Students' Department

H. P. Baumann

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H. P. Baumann, *Editor*

AMERICAN INSTITUTE EXAMINATIONS

[Note.—The fact that these solutions appear in The Journal of Accountancy should not cause the reader to assume that they are the official solutions of the board of examiners. They represent merely the opinion of the editor of the *Students' Department.*]

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. 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.

X Y Z COMPANY

Balance-sheet, December 31, 1928

Assets

Current assets:				
Cash:				
In banks		$ 40,000		
Petty-cash fund		500	$40,500	
Receivables:				
Trade accounts	$66,000			
Less: reserve for doubtful accounts	1,000	$ 65,000		
Advances to officers		500		
Claims		200		
Notes receivable	$41,000			
Less: notes receivable discounted	30,000	11,000	76,700	
Advance payments on merchandise purchases			2,000	
Inventories			80,000	
Treasury notes (pledged to secure notes payable—per contra)			65,000	$264,200
Call loans (temporary investment of funds accumulated to acquire new plant)				100,000
Investment in and advances to A B C company:				
Advances			$10,000	
Investment—at cost (100 shares of a par value of $100 each. Market value $45,000.)			25,000	35,000
Fixed assets:				
Land—at cost			$25,000	
Building—at cost		$ 50,000		
Less: reserve for depreciation		5,000	45,000	
Machinery (chiefly manufactured by company and set up at estimated cost)		$125,000		
Less: reserve for depreciation		30,000	95,000	
Office furniture		$ 5,000		
Less: reserve for depreciation		5,000		165,000
Goodwill				50,000
				$614,200

Liabilities and net worth

Current liabilities:				
Accounts payable			$ 87,500	
Notes payable (secured by treasury notes—per contra)			50,000	
Accounts receivable—credit balances			1,700	
Federal income taxes payable—1928			25,000	
Dividends payable January 3, 1929:				
First preferred stock		$ 3,500		
Common stock		2,000	5,500	$169,700
Contingent liability on customers' notes receivable discounted		$ 30,000		
Net worth:				
Capital stock:				
First preferred, 7% cumulative—				
Authorized—3,000 shares of a par value of $100 each	$300,000			
Unissued	100,000			
Outstanding		$200,000		
Common—				
Authorized—4,000 shares of a par value of $100 each	$400,000			
Unissued	200,000			
Outstanding		200,000	$400,000	
Surplus:				
Balance, December 31, 1928			44,500	444,500
				$614,200

(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.

Solution:

The following comments apply to the required balance-sheet, which appears on page 291.

COMMENTS

The accounts receivable ($75,000) shown in the trial balance should be distributed to accounts receivable—trade, advances to officers, claims and accounts receivable—credit balances. In the balance-sheet, advances to officers and claims are shown as current assets because these accounts had been collected. Accounts receivable—credit balances are considered as current liabilities.

The notes receivable discounted are shown in the balance-sheet as a deduction from the gross amount of notes receivable on hand and discounted, and also on the liability side, in short, to direct attention to the contingent liability of the company.

The amount of the reserve for doubtful accounts is shown in the trial balance at $1,000. This amount, or the amount "regarded as doubtful of collection, $800" may be used in the balance-sheet.

The fact that the treasury notes are pledged to secure notes payable is noted on the balance-sheet under treasury notes and notes payable.

Although the call loans represent a temporary investment of funds they should not be shown as a current asset, as the funds so invested have been set aside for a definite purpose, i. e., to acquire a new plant.

The investment in and advances to the A B C company are shown as permanent investments.

The cost of land and buildings is separated, and the reserves for depreciation are deducted from the assets to which they apply. The bases of the valuations of the fixed assets are stated also.

Advance payments on merchandise purchases are treated as current assets to be applied against the purchase invoices for shipments of merchandise to be made, presumably, in the near future.

Dividends declared in December, 1928, and payable January 3, 1929, are current liabilities and are so shown.

