

ACCOUNTING THEORY AND PRACTICE

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Accounting Theory and Practice by Charles F. Rittenhouse & Philip F. Clapp

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**ACCOUNTING
THEORY
AND PRACTICE**

UNIT II

PRACTICE SET
ACCOUNTING
THEORY AND PRACTICE

BY

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PREFACE

The purpose of this set is to provide practice material for students of advanced bookkeeping. It is not at all a treatise on the theory of accounting and is intended for use only in connection with class lectures, problems and assigned readings. The set consists of a manual and nine accounting books or forms. The objects of the set may be briefly stated as follows:

1. To familiarize the student with the operations of the ordinary books of entry designed in accordance with good modern practice.
2. To provide practice in the making and posting of adjusting and closing entries and in the drawing up of financial statements.
3. To illustrate the operation of the ledger accounts usually found on the books of trading and manufacturing concerns, both co-partnerships and corporations.
4. To provide a basis for the discussion in class of the theory and practice of accounting.

As the set is intended for use by advanced students, an effort has been made to reduce the purely mechanical work as far as is possible without taking away from the practical value of the set. It is assumed that the student is familiar with the fundamental principles of accounting practice, that he has had sufficient training in the making of bills, vouchers, notes, and other business papers, and that he is familiar with methods of figuring trade discounts, interest, bank discounts, etc.

It should be stated that this set is not necessarily intended to illustrate an accounting system for the furniture business. The commodities used were selected simply to provide a proper basis for the transactions involved, and the principles brought out apply generally to all mercantile businesses.

THE AUTHORS.

BOSTON, MASSACHUSETTS,
January, 1918.

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ACCOUNTING THEORY AND PRACTICE

PART ONE

William C. Haywood and Richard K. Hoyt, both of Boston, Mass., are partners conducting a wholesale and retail furniture business under the firm name of Haywood and Hoyt. Profits are shared in the proportion of two-thirds to Mr. Haywood and one-third to Mr. Hoyt.

The following trial balance was taken from the General Ledger on September 1, 19—, after the books had been closed:

HAYWOOD AND HOYT

Trial Balance after Closing, September 1, 19—

LAND AND BUILDING (book value).....	\$251,500.00
STORE FIXTURES (book value).....	16,200.00
OFFICE FURNITURE AND FIXTURES (book value)...	3,860.50
CASH.....	5,825.64

ACCOUNTS RECEIVABLE:

Wholesale Debtors:

A. B. Curtis & Co., Boston.....	\$2,462.90
Packard Brothers, Boston.....	1,096.70
P. F. Carey & Co., Boston.....	4,769.82
Atlas Furniture Co., Lynn, Mass.	2,246.17
Johnson & Carter, Waltham, Mass.	964.73
B. A. Pratt, Portland, Maine....	1,896.40
Ross Brothers & Co., Albany, N. Y.....	3,642.89
Little Furniture Co., Providence, R. I.....	2,380.40
	\$19,460.01

Retail Debtors:

James L. Gardner, Boston.....	\$286.30
B. M. Stratton, Brookline.....	170.00
A. J. Thompson, Malden.....	89.40
M. A. Smith, Cambridge.....	219.55
	\$765.25
Notes Receivable.....	20,225.28
	1,220.00

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Merchandise on Hand:

Household Furniture.....	\$56,182.97	
Office Furniture.....	38,201.60	
Carpets and Rugs.....	12,643.28	
Stoves and Ranges.....	10,201.64	
Draperies.....	8,187.93	125,417.42
Interest Accrued on Notes Receivable.....		16.68
Stationery and Postage on Hand.....		268.70
Mortgage Payable.....		60,000.00

Accounts Payable:

J. S. Morse & Co., Yonkers, N. Y.	\$5,268.51	
Conant Brothers Desk Co., Boston.....	3,846.70	
New Haven Stove Co., New Haven, Conn.....	1,127.00	
Vermont Manufacturing Co., Burlington, Vt.....	934.86	
Armstrong Carpet Co., Amsterdam, N. Y.....	2,967.94	
Sanford Smith & Co., Yonkers, N. Y.....	4,128.37	18,273.38
Notes Payable.....		3,869.80
Interest Accrued on Mortgage Payable.....		600.00
Interest Accrued on Notes Payable.....		34.83
Taxes Accrued.....		2,483.19
William C. Haywood, Capital.....		216,575.00
Richard K. Hoyt, Capital.....		122,698.00
	\$424,534.20	\$424,534.20

The student will proceed to open accounts in the General Ledger, Sales Ledger, and Purchase Ledger in accordance with the figures given in the trial balance. There are two Accounts Receivable accounts, one for wholesale customers and one for retail customers.

The Land and Building account should be debited for \$300,000 (representing original cost) and credited for \$48,500 (representing amounts which have been written off from time to time to cover depreciation on the building). The Store Fixtures account should be debited for \$14,000 (original cost) and for \$5,200 (cost of new fixtures purchased to date) and credited for \$3,000 (amounts written off for depreciation). The Office Furniture and Fixtures account should be debited for \$5,000 (original cost) and for \$1,000 (new furniture and fixtures acquired to date) and credited for \$2,139.50 (amounts written off for depreciation).

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In this, as in all other cases, each ledger entry should be accompanied by a few words of brief but clear explanation indicating the nature or purpose of the entry in question.

ADMITTANCE OF A NEW PARTNER

Mr. Haywood and Mr. Hoyt, having built up a successful business, now desire to gradually retire from active participation in the affairs of the concern; they have, consequently, entered into an agreement with Robert O. Willard of Cambridge, Mass., whereby Mr. Willard is to acquire by purchase a one-half interest in the business for \$200,000. Mr. Willard has turned over to Messrs. Haywood and Hoyt at present market value certificates representing 810 shares of the stock of the Northeastern Manufacturing Company. The market value of the stock is \$85.50 per share, and Mr. Willard pays the balance of the \$200,000 in cash. The agreement provides that the assets and liabilities of Haywood and Hoyt are to be taken over by the new concern at the present book figures, and that the good will of the business is valued at \$60,727.

Make the entries necessary to give effect to the above transactions.

The name of the new concern is to be Haywood, Hoyt and Willard. Profits are to be shared in the proportion of one-third to Mr. Haywood, one-sixth to Mr. Hoyt, and one-half to Mr. Willard. It is agreed that Mr. Willard, who is to act as general manager of the concern, shall be allowed a salary of \$450 per month, this to be considered as a part of the expenses of operating the business. Profits and losses are to be determined and distributed monthly. The duration of the partnership agreement is to be one year, unless sooner set aside by agreement of all the partners.

The concern buys its stock from manufacturers, and sells to retail dealers, hotels, clubs, etc. Sales of this kind are called "Wholesale Sales." It also sells office furniture to business houses, and sells at retail to private individuals. These are known as "Retail Sales."

The organization of the business is as follows; Mr. Willard acts as general manager with the advice and assistance of Mr. Haywood and Mr. Hoyt; Mr. Willard also does the buying, in which part of the work he has two assistants; the sales force consists