[Journal of Accountancy](https://egrove.olemiss.edu/jofa)

[Volume 53](https://egrove.olemiss.edu/jofa/vol53) | [Issue 6](https://egrove.olemiss.edu/jofa/vol53/iss6) Article 2

6-1932

American Institute of Accountants Examinations, May, 1932

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 12 and 13, 1932.]

BOARD OF EXAMINERS

Examination in Auditing

MAY 12, 1932, 9 A. M. TO 12:30 P. M.

Answer all questions, and be sure to give reasons when required.

No. 1 (10 points):

State in detail how you would audit and verify the notes receivable of a large trading corporation with several affiliated concerns.

No. 2 (10 points):

In auditing the annual report of the Town of X you find all the following items of receipts stated under the general head of "Revenues":

1. Taxes received
2. Loan from Bank of X
3. Dog licences
4. Municipal court fines
5. Bequest from the estate of A to establish town library
6. Street assessments collected from owners of abutting property
7. Permits for parades
8. Sale of worn-out equipment
9. Transfer of balance from street opening to street-cleaning account
10. Deposit by B to cover cost of extra sewer connection
11. Interest on bank deposits
12. Donation from C toward repairs on his street
13. Annual payment under franchise by X Street Railway Co.
14. Fees from town clerk turned in
15. Rent of city dock to steamboat company
16. Assessments on members of police force for pension fund
17. Received from B balance of cost of extra sewer connection (see 10)
18. Newsstand privilege in city hall
19. Proceeds of paving bonds sold at 110
20. State grant for up-keep of state highway within town limits

Re-state these items to show true revenues of the town with titles of proper accounts to be credited; and indicate how the other items should be shown or treated.

No. 3 (10 points):

What is the value of a balance-sheet that bears only the signature of the auditor without any accompanying certificate? What is your opinion of such a statement?

No. 4 (10 points):

To what extent is it an auditor's duty to concern himself with the validity and legality of transactions coming within the scope of his audit?

No. 5 (10 points):

The A corporation has passed the cumulative preferred dividends on its stock for the past two years. How should this condition be shown, if at all, in published statements? Give reasons for your answer.

No. 6 (10 points):

The Y corporation was originally capitalized at nine million dollars as follows:

50,000 shares preferred stock, cumulative, $100 par	$5,000,000
400,000 " common stock, no-par, stated value $10	4,000,000

At the beginning of 1931 it had an earned surplus of $500,000, but during the year it suffered an operating loss of one million dollars.

To avoid showing a deficit at the end of the year, the corporation induced its preferred stockholders to exchange their shares of par stock for an equal number of no-par shares with a stated value of $50 each, the new stock retaining all the guaranties of the original as to dividends, liquidating value and callable value.

After sundry intangible and doubtful assets had been written off, the corporation's balance-sheet as of December 31, 1931, showed (in totals):

Total assets	$ 9,000,000	Total liabilities	$1,500,000
		Preferred stock	2,500,000
		Common stock	4,000,000
		Surplus	1,000,000
	$ 9,000,000		$9,000,000

Was this procedure in accordance with sound accounting principles? Would you give an unqualified certificate to the balance-sheet as stated? Give reasons for your answer.

No. 7 (10 points):

A man for whom you are making an audit and financial statement for credit purposes, has an account with a stock-broker which shows:

Stocks purchased on margin	$100,000
Market value of stocks	125,000
Due broker	75,000

Your client requests you to show on his balance-sheet an item of "Stocks, $50,000." What would you do? Give your reasons.

No. 8 (10 points):

Give three methods by which a company investing in instalment loans (instalments received monthly) may take its income into the profit-and-loss account. State the comparative merits of the several methods from the viewpoints of economics and of taxation.

No. 9 (10 points):

In 1914, Mr. Smith built a frame house costing $8,000 on land costing $2,000. He used it continuously as a residence until 1930 when he sold it for $9,000.

Mr. Smith's only income is his salary, $5,000, and he has deductible expenses for taxes, etc., of $500 and exemption as a married man with no dependents.

Indicate the way in which you would prepare his federal income-tax return for 1930 and the advice you would give him in regard to payment of the tax, if any.

