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AMERICAN INSTITUTE OF ACCOUNTANTS EXAMINATIONS

[Following is the text of the examinations in auditing, law and accounting presented by the board of examiners of the American Institute of Accountants May 16 and 17, 1929.]

Examination in Auditing

MAY 16, 1929, 9 A. M. TO 12:30 P. M.

The candidate must answer all the following questions:

No. 1 (5 points):

Define—

(a) Subsidiary corporation.
(b) Investment trust corporation.
(c) Holding company.
(d) Close corporation.
(e) Affiliated company.

No. 2 (12 points):

State in detail how you would audit the accounts of an investment trust corporation.

No. 3 (10 points):

A dispute has arisen between the A corporation and its creditors as to its solvency and prospects, and you are called in as an advisor.

What statements would you submit, and how would you use them to convince both sides as to the advisability (a) of continuing the business, or (b) of liquidating the corporation?

No. 4 (6 points):

State how you would proceed to verify the property and plant accounts of a company which has never been audited before.

No. 5 (10 points):

The M company has outstanding its entire capital stock of one hundred thousand shares, $25 par, on which $12.50 per share has been paid in, the balance remaining subject to call at the discretion of the directors. Since the business has proved highly profitable and a surplus of three times the capital stock has been accumulated, the directors wish to make the capital stock full-paid. Your advice is asked as to the best method of carrying out this purpose, with care for the financial interests of both the company and its stockholders. What would you advise? Give reasons.

No. 6 (9 points):

(a) Name the factors in determining an amount of depreciation.

(b) State to what extent each factor is ascertainable by the auditor.

No. 7 (15 points):

Prepare in detail a programme for the examination of the financial condition at a given date of either (a) a stock brokerage firm or (b) a commercial bank.

No. 8 (15 points):

The accompanying statement is submitted to you by the company whose books you are to audit. You find that the figures are in accordance with the books and are arithmetically correct.

A B Corporation

Balance-sheet, December 31, 1928

Assets

Cash	$ 14,374.51
Liberty bonds	10,961.55
Accounts and notes receivable (less reserve)	143,499.51
Investments in other companies	127,787.63
Cash value of life insurance	6,030.45
Inventories	253,167.50
Fixed assets (less depreciation)	911,200.22
Patents	1.00
Prepaid items	9,749.20
Reserve for depreciation	58,604.04
Reserve for bond interest	29,168.75
	$1,564,544.36

Liabilities

Notes and accounts payable	$ 152,672.45
Accrued items	19,368.69
Mortgage bonds	460,000.00
Class A stock	792,425.00
Surplus	43,927.29
Gain for the period before depreciation and bond interest	96,150.93
	$1,564,544.36

Profit-and-loss statement for the year ended December 31, 1928

Sales (net)		$1,284,149.45
Deduct:		
Cost of goods sold—		
Materials used	$463,101.41	
Manufacturing expense (before bond interest and depreciation)	437,513.60	900,615.01
Gross profit on sales		$ 383,534.44
Deduct:		
Selling expenses	$265,838.00	
General administrative expenses	112,154.75	377,992.75
		$ 5,541.69
Other income:		
Purchase discount	$ 568.70	
Interest received	650.55	
Recovered on items previously charged off	431.15	
Gain on stock purchases	32,125.00	
Income from subsidiary companies	57,309.29	91,084.69
		$ 96,626.38
Other charges:		
Interest paid	$ 331.27	
Tax refunds to bondholders	144.18	475.45
Gain for the period before depreciation and bond interest		$ 96,150.93

Give a brief report of your assumed findings with comments on unusual or important items and prepare a statement showing how the accounts should be presented, with a certificate such as you would feel justified in giving.

While you are expected to imagine the conditions on which you comment they must not be inconsistent with the figures.

No. 9 (10 points):

A, the administrator of the estate of B, deceased, finds that B had a business of which he was the sole owner, and also that B was a partner in another business. The court directs A to continue the solely owned business for the present.

(a) What accounts should A keep for these two assets?

