

University of Mississippi

eGrove

Haskins and Sells Publications

Deloitte Collection

1917

Auditing studies

John Raymond Wildman

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Wildman, John Raymond, "Auditing studies" (1917). *Haskins and Sells Publications*. 1760.
https://egrove.olemiss.edu/dl_hs/1760

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AUDITING STUDIES

JOHN RAYMOND WILDMAN

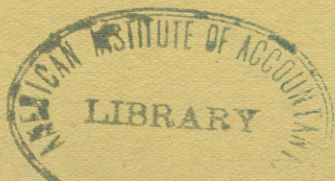
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

LIBRARY

666 FIFTH AVENUE
NEW YORK, N. Y. 10019

1917

THE WILLIAM G. HEWITT PRESS
61-67 NAVY ST., BROOKLYN, NEW YORK



Copyright, 1917
BY
JOHN R. WILDMAN

FOREWORD

In the preparation of students for entrance into the profession of accountancy the teacher has to meet the criticism that such students are only theoretically trained. Theory is the logical foundation for practice; however, theory alone does not make for success any more than does practice without theory. The ideal instruction seems to combine theory with practice.

It is with the idea of supplementing the theory contained in the author's text on auditing that the material in this syllabus has been arranged. From "Principles of Auditing" one may learn the theory as set forth therein. Through the use of "Auditing Studies" one may see the application of the principles to the problems as they arise in practice. If the work is carried out in the study as outlined in the text the student should have a fairly complete set of working papers. To the classroom student even laboratory practice based on experience is theoretical and to such students so this study will appear. It is, however, to this class, that this work will be most helpful since it will enable them to take along into the field a set of working papers for reference purposes.

JOHN RAYMOND WILDMAN.

New York University,
January 4, 1917.

JONES & PARKER
Certified Public Accountants

Memo of Engagement No. 150
Assigned to
Office, January 4, 1915

1. Client, Warburton Desk Company
2. Address, 265 Broadway, New York
3. Conference, John Parsons, President
4. Letter, dated January 2, 1915
5. Telephone, Barclay 1894
6. Report to be addressed to, President
7. Account to be charged in ledger, Warburton Desk Company
8. Examination to be made of, same
9. Where located, as above
10. Nature of business, manufacturer of desks.
11. Nature of work, Audit for the year ended December 31, 1914
12. When to be commenced, January 12, 1915
13. Probable time required, four weeks
14. Accountants required, one senior
15. Rates, usual
16. Remarks, Report required not later than March 15, 1915

AUDITING STUDIES

THE WARBURTON DESK COMPANY

History

Report on conversation with Mr. Hoyt, Secretary of the Warburton Desk Company relative to the history of the company.

Mr. Hoyt stated:

"The Warburton Desk Company was incorporated January 1, 1908 for the purpose of manufacturing desks and other office furniture. The stock of the company is held largely by the three men who organized it, Mr. Parsons, Mr. Davis and myself. We have all had more or less experience in work of this character. Mr. Parsons, the President of this company, has a controlling interest in the Parsons Desk Company, and Mr. Davis and myself operate the Davis-Hoyt Company, a company manufacturing chairs, costumers and other small articles of office equipment. The company has progressed nicely, making a satisfactory profit each year, but this year we do not seem to be doing as well as we should. Consequently we called you in to look things over."

Cash

Count of the cash on hand at 6 P. M., January 12, 1915, showed the following:

Checks

Anderson & Bailey,	1/10/15	\$325.00	
Crane & Goddard,	1/ 7/15	50.00	
W. W. James,	1/ 9/15	150.00	
Desk Supply Company,	1/25/15	100.00	
Walters & Thomas,	1/13/15	32.15	\$657.15
			<hr/>

Auditing Studies

Currency:

\$5.00 Bills.....	7	\$35.00	
1.00 Bills.....	5	5.00	
Half-Dollars	3	1.50	
Quarters.....	2	.50	
Ten-Cent Pieces.....	11	1.10	
Pennies.....	4	.04	43.14
			<hr/>
I. O. U. of Cashier, dated 12/15/14.....			25.00
Check of P. F. Williams, dated 11/30/14, with notation of bank on it, "Not sufficient funds".....			110.00
English sovereign.....			4.86
			<hr/>
Total.....			\$840.15