No. 10 (10 points):

The X Company is engaged in lending money on real-estate first mortgages, on which principal and interest are payable in monthly instalments over the life of the mortgages. The company obtains a large part of its funds for loan purposes by issuing "insured mortgage bonds" maturing serially. The principal sources of the company's income are commissions on loans made and interest on these loans. The principal expenses comprise interest on its outstanding bonds, costs of investigating loans, surety and trustees' fees, office expenses, and amortization of discount and expense on the "insured mortgage bonds."

Interest on outstanding loans and on the "insured mortgage bonds" is regularly accrued by the company, and it takes its commission income into earnings in full during the month in which the loans are made.

You are called upon to make an audit of the X Company in behalf of investment bankers who expect to purchase an additional issue of the company's capital stock and offer it for sale to the public.

Assuming that your audit substantiates in all respects the technical correctness of the figures shown on the books, would you give an unqualified certificate to the resulting balance-sheet? Give reasons for your answer.

Examination in Accounting Theory and Practice

PART I

May 12, 1932, 1:30 p. m. to 6:30 p. m.

The candidate must answer the first three questions and any two *of the remaining four questions.*

Answer no more than five *questions.*

No. 1 (25 points):

From the following trial balance and accompanying data you are required to prepare a balance-sheet, as at December 31, 1930, and a profit-and-loss account for the year ended that date:

Company A, Inc.
Trial-balance—December 31, 1930

	Dr.	Cr.
Cash	$ 260,000	
Accounts receivable—customers	520,000	
Furniture and fixtures	20,000	
Depreciation reserve—furniture and fixtures		$ 2,000
Auto. trucks	60,000	
Depreciation reserve—auto. trucks		20,000
Accounts payable—trade		45,000
Accrued payroll and property taxes		10,000
Capital stock		777,000
(Authorized and issued, 55,000 shares)		
Sales		720,000
Purchases—lumber, steel, etc.	430,000	
Wages	225,000	
Depreciation—auto. trucks	20,000	
" —furniture and fixtures	2,000	
Lease rentals	25,000	
Selling and administrative expenses	12,000	
	$1,574,000	$1,574,000

Company A, Inc., rented display equipment on contract, and had obtained contracts for $720,000, covering a period of three years from January 1, 1930. The contracts provided that the company would bill for the earned portion of the contract price at the rate of $20,000 at the end of each month, beginning January 31, 1930.

The display equipment available for rental was constructed entirely by Company A, and during the month of January, 1930, such equipment was produced at a cost of $600,000, with an estimated average life of five years.

The locations on which the display equipment was erected had been leased to Company A for a period of five years from January 1, 1930, and the leases specified that rents for the full period were payable in advance on January 1, 1930.

All display equipment owned by Company A was in use under the contracts noted. Maintenance of this equipment in efficient operating condition cost the company $55,000 annually.

No. 2 (22 points):

On July 15, 1930, a fire occurred at the plant of the X Corporation. Two-thirds of the inventory on hand at that date and one-half of the capital assets were destroyed.

The corporation had procured a one-year fire-insurance policy on January 1, 1930, with coverage of $40,000 on both inventory and capital assets, at a premium of $600. After the fire the insurance company allowed the corporation the full amount of its claim, based on book values.

There was no salvage value in the property destroyed.

You are requested to prepare a balance-sheet as at July 15, 1930, and a statement of surplus for the period from January 1 to July 15, 1930, taking up as an account receivable the amount due from the insurance company.

While engaged in this work, you ascertain the following particulars: the inventory at January 1, 1930, was valued at $32,000; purchases from January 1 to July 15, 1930, amounted to $36,000; and recorded sales, for the same period, to $57,000. You find, however, that a sale of merchandise, which was not recorded, was made just prior to the fire. This sale resulted in a gross profit of $1,500 and was made at an advance of three-eighths over cost.

A reconciliation with the bank statement, as of July 15, 1930, showed outstanding cheques, all dated July 10, 1930, as follows:

Payable to J. A. Jagger	$ 25.00
" " Marshall Company	62.50
" " United Savings and Loan Company—for deposit	50.00
" " Lampey & Co.	402.00
	$539.50

Other items under date of July 15, 1930, were: Cashbook balance, $1,462; fixed assets and reserve for depreciation, $11,000 and $3,000 respectively; accounts receivable, $1,200; notes payable, $2,000; accounts payable, $2,600; and capital stock, $25,000.

A pass-book of the United Savings and Loan Company revealed a balance of $1,846 on July 1, 1930.

The surplus, January 1, 1930, was $13,000, and no entries had been made in the surplus account subsequent to that date.

