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## Examination Questions: Practical Accounting, Thursday Afternoon, May 19, 1932

Michigan Board of Accountancy

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# MICHIGAN BOARD OF ACCOUNTANCY

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## EXAMINATION QUESTIONS

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THURSDAY AFTERNOON, MAY 19, 1932

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### Practical Accounting

#### Problem 1:

The following letter and two financial statements have been submitted to your client who contemplates investing \$100,000.00 in the T Corporation. Your client turns the letter and the exhibits over to you, requesting that you give your opinion of the company's financial position and of the advisability of making the investment suggested. Write a letter to Mr. Blank. If you think the situation justifies it, state what further information Mr. Blank should request from the company.

T CORPORATION  
*Builders -- General Contractors*  
135 Reed Avenue

May 19, 1932.

Mr. George L. Blank,  
City.

Dear George:

Complying with the request you made during our recent conversation, I am forwarding herewith statements prepared by our bookkeeper on April 30. As you will notice, we are now in pretty good shape, aside from the need of ready cash. We have built up a substantial surplus during our corporate life of eleven years, and we are realizing a net profit of over 10% on our recent contracts. Furthermore, while we have secured no contracts not now in process, we have excellent prospects of securing several very large contracts around the first of June that will keep our organization busy throughout the remainder of 1932. By the close of this year we hope that at last we shall be on a dividend-paying basis.

As the balance sheet indicates, our common shares now have a book value of over \$103.00 each. However, rather than obligate ourselves to the banks for further short-term loans, our shareholders have agreed that we should sacrifice some of our present equity in order to obtain permanent capital and

thus take care of our immediate necessities and provide for normal expansion.

We therefore offer to sell you 2,000 shares of our no-par common stock at \$50.00 per share. We believe this offer will appeal to you as a first-class investment and will give us working capital that will insure our future growth and success.

Yours very truly,

SILAS R. MANN, *President.*

### T CORPORATION

BALANCE SHEET

— APRIL 30, 1932

#### ASSETS

Cash .....				\$ 1,748.62
Receivables:				
Completed jobs .....		\$ 45,814.70		
Jobs in process .....	\$645,673.12			
Less—Costs to be incurred on uncompleted jobs .....	352,017.60	293,655.52	339,470.22	
Inventories, materials and supplies:				
In stockroom .....		\$ 18,241.37		
In process .....		55,608.26	73,849.63	
Bonds and mortgages accepted in settlement of debtors' accounts .....			33,000.00	
Real estate, tools, trucks and equipment .....			167,312.33	
Organization expenses .....			3,391.68	
Prepaid expenses:				
Insurance, licenses and office supplies .....		\$ 973.50		
Engineering work on prospective jobs .....		3,361.72		
Overhead, to be absorbed by jobs in process .....		45,305.86	49,641.08	
Goodwill .....			100,000.00	
Total assets .....				<u>\$768,413.56</u>

#### LIABILITIES

Bank loans .....		\$ 45,000.00		
Accounts payable, including unpaid invoices on jobs in process .....		357,900.79		
Accrued wages .....		2,519.72		
Accrued interest .....		5,215.16		
Accrued taxes .....		3,800.00		
First mortgage on real estate .....		47,250.00		
7% cumulative preferred stock, \$100.00 par .....		100,000.00		
No-par common stock, 2,000 shares outstanding .....		100,000.00		
Surplus .....			106,727.89	
Total liabilities .....				<u>\$768,413.56</u>

**T CORPORATION**  
**STATEMENT OF PROFIT OF JOBS IN PROCESS**  
**April 30, 1932**

Particulars	Amount
Total contract prices .....	\$1,715,942.60
Cash received to date .....	1,070,269.48
	\$645,673.12
Cash to be received .....	
Disbursements to be made:	
Unpaid invoices applicable to jobs.....	\$ 121,478.91
Labor necessary to complete (estimated).....	213,593.08
Materials to be purchased (engineer's estimate) .	106,422.92
Overhead (10% of prime costs to be incurred) .	32,001.60
	473,496.51
Estimated net profit to be realized on jobs in process	\$172,176.61
Percentage of net contract prices .....	10.03%

**Problem 2:**

Carl Swanson and George Smith in 1930 entered into a real estate venture; from the following information you are required to prepare a balance sheet, on the accrual basis, of the venture accounts at December 31, 1931, and a statement of profit and loss for the eighteen months ending on that date. All profits and losses derived from each piece of property are to be distributed equally to all parties having a financial interest therein; carrying charges are to be capitalized. The net worth section of the balance sheet should show the original contributions and any other information you deem of interest to the partners. Cash transactions of all parties were handled through their personal bank accounts.

