenses.

To add prestige to its business, The International Traffic Bureau entered into a special contract with a large importer whereby in lieu of receiving cash for claims settled, it accepts stock of the importing company at par. In addition, as part of the contract, the Bureau bought outright for cash $5,000.00 in stock at par value.

It is admitted that the stock is not worth par value. At the close of the fiscal year, the International Traffic Bureau had on hand, as a result of the above contract, stock having a par value of $20,000.00, with an estimated fair market value of $10,000.00, and an accounts receivable of $1,250.00 for claims settled but not yet paid for in stock.

How should this transaction be considered on the company's:

(1) Balance sheet.

(2) Statement of profit and loss.
(3) Federal income tax return.

Question 7:

What is the proper accounting procedure involved in the following:

(1) Gain arising from the cancellation by a parent company of advances to a subsidiary.

(2) Profits on the sale of plant assets.

(3) A deficit from current operations, there being paid-in but no earned-surplus.

(4) Good-will or other intangible assets which an officer of the company has proposed to write off by charging them against surplus arising from the appraisal of the company's fixed assets.

Question 8:

A corporation purchased $300,000.00 of its outstanding serial bonds at an average price of 65 on the open market. It desires to show the saving as a current year's profit to be carried to earned surplus. Have you any objections? Is it available for dividends? What immediate disposition, if any, should be made of the unamortized bond discount and expense applicable to the above bonds?

Question 9:

Would good financial procedure demand that (1) organization expenses and (2) discount on stock be written off fully before dividends are paid?

Question 10:

Discuss the relationships and distinctions between the following:

(1) Sinking fund reserve and funded debt.
(2) Sinking fund and sinking fund reserve.
(3) Depreciation reserve and sinking fund reserve.
(4) Sinking fund reserve, immediately after the retirement of a bond issue, and (a) earned surplus, (b) cash dividends, and (c) stock dividends.

Question 11:

Two corporations consolidated in 1929, stock in a new corporation having been exchanged, par for par, for the stock of the two old corporations which thereupon transferred their assets to the new corporation and dissolved. There was no change in or addition of stockholders. Substantial earned surplus accounts existed on the books of each old company. Appraised values of fixed assets (which exceeded the book values thereof) were declared by the Board of Directors of the new company to be their fair values which should be transcribed on the books of account.

(a) Should the earned surplus accounts have been transferred as such to the books of the new company?

(b) For income tax purposes what basis should be followed in determining depreciation expense?

Question 12:

A movement has been on foot for several years to classify accounting services. Of what value to the certified public accountant would such classification be?