Petty Cash

Count of petty cash on hand at 6.20 P. M., January 12, 1915, showed the following:

Bills:

\$10.00.....	20	\$200.00	
5.00.....	36	180.00	
1.00.....	47	47.00	\$427.00
			<hr/>

Silver:

\$ 0.50.....	25	\$12.50	
.25.....	46	11.50	
.10.....	116	11.60	
.05.....	84	4.20	
.01.....	126	1.26	41.06
			<hr/>

Vouchers:

Nos. 620	Dated 1/ 4/15			
1	"	"	\$10.00	
2	"	"	1.25	
3	"	1/ 5/15	3.63	
4	"	"	1.28	
5	"	1/ 7/15	4.20	
6	"	"	.61	
7	"	1/11/15	6.20	
8	"	"	2.38	
9	"	1/12/15	1.62	
	"	"	.77	31.94
			<hr/>	
Total.....			\$500.00	

Auditing Studies

The cash book for January, 1915, which included the transactions of January 12, 1915, was footed by the accountant with the following result:

Debit side.....	\$51,287.10
Credit side.....	5,625.50

Inasmuch as the pass-book had not been balanced since November 30, 1914, the accountant had it sent to the bank to be balanced as of January 12, 1915, and at the same time sent a request to the Packard Place Bank for a certificate as to the amount on deposit to the credit of the Warburton Desk Company on January 12, 1915. The bank responded with a certificate showing the balance on January 12, 1915, to be \$49,794.46, (which included interest credited December 31, 1914, amounting to \$48.50). The bank also returned to the Warburton Desk Company the balanced pass-book, together with the cancelled vouchers.

The following facts were ascertained by the accountant:

The currency on hand January 12, 1915, was received as the result of cash sales on that date.

The checks listed below had been issued, but had not as yet passed through the bank:

Nos.		
14819—2/ 4/13,	A. B. Smith.....	\$100.00
22615—1/ 7/15,	The Rappaport Hinge Company....	160.25
22620—1/ 8/15,	The Broun-Green Company.....	22.50
22636—1/10/15,	William Fisher.....	400.00
22638—1/10/15,	The Ironton Screw Company.....	52.26
22640—1/11/15,	Wm. Harrison Company.....	2.60
22641—1/11/15,	The Pacific Novelty Company.....	5.20
22642—1/11/15,	The Underwood Typewriter Co....	1.00
22643—1/12/15,	The Anson-Ackroyd Company.....	175.00
Total.....		\$918.81

The check issued to A. B. Smith was in payment for services. A letter sent to Smith December 10, 1914, to his last-known address was returned by the post-office, marked "not known."

Auditing Studies

Among the cash receipts for January, 1915, was a check from the Canadian Desk Company, received on January 11, 1915, for \$252.20. The custom of the bank is to accept checks on Canada for collection only, and not to credit them until collected.

A comparison of the daily receipts and deposits for the month of January, 1915, revealed the following:

	Receipts.	Deposits.
January 4.....	\$1,506.21	\$725.05
“ 5.....	1,225.17	1,506.01
“ 6.....	605.00	1,225.17
“ 7.....	2,160.10	604.50
“ 8.....	1,600.25	2,160.00
“ 9.....	503.98	1,600.25
“ 11.....	728.26	503.78
“ 12.....	700.29	728.16
	<hr/>	<hr/>
	\$9,029.26	\$9,052.92

It is the custom of the bank to deduct exchange from the face of the deposits. The above differences are the result of this practice. It was also ascertained in a similar way that the exchange deducted from the face of the deposits during December was \$3.50.

On December 27, 1914, a note of Lyle & Company, of Newark, N. J., dated 11/1/14, due 1/1/15, without interest, for \$3,000, was sent to the bank for collection. The bookkeeper stated that he had heard nothing from the bank regarding this note.

