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New York C. P. A. Examinations of June, 1912

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By Paul-Joseph Esquerré, C.P.A.

It is not to be expected that the candidates who took the recent New York C. P. A. examination appreciated at their true worth the evident efforts of the board to link together the three accounting subjects, theory of accounts, practical accounting and auditing. Accountants at large will undoubtedly rejoice at this new departure, and it is to be trusted that subsequent examinations will find the board quite as anxious, as it seems to have been lately, to check the optimism which has prevailed for quite a while among accounting students, in regard to the ease with which the goal could be reached.

The questions in commercial law, theory of accounts and auditing, while eminently fair, clear, and well constructed, are not of the type which permits a candidate to dodge and to guess. Only the man who knew and who had the courage of his convictions, could answer ten questions in such a manner as to satisfy a board of examiners that he possessed the qualities of mind, the analytical power, and the maturity of conception which ought to comprise the preliminary equipment of an accountant. It would be well if the wholesome lesson given by the C. P. A. examination of June 25, 1912, brought future candidates to the proper appreciation of the task which may be imposed upon them.

The questions in practical accounting must have given quite a shock to candidates who in their scholastic innocence had come to the conclusion that the successful passing of an examination depended upon the classification of questions asked in former years, and upon the memorizing of appropriate answers to the different types. To them, problem No. 1 of Part No. 1 must have spelled "Revolution." And yet, is it inconceivable that one would have the presumption to consider himself worthy of accounting recognition, who, from 1907 to 1912 has remained so indifferent to the evolution of his profession, as not to be interested in ascertaining what effect if any, the rulings of the interstate commerce commission have had upon generally accepted accounting theories and methods.

Of course, unsuccessful candidates will say that the problem was technical, and consequently unfair, but there is no doubt that after they have become familiar with the work of the interstate commerce commission and learned to appreciate the accounting beauty of its balance sheet, they will hold a different opinion. Having realized the narrowness and inadequacy of some of the theories which they had previously considered as a panacea applicable to all examinations, they will thank the board for directing their attention to a vital accounting question.

Problem No. 2 is interesting because while simple in the extreme, it compels the candidate to realize that class room theories do not always walk hand in hand with practice. Here is a case where the inventories of the period prior to the one under review, are computed at the labor cost of mining operations only, *i. e.* $1.50 for gallery mining and 50 cents for warehousing and 20 cents for transportation charges to assay office. Hence, the accounting system adopted by the Pinta and Mercedes Mining Co. provides that the mining overhead expense be applied as a whole to the tons of ore sold, instead of being apportioned between the tonnage mined, warehoused, sold, and the inventory of ore mined and remaining in galleries in warehouse, and in assay office.

If such were the conditions prior to the period covered by the problem, the candidate should have respected them irrespective of what he considered the only proper way of applying cost.

The difference in assay, which smelters charged back to the mining company would, of course, have been deducted from the sales, since it cancelled part of the charges made for sales. But under no condition were the freight on ore assayed and the freight on shipments to smelters to be treated as deductions from sales, since the contract between the mines and the smelters is substantially as follows: Send us your output, and we will buy it at the rate called for by the result of the assay. This remark is all the more important because so many students of accounting believe in the infallibility of the theory that freight and cartage outward are always deductions from sales.

It is pointed out also that any candidate who treated royalties paid in advance, disbursements out of a funded reserve, and loss due to the discarding of a capital asset as cost of mining was fitted for neither the test in practical nor the test in theory.

Problem No. 3 offered the candidate an opportunity to show whether or not he could apply principles of accounting. If he could do that, the solution of this simple problem would have consumed about 20 minutes at most, thereby allowing him at least 2 1-2 hours for the other problem.

