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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 November 14 and 15, 1929.]

Examination in Auditing

NOVEMBER 14, 1929, 9 A. M. TO 12:30 P. M.

The candidate must answer all the following questions:

No. 1 (10 points):

(a) Define the following methods of depreciation—

(1) Straight line
(2) Reducing balance
(3) Sinking fund

(b) State briefly conditions under which you would recommend each method, and why.

No. 2 (10 points):

You are called to audit the books of the Blank Corporation of Syracuse, N. Y., and you find a number of canceled voucher-cheques for considerable amounts drawn to the order of the X Company of the city of New York, with invoices attached but without bills of lading. Also there is a balance of account due the X Company for which you have received confirmation by mail. None of the materials invoiced appears in the inventory at the end of the year. The voucher-cheques are signed by the treasurer and approved for payment by the president, who is also the general manager.

The bookkeeper tells you that the goods invoiced were delivered by a motor-truck company which does not issue bills of lading but merely takes the receipt of any employee receiving the goods.

What would you do?

No. 3 (10 points):

(a) Securities owned may appear under three captions on the balance-sheet. Name them, and state what class of securities should be shown under each heading.

(b) How would you verify such securities in preparing a balance-sheet to submit to a bank?

No. 4 (10 points):

State fully the principles that would guide you in verifying the valuation of

(1) raw materials,
(2) work in process,
(3) finished goods,

in making a detailed audit of a manufacturing concern. Explain your reasons.

No. 5 (10 points):

Outline a programme for the audit of the first year's operations of an investment company of the type usually known as an "investment trust", managed by a firm of investment bankers.

No. 6 (10 points):

The C & D Manufacturing Co., Inc., engages you to audit its accounts for the year ended Dec. 31, 1928, and to certify its balance-sheet as at Dec. 31, 1928, and its profit-and-loss statement for the year.

What examination of the books and accounts prior to Jan. 1, 1928, would you consider necessary?

No. 7 (10 points):

While auditing the books of the E F Corporation you find an item of $5,000 debited to notes-payable account; that it is a part payment on a note for $15,000 signed by the president individually; that the proceeds of the note were used to purchase certain stocks for the corporation; and that the certificates for those stocks are in the name of the president personally. Against the loan of $15,000 were pledged other securities (belonging to the corporation) of the book value of $20,000. The only entry of these transactions on the books of the corporation is the $5,000 mentioned above. You note further that the president alone has access to the safe-deposit box containing the corporation's securities.

(a) What is your opinion of the liability of the corporation on this note?

(b) What recommendations would you make?

No. 8 (10 points):

In February, 1929, you are retained to audit the accounts of an investment company for the year 1928. You find that the accounts were audited for 1927 by a certified public accountant, and you are asked to accept his list showing quantities and costs of securities owned at Dec. 31, 1927, making in your certificate whatever qualification seems desirable. You are furnished with a similar list of securities owned at Dec. 31, 1928, which you find to agree as to quantities with the securities on hand as examined by you, plus those hypothecated as collateral duly confirmed by the holders; and, as to total cost, with the balance of "securities owned" account in the general ledger.

(a) Do you consider the foregoing a sufficient verification of the "securities owned" account?

(b) If not, what additional verification would you consider necessary?

No. 9 (10 points):

What are the (a) advantages and (b) disadvantages of no-par stock?

No. 10 (10 points):

When called in to check and approve the income-tax returns of the members of the firm M & L, you find the following conditions:

Capital investment of each partner, $50,000.

During the year M has drawn $4,500 and L, $6,500, as salaries in accordance with the partnership agreement.

Including these salaries as expense, the firm's books show a loss of $11,000 for the year, but as partners' salaries are not a deductible expense it is admitted that for income-tax purposes there has been neither loss nor gain.

As the partners share equally in gains or losses, they write the word "none" under income from partnerships on their individual returns.

(a) Are they correct?

