Journal of Accountancy

Volume 51 | Issue 6 Article 2

6-1931

American Institute of Accountants Examinations, May, 1931

American Institute of Accountants. Board of Examiners

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 14 and 15, 1931.]

Examination in Auditing

May 14, 1931, 9 a. m. to 12:30 p. m.

Answer all the following questions:

No. 1 (10 points):

Name and describe the principal groups in which the financial transactions of a municipality should be summarized in its annual statement.

No. 2 (10 points):

In listing the balances from creditors' ledger (assumed to be in agreement with controlling account) you find several debit balances. State

(a) three causes which may account for these balances;

(b) how you would treat cases arising from each cause.

No. 3 (10 points):

(a) When a company carries its own fire insurance should a reserve therefor be provided by a periodic charge to insurance expense, or by an allocation of surplus?

(b) Assuming such a reserve to be ample in amount, in what circumstances would you question its protection?

No. 4 (10 points):

Define each of the following and explain how it arises:

(a) Earned surplus

(b) Capital surplus

(c) Surplus through appreciation.

No. 5 (10 points):

You are called upon to audit the books of a corporation, the assistant controller of which is in complete charge of all cash transactions and of the bookkeeping records. He has been known to you for years as a man of high standing and unblemished reputation, and it is through his good offices that the audit has been assigned to you.

Your first step is to request authority for the immediate examination of the cash and accounts of the individual cashiers. The assistant controller states that these accounts are regularly examined by himself or one of his assistants, that no need exists for you to examine them, and that you have his personal assurance that all such accounts and funds were correct at the beginning and the end of the period under review.

What would you do in such circumstances?

No. 6 (10 points):

A partner in a stock-brokerage firm, not active in the management, suspects his firm of conducting a "bucket-shop." He makes an examination of the customers' accounts and finds them all, both long and short, amply margined. The market has been rising steadily for nearly a year.

He obtains a balance-sheet from the firm's books and submits it to you for your advice. The balance-sheet shows the following pertinent items:

Cash	$ 400,000
Due from customers, long	2,500,000
Due from brokers for stock borrowed	25,000
Securities on hand	75,000
Firm trading accounts, long	450,000
Due to customers, short	375,000
Due to brokers for stock loaned	150,000
Firm trading accounts, short	2,850,000
Capital, surplus, and profit and loss	75,000

What would be your advice, and why?

No. 7 (10 points):

In auditing the accounts of a small manufacturing company you find that the sales manager (who is not a stockholder) has a contract with the company which provides that he is to receive, in addition to a stipulated salary, a commission on all the company's sales in excess of $400,000 for the year. The books show net sales of $850,000. You also note that the sales manager acts as office manager, supervising the accounts and the granting of credits.

Under these conditions, what matters would receive your special attention during the audit?

No. 8 (10 points):

State the scope of

(a) a detailed audit;

(b) an audit of the type commonly requested for credit purposes.

No. 9 (10 points):

You have been engaged by a prospective purchaser to prepare a certified balance-sheet and earnings statement from the books and accounts of a wholesale-clothing corporation.

The minute-book shows that the following officers' salaries were authorized for each of the years 1927, 1928 and 1929:

William Jones, president	$25,000
John Smith, vice-president	25,000
Henry Brown, secretary-treasurer	25,000

An inspection of the salary cheques shows that Jones and Smith received $25,000 each year, respectively. The salary cheques of Brown show that he received $416.67 each month, and that at the end of each year he received two cheques of $10,000 each which he endorsed to Jones and Smith respectively. Questioned, Brown readily admits that his actual salary was only $5,000 a year although he had reported it as $25,000 in his individual returns, but that Jones and Smith had reimbursed him for the income tax he had paid on income over $5,000.

You call the three officers together and at the conference learn that the procedure outlined above had been adopted in all good faith, on the advice of a public accountant, as a legitimate means of reducing the income taxes of the corporation; that by reimbursing Brown for his income tax Jones and Smith have, indirectly at least, paid what was due the government on the additional amounts they received through Brown; and that anyway the returns of the corporation and of the three individuals, who incidentally own all the stock, have been investigated by an internal-revenue agent and agreements of final determination have been executed under section 606 of the revenue act of 1928 for the three years 1927–29, although it is admitted that the agent did not discover the facts about Brown's salary.

