Journal of Accountancy

Volume 61 | Issue 6 Article 2

6-1936

Examinations

American Institute of Accountants. Board of Examiners

AMERICAN INSTITUTE OF ACCOUNTANTS' EXAMINATIONS

[Following is the text of the examinations in auditing, law and accounting presented by the board of examiners of the American Institute of Accountants, May 14 and 15, 1936.]

BOARD OF EXAMINERS

Examination in Auditing

MAY 14, 1936, 9 A. M. TO 12:30 P. M.

The candidate must answer all questions.

No. 1 (9 points):

(a) Define contingent assets and contingent liabilities.

(b) Give two examples of each definition.

(c) How should each of your examples be shown on the balance-sheet?

No. 2 (5 points):

The balance-sheet of the A Corporation shows as a fixed liability "First mortgage bonds, $100,000." On inquiry you learn that these bonds mature within the next six months, and you inform the treasurer that you propose to show the item as a current liability. He explains that steps are being taken to refund the liability by a new issue of bonds at a lower rate of interest. From a survey of the finances of the corporation you are convinced that it will have no other means of meeting the debt.

It so happens that another client of yours owns 90% of the bonds, and has boasted to you that he will soon obtain full possession of the A Corporation which is a business rival.

(a) What use will you make of this knowledge?

(b) How will you treat this item on the A Corporation balance-sheet? Give your reasons.

No. 3 (8 points):

The Retail Hardware Corporation purchased on December 31, 1930, a cash register for $1,500, paying $500 down and giving a series of notes of $100 each, payable on December 31st of the ten following years. In your audit for the year 1935 you find this item stated in the "cash register" account and on the balance-sheet at $900. The bookkeeper explains that the corporation does not consider the register as its property until all the instalment notes have been paid, although the bill of sale passes the title unconditionally.

(a) State what entries should be made to show the facts. (Assume depreciation at 6%.)
(b) How will they be shown on the balance-sheet?
(c) What explanation will you give the bookkeeper in support of your instructions?

No. 4 (5 points):

Why should depreciation be deducted on the operating statement as an item of cost and before rather than after showing net operating profit?

No. 5 (5 points):

Your client, a manufacturer in a small way, occupies rented land and has signed a lease for twenty-five years which does not contain a renewal clause. On the land he has erected a building having an estimated life of fifty years. On his books you find he has charged depreciation at the rate of 2% per annum.

(a) Will you approve this rate?
(b) Would you approve it if the lease had contained an option to renew for twenty-five years longer?

Give your reasons for both answers.

No. 6 (12 points):

Your client, a physician, married and living with wife, hands you a memorandum of his income and expenses for the calendar year 1935 from which to prepare his income-tax return, viz.:

(1) Income from his profession as physician		$10,000
(2) Net loss from operations of farm where he maintains a country home		1,000
(3) Net loss from rental of sea-shore home for summer, viz:		
Rents received	$ 300	
Repairs and depreciation	600	300
(4) Gain from securities sold—bought in 1920		5,000
(5) Gain from securities sold—bought in 1931		1,000
(6) Loss from securities sold—bought in 1926		8,000
(7) Gain from real estate sold—bought in 1924, viz:		
Cost of land	1,000	
Cost of brick office building, new	7,000	
Total cost	8,000	
Sold for	10,000	2,000

(8) Interest paid	2,000
(9) State and municipal taxes paid	500
(10) Federal income tax for 1934 paid	700

State how each of the above items should appear in correct amounts on the return, and what will be the client's net income subject to normal tax.

No. 7 (12 points):

What is the auditor's duty with regard to each of the following accounts before certifying to the balance-sheet on which they appear? Where should they be shown on the balance-sheet?

(a) Reserve for depreciation.
(b) Reserve for restoration of leased property.
(c) Reserve for contingencies.
(d) Reserve for bond sinking fund.
(e) Reserve for income taxes:
1. In the case of an interim balance-sheet.
2. In the case of a final annual balance-sheet.