(b) State briefly how these accounts should be kept.

No. 10 (8 points):

What criticisms have you to make of each of the following certificates?

(a) We have audited the accounts of the A B Company for the year ended December 31, 1928, and we certify that the foregoing statement of receipts and disbursements is in accordance with the books of account.

(b) We have audited the books and accounts of the A B Corporation and of its subsidiaries, the D E Company, and the firm of F & G, for the year ended December 31, 1928, and we hereby certify that, in our opinion, the accompanying consolidated balance-sheet and consolidated statement of income and profit and loss correctly exhibit respectively the financial position of the A B Corporation and its subsidiaries at December 31, 1928, and the results of operation for the year ended at that date.

(c) We have audited the books and accounts of the A B Corporation for the year ended December 31, 1928, have examined the related records of original entry and supporting documents, including monthly reports received from its branches and subsidiaries, and we hereby certify that the accompanying consolidated balance-sheet and consolidated profit-and-loss account correctly exhibit the consolidated financial condition of the companies and their consolidated income results for the year.

(d) (At the foot of the statement) "Audited and found correct."

Examination in Accounting Theory and Practice

PART I

May 16, 1929, 1 p. m. to 6 p. m.

The candidate must answer the first four questions and one other question.

No. 1 (35 points):

Company C was formed, March 31, 1929, to acquire the interests of companies A and B by the purchase of their capital stocks as at December 31, 1928.

The balance-sheets of companies A and B, as at March 31, 1929, were as follows:

	Companies A	Companies B
Cash	$ 45,000	$ 15,000
Accounts receivable	235,000	28,000
Inventories	500,000	50,000
Land	50,000	10,000
Buildings	600,000	90,000
Machinery and equipment	900,000	190,000
	$2,330,000	$383,000

Accounts payable—trade	$ 90,000	$ 48,000
Bonds—8%	880,000	120,000
Capital stock—		
Preferred, 6%, cumulative (par value $100)	400,000	50,000
Common (par value $100)	840,000	24,000
Surplus—December 31, 1928	40,000	96,000
Profit—Jan. 1 to Mar. 31, 1929	80,000	45,000
	$2,330,000	$383,000

It was agreed that the fixed assets were stated on the balance-sheets at their sound values at December 31, 1928, and that depreciation rates for 1929 should be 2 per cent. per annum on buildings and 6 per cent. per annum on machinery and equipment.

The 8 per cent. bonds, on which interest had been paid to March 31, 1929, were to be retired at par out of the proceeds of $1,500,000 bonds to be sold March 31, 1929, by company C at 95.

A construction fund of $400,000 is to be established out of the proceeds of the new bond issue and the money is to be deposited with a trustee.

Preferred stock is to be exchanged, share for share, for preferred stock (par value $100) of company C. The common stock of company C is 12,000 shares (par value $100), all of which is to be issued to common stockholders of companies A and B according to their respective equities in the old companies. At March 31, 1929, the preferred stockholders of the old companies had not exchanged any of their stock for company C preferred, and 20 per cent. and 10 per cent. of the common stockholders of companies A and B, respectively, had not turned in their stock for exchange.

Federal income-tax returns for 1929 will be made upon a consolidated basis.

Dividends on the preferred stock of companies A and B were paid to December 31, 1928, and are guaranteed by company C to April 1, 1929.

Prepare a consolidated balance-sheet as at March 31, 1929, giving effect to the acquisition of companies A and B by company C and to the transactions described.

No. 2 (20 points):

Company A, an old established concern, wished to merge with and eventually acquire control of company B, a relatively new enterprise (incorporated, 1922).

The status of these companies at December 31, 1927, was:

Company A

Preferred stock—6%	$10,000,000
Common stock—920,000 shares (par value $50)	46,000,000
Surplus	17,600,000

Company B

Preferred stock—6%	$25,000,000
Common stock—230,000 shares (par value $100)	23,000,000
Surplus	4,700,000

No intangible assets were included in the accounts of either company.

