1931

Examination [1931]

Virginia State Board of Accountancy

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VIRGINIA STATE BOARD OF ACCOUNTANCY

RICHMOND, VIRGINIA

November 19, 20 and 21

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PRICE, 25 CENTS PER COPY

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Examination Virginia State Board of Accountancy

THEORY OF ACCOUNTS

NOVEMBER 19, 1931—9 A. M. TO 1 P. M.

Answer All Questions

Do not repeat questions, but designate them by numbers and letters

1. You are preparing a manual of general accounting procedure for a large industrial concern. Outline therefor a plan of providing for bad debts and a bad debt reserve. Monthly financial statements are contemplated. Explain any Income Tax features that may be involved in plan submitted by you.

2. You are auditor for a Corporation which has been very successful over a period of years, earning large profits every year. Dividends, however, have been paid every year in amounts practically equal to the earnings, therefore a very small surplus is shown. The Company now makes application to a bank to borrow $250,000.00 to be used in the erection of a new building. The bank calls on them for a financial statement. In addition to preparing a balance sheet to be presented to the bank, what other information in your opinion should you give which would enable them to decide whether or not to make the loan?

3. What is the proper accounting procedure involved in the following questions?

   (1) Is the gain arising from the cancellation by a parent company of advances to a subsidiary a proper credit to the earned surplus account of the subsidiary company?
   (2) Are profits on the sale of plant assets earned surplus?
   (3) In the absence of earned surplus, may a deficit from operations be deducted from paid-in surplus and the net balance shown in subsequent balance sheets without qualification as paid-in surplus?
   (4) May good-will or other intangible assets be written off by charging them against surplus arising from the appraisal of the company's fixed assets?

4. A corporation purchased $300,000.00 of its outstanding serial bonds at an average price of 65 on the open market. It desires to show the saving as a current year's profit to be carried to earned surplus. Have you any objections? Is it available for dividends? What immediate disposition, if any, should be made of the unamortized bond discount and expense applicable to the above bonds?

5. The president of a corporation, whose life has been insured for the benefit of the corporation, dies. The corporation receives from the insurance companies $250,000 on November 1, 1930. You are called upon to make an audit and report on the operations of the corporation for the year 1930.

   (*a*) How would you show the $250,000 received as insurance in your report?
   (*b*) How would you show the $250,000 in the Federal income tax return?

6. In the course of an audit of the Y Company you find that on June 30, 1930, A and B owned all of the stock and that on this date C, who was not a stockholder at this time, and B, who was and still is a stockholder, purchased 220 shares of the stock owned by A for $22,000.00. In settlement B and C gave $6,000 cash and a note for $16,000, payable 3 years after date signed by the corporation and endorsed by them (B and C). The stock was reissued to B and C. There were no entries made of this transaction, but in the course of your audit you discovered it. B and C claim that they are responsible and no entries should be made on the books. There are no minutes pertaining to the transaction.

   State how you would handle this in making your report on the audit.

7. (*a*) Define three-quarter value insurance, and 80% co-insurance clauses.
   (*b*) What difference would there be, if any, in the effect of three-quarter value and co-insurance in the case of a partial loss?

8. Discuss the relationships and distinctions between the following:

   (1) Sinking fund reserve and funded debt.
   (2) Sinking fund and sinking fund reserve.
   (3) Depreciation reserve and sinking fund reserve.
   (4) Sinking fund reserve, immediately after the retirement of a bond issue, and (a) earned surplus, (b) cash dividends, and (c) stock dividends.
   (5) Sinking fund reserve and revaluation surplus arising from appraisal of properties mortgaged.

9. Two corporations consolidated in 1929, stock in a new corporation having been exchanged, par for par, for the stock of the two old corporations which thereupon transferred their assets to the new corporation and dissolved. There was no change in or addition of stockholders. Substantial earned surplus accounts existed on the books of each old company. Appraised values of fixed assets (which exceeded the book values thereof) were declared by the Board of Directors of the new company to be their fair values which should be transcribed on the books of account.