Problem No. 3: What the problem required, was to add and to deduct from the assets of a prior period;

a. The cash receipts which were obtained through the creation of an additional capital stock liability, *i. e.* increase of capital stock paid up. This not being income but merely cash receipts had to be treated as the first addition to the assets previously held.

b. The income of the period, that is to say, that which had come in as a result of the sale of trading assets, of the investment of capital in securities, and of the deposit of cash at interest.

c. The disbursements which affected the assets, that is to say:

1. The disbursements of cash for the purpose of liquidating liabilities of the prior period.

2. The disbursements of cash for the purpose of paying for the purchases of the period which had been sold. To the case in point $20,000 worth of purchases having been paid for, and $500.00 of this amount having been applied to increase the inventory of the prior period, only that which was consumed could be considered as disbursed. The same principle applied to stable supplies.

3. The disbursements of cash for the purpose of paying expenses and meeting fixed charges. The essential thing to understand in the handling of this problem is that since only assets are the question at issue, the accrued assets reflected by credits to income over and above the amount received in cash are to be considered as income while the accrued liabilities, represented by debits to income over and above the amount paid in cash are not to be included in the disbursements.

The statement required by the problem appears to be similar to a statement which the insurance department of the state of New York requires of insurance companies, the object of which is to express in analytical form the fluctuations of assets as they have occurred during the period.*

THEORY OF ACCOUNTS

University of the State of New York

33d Accountant Examination

Tuesday, June 25, 1912—9.15 a. m. to 12.15 p, m., only

"The Regents of the University shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose * * * " (Laws of 1896, ch. 312, sec. 2.)

Answer 10 questions but no more, selecting at least two questions from each group. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (v) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.

Group I

1 Reduce the single entry system to a few accounting equations that will embody all its basic principles.

2 What is the relation of nominal accounts to real accounts? How do these accounts fulfil the purpose for which they are created?

* Extensive comments on the three problems of part II will be published in the September number of the Journal of Accountancy.

3 Describe (*a*) a self-balancing ledger, (*b*) the voucher record. How is the former operated? Are claims made for the latter justified?

4 Submit a ruled form ot a capital stock ledger that will permit the recording of all the information required of that book by the New York Statute.

5 State *two* different theories in relation to the presentation of a balance sheet as far as classification is concerned. What is the reasoning on which they are based?

Group II

6 State *two* ways of treating consignments inward, when goods are to be sold subject to commission at the price at which they are consigned. Give the arguments for and against each method and your views thereon.

7 How does the Interstate Commerce Commission require reserves to be presented on the balance sheets of common carriers?

8 State your opinion in regard to the technic of journalizing. Show wherein your view is in accord with the evolution of the books of account.

9 A company has leased ore-bearing lands capable of producing 50,000 tons of ore on the basis of a royalty of 10 cents on each ton of ore mined and has guaranteed a minimum royalty of $1,200 a year. At the expiration of the first year the minimum royalty has been paid although no ore has been mined. What journal entry would you make in connection with the foregoing? Explain.

10 After due foreclosure proceedings A sells for $20,000 the land and buildings mortgaged to him by B, to whom he had loaned $26,000. There is no question about the regularity of the sale, the loss being due to a drop in real estate values. The property sold is located in Westchester county and the mortgage is recorded in White Plains, N. Y. Journalize the transaction on the books of A.

Group III

11 What reason can you give for the creation of a reserve for a sinking fund when the reserve is not to be funded? Explain fully.

12 When preparing a statement of realization and liquidation in the case of a company dissolving itself, how would you treat reserves for depreciation? State *three* methods of treating the matter and give reason for your preference.

13 A title insurance company collects its fees for searches and insurance, on signing the contracts with the clients. The work to be done may extend over several months. Suggest a method of recording whereby the income may be spread over the period in which the expense is incurred.

14 A street railway company has been granted a franchise for a new line; the legal expenses incident to the grant have amounted to $5,000; the cost of the consents has been $22,000; the cost of paving the streets between the tracks, which was a condition of the franchise, has been $425,000. Journalize the above and give reason for your entries.

15 A has received notice from his life insurance company that a dividend of $9 has been declared on his policy. He elects to accept a "reversionary addition" of $15 to the principal of his policy, in lieu of a cash dividend. Journalize the transaction on the books of the insurance company.