The preferred stock of company A was unchanged during the period from 1922 to date: the common stock outstanding was 700,000 shares in 1923, 750,000 in 1924 and 1925, 800,000 in 1926 and 920,000 shares in 1927.

The stock of company B, preferred and common, had not varied since 1922.

The profits were as follows:

	Companies	
	A	B
1923	$5,320,000	$1,760,000
1924	5,780,000	2,340,000
1925	6,400,000	3,100,000
1926	6,700,000	3,750,000
1927	7,900,000	4,080,000

It was proposed that company A should issue additional stock, preferred and common, and offer, for the preferred stock of B, preferred stock of A, share for share; and, for one share of common stock of B, one-half share preferred stock of A and one share of common stock of A.

The market prices, December 31, 1927, were:

	A	B
Preferred	102	98
Common	98	146

Compare the value of one share of B common stock with that of one share of common and one-half share preferred of A on the following bases:

(1) Profits.
(2) Assets at December 31, 1927.
(3) Market quotations.
(4) The indicated trend of profits, taking into consideration the fact that company B had been more recently established and had passed through a period of rapidly increasing profit.

(Disregard goodwill in the solution of this problem.)

No. 3 (15 points):

After the closing of nominal accounts to profit-and-loss account but before the transference of profit and loss to surplus, a company's books show a profit of $200,000 for the year ended December 31, 1928.

In arriving at this profit, the company's bookkeeper has taken into account actual receipts and disbursements during the year with regard to the following items: interest received, $9,000; interest paid, $1,250; local taxes paid, $12,000; insurance paid, $7,000, and cash discount allowed, $12,500.

(a) Prepare a statement adjusting the profit for the year, taking into consideration the following accruals:

	December 31 1927	December 31 1928
Interest receivable accrued	$2,500	$3,000
Interest payable accrued	200	180
Local taxes prepaid	2,500	3,000
Insurance prepaid	3,250	2,000
Reserve for cash discount on accounts receivable	3,750	2,500

(b) Give the journal entries prepared to explain your adjustments on the company's books.

No. 4 (10 points):

You are called upon to advise the officers of a large financial organization, whose business involves the investment of increasingly large funds.

They have invested in 6 per cent. first mortgages, and also in bonds (railroad, industrial, etc.) on which the gross yield, at present prices, does not average more than 4.75 to 4.95.

Discuss their problem in a brief report, pointing out factors such as risk of loss, or expense, that would tend to make one class more desirable than another.

No. 5 (20 points):

The Deep Mine Company issued $50,000 worth of four-year, first-mortgage, sinking-fund, 6 per cent. gold bonds dated July 1, 1924.

The bonds were sold on September 1, 1924, (with accrued interest) at $103.59, a price at which they were advertised to yield 5 per cent. (semi-annual coupons).

The bond indenture provided (1) that 25 cents per ton mined would be deposited on June 30th of each year with the Central

Trust Company for sinking-fund purposes and (2) that a sinking-fund reserve would be set aside on a straight-line basis.

The production of coal was as follows:

Year ended June 30, 1925	42,000 tons
" " " " 1926	56,000 "
" " " " 1927	50,000 "
" " " " 1928	58,000 "

The sinking fund earned 4 per cent. the first year and 5 per cent. thereafter.

Submit all journal entries necessary to express all these particulars on the books of the company.

No. 6 (20 points):

X agrees to rent Y's store for ten years at the following annual rentals payable in advance:

First three years	$3,000
Next four years	3,600
Last three years	4,000

If money is worth 5 per cent. compounded annually, what is the value of the lease the day it takes effect?

Submit proof of your answer.

Given—

$V^2=1.85941043$; $V^6=5.07569206$; $V^9=7.10782168$

Examination in Commercial Law

May 17, 1929, 9 a. m. to 12:30 p. m.

Answer only ten questions as directed, and give reasons for all answers.

(Each question counts 10 points)

GROUP I

Answer all the questions in this group.

No. 1.