   (*a*) Should the earned surplus accounts have been transferred as such to the books of the new company?
   (*b*) For income tax purposes what basis should be followed in determining depreciation expense?

10. A movement has been on foot for several years to classify accounting services. Of what value to the certified public accountant would such classification be?

   (*a*) Name at least six classifications of such services.
   (*b*) What would be the advantage of the adoption of uniform classification of accounting services to the accountant, to the client and to the general public?

PRACTICAL ACCOUNTING

PART I

NOVEMBER 19, 1931—2 P. M. TO 6 P. M.

PROBLEM 1

The Giles University presents a balance sheet at December 31, 1930, drawn up as follows:

ASSETS

General Fund:			
Cash—General Fund			$ 4,395.63
Unpaid Tuitions			2,348.43
Accrued Interest Receivable			5,764.08
Unexpired Insurance			1,587.96
Furniture and Equipment			59,853.18
Total General Fund Assets			$ 73,949.28
Endowment Funds:			
Bonds and Mortgages		$336,750.00	
Stocks and Bonds		75,312.62	
Real Estate Investments		163,149.30	
Real Estate—University Property		135,641.68	
Cash—Endowment Funds:			
In Banks	$10,800.91		
Due from General Fund	14,358.32	25,159.23	
Total Endowment Fund Assets			736,012.83
Total Assets			$809,962.11

LIABILITIES

Notes Payable	$ 10,000.00
Accounts Payable	8,724.59
Due to Endowment Funds	14,358.32
Total Liabilities	$ 33,082.91
Endowment Funds	736,012.83
General Fund	40,866.37
	$809,962.11

(*a*) The endowment funds are restricted as to the use of the income therefrom for general purposes of the university.

(*b*) The item "Real Estate—University Property" represents amount paid in acquiring title to property upon which university buildings stand, which was originally leased by the university. These payments were made from the proceeds of sale of endowment fund investments. On December 29, 1930, the property upon which university buildings stand was sold and title passed for a cash consideration of $500,000.00, the check for which was not deposited until January 5, 1931.

(*c*) Cash shown as due from General Fund represents Endowment Fund cash advanced to pay off obligations incurred as a result of university operations.

Required:

(*a*) Criticize the balance sheet as submitted.
(*b*) Prepare necessary journal entries to set up the sale of real estate.
(*c*) Prepare corrected balance sheet as of December 31, 1930.

Problem 2

You have been engaged to make an audit for the National Paper Manufacturing Company, Inc., manufacturers of print paper, as of December 31, 1930. Having completed all detail work and made certain adjustments, your trial balance is as follows:

	Debit	*Credit*
Profit and Loss		$ 3,271.19
Capital Stock		200,000.00
Buildings	$ 102,485.72	
Machinery and Fixtures	235,769.31	
Cash	69,967.19	
Purchases (Raw Material)	147,648.45	
Inventory Finished Stock—Jan. 1, 1930	3,344.71	
Sales		547,681.75
Twine	4,953.68	
Expense	36,075.50	
Petty Cash	200.00	
Felt	19,285.06	
Wages	114,261.24	
Repairs	14,180.08	
Drayage In	899.04	
Fuel	40,041.89	
Discount	11,330.05	
Insurance—Fire	3,146.68	
Notes Receivable	1,157.73	
Interest Received		3,149.17
Taxes	6,593.20	
Commissions	159.64	
Surplus		224,524.04
Coloring	312.81	
Oil	3,901.49	
Sulphite	21,498.63	
Rent—Storage Warehouse for Raw Material	2,135.50	
Investments	74,057.50	
Auto Equipment	19,150.94	
Advertising	601.57	
Land	14,114.75	
Chemicals	13,247.43	

