

1925

## Examination [1925]

Virginia State Board of Accountancy

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EXAMINATION  
VIRGINIA STATE BOARD OF  
ACCOUNTANCY

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RICHMOND, VIRGINIA  
OCTOBER 26, 27 AND 28, 1925

PRICE 25 CENTS PER COPY

**MEMBERS**  
**VIRGINIA STATE BOARD OF ACCOUNTANCY**

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A. M. Pullen, C. P. A. Chairman,  
Richmond, Virginia

Frederick B. Hill, C. P. A. Secretary & Treasurer,  
Norfolk, Virginia

B. A. McKinney, C. P. A.  
Norfolk, Virginia

Wm. L. Prince, Dean of Richmond College,  
Richmond, Virginia

Thos. O. Moss, Attorney at Law,  
Richmond, Virginia

EXAMINATION VIRGINIA STATE BOARD  
OF ACCOUNTANCY  
COMMERCIAL LAW

OCTOBER 26th, 1925, 9:00 A. M. to 1:30 P. M.

*Give reasons for all answers*

*Do not repeat questions, but designate them by numbers and letters*

CONTRACTS

*Answer three of the following questions:*

1. Define a Contract.
  - (a) In what instances are written agreements required?
  - (b) What is meant by a 'parol agreement'?
  - (c) What is the statute of frauds as applied to contracts?
2. A has a fire insurance policy on his dwelling for the sum of \$5,000.00, with a seventy-five percent co-insurance clause. The policy provides that the residence shall be equipped with lightning rods. On the day of issuance of the policy lightning strikes the house, causing a total loss. The insured failed to equip his house with the rods, as required. What are A's rights, if any?
3. A agrees to purchase from B on the 15th day of October, 1925, certain real estate located within the City of Richmond. There was no written agreement, but A represented to B that on the following day he would sign the agreement. B, upon the representations made to him by A, had prepared a good and sufficient deed of bargain and sale conveying the real estate in question to A. A refuses to accept the deed or comply with his agreement. What are the legal rights of B?
4. A dies intestate leaving as his sole distributees his widow and two infant children. Among his papers is found an insurance policy on his life for \$2,000.00, payable to his estate. He is indebted to B in the sum of \$2,500.00, who holds A's note; the note, however, does not waive the homestead exemption. What becomes of the \$2,000.00, and what are the rights of the widow as against this creditor?
  - (a) What exemptions are allowed a householder in Virginia?
  - (b) What is the legal definition of a householder?
  - (c) Is a married man, living separate and apart from his wife, entitled to an exemption; if so, to what exemptions?

NEGOTIABLE INSTRUMENTS

*Answer three of the following questions:*

5.
  - (a) What is a negotiable instrument?
  - (b) Is it necessary to protest a foreign bill of exchange?

6. On the 15th day of September, 1925, while a resident of Virginia, A signs a note for \$1,000.00, payable to the order of B. The note falls due upon the 25th day of September, 1925. A fails to pay, and upon the 2nd day of October he removes to Washington, D. C. Subsequently a judgment is rendered in the City of Richmond, Va., against A. Has A any exemptions, being a married man? If so, to what exemption is he entitled?
7. A borrows from B Bank the sum of \$100.00 on his negotiable note, which waives protest and presentation. The note falls due on October 15, 1925, and is not paid. The note is protested; the protest fees amount to \$1.26. A refuses to pay the protest fees, and tenders to the bank \$100.00, which is refused. The bank sues A for \$101.26. What judgment?
8. What are the defenses, if any, to a negotiable note in the hands of a *bona fide* holder for value before maturity?

