1937

Audit working papers: their function, preparation and content

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BY

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NEW YORK
THE AMERICAN INSTITUTE PUBLISHING CO.
1937

PRINTED IN THE UNITED STATES OF AMERICA
BY THE STRATFORD PRESS, INC., NEW YORK

To the Memory of

My Father

PREFACE

The American Institute of Accountants celebrates in the year 1937 the fiftieth anniversary of the founding of its predecessor organization, the American Association of Public Accountants, and these fifty years may be said to cover the life of professional accountancy in the United States. The development of the profession, however, has gone on at a steadily accelerating pace. The developments of the past twenty-five years have been of much greater importance than those of the preceding twenty-five years, and the duties and responsibilities of the accountant have increased more rapidly in the last five years than in any other period.

The imposition of a Federal tax on incomes, the increased requirements of banks and credit grantors for full and informing statements, the constant effort of the New York Stock Exchange and other exchanges to make financial reports more valuable to the investor and the business public, and particularly the requirements of the Securities and Exchange Commission both for registration of new issues and for listing on registered stock exchanges, have increased the demands upon accountants, and, while they have not set up any standards of integrity or responsibility higher than the best practice formerly required, they have to a considerable extent formulated and codified this responsibility and have gone far towards making higher standards of accounting responsibility compulsory for all that part of industry and finance which appeals to the public for the capital necessary to the conduct of its affairs.

The development of professional accountancy has naturally been a little in advance of accounting literature as this must reflect rather than forecast the advance of the profession in the improvement of practices and principles.

Probably the largest part of accounting literature is that which deals with accounting principles, with what accounts should be, and with the information they ought to contain. An acquaintance with books of this sort is essential both for the experienced practitioner and for the student and it is to this section of accounting literature which the banker, investor, economist or government official looks when he wishes to determine the relations of the accountant to the public and the nature and extent of his professional duties and responsibilities. There is also a smaller, but still considerable, body of literature which tells us how these accounting methods and principles may be applied to specific industries or situations and on the subject of auditing we have many works, some of great merit, telling us what should be done, what should be covered, and what special points should be looked for or guarded against in specific industries; but we have few books which treat, except in a disappointingly brief and incidental way, of how the work should be done.

In other words, a student can read through a book on auditing and he will get a clear idea of the requirements for the audit of, say, the item Cash, but he will know no more at the end of his reading than at the beginning about how to set up his schedules to cover that item, and he might easily perform the audit work in a satisfactory manner and lose the greater part of the benefit by schedules which are incomplete or awkward in form.

Before the year 1923, there does not appear to have been any general accounting literature or any book which dealt specifically with working papers. There were some excellent office manuals prepared for internal use in the larger firms, and the knowledge of the correct preparation of working papers was largely the result of the dissemination of the practices of the larger firms through the profession, generally by men who had had their original experience with those organizations. In the year 1923, however, two books appeared on the subject of working papers—"Audit Working Papers" by J. Hugh Jackson and "Accountants' Working Papers" by Leslie E. Palmer and William H. Bell. These two books presented, for the first time in any generally circulated reference book, substantially complete sets of working papers which were representative of good current practice.

Messrs. Palmer and Bell, in the Preface to their 1929 edition, state that "It has been the definite policy of the authors to limit the scope of the work to the preparation of accountants' working papers, avoiding discussion of the allied subjects of accounting theory, auditing procedure, and the preparation of audit reports, but manifestly a study of the practical accounting procedure involved in the preparation of working papers is invaluable as a supplemental study of any of these allied subjects."

Mr. Jackson's book, however, covers a much broader field dealing with methods of verification and accounting and auditing procedure, and particularly with the requirements and limitations of a balance-sheet audit. The scope of the present book is much less extensive than this and is intended, so far as possible, to cover nothing which is not essential to the preparation of adequate working papers. Obviously, it is impossible to prepare a set of working papers which does not presuppose certain accounting and auditing practices and which does not deal with a supposititious enterprise. A mere collection of blank forms for schedules and other working papers would be of little value as an example either to the student or experienced practitioner. On the other hand, it appears undesirable, and almost impossible, to combine in one volume a comprehensive treatise on auditing with a satisfactory description of working papers in general and their application to a typical example.

For this reason it has been decided to take the procedure recommended in the bulletin, "Examination of Financial Statements by Independent Public Accountants," published by The American Institute of Accountants and the forms and instruction books of the Securities and Exchange Commission as representative of good current practice. The author, in common with most accountants, is in general agreement with the principles and practices set forth in these documents. Like every other product of the human mind they are in some degree imperfect and susceptible of improvement. All accountants do not agree completely with all the procedures and principles which they set forth but they have been used in this book as a convenient and accepted foundation on which to build up a set of working papers for a representative enterprise. Any attempt at discussion, interpretation or even amplification except as a means of carrying out recommendations has been avoided, as any attempt of this sort would lead to discussions of accounting theory and practice which have no place in a book of this nature.

A comparatively simple consolidated enterprise has been used as the principal example. This has been done to illustrate for the parent company the papers required in the audit of a single corporate entity and for the consolidated group the solution of the difficult mechanical problems arising in the preparation of consolidated statements.

For this consolidated enterprise one set of papers has been prepared from which may be compiled all the various statements required by the Securities and Exchange Commission, the Federal income-tax authorities, the Interstate Commerce Commission and other state or government bodies as well as statements required for the information of stockholders and management.

A chapter on working papers for larger consolidations has been included which is substantially the same as an article published in *The Journal of Accountancy* in June 1923, by the author of the present book, and a chapter has also been included on the working papers required for the preparation of Federal income-tax returns for individuals. Needless to say, every situation which will arise in an audit is not covered, but it is hoped that a sufficient number of examples are given to enable the practitioner or student to determine for himself the form of any schedule not specifically illustrated.

While a typical report for management purposes and a typical report for the Securities and Exchange Commission are given as part of the illustrations, and while these are, it is believed, in accordance with good current practice, the reader should be warned not to consider them as anything more than illustrations, and not to regard them as being, necessarily, a criterion for determining the method and form of preparing these types of reports.

As one of the characteristics of present-day auditing and accounting work is the requirement that corporations prepare, for various purposes and for submission to various bodies, statements of their affairs and condition in different forms and from different points of view, it has been assumed throughout the book that working papers are desired which are sufficiently flexible and analytical to make it possible to use the same papers for the preparation of all the different reports and statements which the corporation may be required to make. The necessity for planning the papers from the start with the final statements always in mind is stressed and practical methods for avoiding duplication of work and re-analysis of accounts are indicated.

The manuscript has been submitted to members of several representative firms and the author is grateful for the suggestions which they have made. Every method described is in actual use by some responsible accounting firm in active practice, and the reader may be assured that if any method appears novel or original, it is only because the method has not been described in any published article or book, and that it is supported by years of successful use in actual professional work.

The author is indebted primarily to Professor J. Hugh Jackson for his pioneer work in the field, without which the work of preparing the present book would have been much more difficult and the results less valuable. This is especially true of Chapters I and XV of the present book which contain much of the material which composed Chapters I and II of Professor Jackson's book.

The author wishes to acknowledge the help and counsel of his friends in the accounting profession who have kindly consented to review the manuscript, as well as that of his partners and the staff of his firm, particularly Mr. Walter P. Adams, who prepared the chapter on Records and Working Papers for Income-Tax Returns of Individuals.

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Chapter I

THE AUDITOR'S RECORDS

The Records of the Auditor

The report and occasionally the working records of the auditor constitute the only important materials which a client will have an opportunity to observe, and the working papers which assistants make up in the office of the client should, therefore, be systematically and carefully prepared. Working papers on an audit or on an investigation are the connecting link between the client's records and the auditor's report and form generally the sole evidence of the correctness of the report or certificate. It is, therefore, of the utmost importance that these papers should show fully the composition of all significant items in the accounts, together with the methods of verification adopted for each; also, that questions raised during the examination and their settlement, and in many cases notes of conversations with officials, should be fully reported in the working papers. These records constitute the auditor's main defense in case of criticism of his work or findings. A complete record should be made of all important work performed and of the conclusions reached on an engagement.

The beginner cannot be impressed too early in his accounting career with the importance of the form and content of his working papers. Many times it must be left to the judgment of the individual who is assigned to the work to decide what information or data his papers shall contain, and he must learn to grasp a situation quickly and to determine the extent of the information to be included in his working schedules. If a senior is present the beginner, or the junior as he is ordinarily called, will be instructed concerning the general procedure he is to follow and the information which he shall include in his working schedules. The junior must learn, however, to think these things out for himself, for in all probability he is the only one having all the facts from which to judge the importance of the material.

Yet, before proceeding further it may be emphasized that some auditors include too little information in their working schedules, while others tend to record in their papers much more information than is needed. The tendency of the beginner is to include a mass of data which is practically or entirely worthless, so far as the audit verification is concerned. As he increases in experience and better learns the audit procedure to be adopted, this tendency will decrease, occasionally to such an extent as to merit the remark, recently made concerning an able auditor, that the working papers he brought back to the office "consisted merely of what notes he could make on his shirt cuffs." Whatever is essential to explain or support any amount appearing in the balance-sheet to be certified or reported upon, or in the accompanying income statement, or whatever helps to determine the present financial condition of the business and the kind of certificate or report the auditor will be justified in giving, should be included in the working papers.

Ownership and Confidential Nature of Working Papers

The working papers or records are the sole property of the auditor and should remain in his possession. Not only are they the connecting link between the auditor's report and the client's records, but the careful preservation of these papers not infrequently will eliminate the necessity of duplicate work, for which ordinarily a charge cannot and should not be made. The papers are highly confidential and access to them by such outside parties as government representatives should be sanctioned only by the auditor himself, if an individual practitioner, or by a principal if the audit has been conducted by a firm of accountants. In all cases when access is requested by anyone other than the client the permission of the client must be obtained. The auditor or his representative should be present whenever a review of the working papers is thus allowed.

The ownership of working papers has been under the review of the courts in the case of *Ipswich Mills* vs. *Dillon* (260 Massachusetts 453), which was decided in 1927, and in a recent New York case. The present state of the law on this point is summarized in *The Journal of Accountancy* for April, 1936:

> "The New York surrogate's court recently held that a public accountant has no power to bequeath his working papers by his last will and testament. This extends the law into a field heretofore not covered by statute or reported case, and the decision is of great importance to accountants practising without partners, because it prevents their willing working papers to assistants associated with them. Such an assistant must first establish a professional relationship with a former client of the decedent and through him ultimately obtain the working papers when the executor sees fit to release them. We are informed that no appeal is contemplated and therefore this decision represents the present law. A decision by the surrogate's court of the county of New York has weight and influence throughout the country, because that court, with its two judges, has jurisdiction over more large estates than perhaps any other probate court in the United States.
>
> The matter of the ownership of working papers as between the client and the accountant was adjudicated in Ipswich Mills v. Dillon, 260 Mass. 453, by a decision of the highest court in Massachusetts. This is the leading if not the only case dealing squarely with this point. It was held there that the client owned only such papers as originated in the client's office and that the public accountant owned all his working papers. The decision rested chiefly on the ground that a public accountant

is not a client's agent but an independent contractor. The court declared that working papers prepared by accountants for their own use and as a basis for their reports belonged to the accountants and should be retained by them, because it might be necessary for the accountants to have them 'if the accuracy of their work was questioned.' The court further stated that the client's interest in the confidential information stated in the working papers did not give the client title to them."

While the methods employed to safeguard working papers and the formalities necessary to keep a record of their location at all times—as well as a record of the responsibility of the various assistants in whose custody they are—may vary somewhat in the office of an individual practitioner or a firm employing only a small number of assistants, it is always true that some method should be in force which will make it possible, at any time, to know the location of any working papers, and if they are not in the office of the auditor, exactly who is responsible for them.

In a large or moderate-sized organization, all working papers should be kept in a filing room and should not be given out except on a receipt from the assistant obtaining the papers. The receipt will, of course, be returned or destroyed when the working papers are returned to the filing room. Assistants should be held strictly responsible for all working papers in their possession or charge. Whenever office copies of papers of any kind are taken away from the office it is well to require the written consent of a principal, and all reports, books or other documents sent out of the office should be accompanied by a covering letter.

When working or other papers are taken out of the office they should be securely enclosed in wrapping paper or envelopes and either fastened or sealed. The name and address of the assistant should be legibly written on the parcel, so that if the papers are lost or mislaid they may be returned unopened to the assistant responsible for them.

Whenever assistants complete out-of-town assignments and are not themselves returning to the office to which they are attached, they should immediately forward the working papers and should advise the office in sufficient detail to enable the tracing of the papers—if delivery is delayed. This will best expedite the preparation of the report and the certification of the accounts for the client.

Working papers not only are valuable in preparing and certifying the current accounts but are quite frequently referred to for other purposes. The value of working papers as a support to Federal income-tax returns and to statements prepared in accordance with requirements of the Securities and Exchange Commission and other regulatory bodies, has been sufficiently indicated in the succeeding chapters. The working papers should, therefore, be preserved, and when no longer needed for current purposes should be properly stored.

Beginning the Audit

In preparation for beginning the audit the accountant in charge, before leaving the office, should read the correspondence in the case and should ascertain carefully the scope of the audit and the period to be covered.

If the audit is to be of an enterprise in an industry with which the auditor is not familiar, it would be well to consult trade or technical journals and possibly books on the industry to get a general understanding of the nature of the industry, its products, processes and technical terms. If the audit is a recurring one, he should obtain an outline of the work to be done and of the program followed at the previous audit, and upon reaching the scene of the work, should determine, so far as possible, the amount of the detailed checking which will probably be necessary. He should carefully inspect preceding reports, if any have been made, and should take with him the working papers for the last previous audit, if any.

For the guidance of somewhat inexperienced assistants the following suggestions may be of value:

When assigned to a case, the auditor in charge should obtain a letter of introduction, and either he or a junior assigned to him should procure a supply of stamped return envelopes, bank certificate blanks, analysis paper, pencils, clips, rubber bands, erasers, etc., time and expense sheets, together with the audit program and the working papers of the last previous audit, if any. He should consult with the partner or whoever is supervising the work in regard to any special features which might modify the general instructions given for the conduct of the audit.

When assigned to an out-of-town case, the assistant should advise the office of his hotel address immediately upon his arrival at the destination. During his absence he should mail promptly to the office to which he is attached the time and expense reports on the evenings of the days when they are due.

Upon arrival at the client's office, a junior, if any be present, should be assigned to make the cash count and to prepare the reconciliations of bank balances, while the accountant in charge should obtain or proceed to take off a trial balance of the company's general ledger, ascertaining before doing so whether or not the closing inventory and other closing entries have been made. The totals of all schedules prepared during the audit should agree with or be adjusted to the balances appearing in this general-ledger trial balance.

The assistant should not hesitate to write whenever necessary to the office to which he is attached for information or guidance. All communications ordinarily should be addressed to the organization and not to any individual.

The Working Supplies

One of the first considerations in beginning the work of an audit is that of the supplies which are needed. The auditor with a complete supply of materials will obviously have the respect of his client to a greater degree than the accountant who is not so supplied with analysis paper, fountain pens for both black and red ink, pencils, clips, erasers, etc. There may be some difference of opinion regarding the number of kinds of working papers which it is necessary or desirable to have, but ordinarily the fewer the kinds of working paper and other supplies which the auditor possesses the better. It is even suggested that only one kind of working paper be used. The standard working paper appears to be 14-column analysis paper without unit rulings. At the present time this is generally made up on buff or green paper, although some firms continue to use paper which is pure white or has a slightly bluish tinge. Green or buff paper, however, is generally considered to be easier on the eyes, particularly when work has to be done under artificial light. Other papers which some accountants think are superior to the 14-column paper are papers ruled on one side in 14 columns with unit rulings for hundreds of millions of dollars, and ruled in 16 columns on the other side with unit rulings for tens of millions of dollars. The 16-column ruled paper is particularly useful in preparing summaries and analyses where figures are analyzed or grouped by months, as it provides 12 columns for the monthly figures, one column for a total, and three columns for description and reference.

Working papers are permanent records and should, therefore, be on paper which is of about the same quality as would be used in books of account. Other types of working paper may be used if desired, particularly 20-column paper for extended analyses. Single (half) sheets are generally furnished in that form but may, if necessary, be one-half a folded double sheet and are used for schedules when a number of columns are not required. It is recommended that the form of working paper be standardized, as in addition to being more convenient, it is usually cheaper to use one, instead of several kinds of analysis paper.

The most important thing, perhaps, is that the auditor or the assistant should have a plenteous supply of whatever kind of working paper he may use. Separate sheets should be used for each memorandum, even though it may require only a line or two across the top of the page. Paper is comparatively cheap even at present prices, very much cheaper than the time required to look through a large set of working papers to find an essential item of information merely because the assistant who prepared the schedule included two or more unrelated memoranda on a single page. Likewise, writing on the back of a sheet may easily be overlooked; assistants should always use one side of the paper only.

Some prominent firms prepare their working papers in pencil and others in ink. There seems to be little uniformity of practice, but it is the author's experience that the preparation of schedules in ink is no more difficult than in pencil. The papers present a better appearance and are easier to use after having been handled several times or after having been some years in storage. Report drafts may be prepared in pencil as the copy of the report itself is the permanent record. If working papers are to be examined by a third party, papers prepared in ink convey a greater impression of authenticity and careful preparation than those prepared in pencil.

Superscribing the Schedules

All working schedules prepared on an audit should have the name of the client or business written or rubber-stamped at the top of each sheet, and each sheet or set of sheets dealing with any matter should also have the name of the account or matter investigated written or rubber-stamped at the top of the sheet immediately below the name of the client or business. If the reader will turn to schedules in Chapter XII, he may observe the ordinary procedure in superscribing the working schedules.

When an engagement is comparatively small or when a small set of working papers is being prepared, it may seem unnecessary to the casual reader to take the trouble and time to superscribe each sheet. The amount of information which is written on a single schedule may likewise appear unimportant but later developments may make that item of very great importance, and it is essential on any audit, however large or small it may be, that any information worth preserving be readily available. Furthermore, when it is realized that in large organizations several score or hundred engagements may be in progress at one time and also that there may be on a single engagement thousands of separate schedules and sub-schedules, the necessity for having each exhibit superscribed and clearly marked becomes at once apparent.