It also developed that on December 15, 1914, the Warburton Desk Company had drawn at sight on the American Supply Company for the amount of their account, \$1,262.50. The bookkeeper also stated that he had heard nothing regarding this draft. The note clerk at the bank stated, over the phone, that this item had been credited on December 20, 1914.

Notes Receivable

An examination of the notes receivable showed the following notes on hand:

Auditing Studies

Desk Supply Company, dated April 1, 1914, due October 1, 1914, \$843.72; interest at 6 per cent. (protest charges \$2.31, paid out of petty cash and charged to "General Expense.")	\$843.72
(1) Canadian Desk Company, dated September 1, 1914, due February 1, 1915, with interest at 6 per cent.	2,500.00
(2) Canadian Desk Company, dated October 1, 1914, due March 1, 1915, with interest at 6 per cent.	1,000.00
Walters & Thomas, dated October 1, 1914, due February 1, 1915, with interest at 6 per cent.	2,000.00
(1) Endorsed by James Simpson, President of the Canadian Desk Company; (2) not endorsed.	

Securities

A "Securities Owned" record gave the following information relative to purchases of such securities as were claimed to be held:

August 22, 1913, 5M Denver & Rio Grande 1st refunding 5's, 1955 Int. F. & A. at 73 $\frac{1}{8}$, \$3,656.25, and interest \$14.58; September 2, 100 shares Pa. R. R. (par \$50) at 111 $\frac{1}{2}$, plus $\frac{1}{8}$, \$5,581.25; September 23, 50 shares Norfolk & Western common at 105 $\frac{7}{8}$, plus $\frac{1}{8}$, \$5,300; October 3, 2M Erie 50-year conv. 4's series B, 1953, A. & O. at 69 $\frac{1}{2}$, \$1,390, and interest \$0.45; November 19, 80 shares D. & H. at 150 $\frac{1}{2}$, plus $\frac{1}{8}$, ex. dividend, \$12,050; November 21, 7M L. & N. Unified Gold 4's, 1940, J. & J. at 92 $\frac{3}{8}$, \$6,466.25, and interest \$108.89; November 21, 10M M. K. & T. 1st gold 4's, 1990, J. & D. at 88 $\frac{5}{8}$, \$8,862.50, and interest \$188.89; December 1, 25 shares A. C. L. common at 123 $\frac{1}{2}$, plus $\frac{1}{8}$, \$3,090.63; January 23, 1914, 5M B. & O., P. L. E. & W. system ref. 4's 1941, M. & N. at 87, \$4,350, and interest \$45.56; February 13, 5M Cent. of N. J. gen. gold 5's, 1987, J. & J. at 117, \$5,850, and interest \$29.17; May 8, 8M A. T. & S. F. gen. gold 4's, 1995, A. & O. at 95 $\frac{5}{8}$, \$7,650, and interest \$32.89; May 8, 4M A. C. L. 1st gen. 4's, July, 1952, M. & S. at 94 $\frac{1}{4}$, \$3,770, and interest \$29.78; May 29, 3M C. M. & St. P. conv. 4 $\frac{1}{2}$'s, 1932, J. & D. at 102 $\frac{3}{8}$, \$3,063.75, and interest \$66.75; June 26, 5M C. B. & Q. Ill. div. 4's, 1949, J. & J. at 95 $\frac{1}{2}$, \$4,775, and interest \$97.22; June 26, 5M L. T. Ins. Gtd. Mtge. 5% ctf. J. & J. at 100, \$5,000, and interest \$121.53.

Auditing Studies

A visit was made to the safe deposit vault with the Treasurer and the securities were found intact.

It was found that dividend and interest receipts on all securities had been credited to income.

