Students' Department

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AMERICAN INSTITUTE EXAMINATIONS

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EXAMINATION IN ACCOUNTING THEORY AND PRACTICE—PART I

NOVEMBER 12, 1925, 1 P.M. TO 6 P.M.

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

No. 2 (*11 points*):

A company which constructed its plant and commenced business in 1920, operating in a state where a workmen's compensation law is in effect and with the following experience of accidents and cost of insurance, desires to set aside a reserve from its own funds to cover the risk rather than to continue to deal with insurance companies:

	Annual payroll	Compensation payments	Insurance premiums paid
1920.........	$1,500,000	$7,825	$9,000
1921.........	1,250,000	9,150	8,750
1922.........	1,275,000	6,900	9,000
1923.........	1,290,000	7,150	8,500
1924.........	1,300,000	6,500	8,000
	$6,615,000	$37,525	$43,250

In addition to the above compensation paid, there are awards payable weekly, extending as far as three years in advance from December 31, 1924, on which the insurance companies are liable in an amount of $2,500.

What rate per thousand dollars of payroll would you recommend be used to calculate the reserve and what accounts would necessarily be opened to record the new method of providing for the company's liability under the workmen's compensation law?

Solution:

Since the company has adopted the "self-insurance" plan the charges to expense will be offset by credits to a reserve instead of by credits to cash. The problem also indicates that a cash fund is desired. The terminology of the problem is faulty, however, since it mentions the establishment of "a reserve from its own funds." A reserve is an account with a credit balance set up by a charge to profit and loss or surplus; it is not set up out of cash funds. A more accurate statement would have been, "desires to create a reserve by charges to income and a fund by deposits from cash."

What should be the amount of the annual charge to income and credit to the reserve? The payments to the insurance company have averaged $43,250÷5, or $8,650 per annum. But the object of adopting self insurance is to reduce the expenses, and as the experience data indicate a total expense over the five years of $37,525 (cash payments) plus $2,500 (liability), or $40,025, which is an average of $8,005 per annum, this amount would appear to be the proper one to use in determining the rate to apply to the payroll in determining the annual provision.

Using total figures for the five years in order to determine an average rate, we proceed as follows: $40,025 (total losses, 5 years) ÷ $6,615,000 (payroll, 5 years) = 6.05%.

I would therefore recommend the establishment of a reserve on the basis of six per cent of the annual payroll, or one-half of one per cent of the monthly payroll. The monthly provisions would be made by debiting compensation insurance and crediting compensation-insurance reserve.

The company might make compensation payments from general cash, as the creation of a special fund is merely a matter of financial expediency. The only essential matter from an accounting standpoint is the establishment of a reserve to receive the credits offsetting the necessary charges to operations for the expense.

But the company apparently desires to establish a separate fund, and this could be accomplished by debiting compensation-insurance fund and crediting cash. As the establishment of such a fund is optional, the company is not bound to set up the fund at the same rate that it sets up the reserve. That is, since it is not required from an accounting standpoint to establish a fund at all, it can not be required from an accounting standpoint to establish a fund by cash transfers of definite monthly amounts.

When a definite liability is established, the entries will depend on whether immediate payment is made. If so, debit compensation, insurance reserve and credit compensation-insurance fund. If, however, the payments are to be made in instalments, the reserve should be debited with the total amount to be paid, and an account should be opened with the payee. As payments are made the payee's account should be debited and the fund credited. These payee accounts will show the amounts of definitely established and unpaid liabilities, and the balance in the reserve will represent the provision for future losses.