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

Solution:

The auditor should recommend that the accounts of both companies be classified in sufficient detail to permit charging into separate accounts the various elements of property which differ in nature. The accounts of company "A" show buildings and machinery, but no information is given concerning the land upon which the building is situated. This land may be entirely or partly owned, or leased. If the land is owned, it should, of course, be transferred to a land account.

The trial balance of company "B" shows accounts for land, buildings (at cost), and additions to buildings, but no information is given concerning any machinery and equipment. Data regarding the building additions are desirable, if for no other purpose than to check the depreciation reserves which show an accumulated reserve of 20 per cent. as against 13+ per cent. for the buildings. As the buildings of company "B" are valued "at cost" it might be inferred that the other fixed assets are valued on some bases other than cost.

In the following consolidated balance-sheet the fixed assets of both companies are combined in one account which is called "Land, buildings and machinery." It would be permissible to substitute the supplementary statement appended to the balance-sheet for this and the combined reserve-for-depreciation accounts.

COMPANY A AND ITS SUBSIDIARY, COMPANY B

Consolidated balance-sheet—working papers—date

Assets	Company A	Company B	Adjustments Dr.	Adjustments Cr.	Inter-company eliminations	Consolidated balance-sheet
Buildings and machinery	$700,000			(1)$ 700,000		
Land		$ 10,000		(1) 10,000		
Buildings (at cost)		115,000		(1) 115,000		
Additions to buildings		25,000		(1) 25,000		
Land, buildings and machinery			(1) $ 850,000			$ 850,000
Current assets	150,000	10,000				160,000
Advances to company B	25,000				(A) $ 25,000	
Investment in company B	100,000				(B) 100,000	
	$975,000	$160,000			$125,000	$1,010,000
Liabilities and net worth						
Current liabilities	$ 50,000	$ 5,000				$ 55,000
Loan from company A		25,000			(A) $ 25,000	
Reserves for depreciation				(2) $ 220,000		220,000
Buildings and machinery	200,000		(2) 200,000			
Buildings		15,000	(2) 15,000			
Additions to buildings		5,000	(2) 5,000			
Capital stock:						
Company A	500,000					500,000
Company B		100,000			(B) 100,000	
Surplus				(3) 210,000		210,000
Company A	200,000		(3) 200,000			
Appropriated for advances to company B	25,000					25,000
Company B		10,000	(3) 10,000			
	$975,000	$160,000	$1,280,000	$1,280,000	$125,000	$1,010,000

Because of insufficient information, it is assumed that the investment of $100,000 represented the book value of company "B" at the date of its purchase by company "A," and that the surplus of $10,000 shown in the balance-sheet of company "B" represents its earnings since the date of purchase.

If financial statements were necessary for purposes of local taxation, those of company "B" should be used, and not the consolidated balance-sheet.

Working papers appear on page 294.

COMPANY A AND ITS SUBSIDIARY, COMPANY B

Consolidated balance-sheet—date

Assets

Current assets			$160,000
Land, buildings and machinery (see below)		$850,000	
Less: reserves for depreciation		220,000	630,000
			$790,000

Liabilities and net worth

Current liabilities			$ 55,000
Net worth:			
Capital stock (5,000 shares, par value $100 each)		$500,000	
Surplus	$210,000		
Appropriated for advances to company B	25,000	235,000	735,000
			$790,000

Available data of fixed assets and reserves for depreciation:

	Company A	Company B	Reserve for depreciation	Carrying value
Land		$ 10,000		$ 10,000
Buildings (at cost)		115,000	$ 15,000	100,000
Additions to buildings		25,000	5,000	20,000
Buildings and machinery	$700,000		200,000	500,000
Totals	$700,000	$150,000	$220,000	$630,000

ILLINOIS EXAMINATION QUESTION

The following is an estate problem given by University of Illinois, board of examiners in accountancy, in the examination in theory of accounts and practical accounting, part II, November 23, 1928:

Problem:

The books of the Prestigo Estate were audited for the year ending October 31, 1927, by certified public accountants. Their balance-sheet at that date, which follows, was found by you to agree with the books.