A trial balance of the general ledger was taken, with the following result:

THE WARBURTON DESK COMPANY

Trial Balance

12/31/14

Folio	Debits	Credits
1 Land and buildings.....	\$350,000.00	
2 Machinery and tools.....	67,581.49	
3 Horses, wagons and motors....	4,056.51	
4 Furniture and fixtures.....	6,352.40	
5 Securities owned.....	81,591.34	
6 Treasury stock.....	5,000.00	
7 Patents, trade marks & good will	34,157.41	
8 Cash	42,257.84	
9 Petty cash.....	500.00	
10 Customers.....	226,664.83	
11 Drafts and notes receivable....	9,343.72	
12 Subscribers to capital stock....	7,280.00	
13 Sinking fund.....	400.00	
14 Discount on bonds.....	9,958.34	
15 Legal expense deferred.....	1,250.00	
16 Organization expense.....	995.03	
17 Moving expense.....	926.00	
18 Advertising paid in advance....	213.81	
19 Freight on consigned goods....	27.93	
20 First mortgage bonds.....		\$160,000.00
21 Loans payable.....		58,000.00
22 Accounts payable.....		116,181.22
23 Notes payable.....		18,905.00
24 Capital stock preferred.....		286,500.00
25 Capital stock common.....		225,000.00
26 Sales.....		177,276.31
27 Cash sales.....		243.27

Auditing Studies

28	Purchases.....	65,017.52	
29	Freight account.....	1,472.94	
30	Labor.....	47,847.72	
31	Factory account.....	20,270.53	
32	Selling expense.....	18,498.18	
33	Salaries of officers.....	22,575.25	
34	Salaries of clerks.....	13,926.47	
35	Stationery and printing.....	1,527.00	
36	Postage.....	1,243.28	
37	Telegraph and telephone.....	485.26	
38	General office expense.....	2,732.14	
39	Legal expense.....	1,750.00	
43	Interest.....	11,724.42	
44	Rent—New York office.....	1,200.00	
45	Insurance.....	2,563.75	
46	Taxes.....	4,410.00	
47	Royalty.....	726.39	
48	Provisions for depreciation— horses, wagons and motors...	2,095.74	
49	Provision for depreciation— furniture and fixtures.....	1,769.95	
40	Interest on bonds.....		1,935.00
41	Dividends on stock.....		1,495.00
42	Commission.....		337.24
50	Profit and loss surplus.....		24,520.15
			<hr/>
		\$1,070,393.19	\$1,070,393.19

Reading the Minutes

While reading the minutes of the board of directors notes were made of the following non-routine transactions:

January 15, 1908.—It was regularly moved and seconded that the sum of \$10,000 be paid to Mr. Parsons for his services in organizing the Warburton Desk Company, and that the payment of the \$10,000 be made in preferred stock of the company. Motion carried.

January 15, 1909.—On motion the board of directors accepted with thanks the donation by Mr. Parsons of \$10,000 of preferred stock of the Warburton Desk Company for the purpose of creating a surplus on the books of the company.

Auditing Studies

January 15, 1911.—On motion the treasurer was authorized to loan to the Parsons Desk Company the sum of \$50,000, and to the Davis-Hoyt Company the sum of \$20,000.

January 15, 1914.—Mr. Davis moved that inasmuch as the disbursements of \$25,000 for advertising during 1911, 1912 and 1913 was solely for the purpose of acquainting the public with the trade mark and product of the company, that this amount be set up as good will, as of December 31, 1913. Motion seconded by Mr. Hoyt and carried.

Errors Disclosed by the Mechanical Work

Invoice of Thompson & Co., January 24, 1914, \$245.22, entered in Purchase journal as \$245.22, paid by check No. 18234 as \$254.22.

Invoice of F. A. Ridgway, February 16, 1914, \$10.25, entered in Purchase journal as \$10.00 and paid as \$10.00, check No. 18598.

Invoice of Samuel Scarborough, Inc., July 2, 1914, \$101.50, entered in Purchase journal as \$101.50, paid by check No. 20010 as \$110.50.

Invoice of Holbrook & Byers, July 24, 1914, \$61.24, entered in Purchase journal as \$61.00, and paid as \$61.24, check No. 20154.

Invoice of T. A. Decker, July 25, 1914, \$754.38, entered in Purchase journal as \$754.38, paid as \$754.18, check No. 20175.

Invoice of Ramsay & Quick, July 28, 1914, \$223.32, entered as \$225.52 in the Purchase journal, paid as \$225.52, check No. 20198.

Invoice of Thompson & Co., July 30, 1914, \$112.45, entered as \$121.45 in Purchase journal, paid as \$112.45, check No. 20222.

