

PROBLEMS IN ACCOUNTING

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Problems in Accounting by David Friday

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DAVID FRIDAY

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ACCOUNTING**

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PREFACE

This text was originally intended for the use of students in the various courses in Accounting in the University of Michigan. It attempts to place before the student in the form of problems the more important types of concrete situations which present the necessity for accounting analysis.



Problems in Accounting

CHAPTERS II AND III

I.

Classify the following transactions into debit and credit items:

- (a) The book-keeper's salary is paid in cash, \$20.
- (b) Coal to the amount of \$60 is purchased.
- (c) A customer pays his account, \$75.
- (d) The firm buys goods, \$400, on a 60-day note.
- (e) The firm borrows \$500 from a bank on a 60-day note.
- (f) The firm settles an open account of \$200 with a note.
- (g) The property of the firm is mortgaged for \$4,000.
- (h) Interest is paid for capital-service rendered, \$100.
- (i) Finished goods to the amount of \$600 are sold on account to various parties.
- (j) The accounts mentioned in (i) are paid in cash.
- (k) Goods are damaged by fire, \$200.
- (l) The plant depreciates in value, \$600.
- (m) Fuel is consumed, \$100.
- (n) The machinery is repaired, \$50.
- (o) Cash, \$200, is paid for labor services.
- (p) An insurance premium of \$100 is paid in cash.
- (q) Taxes are paid, \$75.
- (r) Capital stock to the amount of \$25,000 is issued for cash.
- (s) \$10,000 of the above stock is exchanged for \$10,000 in first mortgage bonds.
- (t) The bonds mentioned in (s) are paid with cash, \$10,000.
- (u) Miscellaneous services are purchased with cash, \$100.
- (v) Miscellaneous services are consumed, \$100.
- (w) The firm gives \$100 in cash to charities.
- (x) Dividends are paid in cash, \$500.
- (y) \$400 is received for rent of a portion of the factory.
- (z) The firm receives \$30 in interest on its bank deposits.

2.

Journalize the following transactions. Open the proper ledger accounts and post.

- (a) R. A. Taylor begins business with a capital (all in cash) of \$10,000.
- (b) Mr. Taylor rents a store building, paying 3 months' rent (\$180) in advance.
- (c) Merchandise is purchased, \$3,000. Terms: \$1,500 cash, and a 60-day note for the balance.
- (d) Second-hand fixtures are purchased for \$500 in cash.
- (e) Stock and fixtures are insured for one year; premium, \$25.
- (f) Cash sales are made, \$300.
- (g) Merchandise is sold on account to J. R. Walters for \$250.
- (h) Cash is paid for advertising, \$10.
- (i) The clerk's salary is paid, \$15.
- (j) Merchandise is purchased on account from E. P. Smith Co. to the amount of \$500.
- (k) Merchandise is sold for cash, \$350.
- (l) Miscellaneous services are purchased with cash, \$40.
- (m) J. R. Walters returns \$50 of merchandise as unsatisfactory.
- (n) Merchandise is sold on account to F. A. Talbot, \$600.
- (o) Mr. Taylor draws \$300 in cash for his personal use.
- (p) The note mentioned in (c) is paid and interest for 20 days, \$5.
- (q) Merchandise is stolen, \$200.
- (r) Interest is received on bank deposit, \$15.
- (s) Mr. Taylor buys the building he has been renting for \$10,000. Payment is made as follows: Cash, \$3,000; the former owner of the building assumes F. A. Talbot's account, \$600; a mortgage for \$6,280 is given on building, stock, and fixtures; two months prepaid rent, \$120, is allowed as part payment.

3.

Bought from Howard Houck drugs invoiced at \$430. In payment we transferred to him an account which we held against G. Reed \$115, gave him our 60-day note for \$100, and paid him the balance in cash. Journalize.

4.

T. R. McCracken owed me \$1200. I offered a discount of $2\frac{1}{2}\%$ for cash. Not having the ready money he discounted his note at the bank for sixty days at the rate of 6%, the note producing the sum required to discount my claim. Give the entries as they would appear on McCracken's books.

5.

Mr. X called at my office today and presented a note signed by me for \$187.50. This note had been sold to Mr. X by Mr. Y, in whose favor it had been originally drawn. After satisfying myself that the note was properly indorsed, and was due today, I gave Mr. X my check for the amount. Entries on my books?

6.

A merchant draws a draft of \$1,000 at four months on a customer who owes him on open account, and the draft is accepted on February 2, 1909. On March 13, 1909, he discounts the draft at a bank at 6% per annum. What entries should be made on the merchant's books properly to record the transactions?

7.

A owed B \$1,000 and B draws on him for the account at 60 days. The draft is accepted by A, whereupon B takes it to the bank for discount. The bank discounts the paper 57 days before maturity, at 6% per annum. Show the entries you would make on the books of B.

8.

Smith & Company draw on Jones & Company for an account of \$1,500, allowing 1% discount. At maturity the acceptors borrow from the drawers \$500 to assist them in meeting the draft, which is, however, finally allowed to be returned. Jones & Company repay \$300 of the loan of \$500.

Show the ledger account on the books of Smith & Company after the transactions are completed.

9.

A has exhausted his credit with B. He needs further accommodation to the extent of \$2,500, to obtain which he gives B a three months draft on C for \$2,500. This is \$1,000 more than C owes A. To adjust this difference C draws on A at four months for \$1,000. Assuming that the drafts have been accepted by the various parties, state what the journal entries would be on the books of each.

10.

The Dayton Plumbing Company has called our attention to an error in our bill of September 22, in which we charged them \$1.95 each for six cast iron steel sinks. On September 16 we had quoted this concern these sinks at \$1.45 each. The bookkeeper is accordingly instructed to send a credit memorandum for the amount of the over-charge. Make the proper journal entries.