PRESTIGO ESTATE

Balance-sheet, October 31, 1927

Assets

Cash—income account	$ 15,146.25
Cash—estate account	6,498.11
Notes receivable	10,050.00
Investments in stocks	385,256.20
Investments in bonds	188,334.82
Investments in real property	67,431.51
Prepaid insurance	10.86
Furniture and fixtures (less depreciation reserve $856.20)	2,510.01
Total assets	$675,237.76

Liabilities and net worth

Due income beneficiary	$ 15,146.25
Accounts payable	586.01
Estate account—value at death in 1913	464,965.22
Net income to April 30, 1926	201,555.17
Net loss—fiscal year 1926–27	7,014.89*
	$675,237.76

* Red.

Shortly after October 31, 1928, you are called in to conduct the audit for the fiscal year 1927–28. You find that the annual audit is provided for in the will and is to be paid from principal. The will also provides that principal and income are to be distinguished according to the usual custom in estate accounting; namely, that profits or losses from the disposition of assets belong to principal rather than income. However, the will directs that depreciation on rented real estate be charged against the income therefrom. Your investigation leads you to conclude that the balance-sheet prepared last year is correct.

Wilberta Prestigo is the life tenant and one of the two trustees appointed by the will, the other being J. Burton Wade, the family counselor. It is mutually understood between the two trustees that Mrs. Prestigo shall have the books of account kept under her direction and that Mr. Wade's responsibility will be met by having reliable auditors review the books of account each year. The arrangement has remained thus since 1913, when Mr. Prestigo died. At October 31, 1928, you find the trial balance to be:

Account	Debit	Credit
Cash—First National Bank	$ 5,265.23	
Cash—Central Trust Company	872.56	
Cash—Sheridan Trust & Savings Bank		$ 247.10
Notes receivable	22,475.00	
Investments—stocks	329,004.60	
Investments—bonds	176,169.82	
Investments in real property	134,757.01	
Prepaid insurance	14.22	
Furniture and fixtures	3,366.21	
Reserve for depreciation of furniture and fixtures		1,024.50
Due income beneficiaries October 31, 1927		15,146.25
Accounts payable		586.01
Estate account		659,505.50
Dividends received		13,670.00
Interest received		10,225.00
Rents received		18,667.18
Rent expense (including depreciation and insurance)	7,363.93	

Account	Debit	Credit
Worthless securities	$ 8,251.60	
Office expenses	385.10	
Depreciation—furniture and fixtures	168.30	
Real-estate taxes	586.01	
Payments to income beneficiary—November 18, 1927	15,146.25	
May 25, 1928	15,245.70	
	$719,071.54	$719,071.54

Cash deposits have not been separated as between principal and income.
Notes receivable at October 31, 1927, consisted of:

Demand loan to Wilberta Prestigo (no interest charged)	$10,000.00
Curto Patex—a lessee—note covering past-due rent	50.00
Total at October 31, 1927	$10,050.00

During 1927–28, Mrs. Prestigo withdrew additional funds from the estate and gave additional non-interest-bearing demand notes amounting to $12,450. Curto Patex paid $25 on his note.

Two changes occurred in the stocks during the fiscal year 1927–28. Two hundred and forty shares out of four hundred fifty shares of Pasquinade Motor Company common were sold for $48,000.00, the details following:

Date of acquisition	No. of shares	Value at death	Selling price	How acquired
1913	240	$24,000	$48,000	At death
1913	60	6,000		At death
1916	150			Stock dividend of 50%

Stock of the Dejected Oil Sales Company was written off as worthless; it had cost $8,251.60 in 1915.

Twelve $1,000 bonds which had been purchased in 1920 at par were redeemed at 101 and accrued interest of $45.00.