Invoice of Read & Co., August 2, 1914, \$105.00, entered as \$105.00 in Purchase journal, paid as \$100.00, check No. 20268.

Invoice of C. B. Hall Company, October 5, 1914, \$150.44, entered as \$154.44 in Purchase journal, paid as \$150.44, check No. 21510.

Invoice of Ferris & Ferris, November 2, 1914, \$22.62, entered in Purchase journal as \$23.62, paid as \$23.62, check No. 21980.

Auditing Studies

Invoice of T. A. Decker, November 14, 1914, \$315.55, entered as \$315.05 in Purchase journal, paid as \$315.05, check No. 22006.

Invoice of Johnson Brothers, July 30, 1914, \$110.25, was paid August 14, 1914, check No. 20424. This same invoice was included by Johnson Brothers on a statement rendered September 2, 1914, and was again paid September 12, 1914, check No. 21061.

On the following invoices no discount had been deducted:

Invoice of:	Date.	Amount.	Paid.	Terms.
H. W. Mack,	Jan. 15.....	\$150.00	Feb. 11....	1/30
Read & Co.,	" 21.....	55.26	" "	1/30
Smith & Smith,	Feb. 4....	210.00	" "	2/10
S. M. Knight,	" 5....	100.00	March.12....	2/60
E. E. Hall,	April 10.....	563.24	May 10....	2/10 EOM
Holbrook & Co.,	June 25... ..	201.50	Aug. 10....	2/60
Read & Co.,	July 31.....	50.00	" "	2/10
S. S. Cook,	Oct. 25.....	44.20	Nov. 10....	1/30

In distributing the purchase invoices, the following errors were noted:

February 15.—Thompson & Co., \$156.25, page 42 of Purchase Journal, entered in "General Office Expense." Should have been entered as "Selling Expense—Advertising."

June 30, 1914.—Ajax Trucking Company, \$54.50, page 64 of Purchase Journal, entered as "General Office Expense." Should have been charged to "Freight (inward)."

July 30, 1914.—Smith & Smith, \$150.00, page 64 of Purchase Journal, entered in "Accounts Payable" column as \$150.00, but in "Stationery and Printing" column, to which it was distributed, is was entered as \$160.00.

August 2, 1914.—William L. Brown & Co., \$5.20, page 68 of Purchase Journal, entered in "Postage" instead of "Stationery and Printing."

August 3, 1914.—F. A. Ridgway, \$110.00, page 68 of Purchase Journal, entered in "Accounts Payable" as \$110.00, but distributed to "Selling Expense—Advertising" as \$100.00.

In footing the Purchase journal the following errors were found:

January, 1914, page 34, "Accounts Payable" column over-footed \$10.00.

Auditing Studies

January, 1914, page 36, "Selling Expense" (advertising) column overfooted \$10.00.

March, 1914, page 50, "Accounts Payable" column overfooted \$1.30. Crossfooting for March out \$1.30.

July, 1914, page 64, "Stationery and Printing" column underfooted \$10.00.

August, 1914, page 72, "Telegraph and Telephone" column overfooted \$10.00.

In footing the sales book, which was simply a summary of sales, the errors detailed below were found:

January, 1914, page 4, underfooted \$80.00.

March, 1914, page 16, underfooted \$0.99.

September, 1914, page 52, overfooted \$10.01.

October, 1914, page 55, overfooted \$1.00.

December, 1914, page 61, overfooted \$20.00.

In footing the cash book:

October, 1914, Receipt side: "Accounts Receivable" column overfooted \$10.00.

July, 1914, Disbursement side. "Accounts Payable" column overfooted \$10.00.

An entry was found in the journal under date of December 31, 1914:

Expense.....	\$0.01
To Accounts receivable.....	\$0.01
To adjust control to subsidiary accounts.	

The footing of the column in the Purchase journal "General Expense" in July, 1914, \$210.78, was posted to the "Postage" account.

In the journal entry of November 16, 1914:

Accounts payable.....	\$3,910.00
To Notes payable.....	\$3,910.00

The debit was posted correctly, but the credit was posted as \$3,905.