THEORY OF ACCOUNTS

Group 1.
Answer No. 1.

a. Initial assets less initial liabilities equal initial net worth.

b. Increases of assets, plus decreases of liabilities, equal factors in favor of the proprietor.

c. Decreases of assets plus decreases of liabilities, equal factors against the proprietor.

d. *b* less *c* equals increase of capital during the period.

e. Closing assets, less closing liabilities, equal net worth at the end of the period.

f. Increase of capital during the period plus withdrawals of capital during the period, (or minus additional contributions of capital during the period) equal profits of the period.

g. Decreases of assets, plus increases of liabilities, equal resources used during the period.

h. Increases of assets, plus decreases of liabilities, equal application of resources during the period.

NOTE—Equations *a, b, c, d, e,* form the basis of the statement of assets and liabilities.

Answer No. 2.

The relation of nominal accounts to real accounts is one of analysis.

They fulfill their purpose by recording, during the accounting period, in special accounts so named as to indicate the analytical facts which they contain, the causes which have resulted in: (*a*) the income or the outgo of values inferior or superior to those which have gone out or come in; (*b*) the outgo of values in payment of services the value of which they measure; (*c*) the income and the outgo of financial values for which nothing has been given or received. In other words, they show all gains, losses, benefits, expenses, and cost of services.

Answer No. 3.

a. The term "self balancing ledger" is used in connection with subsidiary ledgers which contain a balance account, sometimes referred to as "control." The individual accounts contained in the ledger are posted daily; at the end of each day, the aggregate of the transactions thus posted in detail is gathered independently, and posted as a "control" account, on the side opposite to the one in which the individual postings ~~was~~ were made. The book is supposed to be advantageous in so far as it permits the employee who keeps it to know at all times the balance which his individual accounts must give.

b. The voucher record has often been said to be a combination of the purchase journal and of the creditor's ledger. It contains all the invoices received, and is so arranged as to show periodically the total amount of purchases and the classes of goods purchased. It also contains a column wherein the amounts paid to creditors or the dates of such payments, or both, are recorded. It is precisely because it gives the net amount due to the aggregate of the creditors that it has been said to be a creditors' ledger as well as a purchase journal. Nevertheless, the book cannot show the amount due to any given creditor, unless it is made cumbersome by the addition of as many columns as there are possibilities of a settlement by the purchaser, and the different vouchers payable to each creditor are recapitulated both as to debits and credits. Hence, there must be kept in conjunction with the voucher record a system of cards, or memoranda of some sort, which will show the status of each individual creditor's account, provided such information is desirable. It seems that, whatever else can be claimed for the record in the line of convenience and analytical power, it is not a ledger in the true sense of the word and cannot take the place of that subsidiary book.

Answer 4.

Stock Ledger.

(Name) ____________________

(Address) ____________________

Date	No. of Certificate		No. of Shs. per Certificate	Total No. of Shares			How Paid	Remarks	From Whom Transferred	To Whom Transferred
	Issued	Cancelled		Debit	Credit	Balance				

Answer 5.

1st Theory: The balance sheet being a statement made by a going concern to display its financial status on a given date, it is essential that it should show:

(A) The capital (or fixed) and the working and trading assets obtained as a result of the investment of capital by the proprietor, the partners or the stockholders, and of the investment of that part of the profits which was not withdrawn from the business, opposing thereto the capital accounts of the proprietor, or of the partners, and the capital stock liability of the corporation to the stockholders.

(B) The current assets which measure the capital of the concern not permanently invested in the business and invested in trading, working and manufacturing assets, that is to say that part of the capital which is available for the liquidation of current liabilities.

(C) The special assets, such as "Accrued income not due," and "Deferred debit items," which are not as yet available, or are assets only because not consumed for the purpose to which they are destined. To these groups of assets, there are opposed corresponding groups of "Liabilities accrued," and of "Deferred credit items."

(D) The excess of all the items appearing on the asset side, over all the items appearing on the liability side, whatever their nature, or, in other words, the total undivided profits of the proprietor, of the partners, or of the stockholders.