Permanent File Papers

The working papers for a balance-sheet audit may ordinarily be grouped as permanent file papers and current file papers. The permanent file papers should include all information, records, etc., which may be used for successive audits as distinguished from the next succeeding audit only.

In the case of a first audit the accountant should usually prepare a list of the books, records, and other important data which would be presented to him during the course of the audit. This list should include the name and number by which each record is known and identified, and usually notes should be made concerning the purpose and relation of each of these records to all other records. The auditor's working sheets should also indicate by whose authority entries are made in the books and by whom checks and vouchers of all kinds are signed and approved. The names of officers and chief employees, and the relation of the various officers and senior employees of the accounting department to the treasurer, purchasing agent, chief engineer, etc., should also be obtained and included in the permanent-file papers. It is sometimes desirable, if any amount of detail work is to be done, to include in these or the current papers the signatures or initials used by various individuals in the approval of vouchers or other papers. Thus, in the case of one large engagement, at least four copies of the names and signatures of those authorized to approve vouchers were obtained for the use of assistants. Upon each sheet were typewritten the names of the individuals authorized to approve vouchers or other papers; the approvals which each individual could make were designated, and opposite each name appeared the signature or initials written by the individual himself as written when making approvals.

A rather complete survey of the accounting system and methods should be made and notes thereon should be included in the permanent file. Such information should be reviewed from year to year and kept strictly up to date. Any changes in the accounting methods or in the methods of authorization, etc., should be carefully noted from period to period and appropriate comments should be made in the permanent-file working papers. A statement from the accountant in charge that he had satisfied himself of the sufficiency of the system of internal audit, indicating specifically what he had done to determine whether or not the internal audit was sufficient, should also be included.

The permanent-file papers should contain further the program of audit, if such be prepared and used, and all other papers having value for purposes of later audits. These latter papers may include abstracts from or copies of the articles of incorporation, by-laws, trust indentures, partnership or other agreements, particulars regarding the original issue of capital stock and the valuation of properties, franchises, goodwill, trademarks and copyrights, etc., excerpts from corporation minutes which affect more than the current operations or the period under audit, and similar material.

The Audit Program

The general principles which underlie all audits will serve, in a general way, as a working program for the audit of any type of business. Yet a knowledge of how special kinds of business actually operate is essential to the successful auditor, for it is well known that in many kinds of business there are special methods or knotty problems not found in other types of business. It is desirable, also, that some definite record be kept of the work performed on each audit, in order to insure relative uniformity and to be certain that nothing essential is forgotten. It is, therefore, common, as previously stated, to prepare a program or outline of work to be done on a particular assignment and then to have all assistants engaged on the work initial the portion of work which they do or record the time taken. The audit program is not used extensively by some firms, but when it is used a glance at the program informs the auditor of the progress of the work. In case of errors the responsibility therefore may be more easily placed, and, likewise, credit may be given for good work done.

The audit program is naturally more widely used in a large organization than in a smaller one but, even though a formal program is not prepared, the information which it contains should be in the working papers in a clear and easily understood form. The "Summary of Audit Work and Internal Check" shown in Chapter III, pages 58 to 67, is an example of a summary which, while not exactly an audit program, performs a similar function. Whether the program should be prepared in advance to be strictly followed, or whether a general indication should be given to the assistant in charge and the program of work actually done should be inspected after the audit, is a question to be decided by the principal, keeping in mind the conditions in his own office and the ability and experience of the assistant in charge. The ideal method perhaps lies somewhere between the one extreme of a formal, rigid program laying down certain requirements which must be met, and neither permitting nor demanding anything further, and the other extreme of such loose general instructions that when work is completed it is difficult or impossible to determine exactly what has been done, or by whom. It is probably easier, particularly in a large organization, to overemphasize specific program requirements and thus stifle, or at least discourage, initiative and independent thought on the part of the assistant. In smaller organizations, where the principals are more thoroughly acquainted with the work and capabilities of their assistants, the tendency is generally in the opposite direction, and too much, perhaps, is left to the individual judgment of the assistant in charge. Familiarity of both principal and assistant with the work may result in a tendency to omit complete statements of work done or to minimize the importance of such a record.

Conclusion

These papers, as previously stated, are usually the sole evidence of the work done on the audit and of the correctness of the report or of the certificate, and too great care cannot be taken to make all working schedules intelligible and complete. The writing should be legible, whether done with ink or pencil. Particular care should be taken to see that all names are correctly spelled. It seems almost unnecessary to say that figures must be neat, and every care should be taken to see that the papers are usable and that they set forth exactly the information which is essential to the audit. Yet the work must be done quickly and should facilitate in every way the completion of the audit and the preparation of the certified accounts for the client.

Chapter II

THE FUNCTION OF WORKING PAPERS

Scope and Purpose

The object of this book is to provide an accountant or student who is already well grounded in the theory of accounting and auditing with what may be described as a useful set of working tools, which will give him the results he wants with the least expenditure of time and effort, but will also leave him a full and clear record of the work he has done and of the basis on which the client's accounts and report have been prepared.

While many large firms with a number of branch offices already have office manuals which prescribe the uniform methods to be used throughout all offices, it is quite possible that the material presented here might fill this requirement in firms which do not already use this means for insuring a uniform standard of work throughout their offices.

The methods of preparing papers and the illustrative types of schedules which are given have all been devised with the shadow of a third party in the background. Some types of working papers, such as those prepared for the support of an income-tax return, are almost certain at some time to be reviewed by an employee of the Bureau of Internal Revenue. Other papers may be exhibited to the officials or employees of a client or to some creditor or associate of the client, at the client's direction, of course, or they may need to be shown to employees of the Securities and Exchange Commission, and there is always the possibility that the papers may need to be put in evidence in some legal action. While this last is probably the least likely event in which third parties may examine working papers, it is also probably the most important.

It is with all these considerations in mind that the typical examples of schedules have been prepared and the mechanical procedures have been devised.

Auditing is Analytical, Accounting Constructive

An accountant's work may be said to be both constructive and analytical, and these features are to some extent mingled in almost all of his work. However, the constructive part of his work may broadly be said to have to do with preparing actual entries or keeping records, in devising forms or methods for keeping records, in advising as to the nature of the entries required for certain transactions or as to their accounting significance, with the preparation of reports or statistics for management or executive purposes, and with the preparation of tax returns and other reports required by Federal, state or other supervisory or regulatory bodies.

This does not, by any means, exhaust the varieties of constructive work which the accountant may be required to do, but those described cover in a general way what is customarily expected of a public accountant. Auditing is the primary and most frequent type of analytical work. Most audits are not usually exclusively analytical, but that is their predominant characteristic. An audit may cover anything from a complete detailed review of every transaction to a general survey of conditions and methods, supplemented by a partial verification of certain specified assets.

Practically all analytical work other than auditing may be described as investigation. The object of the investigation may be to arrive at a purchase or a sale price of an enterprise, to ascertain the comparative value of two companies, to estimate the future earning power of a company, or to determine the actual cost of certain goods, the honesty of employees or the sufficiency of a system of records. The object may also be to determine the position of a company with regard to outside bodies, such as the taxing authorities or government bureaus or commissions, or may cover the investigation of almost any feature of an enterprise on which the client thinks the accountant may usefully report, and for which the accountant is willing to take the responsibility.

The average audit as carried out in the United States at the present time is largely analytical, but certain constructive work is generally expected by the client and performed by the auditor. In the ideal situation the client's accounts are well kept and the client has statements prepared therefrom in proper form, supported by reasonably extensive analyses of the important accounts, so that little more than verification, approval and record of the work done and the preparation of reports is required. This condition of course does not often exist and actual situations may range from this to the condition of the records found in some bankruptcy and fraud cases where it is frequently necessary for the accountant to construct and reclassify the accounts from whatever original data may be available. In any case the auditor's working papers, whether they represent statements initially prepared by the auditor or by the client, should be adequate to show the examination he has made and to serve as a proper basis for the figures shown and the opinions in his report.

In Great Britain a certain amount of entirely analytical audit work is done, but this type of audit is becoming less frequent as business becomes more complex. In these cases, the client closes his books and prepares a balance-sheet and income account, which he presents to the auditor. The auditor then checks this with the books of account and supporting data, records in his audit notebook the records examined, and signs the client's accounts. Here, the only audit papers will consist of copies of the signed accounts, the audit notebook, and possibly extracts from the minute book and articles of association. In such an audit the question of working papers hardly arises.

In the United States, however, particularly in the case of a small or moderate-sized company, it is not unusual for the accountant to prepare the balance-sheet and income account, and occasionally the accountant is expected to close the books. The preparation of the statements and the closing of the books is in reality no part of an audit, and if this work is performed in the course of an audit, it is done by the accountant in his "constructive capacity," rather than as an analytical auditor.

No matter who does the actual work, the statements are the client's and the mere use of the accountant as the compiler, regardless of how frequent this may be, makes them no more his statements than their preparation by the client's controller or bookkeeper makes them the statements of that employee.

Relation of Financial Books and Working Papers to Reports and Statements Prepared from Them

As a practical matter, we shall assume that a preliminary closing of the income and expense accounts has been made on the company's books and that mathematically correct trial balances before and after this closing are available to the auditor. In large and well-organized companies, balance-sheets and income accounts are frequently prepared, but these are seldom in exactly the form required by the auditor and, particularly in the case of consolidated accounts, analysis and verification must be applied to the ledger accounts rather than to a number of ledger accounts grouped as one item under a balance-sheet or income-account classification.

Under present conditions of practice, with very few exceptions, statements for more than one purpose, or to satisfy the requirements of various officials and bodies, must be drawn up from the same set of books. There is a surprisingly widespread illusion, which is shared not only by the uninformed public, but by numbers of otherwise intelligent business men, that the average corporation keeps two or three sets of books—separate sets of books for corporate purposes, for tax purposes, and possibly for purposes of reporting to some body or commission such as a state public utilities commission, the Interstate Commerce Commission or the Securities and Exchange Commission.

The accountant knows this is not a fact, but that corporate books must be so devised that the various statements required can all be drawn off the same set of books. Each statement will be prepared for a specific purpose and will show the position of the enterprise from that point of view, but it must be possible to reconcile each one with the books themselves and with the other statements. If it is true that the corporation's books must serve all these varied purposes, it follows that properly designed working papers must be equally flexible and must be designed from the start of the audit with the statements and reports to be produced always in mind.

While there are differences in detail in various industries, the mechanical principles of the preparation of working papers are essentially the same, whatever their application. It appears more desirable to take as an example an industrial organization exhibiting some of the typical complications which will be met with in domestic business in the United States, carried through with some degree of completeness and finality, rather than to attempt to show the differences in application between different industries. A manufacturing company, the principal unit of which is both an operating and holding company controlling subsidiary manufacturing companies, a sales company and a railway, has been chosen as giving typical examples of the problems which will be met in the average audit. (See chart, page 305.)

It has been assumed that shares of this company are listed on a securities exchange which is registered with the Securities and Exchange Commission and to which annual reports must be made. The railway is a line which connects one of the company's plants to an interstate railway system. As freight going into interstate commerce both originates on and is received by this line it falls under the jurisdiction of the Interstate Commerce Commission, though it is little more than a short-line plant facility. Federal income-tax returns must be prepared for all these units. While these companies, in all probability, would also have to pay some state franchise or income taxes, the papers required to prepare these returns would be similar to those used to determine Federal income taxes.

The working papers described in this book are, therefore, designed to support:

(a) A comprehensive report for the management of the organization showing the consolidated position of the enterprise and the relation of each individual company thereto.
(b) Certified consolidated balance-sheet, income and surplus accounts for shareholders, satisfactory to the exchange on which the securities are listed.
(c) The financial statements required by the Securities and Exchange Commission.
(d) In the case of the railway, the data required by the Interstate Commerce Commission.
(e) A Federal income-tax return for each company.

No examples are given of financial statements required for security issues under the Securities Act of 1933 and amendments, as the statements prepared for this purpose are very similar to those required annually by the Securities and Exchange Commission. A description of the working papers required to support the annual statements for a listed company and those for a new issue of securities would be practically the same, except that in the latter case longer periods of time sometimes need to be covered and some additional detail would be necessary. For the most part, however, the data required for registering a new issue, not included in the annual report, are not of an accounting nature.

Working Papers for Tax Returns of Individuals

One part of the accountant's practice which is of importance to the practitioner, whether in a large city or small town, or with a numerous staff or practicing individually, is the preparation of individual income-tax returns and, as a necessary incident thereto, supervision over the accounts of individuals. It is probably fair to say that no working papers are of more practical importance and value than those supporting the income-tax returns of individuals, particularly when an individual is interested in a number of enterprises, or when the returns from investment or speculation form a substantial part of the income, yet it is hardly possible in an example based on corporate accounts to indicate the methods which would be most useful.

In this book, therefore, a special section is devoted to working papers leading to the preparation of a Federal income-tax return for an individual. (See Chapter XVI.) While it is unlikely that any one individual return would show all the varieties of transactions and different types of income and deductions, an attempt has been made to include, in this return and in the papers supporting it, most of the accounting problems which are commonly met in the preparation of returns for individuals with substantial income or complicated transactions.

Types of Schedules

Working papers may be grouped according to their functions into three divisions;

First. The classified trial balances, adjusted when necessary, which are the link between the books and records of the company, and the statements certified by the auditor.

Second. Analytical and supporting schedules which show the composition and character of the items appearing in the trial balance and indicate their classification in the accounting statements.

Third. Schedules which have to do with verification.

A single schedule, which is primarily a supporting schedule, may, at the same time, give an indication of what verification work has been done. For instance, a schedule of plant and equipment may show the changes during the year and a note may be made on the schedule as to the amount of the additions verified and the nature of the verification work. In general, it is not objectionable for schedules primarily designed as support for the statements to include notes as to verification work, but it is not desirable for schedules, the primary purpose of which is to show the verification work done, to carry notes which are, in effect, condensed supporting schedules. While no point of principle is involved, it is in practice awkward and inconvenient, as in making references on trial balances and cross references between schedules they are made primarily to supporting schedules rather than to verification schedules.

Chapter III

EXAMINATION INTO SYSTEM OF INTERNAL AUDIT AND CONTROL

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

An important factor to be considered by an accountant in formulating his program is the nature and extent of the internal check and control in the organization under examination. The more extensive a company's system of accounting and internal control the less extensive will be the detailed checking necessary. For example, a plant addition in a large-sized company may be limited to the amount of a specific appropriation made by the administration; the work may be undertaken by a construction department, the funds be disbursed by the treasurer's department and the whole be subject to review in the controller's department when the necessary entries are made. In such a case the accountant is obviously warranted in making a much less extensive check of the details than in a small company where the manager orders the expenditure and the bookkeeper makes the entries.

The term "internal check and control" is used to describe those measures and methods adopted within the organization itself to safeguard the cash and other assets of the company as well as to check the clerical accuracy of the bookkeeping. The safeguards will cover such matters as the handling of incoming mail and remittances, the proceeds of cash sales, the preparation and payment of payrolls and the disbursement of funds generally, and the receipt and shipment of goods. These safeguards will frequently take the form of a definite segregation of duties or the utilization of mechanical devices. For example, the cashier will have no part in the entering of customers' accounts or the preparation of their statements, and neither he nor the ledger keeper will have authority to issue or approve credits to customers; the clerk recording the labor time and preparing the payroll will not be permitted to handle the funds; approval and entry of vouchers will be made by others than the disbursing officer; and stock records and inventory control will be kept independent of both the shipping and receiving departments. The extent to which these and other measures are practicable will naturally vary with the size of the organization and the personnel employed.

The scope of the examination and the extent of the detailed checking must be determined by the independent public accountant in the light of the conditions in each individual company. If there is little or no system of internal check, the client should be advised that a more detailed examination than that outlined hereafter is necessary if an unqualified report is to be furnished. If there is an adequate system of internal check, certain parts of the detailed procedure may be unnecessary.

Internal Audit

Apart from the internal check just described, the independent auditor of a modern corporation of some size generally has another instrument to assist him in carrying out his audit, that is, the internal audit staff of the client. A detailed audit of a manufacturing or trading enterprise with a substantial capital, say, from one million dollars up, is seldom attempted and would be, if carried out, unsatisfactory to both client and auditor. The expense to the client would be much heavier than that of maintaining an adequate internal audit staff, and the risk and difficulty incurred by the auditor in carrying such a large staff would be so great that the apparently excessive fees he would be forced to charge would barely compensate him for the work done. Furthermore, it is generally true that in the detailed work required of an internal audit staff, familiarity with one industry, and with the client's affairs in particular, probably make the work of the internal auditor more effective and economical than that of the staff of a public accountant. The latter, however well-trained generally it may be, must, as a natural result of being prepared to meet almost any situation at short notice, be less expert in a particular industry than a group of men who have spent some time in the employ of a client as internal auditors.

The independent auditor should be acquainted with the personnel, programs and methods of the internal audit staff. He should satisfy himself that the staff is so organized and directed as to be able to take an independent and judicial view of the transactions which pass under their review and that the internal auditors report to a financial officer who is not directly responsible for the accounting work. All reports, programs and working papers of the internal auditors should be available to the independent auditor, and generally these should be carefully scrutinized by him. A fairly detailed statement of the personnel, program and progress of work of the internal audit staff should be prepared as part of the audit papers.

If anything of real importance is not covered by the work of the internal audit staff or by adequate internal check, or if it is covered unsatisfactorily, the condition should be reported to the management for correction. If no steps are taken to correct the condition, the auditor should then consider whether the lack of proper control is sufficient to cast so much doubt on the accuracy of any item in the accounts that a qualification should be made in his certificate. The qualification should refer to the doubtful item rather than to the lack of proper internal control. If, for instance, the independent auditor is convinced that the company's check and control on goods on consignment is so faulty that the accuracy of that item is questionable, and the terms of his engagement prevent him from doing the work which he considers necessary to check goods on consignment satisfactorily, he might state that the accounts are correct as stated, subject to adequate verification of merchandise on consignment. The reader of the accounts is not particularly concerned as to why the auditor considers that the accounts must be qualified, but he is vitally concerned in knowing upon which items he may not rely. Just as in the case of the internal check, it is impossible to say what, in any particular instance, is sufficiently important to warrant the auditor insisting upon it even to the extent of withdrawal from the engagement.

