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## American Institute of Accountants Examinations, May, 1930

American Institute of Accountants. Board of Examiners

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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 15 and 16, 1930.]

## Examination in Auditing

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MAY 15, 1930, 9 A. M. to 12:30 P. M.

*Answer all the following questions:*

No. 1 (10 points):

State the principal objects for which auditors' working papers are made and preserved.

No. 2 (10 points):

Having received letters from several local customers questioning statements of account rendered them, your client engages you to make a detailed audit of the branch store from which the statements were sent. You direct a senior to make the audit after informing him of the circumstances. He finds in the course of a week many discrepancies for which the local cashier, who also keeps the books, offers vague and unsatisfactory explanations. At the close of a day the senior "as usual" (he says) puts all his working papers in his brief-case, which he locks and places in the store safe. The next morning he finds the office in confusion, the safe looted, and his brief-case gone—likewise the cashier. Several pages have been torn out of the cashbook, and the customers' ledger has disappeared. All this is reported to you and you take personal charge.

- (a) Will you complete or retire from the audit?
- (b) What fees, if any, will you charge your client?

No. 3 (10 points):

What special facts should be ascertained and how may they be verified in a detailed audit of accounts of any one of the following:

- (a) Automobile dealers
- (b) Stockbrokers
- (c) Farmers

No. 4 (10 points):

The church of X engages you to audit the books and certify the annual report of its treasurer. You find that the revenues consist of open plate collections, pew rents, envelope pledges, donations and interest from an endowment fund. The expenses are those ordinarily to be found in such cases. A good system of depositing all receipts in bank and making all disbursements by cheque is in force.

Assuming that you find the books correct as far as you can verify them, write a brief report of what you have done, closing with your certificate.

No. 5 (10 points):

In auditing the books of the A. B. Company you find an item of \$1,000 debited to notes-payable account, but no canceled note is produced in support thereof, nor can you find a similar amount previously credited to this account. For good and sufficient reasons you do not desire to question the officers of the company until you have more information regarding the transaction.

- (a) How would you proceed to obtain that information?
- (b) What may you expect to learn?

No. 6 (10 points):

Entering upon an audit of the A. B. Company you are handed the general books of account and a trial balance thereof. You learn that the company owns all or a controlling amount of the stock of several subsidiaries, carried on the books at cost. The trial balance shows open accounts with each of the subsidiaries.

State what influence this knowledge would have upon you, and why, in respect to

- (a) Proving the accuracy of the trial balance
- (b) The steps you would take

No. 7 (10 points):

State three methods, with your arguments for and against each one, of showing as an investment the premiums paid by a corporation on a policy in its favor on the life of its president.

No. 8 (10 points):

In auditing the books of Roe & Co. you find among the notes receivable one endorsed by John Doe, which is six months overdue, the maker having refused to pay it. You learn that Roe & Co. have neglected to notify John Doe of the default.

At the same time you happen to be auditing the books of John Doe, have already learned of this endorsement and propose to show it in a footnote on his balance-sheet as a contingent liability, with his knowledge and consent, though he "thinks" it has been paid.

Bearing in mind that, under the laws of the state in which this transaction occurs, John Doe is now discharged as endorser, how will you handle this matter in order to show it correctly on the respective balance-sheets?

No. 9 (10 points):

State in detail the proper methods of verifying the securities owned by a "fixed investment" company.

No. 10 (10 points):

A purchased bonds in 1910 for \$100,000. Their fair market value March 1, 1913, was \$112,000. He sold them in 1929 for \$90,000. His only other income for 1929 was a salary of \$45,000 and interest \$5,000, with no deductions claimed. Disregarding any exemptions or credits to which he might be entitled, show the calculations you would make to ascertain the income-tax A will have to pay. (Surtax on \$50,000 is \$2,980; on \$28,000, \$720.)

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**Examination in Accounting Theory and Practice**

PART I

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MAY 15, 1930, 1 P. M. TO 6 P. M.