(b) If not, state what net income or loss should be returned for this item by each partner and explain how you reach your conclusions.

Examination in Accounting Theory and Practice

PART I

NOVEMBER 14, 1929, 1 P. M. TO 6 P. M.

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

No. 1 (38 points):

You are employed to certify a balance-sheet of the Bed Manufacturing Company as at December 31, 1928. At the date of your examination—March, 1929—the company had closed its books for the year 1928 and prepared therefrom the following income-and-expense statement:

THE BED MANUFACTURING COMPANY

Income-and-expense statement—year ended December 31, 1928

Sales:		
Model 1120 (11,246 units)		$269,904
" 1220 (1,824 ")		48,336
Repairs (both models)		9,040
		$327,280
Less: trade discounts (6%)		19,094
		$308,186
Cost of sales:		
Inventory—January 1, 1928	$215,422	
Purchases—raw material and supplies	82,911	
Enameling cost (outside work)	19,605	
Crating	14,271	
Other productive labor	48,343	
Manufacturing expenses	36,202	
	$416,754	
Less: inventory—December 31, 1928	214,930	201,824
Gross profit		$106,362
Selling and administrative expenses:		
Salaries—salesmen	$ 25,026	
" —officers	32,500	
" —clerical	6,125	
Traveling—salesmen	6,130	
Stationery, etc.	1,115	
Telephone and telegrams	896	
Taxes—local	800	

Incidentals	$ 1,275	$ 73,867
Operating profit		$ 32,495
Additions to income:		
Interest on bank balances and notes	$ 43	
Discounts on purchases	128	171
		$ 32,666
Deductions from income:		
Interest on notes payable	$ 1,823	
Discounts on sales (cash)	3,613	5,436
Net income before federal income tax		$ 27,230

You ascertain that the company maintains no cost-finding records, as part of the general bookkeeping system, but fixes its prices on the basis of estimated production costs.

Your attention is directed, almost immediately, to the fact that the relative balance-sheet presented shows an inventory value of approximately 75 per cent. of the total current assets, an analysis of which discloses the following:

Summary of inventory—December 31, 1928

Model	Quantity	Unit price	Total
Finished stock in warehouse—crated:			
1120 Mahogany	1,089	$17.75	$19,329.75
1120 Walnut	1,527	17.75	27,104.25
1220 Mahogany	477	21.50	10,255.50
1220 Walnut	686	21.50	14,749.00
Finished stock wrapped but not crated:			
1120 Mahogany	220	17.35	3,817.00
1120 Walnut	118	17.35	2,047.30
1220 Mahogany	86	21.00	1,806.00
1220 Walnut	22	21.00	462.00
Finished parts in stock-room:			
1120 Mahogany—head ends	2,643	9.00	23,787.00
1120 Walnut — " "	471	9.00	4,239.00
1220 Mahogany— " "	1,876	11.50	21,574.00
1220 Walnut — " "	803	11.50	9,234.50
1120 Mahogany—foot ends	2,415	7.00	16,905.00
1120 Walnut — " "	402	7.00	2,814.00
1220 Mahogany— " "	1,944	8.75	17,010.00
1220 Walnut — " "	1,112	8.75	9,730.00
1120 Mahogany—side rails	4,818	1.25	6,022.50
1120 Walnut — " "	1,202	1.25	1,502.50
1220 Mahogany— " "	4,136	1.25	5,170.00
1220 Walnut — " "	1,532	1.25	1,915.00
Cast-iron and sheet-iron parts—not enameled:			
1120—head ends	465	8.75	4,068.75
1220— " "	205	11.25	2,306.25
1120—foot ends	407	6.75	2,747.25
1220— " "	226	8.50	1,921.00
1120—side rails	1,013	1.15	1,164.95
1220— " "	600	1.15	690.00
Casters:			
1120	72 gross	18.75	1,350.00
1220	46 "	26.25	1,207.50

Details of the inventory, as at January 1, 1928, were not available.