On being informed of the serious position in which they stand, the officers ask your advice with respect to past returns of the corporation and of the individuals.

(a) Does the above situation affect the balance-sheet you are preparing? If so, how will you show it?

(b) What advice would you give the officers?

No. 10 (10 points):

State briefly the method of verifying the income from bonds and stocks in an investment-trust company.

Examination in Accounting Theory and Practice

PART I

May 14, 1931, 1:30 P. M. to 6:30 P. M.

The candidate must answer all the following questions:

No. 1 (35 points):

From the following information, prepare

(a) Balance-sheet as at December 31, 1930;

(b) Statement of operating surplus for the year, showing as specific items the provision for federal income tax and the manager's bonus.

The balance-sheet of the Alpha Corporation, as at December 31, 1929, was as follows:

Assets

Current assets		$ 4,000,000
Deferred charges		50,000
Fixed assets—at cost:		
Land		300,000
Buildings	$2,000,000	
Machinery and equipment	5,000,000	
	7,000,000	
Less, Reserve for depreciation	650,000	6,350,000
Goodwill		1,000,000
		$11,700,000

Liabilities

Current and accrued liabilities	$ 1,700,000
Funded debt	3,500,000
Capital stock:	
Six per cent. cumulative preferred—30,000 shares of $100 each (redeemable at 110)	3,000,000
Common—70,000 shares of no par value	2,000,000
Surplus	1,500,000
	$11,700,000

The following data relate to the transactions for the year ended December 31, 1930:

The fixed assets were adjusted to the values as appraised at January 1, 1930, as follows:

	As appraised		
	Reproduction cost	Accrued dep'n	Sound value
Land	$ 350,000		$ 350,000
Buildings	2,200,000	$250,000	1,950,000
Machinery and equipment	5,500,000	600,000	4,900,000
	$8,050,000	$850,000	$7,200,000

Before providing for income tax, manager's bonus and depreciation, at the rates given below, the operations for the year resulted in a profit of $1,000,000, accounted for as follows:

Increase in current assets	$360,000	
Increase in current and accrued liabilities, including interest and preferred dividend for half year to December 31, 1930	325,000	$ 35,000
Dividends on preferred stock		165,000
Retirement of preferred stock		550,000
Addition to plant—		
Buildings	50,000	
Machinery and equipment	200,000	250,000
		$1,000,000

The manager is entitled to a bonus of 5 per cent. of the net profit after charging all costs and expenses, including the bonus and income tax.

Provision for depreciation is to be made at the following rates:

Buildings	2 per cent. per annum
Machinery and equipment	5 " " " "

Disregard depreciation on the additions, which were completed toward the close of the year.

Five thousand shares of preferred stock were called and retired on July 1, 1930.

No. 2 (16 points):

The M Company was organized January 1, 1929, with an authorized capital of $3,000,000 represented by 10,000 shares of 6 per cent. cumulative preferred stock of the par value of $100 each and 20,000 shares of common stock having no par value but recorded on the books as having an issued, or declared, value of $100 each.

All the capital stock was immediately issued for the acquisition of the assets of two companies having a combined value of $3,500,000, which the M Company entered on its books at this same value.

The provisions of the preferred-stock issue stipulated that 10 per cent. of the profits of each year, in excess of preferred dividends payable, were to be set aside and used in acquiring and retiring preferred stock.

The earnings—after provision for income taxes but before the payment of dividends—were $500,000 for the year 1929 and $300,000 for 1930.

That part of the earnings for the year 1929 set aside for the retirement of preferred stock was used for that purpose in January, 1930, the whole amount being expended in acquiring this stock at par.

Dividends on the preferred stock were paid for both the years 1929 and 1930, and a dividend of $350,000 on the common stock was also paid in January, 1930.

In December, 1930, an appraisal of the fixed assets was made which exceeded by $200,000 the net values as shown by the books. Adjustments were made on December 31, 1930, to conform with the values as set forth by the appraisal.

You are required to show how you would set up the capital and surplus accounts as they would appear on your certified balance-sheet, expressly stating—for the benefit of the directors—the amount of surplus available for the payment of dividends on the common stock, as at December 31, 1930.

