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AMERICAN INSTITUTE OF ACCOUNTANTS EXAMINATIONS

[Following is the text of the examinations in auditing, law and accounting presented by the board of examiners of the American Institute of Accountants, May 13 and 14, 1926.]

Examination in Auditing

MAY 13, 1926, 9 A. M. TO 12:30 P. M.

The candidate must answer all the following questions.

No. 1 (10 points):

Is it within the province of the auditor to draw attention to the following?

(a) Inefficiency of office management and office staff.

(b) Slack methods of operating a working cash fund subject to cheque signed by the treasurer alone.

(c) Apparently excessive compensation paid to officers.

(d) Deficiency in income taxes as claimed in "deficiency letter."

(e) Purchase of its own capital stock by a corporation in its first year of operation.

(State the reasons for your conclusions.)

No. 2 (10 points):

A large concern, manufacturing several kinds of steel for commercial uses, has mills in various cities. The materials and supplies which it uses comprise ores, iron and steel in various forms, chemicals, precious metals, lime, coal and oil; also small machine parts, tools, and numerous other items. One month after the close of the fiscal year you are called upon to prepare and to certify to a balance-sheet as at the end of the year. What would you do with regard to the verification of inventories?

No. 3 (5 points):

The product of your client is shipped in containers which are returnable by the customer. These are kept in repair and used for new shipments. The containers are charged to customers as shipped at $2 each. Their average cost to your client is 75 cents each. At the end of the audit period you find that 1,000 containers billed to customers were not returned and that 800 are on hand at the plant. Show how these items should appear on the balance-sheet of your client.

No. 4 (10 points):

(a) What is the effect, on the accounts, of the use of arbitrary instead of actual rates of exchange for the entry of imported merchandise purchases?

(b) What is the proper basis for exchange rate cost on goods shipped C. I. F., also on goods shipped F. O. B.?

(c) State three different methods commonly employed of making payment for imported merchandise.

No. 5 (10 points):

You are making an audit of a company which erected an office building on which work was started April 1, 1922, and finished April 1, 1923. Your audit covers the fiscal year ended March 31, 1924. The work has been financed by an issue of bonds and an issue of stock. What special points would you consider in making the audit and reporting thereon?

No. 6 (10 points):

What ratios (of one item, or total, to another) are most significant from a credit standpoint in the comparison of balance-sheets and income statements for the same company for several years? Mention at least three ratios and explain why they are significant.

No. 7 (10 points):

You are making a detailed audit of a public-service corporation supplying a district with electric light, heat and power. In addition to preparing the final accounts and a balance-sheet, you are to certify the amounts of capital expenditure during the year, so as to permit the corporation to demand new mortgage bonds, in payment of this expenditure, from the trustee for the bondholders. During the course of the audit you learn, unofficially, that a physical inventory of all the properties of the corporation has been recently made by the chiefs of the resident engineering staff, recently changed, in order to satisfy themselves as to the correctness of the book inventories, which have been used in previous audits for the preparation of the balance-sheet. You also learn that the engineers have reported, to the management company which controls the corporation, that fixed assets standing on the books at present at $350,000 have been scrapped or replaced by new construction since the last physical inventory, made five years previously. Since that inventory, and to the present time, all new construction certified during the annual audits has been paid for by the issue of other mortgage bonds to the corporation, which has sold them through the management company. The new construction during the year you are now auditing amounts to $550,000. The engineers' report has not been approved by the management company and no mention of it, nor of any intended new physical inventory, has been made in the minutes of the meetings of directors or stockholders of the public-service corporation. What notice, if any, should you take of the engineers' report?

No. 8 (10 points):

State and discuss the two most important points for a concern to take into consideration which is in the business of selling machinery on long-term instalments. In auditing a current year's operations, to what extent, if at all, should the auditor concern himself in such a case with future years?

No. 9 (5 points):

State briefly the advantages and disadvantages, as regards (a) the issuing company, (b) the stockholders, and (c) intending investors, of shares of no par value, as compared with par-value stock.

No. 10 (10 points):

With regard to the use of qualified audit certificates (a) state the occasion for qualified certificates and their proper and justified use, (b) state what implication is contained in the use of such words as "accepting" when used with reference to certain asset valuations or other conditions shown on the books.