In an audit of a company all of whose plants and offices cannot practicably be visited, the independent auditor must occasionally rely on the internal audit staff for a description of the internal check in use in those plants and offices. This, of course, throws an added burden of responsibility on the auditor and makes a knowledge of the personnel of the internal audit staff and a close scrutiny of their reports even more important than it is when circumstances permit the independent auditor to visit the various plants and offices of the company. Here again, a decision as to whether or not a condition of this kind should be mentioned in the certificate must be dictated by judgment and a sense of proportion.

The Working Papers Covering Internal Check and Internal Audit

If a company has ten plants distributed over the whole country and it is practicable to visit only two, it would be usual to mention in the working papers that the auditor had relied on statements received from the plants which had been checked by the internal auditor. Whether or not any mention is required in the report or certificate of the independent auditor will be determined by the importance of the records kept at the plants, properties or offices which the independent auditor cannot visit in the course of his work and the extent of his reliance on the reports of company auditors examining these units. In the working papers of any audit, there should be a description of the internal check and the internal audit on which the auditor relies for points not covered by his own work, a description of any type of transaction or activity not covered by internal audit or by the auditor's own work, and a statement of the extent to which the auditor had examined into the nature and sufficiency of the internal check and internal audit work.

Two forms of working papers covering this part of the audit are given at the close of this chapter. The first is a questionnaire used by a prominent firm of accountants for balance-sheet audits of individual companies and covers in some detail the system of internal check in use. The general instructions preceding the detailed questions are of particular interest as they illustrate the practical use of such a questionnaire. Obviously, like every other type of fixed program, this will occasionally be found to be too exhaustive and at other times particular items will need more careful scrutiny. It is, however, a representative example of good practice in the larger accounting organizations, and gives wide scope to the judgment and intelligence of the seniors and assistants actually engaged in the work.

There is also attached a "Summary of Audit Work and Internal Check" filled out for the Ashton Metal Products Company, the supposititious manufacturing enterprise used as an example in the working papers. This is prepared particularly to indicate that all the work which should be covered has been covered for the entire consolidated enterprise, and who is responsible for it, especially the division of work between the independent auditor, the internal auditor and the officials concerned with the internal check. Such a statement could be further supported by a detailed questionnaire filled in for each of the constituent companies.

While the two forms given are merely suggestive, they are examples of current practice and show how this part of the work can be covered systematically and in a form which facilitates easy reference. Extended notes in narrative form are not easy to follow and it is difficult to check from several pages of narrative notes whether or not all the features of the operations are adequately covered.

No rule can be given under which the auditor can determine the extent to which, in any given circumstances, he may rely on the system of internal check or the internal audit staff of his client. That he may rely on these things in general is accepted by the accounting profession and the public. Ordinarily, the independent auditor gives careful attention to the determination of the propriety of charges to fixed assets and the adequacy of the depreciation charge, the verification of investments and marketable securities, the determination of the adequacy of reserves for bad debts, the verification of changes in capital, and the propriety of the various bases of asset valuation and their statement. Frequently left to the internal auditors are the detailed audit of cash receipts and disbursements and payrolls, the detailed checking of accounts payable vouchers, the detailed checking of accounts receivable, and detailed check of stores and inventory records. However, the distribution of responsibility between the independent and the internal auditor is by no means uniform or consistent in different organizations, and the extent of the reliance which the independent auditor may place on the work of the internal audit staff is determined by its personnel and by the attitude of the management to its work.

The principal consideration in the preparation of working papers covering the adequacy of the internal audit and internal check is to see that a comprehensive, clear, logically arranged and well-referenced statement is made which indicates the extent to which the independent auditor has examined into the company's system, the extent to which the independent auditor is satisfied that it is adequate, and the grounds on which he bases any conclusion that the system is in any respect incomplete or unsatisfactory.

Questionnaire Re System of Internal Check

(For Use on Balance Sheet Audits)

This is a Supplement to, and Not a Substitute for, the Bulletin "Examination of Financial Statements by Independent Public Accountants"

To the Members of the Staff:

We think it well to call the attention of our staff to the fact that, in organizations where an adequate system of internal check cannot be maintained by reason of the smallness of the organization, our examination into the cash transactions, particularly the verification of the cash and bank balances at the close of the period under audit, should be conducted in a careful and painstaking manner and that the limited verification as outlined in the Bulletin "Examination of Financial Statements by Independent Public Accountants" should be extended. We have, accordingly, prepared and are attaching hereto a memorandum outlining the procedure to be followed in connection with the verification of the cash and bank balances and it is requested that the schedules containing particulars thereof should show clearly the extent of the verification effected. Where bank practice does not permit of an exact adherence to the methods outlined herein, the verifications should be of a character substantially equivalent.

NOTE:

As pointed out later herein, the answers to the respective questions are to be filled in during the progress of the examination by the men who have actually done the work and not, as has apparently been the practice in the past, when the entire audit has been completed. Each section of the questionnaire should be detached and given to the assistant responsible therefor. The *entire questionnaire is, however, to be reassembled by the senior in charge upon completion of the examination.*

The scope of the accountant's examination of the balance-sheet of a business enterprise and of the Profit and Loss and Surplus Accounts as described in the Bulletin "Examination of Financial Statements by Independent Public Accountants" comprises a verification of the Assets and Liabilities as of a certain date, a general examination of the Profit and Loss Account for a period ending on that date, and incidental thereto *an examination into essential features of the accounting, i.e., the system of internal check.* There is reason for believing that the latter requirement has not always received the attention it deserves and the following questions have been prepared partially to correct this weakness. It should be borne in mind, however, that the questions are more suggestive than exhaustive and are, of course, not precisely applicable to every balance-sheet audit.

The majority of the questions will be found to be answerable from observations actually made during the course of the work *and should be answered by the assistant doing the particular section of the work to which the questions apply.* If the assistant is unable to answer the questions on the work assigned to him it is evident that a careful and thorough verification has not been made.

In cases where the direct method of interrogation is used, the questions should be taken up with the Comptroller or other responsible officials of the Company and a note made as to the source of the replies.

The questions under each section should be answered during the progress of that part of the work and while the matter is fresh in the mind of the assistant. If this method is adopted it will be found that the questionnaire is not at all burdensome, and that it requires comparatively little time.

In cases where the name of an employee is asked, his position (when not evident from the question) should also be stated.

In filling out questionnaire you should not only ascertain that the necessary safeguards for purposes of internal control are provided, but you should also be able to say definitely from observation, inquiry and tests during the course of the examination that the prescribed procedure is being observed.

Memorandum Regarding Verification of Cash and Bank Balances in Connection with So-called Balance Sheet Audits

In verifying the cash the following procedure should be adopted, viz.:

(1) The cash on hand in so far as circumstances permit should be counted promptly at the close of banking hours on the last day of the month of the period covered by the audit.

(2) In the event that the cash is not counted at that time it may be necessary when it is actually counted to make a supplementary and simultaneous verification of the bank balances.

(Note: This applies particularly to companies not having a petty cash fund under the imprest system.)

(3) Items other than currency and coin must be listed in detail and the nature thereof properly described in the working schedules.

(4) Checks and vouchers supporting disbursements and held in lieu of cash must be listed and full particulars regarding the date of the check and voucher and names of payee and payer embodied in the schedules.

(5) Receipts from employees for advances or any other items should be listed in detail with dates.

(Note: The items listed under (4) and (5) should be presented to a responsible official of the company for his approval.)

(6) The cancelled checks returned by the bank during the last month of the period should be compared with the

entries in the cash book, i.e., name of payee and amount of check, while checks dated prior to the closing month should be compared with the previous reconciliation prepared by the client. The endorsements on the checks must be scrutinized; and where endorsements exist other than those of banks and the payee, inquiries should be made to determine whether or not irregularities exist in connection with such unusual or irregular endorsements. Before the completion of the audit the outstanding checks which form part of the bank reconciliation should be obtained from the bank direct and compared with entries in the cash book.

(7) Outstanding checks not examined at previous audit on account of not being cancelled and returned by the bank before completion of work should be inspected and traced to the cash book entries.

(8) In cases where the system of internal check in force is weak the cancelled checks for some other month than the last month of the year should also be examined and compared with the disbursements recorded in the cash book.

(9) Currency checks for other than petty cash disbursements should be inquired into and tested by examination of supporting documents. A list of such checks and the account to which expenditure has been charged should be prepared for official's approval.

(10) Any erasures on a check, indistinct endorsements or other suspicious features should be carefully inquired into.

(11) Securities or negotiable instruments should be examined simultaneously with cash count.

(12) Cash receipts (daily) for at least the last month of the period should be traced to the bank statement.

(13) In cases where the internal check is weak a comparison of the collections recorded in the cash book should be made with the original deposit slips on file at the bank or with copies thereof obtained direct from the bank for a period of at least ten days prior or subsequent to the close of the period.

NOTE:—If any suspicious circumstances develop during the course of the examination they should immediately be called to the attention of a principal of the firm or to the manager in charge of the work. This should be done by the assistant before the matter is discussed with the client.

Name of Company____

QUERIES	ANSWERS

Cash:

(1) What duties other than the keeping of the Cash Records are attended to by the Cashier?

(2) Does the Cashier have access to any of the ledgers?

(3) To whom is the Cashier directly responsible?

(4) What officers and employees have authority to sign checks?

(5) Are the checks countersigned and, if so, by whom?

(6) Are vouchers and supporting documents presented to officials for inspection simultaneously with the checks presented for signature?

(7) Are supporting documents impressed with paid stamp or other distinctive mark so as to prevent the presentation thereof for duplicate payment?

QUERIES | ANSWERS

Cash (Continued):

(8) Do officials at any time sign blank checks for emergency use during their absence?

(9) What disposition is made of spoiled or voided checks?

(10) Are cash receipts deposited intact daily?

(11) Are the bank accounts reconciled regularly?

(12) Who reconciles the bank accounts and does employee preparing or approving checks effect or have supervision over bank reconciliations?

(13) How often is the cash audited? By whom?

(14) Did you investigate any checks which have been outstanding for over one month?

(15) Was Cash Book closed on last day of period or were checks mailed subsequent to that date entered on or prior to the closing date or cash received subse-

QUERIES	ANSWERS

Cash (Continued):

quent to that date recorded as received prior to last day?

(16) How are cash sales handled?

(17) Are checks issued payable to currency? If so, for what purpose, and is there any reason why the issuance of currency checks should not be discontinued?

(18) Who opens the mail? By whom is it distributed?

(19) Do mail remittances usually consist of checks?

(20) Is an independent record of incoming remittances prepared for comparison later with the collections recorded by the Cashier and, if so, is the comparison made, and by whom?

(21) If remittances consist also of currency or money orders what safeguard does Company adopt to insure proper accounting therefor?

QUERIES	ANSWERS

Petty Cash:

(1) What position is held by the custodian?

(2) Is imprest fund system in use?

(3) Has Company established a maximum figure to be paid from fund?

(4) Are all payments evidenced by receipts?

(5) Did our count of fund disclose any unusual or exceptional items therein? If so, state schedule number on which these are listed.

(6) If fund was partly composed of advances to employees were they approved by an official?

(7) Were any post-dated checks included? Were other checks deposited immediately?

(8) How often does custodian balance his cash?

QUERIES	ANSWERS
Petty Cash (Continued):	
(9) How often is the Petty Cash audited and by whom?	
(10) Are receipts or documentary evidence supporting disbursements cancelled in such a manner as to preclude the use thereof in support of fictitious disbursements?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS
Payroll:	
(1) From what records are payrolls prepared?	
(2) Is time clock system in use?	
(3) Who prepares payroll?	
(4) By whom is it checked?	
(5) By whom is payroll approved?	
(6) Are employees paid by check or cash?	
(7) Is distribution of pay envelopes made by employee preparing or checking payroll?	
(8) Are authorizations for increases kept on file?	
(9) Who authorizes increase in number of employees?	
(10) If checks are used, is Bank Payroll Account reconciled regularly and by whom?	

QUERIES	ANSWERS
Payroll (Continued):	
(11) Did we audit last reconciliation of period?	
(12) Do employees sign the payroll or give receipts?	
(13) How are unclaimed wages dealt with?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Accounts Receivable:

(1) What other office duties has the ledger keeper?

(2) Are customers ever charged in advance of shipment?

(3) If previous answer is affirmative what account is credited?

(4) Are any balances carried as Accounts Receivable other than trade accounts?

(5) Are consignment balances carried in Accounts Receivable Ledgers? If so, on what basis are charges made?

(6) Are we to circularize the trade debtors?

(7) If no general circularization is to be made, are we to confirm the larger balances due from the principal customers?

(8) Are we to mail the Company's own circularization after checking with balances at the close of the period?

QUERIES	ANSWERS
Accounts Receivable (Continued):	
(9) Are monthly statements sent to customers regularly?	
(10) Who prepares statements?	
(11) Who mails them?	
(12) Who investigates differences reported by customers?	
(13) Are bad debt write-offs officially authorized?	
(14) What control is exercised over bad debts after they have been written off?	
(15) Who authorizes cash and trade discounts and other allowances?	
(16) Who passes upon credit terms and limits?	
(17) Does ledger sheet show credit limit or what record is kept of it?	
(18) In verifying trial balance did you observe any accounts in excess of credit limits?	

QUERIES	ANSWERS
Accounts Receivable (Continued):	
(19) Has excessive credit been extended to any customers? If so, were there any unusually large balances contained in the outstandings at the end of the period under audit?	
(20) Are Customers' Ledgers regularly balanced with Controlling Accounts?	
(21) Have any differences between controlling accounts and subsidiary ledgers existed during the year under audit and, if so, how have they been treated, and how have such differences been brought to the attention of the client?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Notes Receivable:

(1) Who is custodian of notes?

(2) Who holds underlying collateral (if any)? What schedule shows detail?

(3) Is value of collateral less than balance due on note?

(4) Does cashier endorse partial payments on back of note?

(5) Are notes ever renewed? By whose authority?

(6) If notes are discounted what procedure is adopted by Company in effecting renewals? Does Company exchange checks with its debtor for the purpose of maintaining payee's credit at bank where note is discounted?

(7) Are notes on hand balanced regularly with Controlling Account and by whom?

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS
Balances Due From Officials and Employees:	
(1) Are advances authorized? By whom?	
(2) How are the loans or advances evidenced?	
(3) Are they adequately secured?	
(4) Are they interest bearing?	
(5) Were any loans or advances paid at close of period and again advanced shortly thereafter?	
(6) In what ledger are officials' and employees' balances recorded?	
(7) Have balances been active or inactive?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Securities:

(1) Who is custodian of securities?

(2) If securities are not in name of Company are they properly endorsed?

(3) Are purchases and sales authorized in minutes?

(4) Does Company loan or borrow securities?

(5) Were letters obtained from Insurance Companies in confirmation of (a) surrender values of life insurance policies and (b) probable refund on mutual fire insurance policies?

(6) Has client borrowed any portion of surrender value of life insurance policies? If so, were such loans confirmed?

(7) Were securities pledged as collateral or on deposit with trustee for purpose of guarantee or otherwise?

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Stocks of Stores and Materials:

(1) Are these under control of a storekeeper?

(2) Are deliveries or departmental transfers made *only* on requisition?

(3) If stock records are maintained do they reflect money values and quantities?

(4) If stock records are in use, how and when are they adjusted to agree with actual quantities on hand?

(5) How are discrepancies treated when disclosed?

(6) Did you observe any substantial stock record adjustments?

(7) Did you make test comparisons of quantities shown on inventory sheets with stock records?

(8) Did your inspection of stock ledgers disclose any inactive or slow moving stocks?

QUERIES **ANSWERS**

Stocks of Stores and Materials (Continued):

(9) Did you satisfy yourself that inventory values were below prices actually realized subsequent to closing date?

(10) Does Company receive stock on consignment?

(11) Does Company ship stock on consignment?

(12) What record is kept of consigned stocks?

(13) Who determines that stock is obsolete or slow moving?

(14) What disposition is made of obsolete or slow moving stock?

(15) Who determines the value at which obsolete or slow moving stock is to be included in inventory?

(16) Did you make any inquiries of storekeepers or other employees responsible for stores records (other than the officers or employees in the accounting department) as to obsolete or slow moving stock?

QUERIES	ANSWERS
Stocks of Stores and Materials (Continued):	
(17) If as a result of the foregoing inquiry certain stocks appeared to be obsolete, are particulars thereof, as well as the probable realizable value thereof, contained in the Inventory Schedule?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Capital Expenditures:

(1) Are these authorized? How?

(2) Is record kept of amounts expended in excess of or under authorizations?

(3) Are physical inventories taken of movable equipment and tools?

(4) How are discrepancies therein dealt with?

(5) Have liabilities been taken up for all construction work completed up to end of period under audit including percentages withheld under contract?

(6) How is surplus equipment disposed of and on what authority?

(7) Has Company any unimproved land, idle plants or extra facilities?

(8) Does Company intend to abandon or demolish any properties?

QUERIES	ANSWERS
Capital Expenditures (Continued):	
(9) Is amount to be expended for Replacements and Renewals specified in Authority for Capital Expenditures?	
(10) Are there any important contractual obligations in respect of plant additions and extensions? If so, what is probable total cost of work remaining to be completed and how is expenditure financed?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS

Liabilities:

(1) Are Bankers' Loans authorized in Directors' Minutes?

(2) Are Loans secured by pledge of Company's assets or by personal endorsement?

(3) Who has authority to sign Notes Payable and Acceptances?

(4) How many signatures are required?

(5) Are monthly statements received from trade creditors?

(6) Were such statements compared with balances shown in Accounts Payable or Audited Vouchers Record?

(7) Is record kept of Contingent Liabilities?

(8) Does record of Contingent Liabilities reflect contingent or contractual obligations undertaken by a parent company on behalf of its subsidiary?

QUERIES	ANSWERS
Liabilities (Continued):	
(9) Is record kept of all claims made against the Company?	
(10) Are trade creditors' accounts secured?	
(11) Are any provisions necessary in respect of losses arising from purchase and sale commitments?	
(12) Have any differences between Creditors' Ledger or Voucher Record and the General Ledger Controlling Account existed during year under audit and, if so, how have such differences been dealt with and how have they been brought to the attention of the client?	
(13) What is status of Federal income-tax at close of year under audit?	