At October 31, 1927, real-estate investments consisted of:

Business property (at cost less depreciation)	$52,765.88
Prestigo family residence (value at death)	14,665.63
Total at October 31, 1927	$67,431.51

An addition of $68,525.50 is accounted for by the fact that in January, 1928, a contract for the purchase of a certain business corner was entered into, the total consideration being $268,000. Title was taken in the name of Prestigo Building, Inc., a building corporation, and stock of 2,678 shares was issued to the estate, one share to Mr. Wade, and one share to Fortescue Prestigo, a total of 2,680 shares, which was the authorized issue. One fourth of the purchase price was paid down and $1,525.50 was paid for legal and transfer fees; the balance is represented by a first mortgage of $134,000 due in full April 1, 1935, and seven notes, maturing serially, beginning with April 1, 1929, the first for $7,000 and the balance for $10,000 each, interest at 6% payable semi-annually. The notes are endorsed personally by Mrs. Prestigo, as trustee, although the building corporation is the maker, and are further secured by certain stocks belonging to Mrs. Prestigo. In the will creating the trust, you find, among other provisions:

"... and at no time shall more than twenty per cent. (20%) of the assets of said estate consist of real-estate investments ..."

Trustee Wade informs you that his signature, as trustee, has not yet been secured on the mortgage or on the notes, but asks you to prepare your statements as though he had done so, appending such qualifications as you deem necessary. Depreciation on rented properties, credited directly to the asset account, was $1,200 for 1927–28, and has been charged to rent expense.

In past years depreciation on furniture and fixtures has been divided equally between principal and income. The same division has been made of office expenses. Federal taxes apply only to principal, since all current income is distributed; local taxes are charged to both principal and income on the basis of ¾ and ¼, respectively. This proration seems fair.

Local taxes now due and not expressed on the books total $610.24; accrued federal taxes on principal income are $1,249.74.

Prepare, from the above information, (1) a balance-sheet, (2) a statement of cash receipts and disbursements in which principal and income are distinguished, (3) a working trial balance on which columns for beneficiary's income, estate income and balance-sheet appear, and a list of explanations accompanying the adjustments which you deem necessary. In case a certificate is asked for, what qualifications will be necessary?

Solution:

Following are explanatory entries indicated in the working papers on page 299.

Explanatory adjusting entries

(1)

Investments—stocks		$32,000.00	
Gain on realization			$32,000.00
To record gain on sale of 240 shares of stock of Pasquinade Motor Company.			
Selling price 240 shares	$48,000.00		
Cost of stock sold—240/450× $30,000 (cost of the 450 shares)	16,000.00		
Gain on sale of stock	$32,000.00		

(2)

Investments—bonds	165.00	
Interest received		45.00
Premium on bonds redeemed		120.00
To record the interest received and the premium on bonds redeemed.		

(3)

Investment in Prestigo Building, Inc.	268,000.00	
Prestigo Building, Inc.		268,000.00
To record the investment in Prestigo Building, Inc.		

(4)

Prestigo Building, Inc.	68,525.50	
Investments in real property		68,525.50
To transfer one fourth of the purchase price ($67,000) and legal and transfer fees ($1,525) paid on account of Prestigo Building, Inc., and charged to investments in real property.		