No. 3 (12 points):

The C Fruit-Growers' Association purchased equipment for which $12,000 was paid in cash on January 1, 1927, and four notes were also given, as of this date, each in amount $12,000 and payable January 1, 1928, 1929, 1930 and 1931 respectively.

The face value of each note included principal and interest (not compounded) at the rate of 7 per cent. per annum.

At December 31, 1930, all the notes, except that due January 1, 1931, had been paid as they fell due, and the payments—together with the initial cash payment—had been charged to the account "Association equipment."

An audit of the books of account and records being conducted as of December 31, 1930, it was decided to ascertain the actual net profit for each of the years mentioned.

With this object in view, prepare whatever entries are necessary to adjust the accounts in view of the conditions described.

No. 4 (22 points):

Mr. Andrews, who is a client of yours and a stockholder of the B Company, although not active in its management, presents to you the comparative statements and other data on the following pages. He advises that he has been a stockholder of this company for several years and has received $1.00 per share in dividends consistently.

The president of the company, who is "getting along in years," has offered to sell him a substantial block of stock at book value and has explained to Mr. Andrews that the loss in 1930 was due to the general depression.

Your client asks you to make a detailed analysis of the statements and give him your opinion as to whether or not it would be a good investment; further, to advise him in detail of whatever may be reasonably interpreted from the statements as to the company's financial condition, efficiency, management policies, and prospects, together with suggestions as to what should be watched or corrected, etc.

List the principal points that you would discuss in a letter to your client.

Regarding the co-insurance clause, show how much the company would collect in cases of a fire loss of $100,000 and one of $600,000.

NOTE: Although the company deals in stoves, assume that this fact makes no difference as to what might be destroyed by fire.

B COMPANY

Comparative balance-sheets

Assets	December 31 1930	1929	Increase Decrease*
Cash	$ 40,000	$ 15,000	$ 25,000
Notes receivable—customers' coal stoves and ranges	17,500	2,000	15,500
Customers' accounts—gas stoves and ranges	65,000	45,000	20,000
Customers' accounts—coal stoves and ranges	140,000	115,000	25,000
Merchandise inventories—gas stoves and ranges	110,000	145,000	35,000*
Merchandise inventories—coal stoves and ranges	275,000	225,000	50,000
	$ 647,500	$547,000	$100,500
Real estate, machinery and equipment: less, allowance for depreciation (a)	375,000	325,000	50,000
Salesmen's drawing accounts	15,000		15,000
Deferred expenses	5,000	2,000	3,000
	$1,042,500	$874,000	$168,500

Liabilities	1930	1929	Increase Decrease*
Notes payable—bank (secured, for money borrowed)	$ 5,000		$ 5,000
Notes payable—bank (unsecured, for money borrowed)	300,000	$100,000	200,000
Accounts payable and accrued	75,000	50,000	25,000
	$ 380,000	$150,000	230,000
Capital stock (par value $10)	450,000	450,000	
Surplus	212,500 (b)	274,000 (b)	61,500*
	$1,042,500	$874,000	$168,500

(a) Appraised sound values:

	1930	1929
Land	$ 50,000	$ 50,000
Foundations	10,000	10,000
Buildings, machinery and equipment	400,000	340,000

(b) Regular annual dividend of $45,000 paid during the year.

B Company

Statement of income and expense

	1927	1928	1929	1930
Net sales—coal stoves and ranges	$ 925,000	$ 900,000	$ 825,000	$ 675,000
Net sales—gas stoves and ranges (a)	400,000	500,000	600,000	725,000
	$1,325,000	$1,400,000	$1,425,000	$1,400,000
Cost of goods sold	875,000	960,000	1,025,000	1,026,500
Gross profit	$ 450,000	$ 440,000	$ 400,000	$ 373,500
Salesmen's drawings, commissions and expense—coal stoves and ranges	$ 92,000	$ 90,000	$ 85,000	$ 75,000
Salesmen's (two) salaries and expenses—gas stoves and ranges	30,000	37,500	50,000	70,000
President's salary	20,000	20,000	20,000	20,000
Other expenses (including federal income taxes)	225,000	225,000	225,000	225,000
	$ 367,000	$ 372,500	$ 380,000	$ 390,000
Net profit (or loss)	$ 83,000	$ 67,500	$ 20,000	$ 16,500*

(a) Sold entirely to a utility company and to a mail-order house.