The answers to the foregoing questions have been made by the undersigned.

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QUERIES	ANSWERS
Sales:	
(1) On what authority are shipments made?	
(2) If made on other than shipping order, what record is sent to office?	
(3) Who receives record?	
(4) What disposition is made of it?	
(5) To whom is Shipping Department's copy of shipping order sent when shipment is made?	
(6) How are back orders handled?	
(7) What record is maintained of shipments which have gone astray?	
(8) Has the Company developed any new lines of merchandise which may have a bearing on the business formerly conducted?	
(9) Has Company abandoned any line of manufacture, and if so, for what reason?	

QUERIES	ANSWERS
Sales (Continued):	
(10) What procedure is followed to assure Company that all shipments are represented by Invoice or Debit Memo?	
(11) What procedure is followed to assure Company that all Invoices or Debit Memos are charged on books to Personal Accounts?	
(12) How are returned sales accounted for in Company's records?	

The answers to the foregoing questions have been made by the undersigned.

....

QUERIES	ANSWERS
Purchases:	
(1) Are purchase orders executed in writing?	
(2) Are invoices approved as to prices, description, etc., by Purchasing Department?	
(3) Are invoices sent to Receiving Department?	
(4) Are receiving tickets issued by receiving clerk without knowledge of merchandise orders?	
(5) In what department are receiving tickets matched with invoices?	
(6) In the event of merchandise being purchased for direct shipment to Customers is reference to sales invoice shown on purchase invoice?	
(7) By whom is this reference supplied?	
(8) Are receipts of merchandise recorded on purchase orders to obviate possibility of approving shipments not ordered or authorized?	

QUERIES	ANSWERS

Purchases (Continued):

(9) Has Company filed any claims during period against Carriers for shortage or damaged material? If not, how are shortages, etc., handled?

(10) Does company make advance payments to creditors? If so, how are same recorded on books and subsequently accounted for? If advances are not of recent date, were they confirmed or brought to the attention of the client?

(11) Upon whose authority does Purchasing Department order Raw Materials and Supplies?

(12) How are returned purchases accounted for in Company's records?

The answers to the foregoing questions have been made by the undersigned.

....

QUERIES	ANSWERS

General:

(1) Are employees in position of trust bonded? Do amounts of bonds appear adequate?

(2) Do employees in position of trust take regular annual vacations?

(3) Are their duties then assumed by other employees?

(4) Does similar system to above obtain at the branches not visited by this firm?

(5) Who audits such branches? How often?

(6) Are written reports made of such audits?

(7) Has the permanent file been brought up to date?

(8) Have any new or unusual features or departures from the Company's previous practices or policies been observed during the course of the recent audit which have heretofore not been disclosed?

QUERIES	ANSWERS
General (Continued):	
(9) If surplus account has not been analysed to show respective elements thereof, i.e., capital or paid in surplus as distinct from earned surplus, obtain particulars thereof.	
(10) Have audit adjustments been furnished to and taken up on client's books?	
(11) Obtain chart of Company's organization showing each department and to whom it is responsible. If not available prepare brief outline thereof.	

The answers to the foregoing questions have been made by the undersigned.

....

The undersigned has carefully reviewed the answers of the respective assistants and is of opinion that all weaknesses in the methods in force have been brought to the client's attention in the report or letter accompanying the audited accounts.

Signature of Manager
or Senior in Charge..

Date..

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	
INTERNAL AUDIT:										
Period covered by latest audit report (all previous periods covered)........		X		June-Dec. '36	Apr.-Nov. '36	Aug.-Feb. '37	Mar.-Oct. '36	Apr.-Nov. '36	June-Dec. '36	
Date of Internal Audit Report..................		X		Jan. 31, '37	Dec. 15, '36	Mar. 1, '37	Nov. 15.,'36	Dec. 15, '36	Jan. 15, '37	
GENERAL LEDGER TRIAL BALANCE:										
Checked with General Ledger	X			X	X	X	X	X	X	
Entered on classification of accounts..............	X			X	X	X	X	X	X	
MINUTES OF DIRECTORS AND STOCKHOLDERS MEETINGS:										
Read and notes and extracts made..................	X			X	X	X	X	X	X	
CASH:										
Cash on hand counted.....	X	X		X	X	X	X	X	X	All cash counted by internal auditors at audit dates. All but sales agencies counted by Kean, Swift & Co., at or after close of year.
Certificates from depositories received...........	X			X	X	X	X	X	X	
Balances reconciled........	X	X		X	X	X	X	X	X	Internal auditors reconcile at date of their audits.
Checks outstanding at end of period verified........	X			X	X	X	X	X	X	
Deposits per bank proved in total with receipts per cash book..............	X			X	X	X	X	X	X	
Cash book footings checked		X		X	X	X	X	X	X	Six months per year.
Lists of checks received prepared by Treasurer's office compared with deposits..			X	X	X	X	X	X	X	

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

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CASH (Cont'd):										
General Ledger postings checked................		X		X	X	X	X	X	X	
Accounts Receivable postings checked............		X		X	X	X	X	X	X	Three months per year.
NOTES RECEIVABLE:										
Postings of Notes Receivable Book checked to General Ledger............		X			X					
Postings of Notes Receivable Book checked to Accounts Receivable Ledger		X			X					
Notes on hand at end of period checked with Notes Receivable Book........	X				X					
Notes out for collection confirmed................	X				X					
Notes under discount confirmed.................	X				X					
Adequacy of Reserve tested	X				X					
ACCOUNTS RECEIVABLE:										
Postings from Sales Book checked................		X			X	X		X		Three months per year.
Postings from Credit and Returns Book checked...		X			X	X		X		Three months per year.
Postings from Journal checked............... (for Cash and Notes Receivable postings see under those headings)		X			X	X		X		Three months per year.
List of Accounts Receivable at end of period classified by age and checked with Accounts Receivable Ledger.................	X		X		X	X		X		Prepared by Company, checked by Kean, Swift & Co.

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	
ACCOUNTS RECEIVABLE (Cont'd):										
Total of Accounts Receivable Trial Balance agreed with Control Account....	X				X	X		X		
Composition of outstanding balances examined, particularly for disputed items	X				X	X		X	X	
Authorization for bad debts written off verified......	X				X	X		X		
Authority for credits and discounts checked.......	X				X	X		X		
Accounts Receivable from officers and employees listed..................	X		X	X	X	X	X	X	X	Prepared by Company, checked by Kean, Swift & Co.
Accounts Receivable from affiliated companies listed	X		X	X	X	X	X	X	X	Prepared by Company, checked by Kean, Swift & Co.
MARKETABLE SECURITIES AND INVESTMENTS:										
Complete list prepared.....	X			X			X			
Securities on hand counted	X			X			X			
Securities held for safekeeping verified by Certificate from depositories........	X			X						
Purchases and sales, and profits and losses on sales of securities checked.....	X			X			X			
Income from securities checked................	X			X			X			
Check interest accrued on bonds and debentures...	X			X						
INVENTORIES:										
Certificates as to quantity, quality and condition received from responsible officials..................	X			X		X	X	X		

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.
INVENTORIES (Cont'd.):									
Prices checked with market quotations	X			X		X	X	X	
Prices checked with latest cost	X			X		X	X	X	
Extensions checked	X			X		X	X	X	
Footings checked	X			X		X	X	X	
Summaries checked	X			X		X	X	X	
Inventory tags checked to original inventory sheets	X	X	X	X		X	X	X	Original check by office clerks. Tested by internal auditors and Kean, Swift & Co.
Original inventory sheets checked to head office copies	X	X	X	X		X	X	X	Original check by office clerks. Tested by internal auditors and Kean, Swift & Co.
Percentages on process losses examined into and checked with similar percentages for previous years	X			X		X	X	X	
Interim tests of quantities made		X		X		X	X	X	
Purchase records immediately subsequent to period of audit tested to determine that liability has been taken up for all goods included in inventory	X			X		X	X	X	

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.
SUPPLIES:									
Certificates obtained from responsible officials as to quantities, quality and condition, with particular reference to any items which are obsolete or of which an excess of quantity was on hand........	X			X		X	X	X	X
Totals of Supply Ledgers proved with Control Accounts................	X			X		X	X	X	X
Interim tests of quantities made.................		X		X		X	X	X	X
Prices tested with invoices..	X			X		X	X	X	X
PROPERTY, PLANT AND EQUIPMENT:									
Additions for year summarized and verified........	X			X	X	X	X	X	X
Appropriations authorizing additions for year examined...............	X			X	X	X	X	X	X
Instructions authorizing sale or dismantlement of plant and equipment examined, and compared with credits to Property, Plant and Equipment Account.....	X			X	X	X	X	X	X
Plant Ledger agreed with Control Account........	X			X	X	X	X	X	X
General examination made into propriety of:									
Capital charges.........	X			X	X	X	X	X	X
Allocation of payroll to company construction.......	X			X		X	X	X	X
Allocation of material to company construction...	X			X		X	X	X	X
Allocation of overhead to company construction...	X			X		X	X	X	X

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.
RESERVE FOR DEPRECIATION:									
Calculations checked......	X			X	X	X	X	X	X
Rates compared with preceding year............	X			X	X	X	X	X	X
Authorization for change in rates seen.............	X			X	X	X	X	X	X
Charges to reserve for property sold or dismantled and entries for salvage checked................	X			X	X	X	X	X	X
Calculations for depreciation used on Income tax returns checked.........	X			X	X	X	X	X	X
DISCOUNT AND EXPENSE ON BONDS:									
Calculation for amount written off checked.........	X			X					
PREPAID EXPENSES:									
Unexpired insurance scheduled..................	X			X	X	X	X	X	X
Policies seen.............	X			X	X	X	X	X	X
Calculation of amount of unexpired insurance checked	X			X	X	X	X	X	X
Calculations of amount of other prepaid expenses carried forward to subsequent period checked....	X			X	X	X	X	X	X
NOTES PAYABLE:									
Notes Payable at close of period listed...........	X			X					
Total of Notes Payable Book and General Ledger Control Account agreed..	X			X					
Notes Payable to banks confirmed................	X			X					

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	
NOTES PAYABLE (Cont'd):										
Collateral deposited confirmed	X									
Schedule of receipts and disbursements during year on account of Notes Payable prepared	X			X						
Interest accrued checked	X			X						
Interest paid checked	X			X						
ACCOUNTS PAYABLE—TRADE:										
Large items listed	X			X	X	X	X	X	X	
Total compared with open items in Voucher Register	X			X	X	X	X	X	X	
Total agreed with Control Account	X			X	X	X	X	X	X	
Vouchers checked for:										
Authorization		X	X	X	X	X	X	X	X	Six months per year checked by internal auditors. All vouchers checked by responsible official when approved.
Distribution to proper account		X	X	X	X	X	X	X	X	
Clerical accuracy		X	X	X	X	X	X	X	X	
Receiving records where applicable		X	X	X	X	X	X	X	X	
Vouchers entered in the voucher register and/or payments shown by the cash book subsequent to the date of the balance sheet reviewed to ascertain whether any of them are applicable to the period under review	X			X	X	X	X	X	X	
Bills on file not vouchered or entered examined to ascertain if any of them belong to the period under review	X			X	X	X	X	X	X	
Voucher record footings checked		X		X	X	X	X	X	X	Six months per year.

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	
ACCOUNTS PAYABLE—TRADE (Cont'd.):										
Test examination made of the monthly statements received from creditors having large balances....	X			X	X	X	X	X	X	
Receiving records examined for the last day of the period for the purpose of ascertaining that the corresponding liabilities are included...............	X			X	X	X	X	X	X	
ACCRUED TAXES:										
Schedule prepared.........	X			X	X	X	X	X	X	
Calculations checked of:										
Federal Income tax......	X			X	X	X	X	X	X	
Capital Stock tax.......	X			X	X	X	X	X	X	
State Franchise taxes....	X	X	X	X	X	X	X	X	X	Company's tax department works in cooperation with internal auditors.
Property taxes..........		X	X	X	X	X	X	X	X	
WAGES PAYABLE:										
Total of payroll accrued agreed with Ledger Accounts................	X			X	X	X	X	X	X	
Totals of payrolls checked to Ledger Account for period	X			X	X	X	X	X	X	
Footings and extensions checked...............		X	X	X	X	X	X	X	X	One week each three months checked by internal auditors.
Time cards checked to payrolls..................		X	X	X	X	X	X	X	X	
Changes in rates checked for authorization...........		X	X	X	X	X	X	X	X	
Distribution to operating and asset accounts checked...	X			X	X	X	X	X	X	
OTHER ACCRUED LIABILITIES:										
Schedule prepared.........	X			X					X	

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.
OTHER ACCRUED LIABILITIES (Cont'd):									
Contracts, agreements or similar data examined where amount is material	X			X					X
OTHER ACCOUNTS PAYABLE:									
Schedule prepared.........	X			X					X
ASHTON METAL PRODUCTS CO. 5% SINKING FUND DEBENTURES:									
Amount outstanding verified by certificate from trustee	X			X					
Amount retired during period verified............	X			X					
Accrued interest checked...	X			X					
CAPITAL STOCK ASHTON METAL PRODUCTS CO.:									
Amount outstanding verified by certificate from registrar and transfer agent...	X			X					
CAPITAL STOCK OF SUBSIDIARIES:									
Schedule prepared showing changes during the year, if any (for verification see "INVESTMENTS")....	X				X	X	X	X	X
MINORITY INTEREST:									
Calculations of minority share of income and surplus checked...........	X			X					
GENERAL LEDGER:									
Postings and footings checked (for Trial Balance and check of Control Accounts see page 58)............		X		X	X	X	X	X	X

ASHTON METAL PRODUCTS COMPANY
SUMMARY OF AUDIT WORK AND INTERNAL CHECK FOR YEAR 1936

	Kean, Swift & Co., Certified Public Accountants	Internal Auditors	Internal check by company officials	Ashton Metal Products Co.	Brooke Sales Co.	Coles Manufacturing Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.
GENERAL JOURNAL:									
Postings and footings checked		X		X	X	X	X	X	X
Entries scrutinized, particularly closing entries and entries affecting fixed assets, investments, deferred charges or reserves......	X			X	X	X	X	X	X
SURPLUS:									
Schedule prepared showing changes during the year..	X			X	X	X	X	X	X
Schedules prepared showing details of surplus adjustments................	X			X	X	X	X	X	X

NOTE—As the forms for Federal income-tax returns and the forms and Instruction Books for the reports required by the Securities and Exchange Commission are, in effect, programs and instructions, they are not repeated here. The purpose of this schedule is to enable the auditor to satisfy himself that the requirements of good auditing practice are met and to provide a record which will indicate that he has satisfied himself of this during the progress of his audit.

The special schedules required for the preparation of other reports, or the reconciliation of these reports with the corporate records, are indicated in other chapters. They have to do with the arrangement and statement of the accounts, rather than their audit.

Chapter IV

CLASSIFICATION OF TRIAL BALANCES FOR PREPARATION OF REPORTS AND STATEMENTS

Method of Classifying Trial Balances

The problem of preparing accounting statements from trial balances is essentially a question of analysis, classification and adjustment. Two mechanical methods are commonly in use to arrive at this result. In one, columns are provided for the trial balance, for adjustments and for balance-sheet, income account and surplus account. This method is recommended principally by its established use and its wide acceptance, particularly in textbooks and by schools. When the problems to be solved are comparatively simple and when the trial balances are well grouped into balance-sheet classifications this method is a practical one. It is of value in the solution of simple accounting problems designed to illustrate a few specific points, and as a method for stating completed results it has much in its favor (see Report on Audit, Chapter XIII, pages 45, 46 and 47).

Its usefulness diminishes, however, as the accounts and problems increase in complexity. When several ledger accounts are to be grouped under one balance-sheet classification, or when one ledger account is to be divided among several balance-sheet classifications, the method becomes difficult and awkward in the extreme. If there are numerous adjustments, particularly when these adjustments take the form of compound journal entries, confusion results from the use of the vertical adjustment column.

In the preparation of consolidated accounts, unless each trial balance has been adjusted finally before entry on the summary sheet (a condition which seldom exists), this method is quite impracticable. Much confusion will be caused if to the totals of the trial-balance items, arrived at by adding the different items horizontally, there must be applied—in addition to the usual consolidation entries for elimination, minority interests and the like—a number of adjustments which will be later applied back to individual companies. There is great danger of delay owing to absence of a balance and even assuming that it has been possible to leave space enough for the entries a good deal of analysis will be required to determine which items are from the books and which are from adjustments, and the companies to which they apply.

Examples are given to show both the value and the weakness of this method, but for the complete accounts forming the principal example there has been used what might be called the "horizontal" method of distribution—that is, a statement which provides a column for the trial balance and columns for each individual balance-sheet classification on one statement, and for each income-account classification on another. This statement acts as a link between the financial books and the statements. Each item in the trial balance, the nature of which is not entirely obvious on its face, is supported by and refers to a schedule showing its composition and character. From this schedule, classification in the balance-sheet or income account is determined, these schedules performing the analytical function of the papers. After the trial balance is distributed, the statement is ruled off and each column is totaled. If no adjustment were required, the balance-sheet and income account would then appear. Adjusting entries are made in the various columns, the ledger accounts affected being indicated in the explanation of the entry (see Classification of Accounts—Chapters XII, XIII and XIV).

As only one adjusting entry is placed on one line, each entry is self-balancing, and the component parts of each are clearly evident. A compound entry with ten credits and one debit presents no more difficulty than a simple entry of two items. Each column is, in effect, a summary of accounts which make up that item, although in some cases it is desirable to resummarize these in greater detail for other purposes.

It is obvious that if an incomplete trial balance is presented to the accountant, he can carry his work to the point to which the trial balance has been brought and add, without difficulty, the entries made subsequently. This feature is of great importance in the preparation of consolidated accounts, since if the accounts of, say, two-thirds of the constituent companies are received, an accountant can complete his work on them and balance up to that point. Each set of accounts which is subsequently received can be totaled and balanced within a few hours. By this method it is quite possible to prepare complete consolidated accounts, with all proper adjustments and eliminations applied, within a few hours or, at most, one or two days after the trial balance of the last constituent company is received (see Chapter XIV).