PRESTIGO ESTATE

Working papers—October 31, 1928

	Trial balance Dr.	Trial balance Cr.	Adjustments Dr.	Adjustments Cr.	Beneficiary's income Dr.	Beneficiary's income Cr.	Estate income Dr.	Estate income Cr.	Balance-sheet Assets	Balance-sheet Liabilities
Cash—First National Bank...	$ 5,265.23	$	$	$	$	$	$	$	$ 5,265.23	$
Cash—Central Trust Company	872.56								872.56	
Cash—Sheridan Trust and Savings Bank................		247.10								247.10
Notes receivable.............	22,475.00			(7) 22,450.00					25.00	
Investments—stocks.........	329,004.60		(1) 32,000.00						361,004.60	
Investments—bonds.........	176,169.82		(2) 165.00						176,334.82	
Investments in real property...	134,757.01			(4) 68,525.50					66,231.51	
Prepaid insurance...........	14.22								14.22	
Furniture and fixtures.......	3,366.21								3,366.21	
Reserve for depreciation of furniture and fixtures.........		1,024.50								1,024.50
Due income beneficiaries Oct. 31, 1927.................		15,146.25	(8) 15,146.25							
Accounts payable...........		586.01	(10) 586.01							
Estate account.............		659,505.50								659,505.50
Dividends received..........		13,670.00				13,670.00				
Interest received............		10,225.00		(2) 45.00		10,270.00				
Rents received..............		18,667.18				18,667.18				
Rent expense (including depreciation and insurance)......	7,363.93				7,363.93					
Worthless securities..........	8,251.60						8,251.60			
Office expenses..............	385.10				192.55		192.55			
Depreciation—furniture and fixtures..................	168.30				84.15		84.15			
Real-estate taxes............	586.01			(10) 586.01						
Payments to income beneficiary—										
Nov. 18, 1927............	15,146.25			(8) 15,146.25						
May 25, 1928............	15,245.70			(9) 15,245.70						
Gain on realization..........				(1) 32,000.00				32,000.00		
Premium on bonds redeemed ..				(2) 120.00				120.00		
Investment in Prestigo Building, Inc.................			(3) 268,000.00						268,000.00	
Prestigo Building, Inc........			(4) 68,525.50	(3) 268,000.00						199,474.50
Local taxes................			(5) 610.24		152.56		457.68			
Federal income taxes.........			(6) 1,249.74				1,249.74			
Accrued local taxes..........				(5) 610.24						610.24
Federal income taxes payable..				(6) 1,249.74						1,249.74
Demand loan—Wilberta Prestigo......................			(7) 22,450.00						22,450.00	
Due income beneficiaries Oct. 31, 1928..................			(9) 15,245.70						15,245.70	
Beneficiaries' income.........					34,813.99					34,813.99
Estate income..............							21,884.28			21,884.28
	$719,071.54	$719,071.54	$423,978.44	$423,978.44	$42,607.18	$42,607.18	$32,120.00	$32,120.00	$918,809.85	$918,809.85

(5)

Local taxes	$ 610.24	
Accrued local taxes		$ 610.24
To record accrued local taxes now due.		

(6)

Federal taxes on income	1,249.74	
Federal income taxes payable		1,249.74
To record accrued federal taxes on income.		

(7)

Demand loan—Wilberta Prestigo	22,450.00	
Notes receivable		22,450.00
To transfer demand loans of Wilberta Prestigo.		

(8)

Due income beneficiaries—Oct. 31, 1927	15,146.25	
Payments to income beneficiary, Nov. 18, 1927		15,146.25
To transfer payment of Nov. 18, 1927, to liability account.		

(9)

Due income beneficiaries—Oct. 31, 1928	15,245.70	
Payments to income beneficiary—May 25, 1928		15,245.70
To record payment of May 25, 1928, as advance against the amount due beneficiary at Oct. 31, 1928.		

(10)

Accounts payable	586.01	
Real-estate taxes		586.01
To transfer payment of real-estate taxes to liability account.		

No definite rule can be laid down in respect to any gain or loss on assets purchased by the trustee. In this solution the loss on the stock of the Dejected Oil Sales Company, purchased in 1915 for $8,251.60, was charged against the estate income, and the gain arising from the redemption of the bonds purchased in 1920 was credited to that income.

The estate income as shown in the working papers may be checked by computing the amount of federal taxes, which is given in the problem as $1,249.74.

Estate income, per working papers	$21,884.28
Add: income taxes deducted	1,249.74
Income, before taxes	$23,134.02

	Amount	Tax
Net income	$23,134.02	
Less exemption	1,500.00	
Balance	$21,634.02	

	Amount	Tax
Amount taxable at 1½%	$ 4,000.00	$ 60.00
Amount taxable at 3%	4,000.00	120.00
Amount taxable at 5%	13,634.02	681.70
Total	$21,634.02	$ 861.70
Surtax—		
On	$22,000.00	320.00
On	1,134.02	68.04
Total	$23,134.02	$1,249.74