No. 8 (14 points):

State your reasoned objections to the form and the substance (a) of the various numbered parts of the following certificate and (b) of the certificate as a whole:

AUDITORS' CERTIFICATE

(1) We have audited the books, accounts and records of Adam & Smith, Inc., as at December 31, 1935, and (2) certify that, (3) subject to the realization of the accounts receivable and the inventories, (4) the attached balance-sheet is a true and correct statement of the company's financial position for the year. (5) We further certify that the accompanying profit-and-loss account as at December 31, 1935, is (6) true and correct according to the books.

JONES, BROWN & CO.

No. 9 (8 points):

How should an auditor verify the book record of:

Directors' fees.
Officers' salaries.
Commission paid to officers.
Officers' traveling expenses.

No. 10 (12 points):

(a) State briefly what information you would expect to obtain from the following ratios, viz.:

(1)	Operating profits	to Operating capital employed,
(2)	Net sales	to Operating capital employed,
(3)	Working capital	to Operating capital employed,
(4)	Net sales	to Gross fixed assets,
(5)	Net sales	to Receivables,
(6)	Cost of goods sold	to Inventories,
(7)	Net worth	to Total assets,
(8)	Current assets	to Current liabilities,
(9)	Cash	to Current liabilities,
(10)	Net income	to Net worth.

(b) When does the information become really useful?

No. 11 (10 points):

(a) On what basis of valuation should the general fixed properties of a municipality be carried on the books? Give reasons for your answer.

(b) Should any different treatment be applied to similar property of utilities operated by the municipality? Give reasons for your answer in this case also.

Examination in Accounting Theory and Practice

PART I

MAY 14, 1936, 1:30 P. M. TO 6:30 P. M.

Solve problem 1 or 2 and all other problems.

No. 1 (20 points):

You are engaged to audit the accounts of a city for the year 1933. The books as you find them show the following information as to the general fund:

Surplus at beginning of year	$332,011
Taxes assessed	184,400
Other revenues collected	56,841
Expense, per vouchers approved	227,642
Surplus at end of year	345,610

On investigation, you discover the following additional facts:

(a) The assets of the fund include the inventory of general stores—$23,812. A continuous inventory of about this amount is maintained, the council having authorized such an inventory up to $25,000.

(b) The assets of the fund also include book value of permanent property, which on January 1st totaled $269,362 and on December 31st, $286,962. The difference represents capital expenditures for the year charged direct to fixed-asset accounts.

(c) On December 31st, orders and contracts were outstanding estimated to cost $4,350, payable out of the appropriations of the year 1933.

(d) Taxes for the year were due May 1st, but only 82% had been collected at December 31st. Estimates indicate further collections of not over 8%.

(e) Amounts due the sinking fund from the general fund for the year totaled $9,212, of which $6,000 was paid and included in expense.

(f) On January 2, 1934, a public benefit instalment of $3,178 is due the assessment fund. A similar instalment, due January 2, 1933, was paid in 1933 and entered as an expenditure of that year.

(g) Included in the expense of the year under audit are the following sums paid for departments entirely supported by special funds: library, $1,687; parks, $2,143.

---

1. Does the surplus as stated at the beginning and the end of the year correctly indicate the amount available for appropriation and expenditure on those dates? If not, prepare working statements to indicate the adjustments you would consider necessary in each amount.
2. Present also a correct statement of general-fund revenue, expenditure and available surplus for the year.

No. 2 (20 points):

The operations of K. Inc. for the fiscal year ended June 30, 1935, are expressed in the following table of percentages:

	Per cent.
Sales	100.00
Cost of sales	66.67
Gross profit	33.33

Expenses:		
Selling and delivery	10.00	
Administration and general	7.50	17.50
Net profit		15.83

There was no inventory at the beginning of the fiscal year and during that year the company, operating at full capacity, produced 10,000 units, of which 8,000 were sold. The materials, labor and overhead were, respectively, 35%, 45% and 20% of the cost of production.

The current year's costs are expected to show increases as follows: materials, 15%; labor, 10%; overhead, 20%. On the other hand, it is expected that, because of more efficient methods, the production will be increased 10%, and you are to assume that this is accomplished without additional increases in the cost of production.