It is difficult under other methods of preparing consolidated accounts to keep the papers in balance currently, and valuable time is often lost when it can least be spared and when delay is most annoying to the client and most damaging to the accountant—that is, when the accounts are being closed.

Standardization of Working Papers

Although any attempt to standardize audit programs or methods is almost sure to fail, and if successful would probably lead to the preparation of much useless material and to the omission of some valuable information, it is, nevertheless, quite possible, practicable and desirable to adopt customary forms for the preparation of working papers, particularly the schedule which sets forth the trial balance and distributes this to the various balance-sheet, income and surplus account headings, and to which additional or adjusting entries are applied.

In essence, all trial balances are the same—a list of debit and credit balances of accounts. Whether this consists of a large number of highly analyzed accounts, or whether it consists of a small number of accounts containing many items grouped together, the problems of classification in the statements are the same and the method of scheduling follows the same principles.

If all working papers are prepared by the same method, it is much easier for an assistant taking over an audit for the first time to follow the previous papers, as he knows where to look for particular types and classes of items, and has a fair idea of how they will be presented. In some offices it is the custom to have different forms for preparing accounts for different companies, on the ground that one particular company may involve a complicated consolidation, another may be a very simple trading organization, and another may be the accounts of an estate or trust. There is no valid reason why any piece of work which is based on a trial balance, and this certainly includes practically all accounting statements, should not be prepared in the same form and by the same methods. In Chapter XII are shown examples of the same method of stating and classifying the trial balance applied to accounts of:

A service organization
A simple trading company
A trust estate

These types of organization are sufficiently varied to illustrate the general applicability of a sound method of preparing statements from a trial balance. Much the same uniformity is possible in preparing schedules supporting the individual items. For instance, notes payable by a manufacturing company, a hospital or a department store may be scheduled in an identical manner.

While standardization of forms seems desirable, it should be understood that no rigidity of form is suggested or expected. Indeed, its flexibility is the only reason that a standard form can be used. The reason why the common vertical or "six-column statement" cannot be used as a standard form is its inflexibility.

The "Classification of Accounts" or Classified Trial Balance as the Basis of All Accounting Reports and Statements

The second chart in Chapter XIII, page 307, shows the relation between the client's records and the various statements which are prepared from them.

The classified trial balance or "classification of accounts" is the key to all the accounting statements. The schedules support the classification of accounts and from the classification of accounts are prepared detailed reports, summary statements, statements for stockholders, statements for the Securities and Exchange Commission and statements for any other purpose which may be required.

The same accounts must form the basis for all these statements and it is generally best to plan the classification of accounts to produce directly the simplest statement. The totals of the classification of accounts can then be adjusted to produce the other statements required. This process of adjustment automatically leads to a reconciliation between the classification of accounts and the statement, and the classification of accounts is, itself, a reconciliation of the books and the figures used in the statements.

If all the adjustments made on the classification of accounts are to be made on the books, a trial balance after such entries are made can be drawn off, distributed and checked with the preliminary classification of accounts. If the totals of the final classification of accounts agree with the adjusted preliminary classification, this is a proof that all adjusting entries have been placed on the books. The summary of consolidated adjustments forms, in effect, a ledger to which are posted entries having to do with the consolidated accounts only, such as entries for minority interest, elimination of capital stock of subsidiaries, elimination of intercompany profit, elimination of intercompany accounts receivable and payable and the like.

In consolidations of any size or complexity it is generally best to keep a separate summary of these adjustments and apply totals only to the consolidated classification of accounts.

Detailed schedules are shown in this book only for the principal company of the consolidation used as an example, the Ashton Metal Products Co., although classification of accounts are shown for the other subsidiaries and the consolidated summaries and adjustments cover the accounts of all companies in the consolidation.

In order to make clear the method used in preparing schedules and the purpose for which they are prepared, it has been thought desirable to include copies of the statements and reports which would be prepared from them. These are not, perhaps, strictly working papers but it is difficult to understand exactly why schedules are prepared in a particular manner if statements showing the use for which they are designed are not given.

Statement of Sources and Disposition of Funds

The statement of sources and disposition of funds is a statement different in form and purpose from either the balance-sheet or income account. Its use is to be encouraged and it is to be hoped that this form of statement will be more frequently demanded by banks, credit men and other credit grantors. A summary of cash transactions is required by the Securities and Exchange Commission for companies still in the development stage which are registered on a securities exchange or making public issues, but this or similar statements are seldom published or circulated beyond the client's own organization.

The function of the income account is to state what profits have been earned and placed at the disposal of the management during a period. The function of the statement of sources and disposition of funds is to show the uses to which management has put the funds represented by the profits.

The use of this statement in reports to the owners or managers of an enterprise is becoming more and more frequent. It is often regarded by practical men, who are unfamiliar with accounting practices and conventions, as being more concise and understandable than the usual forms of accounting statements.

The statement shown on page 4 of the Report on Audit, Chapter XIII, can be prepared in several different ways: as an explanation of the change in cash balances, the change in current assets or the change in total assets. In any case the papers supporting this statement will be the same and will consist essentially of a comparative balance-sheet, a column showing the differences between the beginning and end of the period, and the segregation of these differences as between items representing the receipt or payment of cash and those having to do with the increase or exhaustion of various assets with no immediate outlay or receipt of cash involved (see schedule, page 344). In drawing the distinction between those items which involve the sources or disposition of funds and those which do not, the actual disbursement is not as a rule the governing factor, but if the disbursement or receipt is to take place very shortly in the ordinary course of business, it is considered as a cash transaction. For instance, if inventory increased, say $100,000, and there appeared an increase of $75,000 liabilities to suppliers of material, this statement would generally show $100,000 as an added investment of cash in inventories and the $75,000 as funds supplied by creditors, although in fact the completion of this transaction would take place after the close of the year and the actual cash increase in inventories would be only $25,000 at the close of the period.

The same is true of accounts receivable and similar items. If, however, an addition of $100,000 were made in the year to plant and equipment to be written off over a period of ten years, the amount of $100,000 would be shown as funds disbursed for a fixed asset, even though the payment were actually made after the close of the year. In the following years, the portion of the machinery represented by the $100,000 which was written off would not be considered as a cash outlay. In other words, this statement does not deal with cash in the manner of a cash account or bank statement, but deals with funds, and these funds, if they are quickly available or shortly due to be paid, are treated as though they were in fact so received or paid at the date of the statement.

A statement of sources and disposition of funds on any other basis would be most difficult to prepare, and the very refinements which an attempt to reduce everything to actual cash would involve would make the statement misleading as well as uninformative to the management of the enterprise. If the preparation of such a statement is proposed, working papers, particularly summaries of balance-sheet items (see schedules, pages 323 to 340), should be made up with this in mind, and the distinction between items which will enter into the statement of sources and disposition of funds and those which will not should carefully be made from the beginning of the audit. This consideration is particularly important in summaries of fixed assets and deferred charges. The statement of sources and disposition of funds should not in any way be confused with statements supporting the item cash as shown on the balance-sheet, or with schedules having to do with any analysis or proof of the cash account for audit purposes.

Conclusion

In Chapters XII, XIII, XIV and XVI are given the details of the make-up and use of the various working papers and schedules, together with a description of the methods by which they are supported and articulated with each other. Chapter XII, on "Working Papers for an Individual Company," describes the classification of accounts and supporting schedules for Ashton Metal Products Company, the operating parent of the consolidated group described in Chapter XIII, as well as classifications of accounts for the Fulton Railway Company, a subsidiary, and for two other companies, the Cool-Aire Service Corporation and the Sellburk Mercantile Company (a partnership), and for the Estate of Hugh Wynne.

Chapter XIII, on "Consolidated Reports and Working Papers," describes the consolidated classification of accounts, consolidated adjustments, the consolidated summaries of accounts and deals with the comprehensive report to management on the accounts of the Ashton Metal Products Company, as well as with the content and preparation of Form 10K as prescribed by the Securities and Exchange Commission for the annual report covering the shares of Ashton Metal Products Company on a registered stock exchange.

While these are only examples, it is believed they cover many situations generally met in the average audit. Certain special types of enterprises, particularly financial institutions such as banks, brokerage houses and insurance companies are not covered, as their problems are of a special kind, although, even in these cases certain of the methods here illustrated might be used.

Chapter V

ACCOUNTS AND NOTES RECEIVABLE AND CASH

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

In this discussion of the verification of receivables and cash it is assumed that much of the detail work is done by the independent auditor. However, in a well-organized enterprise of some magnitude it is quite likely that a large part of the verification outlined may be carried out by means of internal check or by the internal audit staff. In that case the auditor would not duplicate much of the detail work already done but would satisfy himself that the system was designed to provide the safeguards necessary and that it was being effectively carried out. It is, therefore, necessary for the independent auditor, before attempting the verification of these assets, to familiarize himself thoroughly with the general organization of the departments concerned with them and especially with the accounting methods in use. An example of the distribution of work between the independent and the internal auditor is given in the "Summary of Audit Work and Internal Check," Chapter III, pages 58 to 67.

1. Obtain lists of customers' balances open at the end of the period, with the amounts classified according to age. Foot these lists and compare them in detail with the customers' accounts in the ledgers. Note on the lists any amounts paid since the date of closing.

Schedules, pages 179 and 223.

2. If separate ledgers are kept, reconcile the total of the lists of outstanding accounts with the controlling account in the general ledger. In this reconciliation credit balances in the customers' ledgers will be offset against the total of debit balances but on the balance-sheet such credit balances should be included among the liabilities. (Similarly any debit balances in the accounts-payable ledgers should be appropriately classified.)

Schedules, pages 223 and 224.

A classified summary of all accounts receivable should be prepared, usually in comparative form, somewhat as follows (see schedule, page 324):

(a) Trade debtors.
(b) Advances to officers and employees.
(c) Due from employees on stock subscriptions, etc.
(d) Consignment accounts.
(e) Accrued interest, etc., receivable.
(f) Payments made in advance on account of contracts for merchandise.
(g) Other accounts receivable.

Largely on the basis of this summary the auditor in charge will determine whether or not any of the items are of sufficient importance or size to be shown separately in the balance-sheet.

If amounts are due from employees on various stock or bond subscriptions, the securities should be counted or the subscription lists inspected, and reasonable tests should be made of receipts from employees and of total amounts paid and balances due. Whenever round figures are found in customers' accounts (for instance, a charge of $1,000) the amounts should be scrutinized carefully, and explanations should be obtained for a sufficient number of such items to satisfy the auditor of the correctness or incorrectness of them. All credits to accounts receivable from sources other than the cashbook should be investigated by the independent auditor, the internal auditor, or should be fully safeguarded by internal check.

Customers' accounts receivable of branch or sales offices should be agreed with the home-office ledger. Whether or not the auditor will make an actual examination of the accounts of some or all of the branch or sales offices will depend largely upon the system of accounting in effect and upon other circumstances of the individual case. For the purpose of the audit a summary schedule, somewhat as follows, may be used:

SUMMARY OF ACCOUNTS RECEIVABLE OF BRANCHES
DECEMBER 31, 19—

	Totals per trial-balance sheets								
	Debits			Credits					
Branch Office	Current	Past due	Employees	Current	Employees	Accts. payable	Balance (net) per branch	Balance (net) per home office	Over or Under (red)
	$	$	$	$	$	$	$	$	$

This schedule may be supported by such detail as the auditor considers necessary. All footings of the trial-balance sheets should be proved and the totals should be checked to the above summary schedule.

3. Examine the composition of outstanding balances. A customer may be making regular payments on his current account while old items, perhaps in dispute, are carried forward. Discuss disputed items and accounts that are past due with the credit department or with some responsible officer, and make such inquiries as are deemed necessary in order to form an opinion of the worth of the accounts and of the sufficiency of the reserve for bad and doubtful accounts. In the balance-sheet the reserve should be shown as a deduction from the corresponding assets.

Schedules, pages 180 and 224.
Form 10K, page 287.

Schedules should be prepared summarizing the accounts receivable, showing total debits, total credits and net balances, or the net balances only, the sum of the net balances agreeing with the controlling account in the general or private ledger. When checking the subsidiary trial balances, the auditor should mark the accounts of all officers and employees and should obtain a separate total for them. If he is not sure about employees, he should inquire of the sales-ledgers bookkeepers. Quite often, particularly in large concerns, separate ledgers will be kept for employees and officers.

The determination of the adequacy of the reserve for bad debts is generally one of the more important features of an audit but as it is essentially concerned with probabilities it must remain to some extent an estimate. The best basis for forming such an estimate is an examination of the credit files, lists of delinquent accounts prepared for credit or management purposes and any notations on the accounts themselves. In the credit department there is generally a list or special file for accounts which are bad or very doubtful and while this information may not be volunteered by the credit department a little tactful questioning will bring it forth.

A general examination of the credit terms and customs and methods of dealing with customers in a particular company and some familiarity with the conditions in the industry in which the company operates will give the auditor a basis on which to form his opinion. Claims that particular companies can handle their credits more successfully than the average enterprise in that industry should be accepted only when the most conclusive evidence is offered. The bad-debt reserve is intended to cover, apart from the risk of actual fraud on the part of the debtor, two risks: (1) the possibility that a badly managed or unfortunate business operating in an industry which is generally successful may not meet its obligations and (2) the risk that conditions in an entire industry may be such that practically all or many members of that industry will be unable to meet their obligations. The first risk may be likened to that covered by ordinary fire insurance and the second likened to that covered by insurance against a catastrophe. The conditions among manufacturers of radio receiving sets in the years immediately following 1929 are an example of the catastrophe risk and the condition of that industry should have been one of the principal factors in determining the reserve required for, say, a furniture manufacturer who had large accounts on his books from radio manufacturers for cabinets which had been furnished to them.

A certificate is usually received by the auditor from the credit manager, treasurer or other responsible official stating that the accounts and notes receivable (usually showing the amount in total or detail) are good and collectible, that no accounts represent goods included in consigned stock or inventory, and that no liens or other claims exist against the accounts. If the gross amount of the accounts were included, such a certificate would state that the reserve for bad debts was considered adequate.

4. When bad debts have been written off, see that the action has been approved by responsible authority.

Schedules, pages 179 and 224.

5. Inquire into the practice regarding the granting of trade discounts and so-called cash discounts if greater than two per cent and regarding freight allowed by the company. If such prospective allowances have not been deducted from accounts receivable, an appropriate reserve is required. Make inquiries as to customers' claims for reduction in prices and for allowances on account of defective material in order to ascertain that sufficient reserves have been established.

Schedule, page 225.

6. Make inquiries to determine that goods consigned to customers or agents, or goods under order from customers for future delivery, title to which has not yet passed to customers, have not been included in accounts receivable. Such merchandise should be carried in the inventory on the usual basis of pricing.

7. The best verification of accounts receivable is to communicate directly with the debtor regarding the existence of

the debt, and this course may be taken after arrangement with the client. While such confirmation is frequently considered unnecessary in the case of companies having an adequate system of internal check, it is one of the most effective means of disclosing irregularities. If it is to be undertaken, mail personally the requests for confirmation, after comparing them with the lists of outstanding accounts, in envelopes bearing the accountant's return address and enclose return envelopes addressed to the accountant.

8. If accounts of a material amount, including instalment-sales accounts, mature later than one year from the date of the balance-sheet they should be shown separately thereon unless it is impracticable to segregate the proportion maturing beyond a year or trade practice warrants a different treatment. In that event the balance-sheet should carry an explanatory note.

9. Accounts receivable from stockholders, directors, officers and employees, unless for ordinary and current trade purchases of merchandise, should be shown separately on the balance-sheet. Deposits as security or guaranties and any other extraordinary items should also be shown separately.

Schedule, page 179.
Report on Audit, Chapter XIII, page 8
Form 10K, page 287.

Other items, which are not trade receivables but are frequently included in the item of accounts receivable in the balance-sheet and are usually relatively small, are accrued interest receivable (see schedule, page 178), uncollected matured coupons, officers' and employees' balances and similar items. Loans to employees should be approved by an officer of the company, while loans to officers should be authorized in the minutes of the board of directors. In either case the auditor should ascertain the probable date of payment of the accounts. If these amounts are at all material it is good current practice and is required by the Securities and Exchange Commission to show them separately in the balance-sheet.

10. Accounts receivable from affiliated concerns, even though arising from transactions in the ordinary course of business, should be shown separately on the balance-sheet.

Accounts with affiliated companies may be shown as current assets, investments or otherwise as the circumstances justify. They may properly be included as current assets only if the debtor company has a satisfactory margin of current assets over current liabilities including such accounts.

Schedule, page 324.
Report on Audit, Chapter XIII, page 21
Form 10K, pages 290 and 293.

Amounts owed by affiliated corporations or the accounts with such affiliated companies are required by the Securities and Exchange Commission to be shown separately, and this is in agreement with generally accepted practice.

11. The amount of any accounts receivable that have been hypothecated or assigned should be so shown on the balance-sheet.

If there are large numbers of customers and the customers' ledgers are kept by employees who do not have access to incoming cash or cashiers' records, who do not mail out the monthly statements nor initiate credits for returned goods or allowances, a relatively limited test of the individual customers' accounts may suffice. A more satisfactory check may thus be provided than would be obtained by a detailed examination of the accounts receivable of a company having inadequate internal control.

A full statement of work done in verification of accounts receivable and of the reserve for bad debts should be prepared and included in the working papers. What this statement will consist of will depend almost wholly upon the method of billing and entering sales to the customers' accounts, and will depend as well upon the method of recording payments or other credits on account. The following, taken from the working papers for an industrial concern which sells both at wholesale and at retail, will give the reader an idea of the work done on this audit and also of what such a statement should contain (see "Summary of Audit Work and Internal Check," Chapter III, pages 58 to 67.

WHOLESALE ACCOUNTS

Checked the subsidiary ledgers to the trial balances and footed all trial balances.

Listed all accounts which were 60 days or more past due as of December 31, 19—, and were still unpaid, showing the credit limit. Such accounts were discussed with the treasurer and approved by him.

Listed all accounts greatly in excess of the credit limits. The credit limit stated in the ledger accounts does not, in most cases, limit the customer to that amount. If the customer pays his bills promptly and in accordance with invoice terms, the credit limit is practically disregarded.