Dividends Paid	60,000.00	
Electric Power	12,888.42	
Accounts Receivable	29,006.79	
Real Estate (New Factory Site)	77,554.18	
Taxes on New Factory Site	1,250.00	
Insurance on Old Bldg. on New Factory Site	218.75	
Reserve for Deprec. on Auto Equipment		18,140.03
Reserve for Deprec. Buildings		33.088.99
Reserve for Deprec. Machinery and Equipment		115,254.08
Scrap Sales		610.92
Prepaid Freight	1,334.64	
Traveling Expense	893.99	
Garage	1,168.51	
Reserve for Depreciation—Garage		58.42
Legal Expense—New Factory Site	2,676.37	
Fire Loss—Building (old) New Factory Site		2,100.00
New Machinery not installed	367.15	
Totals	$1,147,878.59	$1,147,878.59

INVENTORIES—DECEMBER 31, 1930

Raw Material	$ 5,437.76
Finished Product	4,389.74
Twine	574.97
Manufacturing Supplies	337.08
Felt	2,340.00
Repair Supplies	1,823.66
Fuel	237.16
Coloring	182.30
Oil	265.72
Sulphite	1,534.74
Chemicals	836.32

Analysis of certain accounts reveals the following:

PROFIT AND LOSS

Credits: Fire Loss			$ 5,388.12
Charges:			
Loss on Sale Ford Coupe	$ 152.84		
Machinery destroyed by fire	1,206.27		
Loss on sale of old machine	45.15	$ 1,404.26	
Loss on State Bonds—Cost	$ 70,712.67		
Redeemed by State at par	70,000.00	712.67	2,116.93
Balance shown by Trial Balance			$ 3,271.19

EXPENSES

Officers' Salaries	$ 17,500.00
Office Salaries	6,616.16
Salary of Shipping Clerk	1,935.00
Water, Light and Gas—Factory	1,180.25
Miscellaneous Manufacturing Supplies	5,449.02
Auditing	547.00
Stamps, Stationery and Printing	1,048.59

Telephone and Telegraph	617.28
Dues and Subscriptions	541.25
Donations	100.00
Miscellaneous	540.95
Total Shown by Trial Balance	$ 36,075.50

WAGES

Labor	$100,713.74
Salary of Superintendent	10,000.00
Salary of Receiving Clerk	3,547.50
Total Shown by Trial Balance	$114,261.24

DISCOUNT

Discounts Allowed Customers	$ 12,030.10
Discounts on Purchases	700.05
Net Shown by Trial Balance	$ 11,330.05

INTEREST RECEIVED ON:

State Bonds	$ 1,487.50
Accounts and Notes Receivable	1,661 67
Total Shown by Trial Balance	$ 3,149.17

TAXES AND LICENSES

Registration Franchise Tax	$ 80.00
State Income Tax	2,938.27
City Tax on Real Estate	2,699.92
State Capital Tax	875.01
Total Shown by Trial Balance	$ 6,593.20

SURPLUS

Balance—January 1, 1930		$244,774.35
Charges during year:		
Federal Income Tax Paid for Year 1929	$ 10,250.31	
Dividend Paid 12-9-30 and Charged Direct to Surplus	10,000.00	20,250.31
Balance as Shown in Trial Balance		$224,524.04

DEPRECIATION WRITTEN OFF FOR THE YEAR 1930

Machinery and Equipment	$ 22,415.14
Buildings	3,062.31
Auto Equipment	334.24
Garage	116.85

Dividend of 7½% was declared December 28, 1930, payable January 15, 1931.

From the above construct a work sheet in columnar form, showing manufacturing cost, profit and loss, and assets and liabilities.

PART II

NOVEMBER 20, 1931—9 A. M. TO 1 P. M.

PROBLEM 3

Prepare a consolidated balance sheet of X Company, a manufacturing corporation which also controls, through stock ownership, Y Company.