PRESTIGO ESTATE

Balance-sheet, October 31, 1928

Assets

Cash—			
Income account		$ 20,855.13	
Less: overdraft—estate account		14,964.44	$ 5,890.69
Consisting of balances in:			
First National Bank		$ 5,265.23	
Central Trust Company		872.56	
Total		$ 6,137.79	
Less: overdraft—Sheridan Trust and Savings Bank		247.10	
Balance		$ 5,890.69	
Non-interest-bearing demand notes—			
Curto Patex		$ 25.00	
Mrs. Wilberta Prestigo, trustee and life tenant		22,450.00	22,475.00
Investments—			
Stocks		$361,004.60	
Bonds		176,334.82	
Real estate—business property (cost less depreciation)	$51,565.88		
Prestigo family residence, (value at death)	14,665.63	66,231.51	
Prestigo Building, Inc., stock (100% owned—see subscription per contra)		268,000.00	871,570.93
Prepaid insurance			14.22
Furniture and fixtures		$ 3,366.21	
Less: reserve for depreciation		1,024.50	2,341.71
			$902,292.55

Liabilities and estate balances

Estate account overdraft (see contra)		$ 14,964.44	
Accrued local taxes			$ 610.24
Federal income taxes payable			1,249.74
Stock subscription payable (see investment in Prestigo Building, Inc., per contra)—			
Subscription		$268,000.00	
Payments made		68,525.50	199,474.50
Due income beneficiary:			
Balance, November 1, 1927	$15,146.25		
Income for year ended October 31, 1928	34,813.99	$ 49,960.24	
Less: withdrawals		30,391.95	19,568.29
Estate account:			
Balance, November 1, 1927		$659,505.50	
Income for year ended October 31, 1928		21,884.28	681,389.78
			$902,292.55

NOTES:

The investment in Prestigo Building, Inc., represents a subscription for all the stock in the company, which has been issued to the estate, except for directors' qualifying shares. It is expected that the estate will be called upon to pay the balance due on the stock by furnishing funds to pay the company's mortgage on the building for $134,000 due April 1, 1935, and its notes which mature serially beginning April 1, 1929, the first for $7,000 and the balance for $10,000 each, interest at 6% payable semi-annually.

The notes are endorsed by Mrs. Prestigo, as trustee, and are further secured by certain stocks belonging to Mrs. Prestigo.

The trust as created by the will limited real-estate investments to twenty per cent. (20%) of the assets. The investment in the Prestigo Building, Inc., violates this provision, for the investment in this stock represents a real-estate investment.

With the footnotes suggested above appended to the balance-sheet, the auditor could give an unqualified certificate.

PRESTIGO ESTATE

Cash account, November 1, 1927, to October 31, 1928

Receipts

	Principal	Income	Together
Balances, November 1, 1927	$ 6,498.11	$15,146.25	$ 21,644.36
Received on note—Curto Patex	25.00		25.00
Sale of 240 shares—Pasquinade Motor Company	48,000.00		48,000.00

	Principal	Income	Together
Bonds redeemed	$12,000.00		$ 12,000.00
Premium on bonds redeemed	120.00		120.00
Dividends received		$13,670.00	13,670.00
Interest received		10,270.00	10,270.00
Rents received		18,667.18	18,667.18
Total receipts	$66,643.11	$57,753.43	$124,396.54
Disbursements			
Loans on notes—Mrs. Prestigo	$12,450.00		$ 12,450.00
Purchase of stock—Prestigo Building, Inc.	67,000.00		67,000.00
Legal and transfer fees	1,525.50		1,525.50
Rent expense		$ 6,163.93	6,163.93
Increase on prepaid insurance		3.36	3.36
Office expense	192.55	192.55	385.10
Real-estate taxes	439.50	146.51	586.01
Payment to beneficiary—			
November 18, 1927		15,146.25	15,146.25
May 25, 1928		15,245.70	15,245.70
Total disbursements	$81,607.55	$36,898.30	$118,505.85
Balances, October 31, 1928	$14,964.44*	$20,855.13	$ 5,890.69
Bank accounts—			
First National Bank			$5,265.23
Central Trust Company			872.56
Sheridan Trust and Savings Bank			247.10*
Total			$5,890.69

* Overdraft.