Negotiations are pending with S & R who are prepared to purchase K. Inc.'s entire output for the current year, together with the stock on hand at the beginning of the current year, if the parties can agree on a price. In that event the amount of the selling and delivery expense would be reduced 75%, and there would be no change in the amount of the administration and general expense.

Accepting the indicated changes in costs and production, what percentage of increase or decrease in the 1935 selling price per unit would enable K. Inc. to realize, under the contemplated arrangement, a net profit of 20% on the sales?

No. 3 (25 points):

The plant of the Tamarack Manufacturing Company, engaged in the manufacture of hunting and camping articles, was partly destroyed by fire on the night of September 1, 1935. Practically all books of account were burned, but the data given below were obtained from various sources.

Balance-sheet January 1, 1935

Assets		*Liabilities*	
Machinery and fixtures	$ 47,000.00	Notes payable	$ 4,729.50
Automobiles	3,494.40	Accounts payable	2,553.60
Liberty bonds	10,000.00	Reserve for depreciation	8,437.50
Customers' accounts	35,524.00		
Inventory	50,000.00	Capital stock	100,000.00
Cash	28,923.10	Surplus	59,220.90
	$174,941.50		$174,941.50

An analysis of the cheque book and cancelled vouchers revealed the following receipts and payments:

Receipts		*Payments*	
From customers......	$ 98,746.70	Notes payable.......	$ 917.50
Notes payable.......	34,376.00	Accounts payable....	42,584.20
Interest on bonds....	237.50	Machinery..........	3,750.00
		Labor..............	77,366.40
		Administrative salaries	9,675.28
		Selling expenses......	11,900.00
		Sundry manufacturing expenses..........	646.62
		Rent...............	4,000.00
		Office expenses.......	2,418.50
		General expenses.....	2,381.40
	$133,360.20		$155,639.90

A report rendered to the president on September 1, 1935, showed that $172,952.10 was receivable from customers and $24,457.50 was due to creditors (accounts payable).

There should be a charge of $1,012.50 for depreciation to September 1, 1935, and the automobiles should be written down to $3,000.

An inventory of the merchandise not burned was valued at $20,000. The insurance company agreed to accept the inventory of the company as before the fire if calculated on a basis of average gross profits at 35% of the sales. The company's inventory was insured for $30,000 on an 80% co-insurance policy. There was a $5,000 loss on machinery and fixtures which the insurance company also agreed to pay.

From the foregoing data:

(a) Reconstruct the accounts of the company, and show the method followed.

(b) Prepare (1) a balance-sheet as at September 1, 1935, which is to include the liability of the insurance company and (2) a profit-and-loss account for the eight months ended on that date, showing details of cost of sales.

No. 4 (20 points):

From the following data prepare a consolidated balance-sheet of the Alpha Company and subsidiaries as at December 31, 1934:

	December 31, 1934		
	Alpha Co.	Beta Co.	Gamma Co.
Cash in banks and on hand	$ 30,000	$ 10,000	$ 15,000
Customers' notes and accounts receivable	90,000	50,000	60,000
Inventories	70,000	60,000	50,000
Investments at cost			
Stock of Beta Company—75%	100,000		
" " Gamma " —80%	200,000		
Property, plant and equipment, less reserve for depreciation	500,000	200,000	120,000
Investment at cost			
Stock of Beta Company—15%			30,000
Deferred charges	10,000	5,000	5,000
	$1,000,000	$325,000	$280,000
Notes payable	$ 60,000	$ 50,000	$ 30,000
Accounts payable	40,000	45,000	20,000
Mortgage on plant			90,000
Capital stock—par value $100 a share	500,000	200,000	100,000
Surplus	400,000	30,000	40,000
	$1,000,000	$325,000	$280,000
Surplus:			
Earned surplus at December 31, 1933	$ 280,000	$ 10,000	$ 50,000
Income for year 1934	70,000	20,000	30,000
Increase on appraisal of land as at January 1, 1934	100,000		
	$ 450,000	$ 30,000	$ 80,000
Dividends paid	50,000		40,000
Surplus at December 31, 1934	$ 400,000	$ 30,000	$ 40,000

The Alpha Company acquired its holdings in "Beta" and "Gamma" on December 31, 1933.