2d Theory: The balance sheet being a statement made by a going concern to display its financial status at a given date, the most important fact to which the attention of the reader should be called is the liquid assets, opposed to the liquid liabilities. This measures the condition of the company from the financial point of view, and shows whether or not it is in such a condition as to permit the continuance of its activity without necessitating outside assistance, or the sacrifice of assets. Under this theory, the assets are shown in the order of their liquidity, while the liabilities are shown in the order of their maturity.

Group 2.
Answer No. 6.

1st Method: Debit consignment and credit consignor with the consigned value of the goods received. When goods are sold, credit consignment account, and debit customers with the amount of the goods sold. At the same time, debit consignors and credit accounts payable with the value of the goods sold for their account, less the amount of the commission earned by the consignee which is credited to a nominal account. At this point, the amount left in the consignment account will be equal to the amount left in the consignor's account. On the balance sheet, state both the consignment account and the consignor's account.

2nd Method: Record the value of the goods consigned in a memorandum book and make no entries in the general books until a sale has taken place. At this point, submit, from the memorandum book, data which will permit the general bookkeeper to make an entry charging customers for the amount of the goods sold, and, crediting accounts payable with an amount representing the value of the sales less the commissions earned thereunder, on the balance sheet show neither the goods consigned nor the consignor's account.

The objection usually made to the first method is that it reflects on the books and in the balance sheet a fact which is not an asset, and another which is not a liability at least until the goods have been sold.

The objections often made to the second method are (*a*) it uses a book of original entry as a "memorandum book"; this is contrary to accounting principles; (*b*) it fails to record in the general books a fact which may be overlooked at the end of a period, thus making possible the inflation of inventory values, *i. e.* inflation of profits; (*c*) by omitting to make the balance sheet reflect valuable information concerning the activities of the concern, it fails to give all the material facts which contribute to a clear appreciation of its financial status.

The latter part of the question cannot be answered officially, since it opened the field for the display of personal opinions.

Answer No. 7.

(A) Reserves for depreciation of the property investment—road and equipment, and, if the occasion arises, reserves for depreciation of materials and supplies in stores and equipment, are to be deducted on the face of the balance sheet from the assets for which they were created.

(B) Reserves created by charges to operating revenue or to operating expenses, to provide for overcharges, personal injury, insurance and other claims of similar purposes, are to be included in the group "Deferred credit items," under the heading "Operating reserves."

(C) Reserves created by charges to net profits, or to surplus, are to be stated, under the heading "Reserves from income or surplus," as follows:

a. Invested in sinking and redemption funds.

b. Invested in other reserve funds.

c. Not specifically invested.

Answer No. 8.

The original journal was not a book of first entry; the daily transactions were recorded in a "day-book," or "blotter." This book gave all the historical and financial facts relating to every transaction. From the blotter, the transactions were recorded in a journal, by groups, according to their nature; from the journal. they were posted in the ledger. The modern journal having, in the course of its evolution become a book of original entry, and supplanted entirely the old-fashioned blotter, combines two books, and must give the information which was once to be found in both. Consequently, it may be said that a journal which merely states debits and credits, and does not give such information as will make the recording of the facts clear and lucid at all times, fails to fulfill its purpose and is worthless as a book of original entry.

Answer No. 9.

JOURNAL ENTRY:

Royalties paid in advance	$1,200.00	
To cash		$1,200.00

The reason for this entry is that while the company has not taken advantage of its right to mine the 12,000 tons of ore for which it has paid a royalty of 10cts. per ton, it has retained that right. It is at liberty to exercise it at any future period, without paying therefor. As a consequence it is deferring operations, and stating as an asset that which in the future will become a charge against operations.

Answer No. 10.

A's JOURNAL

JOURNAL ENTRY:

Cash	$20,000.00	
B. Mortgagor	6,000.00	
To mortgage receivable		$26,000.00

To record the sale of the pledge given by "B" as a security for an advance to him of $26,000, and the proceeds thereof. The claim against him arises from the deficiency of the pledge under foreclosure sale, this being the law of the state of New York in which the transactions have occurred.