The following are trial balances of the books, December 31, 1930:

X COMPANY	*Debit*	*Credit*
Real Estate	$200,000.00	
Machinery and Equipment	100,000.00	
Accounts Receivable	50,000.00	
Cash	10,000.00	
Inventories, December 31, 1930	75,000.00	
Shares—Y Company (300 Shares, Par $100.00)	35,000.00	
Y Company Current Account	5,000.00	
Capital		$400,000.00
Accounts Payable		30,000.00
Bills Payable		20,000.00
Surplus		19,000.00
Profit and Loss for 1930		6,000.00
	$475,000.00	$475,000.00

Y COMPANY	*Debit*	*Credit*
Accounts Receivable	$ 45,000.00	
Stock on Hand, December 31, 1930	25,000.00	
Cash	5,000.00	
Treasury Stock (100 Shares, Cost)	11,000.00	
Furniture and Fixtures	3,500.00	
Surplus		$ 20,000.00
X Company Current Account		4,500.00
Accounts Payable		10,000.00
X Company Drafts Accepted		5,000.00
Capital Stock (500 Shares, Par $100.00)		50,000.00
	$ 89,500.00	$ 89,500.00

The stock on hand of Y Company was manufactured by X Company and was billed to Y Company at 10% in excess of cost, at which value it is taken in the inventory. The difference in the intercompany current accounts consists of a note issued by Y Company in settlement of a claim for damages but not entered on the books and was paid by X Company. The directors of Y Company declared a dividend of 1½% on December 15, 1930, payable January 15, 1931, which has not been entered on the books. The book value of Y Company stock was also the par value when X Company acquired its interest.

Required:

Prepare Consolidated Balance Sheet with the necessary schedules to support it.

PROBLEM 4

The following trial balance was taken from the books of the Manchester Hardware Company, December 31, 1930:

	Debit	Credit
Cash on Hand	$ 100.00	$
Cash in Bank	3,000.00	
Sales		1,150,000.00
Discounts on Purchases		20,000.00
Interest on Notes Receivable		1,000.00
Accounts Receivable	150,000.00	
Notes Receivable	10,000.00	
Capital Stock		200,000.00
Real Estate	50,000.00	
Buildings	200,000.00	
Equipment	50,000.00	
Horses, Wagons, and Harness	5,000.00	
Motor Trucks	5,000.00	
Insurance	2,000.00	
Taxes	5,000.00	
Purchases	900,000.00	
Discounts on Sales—Cash	20,000.00	
Wages of Men in Warehouse	25,000.00	
Salaries of Department Managers	10,000.00	
Salaries of Office Assistants	5,000.00	
Drivers, Teamsters, Etc.	5,000.00	
Horse Feed	2,000.00	
Auto Expense	1,500.00	
Inventories, January 1, 1930	300,000.00	
Inventories of Horse Feed, Auto Accessories, Etc., January 1, 1930	3,000.00	
Inventories of Stationery, Advertising, Etc., January 1, 1930	2,000.00	
Office Supplies, Stationery, Etc.	3,000.00	
Advertising	50,000.00	
Salesmen's Salaries	20,000.00	
Salesmen's Commissions	11,000.00	
Interest on Notes Payable	10,000.00	
Dividend on Capital 6%	12,000.00	
Notes Payable		250,000.00
Accounts Payable		150,000.00
Real Estate—not used in business	150,000.00	
Investment in Model Hotel Co. (at cost)	50,000.00	
Sprinkler System—at face of contract	10,000.00	
Liability on Sprinkler System		8,000.00
Surplus		290,600.00
	$2,069,600.00	$2,069,600.00

On December 31, 1930, the company authorized the issue of $300,000.00 cumulative 7% preferred stock and sold same to the Excellent Investment Company at 90, giving also a bonus of $30,000.00 common stock. $70,000.00 common stock was sold to the present stockholders at par, the total issue of common stock being $300,000.00. According to a resolution passed by the stockholders, $150,000.00 of these proceeds was to be expended on new buildings, the balance to be retained for working capital.

