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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, November 12 and 13, 1925.]

Examination in Auditing

NOVEMBER 12, 1925, 9 A. M. TO 12:30 P. M.

The candidate must answer all the following questions:

No. 1 (10 points):

What would you do in auditing the accounts of a corporation for the first time with regard to items appearing on the balance-sheet under the headings "land" and "buildings"?

No. 2 (10 points):

You have completed an audit of corporation "A" and have discovered that its financial condition was verging on bankruptcy. Later, you are required to audit the accounts of corporation "X" and you ascertain that this concern has on its books, considered as a good account receivable, a substantial amount charged to corporation "A" for merchandise sold. What would be your attitude with regard to the accounts receivable of "X"?

No. 3 (10 points):

What governs the propriety of expenditures by (a) a municipality; (b) an institution supported by private and public funds? State the basis for the keeping of such accounts as distinguished from accounts of commercial concerns.

No. 4 (5 points):

In the audit of a concern selling merchandise on the installment plan, in what manner would you determine the validity of the accounts receivable and the reserve necessary for bad debts?

No. 5 (10 points):

In preparing a balance-sheet for a corporation where cash funds are carried at 30 branches, you are led to believe that the concern is inflating its cash item through "kiting" or otherwise. Detail all steps you would take to verify the correct amount of the cash item, and indicate which steps would lead to discovery of the manipulations.

No. 6 (10 points):

A machine was constructed and charged to machinery account nine years ago, together with other machines made at the same time, and a separate cost of each unit of machinery was not kept. According to regular practice, still in force, a credit was set up, in a reserve account, for depreciation of machinery at the rate of 10% on the total machinery account. At the end of nine years, this machine was sold for $1,000 and you can secure no more accurate information as to cost than the engineer's opinion that the item sold must have cost to construct somewhere between $10,000 and $15,000. A new machine was purchased for $15,000 to replace the old one sold. What entries should appear on the books to record the sale of the old machine and purchase of the new?

No. 7 (15 points):

State the steps which should be taken by an auditor, engaged on an audit after the books have been closed, to verify quantities and values of inventories of raw materials and finished goods, in order that these items may be stated in the balance-sheet without qualifications.

No. 8 (8 points):

As auditor for a corporation, you have made a balance-sheet audit as of December 31, 1924, and in the previous year, a balance-sheet audit as of December 31, 1923. You are now, in 1925, after submitting the report for December 31, 1924, asked by the client to certify as to the net earnings for the year 1924. What further examination would you consider necessary, and why?

No. 9 (10 points):

A corporation is engaged in developing commercial patents. Direct cost is charged to each such development. Seventy per cent of all other expenses or costs is distributed to the developments on a direct-cost ratio, the remaining thirty per cent of overhead being charged to profit and loss. Approximately, one of four such projects undertaken becomes commercially successful and is sold. Excess of selling price over the development account for the patent sold is credited to income. In auditing the records, would you approve the general method followed? What general changes, if any, would you recommend? Give the accounting principles which apply.

No. 10 (12 points):

State whether you would give an unqualified certificate, qualify your certificate, or refuse to sign the accounts, and give your reasons briefly in each of the following cases:

(a) The officers of a manufacturing corporation insist on your showing inventory at a price which is substantially in excess of either cost or market value of raw material plus manufacturing cost.

(b) The directors of a corporation decline to permit any mention whatever of dividends in arrears on cumulative preferred stock.

(c) A large company being audited by you, which manufactures many different products, is being sued for infringement on account of the use of a process. You are assured by the officers that there is no liability.

(d) The company under audit in good financial condition has adopted an extensive construction programme, and plant account is being charged when individual units are completed. No liability appears on the books for plant contracted for but not yet constructed.

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. 1 (25 points):

A large manufacturing concern operates the following producing departments:

(a) Quarry, where mineral is extracted.

(b) Railroad, 20 miles in length, from quarry to main plant.

(c) Main plant, divided into—
Foundry and rolling mill.
Process plant, where mineral is treated.
Machinery department, where foundry product is finished, and
Assembling department, where treated mineral and metal parts are combined into finished product.

A salvage department is operating at the main plant, the function of which is to dispose of all discarded material either as scrap or—if possible to repair or recondition profitably—as material to be reissued for operation or construction.