The X Y Corporation is engaged in the real-estate business. It owns a building, the cost of which was $300,000. In July, 1928, it sells the building for a price which nets it $350,000. It then reinvests the proceeds of the sale in another building. Other than the profit on the sale it has only sufficient income to pay its operating expenses. Can the directors declare a dividend to the stockholders and, if so, by what means?

No. 2.

Royce becomes the holder of a negotiable promissory note in regular form made by A to B and bearing several full endorsements. He endorses the note to Church for value, but "without recourse." When Church endeavors to collect upon maturity of the note, it is discovered that A is an infant and refuses to pay. Church then sues the endorsers, including Royce. Has Royce any defense?

No. 3.

A company enters into a contract with Y agreeing to manufacture and deliver to him, at an agreed price, 5,000 ladies' sweaters, deliveries to be made in equal quantities over a five-months' period. Before any deliveries can be made the company's employees go out on a strike which remains unsettled for a period of two or three months beyond the last delivery date. Y is compelled to buy his sweaters in the open market and brings suit to recover damages for the failure of the company to carry out its contract. Can he recover? If so, could the company have protected itself in the contract against such a liability?

No. 4.

You are the owner of 500 shares of common stock of the Z Company. In 1928 it issued to its stockholders rights to subscribe for further stock at a specific price, one right for each share of stock held. You do not exercise your right to subscribe but you do sell the rights on the market. Under the 1928 federal income-tax law, how should the sale of the rights be treated on the tax return?

No. 5.

"$500. January 1, 1928

"For value received I hereby agree to pay to A. C. Goodwin or order the sum of five hundred dollars ($500) in five instalments of one hundred dollars each, on the first day of each of the next following months of February, March, April, May and June, with interest on all unpaid principal at the rate of 6 per cent. per annum payable with each instalment, and in the event of any default in the payment of any instalment or interest, the whole balance of said principal sum and interest shall be and become immediately due and payable. All payments to be made at First National Bank.

"(Signed) John Smith."

Is this a negotiable promissory note?

GROUP II

Answer any five of the following questions, but no more than five:

No. 6.

You are in the employ of Jones & Co., a co-partnership engaged in the stock-brokerage business. Your employers offer to compensate you for your services by a share in the profits of the business. An agreement is submitted to you to carry out the offer. Before you sign the agreement, and for your protection, what, if any, provisions should you insist upon including in the agreement other than those relating to your sharing in the profits?

No. 7.

The X Y Corporation has outstanding $250,000 in 6 per cent. non-cumulative preferred stock and 2,500 shares of no-par-value common stock. During each of the years 1926, 1927 and 1928, the corporation made net profits of $25,000. No dividends were declared in 1926 or 1927, the directors allowing the profits to remain in surplus. Late in 1928, the directors declared a dividend of 6 per cent. on the non-cumulative preferred stock and $23 per share on the no-par-value common stock. The preferred stockholders objected to the dividend on the common stock, claiming that they were entitled to receive 18 per cent. of the then existing surplus before any of it could be available for common-stock dividends. Was the objection valid?

No. 8.

B, a violin expert, ascertained that A owned an old violin of famous make, worth many thousands of dollars. In talking with A, B found that the violin had been in A's family for many years, but that A had no knowledge of its true value. B, after some persuasion and by offering what to A seemed an excessive price ($350), succeeded in buying the instrument. Later A heard of the true facts and, tendering a return of the purchase price, sued to recover the violin. What, in your opinion, would be the result?

No. 9.

Explain the difference between personal defenses and absolute defenses in an action on a negotiable instrument, and name some instances of each kind.

No. 10.

Goods shipped to you by railroad, while in the railroad's warehouse awaiting delivery to you, are destroyed by a fire which is not due to any negligence on the part of the railroad. What are the important facts to be determined in order to establish upon whom the loss falls?

No. 11.