## CORPORATIONS

*Answer All of the following questions:*

9. (a) How may a Virginia corporation terminate its existence?  
(b) How is a Virginia corporation formed?  
(c) Can a corporation be guilty of libel? Of slander? Of a tort?
10. An audit is being made of the O. D. Company. You find that A Company has had issued to it thirty-six shares of common stock, of par value of \$100.00, in the O. D. Company. The stock, although issued, has not been paid for. You also find that the O. D. Company is indebted to A Company in the sum of \$3,700.00, and that O. D. Company owes debts which were created subsequent to the issuance of the stock. How would you treat these two items?
11. A purchases in 1922, twenty shares of common stock of the par value of \$100.00 in the B Company. At the time of the purchase by A, the B Company is not authorized to issue preferred stock. Subsequently, in 1924, \$15,000.00 in preferred stock is issued. The corporation is liquidated in March, 1925, leaving for distribution among the stockholders the sum of \$12,000.00. What are the rights of the common and preferred stockholders? In what proportion would they be entitled to the amount to be distributed.

## PARTNERSHIP

*Answer all of the following questions:*

12. An infant is trading under his own name. During the course of his business, he creates a number of bills. He is sued on the accounts, and pleads infancy. What should be the judgment of the court?

13. (a) What is a limited partnership?  
(b) How may a limited partnership be formed in Virginia?  
(c) What is a silent partner?  
(d) Is it necessary, under the Virginia law, to file a certificate setting forth the names of the persons comprising a partnership?
14. A and B are partners. A purchases, without the knowledge of B, an automobile truck, which is not necessary to the conduct of the business, and signs the firm's name to the contract. Is the contract enforceable?

## BANKRUPTCY

*Answer all of the following questions:*

15. (a) Who may file a petition in bankruptcy?  
(b) Where is the petition filed?  
(c) What is meant by "Receiver in Bankruptcy"? "Trustee in Bankruptcy"? "Referee in Bankruptcy"? What are their respective duties?
16. A Company filed in the State Court a petition for a Receiver admitting insolvency. Is this an act of Bankruptcy?
17. A files a petition in bankruptcy, listing among his liabilities the following: Alimony, \$1,500.00; State Taxes, \$500.00; A fine due the Commonwealth of Virginia, \$250.00; a judgment of \$5,000.00 for libel; \$500.00 due upon a note which waives bankruptcy. Which of the above are dischargeable?

# PRACTICAL ACCOUNTING

## PART 1

OCTOBER 26, 1925, 2:30 P. M. TO 6:30 P. M. (FOR BOTH PROBLEMS)

### PROBLEM 1

Mr. William T. Wright, President of the Consumers Crude Cotton Oil Company writes you that he was authorized at the directors' meeting of July 25, 1925, to take up the following matter with you:

He states that the directors had before them the operating statements of their company for the fiscal years ending June 30, 1924, and June 30, 1925, and that he is enclosing these statements. He states further in explanation that the board compared carefully the two statements and that although it appears that the company did more business at less proportionate cost for material and operating and got as good or better prices for its product in 1925 than in 1924, yet the net profit is considerably smaller.

He requests that you analyze the statements at once and trace out the cause or causes of this condition and to send him your analysis in a form readily and completely understandable by his board, none of whom are accountants. He states that the company began business July 1, 1923.

From the statements enclosed, which are herewith given, make the analysis requested and put your report in the form of a letter to Mr. Wright, giving your statement and making such comments and recommendations as you see fit.

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NOTE: Cotton seed on being milled produces four products, viz: Oil, Meal, Hulls and Linters, with a certain amount of moisture and manufacture loss. On account of the difficulty of determining the cost of the individual products, it is the usual practice to figure inventories at current firm market prices, which is done in the case of this problem.