The footing of the sales for March, \$18,518.20, was debited to customers and credited to sales as \$18,578.20.

The footing of the sales for July, \$13,121.52, was posted to the debit of customers as \$13,121.52, but was posted to the credit of sales as \$13,125.12.

Auditing Studies

On the credit side of the "General Expense" account an item of \$0.10 was found under date of December 31, 1914, with no posting reference. Inquiry of the bookkeeper developed the fact that at December 31 his ledger was "out" \$0.10 and that he had forced the balance.

Inventory

The inventory of December 31, 1914, was checked as to extensions and footings. The Secretary of the company certified that the inventory represented only the materials and goods on hand at the plant, as ascertained by actual count. The totals of the inventory were:

Raw material.....	\$12,192.50
Goods in process.....	6,412.62
Finished goods.....	7,112.82

The following information relating to the accounts in question was obtained by analysis:

Land and Buildings, \$350,000.

This account represents a parcel of land (500 x 600 feet) located in Long Island City, acquired in October, 1911, for cash in the amount of \$60,000, and used for factory purposes. A deed to the property is found among the company's papers, but has never been recorded. Building operations were begun immediately after the acquisition of the land and were completed in May, 1912, at which time the cost of the brick and concrete buildings erected was \$210,762.59. Additional charges have been, 1912, \$22,162.50; 1913, \$25,723.98, and 1914, \$11,542.67. The assessed value of the property was in 1914, \$245,000, an increase of \$20,000 over the previous year on the strength of which the company's auditor instructed the bookkeeper to write up the land and building account to \$350,000. In 1913 an end wall of one of the concrete buildings sloughed partly off and \$2,527.74, included in the above, represents the cost of replacing it. No depreciation has been charged off because of the fact that the buildings are of brick and concrete.

Machinery and Tools, \$67,581.49.

The balance in this account represents purchases of machinery and tools amounting to \$93,426.23, plus cost of

Auditing Studies

installing, \$783.42; less depreciation, \$26,628.16. The purchases by years and months are as follows: 1912—Prior to June 30, \$83,528.96, plus installation, \$783.42. 1913—January, \$2,347.80; May, \$92.50; November, \$2,284.09; total, \$4,724.39. 1914—February, \$4,233.24; December, \$939.64; total, \$5,172.88. The rate used in computing depreciation was 12 per cent. per annum, and additions were treated as beginning at the first of month in which shown. For example, the depreciation on the additions of January, 1913, was figured from January 1—the full year.

Employees of the company spent time equal to \$145 and used material which cost \$97.38 in setting up new machines in February, 1914. These items are not included in the above. Small tools amounting annually to \$688.24 and \$574.32, respectively, have, beginning with 1913, been charged to expense (factory account). Inventories of such tools showed on December 31, 1913, \$324.50, and on December 31, 1914, \$418.75.

Horses, Wagons and Motors, \$4,056.51.

A transcript of the account is as follows:

1914.		1914.	
Jan. 1 Balance ...	\$3,227.00	July 14 C-27.....	\$15.00
May 25 P. J. 22....	2,437.00	Dec. 31 J-14.....	2,095.74
Oct. 19 P. J. 42....	237.50	Balance	4,056.51
Oct. 30 P. J. 42....	265.75		
	<hr/>		<hr/>
	\$6,167.25		\$6,167.25
	<hr/>		<hr/>

1915.

Jan. 1 Balance ...\$4,056.51

The balance at the beginning of the account, (\$3,227), represents two draft horses at \$350 each, purchased June 1, 1909; one double set of harness in the amount of \$65, purchased August 1, 1913; one horse truck purchased for \$187 on October 15, 1912; one motor truck (No. 2) purchased on November 10, 1912, for \$2,275. The subsequent debit entries cover respectively: one motor truck No. 3; repairs to motor truck No. 1, which had been entirely written off prior to January 1, 1914, but which with ordinary repairs will probably

Auditing Studies

last two or three years, and in consideration of the respective service may reasonably be considered worth \$500; and extra parts. The credits are: Sale of old harness (\$15), which harness is not the same as that included in the analysis of items on the debit side, and depreciation (\$2,095.74). The depreciation has been computed on the motor trucks at the rate of 33% per annum. That on No. 2 began to run Nov. 1, while that on No. 3 was figured from June 1.