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

No. 1 (38 points):

You are engaged by the X Company, Inc., manufacturers of cotton cloth, to prepare (a) statement showing cost per pound of cloth sold, (b) profit-and-loss statement for the year 1929 and (c) balance-sheet as at December 31, 1929.

A trial balance, taken from the books and covering the period from June 19 to December 31, 1929, was as follows:

	Dr.	Cr.
Property—real estate and plant (cost).....	\$ 676,170	
Investments.....	378,114	
Cash.....	86,425	
Accounts receivable.....	17,444	

*The Journal of Accountancy*

Inventories, January 1, 1929:		
Raw material—cotton . . . . .	\$ 69,080	
In process . . . . .	62,437	
Finished goods . . . . .	86,940	
Fuel . . . . .	2,097	
Mill supplies . . . . .	4,910	
Property maintenance . . . . .	815	
Purchases—raw material . . . . .	77,594	
“ —fuel . . . . .	4,600	
Expenses . . . . .	2,116	
Insurance . . . . .	1,546	
Mill supplies . . . . .	7,389	
Repairs . . . . .	3,488	
Property maintenance . . . . .	2,242	
Taxes . . . . .	4,023	
Water rent . . . . .	4,310	
Labor . . . . .	116,043	
Brokerage . . . . .	2,770	
Executive salaries . . . . .	6,400	
Prepaid insurance . . . . .	2,154	
Bad debts . . . . .	450	
Yarn account . . . . .	\$ 6,250	
Accounts payable . . . . .	4,362	
Sales—finished merchandise . . . . .	328,757	
“ —waste . . . . .	13,250	
Reserves:		
For depreciation . . . . .	384,126	
“ plant improvement . . . . .	100,000	
Income from investments . . . . .	8,844	
“ “ rentals . . . . .	2,233	
Wages and salaries accrued . . . . .	9,128	
Capital stock:		
Preferred . . . . .	400,000	
Common . . . . .	200,000	
Surplus and profit and loss . . . . .	162,607	
	<u>\$1,619,557</u>	<u>\$1,619,557</u>

The items following, representing transactions from January 1 to June 18, 1929 (inclusive), were transferred to the profit-and-loss account as at the latter date:

Sales—finished merchandise . . . . .		\$ 241,882
Purchases—raw material . . . . .	\$ 71,128	
Fuel . . . . .	4,760	
Expenses . . . . .	2,279	
Insurance . . . . .	2,100	
Mill supplies . . . . .	7,845	
Repairs . . . . .	3,764	
Property maintenance . . . . .	1,285	
Taxes (local) . . . . .	3,600	
Water rent . . . . .	4,250	
Yarn account . . . . .	6,250	
Labor . . . . .	100,468	
Brokerage . . . . .	3,001	
Executive salaries . . . . .	4,400	
Income from investments . . . . .		6,494
“ “ rentals . . . . .		1,946
	<u>\$ 215,130</u>	<u>\$ 250,322</u>

*American Institute of Accountants Examinations*

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The inventories, by pounds, were as follows:

	Jan. 1 1929	Dec. 31 1929	
Raw material.....	306,663	150,155	
Goods in process (estimated 50% completed)	101,752	104,287	
Finished product.....	86,229	23,343	
Purchases of raw material during the year			557,706 lbs.
Waste sales during the year.....			214,214 "

In the preparation of the cost statement, all manufacturing expenses, with the exception of labor, may be grouped under one caption.

Because of an internal check by processes and accurate waste records, it has been customary to value the inventories on the basis of the cost statement.

Depreciation on fixed assets was determined to be \$26,541.

No. 2 (12 points):

Electrical sound-producing equipment is leased to a theatre company under a ten-year agreement which provides for (a) the return of the equipment, at the expiration thereof, in good condition, allowing for reasonable wear and tear and for obsolescence; (b) an initial payment of \$6,000 plus weekly payments of \$300 for the first two years (104 weeks) and \$75 per week during the remaining eight years.

The initial payment represents part of the licence fee and entire cost of installation of equipment.

Fifty per cent. of the amounts payable weekly during the two-year period represents licence fee and the other fifty per cent. insurance and interest under deferred-payment plan.