Listed all accounts of $5,000.00 and over.

Prepared a summary of all the sales ledgers.

RETAIL ACCOUNTS

Checked all large balances from the ledgers to the trial balances.

Footed all trial balances.

Listed all large balances which were 60 days or more past due at December 31, 19—, and were still unpaid. All past-due accounts were taken up with treasurer and approved by him.

Checked all balances from the C.O.D. ledger to the trial balance.

Ascertained that all debts written off had been properly authorized by responsible officers.

Inquired to determine that no accounts had been assigned or hypothecated and obtained certificate to that effect.

Sufficiency of reserve for bad debts investigated, as was also company's policy with reference to cash discounts, allowances to customers, etc.

Discussed with client the feasibility of confirming the customers' accounts, and it was decided not to send statements to customers.

Tests were made of the shipping records for the last week of the period to ascertain if goods charged to customers as sales were really shipped; also to ascertain if shipments made were regularly charged to customers' accounts.

Notes Receivable

1. Prepare a list of notes receivable at the end of the period, showing dates, makers' names, due dates, amounts and interest rates, as shown by the book records.

Schedule, page 225.

2. Examine outstanding notes and compare with the notes receivable record or with the list (see also Par. 1 under Cash). Check dates and due dates. Trace into the books of the company cash received for notes matured since the close of the period and therefore not presented for examination; when notes are in the hands of attorneys or banks for collection, obtain confirmation from the holders. If notes have been discounted obtain acknowledgment from the discounting banks.

Schedule, page 225.

If notes receivable have been protested for non-payment every protested note should be submitted as a voucher, or there should be some accounting for it. Protest fees, accrued interest, etc., as well as the face of the note, should be charged back to the debtor's account (except perhaps in the case of agricultural loans for the purchase of machinery, etc., when the non-payment results from crop failure and the notes are in fact reasonably certain to be paid).

The auditor should ascertain, in case the amount stated in the face of a note does not agree with the amount appearing in the company list, whether or not the difference is endorsed on the back of the note as a collection on account. Conversely, the backs of all notes should be examined to see whether or not endorsements for payment on account have been entered in the books. It is important to find out who has the authority to endorse notes on the back for payments made on account, and this information should be included in the working papers. If such notations may be made by the cashier the opportunities for irregularity are obvious.

3. Give consideration to the probable value of the notes, particularly of renewed notes, and to the adequacy of the re-

serve provided. Ascertain the value of any collateral security for notes. The notes may be worth no more than the collateral, especially as collateral is usually required from debtors of doubtful standing.

Schedule, page 225.

In some kinds of business, the silk and jewelry trades for example, notes receivable are given by customers of the very highest standing, while in some other trades notes are usually considered unfavorably.

Notes past due or continuous renewals should be noted in the working papers and discussed with someone qualified to pass judgment upon them.

4. The best verification of notes receivable is written confirmation by the debtor that the notes are bona-fide obligations, although such confirmation is not usually considered necessary in the case of companies having an adequate system of internal check. When this course is followed, mail personally the requests for confirmation in envelopes bearing the accountant's return address and enclose return envelopes addressed to the accountant.

Notes receivable signed by subsidiary companies or customers' notes held at sales agencies should be verified in the same manner as regular notes receivable of the main business.

5. Notes, including instalment notes, of a material amount maturing later than one year from the date of the balance-sheet should be shown separately thereon unless trade practice warrants a different treatment. Balance sheets of businesses whose sales are largely instalment sales should show the notes receivable in some detail.

6. Notes from stockholders, directors, officers and employees and also notes arising from transactions outside the ordinary business of the company should be shown separately on the balance-sheet.

7. Notes of affiliated concerns should not be included with customers' notes on the balance-sheet even though received in respect of transactions in the ordinary course of business. They may be shown as current assets, investments or other-

wise as the circumstances justify; inclusion as current assets is allowable only if the debtor company has a satisfactory margin of current assets over current liabilities including such notes.

8. The balance-sheet should carry a footnote under "contingent liabilities" showing amount of unmatured discounted notes (see Par. 2 above).

Large instalment companies may have thousands of notes receivable which are controlled by a satisfactory internal check. In such cases it may not be necessary or desirable for the accountant to examine every note or instalment account, but a reasonable test may be sufficient. On the other hand, if the company is small and has been accustomed to discount its notes receivable, special inquiry from all banks in which the company has maintained balances during the period may be necessary to determine the full contingent liability.

Cash

1. Count cash on hand and compare with the recorded cash balance. This count should be made at the same time as notes receivable and investments are inspected or taken under control. Precautions should be taken to guard against the possibility of a shortage in one of these assets being covered up by temporarily converting other negotiable assets or withdrawing funds from the bank.

Schedule, page 177.

When the volume of transactions recorded between the close of the fiscal year and the date of the count is comparatively small they should be audited in order to establish the balance at the close of the fiscal year. If the volume of transactions is large and it is impracticable to make such an audit, the count of the cash at the time of beginning the audit may be considered as a test of the system, with which the auditor should be thoroughly familiar, and it may be assumed, if the petty cash is in order at the date of the audit and the system and records are satisfactory, that the balance shown by the books at the close of the fiscal year was correct.

In the counting of funds, etc., the working papers should state the exact time when the funds were counted, who counted and reconciled them, who is in charge of each fund, who may authorize or approve petty cash vouchers, etc. In some cases it will be found that the petty cash vouchers are receipted but not approved, while occasionally approvals will have been made but the signatures for the receipt of the cash will be lacking. When such a condition is found, it should be noted in the working papers and the auditor should call the matter to the attention of a responsible official.

The auditor must never permit himself to be left alone with either cash or securities; some member of the client's staff should be present throughout the count.

2. Ascertain when counting cash that all checks (other than those cashed for others) produced as part of the cash balance have been entered in the cash book prior to the close of the period. Note the dates and particulars of such checks and of all advances made from cash but not recorded on the books. Investigate closely advances to employees; if they are represented by personal checks see that these checks (and those cashed for persons outside the company) are deposited and paid before completion of the examination.

Schedule, page 177.

3. See that all cash funds are cleared of material amounts representing disbursements prior to the date of the balance-sheet.

If an imprest system is used the auditor should see that a refunding check for expenditures to the end of the fiscal year is shown as received within the period or he should note the date on which such a check was received if the fund is reimbursed after the close of the period.

4. Obtain directly from all depositaries certificates as of the close of business on the closing date. Obtain reconciliation of the balances shown on the certificates with the balances

shown by the cashbook, check-book stubs, or check registers, taking into consideration the outstanding checks, and other outstanding items.

Schedules, pages 171, 174, 175 and 176.

The auditor should fill in one bank certificate form for each bank at which the client carries an account, have each form signed by the proper officer, enclose with each one the auditor's stamped return envelope and mail the certificates himself. If this procedure is not possible, equivalent safeguards should be provided in the preparation and mailing of certificates.

5. Compare the checks returned by banks, item by item, with the cashbook for last month, or work backwards from the last day of the period under examination until all recently drawn outstanding checks have been covered. As this procedure will not disclose any outstanding checks which may not be recorded, a better confirmation may be provided by comparing the outstanding checks shown on the bank reconciliation with checks returned by the banks in the subsequent month. Make special inquiry to ascertain if there are any unpaid checks long outstanding. See that no checks are drawn for cash or other purposes at the end of the period but not entered until the next period.

Schedule, page 171.

When the client maintains branches or controls subsidiary companies the auditor must take particular care to indicate on his copy of the reconciliation statement any outstanding checks payable to branches or subsidiary companies. Also, any deposits said to be in transit between the home office and branches should be indicated.

When the certificates are returned by the banks they should be attached to the respective reconciliation statements and the balances shown thereon should be agreed with the balances given by the company as "balance as per bank."

The verification of cash may call for several different kinds of schedules, although probably not more than two of these would be used in any one cash verification. Schedules, pages 171 to 176, will be used for the verification of the bank balances where all receipts are deposited in the bank and all withdrawals are made by check. If several such bank accounts are kept, as many reconciliations must be prepared as there are bank accounts to reconcile, and the sum of the cash balances as shown by all reconciliations must be agreed with the general cashbook balance.

6. Ascertain that receipts shown in the cashbook as deposited on the last day of the period, but not credited by the bank on that day, have actually been deposited as claimed.

Schedule, page 171.

7. If currency and bank transactions are recorded together in the cashbook and the cash is not counted until after the close of the period under review, reconcile the bank balances as at the date of the cash count as well as at the date of the balance sheet. Cash on hand, which forms only a part of the balance, may be correct at the date of the count, but it does not follow that the total cash balance (including bank balances) is correct.

8. Check deposits shown on bank statements or pass-books for the last two or three days of the period with the cash-receipts book; determine that they were composed of bona-fide receipts and that no check drawn by the company was deposited in a bank without being deducted, prior to the close of the period, from the balance at the bank on which the check was drawn. In certain instances such comparison may be extended to include a check of original deposit slips or authenticated copies thereof.

Schedule, page 171.

9. Reconcile total deposits shown by the bank statements for at least one month with the total receipts shown by the cashbook; also reconcile total disbursements shown by the bank statements with total checks drawn as recorded in the cashbook for the same period.

Schedules, pages 171 to 174.

In many instances a proof of the gross totals of cash received and disbursed, together with the bank deposits and withdrawals, forms a simple and effective check on the inclusion of fictitious items in the cashbook or the fraudulent omission of receipts against which an improper disbursement may have been made but omitted from the record. Every discrepancy in the gross figures which appears between the bank records and the cashbook should be traced, and the auditor should satisfy himself that it is an innocent and bona-fide bank-contra, exchanged check, or similar item before considering the verification of cash completed.

Summaries

In addition to the schedules shown and discussed, it may be desirable to summarize the cash receipts and disbursements of a client for the entire period under audit. This requires attention to the cash balances at the beginning of the period, as well as to those at the close of the period. Such a summary gives a very good bird's-eye view of the cash activities of the year, and may be prepared as shown on schedules, pages 171 to 173.

10. Trace to the cashbook all checks outstanding at the beginning of the period that were not returned and checked in a previous examination.

Schedule, page 171.

11. Funds subject to withdrawal restrictions should be so described on the balance sheet.

Where there are a great many bank accounts with a number of relatively small working funds which are reconciled periodically by employees independent of the cashier's department, it may not be necessary for the accountant to reconcile all the working funds but only to do so for the principal bank accounts, accepting copies of reconciliations signed by internal auditors for the remainder. On the other hand, where the company does not deposit all of its receipts daily it may be desirable for the accountant to check cashbook footings in addition to the other steps described.

Chapter VI

INVENTORIES

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

1. The accountant's examination of inventories falls naturally into three main divisions:

(a) Accuracy of computations, footings and recapitulations.

(b) Basis of pricing.

(c) Quantities, quality and condition.

Schedules, pages 183 to 185 and 188.

2. The responsibility of the accountant in the first two cases is clear: check the inventories sufficiently to be satisfied as to the substantial accuracy of the clerical work performed and that the goods are valued in accordance with the usual commercial practice—that is, at cost or market, whichever is lower or on some other reasonable basis which is accepted as sound accounting practice in the particular trade or business.

There are many different methods of determining the value of inventories, but they are all, in one fashion or another, concerned either with the cost of the inventory or its market value. Cost may be determined on the basis of "first-in, first-out," "last-in, first-out," the retail method, on standard costs, on average costs, or on any other methods more appropriate for specific industries than these would be.

When costs are in excess of market prices it is generally considered proper to reflect in the balance-sheet, the market value, either by a reserve or by writing down the inventory. In the income account, however, cost may be used and the difference charged as a separate item, making sure that the resulting credit when market prices rise above cost is treated consistently.

This is not the place to discuss the relative merits of the different systems of inventory valuations, or the applicability of a particular method to a particular situation. It is intended merely to point out that while all items in an inventory are valued at some cost price or at market, this statement is so broad as to be almost meaningless in a particular case without a most careful examination of the circumstances to determine what cost or what market price is to be used and how it is to be determined.

The auditor, when he is examining the inventory methods of a client for the first time, may well keep in mind Pilate's immortal question, "What is truth?" and say constantly to himself, "What is cost?"

For auditing purposes inventories may be divided into several groups and the procedure for checking them will ordinarily vary somewhat. The groups roughly are as follows:

(a) Raw materials and purchased parts, commonly known as stores, which include all materials that are put into process of manufacture and physically become a part of the finished product.

(b) Supplies, which include all materials that are put into process of manufacture but are consumed during the manufacturing process and generally known as indirect materials; also the materials which, in general, are used to pack and ship finished product.

(c) Work in progress, which consists of those raw materials which have been put into process of manufacture and all productive labor applicable thereto, with a fair proportion of the factory expenses, including supplies.

(d) Partly-finished stock, which includes finished parts not yet assembled into finished product. This group may, if preferred, be classified as work in progress.

(e) Finished product or stock, including all product ready for shipment. In the case of a manufacturing concern this will ordinarily represent manufactured stock; in a mercantile business it will be purchased stock.

In each case the auditor in charge should determine the percentage of the total amount of the inventory, the prices of which are to be verified. Comprehensive tests ordinarily will be a satisfactory verification; the schedules prepared should show conclusively what work has been done.

After the pricing is completed entries should be drafted in journal form to adjust the accounts for any errors of relative importance. A general scrutiny should also be made of the inventory sheets in order that large quantities which appear excessive or obviously overstated may be brought under notice and may be discussed with those in authority.

To record the errors found in the inventory a schedule should be prepared, supported by subsidiary schedules somewhat as follows:

Errors in Inventory

		Per inventory		
Inventory sheet No.	Items	Quantities	Unit price	Amount
			$	$

December 31, 19—

Should be			Difference		
Quantities	Unit price	Amount	Increases	Decreases	Remarks
	$	$	$	$	

The net increase or decrease which is necessary to correct the book values, and would be carried forward to the summary schedule, is the important figure obtained from the above detailed schedule, but the detailed information contained in the schedule gives the auditor his tie-up with the inventory sheets of the client.

3. The duties and responsibilities of the accountant in the case of quantities, quality and condition of stock vary with the circumstances; but he must rely principally for information as to quantities, quality and condition upon the responsible officers and employees of the company. In the case of a business which does not call for technical knowledge and presents no substantial difficulties, the accountant, by special arrangement with his client, may be justified in assuming a greater degree of responsibility than in cases where expert knowledge is essential. Make reasonable inquiries and tests to ascertain that quantities have been carefully determined and that quality and condition have received due consideration.

Schedules, pages 186 and 188.

It is generally considered good practice for the auditor in his audit of the inventories to obtain a certificate from a responsible official certifying the accuracy of the inventory as a whole, which is frequently supplemented by certificates from minor officials and storekeepers covering the quantities and valuations in detail, where they have been determined by these officials. It is well to realize that a "responsible official" means an official who may reasonably be assumed to have some actual knowledge of what he is certifying. In certain respects the certificate of a technical manager would be of more value than that of the president of the company, as the technical manager would be more likely to discover errors, and would be less prone to accept the statements of his subordinates than would the president. Such certificates are shown as schedules, pages 186 and 188, and should be included in all working papers covering verification of inventories. Quantities, condition of materials and stock, total values agreeing with the balance-sheet figure and any other pertinent information should be included in the certificate.

4. Obtain copies of company's inventory instructions and determine how complete the physical stocktaking has been or whether there has been substantial reliance on book inventories. In the latter case inquire how frequently they have been tested by physical inventories throughout the period. If

the accountant can discuss the situation before the actual stocktaking, it is desirable that he do so and ascertain the methods to be followed.

Schedule, page 183.

Schedules should be prepared showing in summary, and usually somewhat in detail, a comparison between the book and physical inventories at the date of the physical inventory. Such a summary schedule for a large company manufacturing boilers and other heavy machine parts appeared as follows (the figures are assumed):

Account No.	Name of material	Per ledger	Per physical inventory	Inventory shortage	Inventory excess
5346	Billets.......	$ 185,904.22	$ 163,209.87	$ 22,694.35	$
	Etc., etc......				
	Totals.....	$1,197,327.62	$1,122,202.00	$114,929.56	$ 39,803.94
	Net shortage..		75,125.62		75,125.62
			$1,197,327.62		$114,929.56

The above physical inventory was taken as of October 31, 19—; the audit was as of December 31, 19—. Thus, although these values were not the values used for balance-sheet purposes, the physical inventory would serve as a valuable check upon the book inventories.

The term "physical inventory" is a rather loose one and sometimes the distinction between a "book" and "physical" inventory is hard to make. If, in a chemical works or metallurgical plant, the chemists should make tests of solutions or electrolytes and from these and the capacity of the tanks or vats in operation calculate the content of chemicals or metals in solution, it would be the closest possible approximation to a physical inventory, but it would not be a physical inventory in the sense that a count of boxes of tin plate or the weighing of bars of metal would be.

It is probably true that in every well-organized plant the "physical" inventory is based to some extent on records and the "book" inventory is dependent, in some degree, on actual measurement or weight.

The auditor should bear this rather ambiguous situation carefully in mind and should remember that any particular inventory problem is as complex as the manufacturing process, and that a satisfactory solution can be reached only after the auditor has a thorough grasp of the situation, unclouded by any rigid, preconceived ideas of the distinction between "physical" and "book" inventories.

On the other hand, the value of a physical inventory should not be overemphasized. If the physical inventory has been taken hurriedly or by inexperienced helpers, it may be very inaccurate, and large adjustments made in the books to bring them into agreement with the physical inventories may have to be reversed when the next physical inventory is taken. If there is an up-to-date and scientifically kept book inventory, it may be found more trustworthy than any physical inventory that is likely to be taken. This is particularly true where large quantities of uniform materials, such as pig-iron, coal, iron ore, etc., comprise the inventory; in other cases, such as an automobile factory, when the parts can be counted with reasonable ease and accuracy the physical inventory is important.

5. Obtain original stock sheets if they are in existence. Test the final inventory sheets by comparison with the originals and with tickets, cards or other means used in recording the original count.

6. See that inventory sheets are signed or initialed by the persons responsible respectively for taking a stock, determining the prices and making the calculations and footings. Obtain from a responsible official a clear and detailed statement in writing as to the method followed in taking stock and pricing it and as to the quantity, quality and condition and the accuracy of the inventory as a whole.