No. 11 (10 points):

What is meant or implied in audit certificates (a) by the phrase "properly drawn up" as applied to a balance-sheet; (b) by the phrase "to show the financial position of the company as at December 31, 1925, and the results of operations for the year ended on that date?"

Examination in Accounting Theory and Practice

PART I

MAY 13, 1926, 1 P. M. TO 6 P. M.

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

No. 1 (37 points):

The books of the Jones Brick Company, a corporation, are kept on the basis of cash receipts and disbursements. At December 31, 1925, the trial balance was as follows:

	Dr.	*Cr.*
Cash	$27,812.15	
Capital stock		$140,000.00
Notes payable		13,000.00
Plant and equipment	81,250.00	
Tenements	5,000.00	
Surface land	10,000.00	
Clay lands	63,000.00	
Sand bank	23,500.00	
Barges	15,000.00	
Reserve for depreciation		22,625.00
Reserve for depletion		28,653.20
Surplus	21,246.90	
Sales of brick		197,200.00
Barge earnings		22,750.00
Rents		650.00
Labor	88,216.80	
Repairs	1,216.30	
Manufacturing expense	22,609.36	
Barge expense	12,672.80	
Fuel	10,473.08	
Executive salaries:		
John Jones, president	10,000.00	
James Jones, treasurer	5,000.00	
Taxes	2,360.21	
Income taxes, 1920, additional	520.60	
Dividends	25,000.00	
	$424,878.20	$424,878.20

The following sales were made and were not paid for at the dates given:

$20,400.00	December 31, 1924
12,700.00	December 31, 1925

The government agents examined the prior years' returns and allowed depreciation on buildings, barges and equipment at a flat rate of five per cent. on the asset value at the beginning of the year, plus two and one-half per cent. on the net additions for the year and determined that the depletion allowance should be computed at the rate of six cents per cubic yard for sand and clay. On this basis (the cubical contents of each brick being sixty-four inches) depletion amounted to $946.50. During the year there were additions to plant and equipment of $6,000.00. A barge, acquired in 1920 at a cost of $5,000.00, was sunk, together with its load of 300,000 bricks which was being shipped to a customer at an agreed price of $16.00 per thousand. Neither barge nor cargo was insured.

According to the schedule of gross income and deductions shown on the first page of the tax returns filed for the years 1923 and 1924, the operations of the company resulted in losses of $4,166.77 and $5,005.28 respectively. From schedule L of these returns it appeared that the company had received dividends on stock of a domestic corporation of $100.00 in 1923 and $50.00 in 1924; also interest on liberty bonds of $60.00 and $30.00 respectively in those years. Schedule B of the return for 1924 disclosed the fact that the stock of the domestic corporation had been sold at a loss of $25.00 and the liberty bonds at a profit of like amount.

The inventory of brick on hand at December 31, 1924, amounted to 4,000,000 bricks, which cost $13.10 per thousand. During the year 1925 there were manufactured 11,500,000 bricks, of which 500,000 were lost in burning; 12,000,000, including the 300,000 lost in the sinking of the barge, were shipped to customers.

The company paid $10,000.00 on account of notes payable during the year.

The company's auditors have been instructed to adjust the books of account correctly to set forth the financial condition as at December 31, 1925, and the result of its operations for the year ended that date.

A correct balance-sheet as at December 31, 1924, was submitted with the tax return for the year 1924.

You are requested to prepare, from the above trial-balance and succeeding data, balance-sheet as at December 31, 1925, and federal tax return for the year 1925, with necessary supporting schedules.

No. 2 (22 points):

The plant and equipment and reserve for depreciation accounts, as presented below, represent the transactions for the year 1925, as recorded by the bookkeeper, employed by the A company, January 1st of that year.

PLANT AND EQUIPMENT

1925				1925			
Jan.	1	Balance.......	$500,000	Jan.	31	Screw cutting lathe.....	$150
	17	Planer........	2,000	Apr.	17	Steam engine	300
Mar.	21	Bolt machine ..	1,250	Sept.	30	Steel and lumber.......	400
Apr.	16	Crane.........	3,000	Dec.	31	Balance.....	524,650
May	3	Electrical equipment for crane.......	1,200				
	27	Roof of machine shop........	3,500				
June	3	Lathe belting..	750				
Aug.	20	Wm. Smith, contractor...	10,000				
Dec.	31	Machine shop .	3,800				
			$525,500				$525,500

RESERVE FOR DEPRECIATION—PLANT AND EQUIPMENT

1925				1925			
Dec.	31	Balance.......	$175,000	Jan.	1	Balance.....	$125,000
				Dec.	31	Depreciation at 10% per annum....	50,000
			$175,000				$175,000

Following is a description of the transactions, and you are required to make any entries you deem necessary to correct the accounts, giving reasons therefor, and setting up corrected accounts.