Subsequent payments represent service and inspection charges.

You may consider five years (260 weeks) as a conservative basis of amortization, regardless of the longer life of the lease, in view of the frequent improvements in motion-picture equipment.

Give specimen initial and weekly entries you would recommend to be set up on the theatre company's books.

No. 3 (15 points):

Selected Securities, Inc., a corporation organized for the purpose of investing in securities, was managed, during the calendar

year 1929, by the Specialized Management Corporation under an agreement which included the following provisions:

“Specialized Management Corporation agrees to manage the financial operations of Selected Securities, Inc., and to provide, in addition to financial counsel, all necessary office facilities and personnel. Expenses, such as interest, taxes, legal and accounting fees and custody of securities, will be paid by Selected Securities, Inc.”

“Selected Securities, Inc. agrees to pay the Specialized Management Corporation for its services as financial advisor, etc., twelve per cent. of the net profits realized each year and accrued at the close of each year upon securities held. Such compensation shall not be included as an expense in determining the amount of net profit upon which the compensation is payable.”

From the following trial balance of Selected Securities, Inc., at December 31, 1929, prepare the journal entries required to bring taxes and management compensation accrued upon the books. Prepare, also, a profit-and-loss statement for the year ended December 31, 1929, and a balance-sheet as at the close thereof.

Determine the liquidating value of the company's stock at December 31, 1929.

SELECTED SECURITIES, INC.		
Trial balance, December 31, 1929		
Cash at bank.....	\$ 30,349.02	
Cash on loan at call.....	100,000.00	
Securities (at cost)*.....	1,628,741.20	
Dividends receivable.....	1,250.00	
Cost of securities sold.....	1,369,520.00	
Legal fees.....	5,000.00	
Auditing fees.....	2,600.00	
Interest paid.....	8,362.00	
Dividends paid.....	4,000.00	
Securities sold.....		\$1,507,400.00
Dividends received.....		28,450.00
Interest received.....		9,685.32
Rights sold.....		4,286.90
Capital (40,000 shares, no par value).....		1,600,000.00
	\$3,149,822.22	\$3,149,822.22
	\$3,149,822.22	\$3,149,822.22

No. 4 (20 points):

You are engaged by a firm of attorneys to advise and aid in a general reorganization of their offices, with particular reference to accounting procedure, cost, etc.

\* The market value of the securities held at December 31, 1929, was \$1,657,150. All rights sold were in respect to securities which had been sold at December 31, 1929.

Upon investigation you find that it has been the practice to keep a chronological record of hours spent upon each undertaking and, upon completion of a matter, to bill the client from this record, taking into consideration pre-established minimum rates per hour for the various partners and attorneys, the nature of the work, etc.

The operations of the firm as a whole result in a profit, but no attempt beyond rough estimates has ever been made to determine the cost per hour to the firm of each member of the staff. Further investigation leads you to believe that much individual work is done at less than cost.

You discuss the situation with the firm members and you are requested to prepare for their consideration a comparative table showing the direct, overhead and total costs per hour to the firm of each partner and attorney, in comparison with the minimum billing rates in effect.

From the above information and the following data, construct the required table, bearing in mind the fact that the partners wish the accounting system, which you are about to install, to provide for recording the direct cost of available time, sickness, holidays and other non-chargeable time.

- (a) The three partners are actively engaged in the practice of law.
- (b) The legal staff, including the partners, numbers nine, and may be designated by numbers in your solution, numbers 1 to 3 being the partners.
- (c) The normal working year per man is conceded to be 1,981 hours and 181 hours per annum are considered a reasonable allowance per man for all non-chargeable time.
- (d) The partners draw \$1,000 each per month which they consider as salary. The annual salaries of the members of the legal staff are:

Number 4—\$5,400	Number 7—\$3,600
“ 5— 4,800	“ 8— 3,600
“ 6— 4,200	“ 9— 2,400
- (e) The minimum billing rates per hour are: Numbers 1, 2 and 3, \$10; Number 4, \$7.50; Number 5, \$6.50; Number 6, \$4.50 and Numbers 7, 8 and 9, \$3.
- (f) The firm's actual expenses for the year under review (exclusive of partners' drawings) were as follows:

Salaries:	
Legal staff .....	\$24,000.00
Stenographers .....	15,641.00
Others .....	8,155.00
	\$47,796.00



*The Journal of Accountancy*

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Rent.....	\$18,301.00
Stationery and supplies.....	3,730.51
Telephone and telegraph.....	3,101.15
Depreciation.....	2,514.63
Miscellaneous expenses.....	3,066.98
	<hr/>
	<u>\$78,510.27</u>

No. 5 (15 points):

The stock transactions following were made by A:

- Jan. 5, 1926 Purchased 300 shares of X Corporation for \$3,000.  
Sept. 1, 1927 Twenty per cent. stock dividend received.  
Feb. 1, 1928 Purchased 100 additional shares of X Corporation for \$6,800.  
Jan. 1, 1929 Twenty-five per cent. stock dividend received.  
Jan. 2, 1930 Stockholders of record, on this date, were entitled to purchase one (1) additional share of stock for \$50 for every five (5) shares held, option expiring February 2, 1930.  
300 rights sold for \$3 each.  
125 shares of X Corporation sold for \$10,000.  
Feb. 1, 1930 Exercised option on remaining rights. Market value of stock was \$90.

You are requested to ascertain (a) the profit on the sale of rights, (b) profit on sale of stock and (c) cost of remaining stock held, as required by the federal tax regulations.

NOTE:—Make your computations to the nearest cent, disregarding extended decimal figures.

No. 6 (15 points):

An individual inherits a one-sixth royalty in coal lands, estimated to contain 188,160,000 tons of coal. The property is leased on a royalty basis of 25 cents per ton, payable annually, and it is expected that the coal will be extracted in equal amounts annually over a period of 40 years.

Calculating interest at 6 per cent., what is the individual's interest in the property?

Six million tons of coal were mined during the first year.

What proportion of the royalty received should be treated as income and what as return of capital?

Given  $(1.06)^{40} = 10.285718$ .

**Examination in Commercial Law**

MAY 16, 1930, 9 A. M. to 12:30 P. M.

*Give reasons for all answers*

GROUP I

*Answer all questions in this group*

No. 1 (10 points):

\$5,000

No. 657

THE FIRST NATIONAL BANK

Newark, N. J., Jan. 15, 1929.

E. R. Cater has deposited in this bank Five Thousand Dollars payable to the order of himself on the surrender of this certificate properly endorsed, with interest at  $4\frac{1}{2}\%$ .

J. H. BENEDICT, *Cashier*.

Is the foregoing a negotiable instrument? What is it called? What is its use?

No. 2 (10 points):

Jones decides to purchase a tractor for use on his farm. The George Tractor Company manufactures and markets a tractor under the trade name of "Challenge Tractors." Jones purchases a "Challenge" tractor but after about two weeks' use he finds that it is not of sufficient power for his work because his farm is largely soft muck land used for raising market vegetables. He seeks to return the tractor and the George Tractor Company seeks to recover an unpaid balance of the purchase price. Which of them would succeed?

No. 3 (10 points):

Jones, Johnson and Perry form a partnership. Jones contributes \$5,000, Johnson \$3,000 and Perry \$1,000. The partnership agreement omits any provision indicating how the profits are to be divided. If the business results in profit how will such profit be shared by the partners?

No. 4 (10 points):

A man dies on August 15, 1929. His estate is still in process of settlement on December 31, 1929. How is the income of the decedent and of his estate for 1929 returned for federal income-tax purposes? What personal exemptions would be allowed against the 1929 income of the decedent, his estate and his widow?

No. 5 (10 points):

You become secretary of a large corporation and, among other duties, have charge of all transfers of the corporation's stock. To safeguard the corporation what formalities would you require with reference to each certificate presented for transfer?

GROUP II

*Answer any five of the questions in this group, but no more than five.*

No. 6 (10 points):

What is the distinction between insolvency laws and bankruptcy laws?