From the following data, determine

(1) The amounts to be credited the department from which the material is taken and whether credit is to operation or to a fixed-asset account.
(2) The prices at which to be taken into salvage stock, and
(3) Discuss generally and briefly the principles governing price at which salvaged material should be charged out and how savings due to salvage operations should be shown.

Material	Quantity	Weight	Price (new)	Depreciated value	Cost to repair or recondition	Scrap value
Belting from lathe....	20 ft.		$12	$3	$2.50	$ None
Pulleys from lathe shafting...........	5	150 lbs.	60	20	10.00	1.50
Rock drills..........	20	200 "	20		5.00	2.25
Defective castings made in foundry.........	7	700 "	70		80.00	7.00
R. R. ties...........	500		500		impossible	50.00
Lead-covered power transmission cable—quarry............	300 ft.	1,200 "	240	48	"	144.00
Brass borings........		500 "				50.00
Electric motors—machinery department	3		450	45	120.00	60.00
Large bolts—quarry...	150	120 "	30		5.00	1.20
Copper boiler-tube from locomotives...		50 "	15		impossible	6.50
Grinding rolls—process department........	10	1,000 "	200	20	120.00	10.00
Gears for grinding rolls—made in own foundry...........	20	400 "	100	10	115.00	4.00
Steel tanks—process department........	5	10,000 "	500	100	425.00	100.00
Plates and angle-iron from assembling department building...		8,000 "	320		impossible	80.00

General expense of salvage department... $1,000 per month
Turnover in money—about............ 100,000 " "

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?

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.

No. 4 (10 points):

The X company has capital stock issued and outstanding at June 30, 1924, as follows:

5,000 shares 7% cumulative preferred stock, par value $100 per share.

10,000 shares common stock, no par value.

This company manufactures machine units to sell at an average price of $8,500 per unit and does business almost entirely upon a lease-contract basis, accepting from its customers several notes extending over periods ranging from 12 to 36 months.

For the three years ended December 31, 1923, the company's profits have been insufficient to meet preferred dividend requirements.

It is apparent to the board of directors that additional liquid capital is necessary to promote more profitable operation and as no further bank loans can be placed nor can the company discount any more of its customers' notes except at an exorbitant rate, an additional issue of capital stock is decided upon, viz:—5,000 shares of "A" preferred stock without par value but with a nominal value of $20 per share, redeemable at $20 per share at a fixed date and carrying cumulative dividends at the rate of $2 per annum per share. This stock is duly authorized and offered at $20 per share.

The only broker who will handle the stock insists upon a commission of 25% of the selling price, which is approved by the company.

All the stock is sold prior to December 31, 1924, and remittance is made by the broker for the proceeds less $25,000 commission.

At what amount should the "A" preferred stock be shown on the X company balance-sheet at December 31, 1924?

How should the item of $25,000 commission be treated with regard to the company's federal tax return? Give reasons.

No. 5 (24 points):

Companies A and B are close corporations conducting similar businesses. Mr. Lee, the owner of company B, wishes to retire from active management and company A proposes to purchase company B and to amalgamate the two concerns.

Both companies have prepared financial statements for the last five years, which may be taken as correct, and an appraisal company has recently made a valuation of the assets of each company as a going concern.

The following statements are presented and you are requested by Mr. Lee to advise him as to the basis on which an amalgamation should be made and the purchase consideration he should receive.

Draft a statement showing the effect of the combination on terms which would be equitable to both parties: also an adjusted, combined profit-and-loss account on the five years' average, the result of which will form the basis for your recommendations.

COMPANY A

Assets

Land:	
Appraisal valuation, $84,000.	
Present book value, cost	$40,000
Brick buildings:	
Appraised value: replacement, $62,000 less depreciation $12,000; appraised present value $50,000: average annual depreciation charged $4,000.	
Book value	35,000
Machinery and plant:	
Appraised replacement cost $57,500 less depreciation $19,500; appraised present value $38,000; average annual depreciation charged $9,000.	
Book value	21,500
Trucks and cars:	
Appraised replacement cost $22,000 less depreciation $8,000; appraised present value $14,000: average annual depreciation charged $3,500.	
Book value	6,000
Furniture and fixtures:	
Appraised replacement cost $5,000 less depreciation $2,000; appraised present value $3,000: average annual charge of renewals $250.	
Book value	Nil
Loose tools:	
Appraisal values, replacement $8,500 less depreciation $4,500; present appraised value $4,000: average renewals charged to expense $2,000.	
Book value	5
Inventories of finished goods—cost or less	97,000
Accounts and notes receivable—less reserves	250,000
Cash	60,000
Investment:	
100 shares, common stock of X Y Z Co.—cost	15,000
Total assets—Company A	$524,505