Group 3.

Anwer No. 11.

The reason for creating a reserve for sinking fund when the reserve is not to be funded is that reserves being created out of net profits, the setting aside of a certain amount of the profits prevents the directors of the company from declaring dividends thereon, thereby making the disbursement of cash necessary to pay for the dividends declared. In this manner the part of the cash which represents profits remains invested in the business and produces income. It is understood that both the profits and the extra profits which their investment brings belong to the reserve, and will be available in some form when required to meet the liability.

Answer No. 12.

When preparing a statement of realization and liquidation there are three possible ways of treating the reserves:

1. Deduct them from the assets for the depreciation of which they were created, and show the depreciated values as the amounts of the assets to be realized.

2. Transfer them to surplus where they will act as offsets to the losses sustained on the undepreciated book value of the assets.

3. Send them to the credit of the realization and liquidation, and, when accounting for the losses, deduct the reserves from the amount lost on the undepreciated book value.

If the candidate had any preference, he should have given his reason therefor.

Answer No. 13.

Debit cash and credit "Search and insurance fees unearned." As the work progresses debit "Fees unearned" and credit "Search and insurance fees" with an amount proportionate to the ratio which the amount of work done bears to the total to be done and to the ratio which the total cost bears to the total profits to be made thereon.

Answer No. 14.

Right of way		$ 27,000.00	
Paving		425,000.00	
To cash (or accounts payable)			$452,000.00
To record the cost of obtaining right of way, as follows:			
Legal expense	$ 5,000.00		
Cost of consents	22,000.00		
	$27,000.00		
And the cost of paving the streets between the tracks which was a condition of the franchise.			

This answer is based on the assumption that the street railway in question falls under the supervision of the public service commission for the first district of the state of New York. The commission has ruled that there shall be charges to franchises the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as a consideration for the grant of such franchise or right, while the cost of obtaining "consents" must be charged to "Right of way," and the cost of paving to the account which bears that name.

If it were assumed that the street railway company was not under the jurisdiction of the commission, the journal entry might be:

Franchise	$ 27,000.00	
Road and equipment	425,000.00	
To cash (or accounts payable)		$452,000.00

a for cost of franchise represented by the legal expenses incident to the acquisition thereof, $5,000, and by the consideration to property owners along the right of way, for their consent to the laying of tracks, $22,000;
b for cost of paving streets between tracks (this being a condition of the franchise), which, while not chargeable to the franchise and representing no property of the company, is nevertheless cost of construction, on which a refund may be expected in the line of profits.

Note—It is an open question as to whether or not the legal expenses incurred in connection with the acquisition of franchises by the legal department of a railway company is a burden of the asset or may be capitalized.

Answer No. 15.

JOURNAL ENTRY:

Dividends payable	$9.00	
To consideration for supplementary contracts.......		$9.00

To record the payment of the dividend under policy No. ——, by application thereof to the premium received in consideration of the face value of the policy.

PRACTICAL ACCOUNTING—PART I

UNIVERSITY OF THE STATE OF NEW YORK

33D ACCOUNTANT EXAMINATION

Tuesday, June 25, 1912—1.15 to 4.15 p. m., only

(The practical accounting paper consists of part 1 and part 2.)

"The Regents of the University shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose. * * * " (Laws of 1896, ch. 312, sec. 2.)