No. 3 (*30 points*):

The Blank Manufacturing Company's balance-sheet of April 30, 1925, was as follows:

Current assets	$3,127,211.81
Fixed assets	2,794,952.92
Goodwill and patents	2,650,000.00
Prepaid charges	15,937.69
Deficit	6,964,385.43
	$15,552,487.85
Current liabilities	$6,174,722.09
Accrued taxes, etc.	104,052.74
Capital stock—	
Preferred, 70,000 shares ($100)	7,000,000.00
Common, 125,000 shares (no par value)	2,273,713.02
	$15,552,487.85

A reorganization committee suggested the following plan for presentation to a meeting of stockholders:

A Delaware corporation would be formed to take over certain assets and assume certain liabilities of the old company as of April 30, 1925, the new company being capitalized as follows:

First mortgage bonds	$1,112,000.00
"A" capital stock, 16,680 shares of $100 each	1,668,000.00
"B" capital stock, 160,000 shares of no par value	

These securities would be issued to the old company in full payment of equity taken over.

The new company would take over the fixed assets at 50 cents on the dollar and the prepaid charges at book value, also the current assets left after paying sundry creditors in full and the expenses incident to liquidation, and would assume the liability for accrued taxes, etc.

The principal creditors would take the entire bond issue in payment of 20% of their claim, the entire "A" stock in payment of a further 30% of their claim and 66,720 shares of "B" stock at a valuation of $5.50 per share in full payment of the balance due them.

The preferred stockholders would receive share for share in "B" stock at a valuation of $5.50 per share.

The common stockholders would receive for every 20 shares owned, one share of "B" stock at a valuation of $5.50 per share.

The remaining shares of "B" stock, which will have a book value of $112,246.46 on the books of the new company, will be sold by the old company to meet liquidation and other expenses amounting to $255,516.13.

The current assets shown include $800,000 cash.

Assuming that the suggestions above made are adopted, prepare journal entries closing the books of the old company and opening those of the new, the latter having neither surplus nor deficit. Prepare, also, a balance-sheet of the new company and make reconcilements in detail between the values of current assets, current liabilities and capital stocks on the old books with the corresponding values on the new.

Solution:

As a convenient point of departure it would seem advisable to determine the status of the new company, as reflected by its balance-sheet. The new company's balance-sheet will show:

Fixed assets—50% of $2,794,952.92, or	$1,397,476.46
Current assets—amount not stated	?
Prepaid charges	15,937.69
Total	?
First mortgage bonds	$1,112,000.00
"A" capital stock	1,668,000.00
"B" capital stock—no par value—amount not definitely stated	?
Total	?

In order to complete the balance-sheet it is necessary to know the amount of the current assets in order to determine the value of the no-par class "B" stock; or, if this information is not known, it is necessary to determine the valuation placed on the class "B" stock, insert this value on the liability side of the balance-sheet, and assume that the current assets taken over were sufficient to bring the balance-sheet into balance. Which procedure shall be followed: determine the current assets taken over and thus establish the valuation of the

"B" stock, or work from the "B" stock value to the current assets? The amount of the current assets taken over does not appear to be stated, nor can it be definitely ascertained, except by working from the basis of a valuation of the "B" stock. For while the current assets of the old company are known, and while the amount paid to sundry creditors can be ascertained, there is no information as to the amount received by the old company from the sale of class "B" stock; hence there is no information as to the amount of cash remaining after payment of expenses and sundry liabilities. Therefore the total amount of current assets transferred to the new company is not known.

This throws us back on the necessity of working from the basis of a valuation of the class "B" stock. But here the interpretation of the problem is doubtful. The problem gives the following information in regard to this stock:

66,720	shares taken by principal creditors of the old company, at $5.50 per share	$366,960.00
70,000	shares taken by preferred stockholders of the old company, at $5.50 per share	385,000.00
6,250	shares taken by common stockholders of the old company at $5.50 per share	34,375.00
17,030	remaining shares which will have a book value on the books of the new company of	112,246.46
160,000	Total	$898,581.46

But the difficulty here is that it does not follow, merely because the creditors and stockholders of the old company took the stock at $5.50 per share, that this was the value at which the new company issued the stock to the old company in payment of assets taken over. The old company may have made either a profit or a loss on the disposition of the stock. In fact, the book value of $112,246.46 for the "remaining" 17,030 shares would seem to establish a value of slightly more than $6.59 per share for the "B" stock, and since all of the "B" stock was issued to the old company in payment for its net assets it is difficult to see how some of it could have a value of $5.50 per share on the new company's books, and some of it a value of $6.59+ per share. All stock of the same class must certainly have the same book value. This would be true even if different sales were made at different prices, as the book value of the stock issued at the lower price would be automatically increased by the sale of other stock of the same class at a higher price.