From costing a representative number of recorded sales invoices, you determine that the gross profit amounted to forty-two and one-half per cent. (42½%) of cost.

No. 3 (25 points):

You are retained to audit the accounts of the S Manufacturing Company for the year ended December 31, 1931. Prepare a balance-sheet, in proper form, as at the close of that year, for submission to your client.

You are furnished with the trial balance from the company's books, as of December 31st, as follows:

	Dr.	Cr.
Cash in bank	$ 111,869.50	
Customers' notes	17,625.75	
Customers' accounts	228,429.20	
Reserve for bad debts		$ 21,610.25
Inventories	496,267.50	
Due from Canadian branch	30,000.00	
Unexpired insurance	11,350.10	
Common stock held in treasury (1,400 shares)	118,200.00	
Land	28,000.00	
Buildings	225,000.00	
Machinery and equipment	150,400.00	
Furniture and fixtures	22,600.00	
Reserve for depreciation		46,225.50
Patents	34,000.00	
Bond discount and expense	24,000.00	
Bank loan		20,000.00
Accounts payable		37,150.00
Accrued wages		1,100.00
Accrued local taxes		4,000.00
First-mortgage, 6 per cent. bonds		450,000.00
Preferred, 6 per cent. stock ($100 par)		250,000.00
Common stock ($100 par)		400,000.00
Surplus		279,893.80

	Dr.	Cr.
Profit and loss		$ 2,762.50
Dividends on preferred stock	$ 15,000.00	
	$1,512,742.05	$1,512,742.05

In the course of the audit, you obtain the following information:

(1) The first-mortgage, 6 per cent. bonds were issued February 1, 1929, and mature February 1, 1939. Interest is payable February 1st and August 1st, and has been entered on the books as paid. There has been no change in the bond-discount-and-expense account since the issuance of the bonds.

(2) The land and buildings are carried at appraised values, which are $48,500 more than cost. The adjustment to appraised values was credited to surplus in 1929.

(3) Included in customers' accounts is an account with the president of the company showing that he owes $24,750 for advances, less salary and other credits, and that he has consistently owed from $20,000 to $25,000 throughout the year.

(4) Beginning February 15, 1932, and annually thereafter, the company is obligated to deposit $25,000 in a sinking fund for retirement of the bonds.

(5) The regular quarterly dividend on the preferred stock was declared December 15, 1931, payable January 2, 1932.

(6) The company has discounted customers' notes aggregating $64,000.

(7) The Canadian branch was opened during the year. A trial balance from the books of the branch, at December 31, 1931, was as follows:

Cash	$10,000	
Accounts receivable	18,000	
Inventory	12,000	
Accounts payable		$10,000
Due to home office		30,000
	$40,000	$40,000

The rate of Canadian exchange, at the date of the balance-sheet, was 85.

(8) The patent account represents the cost of rights to manufacture a certain device. The rights were acquired in June, 1930, to run for seventeen years.

No. 4 (14 points):

From the data following, prepare a summary of the inventory as at December 31, 1931, and justify your method as compared with other systems in general use:

	Units	Cost
Raw material purchased in 1931	6,250,000	$437,500
Produced during 1931	6,000,000	
At cost of—		
Labor		336,000
Factory expense		180,000
Depreciation		60,000
Scrap unrecoverable		30,000
On hand, December 31, 1931:		
Raw material	750,000	
In process (75% complete)	500,000	
Finished	250,000	

The company commenced operations January 1, 1921, with 500,000 units of raw material which cost $45,000. It manufactures a commodity composed of one uniform material, produced in one consistent form, which is billed to customers also by units.

Goods are manufactured on order only. They are in process about one month. About 500,000 units are on the machines at all times.

The market price of raw material December 31, 1931, was five cents a unit.

Unfilled orders (firm contracts) at December 31, 1931 (latest delivery date being March 31, 1932) were as follows:

Contract No.	Units	Sales price
787	100,000	$18,000
788	250,000	50,000
789	50,000	9,500
790	300,000	63,000
791	200,000	36,000
792	225,000	40,500

No. 5 (14 points):

On December 31, 1929, Corporation Y, a holding company, owned 80 per cent. of the no-par-value common capital stock and 90 per cent. of the non-voting cumulative 7 per cent. preferred capital stock of Company A. Dividends on preferred stock had been paid to December 31, 1929.