On March 1, 1913, the A Company had an earned surplus of $500,000. Between that date and January 1, 1928, it added $1,000,000 to the earned surplus. On January 5, 1928, the directors adopted resolutions declaring two cash dividends, one of $500,000 declared as payable out of surplus earned prior to March 1, 1913, and one of $500,000 declared as payable out of the later accumulated surplus. A stockholder claims that the first dividend is not taxable for surtax under the federal income-tax law, because it is paid out of earnings made prior to March 1, 1913. The examining agent for the internal-revenue bureau disputes this, claiming that the directors had no power, so far as the income-tax law is concerned, so to allocate the dividend payments. Who is correct?

No. 12.

What is a statute of limitations and what is its object?

No. 13.

Explain what is meant by each of the following: act of bankruptcy, voluntary bankruptcy, involuntary bankruptcy, composition.

No. 14.

Give an example of a contract on which, in the event of a breach, specific performance would be granted by the courts.

Examination in Accounting Theory and Practice

PART II

MAY 17, 1929, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions:

No. 1 (35 points):

On behalf of the First National Bank, you have been instructed to make an examination relative to the balance-sheet and statements of income and expense submitted by the X Jobbing Company. It appears that the bank is suspicious of the inventory valuation as shown on the balance-sheet of April 30, 1929.

As set forth in the statements presented, the inventory value of April 30, 1929, has been computed by the gross-profit method to avoid the taking of a complete physical inventory at that date. There is even some question as to the authenticity of the inventory value of December 31, 1928, as reflected in the income-and-expense statement, but there is no doubt as to the accuracy of the previous inventory, inasmuch as that was taken under your personal supervision at the time of your audit for the year ended December 31, 1927.

At the outset of this examination, you decide to make several test checks with respect to the figures of 1928 since no audit was made subsequent to December 31, 1927. You observe that the rate of gross profit reflected by the income-and-expense statement submitted for the year 1928 is unusually large as compared with the 1927 audit report and, by reference to the commodity cost records maintained by the sales department for purposes of arranging commissions to salesmen, you observe that there has been a uniform mark-up on the goods purchased of approximately 25 per cent. on cost during each month of 1928 and up to April 30, 1929, and that in the recorded cost figures the invoice prices have been adjusted by freight paid and discount on purchases.

After a complete examination of the physical inventory sheets, warehouse stock records, etc., you disclose the fraudulent overstatement of the physical inventory of December 31, 1928, the actual inventory value at that date being $276,202.

An analysis of the freight account for the year 1928, reveals the following:

Freight on purchases........................	$19,106
Freight outward...........................	3,017

In verifying purchases, you find invoices entered in the purchase record during January, 1929, which are dated December, 1928, and the receiving tickets show that the merchandise was received during 1928 to the extent of $3,062. In discussing this matter with the warehouse foreman, you ascertain that this merchandise was included in the actual physical inventory taken.

After satisfying yourself that no other irregularities exist, you are to prepare corrected statements as follows:

Income-and-expense statement for the year ended December 31, 1928.

Inventory computation as at April 30, 1929.

Income-and-expense statement for the four months ended April 30, 1929.

Reconciliation of surplus as shown on corrected balance-sheet and original balance-sheet—April 30, 1929.

X Jobbing Company

Balance-sheet, April 30, 1929

Assets

Current:			
Cash in bank and on hand		$ 21,679	
Accounts receivable	$110,873		
Less: allowance for doubtful accounts	15,000	95,873	
Merchandise inventory (computed)		369,539	$487,091
Permanent:			
Equipment		$ 23,916	
Less: allowance for depreciation		7,422	16,494
Deferred			2,302
Goodwill			100,000
			$605,887

Liabilities and Capital

Current:			
Notes payable—bank		$225,000	
Accounts payable		53,093	
Accruals		4,918	
Reserve for federal income tax, 1929—estimated		2,637	$285,648
Capital stock:			
Preferred outstanding		$100,000	
Common outstanding		125,000	
Surplus:			
Balance—January 1, 1929	$ 75,902		
Profit for period to April 30, 1929	19,337	95,239	320,239
			$605,887