On January 2, 1931, a dividend of $40,000.00 was declared, payable on January 15, 1931.

The inventories at December 31, 1930, were:

Merchandise	$325,000.00
Horse Feed, Auto Accessories, etc.	1,000.00
Stationery, Advertising, etc.	1,500.00

Of the insurance paid, $500.00 applies to the year 1931; also $1,500.00 of the taxes.

The sprinkler system was installed on July 1, 1930. Of the contract price $2,000.00 was paid on that date and $2,000.00 is payable on the first day of August, 1931, 1932, 1933 and 1934.

$2,000.00 of interest applies to the period subsequent to January 1, 1931.

The depreciation of buildings for the year is $10,000.00 and of equipment $5,000.00. The real estate not used in business has appreciated $50,000.00, while that used in business has been appraised at $75,000.00.

Required:

From the foregoing trial balance and data prepare:

(*a*) Balance Sheet as at December 31, 1930.
(*b*) Profit and Loss statement for the year 1930.

COMMERCIAL LAW

NOVEMBER 21, 1931—9 A. M. TO 1 P. M.

Give Reasons for All Answers

1. White, a wealthy citizen of Waxpoole, Virginia, proposes to the Board of Stewards of the Methodist Church that, if the congregation will raise $10,000.00 for the erection of a new church, he, White, will donate a valuable lot owned by him, upon which to build the church. The Stewards accept the offer and raise the $10,000.00. White refuses to convey the lot. Can he be compelled to do so? Give reasons.

2. On April 1, 1931, A writes B in Culpeper, offering to sell his Lexington home for $10,000.00. The offer not having been withdrawn, B on December 30, 1931, writes A and accepts his offer. A declines. Is A liable?

3. A executes a negotiable note payable to B for a gambling debt. Before maturity, C becomes the holder of the note in due course, and when it is due, he sues both A and B. What defenses can A and B make?

4. Draw an ordinary negotiable promissory note.

5. What is the meaning of the indorsement, "without recourse"? In what cases should it be used? Define restrictive indorsement. When should it be used?

6. A and B propose to organize a corporation, which has for its object the buying and selling of real estate. C prior to the obtaining of the charter, subscribes to ten shares of the capital stock at $100.00 per share. Before the corporation is organized, and the charter is obtained, C withdraws his subscription, without any default on the part of A and B. Is there any liability on the part of C?

7. The Merchants Bank of Sterling, Virginia, of which A, B and C and D were directors, fails, owing to the bad habits and mismanagement of H, the cashier of the bank. F, G and I, stockholders in the bank, bring suit against the directors. They allege gross mismanagement on their part of the bank's affairs and seek to hold them liable for the loss sustained by the stockholders on account of this alleged mismanagement. State the measure of the directors' responsibility in cases of this kind.

8. When it is desired to dissolve a corporation, how is it effected, and what duties, if any, thereafter devolve upon the Board of Directors?

9. A, B and C form a general partnership January 1, 1930. On January 1, 1931, C, without consultation with A and B, sells his interest in the firm to D. The next day D walks into the office of the firm and demands that he be allowed to inspect the books. A and B decline to let him so do. Can D compel them to allow an inspection?

10. (*a*) A works for B at a salary of $200.00 per month; the contract of employment is for an indefinite term, i. e., B may discharge A at any time without liability. A borrows $1,000.00 from C, assigning his right to his salary as security therefor. Thereafter while the assignment is in force and effect, A files a voluntary petition in bankruptcy. At the time the petition is filed B owes $200.00 unpaid salary. The trustee in bankruptcy claims the right to collect this salary. Is this correct?

(*b*) When A files the above petition, he has a large insurance policy which has a cash surrender value. Can the trustee collect the cash surrender value of the policy?

(*c*) A general creditor of A has obtained a judgment which was duly and properly recorded three months prior to the date of the filing of the bankruptcy petition. Does the trustee take the assets subject to this judgment lien? Why?