The position of the capital account of Company A, and the holdings of Corporation Y, remained unchanged to December 31, 1931, no dividends having been paid during the years 1930 and 1931.

At December 31, 1929, Company A's books showed the following:

Capital stock, preferred—7 per cent. cumulative—issued and outstanding, 5,000 shares, $100 each	$500,000
Capital stock, common—no par value—issued and outstanding, 10,000 shares	50,000
Earned surplus—balance	9,091

Company A's operations for the year 1930 resulted in a net loss of $75,000, but during the year 1931 its net earnings were $140,000.

State the minority interests in Company A as they would appear in a consolidation of the accounts of Corporation Y and Company A at December 31, 1930, and also at December 31, 1931.

No. 6 (14 points):

Company A has 500,000 shares of capital stock issued and outstanding, owns 350,000 shares of capital stock of Company B and has a surplus of $1,050.

Company B has 400,000 shares of capital stock issued and outstanding, owns 45,000 shares of capital stock of Company A and has a deficit of $2,100.

A consolidated balance-sheet of companies A and B is being prepared. Determine the amount of the deficit of Company B applicable to the minority stockholders' interest in that company.

No. 7 (14 points):

The Products Company, Ltd., Canada, keeps its records on a nominal dollar basis, and presents the following balance-sheet as at December 31, 1930:

Assets

Cash	$ 10,000
Accounts receivable	300,000
Inventories	250,000
Fixed assets (U. S. dollar cost at date of acquisition)	100,000
	$660,000

Liabilities

Notes payable		$ 15,000
Accounts payable		150,000
Due to parent company (U. S. dollars)		200,000
Capital		150,000
Surplus:		
Beginning of year	$ 25,000	
Profit for year	120,000	145,000
		$660,000

You are requested to convert this statement to a United States currency basis for consolidation with the parent company's balance-sheet. Assume that the Canadian dollar is worth $.80 in United States funds. Explain your treatment of each item.

The following information is available:

Accounts receivable—all Canadian funds
Notes payable—all Canadian funds
Accounts payable—$30,000 payable in Canadian funds and $120,000 in United States funds
Inventories—

Raw material purchased in Canadian funds	$ 20,000
" " " in United States funds	100,000
Goods in process	130,000

This item includes material purchased both in United States and Canada, with labor all performed in Canada. The total purchases for the year average, approximately, 85 per cent. from United States and 15 per cent. Canadian. The labor cost approximates 13 per cent. of the cost of materials.

Assume no inter-company profit on materials purchased from the parent company.

Examination in Commercial Law

May 13, 1932, 9 a. m. to 12:30 p. m.

An answer which does not state reasons will be considered incomplete. Whenever practicable, give answer first and then state reasons.

Group I

Answer all questions in this group.

No. 1 (10 points):

(a) Define the word "foreign" as used in the phrase "foreign corporation." Give an example of a foreign corporation.

(b) Define and give an example of de facto corporation.

(c) Can a corporation commit a crime? If so, give an example.
(d) Can a corporation commit a tort? If so, give an example.

No. 2 (10 points):

Jackson had obtained a judgment against Whitcomb for $4,334.08, but before taking legal steps to collect it he gave Whitcomb a written stipulation wherein Jackson agreed to accept in settlement of the judgment $1,000 in cash (payable in instalments), merchandise of the agreed value of $2,300, and an assignment of a certain patent. Whitcomb made and Jackson accepted the cash payments and the delivery of the merchandise but Jackson refused to accept the assignment of the patent. Can he compel Whitcomb to pay the balance of the judgment?

No. 3 (10 points):

A contract, signed by the seller and accepted in writing by the buyer, contained the following matter:

New York, Jan. 2, 1932.

To A. W. Jones Corp.,
2 Broadway, New York, N. Y.

Dear Sirs:

Herewith we confirm sale to you for the account of ourselves, through C. S. Smith & Co.: 25 tons (each 2,240 lbs. net) Chinese Antimony Regulus, 99%, @ 21¾¢ per lb., c.i.f. New York.

Shipment—Promptly from Hamburg.
Duty—For account of buyers.
Insurance—For account of sellers.
Payment—Net cash against shipping documents payable upon arrival of steamer. No arrival, no sale, but proof of shipment to be given by sellers.