OPERATING STATEMENTS  
 CONSUMERS CRUDE COTTON OIL CORPORATION

YEAR ENDING JUNE 30, 1924	YEAR ENDING JUNE 30, 1925
<b>SALES</b>	
Oil Sales 1,500,000 Lbs. @...\$ .10 \$150,000.00	1,740,000 Lbs. @.....\$ .10 \$174,000.00
Meal Sales 2,375 Tons @.. 35.00 83,125.00	2,400 Tons @..... 35.25 84,600.00
Hull Sales 375 Tons @.. 8.00 3,000.00	2,500 Tons @..... 8.50 21,250.00
Linters Sales 400,000 Lbs. @... .05 20,000.00	600,000 Lbs. @..... .05 30,000.00
<u>\$256,125.00</u>	<u>\$309,850.00</u>
<b>COSTS</b>	
Seed Bought and Crushed— 5,000 Tons @.....\$40.00 \$200,000.00	6,000 Tons @.....\$39.50 \$237,000.00
Mill Labor..... 12,500.00	15,000.00
Repairs and Supplies..... 3,000.00	3,000.00
Power..... 2,500.00	3,000.00
Superintendent..... 2,500.00	2,500.00
Office Expense (Including Insurance and Taxes)..... 1,000.00	1,000.00
Office Salaries..... 3,000.00	3,000.00
Bags and Ties (For Linters) 1,500.00	1,800.00
Depreciation..... 2,500.00	2,500.00
<u>\$228,500.00</u>	<u>\$268,800.00</u>
<b>SALES OVER COSTS.... \$ 27,625.00</b>	<b>\$ 41,050.00</b>
Deduct Inventory to begin.. None	(Same as end of prior Year) 13,000.00
<u>\$ 27,625.00</u>	<u>\$ 28,050.00</u>
<b>Add Inventory at End:</b>	
1,000 Tons Hulls @..\$8.00 \$8,000.00	300 Tons Hulls @ ..\$8.50 \$2,550.00
100,000 Lbs. Linters @..5c 5,000.00 13,000.00	100,000 Lbs. Linters @ ...5c 5,000.00 7,550.00
<u>NET PROFIT \$ 40,625.00</u>	<u>NET PROFIT \$ 35,600.00</u>

# PRACTICAL ACCOUNTING

## PART 1

### PROBLEM 2

You have made an audit of the GENERAL PRODUCTS COMPANY and find that the Balance Sheet of that Company, at June 30, 1925, contained the following:

#### ASSETS

Cash.....	\$ 40,000.00
Accounts Receivable.....	175,000.00
Inventories.....	200,000.00
Mineral Deposits (At Appraised Values).....	500,000.00
Treasury Stock:	
Preferred.....	\$ 30,000.00
Common.....	25,000.00
	55,000.00
Plant and Equipment.....	3,800,000.00
Deferred Operating Charges.....	12,000.00
Total.....	\$4,782,000.00

#### LIABILITIES

Accounts Payable.....	\$ 250,000.00
Notes Payable:	
Banks—Borrowed Money.....	\$ 300,000.00
Stockholders—Borrowed Money	250,000.00
Southern Mineral Company, for balance of purchase of Mineral Deposits.....	250,000.00
	800,000.00
Accrued Interest on Notes Payable:	
Stockholders' Notes.....	7,500.00
Southern Mineral Company.....	7,500.00
	15,000.00
First Mortgage, 7%, 3 Year Gold Bonds, 9-1-25.....	1,000,000.00
	Authorized
Preferred Capital Stock.....	1,000,000.00 750,000.00
Common Capital Stock.....	2,500,000.00 1,750,000.00
Capital Surplus (arising from re- valuation of Mineral Deposits).....	375,000.00
Earned Surplus (Deficit).....	158,000.00 217,000.00
Total.....	\$4,782,000.00

NOTE: Unpaid Cumulative Preferred Dividends to 6-30-25—\$150,000.00, not set up.

The outstanding preferred capital stock is held by the same holders as the common stock.

The Stockholders have perfected plans for payment of the First Mortgage, 7% Gold Bonds, due September 1, 1925, and have likewise made arrangements to curtail the heavy current floating indebtedness.

You find that Counsel for the Company has attended to all the legal phases of the changes of the refinancing, and the State Corporation Commission has placed its approval thereon. Fractional shares may be issued if needed.