With the foregoing data before you, prepare a report in detail containing comments on existing conditions and suggestions for improvement.

No. 2 (30 points):

The directors of five corporations, all situated in the same state, desire to consolidate. With that end in view they draw up and sign an agreement to be submitted to all stockholders of record, setting forth the plan of the proposed consolidation and stating its purposes and advantages.

You are called upon to audit the books of account and records of the five companies and to present a certified balance-sheet showing the book value of the capital stock of each company. You are then to prepare a schedule showing how much stock of the new corporation should be issued in payment for the stock of the companies about to be consolidated.

You are next required to prepare a balance-sheet giving effect to the consolidation, after it has been unanimously approved.

The result of your audit of the individual companies, as of January 1, 1929, accepted by the several boards of directors, was as follows:

Assets	Carter Yarn Co.	Atlas Mills	Ladd Cotton Mills	Reliable Finishing Co.	Excelsior Print Works
Cash	$ 3,198	$ 167,071	$ 54,316	$ 8,464	$ 7,800
Inventories	402,649	376,476	384,627	32,904	265,644
Fuel and supplies	17,270	18,759	20,241	2,876	14,290
Accounts receivable—					
Selling agents	24,756	130,974	42,420		
Other	2,200	55,402	2,125	98	10,456
Mill store account			17,846		
Insurance unexpired	2,500	4,250	16,241	387	564
Interest accrued	1,451	2,341	1,298	963	1,400
Property and plant	950,000	1,054,674	1,265,455	175,602	141,750
Other real estate	75,000		24,000		
Investments	25,000		655,810		
	$1,504,024	$1,809,947	$2,484,379	$221,294	$441,904
Liabilities					
Notes payable	$ 175,000	$ 300,000	$ 75,000	$ 62,850	$ 110,000
Accounts payable		3,675	22,380	8,444	121,864
Wages accrued			5,437		2,675
Reserves for 1928 income taxes		14,645	16,245		14,475

Reserves for depreciation	$ 650,000	$ 452,853	$ 928,332		$ 30,743
Surplus	179,024	38,774	486,223		62,147
Profit for previous six months			450,762		
Capital stock—common	500,000	1,000,000	500,000	$150,000	100,000
	$1,504,024	$1,809,947	$2,484,379	$221,294	$441,940

The Carter Yarn Co. owns 250 shares of capital stock of Excelsior Print Works, and Ladd Cotton Mills owns 12,260 shares of Atlas Mills. Both blocks are carried on the books at cost.

The capital stock of the companies is as follows:

Carter Yarn Co.	25,000	shares, par value	$ 20
Atlas Mills	20,000	" " "	50
Ladd Cotton Mills	5,000	" " "	100
Reliable Finishing Co.	1,500	" " "	100
Excelsior Print Works	1,000	" " "	100

The new corporation is organized under the name of the Carter Ladd Corporation with an authorized capital stock of 75,000 shares, par value $100 each.

The Reliable Finishing Co. and Excelsior Print Works are taken into the merger at 100 per cent. of their capital stock, surplus and all reserves; the other three companies at 80 per cent. This is to be computed to the nearest whole number of shares and the balance applied to surplus.

No. 3 (17 points):

The balance-sheet of A, B and C, a partnership, as at December 31, 1928, was as follows:

Assets	
Cash	$ 4,000
Accounts receivable	70,000
Inventory	40,000
Deferred charges	500
Fixed assets	65,000
Goodwill	20,500
	$200,000

Liabilities	
Notes payable	$ 20,000
Accounts payable	60,000
Loan from B	10,000
Capital:	
A	$ 75,000
B	30,000
C	5,000
	$200,000

At this date (December 31, 1928), owing to a disagreement, it was decided to dissolve the partnership and, forthwith, assets were realized, liabilities were liquidated and resultant cash distributions were made to the partners on January 31, 1929.