The balances at the beginning are assumed to be correct.

Planer, $2,000, is a standard machine purchased new.

Bolt machine was made in company's own shop. The $1,250 represents cost of castings, $500, and direct labor, $750. The machine-shop payroll was $20,000 ($15,000 direct and $5,000 indirect) during the year; castings and parts purchased were $17,000; general supplies were $4,000; rent was $2,500; light, heat and power were $3,500.

Crane and equipment, $4,200, are standard machinery, purchased new.

Roof of machine shop was destroyed by weight of snow during the winter. The new roof will be valueless when the building is obsolete.

Belting for all equipment amounting to $25,000 was charged to plant and equipment upon opening the plant and has not been depreciated.

William Smith is engaged in erecting an addition to the plant buildings. $10,000 is a first payment on uncompleted work.

Machine shop, $3,800, represents cost of making tools, setting machines and installing new machinery as follows:

Tool making	$1,000
Setting machines for special work	1,800
Installing planer	300
Installing bolt machine	200
Installing crane	500
	$3,800

Screw-cutting lathe—cost, 1918, $2,000.
Steam engine—cost, 1915, $15,000.
Steel and lumber, $400, represents salvage from machine-shop roof.
Prior to December 31, 1924, a separate account was kept for land and buildings.
Ten per cent. per annum depreciation has been written off on plant and equipment.

No. 3 (16 points):

A, B, C and D formed a personal-service partnership, the clientele of the firm being personal clients of the respective partners.

All fees received and all expenses were pooled by the firm and the partnership agreement stated that the net earnings for the year should be shared as follows:

A	33⅓%
B	40 %
C	16⅔%
D	10 %

On August 31st, as a result of a dispute, a supplementary agreement was made between the partners covering the remainder of the year. This agreement provided that the distribution of net earnings was to be made on the basis of the above percentages, except that in distributing the net earnings for the last four months of the year, so far as C and D were concerned, a net earning was to be assumed on the basis of payment by the clients of A and B of gross fees of $175,000 and $250,000 respectively, instead of the amounts actually received from these clients.

The deficiency in A's gross fees was to be charged to him and the excess in B's gross fees credited to him.

No adjustment for expenses was to be applicable to either deficiency or excess.

The net income from January 1st to August 31st was $75,000.

From September 1st to December 31st, the following gross fees were received:

From clients of A	$110,000
" " " B	290,000
" " " C	15,000
" " " D	25,000

The operating expenses for the last four months were $55,000.

Determine the total net income of each partner for the year, resulting from the business of the firm and conforming with the supplementary agreement.

No. 4 (25 points):

The summarized balance-sheet of a corporation, about to be reconstructed, is as follows:

Assets	
Plant and machinery	$2,500,000
Cash and accounts receivable (good)	150,000
Materials and goods on hand (finished and unfinished)	1,700,000
Materials stored, subject to lien of bankers, for loans	500,000
Patents and goodwill	4,500,000
Deficiency	650,000
	$10,000,000
Liabilities	
Trade creditors	$1,350,000
Bankers, for notes discounted and loans	650,000
First mortgage bonds (6%)	3,000,000
First preferred stock (7%), issued and fully paid, 30,000 shares	3,000,000
Common stock	2,000,000
	$10,000,000

A new appraisal shows the present value of the plant and machinery to be $1,500,000 and the materials and goods on hand (finished and unfinished) to be worth $1,095,000. Patents and goodwill were not appraised but $3,000,000 is to be written off. Accounts receivable were collected in full.

The agreement for the reconstruction provides that the mortgage bondholders are to receive new first mortgage five per cent. bonds for sixty per cent. of the amount of their old bonds and new six per cent. first preferred stock for forty per cent. of the old bonds in full discharge of their claims. The old bonds are to be cancelled.