Furniture and Fixtures, \$6,352.40.

This amount is represented by the following account:

1914.	1914.
Jan. 1 Balance ...\$7,229.83	Dec. 31 J-14.....\$1,769.95
Jan. 31 P. J. 8.... 300.00	Balance 6,352.40
Mar. 31 P. J. 17.... 185.00	
July 31 P. J. 30.... 325.00	
Dec. 31 P. J. 52.... 82.50	
\$8,122.35	\$8,122.35

1915.

Jan. 1 Balance ...\$6,352.40

The balance at the beginning of the year is made up as follows:

New York office: Furniture, being written off at the rate of 10% per annum, \$965.56, representing 45% of original cost; office equipment, being written off at the rate of 20% per annum, \$516.23, representing 20% of original cost; rugs, being written off at the rate of 10% per annum, \$120, representing 55% of original cost; office partitions, \$513, representing original cost (\$540), less amount applicable to the months of October, November and December, 1913, original cost to be written off over the period of a five-year lease beginning Oct. 1, 1913. Factory office: Furniture, being written off at the rate of 10% per annum, \$4,025.79, representing 85% of original cost; office equipment, being written off at the rate of 20% per annum, \$1,089.27, representing 50% of original cost. Subsequent debits are: \$300, efficiency engineer planning arrangement of factory office; \$185, internal office telephone system, New York office; \$325, indirect lighting system, New York office; \$82.50, new directors' table, New York,

Auditing Studies

\$80; carpenter setting up and adjusting same, \$2.50. The credit, in the amount of \$1,769.95, represents depreciation for the year 1914.

Treasury Stock.

1909.	1909.
Jan. 15 J-2 \$10,000	Mar. 15 C-1 \$5,000
	1914.
	Dec. 31 Balance 5,000
\$10,000	\$10,000

1915.

Jan. 1 Balance \$5,000

The credit represents the proceeds of the sale of 60 shares at 83 1/3.

Patents, Trade Marks and Good-Will.

1910.	1912.
Feb. 1 P. J. 4... \$5,000.00	Feb. 1 C-6 \$756.21
1911.	1914.
Feb. 1 P. J. 24... 4,000.00	Dec. 31 Balance ..\$34,157.41
Mar. 1 P. J. 18... 297.42	
1912.	
Jan. 1 P. J. 1... 616.20	
1913.	
Dec. 31 J. 30... 25,000.00	
\$34,913.62	\$34,913.62

1915.

Jan. 1 Balance ..\$34,157.41

The debits represent, respectively, a patent for a drawer lock purchased from John N. Thomas, \$5,000, patent granted Nov. 1, 1908; patents, granted Feb. 1, 1909, for a wood polishing machine, purchased from the Parsons Desk Co. for \$4,000; expense of securing trade mark, \$297.42; expenses of suit brought by the Warburton Desk Co. to protect the wood polishing patent from infringement; cost of an advertising campaign during 1911, 1912 and 1913 to acquaint the public with the company's product.

The credit (\$756.21) represents a judgment obtained and collected in the suit to protect the wood polishing patent.

Auditing Studies

Customers, \$226,664.83.

A transcript of the account is as follows:

1914.	Debit Side	
Jan. 1	Balance	\$139,214.36
Jan. 31	Sales SJ5	17,610.24
Feb. 28	" SJ9	16,861.46
Mar. 31	" SJ16	18,578.20
Apr. 30	" SJ24	16,340.22
May 29	" SJ30	17,612.50
June 30	" SJ37	17,027.61
July 31	" SJ42	13,125.12
Aug. 31	" SJ46	12,482.56
Sept. 30	" SJ52	12,001.29
Oct. 31	" SJ55	12,891.31
Nov. 30	" SJ58	14,651.04
Dec. 10	Bonds Payable J64	150,041.66
Dec. 31	Sales SJ61	11,520.12
		\$469,957.69