At the time this contract was signed, the goods were in transit between China and Hamburg. The shipment arrived in Hamburg and was transshipped to New York. The shipment reached New York within the contract time. The invoice, receipt for freight, bills of lading, and other documents were not forwarded by the seller to the buyer but were tendered to the buyer after the goods had arrived. The insurance policies were issued to bearer "for account of whom it may concern" and were never tendered to the buyer. The bills of lading were through bills of lading and did not contain the name of the buyer as assignee.

(a) What does "c.i.f." mean?
(b) Is this contract a c.i.f. contract?

No. 4 (10 points):

On January 7, 1932, Baldwin drew a bill of exchange on Clute payable March 7, 1932, to the order of Dillingham. On January 12, 1932, Dillingham presented the bill to Clute who refused to accept it. On the same day, Dillingham protested the bill for non-acceptance. On January 27, 1932, Everett, who desired to protect Baldwin's credit, accepted this bill.

(a) What is the technical name for this kind of acceptance?

(b) How must such an acceptance be made?

(c) Just what did Everett, by this acceptance, engage to do?

No. 5 (10 points):

(a) Define and give an example of a limited partnership.

(b) May all partners in a limited partnership be limited partners?

(c) In what circumstances, if ever, can creditors hold a limited partner liable for partnership debts?

Group II

Answer any five *questions in this group. No credit will be given for additional answers, and if more than five answers are submitted only the first five will be considered.*

No. 6 (10 points):

(a) Define innkeeper.

(b) At common law, what right can an innkeeper exercise over goods in his possession brought by a guest?

(c) By what technical name is the innkeeper's right known?

(d) Can the innkeeper's right be exercised over goods brought in by the guest but actually belonging to some other person?

No. 7 (10 points):

(a) Where did the statute of frauds originate?

(b) What were the most important provisions of it?

No. 8 (10 points):

Collins, the bookkeeper and cashier for Watson, was bonded by a surety company. On January 14, 1932, Collins in the course of his employment stole $500 and Watson discovered this theft one week later. Watson notified the surety company but retained Collins in his employ because of sympathy for Collins' family and in reliance upon Collins' promise not to repeat the offense. On January 30, 1932, Collins in the course of his employment stole $750. On February 1, 1932, Watson discovered this theft, discharged Collins, and notified the surety company. For which, if either, of these losses can Watson recover from the surety company?

No. 9 (10 points):

Hart was the captain of a ship owned by the Dailey Corporation. Contrary to his general orders, Hart signed a bill of lading for goods which had not been received.

(a) Can the Dailey Corporation be held liable to an innocent third person who in good faith dealt with Hart in reliance upon the bill of lading?

(b) Upon what principle of law is your answer based?

No. 10 (10 points):

Monroe was the owner of two parcels of real estate, one known as 617 Grand Ave. and the other as 1014 Superior Ave. The former was worth $75,000 and the latter was worth $50,000. On January 4, 1929, Monroe borrowed $30,000 from Green on a three-year note secured by a first mortgage on both parcels. On January 11, 1929, Monroe borrowed $10,000 from Nelson on a three-year note secured by a second mortgage on the Superior Ave. property. Upon Monroe's default upon the payment of his note, Green foreclosed his mortgage on the Superior Ave. property and realized $30,000 from the foreclosure sale. Upon the maturity of Nelson's note, Monroe failed to pay it.

(a) Has Nelson any rights except to procure a judgment against Monroe?

(b) If Nelson has any such right, upon what principles of law is it based?

No. 11 (10 points):

(a) Define and give an example of personal property.

(b) Define and give an example of a pledge.

(c) Is transfer of possession essential to a pledge?

(d) What in general are the remedies of a pledgee upon the pledgor's default?

No. 12 (10 points):

In 1925 the Coombe Garment Company, a Pennsylvania corporation, distributed all of its assets among its stockholders and then dissolved. One Phillips had owned one-fourth of the company's stock and had received $17,139.61 as his distributive dividend. In 1931, the commissioner of internal revenue notified Phillips that he proposed to assess against and collect from him the entire income-tax deficiency of $9,306.36 legally assessed against but uncollected from the corporation. Pennsylvania had a six-months' statute of limitations on suits against stockholders. Any right which the commissioner may have had against Phillips had been kept alive by waiver. Has the commissioner a legal right to collect from Phillips?

Examination in Accounting Theory and Practice

PART II

May 13, 1932, 1:30 p. m. to 6:30 p. m.