We shall therefore work from the hypothesis that the book value, $112,246.46, of 17,030 shares of "B" stock fixes the value of all of the "B" stock at the same rate of $6.59+ per share, and determine the total book value of "B" stock as follows:

Eventual disposition	Shares	Value on books of new company
Sold by old company	17,030	$ 112,246.46
Given to principal creditors	66,720	439,758.30
Given to preferred stockholders	70,000	461,377.11
Given to common stockholders	6,250	41,194.38
Total	160,000	$1,054,576.25

On the basis of the foregoing valuation of "B" stock, the amount of current assets taken over by the new company can be determined as follows:

Securities issued by new company:		
First mortgage bonds	$1,112,000.00	
"A" capital stock	1,668,000.00	
"B" capital stock	1,054,576.25	
Liabilities assumed	104,052.74	
Total		$3,938,628.99
Fixed assets	$1,397,476.46	
Prepaid charges	15,937.69	
Total		1,413,414.15
Remainder—current assets taken over		$2,525,214.84

With the valuations of the "B" stock and the current assets taken over thus established, the entries to open the books of the new company and its initial balance-sheet can be prepared.

Journal entries to open the books of
The Blank Manufacturing Company of Delaware,
April 30, 1925

Blank Manufacturing Company	$3,834,576.25	
First mortgage bonds payable		$1,112,000.00
Class "A" capital stock		1,668,000.00
Class "B" capital stock		1,054,576.25

To record the issue to the Blank Manufacturing Company of the following described securities in exchange for certain assets detailed in the following entry, to be acquired subject to liabilities:

Bonds—par value	$1,112,000.00
"A" stock—16,680 shares of $100 par value each	1,668,000.00
"B" stock—160,000 shares of no par value, valued at remainder of net assets acquired	1,054,576.25

See minutes, page—; also contracts dated— and—.

Cash	198,003.03	
Other current assets	2,327,211.81	
Fixed assets	1,397,476.46	
Prepaid charges	15,937.69	
Accrued taxes, etc.		104,052.74
Blank Manufacturing Company		3,834,576.25

To record the acquisition of assets and the assumption of liabilities of B. M. Co., in accordance with contracts referred to above.

BLANK MANUFACTURING COMPANY

Balance-sheet, April 30, 1925

Assets

Cash	$198,003.03
Other current assets	2,327,211.81
Fixed assets	1,397,476.46
Prepaid charges	15,937.69
	$3,938,628.99

Liabilities

Accrued taxes, etc.	$104,052.74
First mortgage bonds payable	1,112,000.00
Class "A" capital stock	1,668,000.00
Class "B" capital stock	1,054,576.25
	$3,938,628.99

We can now turn to the old company, and determine the entries to close the books. These entries will involve the writing off of losses on assets, the liquidation of liabilities, the determination of any nominal gains on the settlements, the payment of liquidating expenses, the transfer of assets and liabilities to the new company, and the distribution of stock of the new company among the stockholders of the old.

As to losses, there is clearly a loss of 20 per cent of the fixed assets, and the goodwill and patents are to be written off entirely.

As to the payment of liabilities, it appears that the principal creditors are to be paid in bonds and stock. But what is the amount of the claims to be thus paid? It is stated that the principal creditors accept the bonds of $1,112,000 par value in payment of 20 per cent of their claims. Then $1,112,000 ÷ .20 = $5,560,000. This amount may be checked from the statement that they accept the entire "A" stock in payment of a further 30 per cent. And $1,668,000 ÷ .30 = $5,560,000. Cash payments are apparently made to the remaining creditors, in the amount of $6,174,722.09 (total current liabilities) − $5,560,000, or $614,722.09.