Bankers are to take the material stored at a valuation of $400,000 and to accept fifty per cent. of the balance owing in the new five per cent. mortgage bonds and to reserve their rights of recourse against other parties liable on notes and guarantees.

Trade creditors are to be paid twenty per cent. in three months' notes in full settlement. Preferred stockholders are to receive 30,000 new six per cent. second preferred shares of $100 each, twenty-five per cent. paid, in exchange for the old preferred shares; the unpaid seventy-five per cent. is to be payable in instalments of twenty-five per cent. at intervals of three months.

The common stock is to be cancelled entirely.

To provide working capital, an issue was made of 10,000 shares of new first preferred stock which was sold at an average price of $100 each.

Draft a balance-sheet showing the result of the reconstruction, assuming the expenses of reorganization to have been $100,000.

No. 5 (25 points):

On January 1, 1920, A leased a building to B for the period ending December 31, 1934, at an annual rental of $7,000 payable annually in advance. Subject to this lease, A leased the same property to C on January 1, 1926, for a term of 50 years at an annual rental of $10,000, payable annually in advance, C receiving the rental of $7,000 payable by B during the remainder of B's lease. For this lease C paid to A an additional $1,500 as a bonus.

Omitting all consideration of income-tax questions, how should the various accounts appear on C's books if he calculate interest at six per cent. per annum on the investment?

Given at six per cent:

$$(1+i)^9 = 1.689479 \qquad v^9 = .591899$$
$$(1+i)^{10} = 1.790848 \qquad v^{10} = .558395$$
$$(1+i)^{41} = 10.902861 \qquad v^{41} = .091719$$

Examination in Commercial Law

MAY 14, 1926, 9 A. M. TO 12:30 P. M.

Give reasons for all answers

(Each satisfactory answer is entitled to 10 points)

NEGOTIABLE INSTRUMENTS

Answer three of the following four questions:

1. A subscribes for a certain number of shares in the B corporation upon its formation, but only 60% of the subscribed capital has been called. A has paid all instalments called and in addition has lent the B corporation $3,000 for which he has taken the corporation's negotiable promissory note and has transferred the note to X. On the due date X demands payment but the company calls for further capital instalments on A's subscription and sets up the amount of the call as an offset to the note. Is the corporation's procedure correct?

2. Explain the difference between an assignable note and a negotiable note and give an example of each.

3. A gave to B a negotiable promissory note for $100, the note being payable to "B or bearer." The note was transferred several times by delivery only, without indorsement, and came into the hands of R as a note for $1,000, the alteration not being at all apparent on the face of the instrument. What can R do with reference to enforcement?

4. Is a bank depositor, having a checking account, required to verify the correctness of his monthly balance as shown by monthly statement rendered by the bank and by the returned vouchers?

CORPORATIONS

Answer two of the following three questions:

5. Does a dividend on stock, declared before the stockholder's death, but not payable until a date after the date of death, become part of the estate or pass to the person to whom the stockholder devised the income from the estate for life?

6. Define the following used with reference to corporations: (1) subscriber, (2) incorporator, (3) franchise, (4) paid in capital, (5) by-laws.

7. What is a voting trust and how does it operate?

CONTRACTS

Answer two of the following three questions:

8. A, following his discharge in bankruptcy, again entered business and wrote to B requesting that B sell him a certain quantity of goods to be delivered in monthly instalments, A to have thirty days in which to pay for each instalment. B replied, refusing to extend credit to A unless A's former indebtedness to B were liquidated. A then wrote agreeing to pay the former indebtedness in monthly payments until paid in full. B then extended the requested credit to A in the contract for A's new purchases. Subsequently A defaulted in an instalment payment and B sued to recover the balance of the old debt. Could he recover?

9. A met B in March and in the conversation said that he would give B $3,600 to act as bookkeeper for a year, B to begin work on May 1st. B began work on May 1st. On August 1st A discharged B without any cause or reason. What, if anything, could B recover in a suit against A for breach of contract?

10. How may a seller part with possession of personal property and still keep title to it?

PARTNERSHIP

Answer one of the following questions:

11. Has a partner the right to make a general assignment of partnership property for the benefit of creditors without the knowledge of his co-partners?

12. A and B enter into a partnership venture, A contributing one-third of the necessary capital and B contributing two-thirds. There is nothing said or agreed to as to how profits shall be divided. What is the proportion of profits which should go to each partner?