Liabilities

Accounts payable	$120,000
First mortgage bonds—6%	50,000
Capital stock—common, issued	50,000
Surplus account, balance	304,505
Total liabilities, etc.—Company A	$524,505

Profit-and-Loss—Average of last five years

Net profit per annum, after charging expenses, reserves and depreciation		$90,000
Less,		
Directors' salaries—average	$30,000	
Dividends—average	12,500	
		42,500
Average transfer to surplus, per annum		$47,500

COMPANY B

Assets

Land:		
Appraisal valuation, $36,000; cost, $22,000.		
Book value, increased 3 years ago to		$40,000
(The difference, $18,000, was transferred to surplus.)		
Brick buildings:		
Appraised value: replacement $25,000 less depreciation $15,000; present appraised value $10,000: average annual depreciation charged $1,000.		
Book value		15,000
Machinery and plant:		
Appraised value: replacement $22,000 less depreciation $11,000; present appraised value $11,000: average annual depreciation charged $1,100.		
Book value		20,000
Trucks and cars:		
Appraised value: replacement $10,000 less depreciation $7,000; present appraised value $3,000: average annual depreciation charged $1,000.		
Book value		7,000
Loose tools:		
Appraised value: replacement $4,000 less depreciation $2,500; present appraised value $1,500: average annual depreciation charged $700.		
Book value		3,000
Furniture and fixtures:		
Appraised value: replacement $7,000 less depreciation $4,500; present appraised value $2,500: average annual depreciation charged $500.		
Book value		4,500
Inventories, materials and finished goods, at cost plus 10%		53,000
Accounts and notes receivable, less reserves		110,000
Cash		32,000
Investment:		
200 shares, common stock of X Y Z Co.—cost		35,000
Total assets—Company B		$319,500

Liabilities

Accounts and notes payable	$102,500
Capital stock—common, issued	150,000
Surplus account, balance	67,000
Total liabilities, etc.—Company B	$319,500

Profit-and-Loss—Average of last five years

Net profit per annum, after charging expenses, reserves and depreciation		$60,000
Less,		
Dividends—average	$30,000	
Executive salary, Mr. Lee, average	20,000	
		50,000
Average transfer to surplus, per annum		$10,000

No. 6 (24 points):

The Belgian pre-armistice debt to the United States amounts to $171,800,000. The settlement provides that no interest will be charged on this part of the war debt and that graduated payments on account of principal will be made, totaling $9,400,000, by June 15, 1931, the balance being payable at the rate of $2,900,000 per annum for 56 years.

Assuming an interest rate of 3% per annum, what is the loss to the United States by the waiving of interest calculated at June 15, 1931?

The present value of $1.00 at 3% due in 56 years is $0.1910361 and in 56 years $1.00, at 3%, will amount to $5.2346131.

Examination in Commercial Law

NOVEMBER 13, 1925, 9 A. M. TO 12:30 P. M.

Correct answers to each question in Group I will be awarded 2 points; the questions answered satisfactorily in Group II will each be entitled to 10 points.

GROUP I

Answer each of the following ten questions by "Yes" or "No":

1. Is a compromise with creditors a sufficient consideration for a contract?
2. Is an instrument made payable to "James G. Kelly or Charles Perkins" negotiable?
3. Is it possible for a partnership to exist between parties who do not consider themselves partners?
4. Can a promisor assign his liabilities under a contract?
5. Will the discharge in bankruptcy of a surety on a bond release him from liability to his co-surety who has discharged the bond liability upon its accrual subsequent to the discharge?
6. Can a corporation be organized without capital stock?
7. Can a man who pays $400.00 offered and accepted in discharge of a debt of $500.00 be held liable to pay the balance?
8. Is a party who purchases a past due note a "holder in due course"?
9. Can execution on a judgment against a copartnership be immediately levied on property of one of the partners?