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

Answer no more than four *questions.*

No. 1.

a. (25 points):

The following balance-sheet is submitted to you by the president of the W M Company, makers of heavy machinery, who requests you to append your certificate thereto:

Balance-sheet, as at December 31, 1931

Assets

Current:	
Cash	$ 2,000,000
U. S. Government securities	2,500,000
Notes receivable—customers	240,000
Accounts receivable—trade	1,250,000
Accrued interest receivable	100,000
Inventories of raw material, work in progress and finished product	1,200,000
Prepaid insurance and taxes	75,000
Treasury stock—5,000 shares, common, at cost	1,200,000
Capital stock of associated company, at cost	1,000,000
Accounts receivable—associated company	750,000
Real estate and buildings—not in use and held for sale	1,500,000
Total current assets	$11,815,000
Fixed:	
Real estate, plant and equipment, at cost, less reserve for depreciation	8,000,000
Total assets	$19,815,000

Liabilities

Current:		
Accounts payable		$ 1,250,000
Federal, state and other taxes		5,000,000
Total current liabilities		$ 6,250,000
Capital stock—authorized and issued:		
Preferred, cumulative, 7 per cent.	$5,000,000	
Common	7,000,000	12,000,000
Surplus		1,565,000
		$19,815,000

Upon investigation, you obtain the following information:

(1) U. S. Government securities cost $2,600,000 and the market value at December 31, 1931, was $2,400,000.

(2) No reserve for probable losses on accounts receivable has been provided, but a loss of $150,000 is expected.

(3) Inventories were valued at the lower of cost or market.

(4) The market value of the 5,000 shares of treasury stock at December 31, 1931, was $900,000.

(5) An associated company used advances of $750,000, carried as accounts receivable, to erect a new plant. Excluding this liability the current liabilities of the associated company are 150 per cent. greater than its current assets.

(6) The cost of real estate and buildings, not in use and held for sale, was $2,500,000, and this has been reduced by depreciation to $1,500,000, by direct charges to surplus.

(7) After a careful examination and a discussion with the president, you estimate federal, state and other taxes at $2,500,000.

(8) Capital stock, authorized and issued, consists of 50,000 shares of 7 per cent. cumulative, preferred, of $100 par; and 70,000 shares of common, of $100 par.

(9) Upon analyzing the surplus account, you find that the company had purchased $3,000,000 of U. S. government securities at par, and charged the amount direct to surplus account. When verifying the securities on hand, you find these $3,000,000 bonds in addition to the securities actually

recorded as assets. The market value of the $3,000,000 bonds, on December 31, 1931, was $2,760,000, and the interest has been accrued.

Would you certify this balance-sheet in its present form? If not, state your reasons, clearly and definitely, with reference to each questionable item.

b. (15 points):

Prepare an amended balance-sheet of the W M Company, as at December 31, 1931, which you would be willing to certify.

No. 2 (24 points):

At December 31, 1930, the "Investments" account on the general ledger of the X Company showed a balance of $83,400 made up as follows:

Company	No. shares Common	Cost Date	Cost Amount
U. S. Steel Corporation	100	Apr. 7, 1930	$19,800
General Motors Corporation	100	" 10 "	5,400
X Company	200	" 14 "	10,000
Y Company	600	" 18 "	42,000
Z Company	100	" 21 "	6,200
			$83,400

At this same date, a "Reserve for loss on investments" account was carried. This account had a credit balance of $36,900, constituted as follows:

U. S. Steel Corporation	$ 6,900
General Motors Corporation	1,900
X Company	1,000
Y Company	24,000
Z Company	3,100
	$36,900

The market prices of three of these stocks were:

	December 31 1930	December 31 1931
U. S. Steel Corporation	139	40
General Motors Corporation	35	22
X Company	45	20

No market quotations of the stocks of the Y and Z companies were available.

The common stock of X Company consists of 100,000 shares of $10 par value. Its books, before adjustment, show an operating surplus of $3,000,000 at December 31, 1930, and $2,800,000 at December 31, 1931, indicating a loss from operations for the year 1931 of $200,000.

The Y Company has 1,000 shares of no-par common stock issued and outstanding. On the books of this company, the common stock is carried at $10,000 and the earned-surplus account shows a credit balance of $20,000 at December 31, 1930, and $15,000 at December 31, 1931.

Statements of the Z Company indicate that its capital stock outstanding consists of 10,000 shares of $10 par value, and that its surplus at December 31, 1930, was $210,000, and at December 31, 1931, $180,000.