BANKRUPTCY

Answer the following question:

13. In case of bankruptcy, does a creditor who has obtained judgment secure any advantage?

INCOME TAX

Answer the following question:

14. In what circumstances may an appeal be taken to the board of tax appeals in a controversy over income taxes?

Examination in Accounting Theory and Practice

PART II

MAY 14, 1926, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions.

No. 1 (36 points):

By the will of C. Delano, all his personal and real property was bequeathed absolutely to his wife, Mrs. A. Delano, she being appointed sole executrix.

On January 1, 1924, Mrs. Delano transferred all the real estate and receivable mortgages to a company, duly incorporated, in consideration of her receiving the whole of its capital stock—100 shares of no par value. This she distributed among her children.

Mrs. Delano and two sons were appointed directors of the company, the by-laws of which provided that its net annual income should be paid to the transferor during her lifetime. Another clause provided that profits on sales of real estate or mortgages should be considered as capital and be reinvested.

The directors decided to sell the houses and land and to restrict future investments to first and second mortgages on real estate.

The following is a list of all the properties transferred to the company on January 1, 1924, the capital stock issued in payment therefor bearing the same date:

House No.	1	$13,000
	2	13,000
	3	9,000
	(subject to mortgage payable $5,000)	
	4	5,000
	5	6,000
Unimproved lots	A	11,000
	B	20,000
	C	18,500

The houses and lots were all valued in accordance with the tax assessments of the previous year.

Sundry second mortgages, all at 6% interest, the face value thereof aggregating $12,000 on January 1, 1924, were also transferred to the company. These mortgages represent part of a $24,000 purchase by the late C. Delano in 1922 at an average of 20% off the face value.

The cash on hand, January 1, 1924, was retained by Mrs. Delano but she voluntarily paid the organization expenses of the company.

During the year 1924 the following transactions were recorded:

House No. 1—sold March 1st for $15,000, of which $3,000 was received in cash, $8,000 left on first mortgage at 5½% and $4,000 on second mortgage at 6%, this being repayable by instalments.

House No. 2—sold to another purchaser on the same date for $15,000 on the same terms in all respects.

House No. 3—sold June 1st for $10,000, subject to the purchaser's assuming the liability for the mortgage of $5,000; $6,000 was paid in cash and $4,000 left on second mortgage at 6% repayable on demand.

House No. 4—sold July 10th for $4,900 cash.

House No. 5—traded October 1st for a receivable second mortgage of $8,000 at 6% on an apartment house, repayable on demand.

Lots A—sold May 10th for $30,000 cash.

Lots B—sold June 30th for $35,000; $20,000 received in cash and $15,000 by a first mortgage, at 6%, for five years, on the land and the buildings to be erected thereon.

Lots C—traded June 1st for a first ten-year mortgage of $25,000 at 6% and a second five-year mortgage of $15,000 at 6%, the agreement providing that the purchaser build an apartment house on the land to cost not less than $150,000. No interest was to be charged on either mortgage until January 1, 1925, as on June 1st, $1,000 was received as a bonus from the purchaser.

At December 31st, the balance of $12,000 due on second mortgages had been reduced by repayments of $2,500, and $610 was received for interest.

The following additional amounts were received from houses and lots sold: each of the houses—Nos. 1 and 2—interest on first mortgage $330, on second mortgage $180 and instalment repayment $750; No. 3—interest $240; Lot B—interest $450.

Purchases of sundry second, 6% mortgages of the face value of $63,000 were made for $50,000 cash. The interest received on these to December 31st was $1,200 and the principal repaid by instalments amounted to $5,300. The legal expenses attendant upon the transactions were $570.

Rents received from houses were $870; real-estate taxes paid totalled $425; advertising and general expenses amounted to $325 and two directors were paid $250 each, nominal compensation, for services.

A supplementary claim of $1,400 was made by the federal government for estate duty and this was paid on September 10th.

Prepare the statements necessary to show the results of the transactions, as enumerated, for the company and those directly interested.

Assume interest received to be correct. Disregard accrued interest.

No. 2 (24 points):

The A B Finance corporation was incorporated under the laws of the state of New York, May 1, 1924, with an authorized capital of 100,000 shares of preferred stock, par value $100 each, and 110,000 shares of common stock, no par value.