The Gamma Company's holding of Beta Company stock was purchased at an earlier date at par, which was also the book value.

No. 5 (20 points):

The members of the firm Stewart & Co., the balances in their capital and current accounts at the end of the fiscal year and the ratios in which they share the profits are as follows:

	Capital accounts Cr.	Current accounts Dr.* Cr.	Share of profits
Stewart.............	$100,000	$20,000	35%
Green...............	50,000	30,000	25%
Jones...............	30,000	7,000*	20%
Smith...............	20,000	3,000*	20%

The balances in the partners' capital accounts represent the capital originally contributed by each one.

The firm at the end of the fiscal year has sold its entire business to the Stewart Corporation for $300,000, which is the actual net worth of the firm, as agreed between the partners, and the firm has received 3,000 shares of the corporation in full payment. The corporation has thus acquired all the firm's assets and assumes all its liabilities recorded on the books, including the balances in the partners' current accounts.

The four partners intend to retain the same interest in the capital stock and the profits of the corporation as they had in the profits of the firm.

1. You are required to show the settlement between the partners.
2. What will be the settlement between the partners if, under the otherwise unaltered terms of the sale, the corporation does not take over the balances in the partners' current accounts and these balances are settled between the firm and its partners before the sale is consummated, so that the firm's total liability to the individual partners may be restored to the amount of capital originally contributed?
3. What will be the settlement between the partners if, under the otherwise unaltered terms of the sale, the corporation does not take over the balances in the partners' current accounts and the partners agree among themselves that, for purposes of the settlement, these balances are to be transferred to their respective capital accounts?

No. 6 (7 points):

On July 1, 1927, a company issued $1,000,000 in bonds at a discount of 10%. These bonds were to mature as follows:

July 1, 1932	$ 100,000
" 1933	100,000
" 1934	100,000
" 1935	100,000
" 1936	100,000
" 1937	500,000
	$1,000,000

On July 1, 1935, the company purchased $50,000 (par value) of bonds maturing on July 1, 1936, at 85 and retired them.

What entry should be made on July 1, 1935, to record the purchase?

(The solution should be based on the "bond outstanding method".)

No. 7 (8 points):

The Mean-Well Company allowed its employees to subscribe to its capital stock on an instalment basis. The number of employees and the shares subscribed by each were as follows:

Number of employees	Shares subscribed by each	Total shares
5	1	5
10	2	20
25	5	125
10	10	100
10	25	250
2	50	100
2	100	200
64		800

After all subscriptions were paid the company distributed pro rata 352 additional shares as a special bonus or donation. No fractional shares were to be issued. Employees entitled to less than ½ share received from the company an equivalent in cash at $50 a share; employees entitled to more than ½ share paid the company at the same rate for the scrip necessary to round out their holdings. No deviation from the plan was permitted.

Prepare (1) a columnar schedule showing the number of shares subscribed by and distributed to each employee, the fractional shares sold or bought and the cash paid or received by him; also prepare (2) a summary of the schedule, showing aggregates.

Examination in Commercial Law

May 15, 1936, 9 a. m. to 12:30 p. m.

Reasons must be stated for each answer. Whenever practicable give the answer first and then state reasons. Answers will be graded according to the applicant's evident knowledge of the legal principles involved in the question rather than on his conclusions.

Group I

Answer all questions in this group.

No. 1 (10 points):

Parker, a certified public accountant, made an audit of Thornton's books of account and rendered a financial report which Thornton used in obtaining credit. Answer each of the following questions, giving legal arguments or reasons for each answer:

(a) If Thornton is sued by a creditor who had not seen Parker's report, can Parker, as a duly subpoenaed witness, decline to disclose business information procured by him during the conduct of his audit but not incorporated in his report?

(b) If Thornton is arrested and tried in a criminal proceeding, can Parker, as a duly subpoenaed witness, decline to disclose such information?