In addition to the preparation of schedules, a full statement of work done should be prepared. All interesting points should be noted, such as letters seen regarding inventories, contracts, special conversations with people about the plant, reasons for abnormally high or very low manufacturing costs, etc., and in fact anything that reveals tendencies or general policies of the business as to inventories. Commitments should be given special attention, probably by the auditor in charge, and the cost-finding methods should be described briefly. As stated in Chapter VIII, page 122, materials specifically earmarked or set aside for construction should not be carried in the inventories but should be included in cost of properties.

7. Test the accuracy of the footings and extensions, especially of the larger items.

Schedules, pages 183 to 185 and 188.

8. Make a test comparison of the inventories with the stock records, if these are maintained, in support of quantities, prices and values. Any material discrepancy should be satisfactorily explained.

Schedules, pages 183, 185 and 188.

9. See that goods which are not owned but are on consignment from others have not been included in the inventory.

10. See that goods set aside for shipment, the title to which has passed to customers, have not been included in the inventory.

11. Whenever a cost system is not adequately controlled by the financial accounting, special attention is required. There is always a possibility that orders may have been completed, billed and shipped but not have been taken out of the work-in-process records. This is the case especially where such reliance is placed on work-in-process records that a physical inventory is not taken at the end of the period to check their accuracy. In such cases compare sales for the month preceding the close of the fiscal period with the orders in process shown by the inventory to see that goods which have been shipped are not erroneously included in the inventory.

12. See that no machinery or other material which has been charged to plant or property account is included in the inventory.

13. Make inquiries and tests to ascertain that purchase invoices for stock included in the inventory have been entered

on the books. Look for post-dated invoices and give special attention to goods in transit.

14. If it is customary in the particular business to receive deliveries under purchase contracts which are not promptly billed, confirm the quantities delivered by communication with the contractor.

As in the case of merchandise in transit a record should be made of all goods actually shipped in the previous period (the period covered by the audit) but not charged to the customer until the current period (when the audit is being done). Schedules should be prepared summarizing the work which has been done and containing information somewhat as follows:

MERCHANDISE SHIPPED BUT NOT BILLED

Invoice No.	Customer and address	Date charged out	Date goods were shipped	Description of goods pounds, yards, etc.	Unit price	Amount
					$	$

15. Ascertain that inventories are stated at cost or market prices, whichever is the lower at the date of the balance-sheet, or determine that any other basis which has been adopted is in accordance with sound accounting practice in the particular trade or business. Deduct trade discounts in determining inventory cost prices. Cash discounts may or may not be deducted, depending upon the practice of the trade and of the particular company. Market prices may be determined by obtaining current quotations, consulting trade journals and by comparison with recent purchases. Replacement costs should be considered and also selling prices, less shipping and selling expenses.

Schedule, page 183.

In checking the basis of pricing on raw materials and supplies, price quotations are needed and may be obtained from such leading business and financial organs as the following:

Commercial and Financial Chronicle
New York Journal of Commerce
Market Reporter (prepared by the Bureau of Markets of the Department of Agriculture)
Dun and Bradstreet's Monthly Review
The Annalist
Wall Street Journal
Survey of Current Business (U. S. Department of Commerce)
Wholesale Prices (U. S. Department of Labor)
Retail Prices (U. S. Department of Labor)

The *Commercial and Financial Chronicle,* with its *Supplements,* is undoubtedly the best source from which to verify security prices, while the *New York Journal of Commerce* and the *Market Reporter* are especially good for commodity prices.

Other special commodity prices may be found in such well-known publications as the following:

American Lumberman
American Machinist (iron, steel, shop supplies, small tools, etc.)
Brick and Clay Record (brick, tile, etc.)
Building Age (building materials)
Coal Age (coal, etc.)
Engineering and Mining Journal (gold, silver, and other metals)
Iron Age (iron ore, pig-iron, iron, steel, etc.)
Metal and Mineral Markets
Motor Age (auto parts, etc.)
National Petroleum News (refined products)
National Provisioner (curing materials, meats and by-products)
Oil and Gas Journal
Oil, Paint & Drug Reporter (paints, oils, varnishes, chemicals, fertilizing materials, etc.)
Oil Trade Journal (crude and refined products)
Paper Trade Journal (paper stock, pulp, etc.)
Power (plant and electrical supplies)
Textile World (textiles and textile materials)

These magazines should be available at the current periodical room of any public library, and many of them will probably be in the possession of local offices. It is often desirable to have available in the auditor's office issues of such magazines which contain quotations for closing fiscal dates, as, for instance, June 30th or December 31st.

It is of special importance that the greatest care be exercised in obtaining price quotations from periodicals, for in not a few cases the auditor has made himself look foolish in the eyes of a client, merely because the quotation he was endeavoring to use was for an entirely different grade of commodity from that appearing in the inventory. It is impossible at times to obtain the quotation desired. The practical thing to do in such a case is to take the invoice purchase price of the item actually appearing in the inventory and compare that with the quoted price of other grades of the same commodity at the date of purchase of the item in the inventory. Then by finding quotations for some of the other grades of the commodity at the last day of the period under audit, and by comparing these prices with the quoted prices for the same grades at the time of the purchase of the item in the inventory, the auditor will be able by comparison to find the approximate value of the grade included in the inventory.

Thorough tests of inventory prices should be made and a description included with the schedules. This schedule should show very clearly just what verification of prices has been made. The kind and grade (or other description) of materials should be noted, with unit costs and market prices actually used in determining the value of the inventory, and with the source of market price given. When significant the unit price at which the goods were sold during one, two or three months after inventory should be included. Later selling prices often go far in revealing whether or not the inventory prices were fair, and they are, therefore, particularly worthy of the auditor's careful scrutiny.

16. In the case of raw materials and merchandise purchased make a test comparison of cost prices used with purchase invoices or other sources of information. A general examination and test of the cost system in force is the best means of checking the cost of the work in process and finished goods. See that no selling expenses, interest charges or administrative expenses are included in the factory overhead cost (except so far as administrative expenses apply to production); that any interdepartmental profits and, in the case of consolidated statements, intercompany profits, are eliminated from the inventories; and that the factory overhead cost is equitably distributed over the various departments, shops and commodities. Ascertain whether overhead allocation is based on actual production or normal capacity. Normal capacity is preferable.

Schedule, page 184.

17. If duties, freight, insurance and other direct charges have been added, the amounts should be tested to ascertain that they are proper.

18. Give consideration to the possibility that obsolete, excessive or damaged stock may be included in the inventories at greater than realizable values; make test of detailed stock records to determine if the quantities are reasonable in relation to average consumption and purchases; and discuss with responsible officials.

19. Make inquiry to ascertain if the company has discontinued the manufacture of any of its products during the year; if so the inventory of such products or parts thereof should be carefully scrutinized and provision made for anticipated losses.

20. In the case of part shipments or uncompleted contracts it is preferable not to take up profits except in cases where the information available clearly indicates that a partial profit has been realized after making provision for possible losses and contingencies. Ascertain from the contracts the selling prices for contract work in progress and if it is apparent that there will be a loss on the completed contract provision should be made for the estimated loss.

21. Check the inventory total by the "gross profit test," comparing the percentage of gross profit with that of previous

years. In a business in which the average gross profit has been fairly constant, this test is satisfactory; if the rate of gross profit is not maintained and the discrepancy can not be explained by a rise or fall in the cost of production or in the selling price, the difference may be due to errors in the inventories.

22. Ascertain that the inventories at the beginning and at the end of the period are stated on the same basis, determined generally in the same manner, or if not, the approximate effect on the operating results.

Schedule, page 183.

23. Advance payments on account of purchase contracts for future delivery should preferably be shown in the balance-sheet under a separate heading.

Contracts for the purchase of materials, when for relatively large amounts or when the contract price is considerably above the market price of the materials at the closing date of the period under audit, are sometimes noted in the working papers, together with the following information (to be prepared in schedule form):

(a) Date of the contract.
(b) Number of the contract.
(c) Parties to the contract.
(d) Materials covered by the contract, with quantities, prices and similar information.
(e) Terms of payment and delivery, freight, etc.
(f) Partial deliveries made up to the close of the period under audit.
(g) Balance of quantities, and
  (1) Unit prices and values as shown by the contracts.
  (2) Unit prices and values at market quotations.
(h) Reserve, if any, needed to cover difference between contract and market price.

The information called for by the schedule suggests the records, papers, etc., to be examined and the procedure to be adopted. Contracts, receiving records, invoices and correspondence, and prices as given in trade papers should be examined in detail or thorough tests should be made.

24. If stocks have been hypothecated, that fact and the book value of the stocks hypothecated should be stated on the balance-sheet.

Many large companies maintain comprehensive continuous inventory records which are subject to periodic and independent physical stocktaking. In such cases the accountant should use his best judgment in determining the extent of the examination required, but the various points mentioned in the program regarding inventories given in this chapter should be considered.

In concluding this chapter, it is proper again to point out the importance of inventories in the audit of manufacturing or mercantile concerns, for a correct inventory is absolutely necessary for the proper determination of the annual profit or loss, and consequently of the financial condition of the business under audit. And yet, as has been stated, there is no item appearing in the books of a business concern demanding so varied and so skillful treatment as the inventory item. A knowledge of the manufacturing processes and familiarity with cost-finding procedure are essential to the auditor if he is to be certain of the effectiveness of his verification. Schedules, certificates, statements of work done, etc., must be carefully prepared and the auditor must exercise great alertness and sound judgment when the questions which continually arise come up for decision. This will require of the auditor both technical efficiency and an understanding of the problems and the organization of the client's business, as well as the ability to deal tactfully with those members of the client's staff who are responsible for the inventory records and valuations.

CHAPTER VII

SECURITIES

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

While the nature of securities held by a company and the purpose for which they are held determine their balance-sheet classification, the method of verification of all securities is essentially the same. Under the regulations of the Securities and Exchange Commission, which are in general agreement with good current practice in this respect, securities are divided as between:

Marketable securities
Securities of affiliates
Other security investments

Marketable securities which are included in current assets are defined by the Securities and Exchange Commission as those "having a ready market." This presumably agrees with the general practice which assumes not only that the securities could be sold because they are quoted on a securities exchange or other established market, but also that they could be sold because the owner company would not be damaged or embarrassed by parting with them. Securities of affiliates are considered to be those of companies which the company under audit either controls or is controlled by, either directly or indirectly through one or more intermediaries, or of companies which are under common control with the company under audit. These companies may be either of the type which are consolidated in a consolidated balance-sheet or are not so consolidated, depending on the circumstances. Other security investments are those which fall in neither of the two other classes and which are presumably held permanently either for trade purposes or because of the difficulty of disposal.

1. Obtain or prepare a list of securities owned showing particulars such as:

Description of security (give interest rate of bonds)
Denomination of bonds or par value of shares
Number of shares and face value of bonds
Cost of securities and amount at which carried on the books
Interest and dividends received during period under examination
Market quotations, if available
Location of securities, and if hypothecated, with whom and for what purpose.
Schedules, pages 178, 192, 193, 323 and 329 to 336.

Permanent investments cannot be valued merely by considering the market quotation for a small floating supply of the stock which is held as an investment. In determining the value of holdings in associated or subsidiary companies the auditor may adopt any one of several methods of verification. He may (a) accept such investments at their book value, specifically calling attention to the fact in the balance-sheet or in conjunction with his report and certificate, or he may (b) examine the separate balance-sheets and income accounts of the one or more associated or subsidiary companies, specifically stating the basis of their preparation, or he may (c) make a partial or complete examination of the several companies' books. In the case of a financial or balance-sheet audit, when a consolidated balance-sheet is not to be prepared, the second method of verification is probably most often adopted. When a consolidated balance-sheet is to be prepared, the auditor will usually make a partial or complete examination of the several subsidiaries' books.

The investigation of the separate balance-sheets and income accounts of the companies should be made the basis of determining the general financial and earning power of the companies whose stock is held and, as well, the book value of the shares held by the company under audit. Notes should be made in the working papers, and perhaps a schedule prepared, showing in comparative form the figures at which the investments in other companies are carried in the books of the holding company and also the book value of the stocks as shown in the individual balance-sheets examined.

Special funds for bond or stock redemption, or for any other special purpose, on deposit with trustees should be verified by certificate from the trustee. Bond or stock redemption agreements should be considered by the auditor when making the verification of these items in the balance-sheet, and any provisions in such agreements which relate to funds to be deposited with trustees should be carefully noted in the working papers. When funds are in the possession of other persons they should be verified as are any other cash balances or securities held.

In case a company carries its own compensation and liability insurance, it is usually required to deposit with an officer of the state gilt-edged securities to cover the necessary provision. If such condition is found the existence of the bonds should be verified by correspondence with the state officer holding the securities.

The working schedules should show the balances in such funds at the beginning and close of the period under audit, with all changes, either additions or deductions, made to the accounts during the period. Vouchers, notices and other documents should be examined for approvals, etc., and any information which has a bearing upon the verification should be carefully recorded in the working papers.

These schedules may be subdivided for the various classes of stocks and bonds, namely: domestic and foreign stocks, foreign government bonds, United States bonds, state and municipal bonds, railroad and industrial bonds, etc. These schedules may also be prepared with the income-tax requirements in mind. They should preferably be prepared by the client toward the end of the fiscal year and a copy should be presented to the auditor upon beginning the audit. The auditor's copy may then be used in the count of securities. The schedule further permits the checking of revenues, accruals, reserves, profits and losses which may be cross-indexed to the various schedules which they affect. It can usually be prepared directly from the client's records and requires no further analysis or subdivisions.

2. Compare this list with the corresponding ledger accounts and ascertain the basis on which the securities are carried on the books.

Schedules, pages 178, 192 and 193.

Additional working schedules which may be used in the analysis of marketable securities and permanent investments will be shown. In the case of a large holding company the owned stock of eight subsidiaries was scheduled as follows:

XYZ COMPANY—INVESTMENTS IN SUBSIDIARIES

	Outstanding capital stock		Owned by Parent				
Name of subsidiary	Shares	Amount	Shares	Carried on books at amount	%	Value per books of subsidiary at date of balance-sheet	Value per books of subsidiary at date of acquisition

The above schedule was supported by another schedule, showing separately for each subsidiary a description of the securities, the number, par and total value of shares owned at the beginning of the year, the additions and deductions (red) during the year, the per cent and amount of dividends paid, and information for the end of the year similar to that for the beginning.

In addition to providing information of value to the client such a schedule shows, for unconsolidated subsidiaries, information required in the preparation of Form A2 for registration of securities to be issued and for Form 10K, the annual report to be filed for corporations listed on a securities exchange registered with the Securities and Exchange Commission.

3. Examine the securities listed or obtain confirmation from the holders if any are held by depositaries or others for safekeeping or as collateral. Make this examination of securities as close to the date of the balance-sheet as possible (see also Par. 1 under Cash). It is more satisfactory to inspect the actual securities than to account for their disposition subsequent to the date of the balance-sheet.

Schedules, pages 329 to 336.

The examination of securities outlined in this chapter is concerned with conditions as they generally exist in mercantile and manufacturing enterprises. The verification of securities in the audit of banks, brokerage houses, insurance companies or other financial institutions requires special methods and technique which are described in books dealing with the accounts and audit of financial institutions.

Before beginning an examination of securities, the auditor should be furnished with a complete list of the securities to be verified. This list should be signed and dated by the auditor or by his assistant who makes the examination, and if more than one assistant takes part in the examination the list should show which assistant examined the securities and by whom the items on the list were checked. Whenever practicable assistants should work in pairs while counting securities, one assistant examining the securities and calling off the particulars relating to each item to the other assistant, who should determine the accuracy of the description shown upon the list. In case no list is furnished, the second assistant should prepare one by writing down the details called to him. A schedule which may be used in the count of securities is discussed and illustrated later in this chapter.

Not infrequently errors are made in describing securities, and it is essential that the auditor examining the securities should make a careful comparison of the stock certificates or bonds with the list, being particularly careful to see that the full title of the security, the date of maturity, the rate and dates of payment of interest and any special information are correctly stated on the list. If the description is correct the item should be ticked in ink.

When it is practicable, the list of securities, whether furnished by the company or prepared by the auditor, should show stock-certificate numbers or bond numbers. If this is done the individual numbers are checked during the count. In the case of audits other than first audits this permits the auditor, when no changes in a particular issue are shown in the company's records, to see that the identical securities on hand at the beginning of the year are actually on hand at the end of the year. This will definitely assure the auditor that no unauthorized or unentered sales of the securities were made subsequent to the prior audit, a like number of the same securities having been repurchased prior to the end of the year.

When large quantities of securities are to be counted, there is a temptation to count the bonds too hurriedly. When bonds are filed in packages of fifty or one hundred to the package, assistants have been known to run the edges and throw the package aside, assuming that all the bonds were of the same kind and denomination. In examining large quantities of bonds, a sufficient number of the bonds must be examined as to title, maturity, signature of trustees' certificates, etc., and whether or not unmatured coupons are intact, to satisfy the auditor that the packages contain all and only the bonds that they are said to contain.

Speed at the expense of accuracy in examining securities may prove disastrous. There are numerous obsolete issues of securities bearing titles somewhat similar to issues now outstanding, which could be bought up and substituted for genuine securities, and in some trust companies it would be possible for uncertified bonds to be sorted with those certified.

In verifying the securities, the leading schedule should state definitely where, by whom and at what time the securities were counted. This statement should appear as a part of the schedule, preferably at the top of the exhibit, somewhat as follows:

> "Securities counted January 2, 19— at
> by A and B, accompanied by and in the presence of Y, at the vaults of the Safe Deposit Company."

A form of schedule for sundry marketable securities, somewhat different from that referred to above is given below. The kind and volume of securities to be accounted for will always largely determine the form of schedule to be used.

COUNT OF SECURITIES, JANUARY 2, 19—, 10:00 A.M.

Certificate number	Description of securities	Number of shares or par of bonds	Total par value	Interest or dividend rate	Coupons attached (√)	Transfer O.K., securities seen, etc. (√)
			$			

4. See that certificates of stock and registered bonds are made out in the name of the company, or, if they are in the names of others, that they are so endorsed as to be transferable to the company or are accompanied by powers of attorney.