10. The drawer of a cheque has it certified and delivers it to the payee. In the afternoon of the same day the bank fails. Can the payee collect from the drawer?

GROUP II

Answer eight of the following questions, giving reasons for all answers:

1. Name four vital elements of a valid contract.

2. A corporation bankrupt has assets converted into cash by the trustee amounting to $285,000. There is outstanding $100,000 of common stock, $50,000 of preferred stock. Corporate bonds total $75,000, taxes owing amount to $8,000 and claims of creditors aggregate $150,000. How will the cash be distributed?

3. A retail furniture dealer has a business with customers throughout a certain county, but makes no sales outside that county. He sells his entire business and agrees with the purchaser that for a period of five years he will not engage in the furniture business anywhere in the state. Is such agreement enforceable under common law ?

4. Give four powers possessed by a corporation that are not possessed by a copartnership.

5. Write a form for a negotiable instrument, pointing out each essential element therein.

6. Geller owed Gordon $650, which was past due. After some negotiation between the parties as to payment Geller offered $150 and an automobile worth approximately $400 in full satisfaction of the debt. Gordon accepted. Was the debt discharged?

7. Have special agreements between partners as to partnership affairs any effect upon contracts between the partnership and other parties?

8. What are personal defenses to a negotiable instrument? What are absolute defenses? To whom are these defenses available?

9. Explain the following: bill of sale, statute of frauds, stoppage in transitu.

10. What is the cumulative system of voting by stockholders and what are its advantages?

11. What is a common carrier? A bill of lading? Is a bill of lading negotiable?

12. What is meant by affiliated corporations under the income-tax law?

Examination in Accounting Theory and Practice

PART II

NOVEMBER 13, 1925, 1 P. M. TO 6 P. M.

The candidate must answer all the following questions.

No. 1 (35 points):

From the following data, prepare an application-of-funds statement for the calendar year 1924.

X Y Z COMPANY

Assets	December 31 1923	1924	Increase or Decrease*
Current assets:			
Cash in banks and on hand....	$152,928.16	$221,314.90	$68,386.74
Notes receivable............	41,368.00	85,618.20	44,250.20
Accounts receivable, less reserve for bad debts........	249,628.30	378,920.62	129,292.32
Due from affiliated companies..	116,283.25	146,962.18	30,678.93
Inventories.................	896,762.80	950,319.60	53,556.80
	$1,456,970.51	$1,783,135.50	$326,164.99
Deferred charges:			
Unamortized bond discount...		$36,000.00	$36,000.00
Other deferred charges.......	$29,615.25	47,837.90	18,222.65
	$29,615.25	$83,837.90	$54,222.65
Investments:			
Affiliated companies.........	$643,828.76	$668,828.76	$25,000.00
Outside investments.........	227,396.40	208,316.80	19,079.60*
	$871,225.16	$877,145.56	$5,920.40
Fixed assets:			
Land, buildings, machinery, equipment, etc...........	$2,392,875.40	$3,380,317.90	$987,442.50
Less, reserve for depreciation	465,928.15	562,928.62	97,000.47
	$1,926,947.25	$2,817,389.28	$890,442.03
	$4,284,758.17	$5,561,508.24	$1,276,750.07
Liabilities and net worth			
Current liabilities:			
Accounts payable..........	$215,962.10	$127,824.11	$88,137.99*
Notes payable.............	230,000.00	170,000.00	60,000.00*
Dividends payable.........	68,048.50	79,138.75	11,090.25
Accrued interest, taxes, etc...	87,368.20	96,218.90	8,850.70
	$601,378.80	$473,181.76	$128,197.04*

Assets	December 31 1923	1924	Increase or Decrease*
Ten year 6% gold bonds dated January 1, 1924..........		$500,000.00	$500,000.00
Reserves:			
Employees' pension fund.....	$2,619.30	$3,500.80	$881.50
Dredging reserve...........	6,927.60	7,317.19	389.59
Contingencies	120,615.40	122,876.45	2,261.05
	$130,162.30	$133,694.44	$3,532.14
Net worth:			
Capital stock preferred	$174,200.00	$236,500.00	$62,300.00
Capital stock, common......	2,600,000.00	3,000,000.00	400,000.00
Capital surplus............		479,326.19	479,326.19
Earned surplus.............	779,017.07	738,805.85	40,211.22*
	$3,553,217.07	$4,454,632.04	$901,414.97
	$4,284,758.17	$5,561,508.24	$1,276,750.07

On January 1, 1924, the company issued $500,000 par value 6% gold bonds due January 1, 1934. The bonds were sold at 92, the discount deferred to be amortized over the life of the bonds.