On May 12, 1931, the X Company sold 100 shares of its treasury stock for $3,500, and on August 31, 1931, purchased 500 shares of its outstanding stock for $15,000. On October 31, 1931, it purchased 100 shares of the American Telephone and Telegraph Company for $13,700. The market price of this stock on December 31, 1931, was $120 a share. On December 21, 1931, it sold the 100 shares of General Motors Corporation for $2,300. All these transactions were charged or credited to the "Investments" account.

Indicate exactly how you would show the transactions, with their respective balances, in preparing the balance-sheet as at December 31, 1931, and also in the related statements of surplus and profit and loss.

No. 3 (22 points):

The X Company sells a loose-leaf service for $115 and contracts to issue to customers renewal and replacement pages semi-annually on April 1st and October 1st, for $15 per annum.

The initial purchase price covers the original publication and one year's renewal pages, and customers are billed in advance for each subsequent year's renewal pages on the anniversary dates of the original sales.

The company's books at December 31, 1931, showed the following transactions:

Sales of original publication (uniformly 200 sets a month), 2,400 sets @ $115	$276,000
Sales charges for renewal pages, 4,500 sets @ $15	$ 67,500

Sales of original publication for preceding years were—

1927	50 sets a month
1928	75 " " "
1929	100 " " "
1930	150 " " "

The production cost of the original publication was $30 per set and that of renewal pages $2.50 per semi-annual issue.

The company credited the foregoing sales of both categories to profit and loss, in closing its records for the year 1931, in accordance with the uniform practice since the initiation of this particular department.

As auditor, would this procedure meet with your approval? State what modifications you would suggest, showing the actual gross profits from both sources for the year 1931 and the adjustments applying to other periods.

No. 4 (14 points):

A corporation acquired several tracts of industrial property during the year 1921 to be held solely for the purpose of investment. In the following year the properties were revalued in accordance with appraisals, and these revaluations were taken up on the books. The difference between cost and appraisal values was credited to capital-surplus account.

In the year 1927, the corporation sold one of the industrial tracts for $25,000, payable in instalments over a period of years, as evidenced by first-mortgage notes signed by the purchaser.

The book value of the particular tract sold was as follows:

Cost	$ 3,000
Appreciation	8,000
Total book value	$11,000

The sale was recorded as a closed transaction when it was consummated, and the profit-and-loss account was credited with the profit from the sale.

The notes, in the aggregate amount of $25,000, were immediately endorsed, with recourse, and were discounted for the corporation by the bank.

In the year 1930, the purchaser defaulted in his payment of the notes and the holders of the notes looked to the corporation for payment. In order to protect itself, it was necessary for the corporation to foreclose the mortgage, and in the proceedings the tract was repossessed by the corporation. At the time of foreclosure, the purchaser's unpaid notes, still outstanding, amounted to $18,000.

In financing the repossession of the tract, the corporation issued its notes, in like amounts, to the holders of the old notes. However, the entries to record the repossession of the property had not been placed on the books at December 31, 1930.

If you were conducting an audit of the accounts of the corporation, as at December 31, 1930, and all this information came to your knowledge, what entries would you recommend to record all the transactions incident to the repossession of the industrial tract?

State your answer in the form of journal entries, giving complete explanations.

No. 5 (14 points):

On the cost ledger of a fabric mill there is maintained a separate account for each department. One, engaged solely in "winding," is known as department C.

Under date of January 1, 1932, the following information was obtained with respect to department C:

The inventory of wound goods, by weight 795.34 pounds, was valued at $4,056.23, and labor in process totaled $79.53. The average cost of material was $5.10 per pound, and the estimated average cost of winding was 10 cents per pound. No unwound goods were on hand either at the beginning or at the end of the month.

The charges to this department for unwound material, during the month of January, 1932, were by weight 3,613.83 pounds and for actual labor expended thereon $415.

The credits for wound goods delivered during the month of January, 1932, were

To department	D	3,612.68 pounds
" "	E	9.10 "
" "	F	60.38 "
" "	G	10.13 "

On the basis of these data, submit the following, as at January 31, 1932:

(a) Ledger account for department C.
(b) Balance of goods in this department and their value, also showing estimated labor thereon.
(c) Difference between estimated and actual cost of labor.
(d) Actual average cost of winding for the month of January.
(e) Total of charges to the succeeding departments on the basis of estimated labor cost.