But the principal creditors are not paid in full, since they waive a portion of their claims. The amount waived is determined as follows:

Total liabilities to principal creditors		$5,560,000
Deduct:		
Bonds	$1,112,000	
Class "A" stock	1,668,000	
Class "B" stock—66,720 shares at $5.50	366,960	
Total payments		3,146,960
Balance waived		$2,413,040

The next question is the amount of profit or loss on the disposal by the old company of the class "B" stock. The loss on stock disposed of to creditors and stockholders of the old company is computed as follows:

	Shares	Book value (as computed above)	Value at $5.50 per share	Loss
Principal creditors.......	66,720	$439,758.30	$366,960.00	$72,798.30
Preferred stockholders ...	70,000	461,377.11	385,000.00	76,377.11
Common stockholders ...	6,250	41,194.38	34,375.00	6,819.38
Total..........	142,970	$942,329.79	$786,335.00	$155,994.79

There remains to be determined the amount received by the old company from the sale of 17,030 shares of "B" stock and the profit or loss on such sale:

Cash requirements:		
Liquidation and other expenses..........		$255,516.13
Payments to sundry creditors............		614,722.09
Cash transferred to new company:		
Total current assets transferred........	$2,525,214.84	
Current assets of old company less $800,000 cash.........................	2,327,211.81	198,003.03
Total cash requirements...........		$1,068,241.25
Cash, per problem......................		800,000.00
Funds obtained from sale of 17,030 shares of "B" stock..........................		$268,241.25
Less cost of stock to new company.......		112,246.46
Profit on sale................		$155,994.79

This profit seems unreasonable, but it appears to be forced upon us unless we wish to assume that two shares of the same class of stock can have different book values.

With this information we can prepare the following working papers required by the problem reconciling the balance-sheet of the old company with the balance-sheet of the new company.

Reconcilement of balance-sheet of old company with balance-sheet of new company

	Per books of old company	Adjustments		Per books new company
Assets				
Cash	$800,000.00	$268,241.25 K	$255,516.13 C	$198,003.03
			614,722.09 L	
Other current assets	2,327,211.81			2,327,211.81
Fixed assets	2,794,952.92		1,397,476.46 A	1,397,476.46
Goodwill and patents	2,650,000.00		2,650,000.00 B	
Prepaid charges	15,937.69			15,937.69
Deficit	6,964,385.43	1,397,476.46 A		
		2,650,000.00 B	2,413,040.00 D	
		255,516.13 C	155,994.79 K	
		72,798.30 J	6,615,000.00 N	
		76,377.11 M	2,239,338.02 P	
		6,819.38 O		
Bonds of new company received by old		1,112,000.00 E	1,112,000.00 H	
Class "A" stock received		1,668,000.00 F	1,668,000.00 I	
Class "B" stock received		112,246.46 G	112,246.46 K	
		439,758.30 G	439,758.30 J	
		461,377.11 G	461,377.11 M	
		41,194.38 G	41,194.38 O	
Total	$15,552,487.85			$3,938,628.99
Liabilities				
Current liabilities:				
Principal creditors	$5,560,000.00	2,413,040.00 D		
		1,112,000.00 H		
		1,668,000.00 I		
		366,960.00 J		
Others	614,722.09	614,722.09 L		
Accrued taxes	104,052.74			$104,052.74
Capital stock—old company:				
Preferred	7,000,000.00	385,000.00 M		
		6,615,000.00 N		
Common	2,273,713.02	34,375.00 O		
		2,239,338.02 P		
Securities of new company:				
Bonds payable			1,112,000.00 E	1,112,000.00
Class "A" stock			1,668,000.00 F	1,668,000.00
Class "B" stock			1,054,576.25 G	1,054,576.25
Total	$15,552,487.85	$24,010,239.99	$24,010,239.99	$3,938,628.99

The following journal entries explain the entries in the foregoing working papers and meet the requirements of the problem for journal entries closing the books of the old company:

(A)	Deficit	$1,397,476.46	
	Fixed assets		$1,397,476.46
	To write down the fixed assets to fifty per cent of their book value, the price at which they are to be transferred to the new company.		
(B)	Deficit	2,650,000.00	
	Goodwill and patents		2,650,000.00
	To eliminate the latter-named account from the books.		
(C)	Deficit	255,516.13	
	Cash		255,516.13
	To record the payment of liquidating expenses.		
(D)	Principal creditors	2,413,040.00	
	Deficit		2,413,040.00
	To reduce the liabilities to principal creditors by the amount of the liabilities waived.		
(E)	Bonds of Blank Manufacturing Company	1,112,000.00	
	Blank Manufacturing Company, vendee		1,112,000.00
	To credit the B. M. Co. with bonds received.		
(F)	"A" stock of Blank Manufacturing Company	1,668,000.00	
	Blank Manufacturing Company, vendee		1,668,000.00
	To credit the B. M. Co. with "A" stock received.		
(G)	"B" stock of Blank Manufacturing Company	1,054,576.25	
	Blank Manufacturing Company, vendee		1,054,576.25
	To credit the B. M. Co. with 160,000 shares of no-par "B" stock received. (This stock is entered in the working papers in four accounts so as to account for the losses and gain on its disposal.)		
(H)	Principal creditors	1,112,000.00	
	Bonds of Blank Manufacturing Company		1,112,000.00
	To record the transfer of the above amount of bonds at par value to principal creditors in payment of 50% of their claims.		

(I)	Principal creditors	$1,668,000.00	
	"A" stock of Blank Manufacturing Company		$1,668,000.00
	To record the transfer of all the "A" stock to principal creditors in payment of 30% of their claims.		
(J)	Principal creditors	366,960.00	
	Deficit	72,798.30	
	"B" stock of Blank Manufacturing Company		439,758.30
	To transfer to the creditors at $5.50 per share 66,720 shares of "B" stock taken from the new company at a valuation of $439,758.30		
(K)	Cash	268,241.25	
	"B" stock of Blank Manufacturing Company		112,246.46
	Deficit		155,994.79
	To record the sale of 17,030 shares of "B" stock.		
(L)	Other current liabilities	614,722.09	
	Cash		614,722.09
	To record the payment of miscellaneous debts.		

(The following entries are not lettered in the working papers; they indicate the assets and liabilities transferred to the new company, as shown in the final column of the working papers.)

	Blank Manufacturing Company, vendee	$3,938,628.99	
	Cash		$198,003.03
	Other current assets		2,327,211.81
	Fixed assets		1,397,476.46
	Prepaid charges		15,937.69
	To record the transfer of our assets to the new Blank Manufacturing Company, (reference to minutes, contracts, etc.)		
	Accrued taxes, etc.	104,052.74	
	Blank Manufacturing Company, vendee		104,052.74
	To record the assumption of our unpaid liabilities by the new company.		
(M–N)	Capital stock—preferred	7,000,000.00	
(M)	"B" stock of Blank Manufacturing Company		385,000.00
(N)	Deficit		6,615,000.00
	To record the distribution of 70,000 shares of "B" stock to preferred stockholders at $5.50 per share.		

(O–P)	Capital stock—common	$2,273,713.02	
(O)	"B" stock of Blank Manufacturing Company		$34,375.00
(P)	Deficit		2,239,338.02
	To record the distribution of 6,250 shares of "B" stock to common stockholders at $5.50 per share.		

While we believe that the foregoing is the correct solution in view of the statement in the problem that 17,030 shares of "B" stock had a book value of $112,246.46 on the books of the new company, and in view of the fact that all stock of the same class must certainly have the same book value per share, we are inclined to believe that this is not the solution expected by the examiners. It is not logical that the stock should have been issued to the old company at $6.59+ per share; that some of this stock should have been transferred to creditors and stockholders at $5.50 per share; and that the remainder of the stock should have brought a price in the market of over twice the amount at which it was issued by the new company to the old company.