(c) Can Thornton compel Parker to turn over to him an analysis (in pencil) of an asset account made at Parker's request and for his assistance by Thornton's bookkeeper during the conduct of Parker's audit?

(d) Can Thornton compel Parker to turn over to him an analysis (in pencil) of the asset account referred to in question (c) made by one of Parker's assistants during the conduct of his audit?

(e) Can Parker by his last will and testament bequeath all of his working papers to a legatee?

No. 2 (10 points):

The certificate of incorporation and the by-laws of a corporation provided that management of it was vested in its board of seven directors. A deed to land owned by the corporation was prepared in the name of the corporation and was signed by each director, but no two directors signed at the same time or place and no meeting was held or resolution passed. There were several hundred stockholders and three of the directors were not stockholders. Was the deed effective to pass title?

No. 3 (10 points):

What elements or factors must exist in order to constitute a fraud sufficient to vitiate a contract?

No. 4 (10 points):

Hawkes and Andrews were public accountants practising under the firm name of Hawkes and Andrews. Without the knowledge of Hawkes, Andrews borrowed money on a promissory note signed and endorsed by him individually and then endorsed by him with the firm name. He used the money thus borrowed for regular and ordinary expenses of the firm. In an action on the note, by the payee, can judgment be obtained against Hawkes?

No. 5 (10 points):

What is the difference between a sale and a contract to sell and of what importance is the distinction?

Group II

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

No. 6 (10 points):

Eight men signed, acknowledged, filed, and recorded a paper purporting to be a certificate of incorporation under a state statute. They then issued capital stock to themselves, elected directors and officers, adopted by-laws and began to do business. The purposes of the corporation stated in the paper so executed and filed were not authorized by the statute under which incorporation was attempted and the place where the business was to be conducted was not stated therein as required by the statute, but these errors were not detected in the office of the secretary of state until after the organization had been completed and some business had been transacted.

(a) Can the state successfully question the legality of the corporation?

(b) Can the eight men be sued as partners by a person dealing with the alleged corporation prior to any action by the state?

No. 7 (10 points):

A young man 20 years and 11 months of age who looked 25 years of age misrepresented himself to be over the age of 21 and made a contract for the purchase of and did purchase an article which was not a "necessary" for which he would be liable. Has the vendor any remedy in a civil (not a criminal) action?

No. 8 (10 points):

Martin, a licensed insurance broker, procured a new policy from an insurance company, delivered it to the assured, and collected the premium. He then notified the company that he had collected the premium and the company sent him a bill for the premium payable in 60 days. The policy contained a provision to the effect that the broker was an agent of the assured and not of the insurance company. Martin failed to pay the amount of the premium to the company and thereupon the company sent a notice to the assured cancelling the policy for non-payment of the premium. Must the assured again pay the premium to avoid cancellation of the policy?

No. 9. (10 points):

Formal notice of presentment and dishonor of a promissory note was not mailed or otherwise given to an indorser. Upon the trial of an action brought against him, the testimony showed that the indorser had said to at least one witness that the maker "is having trouble with his creditors and I don't believe he will be able to meet this note at maturity." It further appeared that the indorser had arranged with the maker a plan whereby the maker could pay the note in instalments. Is the defense of lack of notice an effective bar to the action against the indorser?

No. 10 (10 points):

What are the legal requirements in your state as to witnesses and other formalities for the proper execution of a last will and testament? (Name the state to which your answer relates.)

No. 11 (10 points):

Give a general description of the plan provided in section 74 of the National Bankruptcy Act which makes it possible for a person, other than a corporation, in financial difficulty to petition for a composition with creditors or for an extension of time in which to pay his debts.

No. 12 (10 points):

Colley, who was a promoter, announced that he was organizing a new corporation. He made a contract in the name of the corporation prior to its incorporation by which the corporation agreed to purchase merchandise from Russell. After the corporation was duly organized, Colley was unable to convince its directors and officers that it should purchase this merchandise and the corporation refused to accept it when it was duly tendered. Can Russell recover damages from Colley, or from the corporation, or from both of them?