The plan for refinancing, condensed from the mass of memoranda and agreements, is shown in summary as follows:

1. All outstanding Capital Stock, both common and preferred, by stockholders' agreements, is to be returned to the Company, and the stockholders are to receive in lieu thereof common stock at a par value equal to 70% of par value originally held of common and preferred.
2. The 30% reduction is to be transferred to the Treasury, for subsequent issue, if as and when needed.
3. There is to be only one class of Capital Stock—Common.
4. Will sell \$1,000,000.00 of 7%, First Mortgage, Five Year Gold Bonds, due September 1, 1930, in order to obtain funds to pay present Mortgage Bonds due September 1, 1925. In order to sell these new Bonds at par, the Company is giving a Bonus in Common Capital Stock equal to 25% of the face value of the Bonds.
5. Will sell at par not exceeding \$800,000.00 of an authorized issue of \$1,000,000.00 of Second Mortgage, 8% Ten Year Gold Bonds, due September 1, 1935, in order to curtail current indebtedness. With the Second Mortgage Bonds is given a Bonus in Common Capital Stock equal to 20% of the face value of the Bonds.
6. The Underwriting Company for the First Mortgage Bonds charged a fee of \$25,000.00 for services in selling the Bonds. They have agreed to take Second Mortgage Bonds of the par value of \$25,000.00 in payment of this bill.
7. The stockholders are to accept Second Mortgage Bonds, at par, for Notes and Interest due them.
8. Second Mortgage Bonds have been sold to the present stockholders at par for cash to the amount of \$450,000.00.
9. Arrearage in Preferred Stock Dividends to June 30, 1925, is to be paid the stockholders in Common Stock.
10. The Company will collect, by arrangement already made, \$100,000.00 from a customer..

11. The Company will pay the Southern Mineral Company \$225,000.00 in cash in full settlement of notes and interest due that Company, per compromise agreement.

12. Notes Payable in favor of Banks are to be paid in full by cash.

All transactions are to be as of September 1, 1925, the due date of First Mortgage Bonds (old issue).

For purposes of a meeting to be held, the Directors have asked that you reflect these changes in the June 30, 1925, balance sheet, so that they can anticipate what the statement will probably look like after completion of refinancing on September 1, 1925.

**REQUIRED:**

Prepare Work Sheet and necessary Journal Entries to properly record the transactions on the books of the corporation.

# PRACTICAL ACCOUNTING

## PART 2

OCTOBER 27, 1925, 9:00 A. M. TO 1:00 P. M. (FOR BOTH PROBLEMS)

### PROBLEM 3

The Rayfield Cotton Yarn Company, after conducting a cotton yarn spinning business for a number of years, purchased a large warehouse, installed grist mill machinery and conducted a storage and milling business in addition to their regular business. In the same year they built a power plant on a nearby river, using the power in both operations.

You are called upon to audit their books for the fiscal year ending June 30, 1925. You verify the trial balance given herewith.

Before making your report, you take up with the president a resolution which you have found on the minute books of stockholders' meeting held June 15, 1925. He explains that being a comparatively close corporation he and the other stockholders had talked it over and had come to the conclusion that the Grist Mill and Power Plant would work better if organized and operated as a separate corporation. To this end, they had secured a charter to operate such a company and had passed the resolution seen by you. It is not their intention to raise any capital outside or to admit other stockholders, although this can be done by sale of additional stock or by sale of stock by individuals.

The resolution reads as follows:

"There came before the meeting A. B. Rayfield bearing the written proposal of the Hoke County Milling & Storage Company to purchase the Grist Mill Land, Buildings and Machinery and the Power Plant Land, Buildings, Machinery and Line and Transformers now owned by our company, the consideration being \$150,000.00 par value common stock of the aforesaid Hoke County Milling & Storage Company, this being all stock directed to be issued by said company.

It was directed upon recorded vote of stockholders representing 100% of our stock that said offer be accepted as of June 30, 1925, and that our directors proceed to do all things necessary to the execution of this resolution.

It was further directed that upon receipt of said stock it be distributed to our stockholders prorata to their present holdings of the stock of our company.

It was further directed that the Corn, Wheat and Products on hand June 30, 1925, be sold to the new company at inventory price on thirty days time."

REQUIRED:

Operating statements by departments as of June 30, 1925, before giving effect to the above resolution.

Balance Sheet of the Rayfield Cotton Yarn Company and of Hoke Storage & Milling Company as of June 30, 1925, after giving effect to the provisions of the resolution.