In view of these facts we are inclined to believe that the examiners did not really mean that the 17,030 shares had a book value of $112,246.46 on the books of the new company, but rather that the new company determined its total valuation of no-par "B" stock on the basis of the values at which the old company disposed of it. On this assumption the problem would be solved as follows:

Valuation of "B" stock on books of new company, at total amount at which the stock was disposed of by old company:	
66,720 shares to creditors at $5.50 per share	$366,960.00
70,000 shares to preferred stockholders at $5.50	385,000.00
6,250 shares to common stockholders at $5.50	34,375.00
17,030 shares to public for cash	112,246.46
160,000 shares at a total valuation of	$898,581.46

Current assets taken over by new company:		
Securities issued:		
Bonds	$1,112,000.00	
"A" stock	1,668,000.00	
"B" stock	898,581.46	
Liabilities assumed	104,052.74	$3,782,634.20
Fixed assets acquired	$1,397,476.46	
Prepaid charges	15,937.69	1,413,414.15
Current assets acquired		$2,369,220.05

The price realized from sale of "B" stock, as assumed above, was $112,246.46. Hence there was no profit or loss on the sale.

Following are the journal entries to open the books of the new company on the basis of the foregoing assumptions, and the initial balance-sheet of the new company.

Journal entries to open the books of
the Blank Manufacturing Company of Delaware, April 30, 1925

Blank Manufacturing Company		$3,678,581.46	
First mortgage bonds payable			$1,112,000.00
Class "A" capital stock			1,668,000.00
Class "B" capital stock			898,581.46
To record the issue to the Blank Manufacturing Company of the following described securities in exchange for certain assets detailed in the following entry, to be acquired subject to liabilities.			
Bonds—par value	$1,112,000.00		
"A" stock—16,680 shares of $100 par value, each			
"B" stock—no par value:			
142,970 shares at $5.50	$786,335.00		
17,030 shares at $5.50	112,246.46		
Total "B" stock	$898,581.46		
See minutes, page—; also contracts dated —and—, with B. M. Co., and creditors thereof.			
Cash		42,008.24	
Other current assets		2,327,211.81	
Fixed assets		1,397,476.46	
Prepaid charges		15,937.69	
Accrued taxes, etc.			104,052.74
Blank Manufacturing Company			3,678,581.46
To record acquisition of assets and assumption of liabilities of B. M. Co. in accordance with contracts referred to above.			

The amount of cash shown in the foregoing entry is accounted for as follows:

Cash—old company	800,000.00	
Amount realized from sale of "B" stock	112,246.46	
Total		912,246.46
Liabilities paid in cash	$614,722.09	
Liquidation and other expenses	255,516.13	
Total		870,238.22
Remainder		$42,008.24

BLANK MANUFACTURING COMPANY

Balance-sheet, April 30, 1925

Assets

Cash	$42,008.24
Other current assets	2,327,211.81
Fixed assets	1,397,476.46
Prepaid charges	15,937.69
Total	$3,782,634.20

Liabilities

Accrued taxes, etc.	$104,052.74
First mortgage bonds payable	1,112,000.00
Class "A" capital stock, 16,680 shares of $100.00 par value each	898,581.46
Class "B" capital stock, 160,000 shares of no par value	1,668,000.00
Total	$3,782,634.20

Following are the working papers and journal entries based on this interpretation of the problem.