The accounts receivable realized $55,000, the inventory $30,000 and the fixed assets $47,000.

The profits of the partnership had been shared in the following proportions: A one half, B three eighths and C one eighth.

A preliminary preparation of the partners' accounts, toward the end of January, 1929, indicated a debit balance on C's account which was of doubtful collectability.

Prepare the necessary journal entries recording the realization and liquidation and submit statements of the partners' accounts, as at January 31, 1929, after the cash distribution.

No. 4 (15 points):

(a) What is meant by the present worth of a given sum of money, due a given number of years hence, compounded at a given rate of interest?

(b) A corporation deposited $24,700 as security for the rent of a lease, with the understanding that the deposit would be returned in full, but without interest, at the end of nine years and seven months.

On the assumption that money can earn 5 per cent. interest per annum and that the present worth of one dollar due nine years hence at 5 per cent. compound interest is $0.6446, calculate the cash value to the corporation of the deposit of $24,700 immediately upon its being made.

No. 5 (15 points):

What equal amounts must be deposited in a fund, annually, from January 1, 1930, to January 1, 1935 (both inclusive), to provide the following annuities payable January 1st of each year:

$1,500	per	annum	for	five years beginning January 1, 1936
1,000	"	"	"	the next five years, and
750	"	"	"	the next five years following?

Calculate interest earned at 4 per cent. during the entire period.

Given $(1+i)^5 = 1.2166529$ $\quad v^5 = .8219271$

$(1+i)^{10} = 1.4802443$ $\quad v^{10} = .6755642$

Examination in Commercial Law

NOVEMBER 15, 1929, 9 A. M. TO 12:30 P. M.

GROUP I

Answer all the questions in this group.

No. 1 (10 points):

Define and explain the following terms or expressions relative to contracts: Special damages, liquidated damages, legal tender, substantial performance.

No. 2 (10 points):

Lamb & Son were engaged in business under the name of Alpha Paper Works. They became insolvent. They entered into an agreement, in the nature of a deed of trust, with their creditors under which certain creditors, as trustees, were to carry on the business under the name Alpha Paper Company, to divide the profits among the creditors pro rata, and when all were paid to return the business to the original proprietors. The trustees, as such, gave a note to one Reim, who, upon non-payment of the note, sued the creditors alleging them to be partners in the conduct of Alpha Paper Company. What should be the decision?

No. 3 (10 points):

While touring during the past summer an accident occurred in which your automobile was so damaged that it was a total loss except for salvage of a small amount for tires and a few accessories. Can you deduct your loss in your federal income-tax return for the year 1929?

No. 4 (10 points):

You are elected a director of a corporation which has issued six per cent. preferred stock and also common stock. What information, other than the fact that there were earnings available, would you deem it necessary to have in order to enable you to vote properly on a resolution to declare a dividend on the common stock?

No. 5 (10 points):

Define a negotiable instrument. Name and explain the two characteristics which distinguish a negotiable instrument from an ordinary contract.

GROUP II

Answer any five (5) of the following questions but no more than five:

No. 6 (10 points):

Jones, on an automobile trip from New York to Boston, agreed to take a valuable parcel for his friend Smith and to deliver it to Smith's son in Providence. Jones stopped in Bridgeport for dinner. He took his own property out of the car at the hotel, but Smith's parcel, which was left in the car, was stolen while the car was parked. Discuss the principles involved.

No. 7 (10 points):

Detroit, Mich., July 5, 1929.

Sixty days after date I promise to pay to the order of O. R. King six hundred dollars at the Citizens' National Bank, Detroit, Michigan. Value received.

FREDERICK THOMPSON,
By JAMES THOMPSON,
Attorney-in-fact.

Actually James Thompson had no authority from Frederick Thompson to execute the above note. From whom can a holder in due course recover?