RAYFIELD COTTON YARN COMPANY

Rayfield, North Carolina

TRIAL BALANCE

As at June 30, 1925

Cotton Mill Plant Land.....	\$ 15,000.00	
Cotton Mill Plant Buildings.....	50,000.00	
Cotton Mill Machinery.....	150,000.00	
Cotton Mill Furniture & Fixtures..	3,000.00	
Cotton Mill Employees Cottages..	30,000.00	
Grist Mill Land.....	3,000.00	
Grist Mill Buildings.....	20,000.00	
Grist Mill Machinery.....	40,000.00	
Power Plant Land and Riparian Rights.....	10,000.00	
Power Plant Dam.....	40,000.00	
Power Plant Machinery.....	40,000.00	
Power Lines and Transformers.....	10,000.00	
Cotton Yarn Inventory 6-30-24 (200,000 lbs.).....	110,000.00	
Cotton Yarn Sales 1924-1925 (2,800,000 lbs.).....		\$1,400,000.00
Waste, Bagging and Ties Sales 1924-1925.....		10,000.00
Grist Mill Products Sales 1924- 1925.....		160,000.00
Power Sales to Outsiders.....		500.00
Storage Fees Income.....		25,000.00
Hedges Account (Cotton Con- tracts bought and sold).....		20,000.00
Raw Cotton Inventory 6-30-24 (300,000 lbs.).....	61,800.00	
Raw Cotton Purchases 1924-1925 (3,000,000 lbs.).....	750,000.00	
Cotton Mill Labor.....	350,000.00	
Cotton Mill Superintendent.....	6,000.00	
Cotton Mill Repairs & Supplies....	74,000.00	
Cotton Mill Insurance.....	12,000.00	
Cotton Mill Taxes.....	5,000.00	
Corn & Wheat Inventory 6-30-24..	7,000.00	
Corn & Wheat Purchases 1924- 1925.....	118,000.00	

## TRIAL BALANCE

(Continued)

Grist Mill and Storage Labor.....	20,000.00	
Grist Mill Miller.....	3,000.00	
Grist Mill Repairs and Supplies....	12,000.00	
Grist Mill Insurance.....	6,000.00	
Grist Mill Taxes.....	2,000.00	
Power Plant Supt. and Helpers....	5,500.00	
Power Plant and Line Repairs.....	3,000.00	
Power Plant Insurance.....	2,500.00	
Power Plant Taxes.....	1,000.00	
Repairs Account Lightning Dam- age to Power Plant and Line on August 20, 1924 (No Storm Insurance) .....	4,000.00	
Officers Salaries.....	15,000.00	
General Office Expense.....	20,000.00	
Interest Paid.....	3,000.00	
Bills Payable.....		52,500.00
Accounts Payable.....		10,000.00
Accounts Receivable.....	73,000.00	
Cash.....	69,800.00	
DEPRECIATION RESERVES:      Annual		
	Rate	
Power Plant Dam..... ( 5%)		6,000.00
Power Line and Machin- ery..... (10%)		3,000.00
Cotton Mill Buildings..... ( 3%)		15,000.00
Cotton Mill Machinery.... ( 5%)		50,000.00
Cotton Mill Cottages..... ( 5%)		10,000.00
Cotton Mill Furniture and Fixtures..... (10%)		2,000.00
Grist Mill Buildings..... ( 3%)		1,800.00
Grist Mill Machinery..... ( 5%)		6,000.00
Capital Stock .....		200,000.00
Surplus.....		172,800.00
	\$2,144,600.00	\$2,144,600.00

### INVENTORIES:

- Raw Cotton 400,000 lbs. (Spot Market 6-30-25—26.5c)
- Cotton Yarns 10,000 lbs. @ 60c (Current Market 65c).
- Corn, Wheat and Grist Mill Products \$5,000.00 (Market Price as far as ascertainable).
- Unexpired Insurance—Cotton Mill \$4,000.00, Grist Mill \$2,000.00, Power Plant \$500.00.
- Power Cost to be divided 80% Cotton Mill, 20% Grist Mill, this being actual proportion used by each.