A chronological summary of the various transactions follows:

July 1, 1930—An agreement covering the purchase of a piece of real estate contained the following items:

Particulars	Dr. Buyer	Dr. Seller
Sales price .....	\$380,000.00	
Two 6% purchase-money mortgages due June 30, 1931 .....		\$200,000.00
Accrued taxes, January 1, 1930, to June 30, 1930 .....		7,516.84
Cash, contributed equally by Smith and Swanson		172,483.16
	\$380,000.00	\$380,000.00
Totals .....	\$380,000.00	\$380,000.00

July 1, 1930—Smith paid brokerage fees of \$10,400.00 on the above purchase.

The real estate was at once split up into the following properties, the market values shown being put thereon by reliable appraisers:

Property	Market Value July 1, 1930
"A" .....	\$100,000.00
"B" .....	50,000.00
"C" .....	250,000.00
Total .....	<u>\$400,000.00</u>

The two purchase-money mortgages covered the following:

Property	Amount
"AB" .....	\$100,000.00
"C" .....	100,000.00
Total .....	<u>\$200,000.00</u>

January 1, 1931 — Smith paid six months' interest of \$6,000.00 on the two purchase-money mortgages.

January 1, 1931 — Swanson sold his interest in "AB" to Fred Morand for \$110,000.00 cash; Morand agreed to assume all Swanson's liabilities for unpaid taxes on "AB".

February 18, 1931 — Property "B" was sold and the following sales contract is in evidence:

Particulars	Dr. Buyer	Dr. Seller
Sales price .....	\$99,000.00	
6% purchase-money mortgage due February 18, 1936 .....		\$45,000.00
6% first-mortgage bonds of the Dale Co., due April 15, 1938 .....		20,000.00
Accrued interest on Dale Co. bonds, October 15, 1930, to February 18, 1931 .....		440.00
Accrued taxes, January 1, 1931, to February 18, 1931 .....		298.30
Cash, received by holder of first mortgage on "AB"		33,261.70
Totals .....	<u>\$99,000.00</u>	<u>\$99,000.00</u>

February 18, 1931 — The mortgage on "AB" was paid as follows:

6% first mortgage on "A", due February 18, 1941 .....	\$ 75,000.00	
Proceeds from sale of "B" .....	33,261.70	\$108,261.70
Mortgage on "AB" paid .....	\$100,000.00	
3% brokerage fees on \$75,000.00 mortgage on "A" .....	2,250.00	
Accrued interest, January 1, 1931, to February 18, 1931 .....	800.00	103,050.00
Net proceeds distributed equally to Smith and Morand ..		<u>\$ 5,211.70</u>

March 18, 1931 — Real estate taxes for 1930 paid by Smith were:

"A" .....	\$ 3,758.41
"B" .....	1,879.22
"C" .....	9,396.05
Total .....	<u>\$15,033.68</u>

April 15, 1931 — Interest collected by Smith on Dale Co. bonds \$600.00.

June 15, 1931 — An apartment building on property "C", construction of which started March 1, 1931, was completed. A construction loan of \$400,000.00 in the form of 20-year 6% first-mortgage bonds was negotiated on March 1, 1931; the distribution of the proceeds of this loan and of additional construction costs paid by Smith and Swanson was:

Receipts:

Construction loan .....	\$400,000.00
Contributed by Smith .....	30,000.00
Contributed by Swanson .....	33,445.80
Total .....	<u>\$463,445.80</u>

Disbursements:

Construction of building .....	\$322,445.80
Retirement of mortgage on "C" .....	100,000.00
10% discount on new loan .....	40,000.00
Accrued interest on \$100,000.00 mortgage from January 1, 1931, to March 1, 1931.....	1,000.00
Total .....	<u>\$463,445.80</u>

August 18, 1931—Smith paid six months' interest on \$75,000.00 mortgage payable on "A" .....

	<u>\$2,250.00</u>
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August 18, 1931—Smith collected six months' interest on \$45,000.00 mortgages receivable .....

	<u>\$1,350.00</u>
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August 30, 1931—Smith received the following cash advances from:

Swanson .....	\$20,000.00
Morand .....	11,000.00
Total .....	<u>\$31,000.00</u>

September 1, 1931—Smith paid six months' interest on \$400,000.00 mortgage bonds .....

	<u>\$12,000.00</u>
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October 15, 1931—Smith collected six months' interest  
on Dale Company bonds ..... \$600.00

December 31, 1931—Results from the operation of  
the apartment building from June 15, 1931, to December  
31, 1931, were as follows:

Rentals Collected .....	\$20,400.00
Expenses, other than interest or taxes .....	9,516.84

Net proceeds received by Smith .....	<u>\$10,883.16</u>
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There were no prepaid or accrued expenses at December 31, 1931, other than interest and taxes; 1931 tax assessments were:

Property	Amount
"A" .....	\$ 3,618.75
"C" .....	19,596.22

The 1931 tax on "C" should be divided between land, building, and building expense in the following ratios: one-sixth, seven-twenty-fourths, and thirteen-twenty-fourths, respectively.

3% is considered a fair depreciation rate on the apartment building.