Answer two questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (v) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

1. From the following trial balance after closing taken from the general ledger of a railway company June 30, 1910, and from the notations found below, prepare a general balance sheet that will meet the requirements of the Interstate Commerce Commission:

Cash—deposited at interest ....$	100,000
Cash—deposited not at interest	55,000
Working funds .....(1)	15,000
Cash in transit	10,000
Agents' and conductors' balances	30.000
Traffic and car service balances	172,000
Other accounts receivable	22,000
Investments .... (2)	950,000
Insurance fund	92,000
Deposits to insure performance of contracts.	30,000
Road and equipment. (3)	15,000,000
Other real estate ....(4)	1,000,000
Materials and supplies...	325,000
Accrued interest and rentals	130,800
Loans payable ....$	400,000
Traffic and car service balances	171,400
Audited vouchers unpaid	275,000
Wages unpaid	55,000
Other accounts payable..	79,800
Interest and rents accrued	139,500
Taxes accrued	20,500
Capital stock authorized, preferred	3,000,000
Capital stock authorized, common	7,000,000
General mortgage bonds, authorized	5,000,000
Equipment trust certificates, authorized	2,000.000
Reserve for depreciation, road and equipment...	2,300,000

Discount on bonded indebtedness	52,000	Reserve for general mortgage bonds	600,000
Equipment trust certificates sold ....(5)	65,000	Reserve for claims and injuries .... (6)	60,000
Equipment trust certificates unissued	1,235,000	Reserve for contingencies	40,000
General mortgage bonds unissued	1,500,000	Profit and loss surplus..	1,262,600
Capital stock unissued, common	1,000,000		
Claims in process of collection	20,000		
Cash in securities in redemption fund	600,000		
	$22,403,800		$22,403,800

(1) Advanced to general and special agents, officers and employees, for expenses.

(2) Stocks of steamship and transportation lines not in the system; pledged to secure loans payable $650,000; unpledged $300,000.

(3) Prior to June 30, 1907; road $9,000,000, equipment $3,000,000. Subsequent to June 30, 1907: road $1,800,000, equipment $800,000; general expenditures $400,000.

(4) Not required for operation of the road.

(5) Deposited with trustee pending delivery to the railway of the portion of the equipment that the proceeds of the bonds are to pay.

(6) Created by charges to operating expenses.

2. An examination of the books, records and accounts of the Pinta and Mercedes Mining Co., for the month of June, 1911, discloses:

Materials and supplies consumed $9,300; wages: miners $1,530, surfacers and warehousemen $475; stablemen and drivers $175; general labor $45; administration expenses $4,250; taxes $130.40; balance of wages unpaid $135; royalties paid on leased lands not operated $125; feed consumed and sundry stable expenses $330; spent out of funded reserve for injuries $500.

Mining operations: ore mined 1020 tons; brought to the surface and warehoused 950 tons; sent to the assay office 1,115 tons; charged by assay office for analysis and assay $10 per ton; cost of transportation to assay office 20 cents per ton; shipped from assay office to Mexican Smelters Co. 1,295 tons; sale price $40 per ton; cost of shipment 45 cents per ton; charged by smelters for difference in assay $200. Ore inventories May 31, 1911: in assay office, 180 tons, $396; in mine galleries, 250 tons, $375; in warehouses, 500 tons, $1,000.

Reserves: for leveling of land $50; for depreciation of machinery $300; for exhaustion of mines 10 cents per ton. Repairs to machinery amount to $50 and are included in administration expenses.

Discarded during the period seven narrow gauge wagons, cost altogether $350, aggregate residual value $20.

Prepare a statement of income and profit and loss for the month of June, 1911, showing the ton status and the location of the ore inventories on June 30, and the labor and transportation cost per ton of ore surfaced and warehoused, sent to assay office and shipped.

3. THE TURNWELL TRADING CO.

	Trial balance January 1, 1910	Cash receipts from January 1, to June 30, 1910	Credited to profit and loss June 30, 1910		Trial balance January 1, 1910	Cash disbursements from January 1, to June 30, 1910	Charged to profit and loss June 30, 1910
Land and buildings	$30,000			Mortgage payable	12,000	3,500	
Horse, wagons and harness	5,000			Accounts payable	9,000	22,500	
Investment, bonds	10,000			Interest on mortgage		150	210
Inventory, mdse.	11,000			Salaries of salesmen		1,500	1,575
Stable supplies	150			Surplus	17,450		
Cash	17,500			Capital stock	50,000		
Accounts receivable	14,800	36,000		Purchases			20,000
Interest on investment		400	490	Freight		425	425
Increase of inventory, mdse.			500	Stable supplies		200	235
Capital stock		5,000		Advertising		50	50
Interest on bank balances		80	80	Administration expenses		6,500	6,500
Sales			38,500	Horse, wagons and harness		300	
	$88,450	$41,480	$39,570		$88,450	$35,125	$28,995

Prepare a statement showing amount of ledger assets as of January 1, 1910; add to this statement the increase of capital stock and the income of the period; deduct from the statement the disbursements of the period, concluding with a balance sheet showing total assets as of June 30, 1910.