# PRACTICAL ACCOUNTING

## PART 2

### PROBLEM 4

A and B are partners sharing profits and losses in accordance with their original investments. A invested \$10,000.00 and B \$6,000.00, making the Capital of the firm \$16,000.00. They sell a one-third interest in the business to C for \$16,000.00. How shall A and B divide the \$16,000.00 received from C so that each may retain a one-third interest in the business without increasing or decreasing the original Capital of the firm?

## THEORY OF ACCOUNTS

OCTOBER 27, 1925—2 P. M. TO 6 P. M.

*Answer all Questions:*

*Do not repeat questions but designate them by numbers and letters.*

1. Name seven types of transactions through which credits to surplus may arise. Describe each and state whether available for dividends.
2. Define the following:
  - (a) Working Capital
  - (b) Voucher System
  - (c) Budgetary Control
  - (d) Co-Insurance
  - (e) Turnover
  - (f) Internal Check
  - (g) Unabsorbed Shop Overhead
  - (h) Deficiency Account
  - (i) Factory Ledger

3. What is meant by
  - (a) Deferred Charges to Profit and Loss
  - (b) Deferred Credits to Profit and Loss

Distinguish between the foregoing and Accrued Assets and Accrued Liabilities. Give several examples of each.

4. A concern makes a 50% settlement with its creditors and continues in business. How would you adjust the accounts on the books of:
  - (a) A Corporation.
  - (b) A Partnership.
  - (c) If the books were kept on the single entry basis.
5. (a) Explain the theory of depreciation and its effect upon the operating results of a business.
  - (b) Describe its treatment on the books of account and in the balance sheet.
  - (c) In the event the depreciation claimed in an income tax return is disallowed and adjusted by the authorities, would you adjust the books of the taxpayer to conform thereto? If your answer is "yes", give an example.
6. A Company issues \$1,000,000.00 bonds (denomination \$1,000.00 each) dated January 1st, 1923, bearing interest at 5% and maturing January 1st, 1933. These bonds were sold at 80% of their par value; the discount taking care of all expenses incident thereto. The mortgage provides for a sinking fund to be created by annual payments of \$50,000.00, and at December 31st, 1924, the interest

accruing to the sinking fund amounted to \$5,000.00. On January 1st, 1925, the Trustee purchased 115 bonds out of the funds in his possession at \$900.00 each, which were cancelled. State what entries should be made in respect to these transactions; also give your views as to the proper treatment of discount on bonds, both as to when they are purchased and cancelled, as in the foregoing, and when they are not redeemed until maturity.

7. What elements should be considered in computing annual contribution to Reserve for Doubtful accounts and Notes Receivable.
8. In cases where producing assets require an increasing amount of repairs from year to year suggest a plan whereby the burden of the cost of upkeep can be spread equitably over the years.
9. In the preparation of an operating statement of a certain company the expense accounts are stated as follows:

- Raw Material
- Factory Labor
- Factory Repairs
- Plant Taxes
- Plant Insurance
- Plant Depreciation
- Plant Superintendence
- Factory Office, Timekeepers and Watchmen
- Sales Manager
- Salesmen
- Advertising and other selling expenses
- Officials
- General Office Expense
- Interest on Borrowed Money
- Federal Income Tax

State which of the above you would consider "Overhead" Expense.

10. Give three examples of the use of the following:
  - (a) Obsolescence
  - (b) Depletion

# AUDITING

OCTOBER 28, 1925—9 A. M. TO 1 P. M.

*Answer all Questions.*

*Do not repeat questions but designate them by numbers and letters.*

1. (a) Describe three or more methods whereby fraud or manipulation is accomplished through the Cash Book.  
(b) There are conditions in a great many office organizations that lead to fraud and defalcation. What in your opinion, is the most important, and how would you remedy such condition?
2. Outline a programme for a balance sheet audit with necessary tests of operations for any two of the following:
  - (a) Coal Mining Company
  - (b) Hotel Company operating under lease
  - (c) Building and Loan Association
  - (d) Charitable Institution
  - (e) Installment Furniture Dealer
3. In a balance sheet audit how would you treat the following?
  - (a) Long-time bonds bought at a premium, the market value of which has advanced.
  - (b) Dividend paying stocks bought at a premium, the market value of which has declined.
  - (c) Long-time bonds bought at a discount, the market value of which has advanced.