1914.	Credit Side	
Jan. 31	Cash C3	20,106.38
Feb. 28	Cash C7	16,521.91
Feb. 28	Sales returns SR1	836.50
Mar. 31	Cash C11	17,622.60
Mar. 31	Sales allow. SA1	461.20
Apr. 3	Notes receivable J51	843.72
Apr. 30	Cash C15	19,060.20
May 29	Cash C19	17,621.92
May 29	Sales allowances SA2	312.17
May 29	Sales returns SR2	1,017.98
June 30	Cash C23	16,222.12
July 31	Cash C27	15,120.12
Aug. 31	Cash C31	15,510.16
Aug. 31	Sales returns SR2	595.78
Sept. 2	Notes receivable J60	2,500.00
Sept. 30	Cash C35	11,238.60
Oct. 2	Notes receivable J61	1,000.00
Oct. 2	Notes receivable J61	2,000.00
Oct. 31	Cash C37	11,120.10

Auditing Studies

Credit Side—Cont'd

Oct. 31 Sales allowances	SA2	201.73
Nov. 3 Notes receivable	J63	3,000.00
Nov. 30 Cash	C41	10,215.10
Dec. 10 Cash (from bankers on bonds).....	C45	50,041.66
Dec. 31 Cash	C45	10,122.90
Dec. 31 Expense	J64	.01
Dec. 31 Balance		226,664.83
		\$469,957.69

The opening balance consisted of:

Advances to allied companies:

Parsons Desk Co.....	\$50,000.00	
Davis-Hoyt Co.	20,000.00	
		\$70,000.00

Advances to salesmen:

Frank Hutchinson (still employed)	\$2,760.00	
Willard Brown (who severed his connection with the Warburton Desk Co. July 1, 1914—collection of account improbable).....	5,200.00	
		7,960.00

Customers' balances		61,254.36
---------------------------	--	-----------

\$139,214.36

An examination of the accounts in the customers ledger at the time of checking the trial balance of this ledger gave the following information:

Name.	Month during which goods were purchased.	Remarks.	Amount.
American Supply Co.....	November		\$1,262.50
Anderson & Bailey.....	December		3,627.42
Acme Furniture Co.....	December		2,527.50
J. H. Barlow.....	November		1,136.25
Bristow & Myers.....	December		591.20
Canadian Desk Co.....	October		1,672.71
Crane & Goddard.....	November		3,420.16
Deering & Co.....	December		80.00
Desk Supply Co.....	September		562.00
T. J. Donshea.....	December		829.50

Auditing Studies

E. & T. Desk Co.....December	28.86
Evarts & Brown.....	Credit Balance, \$100.
Fink, Ryan & Heal.....October	1,521.92
French & French.....December	62.15
Theo. Gard.....August	1,415.92
A. E. Gilkey.....November	1,627.32
Goldstein & Cohen.....December	46.20
Harris Brothers & Co....October	2,615.80
The Hawthorne Co.....December	2,036.25
Henderson & Smith.....	Credit Balance, \$57.21.
W. W. James.....November	2,136.20
The Lane Co.....	Consignment 4,632.18
Marston & Co.....October	612.40
Miller Desk Co.....June16
S. M. Noyes.....December	58.50
Office Supply House.....	Consignment 2,210.60
Post & Bro.....December	112.24
Raymond & Co.....October, 1913.....	2,416.81
Riland & Hulbert.....November	3,648.63
Sole & Sole.....October	792.98
Stern & Co.....December	5,628.50
Tillotson & Son.....December	26.50
Victor Desk Co.....January	2.00
Walters & Thomas.....November	1,420.68
T. R. Young.....December	100.00
	\$48,862.04
Credit Balances...	157.21
	\$48,704.83

Terms on which goods are sold, 30 days.

Investigation of the consignment accounts showed that the goods which were consigned to the Lane Co. (\$4,632.18) and the Office Supply House (\$2,210.60) represent desk fittings which had previously been consigned to the Warburton Desk Co. by J. Entwhistle & Son at \$4,632.08 and T. J. Smith at \$500.

Conversation with the credit man revealed the fact that Raymond & Co. had been petitioned into bankruptcy Nov. 20, 1913, and after payment of a first and final dividend of 15%