No. 7 (10 points):

The M Company, a boatbuilder, selected certain mahogany lumber in the Y Company's yard and bought and paid for it. The Y Company agreed to load the lumber on a railroad freight car to be placed on the siding in its yard. Before the Y Company had the opportunity to do so, the lumber was destroyed by a fire which was not due to any fault of the Y Company. On whom does the loss fall?

No. 8 (10 points):

Assume that in question No. 7 the Y Company had loaded the lumber on the freight car and had consigned the car to the M Company, but before the car was started on its journey fire had destroyed the car and its contents. Would there be any responsibility different from that developing from the conditions given in question 7 and, if so, why?

No. 9 (10 points):

Allen, by fraud, induces Bates to issue a negotiable promissory note to him. Allen then sells the note to Cameron, who is a holder in due course. Cameron, in turn, negotiates the note to Davis who, while not a party to the fraud, has full knowledge of it. Can Davis recover from Bates? State the rule involved and the reason for it.

No. 10 (10 points):

The board of tax appeals, in a case known as "Matter of Mc-Neil," decided that commissions paid to brokers by owners for consummating leases of space in buildings are deductible in the year when paid, instead of in annual instalments spread over the terms of the leases as previously ruled by the commissioner of internal revenue. The commissioner announced his non-acquies-

cence in this decision. What is the significance of this action and how would you advise a client to handle similar commissions in his income-tax return for 1929?

No. 11 (10 points):

X, Y and Z entered into a partnership which, by the provisions of the partnership agreement, was to continue for a term of three years. Z, however, during the first year disagreed many times with X and Y as to business policies, such disagreements resulting in strained personal relations between the partners. At the close of the first year X and Y decided to drop Z from the partnership and so informed him. Could X and Y compel Z to withdraw?

No. 12 (10 points):

A owns 100 shares of stock of the X Steel Corporation. At a meeting of the board of directors held in January, 1929, a dividend was declared, payable April 1, 1929, to stockholders of record March 1, 1929. A died on March 15, 1929, leaving a will under which everything that he owned at the time of his death was left in trust, the income thereof only to be paid to his wife during her life. When the dividend was paid to the executors on April 1, 1929, was it proper to treat it as part of the trust estate or as income payable to the wife?

No. 13 (10 points):

The commissioner of internal revenue has ruled adversely to your contentions on certain items of an income-tax return of your client and has assessed an additional tax. To what tribunals may the case be taken for review of the commissioner's action?

**Examination in Accounting Theory and Practice**

**PART II**

MAY 16, 1930, 1 P. M. TO 6 P. M.

*The candidate must answer all the following questions:*

No. 1 (25 points):

Following are the balance-sheets of companies M and N as at December 31, 1929:

COMPANY M	
<i>Assets</i>	
Current:	
Cash.....	\$ 50,000
Accounts receivable—customers.....	800,000
“ “ —N company.....	100,000
Inventories.....	480,000
	\$1,430,000

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Fixed—less reserve for depreciation . . . . .	\$3,500,000
Investment in N company . . . . .	800,000
(Cost of 3,800 shares of preferred and 23,520 shares of common stock, acquired July 1, 1929)	
Prepaid expenses . . . . .	20,000
Goodwill . . . . .	1,000,000
	\$6,750,000

*Liabilities*

<b>Current:</b>	
Notes payable . . . . .	\$ 400,000
Accounts " . . . . .	200,000
Dividends " . . . . .	105,000
Accruals . . . . .	45,000
	\$ 750,000
<b>Funded debt:</b>	
First-mortgage bonds . . . . .	2,000,000
<b>Capital stock:</b>	
Preferred—6 per cent. cumulative, 10,000 shares of \$100 each . . . . .	1,000,000
Common—30,000 shares, no par value . . . . .	2,500,000
	3,500,000
Surplus . . . . .	500,000
	\$6,750,000