No. 8 (10 points):

Burns and Sanford are partners, conducting a profitable business. Sanford, however, is so much of a spendthrift that he falls deeply in debt and is forced into bankruptcy by his creditors. What effect, if any, does this have on the partnership?

No. 9 (10 points):

Knapp became an accommodation endorser on a note made by Styles. When the note matured Styles failed to pay and it was paid by Knapp. Knapp sued Styles on the note for the amount due. Styles set up the technical defense that the note was discharged by Knapp's payment and that therefore no suit could be based on it. Was he correct?

No. 10 (10 points):

In 1921 A purchased real estate for the sum of $20,000. In 1929 he made an exchange with B, receiving another parcel of property, having a value of $25,000, and $5,000 in cash. What was A's taxable income from the transaction?

No. 11 (10 points):

What income-tax cases may be appealed to the board of tax appeals and when must such appeal be taken?

No. 12 (10 points):

Park sold certain goods to Markoe, shipping them by express and forwarding a negotiable bill of lading therefor to Markoe. Markoe was insolvent and while the goods were in transit he made an assignment of his property, including the bill of lading, for the benefit of his creditors. Park, on being advised of the facts and before the goods were delivered, exercised a right of stoppage in transitu by proper notice to the express company. Markoe's assignee claimed the goods by reason of holding the bill of lading, maintaining that the transfer to him of the document ended Park's right of stoppage in transitu. To whom should the goods be awarded?

No. 13 (10 points):

Frank, who owned an apartment house, borrowed a sum of money from Sloane, giving Sloane a power of attorney to collect rents of the apartment house and apply them to reduction of the loan until paid in full. Frank died before the loan was repaid. Was the power of attorney revoked by such death?

Examination in Accounting Theory and Practice

PART II

NOVEMBER 15, 1929, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions:

No. 1 (38 points):

From the data following, you are required to prepare an accounting for the trustees (three brothers, hereinafter mentioned), for the year ended December 31, 1928, embodying (a) a statement of cash receipts and disbursements and (b) a schedule of the payments of principal and income to each beneficiary.

James DeBritt died March 1, 1906. By the terms of his will, the estate was to be divided into seven equal parts as follows:

One seventh to the widow (Jane DeBritt) to be held in trust during her lifetime, with power to will the principal; all income from her share to be paid to her direct. One seventh to each of three daughters—Alma DeBritt McMahon (married), Mira and Susan (both single); each share to be held in trust under the same conditions as the widow's, all income therefrom to be paid to each. One seventh to each of three sons (appointed trustees)—James, Andrew and Herbert; each of these shares was to be divided into two equal parts, one to be a trust fund under the same conditions and terms as the widow's full share, the other to be paid to them outright.

At the date of his death, the testator owned 15,000 acres of unimproved land on Long Island. This land could not be sold except at a great sacrifice, so the trustees received permission from the surrogate to continue the operation of the estate until a satisfactory sale of the property could be made. The surrogate further ruled that all taxes paid on this property should be added to its value and not treated as an expense chargeable to income. By an expert appraisal, as at March 1, 1913, this land was valued at $1,160 an acre.

The total value of the estate at the date of death of the testator, as shown by the appraisal for inheritance-tax purposes, was $2,800,000 which included a value of $840,000 on the Long Island real estate. On the basis of this appraisal, each of the sons was entitled to receive, on account of his free fund, the sum of $200,000.

On November 1, 1911, Alma DeB. McMahon (the married daughter) died, widowed and without issue. Her entire estate consisted of her share in her father's estate. In her will, she made several specific bequests amounting to $350,000. These were paid by the trustees of the estate of James DeBritt and charged to her share as advances. The balance was left to her brothers and sisters in equal shares.

On December 31, 1927, an intermediate accounting was made to the surrogate. All expenses and commissions were paid to this date and all income was distributed to beneficiaries as stipulated.