Examination in Accounting Theory and Practice

PART II

May 15, 1936, 1:30 p. m. to 6:30 p. m.

Solve problems 1 to 6 and problem 7 or 8.

No. 1 (20 points):

You are requested by a brewery to recommend the proper procedure of accounting for its kegs. The following information is supplied:

(a) Kegs are purchased and remain the property of the brewery.

(b) A charge of $5 (the approximate cost) is made to the customer for each keg containing the beer sold, with the privilege of returning the empty keg and receiving $5 credit.

All kegs are ultimately returned by the customer.

(c) Kegs are periodically reconditioned by outsiders and will last twenty years.

(1) Describe, as you would in a system report, the accounts that should be kept, the regular charges and credits thereto and the means whereby the accounts can be made to furnish a proper accounting control of the kegs.
(2) Prepare the journal entries for the aforesaid charges and credits.
(3) How would you show the following items on the brewery's balance-sheet?
    (a) 28,000 kegs owned.
    (b) 10,000 kegs with customers.
    (c) 3,000 kegs in the warehouse and shipping room, filled with beer.
    (d) 15,000 kegs in the warehouse, new and returned by customers.

No. 2 (24 points):

Phoenix Smelting Company (Co. A) has agreed to purchase the minority interest in Phoenix Mining Co. (Co. B). Their balance-sheets show:

	(Co. A) Phoenix Smelting Co.		(Co. B) Phoenix Mining Co.
Assets:			
Tangible assets..........	$3,764,513		$2,264,718
Goodwill................	500,000		
91,000 shares of Co. B.....	1,270,000	5,373 shares Co. A	622,443
	$5,534,513		$2,887,161
Liabilities:			
Creditors................	367,423		133,675
Capital stock 40,000 shares	4,000,000	100,000 shares	2,500,000
Surplus.................	1,167,090		253,486
	$5,534,513		$2,887,161

The stock is to be acquired at asset value, but in the computation the goodwill of either company is not to be considered. How much should be paid to the minority stockholders per share of Company B? Do not carry your computation further than whole cents per share.

No. 3 (15 points):

A corporation owning a deposit of glass sand has a capital stock of $500,000 and a surplus of $67,500. Its fixed charges, interest, management expense, etc., amount to $43,000 a year. This amount is constant and not affected by the output.

The accounts show that it costs $3.60 a ton to operate the deposit. This amount includes depletion and all costs except the fixed charges mentioned above, but it does not include state and federal income taxes. The selling price is $6 a ton.

State taxes amount to 4½% of the income; the federal income tax is 13¾% and is not allowed as a deduction in computing the state tax.

How many tons a year must be sold in order that the corporation may make 7% on its investment (capital stock plus surplus)?

How many tons must be sold if the return is to be 8%?

In each case the return is to be computed after payment of the income taxes. Fractional parts of tons should be ignored.

No. 4 (15 points):

The members of a medical society are classified according to the number of years each one has been in practice. They pay admission fees and annual dues as follows:

Class	Years in practice	Admission fees	Annual dues
A.................	Over 25	$150	$100
B.................	10–25	75	50
C.................	Under 10	None	25

Dues are payable for the entire year, irrespective of the date on which membership becomes effective.

No refunds are made on account of resignations, expulsions, etc.

Members reinstated are required to pay a full year's dues as of the date of reinstatement but no admission fees.

Transfers to higher classes become effective as of the beginning of the year and involve no admission fees.

During the years 1933, 1934 and 1935 the following changes took place in the membership:

	1933			1934			1935		
	A	B	C	A	B	C	A	B	C
Balance at beginning of year...........	150	275	120	152	285	130	147	304	158
Add:									
Elections.......	5	14	39	2	12	63	3	7	138
Reinstatements..	2	3	1	1	2	2		1	1
Transfers (per contra).......	17	23		10	31		14	19	
	24	40	40	13	45	65	17	27	139
	174	315	160	165	330	195	164	331	297
Deduct:									
Deaths.........	9	3	2	13	2	1	11	5	2
Resignations....	10	5	2	3	11	4	4	10	5
Expulsions	3	5	3	2	3	1	1	5	1
Transfers (per contra).......		17	23		10	31		14	19
	22	30	30	18	26	37	16	34	27
Balance at end of year	152	285	130	147	304	158	148	297	270
		567			609			715	

In the three years the expenses respectively amounted to $39,621, $41,236 and $44,787. There are no outside sources of revenue.