SOLUTION OF PROB

THE BLANK RAIL

GENERAL BALANCE

ASSETS

PROPERTY INVESTMENT:			
Railroad Equipment:			
Investment to June 30, 1907:			
Road		$ 9,000,000.00	
Equipment		3,000,000.00	
Total		$12,000,000.00	
Investment since June 30, 1907:			
Road		$ 1,800,000.00	
Equipment		800,000.00	
General expenditures		400,000.00	
Total		$ 3,000,000.00	
Total		$15,000,000.00	
Deduct:			
Reserve for accrued depreciation		2,300,000.00	
		$12,700,000.00	
Other Investments:			
Physical property		$ 1,000,000.00	
Securities pledged		650,000.00	
Securities unpledged		300,000.00	
Total		$ 1,950,000.00	
Total Property Investment			$14,650,000.00
WORKING ASSETS:			
Cash:			
Deposited	$155,000.00		
In transit	10,000.00	165,000.00	
Traffic and car service balances, due from other companies		172,000.00	
Net balance due from agents and conductors		30,000.00	
Miscellaneous accounts receivable		22,000.00	
Materials and supplies		325,000.00	
Other working assets—claims in process of collection		20,000.00	
Total working assets			734,000.00
ACCRUED INCOME NOT DUE:			
Unmatured interest and rent receivable			130,800.00
DEFERRED DEBIT ITEMS:			
Working funds		$ 15,000.00	
Unextinguished discounts on securities		52,000.00	
Special deposit:			
To secure contracts	$30,000.00		
Equipment certificates sold	65,000.00		
Insurance fund	92,000.00	187,000.00	
Cash and securities in redemption fund		600,000.00	
Total			854,000.00
TOTAL			$16,368,800.00

LEM No. 1—PART I

ROAD COMPANY

SHEET AT JUNE 30, 1910

LIABILITIES

CAPITAL STOCK:		
Preferred stock outstanding ....$	3,000,000.00	
Common stock outstanding	6,000,000.00	
Total		$ 9,000,000.00
MORTGAGE, BONDED AND SECURED DEBT:		
General mortgage bonds, outstanding.......$	3,500.000.00	
Equipment obligations, outstanding	765,000.00	
Total		4,265,000.00
WORKING LIABILITIES:		
Loans payable ....$	400,000.00	
Traffic and car service balances	171,400.00	
Audited vouchers and wages unpaid	330,000.00	
Miscellaneous accounts payable	79,800.00	
Total		981,200.00
ACCRUED LIABILITIES NOT DUE:		
Unmatured interest and rent payable........$	139,500.00	
Taxes accrued	20,500.00	
Total		160,000.00
DEFERRED CREDIT ITEMS:		
Operating reserves:		
For claims and injuries		60,000.00
APPROPRIATED SURPLUS:		
Reserves from income and surplus:		
Invested in redemption fund ....$	600,000.00	
Not specifically invested:		
Reserve for contingencies	40,000.00	
Total		640,000.00
PROFIT AND LOSS SURPLUS		1,262,600.00
		$16,368,800.00

SOLUTION OF PROBLEM NO. 2—PART I

THE PINTA AND MERCEDES MINING CO.

STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE MONTH ENDED JUNE 30, 1911

	Tons	@		
GROSS INCOME FROM SALES:				
Sales of ore to Mexican Smelters Co.	1,295	40.00	$51,800.00	
Deductions:				
Charges by smelters for differences in assay			200.00	
NET INCOME FROM SALES				$51,600.00
COST OF SALES:				
Labor and Transportation Cost:				
a Cost of Ore Surfaced and Warehoused:				
Inventory value of ore in galleries at May 31	250	1.50	375.00	
Labor on ore mined during June—miners	1,020	"	1,530.00	
Total	1,270	1.50	1,905.00	
Deduct inventory of ore in galleries at June 30, 1911	320	"	480.00	
Remainder	950	1.50	1,425.00	
Total	950	2.00	1,900.00	
Total	750	2.00	1,900.00	
b Cost of Ore Sent to Assay Office:				
Inventory value of ore in warehouse at May 31	500	"	1,000.00	
Total	1,450	2.00	2,900.00	
Deduct inventory of ore in warehouse at June 30, 1911	335	"	670.00	
Remainder	1,115	2.00	2,230.00	
Transportation to assay office	"	.20	223.00	
Inventory of ore at assay office at May 31, 1911	180	2.20	396.00	
Cost of analysis and assay	1,295	10.00	12,950.00	
Total	"	12.20	15,799.00	
c Cost of Ore Shipped:				
Shipping charges to smelters	"	.45	582.75	
Total Labor and Transportation Cost of Ore Sold	1,295	12.65	16,381.75	

Overhead Charges:			
Materials and supplies consumed	$9,300.00		
General labor	45.00		
Wages of stablemen	175.00		
Feed consumed	330.00		
Repairs to machinery	50.00		
Total		9,900.00	
Total Cost of Sales			26,281.75
GROSS PROFIT ON MINING OPERATIONS			$25,318.25
GENERAL AND ADMINISTRATION EXPENSE			4,200.00
NET INCOME FROM MINING OPERATIONS			$21,118.25
DEDUCTIONS FROM INCOME—Taxes			130.40
NET INCOME FOR THE MONTH			$20,987.85
PROFIT AND LOSS DEBITS—Discarding seven narrow-gauge wagons			330.00
NET PROFIT FOR JUNE, 1911			$20,657.85
RESERVED:			
For levelling land		$ 50.00	
For depreciation of machinery		300.00	
For exhaustion of mines		129.50	479.50
PROFIT AND LOSS SURPLUS FOR JUNE, 1911			$20,178.35

SOLUTION OF PROBLEM NO. 3—PART I

I. CAPITAL STOCK:				
1. Amount of capital stock paid up in cash		$55,000.00		
2. Amount of ledger assets (as per balance at January 1, 1910)			$88,450.00	
Increase of capital stock during period			5,000.00	$93,450.00
II. INCOME:				
Sales		38,500.00		
Interest on investments:				
Collected	$400.00			
Accrued	90.00	490.00		
Interest on bank balances		80.00		39,070.00
Total income				$132,520.00
III. DISBURSEMENTS:				
Paid to reduce mortgage		$ 3,500.00		
Paid to reduce accounts payable		2,500.00		
Purchases—amount paid for	$20,000.00			
Less increase of inventory of mdse.	500.00			

Remainder—purchases sold	19,500.00	
Freight paid in cash	425.00	
Salaries of salesmen paid in cash	1,500.00	
Advertising do.	50.00	
Administration expenses do.	6,500.00	
Interest on mortgage do.	150.00	
Stable supplies consumed	235.00	34,360.00
Balance		$98,160.00

BALANCE SHEET

Assets		*Liabilities*	
Land and buildings	$30,000.00	Mortgage payable	$ 8,500.00
Horse, wagons and harness	5,300.00	Accounts payable	6,500.00
Investment—bonds	10,000.00	Interest accrued on mortgage	60.00
Inventory, Mdse.	11,500.00	Salaries of salesmen accrued	75.00
Stable supplies	115.00	Surplus	28,025.00
Cash	23,855.00	Capital stock	55,000.00
Accounts receivable	17,300.00		
Accrued interest on investments	90.00		
	$98,160.00		$98,160.00

(To be continued.*)

* The rest of the answers and their solutions will appear in the September and October issues.