The following assets remained (all securities having been purchased at par):

Cash in bank	$ 20,000
Office building in New York, inventoried at	340,000
Apartment house in New York, inventoried at	280,000
15,000 acres of Long Island property, on which taxes and assessments, amounting to $39,300, had been paid to March 1, 1913, and $88,200 from March 1, 1913, to December 31, 1927, making its book value, as at the latter date	967,500
New York City 5 per cent. corporate stock, par value	330,000
U. S. government farm-loan bonds, 4 per cent., par value	200,000

Foreign government 5 per cent. bonds	$ 100,000
Railroad and industrial 5 per cent. bonds, on which a 2 per cent. tax is paid at the source	420,000
4,000 shares of 7 per cent. preferred stock of American Metals Co. (par value $100)	400,000

Advances on account of beneficiaries' free fund shares, at December 31, 1927, were as follows: James, $250,000; Andrew, $325,000; Herbert, $300,000; and of the estate of Alma DeB. McMahon, $350,000.

The trustees' transactions during the year 1928, were as follows:

On June 30th, 5,000 acres of the Long Island property were sold for $10,000,000, net, i. e. after all commissions and adjustments had been deducted. The sale was made to the R. E. Development Co. which paid 40 per cent. cash, the balance remaining on mortgage at 6 per cent. until sales of the property were made in individual plots, when substituted first mortgages were to be taken by the estate for 50 per cent. of the mortgage released and the balance in cash. On September 30th, $250,000 of substituted first mortgages were received, bearing interest at 6 per cent., payable quarterly, commencing December 31, 1928.

Regular dividends were received on the shares of stock owned.

Rents received from office building during the year were $54,000 and the attendant expenses were wages $12,000, repairs, etc., $6,000 and taxes $2,000.

Rents received from the apartment house during the year were $48,000 and the attendant expenses were wages $14,500, repairs, etc., $4,000 and taxes $1,500.

Interest received on bank balances, apart from other interest, was $66,750.

Taxes on unimproved property, amounting to $10,500 for the full year of 1928, were paid in March, 1928.

The general operating expenses of the estate were $12,500 for the year.

Interest on advances to the beneficiaries is to be charged at the rate of 6 per cent. per annum.

In lieu of commissions, for services during the year 1928, the trustees received $25,410, which was divided among them equally.

On December 30, 1928, the trustees paid the net income due to each beneficiary. They then decided that they were in a position to make further payments, on account of principal, to those beneficiaries entitled thereto, and proceeded to distribute the sum of $2,650,000 in accordance with this decision.

The final transaction for the year 1928 was the investment of $1,500,000 in U. S. government farm-loan, 4 per cent. bonds at par.

No. 2 (27 points):

Following is the trial balance of Filbert & Company, Inc., December 31, 1928, before closing:

Accounts payable		$ 38,296
Accounts receivable	$ 46,914	
Administrative salaries	10,000	
Advertising	7,800	
Auto expense—salesmen	450	
Bad debts	2,784	
Branch store—account current	21,505	
Capital stock		250,000
Cash in office	1,685	
Discounts allowed	128	
Discounts taken		7,554
First National bank account	48,423	
Freight inward—merchandise	19,544	
Freight outward and delivery	2,118	
Furniture and fixtures	43,420	
Insurance, fire—merchandise	3,000	
Interest	600	
Inventory—January 1, 1928	218,932	
Life insurance—manager	1,520	
Notes payable		50,000
Notes receivable	3,575	
Office salaries and expenses	8,800	
Purchases—merchandise	401,004	
Rent	7,200	
Sales—merchandise		492,515
Salespeople—wages	28,960	
Store—general expenses	7,285	
Surplus—January 1, 1928		53,954
Taxes—personal property	3,200	
Wrapping and shipping	3,472	
	$892,319	$892,319

On January 1, 1929, before the stock-taking could be completed, a fire occurred, resulting in such damage to merchandise that it was impossible to determine accurately the value thereof. It is known, however, that sales realize a gross profit of 20 per cent. or 25 per cent. on cost of sales (freight inward included). Wrapping supplies on hand (undamaged) were valued at $572.