Although the membership is increasing, the society finds it more and more difficult to balance its budget, and it is proposed to remedy this condition and provide the funds for increased activity by making the following changes in the members' fees and dues, viz.:

1. Class C members to pay $25 admission fees.
2. Class C members to pay $50 when they become class B members.
3. Class B members to pay $75 when they become class A members.
4. Class C dues to be increased to $40 and class B dues to $75 per annum.

From the foregoing data prepare:

(a) A statement showing income and expenses for each of the years 1933, 1934 and 1935.

(b) A statement of income and expenses for 1935 as they would have been if the proposed increases in fees and dues had become effective at the beginning of that year. It is understood that the increases had had no effect upon the changes in membership.

No. 5 (8 points):

The Q Company, with all its four subsidiaries A, B, C and D located abroad, requires a consolidated balance-sheet for a special purpose at a date other than the end of a fiscal period. The subsidiary companies' balance-sheets and profit-and-loss accounts of that date are available and it is found that the inter-company balances do not agree. All differences are traced however and are satisfactorily explained as follows:

On the books of Q Company—
A was charged with $516.79 for furniture.
C " " " 1,828.00 for machinery.

On the books of A—
B was charged with $2,083.16 for furniture.

On the books of B—
Q was charged with $10,021.02 for cash remitted.
C " " " 1,858.78 for merchandise.

On the books of C—
Q was charged with $2,020.00 for commission, but this was not allowed by Q Company.
A was credited with $520.50 for a cash sale from A's merchandise held on consignment by C. Of this amount 20% was profit.

On the books of D—
Q was credited with $600 for cash remitted to D by a Q company customer.
A was credited with $380 for a sale from A's merchandise held on consignment by D. Of this amount 25% was profit.

Time does not permit the adjustment of the books and for present purposes it is intended to make the required changes directly on the consolidated balance-sheet.

Prepare a summary of the increases and decreases under the several balance-sheet headings. Disregard foreign exchange.

No. 6 (12 points):

A, B, C and D are partners in the manufacturing and selling of a patent invented by D. A lent the partnership $50,000 as his contribution to the organization and took a note for the amount. B was an experienced machinist and furnished the use of his complete machine shop, valued at $50,000, for the manufacture of the article exclusively, together with expert supervision. C gave his services as sales manager to create and perfect the partnership's selling organization. D turned in his patent at an agreed value of $50,000 as his contribution to the partnership's capital. Each partner was to receive one fourth of the profits. The profits in the first year were $60,000; in the second year $80,000; in the third year $120,000. At the end of the third year the whole business was sold for $500,000 cash. A's note had been paid and the drawings had been: A, $50,000; B, $60,000; C, $50,000; D, $20,000.

Prepare a statement showing the proper disposition and division of all profits. No consideration need be given to anything not specifically mentioned in the problem. Give the reasons for your allocations to the individual partners.

No. 7 (6 points):

An amusement park, operating during the summer months only, sells tickets to the public, good for admission to its various concessions. The tickets are not redeemable in cash but at any time after purchase may be used for admission to the concession and are honored even in the following season.

In making an audit of this amusement park at the end of its season you find that several hundred dollars' worth of these tickets has not yet been turned in and is apparently outstanding in the hands of the public.

How would you show this condition on the balance-sheet of the company?

No. 8 (6 points):

A loan is made with the proviso that on each interest date a payment shall be made on account of principal equal in amount to the amount of interest then paid, this arrangement to continue until the principal is reduced to approximately one half of the original loan, when a new arrangement will be made.

(1) Show by formula the number of payments required under the first arrangement.

(2) How many payments would be required to pay off the entire loan under the first arrangement? Give formula.