Inventory computation, April 30, 1929

Inventory—December 31, 1928			$318,198
Add:			
Purchases		$227,183	
Freight on purchases		6,213	233,396
			$551,594
Deduct:			
Cost of goods sold (computed):			
Sales	$260,128		
Less: discounts and allowances	4,792		
		$255,336	
Less: gross profit (28.70%)		73,281	
Cost of goods sold (as computed)			182,055
Inventory—April 30, 1929 (as computed)			$369,539

Income and expense for the year ended December 31, 1928

Sales		$762,107	
Less: discounts and allowances		12,792	
Net sales			$749,315
Cost of goods sold:			
Inventory—January 1, 1928		$168,472	
Purchases	$690,122		
Less: discount on purchases	6,129	683,993	
		$852,465	
Inventory—December 31, 1928		318,198	
Total cost of goods sold			534,267
Gross profit (28.70%)			$215,048
Selling and administrative expenses:			
Officers' salaries		$ 30,000	
Salesmen's commissions		44,129	
Freight—inward and outward		22,123	
Bad debts written off		9,492	
Depreciation—equipment		2,392	
Other expenses (summarized)		50,629	158,765
Operating profit			$ 56,283
Other income:			
Interest earned		$ 223	
Profit on sale of capital assets		619	842
			$ 57,125
Other deductions:			
Interest paid			10,630
			$ 46,495
Provision for federal income tax (12%)			5,579
Net profit to surplus			$ 40,916

Income and expense for the four months ended April 30, 1929

Net sales (see schedule)		$255,336
Cost of goods sold (see schedule)		182,055
Gross profit		$ 73,281
Selling and administrative expenses:		
Officers' salaries	$ 10,000	
Salesmen's commissions	13,791	
Freight outward	4,978	
Bad debts written off	3,623	
Depreciation—equipment	793	
Other expenses (summarized)	17,360	50,545
Operating profit		$ 22,736
Other income:		
Interest earned	$ 103	
Cash discount on purchases	3,297	3,400
		$ 26,136

Other deductions:	
Interest paid	$ 4,162
	$ 21,974
Provision for federal income tax (estimated).	2,637
Net profit to surplus	$ 19,337

No. 2 (15 points):

The balance-sheet of Broad and Wall, a partnership, as at December 31, 1927, was as follows:

Assets

Cash	$ 10,000
Accounts receivable	90,000
Inventory	60,000
Fixed assets	50,000
	$210,000

Liabilities

Notes payable	$ 20,000
Accounts payable	30,000
Capital:	
Broad	100,000
Wall	60,000
	$210,000

Profits were shared in the following proportions: Broad, three-fifths; Wall, two-fifths.

On payment of $75,000, Roe was admitted to partnership with a one-fifth interest in the capital and profits of the new firm of Broad, Wall and Roe, whose total capital on Roe's admission, December 31, 1927, was agreed upon as $250,000.

The profit for the half year ended June 30, 1928, amounted to $40,000.

During the half year, the partners' withdrawals were: Broad, $14,000; Wall, $10,000, and Roe, $6,000.

Prepare (a) the journal entries recording the transactions on Roe's admission to partnership and (b) statements of the individual partners' accounts at June 30, 1928, after crediting the respective proportions of profit.

No. 3 (20 points):

A testator leaves $1,000,000 invested in securities yielding five per cent. per annum and other property, specifically bequeathed, valued at $500,000.

Preferred pecuniary legacies to be paid by the executors amount to $50,000. Provision is made for four annuities of $500 each for five years, two annuities of $1,000 each for five years and two annuities of $1,000 each for ten years, and the executors are to receive five per cent. of all bequests distributed by them. Federal and state estate taxes on the whole estate, and state inheritance taxes on preferred legacies to be distributed by the executors and those on all annuities amount to $60,000.

At the end of two years, during which interest received on securities aggregated $96,000 and legal, accounting, clerical expenses, etc., amounted to $20,000, the executors transferred the balance of the estate to trustees who were entitled to receive $10,000 per annum as salaries and three per cent. commission on all bequests distributed by them. They received, further, $2,000 per annum for expenses.