Note.—At December 31, 1930, the company carried blanket insurance coverage on buildings and contents to the total amount of $500,000 with a 90 per cent. co-insurance clause.

No. 5 (15 points):

John Smith is the principal stockholder in the Smith Oil Company and in the past year has advanced large sums of money to the company.

The officers of the company call upon you to audit the accounts and records and certify certain statements to be used for credit purposes.

Following is a trial balance, together with other data:

Trial balance—December 31, 1930

	Dr.	Cr.
Cash	$ 3,500	
Accounts receivable	45,000	
Inventory—crude oil	5,000	
Lease A	775,000	
Lease B	440,000	
Furniture and fixtures	1,500	
Notes payable		$ 10,000
John Smith		400,000
Reserve for depletion and depreciation—Lease A		125,000
Capital stock		500,000
Surplus—January 1, 1930		100,000
Oil sales—Lease A		350,000
Production expense—Lease A	125,000	
Provision for reserves—Lease A	75,000	
General expense	15,000	
	$1,485,000	$1,485,000

Extract from minutes of directors' meeting

"Offer of John Smith to forgive indebtedness owing by the company to him, explaining in his offer that his action is due to losses in drilling dry holes on Lease B, the advances having been made by him for purpose of development of this lease. The directors accept the offer and instruct the officers to credit the donation against losses on Lease B."

Examining the accounts, you find sundry credits to the account of Lease B for material salvaged but, upon inquiry, ascertain that all material has been removed from this lease. Other accounts are found to be in order.

Statements prepared by the company's bookkeeper and approved by the officers, show total assets $705,000; total liabilities $510,000; surplus available for dividends $195,000, and net income for the year $95,000.

Would you accept these and certify the balance-sheet? If not, why?

Submit your balance-sheet and relative profit-and-loss statement in accordance with the facts given and explain the reason, or reasons, for the differences between your findings and those of the bookkeeper.

Examination in Commercial Law

May 15, 1931, 9 a. m. to 12:30 p. m.

Group I

Answer all questions in this group.

No. 1 (10 points):

In what circumstances, if any, may a declared dividend be revoked and by whom must the revocation, if allowed, be made?

No. 2 (10 points):

Jones executed a negotiable promissory note payable to the order of Brown. Prior to maturity of the note, Brown met Jones on the street and told him that he expressly renounced his rights against Jones on this note because he felt that Jones was not financially able to pay it without imposing undue hardship on Jones' family. Brown died before the note fell due, his executor found the note among his papers, and the executor brought action against Jones. For whom should judgment be given?

No. 3 (10 points):

X owned a stationery business which for a number of years had earned a net profit of $3,000. By falsely stating that the net profit had been $10,000, X sold the business to Y, who would not have bought it if the truth had been disclosed by X. In an action by Y for rescission, X defended on the ground that Y had made inquiries of other persons and that if Y had been more diligent Y could have discovered the truth. For whom should judgment be given?

No. 4 (10 points):

The president and owner of one half of the stock of a corporation executed as president a conveyance covering a large part of the property of the corporation in consideration of the other half of the outstanding stock, which was duly assigned to the corporation and was placed in its treasury. He failed to call a stockholders' meeting or to obtain the assent of 60 per cent. of them as required by the corporation's by-laws in case of a sale of capital assets or a purchase of treasury stock. Alleging that omission as grounds for their claim, the assignors of the stock who received the property now seek to have the transaction annulled. Will they succeed?

No. 5 (10 points):

Who are the parties to, what is the purpose of, and what are some of the provisions of a trust indenture in a bond issue?

GROUP II

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

No. 6 (10 points):

Henry Alexander was a licensed fire-insurance broker. Frank Simpson made an oral application to Alexander for insurance on a building owned by Simpson. Thereafter Alexander delivered the policy and collected the premium. (a) For whom, if anyone, was Alexander an agent? (b) If he was an agent, when if at all did his principal change?