Ten per cent. is to be charged for depreciation of furniture and fixtures.

From the branch-store books, the following is gathered:

January 1, 1928—Cash on hand $1,000, merchandise inventory $27,005 and furniture and fixtures $3,500. During the year 1928, the merchandise purchases were $83,290, sales $108,769, expenses $12,768 and cash remittances to main store $10,000. Bad debts written off were $25.

Depreciation of furntiure is to be computed at 10 per cent.

On December 31, 1928, the cash on hand was $1,986, merchandise inventory $23,280 and accounts receivable (good) $1,700.

You are required to close the books, present balance-sheet, profit-and-loss account and inventory of merchandise, placing the branch-store account current at December 31, 1928, on the main-store books and setting up a reserve for federal income tax.

No. 3 (25 points):

Following is the balance-sheet of the Margo Manufacturing Company as at December 31, 1928:

Assets

Current:	
Cash in banks and on hand	$ 50,000
Customers' notes and accounts receivable, less reserve	300,000
Inventories	1,000,000
Total current assets	$1,350,000
Land, buildings and machinery, as appraised, less reserve for depreciation	6,200,000
Prepaid expenses	20,000
Goodwill	1,000,000
	$8,570,000

Liabilities

Current:		
Notes payable—banks		$ 800,000
Trade acceptances		400,000
Accounts payable and accrued expenses		500,000
Total current liabilities		$1,700,000
Funded debt:		
First-mortgage 6½ per cent. gold bonds	$2,100,000	
Serial gold notes	400,000	2,500,000
Capital stock:		
Authorized and issued—		
Preferred, 20,000 shares, 6 per cent. cumulative, par value $100 each	2,000,000	
Common, 15,000 shares, par value $100 each	1,500,000	3,500,000
Surplus:		
Earned	70,000	
From appraisal of plant	800,000	870,000
		$8,570,000

In order to provide working capital necessary for the continuance of the business, it is proposed to reorganize according to the following plan:

(1) The authorized capital stock to consist of 50,000 shares of 6 per cent. cumulative preferred of a par value of $50 a share and 100,000 shares of no-par common.

(2) The preferred and common stock now outstanding to be surrendered, the present stockholders to receive, for each share of preferred stock now held, one (1) share of new preferred of $50 par, one (1) share of common, no par, and warrant entitling to purchase, on or before June 1, 1929, one-half (½) share of no-par common at $35 a share; for each share of common stock now held, two (2) shares of no-par common with warrant entitling to purchase, on or before June 1, 1929, one-half (½) share of no-par common at $35 per share.

(3) Sale, for a cash consideration of $600,000, of one of the branch plants and taking up the serial gold notes of $400,000, a security for which the plant is mortgaged. The plant to be sold is carried on the books and included in the fixed assets at $750,000, the appraised value, less depreciation.

(4) Issuance and sale of $1,250,000 seven (7) per cent. debentures at 95, the sale carrying with it a bonus of 5,000 shares of no-par common stock.

(5) Application of the proceeds of the proposed financing to the reduction of bank loans, trade acceptances and accounts payable by $600,000, $350,000 and $400,000 respectively and the balance to additional working capital.

Prepare a balance-sheet, as at December 31, 1928, after giving effect to the transactions set forth in the foregoing plan of reorganization.

The expenses relative thereto may be disregarded.

No. 4 (10 points):

You are called upon to ascertain the extent of the fraud committed and the disposition made of the funds so acquired by an individual real-estate operator—Mr. A—who, from certain trustworthy information, seems to have been issuing bogus mortgages.

An obviously incomplete cashbook, practically all the canceled cheques and a partial list of properties and mortgages owned constitute the only available accounting records covering the apparent defaulter's transactions.

State, in detail, your method of procedure.