The terms of the will instructed the trustees to continue the trust until twelve years after the testator's death, or five years longer if necessary, to pay a special legacy of $100,000 (inheritance tax to be paid by legatee) five years after the testator's death and finally to distribute certain deferred legacies aggregating $1,000,000, pay a seven per cent. inheritance tax thereon and hand the balance to the residuary legatee who would pay his own inheritance tax.

With the purpose of ascertaining whether or not the terms of the will, as specified, are workable, you are required to prepare statements showing (a) the amount paid to the trustees by the executors and (b) the amount paid to the residuary legatee by the trustees with the date of such payment, i. e., the number of years after testator's death.

Assume that funds can be invested to yield five per cent. per annum and use simple interest only in each step of your computations.

No distinction need be made between principal and income in either executors' or trustees' accounts.

No. 4 (20 points):

From the trial balance following and accompanying data, prepare the balance-sheet of the X Y Z Company as at December 31, 1928.

Trial balance—December 31, 1928

	Dr.	Cr.
Cash in banks	$ 40,000	
Petty-cash funds	500	
Notes receivable	11,000	
Accounts receivable	75,000	
Treasury notes	65,000	
Loans on call	100,000	
Investment—A B C Company	25,000	
Inventories	80,000	
Land and building	75,000	
Machinery	125,000	
Office furniture	5,000	
Goodwill	50,000	
Accounts payable		$ 85,500
Notes payable		50,000
Capital stock—first preferred		200,000
Capital stock—common		200,000
Surplus		75,000
Reserve for doubtful accounts		1,000
Reserve for depreciation—building		5,000
Reserve for depreciation—machinery		30,000
Reserve for depreciation—office furniture		5,000
	$651,500	$651,500

(1) Notes receivable discounted aggregate $30,000.

(2) Accounts-receivable account is made up as follows:

Trade accounts—debit balances $66,000, credit balances, $1,700.

Advances to A B C Company in 1910, $10,000.

Advances to officers (collected since December 31, 1928), $500.

Claims (collected since December 31, 1928), $200.

(3) Trade accounts regarded as doubtful of collection, $800.

(4) Treasury notes are pledged to secure notes payable.

(5) Call loans represent temporary investment of funds accumulated to acquire new plant.

(6) Investment—A B C Company (100 shares of $100 each) is at cost; market value, December 31, 1928, $45,000.

(7) Cost of land, $25,000; building, $50,000.

(8) Machinery—chiefly manufactured by company and set up at estimated cost.

(9) Accounts-payable account includes a debit balance of $2,000, representing advance payment on merchandise.

(10) Capital stock:

First preferred—7% cumulative, authorized $300,000, par value $100 per share.

Common—authorized $400,000, par value $100 per share.

(11) Federal income tax for the year 1928, $25,000.

(12) Dividends declared in December, 1928, payable January 3, 1929:

First preferred stock, $3,500.

Common stock, $2,000.

No. 5 (10 points):

From the following balance-sheets of companies A and B prepare a consolidated balance-sheet, using the figures here presented which appear on the books of the respective companies.

Criticize or make recommendations for the correction of the resulting statement, if you think any are required, bearing in mind that for purposes of local taxation, company B's books must show correct results for that company as a unit.

Company A owns 100 per cent. of the stock of company B.

COMPANY A

Buildings and machinery	$700,000	
Less: Reserve for depreciation	200,000	$500,000
Investment in Company B		100,000
Current assets		150,000
Advances to company B		25,000
		$775,000
Capital stock—5,000 shares (par value $100)		$500,000
Current liabilities		50,000
Surplus—free	$200,000	
Appropriated for advances to company B	25,000	225,000
		$775,000

COMPANY B

Land		$ 10,000
Buildings (at cost)	$115,000	
Less: Reserve for depreciation	15,000	100,000
Additions to buildings	$ 25,000	
Less: Reserve for depreciation	5,000	
		20,000
Current assets		10,000
		$140,000
Capital stock		$100,000
Loan from company A		25,000
Current liabilities		5,000
Surplus		10,000
		$140,000