No. 7 (10 points):

A contract for the construction of a building recites that the consideration to be paid by the owner shall be "the cost of materials, wages, and direct expenses plus ten percentum of the sum of such costs. Direct expenses shall include the salary of a fulltime superintendent and his assistants, the expense of a field officer, employees'-compensation insurance, public-liability insurance, travel expense, and two percentum per month of the cost of equipment used for wear and tear." Would fire-insurance premiums upon equipment be a direct expense to be included?

No. 8 (10 points):

Mullen and Gage, partners in a manufacturing business, purchased a factory site. Gage died during the existence of the partnership. In a state where dower is recognized, has his widow any dower or other right in this land?

No. 9 (10 points):

A sold goods to B and shipped them by a common carrier, to be delivered to B upon the payment of the purchase price. Through the negligence of the carrier, B obtained possession of the goods without paying for them and sold them to C, a bona-fide purchaser for value without notice. Can A or the carrier recover the goods or their value from C?

No. 10 (10 points):

Hopkins by his will made certain gifts and left the rest, residue and remainder of his estate in trust, the income to be paid to his widow during her life and the trust fund to be turned over to his son upon her death. Hopkins left income-producing assets of $500,000. Legacies of $300,000 were given by the will and debts, taxes and administration expenses amounted to $100,000. Assume that administration of the estate required one year, that all of the payments for legacies, debts, taxes and administration expenses were made at the end of that year, and that income during administration amounted to $25,000. In your opinion as accountant for the trustee, to whom should this $25,000 be given?

No. 11 (10 points):

Smith executed a valid contract with Hess whereby he agreed to convey certain real estate to Hess. Hess made a payment on account and incurred expense in an examination of the title. While the contract was in force, Smith conveyed the real estate to another person at a price exceeding that specified in the contract with Hess. What remedies has Hess?

No. 12 (10 points):

On April 17, 1928, Blair & Co., Inc., purchased vacant and unimproved land for $30,000. The company made no improvements upon it and spent no money on it except for current taxes. On February 1, 1929, it sold this land for $40,000, receiving $15,000 in cash and a purchase-money mortgage for $25,000, on which no payments were received during 1929. Blair & Co. makes its federal-income-tax returns on a calendar-year basis.

(a) Must it report the $10,000 profit as 1929 income?

(b) If your answer to (a) is "no," how may it state the transaction in its 1929 income-tax return?

(c) If Blair & Co. has a choice of methods, upon what considerations would you base your advice to its officers?

Examination in Accounting Theory and Practice

PART II

MAY 15, 1931, 1:30 P. M. to 6:30 P. M.

The candidate must answer all the following questions:

No. 1 (40 points):

John Roberts died on June 30, 1926, leaving a will which appointed Jane Walters his executrix.

On July 15, 1926, the will was admitted to probate and an inventory was filed listing the following assets:

Cash in First National Bank		$20,000
100 shares of Atlas stock—cost $15,000:		
Market value, June 30, 1926	$20,000	
" " , July 15, 1926	22,000	
$10,000 par value 6 per cent. Colonial bonds:		
Market value, June 30, 1926	11,500	
" " , July 15, 1926	10,800	
Household furniture		5,000
Rolls Royce automobile		8,000

The will provided that James Brown, the faithful servant of Roberts, was to receive $5,000; that Miss L. Ryan was to receive $5,000 par value Colonial bonds; that Jane Walters was to receive the household furniture and the automobile; and that Tom Green was to receive $5,000, payable out of the testator's account in the First National Bank.

The will further provided that all the assets remaining after the payment of all lawful debts were to be held in trust for Walter Roberts, nephew of the testator. It further stipulated that in the event of there being unpaid debts at the time of death, or if any debts were incurred or losses sustained on the sales of assets subsequent to death, neither the payment of these debts nor the losses should be applied in reduction of the residue, but rather in the following order:

1 General legacies

2 { Specific legacies / Demonstrative legacies } equal rank

The clause creating the trust provided that the net income of the residue be used for the education and support of Walter (nephew) and that upon his reaching the age of twenty-five years, the corpus of the trust be turned over to him, thus terminating the trust.

The interest on the Colonial bonds is payable April 1st and October 1st.