Would your answer be the same if the securities mentioned above were those issued by the company under audit—Explain.

4. In closing the books of a corporation, how would you value goods consigned at selling prices to consumers under an agreement by which consignees pay for goods as used? How would you handle them on the books of the consignee?
5. In a corporation, having a large number of stockholders through the country, there are two opposing factions, each trying to obtain control of the directorate. At the annual meeting of the Stockholders you are called in to certify to the correctness of the proxies submitted. State what information, papers and records you would require. Also draft a form of certificate you would furnish. Explain your methods of procedure.
6. In the statement of a national bank the following, among other, items are found: Due to banks; Due from banks; Loans and Discounts; Circulation; Overdrafts; Exchanges for Clearing House.

What verification would you make of these accounts, and how would you satisfy yourself as to the genuineness of the signatures to the notes in the Loans and Discounts. Assuming that the first two items mentioned above represent very active accounts, illustrate your answer.

7. The Commissioner of Public Works of a small Virginia City in submitting his report for the first year of operation states, among other things, as follows: "Gas is being furnished the citizens of this city at a lower rate than any other city or town in this State, and it is my opinion that very few cities, if any, in the United States outside of the natural gas districts and of the size of this city are furnished gas at a lower price or of a better quality".

The financial report of the Gas Plant follows:

CONDENSED BALANCE SHEET AS OF JULY 1st, 1925

ASSETS

Plant and Property.....	\$ 75,000.00	
Real Estate.....	5,000.00	
Trunk Lines, Mains, Meters, Etc.....	72,500.00	
Other Equipment.....	1,250.00	
Cash.....	1,500.00	
Due from Consumers and Others.....	5,000.00	
Supplies, Etc.....	1,000.00	
	<hr/>	
TOTAL ASSETS.....		\$161,250.00

LIABILITIES

Bonded Debt (City Gas Works 5's —7-1-44).....	\$150,000.00	
Accounts Payable and Deposits.....	3,250.00	
Premium on Bonds.....	4,250.00	
Profit for the Year.....	3,750.00	
	<hr/>	
TOTAL LIABILITIES.....		\$161,250.00

STATEMENT OF PROFIT AND LOSS FOR THE YEAR  
ENDED JUNE 30, 1925

REVENUE

Gas furnished Consumers.....	\$ 10,000.00	
Gas furnished for Municipal purposes	1,750.00	
Miscellaneous.....	200.00	
	<hr/>	
		\$ 11,950.00

FORWARDED..... \$ 11,950.00

EXPENSE

Labor at Plant and Office.....	\$ 1,650.00	
Materials Purchased.....	5,150.00	
Maintenance of Apparatus, Build- ings, &c.....	500.00	
Maintenance of Mains, Meters, &c.....	400.00	
Advertising.....	150.00	
Reading Meters.....	250.00	
Miscellaneous.....	100.00	
		<u>8,200.00</u>

NET PROFIT FOR THE YEAR.. \$ 3,750.00

The foregoing statements were handed you by the City Council with the request that you make proper analysis of same and report to them. Embody in a short report such criticisms as you deem pertinent.

8. In making an audit of the books of a corporation whose transactions are so numerous as to preclude the practicability of examining all the entries in detail or checking all postings, what course would you pursue in your examination to insure the correctness of the balance sheet?
9. Of what advantage or value is the trial balance in auditing the accounts of a given business?
10. You are called upon to examine the accounts of a state bank where fraud is suspected. You find that no entries have been made on the daily cash book or any other books of account for a period of four months prior to your arrival. What course would you pursue in order to insure a correct statement of the bank's condition and to detect the fraud?