Reconcilement of balance-sheet of old company
with balance-sheet of new company

	Per books of old company	Adjustments Dr.	Adjustments Cr.	Per books of new company
Assets				
Cash	$800,000.00	$112,246.46 K	$255,516.13 C	$42,008.24
			614,722.09 L	
Other current assets	2,327,211.81			2,327,211.81
Fixed assets	2,794,952.92		1,397,476.46 A	1,397,476.46
Goodwill and patents	2,650,000.00		2,650,000.00 B	
Prepaid charges	15,937.69			15,937.69
		1,397,476.46 A	2,413,040.00 D	
Deficit	6,964,385.43	2,650,000.00 B	6,615,000.00 M	
		255,516.13 C	2,239,338.02	
Bonds of new company		1,112,000.00 E	1,112,000.00 H	
"A" stock of new company		1,668,000.00 F	1,668,000.00 I	
		366,960.00 G	366,960.00 J	
"B" stock of new company		385,000.00 G	385,000.00 M	
		34,375.00 G	34,375.00 N	
		112,246.46 G	112,246.46 K	
Total	$15,552,487.85			$3,782,634.20
Liabilities		2,413,040.00 D		
Principal creditors	$5,560,000.00	1,112,000.00 H		
		1,668,000.00 I		
		366,960.00 J		
Other creditors	614,722.09	614,722.09 L		
Accrued taxes	104,052.74			$104,052.74
Capital stock—old company:				
Preferred	7,000,000.00	7,000,000.00 M		
Common	2,273,713.02	2,273,713.02 N		
Securities of new company:				
Bonds			1,112,000.00 E	1,112,000.00
"A" stock			1,668,000.00 F	1,668,000.00
"B" stock			898,581.46 G	898,581.46
Total	$15,552,487.85	$23,542,255.62	$23,542,255.62	$3,782,634.20

Journal entries closing the books of the old company:

(A)	Deficit...........................	$1,397,476.46	
	Fixed assets....................		$1,397,476.46
	To write down the fixed assets to fifty per cent of their book value, the price at which they are to be transferred to the new company.		
(B)	Deficit...........................	2,650,000.00	
	Goodwill and patents...........		2,650,000.00
	To eliminate the latter-named account from the books.		
(C)	Deficit...........................	255,516.13	
	Cash..........................		255,516.13
	To record the payment of liquidating expenses.		
(D)	Principal creditors.................	2,413,040.00	
	Deficit.......................		2,413,040.00
	To reduce the liabilities to principal creditors by the amount of the liabilities waived.		
(E)	Bonds of Blank Manufacturing Company	1,112,000.00	
	Blank Manufacturing Company...		1,112,000.00
	To credit the B. M. Co. with bonds received.		
(F)	"A" stock of Blank Manufacturing Company..................	1,668,000.00	
	Blank Manufacturing Company..		1,668,000.00
	To credit the B. M. Co. with "A" stock received.		
(G)	"B" stock of Blank Manufacturing Company...................	898,581.46	
	Blank Manufacturing Company ..		898,581.46
	To credit the B. M. Co. with 160,000 shares of no-par "B" stock received.		
(H)	Principal creditors.................	1,112,000.00	
	Bonds of Blank Manufacturing Company..................		1,112,000.00
	To record the transfer of the above amount of bonds at par value to principal creditors in payment of 50% of their claims.		
(I)	Principal creditors.................	1,668,000.00	
	"A" stock of Blank Manufacturing Company..................		1,668,000.00
	To record the transfer at par value of all of the "A" stock to principal creditors in payment of 30% of their claims.		

(J)	Principal creditors	$366,960.00	
	"B" stock of Blank Manufacturing Company		$366,960.00
	To transfer to the creditors at $5.50 per share 66,720 shares of "B" stock.		
(K)	Cash	112,246.46	
	"B" stock of Blank Manufacturing Company		112,246.46
	To record sale for cash of "B" stock at value at which it was received from the new company.		
(L)	Other current liabilities	614,722.09	
	Cash		614,722.09
	To record the payment of miscellaneous debts.		
	Blank Manufacturing Company	3,678,581.46	
	Accrued taxes	104,052.74	
	Cash		42,008.24
	Other current assets		2,327,211.81
	Fixed assets		1,397,476.46
	Prepaid charges		15,937.69
	To record the transfer of our assets to, and the assumption of our liabilities by, the new Blank Manufacturing Company.		
(M)	Capital stock—preferred	7,000,000.00	
	"B" stock of Blank Manufacturing Company		385,000.00
	Deficit		6,615,000.00
	To record the distribution of 70,000 shares of "B" stock to preferred stockholders at $5.50 per share.		
(N)	Capital stock—common	2,273,713.02	
	"B" stock of Blank Manufacturing Company		34,375.00
	Deficit		2,239,338.02
	To record the distribution of 6,250 shares of "B" stock to common stockholders at $5.50 per share.		