The transactions of the executrix for the year were as follows:

1926			
July	15	Paid preliminary probate expense..........	$ 100
Aug.	1	Collected dividend from Atlas stock, declared June 15, 1926..........................	400
	15	Ralph Cohen presents a one-year note signed by Roberts on August 15, 1925, in amount $3,000 bearing interest at 6 per cent. per annum. Cohen was holding, as security, $5,000 par value Seaboard 6 per cent. bonds. The interest on the bonds (coupons), payable October 1st and April 1st, has been collected by Cohen. The court ordered the executrix to pay the note with interest and to take over the bonds. On June 30, 1926, the Seaboard bonds were worth par.	
Sep.	1	Paid funeral expenses....................	800
	15	Dividend declared on Atlas stock, payable October 15, 1926......................	400
Oct.	1	Collected interest on Colonial and Seaboard bonds	
	15	Collected dividend on Atlas stock	
Nov.	1	Paid to guardian of Walter for his education and support..........................	500
Dec.	1	With the consent of the court, the executrix sold the Colonial bonds which were being held for the benefit of Walter, at $110 and accrued interest	
	15	Paid expenses of last illness of testator......	1,000
1927			
Jan.	1	With the consent of the court, the executrix purchased $3,000 par value, 6 per cent. Corporation bonds at $98 and accrued interest. Interest payable February 1st and August 1st	
Feb.	1	Paid debts of decedent....................	3,000
		Collected interest on Corporation bonds	
Mar.	15	Dividend declared on Atlas stock, payable April 15, 1927........................	800
Apr.	1	Sold 50 shares of Atlas stock, with the consent of the court, at $190 ex-dividend	
		Collected interest on Colonial and Seaboard bonds	
	15	Collected dividends on Atlas stock	
July	15	The court ordered the legacies paid and the residue turned over to the trustees.	

The specific legatees have agreed to furnish the executrix with enough cash to cover charges against their legacies for debts and losses in order that they may take the specific property willed.

You are required to prepare journal and cashbook entries to record the above transactions and submit charge and discharge statements as to principal and income.

NOTE.—The following are acceptable definitions of terms in the problem:

General legacy—a legacy payable out of the general assets of the estate, as distinguished from a demonstrative or a specific legacy.

Specific legacy—a gift by will that specifies a particular thing.

Demonstrative legacy—a legacy to be paid out of a particular amount of money or quantity of other property that is pointed out.

No. 2 (30 points):

From the data following, prepare the journal entries necessary properly to adjust the accounts for the purpose of consolidation and submit a consolidated balance-sheet, together with working papers.

The results of examinations of the books of the Kerry Dairy Company and its subsidiaries, as of June 30, 1929, were shown as follows:

Assets	Kerry Dairy Co.	City Creamery	Watson & Roan, Inc.	Newport Dairy Co.
Cash	$ 7,500	$ 4,500	$ 8,000	$ 1,500
Notes receivable	10,000		5,000	2,000
Accounts receivable	24,000	10,000	17,500	6,800
Merchandise inventories	15,000	8,000	13,000	4,000
Investments:				
City Creamery	28,000			
Watson & Roan, Inc.	52,000			
Newport Dairy Co.	30,000			
Land	11,500		7,000	
Buildings	26,000		28,000	
Plant equipment	34,000	25,000	35,000	42,000
Delivery equipment	8,000	3,000	9,000	7,000
Deficit				2,400
	$246,000	$50,500	$122,500	$65,700
Liabilities				
Notes payable	$ 15,000	$ 7,500	$ 10,000	$12,000
Accounts payable	20,000	6,200	2,700	4,200
Bonds payable	40,000		20,000	
Reserves for depreciation	35,000	6,000	18,600	9,500
Capital stock	125,000	25,000	65,000	40,000
Surplus	11,000	5,800	6,200	
	$246,000	$50,500	$122,500	$65,700

During the course of the audit, the following facts were discovered:

The holding company purchased 90 per cent. of the capital stock of the City Creamery, July 1, 1926; 80 per cent. of that of Watson & Roan, Inc., July 1, 1925, and 75 per cent. of that of the Newport Dairy Co., July 1, 1927, when this company was organized.

The investment in the City Creamery was arbitrarily increased on the books of the holding company in 1929 by a charge thereto and a credit to surplus of $2,000. Except for this entry, the book value of the investment represented cost. The investment in the Newport Dairy Co. was also carried at cost. The holding company had, however, taken up its share of the profits and losses of Watson & Roan, Inc., through the investment account.