Outside investments included stock in the B company which cost $55,000. The B company failed during 1924 and the stock was sold for $5,000. The loss was charged to the reserve for contingencies. Other worthless outside investments, carried on the books at $10,000, were absorbed in the current profit and loss. Other charges in this account may be attributed to the sale of securities at their book value of $15,000 and the purchase of other securities.

An appraisal of the plant as of January 1, 1924, taken up on the books as at that date, resulted in a considerable increase in the sound book value. The appreciation arising therefrom amounted to $496,452.69 and was credited to capital surplus. Extensive additions and improvements were made from the proceeds of the bond issue. Depreciation was computed upon the appraised property values and amounted to $132,716.90 for 1924. It was found that $17,126.50 of this amount represented depreciation on the appreciation element in the book value of the fixed assets and this depreciation on appreciation was carried to capital surplus. A brick storehouse was abandoned and torn down in order to make room for plant extensions. The original cost of this building, $30,000, had been entirely written off to depreciation reserve and the salvage, after removal costs, amounted to $5,000. Actual expenditures for renewals and replacements charged directly to the depreciation reserve amounted to $10,716.43.

In addition to the worthless securities charged to contingencies reserve, a federal tax assessment for the year 1920, amounting to $47,738.95, was charged thereto. As a result of these unusual charges, the directors voted to appropriate $100,000 of surplus to increase this account. A charge of $1,200 was made against the pension reserve and $4,560.90 against dredging reserve.

On July 1, 1924, a common stock dividend was declared which increased the stock outstanding to $3,000,000.

The cash dividend transactions of the company were as follows:

Preferred	Common	Date declared	Date paid
$3,048.50	$65,000.00	Dec. 31, 1923	Jan. 15, 1924
3,325.00	65,000.00	Mar. 31, 1924	Apr. 15, 1924
3,500.00	65,000.00	June 30, 1924	July 15, 1924
3,717.00	75,000.00	Sept. 30, 1924	Oct. 15, 1924
4,138.75	75,000.00	Dec. 31, 1924	Jan. 15, 1925

Net profit for the year, carried to surplus, was $754,469.53.

No. 2 (18 points):

You are required to make a financial investigation of a large machine plant engaged in the manufacture, to order, for the trade, of tools, jigs, etc., for the five years ended December 31, 1924. In the course of your examination of the charges to the fixed asset accounts for the period, you find that practically all the additions to fixed assets for the five years have been made in the company's own shops as these additions consist principally of dies, jigs, patterns and similar machine equipment.

No additions to the real estate or buildings of the company were made during the five years.

During the examination you elicit from the company's books the data set forth in the following tabulation:

Year	Net profit from operations	Additions to fixed assets	Factory overhead charged to: Operations	Fixed asset accounts	Percentage of idle time (Normal percentage 20%)	Percentage of overhead to productive labor
1920....	$270,000	$25,000	$200,000	$10,000	18	98
1921....	50,000	50,000	120,000	27,000	38	180
1922....	105,000	35,000	175,000	15,000	23	105
1923....	225,000	13,000	225,000	5,000	17	90
1924....	90,000	44,000	135,000	25,000	41	200

Discuss fully the problems to be considered involved in your verification of the charges to fixed asset accounts for the five years, and if there is any division of opinion among accountants in theory, as to the propriety of any of the elements of these charges, present both viewpoints. Indicate, without using figures, the nature of the adjustments, if any, that you would make in view of the disclosed facts.

No. 3 (32 points):

F. Burden, a store fitter, trading alone and personally conducting all his business transactions, keeps no books of account except a cash book and a job book.