AUDITING

NOVEMBER 20, 1931—2 P. M. TO 6 P. M.

Answer All Questions

Do not repeat questions, but designate them by numbers and letters

1. On July 18, 1930, the MacMillan Manufacturing Company suffered a fire which destroyed certain of its plant facilities. As a result, temporary quarters, at an annual rental of $12,000.00, payable monthly in advance, were procured for one year, the lease expiring on July 31, 1931. The new plant was completed April 30, 1931, and the rented property vacated and subleased for $1,500.00, payable on May 1, 1931, covering the period from May 1 to July 31, 1931.

   In auditing the books on June 30, 1931, you find that the rent paid (11/12 of $12,000.00.) had been added to the cost of constructing the new plant and that the $1,500.00 collected in May from the sublessee had been treated as a reduction of the cost of the new plant. What adjustments, if any, do you believe are necessary properly to record these transactions?

2. In what position on the balance sheet should the following items be placed?

   (1) Cash surrender value of life insurance policies on the life of an officer insured for the benefit of the corporation.
   (2) Liberty Bonds.
   (3) State Bonds due two years hence which have a ready marketable value.
   (4) Interest accrued on State Bonds which is payable semi-annually.
   (5) Mortgage notes receivable due in six months pledged for notes payable which will not be due for 18 months.
   (6) Notes receivable discounted with banks.
   (7) Prepaid interest.
   (8) Federal income tax due on current year's income.
   (9) Mortgage notes payable due 6, 12, 18, 24, 30 and 36 months.
   (10) Accrued interest on mortgage notes, payable semi-annually.

3. In 1920, the X Corporation erected a manufacturing plant in Petersburg, Va., on land donated to it without restriction by the city. The land had a fair market value at that time of $10,000.00. In 1925, the company sold its land and building in Petersburg for $115,000.00, and moved to Richmond, Va. The city of Richmond provided a factory site, having a fair market value of

$20,000.00, on which a plant was erected; the gift was subject to the stipulation that title to the property would pass when the company (1) had conducted its manufacturing business on that location for five years, (2) given continuous employment to an average of not less than fifty employees during that period, and (3) paid at least $75,000.00 annually in wages. All provisions have been complied with and the X Corporation has now acquired title to the property. How will the above facts be shown in the statement of profit and loss for the year 1930, and on the balance sheet at December 31, 1930?

4. An audit of M Company's records on June 30, 1931, reveals the necessity of making only minor adjustments to book figures, all of which are agreed to by the company's officials. The president of the company, however, states that he has submitted a tentative balance sheet to various creditors and to the company's bank and requests that after making the necessary adjustments, you certify to the balance sheet in the form prepared by the company's accounting department.

A review of this balance sheet reveals the following facts:

(1) "Cash" included bank deposits and petty cash; of the latter item, $1,550.00 was made up of I. O. U.'s signed by the company's officers.

(2) A large number of receivables had been discounted with a finance company. The balance in the individual accounts so discounted represented the 10 per cent cash withheld by the finance company until the account had been paid in full.

(3) Inventory of finished goods included stock in warehouse in a distant city, receipt for which had been deposited with the bank as collateral.

(4) The values of real estate, machinery and equipment were included at appraised values, the offsetting credit having been included with capital surplus.

(5) Principal and accrued interest of a first mortgage loan appeared in a separate classification below current liabilities. A payment of $15,000.00 will be due on the principal April 10, 1932, and interest is payable on April 10th and October 10th of each year.

(6) Under the general classification of surplus, were the following reserves:

Bad debt reserve.
Contingent reserve.
Sinking fund reserve.
Depreciation reserve.

Would you feel that the company's method of classifying assets and liabilities differed from your own to an extent that would prevent your certifying to a balance sheet so prepared, or would you insist that certain alterations of form be made? If you assume the latter attitude on any of the above items, what changes would you make?