An analysis of the surplus accounts of the subsidiary companies was as follows:

	City Creamery	Watson & Roan, Inc.	Newport Dairy Co.
Balance—June 30, 1925		$15,200	
Profit—1925–1926		2,500	
Balance—June 30, 1926	$3,500	17,700	
Profit—1926–1927	2,400*	8,000*	
Balance—June 30, 1927	1,100	9,700	
Profit—1927–1928	1,500	2,700*	$1,500*
Balance—June 30, 1928	2,600	7,000	1,500*
Profit—1928–1929	3,200	800*	900*
Balance—June 30, 1929	$5,800	$ 6,200	$2,400*

The intercompany accounts were as follows:

On the books of	Kerry Dairy Co.	City Creamery	Watson & Roan, Inc.	Newport Dairy Co.
Notes receivable—				
Kerry Dairy Co.		$2,000	$3,000	$5,000
Watson & Roan, Inc.				3,000
Notes payable—				
City Creamery	$2,000			
Watson & Roan, Inc.	3,000			
Newport Dairy Co.	5,000		3,000	

* Representing loss.

Accounts receivable—				
Kerry Dairy Co.		$2,400	$1,700	$1,800
City Creamery				600
Accounts payable—				
City Creamery	$2,200			
Watson & Roan, Inc.	1,600			
Newport Dairy Co.	1,500	600		

The inventories of the subsidiary companies contain goods purchased from the holding company on which the latter made a profit of 10 per cent., viz., City Creamery $3,000, and Watson & Roan, Inc., $1,200.

In June, 1929, the Newport Dairy Co. purchased plant equipment from Watson & Roan, Inc., and paid $12,000 therefor. The cost to Watson & Roan, Inc. (less depreciation) was $10,000.

The differences in intercompany accounts represent remittances in transit at the date of closing.

No. 3 (20 points):

From the items following, prepare a detailed statement of the condition of the X Bank and Trust Company as at the close of business on December 31, 1930.

The balance applicable to undivided-profits account must be determined by the candidate.

Acceptances anticipated	$ 45,000
Acceptances outstanding	425,000
Bank premises	1,250,000
Bonds—other than U. S. government	2,750,000
Capital stock	3,000,000
Cash on hand	600,000
Certificates of deposit	250,000
Certified cheques	125,000
Christmas clubs	171,000
Commercial deposits	6,250,000
Coupon deposits	20,000
Customers' liability for acceptances executed	425,000
Demand collateral loans	2,375,000
Discounts	4,500,000
Dividend payable January 1, 1931	30,000
Due from Federal Reserve bank	1,000,000
Due from sundry banks	350,000
Due to banks	585,000
Exchanges for clearing house	200,000
Federal Reserve bank stock (50% of subscription)	100,000
Furniture and fixtures	100,000
Interest receivable accrued	5,000

Letters of credit—customers' liability	$ 50,000
Letters of credit executed for customers	50,000
Miscellaneous real estate	75,000
Official cheques	46,000
Overdrafts	4,000
Real-estate loans	6,250,000
Rediscounts	1,250,000
Reserve for contingencies	225,000
Reserve for interest, taxes and other expenses	60,000
Savings deposits	8,750,000
Securities borrowed	250,000
Stock—other than Federal Reserve bank stock	175,000
Surplus	1,500,000
Time collateral loans	3,025,000
Undivided profits (?)	
Unearned discount	40,000
United States government bonds	1,250,000
United States government bonds pledged	250,000
United States Postal Savings deposits	115,000

No. 4 (10 points):

A block of real estate, owned by one of your clients, is assessed for local taxation at $200,000. The rate of taxation is $30 per thousand and the net income for the year 1930, after deduction for local taxes but before provision for federal income tax, is $10,000, or 5 per cent. of the assessed value.

Upon appeal, the assessors agree to reduce the assessment in order that the net income for 1930 (before provision for federal income tax), shall be 7 per cent. of the reduced assessed value.

Accordingly, you are requested, on behalf of your client, to compute the amount of such reduced assessed value as shall leave a return of 7 per cent. thereon.

NOTE.—This problem can readily be solved without recourse to algebraical methods.