He requests you to make an inspection of these records and any other data available and, after making adjustments and such provisions for reserves as you think necessary, prepare a profit-and-loss account for the calendar year 1924 and relative balance-sheet.

From the bank pass-book, cancelled cheques and cash book, you obtain the following information:

Receipts:		
Deposited in bank		$86,577
Amounts not deposited		74,375
		$160,952
Made up as follows:		
For work done		$137,564
Repayments of second mortgage on house sold		2,063
Rentals, new stores		665
Deposit on sale of house (see notations)		1,000
Mortgage obtained on new stores	$12,500	
Less expenses	415	
		12,085
Mortgage interest on house sold		289
Advances by F. Burden for payrolls		4,209
Old personal loans repaid		3,012
Miscellaneous		65
		$160,952
Payments:		
Cheques drawn		$88,220
Cash		72,457
		$160,677
Comprising the following:		
Wages (cash)		$70,775
Sub-contractors for labor		2,341
Material purchased		48,083
Working expenses		7,765
Burden's personal drawings		1,953
Part cost of house sold, 1923 account (see notations)		1,755
Cost of new stores and apartments—		
Balance of cost of land	$4,000	
Buildings (frame and stucco)	20,141	
		24,141

New trucks (see notations)	$747
Cheque to bank for note receivable for work done, returned unpaid	2,044
Loan, personal, to B. Kerr	700
Interest on mortgage, new store	373
	$160,677

No record was in evidence of the balances of cash on hand or at the bank at January 1, 1924. The balance at the bank on December 31, 1924, after deducting outstanding cheques, was $2,267.61. There was no cash on hand at this date.

The following cash receipts and payments had *not* been entered in the cash book:

Travelling and business expenses paid	$631
Bonds purchased as an investment	400
Additional advances by Burden for payrolls	2,519
Deposit paid on land bought for new stores	500

and the transactions as follow were also omitted from the books, except where noted:

The house sold in 1924 was built in 1923; the payments made during 1923 were $1,750 for the land and $10,042 for the building; the balance paid in 1924 ($1,755) is included in cash payments recorded. The house was sold in 1924 for $15,850 less selling expense $425, a deposit of $1,000 (duly recorded) having been received in cash. An existing first mortgage of $6,500 was transferred to the purchaser and Burden took a second mortgage for the balance of the price repayable by installments.

On March 1, 1924, two new trucks (maker's list price, $750 each) were bought for $747 (as recorded), two old trucks being traded in, as part payment, at an estimated loss of $445. Another truck was also in use which cost $800 in January, 1922. A new passenger car, used for business, was bought July 1, 1924, for $1,500 and paid for in cash, no entry therefor appearing on the books.

On January 1, 1924, materials on hand were $5,810 (cost) and accounts receivable (good) were $1,853.

At December 31, 1924, the inventories, etc., showed the following:

Materials on hand (cost) paid for	$4,351
Materials on hand not paid for	9,032
Expense bills, 1924, unpaid	143
Accounts receivable (good) for work done	20,606
Accounts receivable (doubtful), including dishonored note of $2,044, total $2,904, estimated value	1,452

The total liability for workmen's compensation and other insurance to December 31, 1924, for which accounts had not been delivered, was estimated at $1,100.

Prepare the necessary accounts and balance-sheet as at December 31, 1924.

No. 4 (15 points):

Construct a skeleton balance-sheet for an industrial concern inserting the following items in their respective proper places:

(1) Federal taxes for 1919, $58,000.00 proposed to be assessed but disputed and still in process of negotiation.

(2) Sinking fund cash $10,210.00.

(3) Sinking fund reserve $85,000.00.

(4) Company's own bonds purchased with sinking fund cash for $56,710.92; par value $75,000.00.

(5) Appropriated from surplus as "insurance reserve" $65,-000.00. (Company carries its own insurance.)

(6) Reserve for accidents $10,000.00 by a charge to operating expense. (Claims arising from accidents aggregate $100,000.00.)

(7) Stock subscriptions unpaid aggregating $75,000.00. These are due three months from the balance-sheet date.

(8) The common stock is "no par." Part has been paid in at $5, part at $7.50 and part at $10.00 per share.

(9) $50,000.00 of bonds outstanding are due one month following the balance-sheet date.