The records of the corporation disclose the following balances at June 30, 1925: cash $77,206.00; due from subscribers to capital stock $884,400.00; furniture, equipment, etc. $33,032.60; expense of organization and incorporation $21,471.00; accounts payable $10,296.80; salaries $66,600.00; rent $30,000.00; stationery and office expense $8,381.00; postage $2,714.20; advertising $3,788.60; accounting services $2,300.00; taxes $1,375.00; sundry expenses $7,508.40.

The company was organized to buy notes and hold them for collection at maturity. At June 30, 1925, there were on hand notes to the face value of $1,203,747.80 (present value, on 6% basis, $1,167,635.37, the average maturity date of the notes being considered as December 31, 1925). The difference between the cost of all notes purchased and the aggregate face values thereof averaged 24% of the latter and amounted to $365,038.20, recorded as service income.

The directors authorized the sale of the capital stock in units of one share of preferred stock and one share of common stock for $110 and a sales commission of $15 per unit was allowed. This commission expense aggregated $307,395, of which $36,470 was unpaid at June 30, 1925. Full subscriptions to capital stock units amounted to $1,042,030 at the same date, in respect of which stock will be issued in due course.

The stock-certificate books disclosed that 11,020 shares of preferred and 21,020 shares of common stock had been issued to June 30, 1925. Included in the common stock issue were 10,000 shares (for services) to the original incorporators. Preferred dividends to the amount of $16,115.40 were paid during the period.

Prepare a balance-sheet as at June 30, 1925, after providing 10% depreciation on furniture for one year and deferring full service income relating to notes on hand as applying to period ended June 30, 1925, to average due date of notes. Amortization of organization and commission expenses need not be considered.

No. 3 (20 points):

Corporation X has a capital stock of $100,000, liabilities $10,000 and surplus $25,000. The liability represents notes given to stockholders for loans made by them in proportion to their stock interests. A owns 400 shares and B, C and D own 200 shares each.

During 1924, X sells all its assets, except cash $5,000, to corporation Y for $145,000 for which it receives $15,000 cash, 800 shares preferred stock of corporation Y, which it records at the par value $100 per share, and 1,000 shares of no-par common stock of corporation Y.

Corporation X distributes the stock of Y to its own stockholders who, as a part consideration, cancel the notes of the corporation above mentioned. No entry for this distribution is made on X's books as the officers are not sure how to make it nor are they sure what value should be set on the stock so distributed.

Corporation Y shows its common stock to have a book value of $93 per share but is, at that time, selling one share of preferred with one share of common for $130.

None of the stock of corporation X has been called in or cancelled.

You are called upon by corporation X to make the proper entries and to set up a balance-sheet.

No. 4 (20 points):

M, a wholesale dealer in heavy merchandise, is unable to reconcile the percentage of net profits, as shown by his annual accounts, with the percentages arbitrarily added to cost prices, and asks your assistance in an effort to ascertain the reason therefor.

You investigate and find, first, that effective precautions are taken against theft of material and funds and that there are adequate checks against shipping merchandise unbilled.

You then obtain the following information from the books of account and the records:

(1) Twenty-five per cent. has been added to cost prices in order to obtain an average gross profit of 20% on sales.

(2) Expenses are estimated to amount to a total of 9% on sales, viz:—1% selling, 1½% office, 3½% delivery, 2% general and 1% executive salaries.

(3) The accounts for the last completed year, 1925, showed the following:

Net sales		$2,490,000
Cost of sales		1,980,000
Gross profit		$510,000
Expenses:		
Selling	$23,600	
Delivery	165,100	
Office	37,300	
General	59,000	
Executive	25,000	310,000
Net profit		$200,000

(4) An analysis of the sales for an average month during the season of 1925 gives the following details, each invoice representing a separate delivery to a customer:

Sales:	Numbers of invoices	Amount of sales
Under $6	1,020	$2,648
From $6 to $10	324	2,679
" $10 " $20	428	6,174
" $20 " $50	583	19,440
" $50 " $100	667	52,630
" $100 " $200	781	102,475
" $200 " $300	225	55,210
Over $300	112	47,000
Average for one month during the season	4,140	$288,256

Prepare a statement accounting, as far as possible, for the difference between the estimated and the actual profits, giving the main facts but avoiding unnecessary details, and indicating what should be done to obtain better operating results.