COMPANY N

*Assets*

<b>Current:</b>	
Cash . . . . .	\$ 15,000
Accounts receivable—customers . . . . .	300,000
Inventories . . . . .	150,000
	\$ 465,000
Fixed—less reserve for depreciation . . . . .	800,000
Prepaid expenses . . . . .	5,000
Goodwill . . . . .	250,000
	\$1,520,000

*Liabilities*

<b>Current:</b>	
Notes payable . . . . .	\$ 100,000
Accounts " . . . . .	150,000
Dividends " . . . . .	29,000
Accruals . . . . .	21,000
	\$ 300,000
<b>Funded debt:</b>	
Serial gold notes . . . . .	400,000
<b>Capital stock:</b>	
Preferred—4,000 shares, no par value; cumulative dividends of \$5 per share, per annum . . . . .	300,000
Common—24,000 shares, no par value . . . . .	400,000
	700,000
Surplus . . . . .	120,000
	\$1,520,000

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Particulars of the surplus accounts of the respective companies are shown as follows:

COMPANY M		
1929		
Jan. 1	Balance .....	\$345,250
Mar. 31	Preferred dividend, March quarter .....	\$ 15,000
June 30	Net income for the half year .....	120,000
	Dividends—preferred, June quarter .....	15,000
	“ —common, half year .....	90,000
Sept. 30	Preferred dividend, September quarter .....	15,000
Oct. 15	Dividend received on N company preferred stock for quarter ended September 30th .....	4,750
Dec. 31	Net income for the half year .....	270,000
	Dividends—preferred, December quarter .....	15,000
	“ —common, half year .....	90,000
	Balance down .....	500,000
		\$740,000
		\$740,000
1930		
Jan. 1	Balance .....	\$500,000
COMPANY N		
1929		
Jan. 1	Balance .....	\$ 44,000
Mar. 31	Preferred dividend, March quarter .....	\$ 5,000
June 30	Net loss for the half year .....	50,000
	Preferred dividend, June quarter .....	5,000
Sept. 30	“ “ September quarter .....	5,000
Dec. 15	Increase on appraisal of fixed assets .....	90,000
31	Net income for the half year .....	80,000
	Dividends—preferred, December quarter .....	5,000
	“ —common stock .....	24,000
	Balance down .....	120,000
		\$214,000
		\$214,000
1930		
Jan. 1	Balance .....	\$120,000

From the foregoing, you are required to prepare a consolidated balance-sheet, as at December 31, 1929.

No. 2 (10 points):

On January 1, 1915, the H J Corporation sold to a broker \$300,000 (face value) of its 5 per cent. bonds at 92½ net, receiving cash therefor.

The bonds contained a clause permitting the H J Corporation to call bonds on December 31st of each year, beginning December 31, 1918, but not more than \$40,000 (face value) of bonds could be called in any one year and provision was to be made for the payment of all remaining unredeemed bonds on December 31, 1929.

*The Journal of Accountancy*

Bonds are called as follows:

December 31, 1918.....	\$25,000	(face value)
“ “ 1919.....	25,000	“ “
“ “ 1921.....	35,000	“ “
“ “ 1922.....	20,000	“ “
“ “ 1925.....	40,000	“ “
“ “ 1926.....	10,000	“ “
“ “ 1928.....	40,000	“ “

Formulate an account for the discount on bonds, setting forth therein the credits at December 31st of each year for charges made to the income account of the corporation from 1915 to 1929.

No. 3 (30 points):

From the following trial balances of the Standard Products Company, Inc., prepare balance-sheet as at December 31, 1929, and income and profit-and-loss account for the year ended December 31, 1929, after setting up reserve for 1929 federal income tax. Also prepare a statement of cash receipts and disbursements for the year ended December 31, 1929:

	January 1, 1929	December 31, 1929
Cash.....	\$ 52,349.12	\$ 22,383.37
Accounts receivable—trade.....	155,036.45	262,274.43
Inventories.....	95,024.20	110,096.70
Investments.....	100,000.00	100,000.00
Life-insurance policies—cash surrender value.....	5,605.20	7,675.70
Land and buildings.....	285,000.00	635,000.00
Vouchers payable (expenses).....	\$ 6,026.12	\$ 15,940.50
Accounts payable—trade.....	82,030.78	201,783.97
Purchase-money mortgage, payable June 30, 1934.....		100,000.00
Reserve for depreciation.....	75,000.00	87,500.00
Capital stock 7% preferred.....	100,000.00	100,000.00
Capital stock—common.....	200,000.00	200,000.00
Surplus.....	229,958.07	422,958.07
Sales.....		1,542,768.40
Interest on investments.....		5,000.00
Cost of merchandise (see note 5)...		1,134,964.90
Returns and allowances—sales.....		15,470.92
Returns and allowances—purchases		8,742.50
Selling, general and administrative expenses.....		387,547.92
Interest paid.....		3,000.00
Life insurance.....		6,279.50
	\$693,014.97	\$693,014.97
	\$2,684,693.44	\$2,684,693.44

The statements submitted should disclose all information available.

Note that no dividends were paid on common stock.

From increase in land and buildings account, less write-up reflected in surplus and \$100,000 purchase-money mortgage ascertain cash payment for new land and buildings.

Note that increase in inventories—\$15,072.50—was credited to cost-of-merchandise account.

*American Institute of Accountants Examinations*

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No. 4 (18 points):

Following is the trial balance, after closing, of X and Y, a partnership:

	Dr.	Cr.
Cash .....	\$ 1,000	
Accounts receivable .....	30,000	
Inventory .....	15,000	
Automobiles .....	5,000	
Accounts payable .....		\$15,000
Loan from X .....		5,000
Capital—X .....		10,000
"    Y .....		21,000
	\$51,000	\$51,000

X and Y have disagreed to such an extent that a dissolution of the partnership is mutually decided upon and you have been engaged to realize the firm's assets and liquidate its liabilities. The partnership agreement provides that profits and losses shall be shared equally.

The automobiles are disposed of for \$2,500 and the inventory, in its entirety, is sold to another firm for \$13,500. The cash received from these sources, together with the cash shown in the trial balance is distributed forthwith.

Subsequently, you collect the accounts receivable and pay expenses as follows:

	Accts. rec. face amount	Discount allowed	Cash received	Expenses paid
1st period .....	\$ 2,000	\$300	\$1,700	\$500
2nd " .....	10,000	500	9,500	
3rd " .....	10,000	600	9,400	600
4th " .....	8,000	200	7,800	500

At the end of each period indicated above, you make the proper cash distributions.

Prepare a statement showing the separate distributions and the liquidation of the liabilities and capital.

No. 5 (17 points):

Your examination of the accounts of the Smithtown Home for Children discloses the following:

The home was founded on January 1, 1930, by two men who contributed as follows: mortgages, \$100,000; bonds valued at \$200,000; land valued at \$75,000; buildings and equipment valued at \$120,000 and cash \$20,000 for general purposes.



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According to the trustees' minutes, the following funds were established: Smith endowment fund, \$150,000, and Taylor endowment fund, \$150,000, representing investments in mortgages and bonds, the income therefrom to be used for general purposes; property and equipment fund, representing the property and equipment of the institution, and general fund, representing the general funds of the institution.

The following transactions were recorded in the cashbook during the three months ended March 31, 1930:

Receipts:	
Original contribution for general purposes.....	\$20,000
Mortgage principal.....	10,000
Donation for improvements to buildings.....	15,000
Donation for painting and repairs to buildings.....	5,000
Bond interest.....	2,500
Mortgage interest.....	2,500
Board and maintenance of children.....	5,000
	\$60,000
Payments:	
Ice plant.....	\$ 5,000
Petty cash fund.....	100
Board and maintenance of children.....	17,900
General and administrative expenses.....	2,000
	25,000
Balance—March 31, 1930.....	\$35,000

At March 31, 1930, bond interest due and uncollected amounted to \$500; uncollected charges for board and maintenance of children \$6,000; unpaid bills for general expenses \$500 and for board and maintenance of children \$500.

In accordance with the above information, prepare a balance-sheet as at March 31, 1930, and a statement of income collectable and expenditures for the three months ended that date.