5. You are auditor for the North Carolina Cotton Corporation, the majority of whose stock is owned by the Chesapeake Storage Corporation. The North Carolina Cotton Corporation borrows a great deal of money from the Chesapeake Storage Corporation. In auditing the books for the North Carolina Cotton Corporation you find that through certain manipulations by its officers in their personal accounts and the corporation's accounts receivable, its notes payable are reduced each year at balance sheet time from approximately $750,000.00 to $300,000.00, and that immediately after the books are closed and financial statements prepared the notes payable are restored to approximately $750,000.00

   You notice that this condition takes place each year . (*a*) What are your duties as an auditor in making your report? (*b*) Suppose you did not discover this condition the first audit you made, but discovered it during the second audit, what are your duties?

6. Company A makes improvements to leased property in the amount of $16,800.00. The lease has 8 years to run from the time these improvements are made. Two years later the company erects a new building and it so happens that a part of the original improvements to leased property, representing $1,600.00 of the original cost, can be moved without injury to the old building and used to advantage in the new building. Company A immediately subleases the old building to Company B for the exact amount of rent called for by the lease. The bookkeeper for Company A then charges off the balance of the improvements to leased property as a loss.

   Make entries on Company A's books for the $1,600.00 improvements transferred from the leased property to the new building and also state whether or not in your opinion the entry closing out the balance of the improvements to profit and loss is correct, and also whether in your opinion it will be allowed as a deduction for the purpose of income taxes. Give reasons for your answer.

7. The Central Laundry Company authorized an issue of 6 per cent, 10-year first mortgage gold bonds, par value $250,000.00, on April 1, 1927. Of this amount, bonds having a par value of $200,000.00 were immediately sold at a 10 per cent discount, the balance remaining undisposed of.

   During 1930, 50 one-thousand-dollar bonds were repurchased at 93. On May 1, 1931, these were given to the bank, along with the unissued bonds, as security for an $80,000.00 bank loan.

   Indicate how you would set up the bonds and bond discount on a balance sheet dated May 31, 1931.

8. What disposition would you make of the following items in the preparation of a balance sheet for a manufacturing company?

(*a*) Dividends which had not been paid for three years on $750,000.00 of 7 per cent cumulative preferred stock.
(*b*) An investment of $175,000.00 which represented 100 per cent ownership in a subsidiary.
(*c*) Notes on which the company is a guarantor.
(*d*) Collateral deposited with the company on the note of a debtor.
(*e*) Cash received from sale of company's bonds.
(*f*) Second-mortgage bonds of a hotel corporation which had been received at par in part payment of equipment sold.
(*g*) A net credit balance labeled "salesmen's account."
(*h*) Unabsorbed overhead.
(*i*) Claims which have been made against a carrier for damages.
(*j*) Good-will of $125,000.00 which was acquired in exchange for stock at the inception of the company.

9. The balance sheet and profit and loss statement of a customer of one of your clients has been submitted for credit purposes. The client asks your opinion of the debtor company's condition. You find the following certificate attached to the statements:

"We have inspected the books of The Marvel Supply Company and hereby certify that the attached balance sheet and statement of profit and loss reflect accurately the condition of the company and the operations for the year according to the books.

"HARRY TAYLOR & COMPANY,
"*Auditors.*"

(*a*) What criticism, if any, of this certificate would you make?
(*b*) Prepare a model certificate covering a detailed audit.

10. In your audit of the Hardy Iron Company for the year ending October 31, 1931, you discover a checking account of $18,635.24 in a bank which was closed by the State examiners on October 26, 1931. At the same time, the Hardy Iron Company was obligated to the bank for $15,000.00 as evidenced by an unsecured note due November 30, 1931. At the date of your audit no statement could be obtained from the bank other than that an attempt to reorganize, at a minimum loss to depositors, was being planned.

How should the cash in bank and bank loan be stated on the balance sheet of October 31, 1931?

Under what conditions, if any, would the Hardy Iron Company be entitled to offset the note against the cash in bank?