Schedules, pages 331 to 336.

5. Examine coupons on bonds to ascertain that unmatured coupons are intact.

Schedules, pages 331 to 336.

6. Confirm with transfer agents the ownership of certificates out for transfer.

7. Ascertain that the totals of dividends and interest received by the company as shown by the list (par. 1) have been duly recorded, and that the income from securities shown in the profit-and-loss account is correctly reported.

Schedules, pages 178, 192 and 193.

8. Examine brokers' advices in support of the purchase and sale prices of securities bought and sold through them.

Schedules, pages 178 and 193.

9. Confirm the cash-surrender value of life-insurance policies of which the company is the beneficiary and any policy loans by reference to the insurance policies or by correspondence with the insurance companies.

10. Examine mortgages and, if important in comparison with total assets, obtain confirmation.

11. The amount of securities that are considered to be readily convertible into cash and in which surplus funds of the company have been invested temporarily should be shown on the balance-sheet under current assets. Where stocks and bonds represent control of or a material interest in other enterprises and have a value to the company aside from their dividend or interest return, they are more in the nature of permanent investments to be shown below the current assets in the balance-sheet. Securities not readily marketable should be excluded from current assets.

12. If the total market value of securities included under current assets is less than the total book value by any material amount, a reserve for the shrinkage in value should be provided. If cost prices are used the quoted market values should be shown on the balance-sheet.

There are several methods by which differences between cost or book value and market value may be shown. Securities may be carried at cost in the balance-sheet and the market value shown in parentheses. This method is permitted by the Securities and Exchange Commission and may be observed in the published accounts of representative corporations. In other cases, the reserve to bring marketable securities to market is deducted from the cost value, and in still other cases, the market value only is shown. Circumstances will dictate which method is to be used, but the papers supporting the item should, in every case, indicate the market value when this is obtainable.

13. If examination of available data, including market quotations or, in their absence, balance-sheets, and income accounts supplemented by information and explanations from responsible officials, indicates that there has been a substantial shrinkage in value of securities held for investment since their acquisition appropriate reserves should be provided or the facts should be disclosed in the financial statements.

14. When corporations have acquired their own stocks, such stocks should preferably be deducted from the capital stock or from surplus or from the total of the two at either par or cost as the laws of the state of incorporation and other relevant circumstances require. If acquired and held for a specific purpose, however, such temporary holdings may be treated as assets, but they should be shown as a separate item and not under current assets.

15. If any securities owned by the company have been hypothecated, this fact should be stated on the balance-sheet.

CHAPTER VIII

FIXED ASSETS AND DEFERRED CHARGES

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

1. Summarize the accounts grouped under the heading property, plant and equipment (such as land, buildings, plant and machinery) so as to show balances at the beginning of the period, a summary of changes during the period and the balances at the end of the period.
Schedules, pages 194 and 195.

The beginning figures for the property accounts and for the provisions for depreciation in a schedule such as shown on page 200, will be taken from the auditor's records for the previous audit, or from the ledger accounts in the case of a first audit. Gross additions to the property accounts for the year and, likewise, all credits either on account of property dismantled and sold or on account of depreciation will be summarized and supported by necessary subsidiary property schedules. The general-ledger balances at the end of the period for each property item and for each of the provisions for depreciation should either agree or be agreed with the figures which appear in the balance-sheet.

2. See that the total of the balances at the beginning of the period agrees with the total property, plant and equipment as stated in the balance-sheet at that date; and that the balances at the end of the period agree with the amount shown on the balance-sheet at the latter date. Property, plant and equipment are usually carried at cost but if any other basis is used it should be stated on the balance-sheet as concisely as the

material facts will permit. If appraisal figures are used, the date of appraisal should be given.

The summary schedule will then be supported by as many subschedules as are necessary to verify and explain these changes. The extent of the detailed verification should be indicated by notes, as illustrated on the various property schedules.

If it is desired to show a summary of the property accounts and of the respective provisions for depreciation, schedules similar to pages 25 and 26 of the Report on Audit, Chapter XIII, and pages 200, 220 and 221 may be used. But if such a schedule is prepared, which will summarize both the property accounts and the provisions for depreciation, it is still not improbable that a brief summarized statement of the property accounts will be prepared in form similar to schedule, page 194. If there are numerous companies, branches or plants involved, it is desirable to include, after the "deductions" columns, a column for "transfers" between the numerous units of the composite organization (see schedule, page 337 and page 25 of Report on Audit, Chapter XIII). Otherwise, the columns for additions and deductions will, to this extent, show merely debits and credits to the several property subdivisions and not the actual changes of the period.

3. The accountant should satisfy himself as to the propriety of capitalizing the additions to property, plant and equipment during the period. Examine authorizations for expenditures made during the period; if costs of additions to property, plant and equipment have exceeded the amounts authorized ascertain the reasons. Authorizations should indicate the accounts to which expenditures are to be charged, should bear the approval of a responsible official, and should show the nature of the work.

Schedule, page 196.

Principal authorizations should be scheduled to show number, construction-order number, description of the work done or the account chargeable, the amount of the authorization, the amount expended to date, the estimated percentage of the work yet to be completed, the estimated cost to complete the work, and the amount by which the authorization will be more or less than needed.

As a general rule separate schedules and subschedules should be prepared for each major addition to the cost of property, containing for each item a sufficient analysis to show that the amounts are not in the nature of renewals but represent real additions or betterments to the property account.

The explanation "No change during year" for a property account can be accepted only in case there has been no entry to the account during the period under audit. It is possible, though very improbable, that an account would have the same net balance at the close of an audit period as at the beginning, yet a number of transactions affecting the account could have taken place during the year. The auditor should use every reasonable means to be sure that capital assets have not been disposed of or scrapped during the period under audit without any record whatever of the transactions. Such procedure, obviously, means an overstatement in the balance-sheet of the cost of properties. If transactions of any kind have taken place during the year, they should be fully explained.

4. When authorizations do not specify whether the work is a repair, a replacement or an actual addition or where there are no formal authorizations, use whatever means may be available to ascertain the character of the work. Determine that amounts capitalized represent real additions or improvements.

5. Examine the methods of distributing the payroll and material and supply charges in sufficient detail to determine that the charges to construction jobs are reasonable. This applies to construction work done by the company's own employees. Examine invoices and other evidence for construction work by outside contractors; ascertain that liability for

instalments owed for construction work in progress has been taken up on the books.
Schedule, page 205.

When additions to property, for illustration, machine parts, etc., are manufactured instead of purchased, such additions may be analyzed somewhat as follows, and then each of the subdivisions of the manufacturing cost may be analyzed in as great detail as conditions warrant:

ANALYSIS OF ADDITIONS TO PROPERTY ACCOUNT

Order No.	Quantity	Article—description	Manufacturing cost			
			Material	Labor	Burden	Total

6. While it may be considered permissible in the case of construction work done by the company's own employees to capitalize a portion of the overhead cost, e.g., time of superintendent and his clerical force employed on construction work, etc. (but not general administrative expenses), such charges should be carefully scrutinized, inasmuch as it is possible that the overhead charges of a plant may not be decreased to any great extent when additions are not under way; consequently, the absorption of part of these charges in property accounts when construction is in progress may reduce the operating cost below that of periods in which no such work is being done, and may unduly affect comparisons between years.

7. For purchases of real estate examine vouchers in support of payments made. Title deeds bearing endorsement of public recording officials are supporting evidence of such purchases. Verification of present title and search for encumbrances of record are legal matters which are not within the province of the accountant.

8. In the case of leasehold property examine the leases, noting their terms. See that improvements, etc., on such property are being written off over a period not in excess of either the duration of the lease or the estimated life of the improvements.

9. Ascertain the methods used in providing reserves for depreciation of buildings, machinery and other equipment and also for depletion of natural resources. Investigate charges against the reserves. If the accountant is in doubt as to the adequacy of the current provision or the accumulated reserve

shown on the balance-sheet he should make suitable comment in his report.

Schedule, page 200.

The charges against the reserve for depreciation should be analyzed by comparing them with the credits to the property accounts for property dismantled or scrapped, giving full explanation of any charges which cannot be accounted for in this manner. The credit balances of the provision for depreciation accounts at the end of the period under audit should agree or be agreed with the general-ledger trial balance and the figures which appear in the balance-sheet.

The adequacy of the provision for depreciation is one of the most difficult questions the independent auditor must decide. Every auditor should peruse and familiarize himself with such material as that referred to in *The Accountants' Index.* It is usually true that the adequacy of the depreciation provision can be determined only when repairs and replacements charged to operations are also considered. If capital expenditures are charged as operating expenses or if operating expense items are capitalized, the percentages used in computing depreciation mean very little. Careful tests should be made of maintenance items and the policy of the client in such matters should be carefully considered.

The expected future life of plant and equipment—hence the rate of depreciation—is a matter of judgment and opinion in each case, and the auditor may not be so well qualified to give that opinion as are the officials and operators of the plant. The auditor will generally accept the considered opinion of the client in that regard unless the audit indicates that the depreciation rates used are clearly in error.

The information required may be scheduled separately or may be included in a property schedule. It should be shown as follows:

RESERVE FOR DEPRECIATION

Items	Balance beginning of audit period	Provisions of period		Charges against reserve	Balance at close of audit period
		Rate	Amount		
Building, etc.	$	%	$	$	$

It is usually preferable that, in one form or another, this be made a part of the cost-of-properties schedule in order to show most conveniently the net property values. In case of transfers between plants, branches or associated companies, a column for "transfers" may be inserted before the final column.

A full and detailed analysis should be made of the periodic provision and, as well, of all credits or deductions made to the account during the period. These subschedules will support and explain the summary figures which will appear in the above form. Full notes, also, should be made concerning depreciation charges or credits which are questionable or peculiar. For instance:

"The plant, machinery and fixtures account is not relieved of machinery or fixtures which are fully depreciated. The rate of depreciation used is 7½% (on cost), but, by reason of this policy, the amount charged to depreciation each year is probably in excess of 7½% of the cost of machinery and fixtures not fully depreciated. The only time that credits are made to the asset account is when machinery or fixtures are sold, transferred or scrapped. Included in the account is machinery which was purchased in 1894–95 and which has been depreciated annually since then at 7½% (on cost), and which, therefore, was written off nearly 10 years ago."

This statement throws light on the general policies of the company and enables the auditor more easily to determine what shall be his attitude and whether or not any qualification shall be made in the certificates to be attached to the client's balance-sheet and statement of profit and loss.

In a company, such as the Ashton Metal Products Company, where it is assumed that accurate property records are kept, it is practically impossible for machinery and equipment to be depreciated beyond its full value. The use of proper plant records is increasing and this development has been accelerated by the requirements in recent years of the United States Treasury Department, principally under Treasury Decision 4422.

10. Make inquiries to determine that proper record is made when property is sold, abandoned, destroyed by fire or otherwise put out of service. Any loss not provided for by depreciation or recoverable through insurance, salvage or otherwise should be written off.

Schedule, page 199.

11. Many of the foregoing suggestions apply only to property additions during the period under review. In addition, it is well to obtain general information relative to the composition of real estate, building and machinery accounts to ascertain the principal property represented and the manner in which the accounts have been built up for some years past, if not from the inception of the business.

Schedule, page 194.

On a first audit a certificate is frequently obtained from the company's attorney, or from someone else in authority, to the effect that all titles to property are in order and that the properties are free from encumbrance. In some cases a schedule is prepared, which would probably be included in the permanent-file papers, showing the arrangement of lots, acreage, etc.

A general analysis of the property accounts should be prepared from the beginning of the business or for a considerable period of time. This would show the particulars of the more important items, such as property acquired by the issue of stock or other securities, adjustments for appraisal or other revaluation, the sale or other disposal of entire plants or property of substantial value, and other items of like nature. It would also indicate the ordinary additions and dismantlements or sales for each year, generally in total, but the auditor would need to use his judgment as to the extent of the details to be covered under these items. The purpose of the audit and the type of report to be rendered would have a determining influence on the amount of detail required in the analysis of the property accounts. The schedules used to record this analysis will ordinarily be similar to those used for verifying the charges and credits to cost of properties for the period under audit. These analyses should usually be included in the permanent-file working papers.

An analysis of the surplus account from the beginning of the business, or during a period of considerable length to be decided upon by the auditor, will show any material adjustments in the property accounts during preceding periods and should be used as a check upon the accuracy of the property analysis. It is not uncommon, particularly in the analysis of property and surplus accounts, for auditors to find that adjustments made upon the previous balance-sheet have not been taken up in the client's books.

While the auditor, under the rules of the Securities and Exchange Commission, is not held responsible for the value of property, plant and equipment, he is, nevertheless, required to make extended analyses of these accounts and generally is required to certify the balance-sheets or other schedules on which the property accounts are shown and in some cases to certify statements in answer to questions contained in the forms of the Securities and Exchange Commission which cover analyses of surplus or other accounts extending over considerable periods. This certification, of course, does not relate to the value of the property but to the correctness of the item on the basis stated in the accounts. While the auditor would not be held responsible for a discrepancy between the amount shown for property on the balance-sheet and some other amount subsequently realized on the sale or disposal of the property, he would probably be held responsible for any material discrepancy between the property account as stated in the balance-sheet and the actual figures appearing in the books on the basis stated.

In new audits requiring preparation of financial statements, either for an issue of securities or for periodical reports to the Securities and Exchange Commission, an analysis of the property accounts, such as is described here, forms, perhaps, the only safe basis for the certifications required.

12. Construction work in progress and material on hand at the end of the fiscal period which is designated for use in construction should be shown on the balance-sheet under the heading property, plant and equipment, and not as part of the inventories.

Schedule, page 196.

Many companies maintain separate plant records which are controlled on the general books. If all capital additions are budgeted and authorized in advance and later checked and approved in the controller's department, the vouching of the larger items may be all that is necessary. In the case of companies without adequate detailed records, a more extensive examination is required. It is not the accountant's function to determine that every minor charge is justified. He should acquaint himself with the policies of the company with regard to capital additions, replacements and repair charges and should satisfy himself that the total amount capitalized is reasonable, that plant units ascertained to have been abandoned are removed from the asset account, and that the depreciation reserves are being accumulated on some consistent and accepted basis.

A statement of the work done in verifying the cost of properties should be prepared and included with the property working schedules. This statement may be made a part of each working schedule, as illustrated in schedules, page 194, or a separate statement may be prepared. The former method enables the auditor taking up the working papers to know definitely what verification was made of each particular part of the work. The following statement of work done may be taken as illustrative of what is desired:

"Invoices were examined for approvals, for receipt of goods on account of outside purchases and for payments on contract. Contracts were examined and all authorizations were verified.

"All transfers between plants were checked to journal vouchers, and a test was made by tracing various large items from and to the respective accounts to which they were debited or credited.

"On work done by the company a test was made of some of the larger jobs. This consisted of examining material requisitions and of totaling labor cards. The burden applied to these jobs was tested and found in each case to consist of direct construction expense only.

"Where capital items were disposed of during the year, tests were made to ascertain when they were purchased, that the original value was charged off the books and that the depreciation provided on machines or fixtures was charged to reserve for depreciation. The difference between asset value, less depreciation provided, and scrap value received from the sale (whether a profit or a loss) was adjusted through the depreciation account."

Intangible Assets

Intangible assets such as patents, trademarks, franchises and goodwill should, if practicable, be shown separately in the balance-sheet. Ascertain the basis on which they are carried in the accounts and the company's policy as to amortization of them.

Schedule, page 202.

The supporting schedules should show the composition of the original amount recorded in the books, and, as well, all changes to and the balance at the beginning of the period under audit. This information, in a recurring audit, should be in the permanent-file working papers or in the working papers for previous periods. A complete analysis should be made of all additions or deductions for the year, and the balances at the close of the audit period should agree or be agreed with the amounts appearing in the general-ledger trial balance.

Deferred Charges

1. Under this caption are included unexpired insurance, prepaid interest, taxes, royalties and other prepaid expenses and also bond discount, development and organization expenses and other deferred items unamortized.

2. Check the mathematical accuracy and ascertain that they are proper amounts to carry forward as a charge to future operations. Whenever possible obtain documentary evidence in support of the items carried forward; for example, in the case of unexpired insurance examine the policies to ascertain dates of expiration, the amount of the premiums and the proportion to be carried forward; in case of prepaid royalties examine the agreements or contracts. Any adjustment of premiums for compensation insurance should be based upon the actual, not the predetermined, payroll.

Schedules, pages 190 and 191.

If the fire insurance is with mutual companies a certificate should be obtained from the insurance companies showing the estimated amount returnable at the close of the year. This estimate may perhaps be based upon the experience of past years, particularly if the dividend payable has been approximately the same from year to year. The latter method has been followed regularly in the case of several large and prominent industrials. A distinction should be drawn between prepaid insurance and deposits with mutual fire-insurance companies. These latter are not, strictly speaking, payments for insurance and when they are refundable within one year they appear to fall within the definition of current assets.

Such an examination of the insurance policies is valuable not so much because of the money involved (which is ordinarily comparatively little), but more because the examination will reveal mortgaged properties, or property otherwise covered by lien, and will also show what assets are insured, so that omissions may be called to the attention of the client. The amount of insurance carried is also frequently a matter of keen interest to banks extending credit, and it should always be considered by the auditor. Furthermore, the amount of insurance carried on such items as buildings, equipment and inventories may give valuable information as to what the client really thinks they are worth and it may lead to inquiry as to possible over- or under-valuation of them.

The possible liability for additional premiums payable for compensation or liability insurance should be investigated. This may be ascertained by multiplying the total actual payroll, from the date of the policy to the close of the period under audit, by the rates named in the policy. Any excess of the total so obtained over the amounts already paid as premiums on the policies will measure the amount of additional premium to be paid and to be set up as a liability. If the amount is of comparative importance it should be included with the accounts payable in the balance-sheet.

Unexpired insurance will be found to include a variety of forms of insurance. Thus, in the case of a single industrial, the following kinds of policies were found:

(a) Mutual fire insurance
(b) Standard fire insurance
(c) Burglary insurance
(d) Hold-up insurance
(e) Stock-companies insurance
(f) Boiler insurance
(g) Sprinkler insurance
(h) Tornado insurance
(i) Elevator insurance
(j) Liability and compensation insurance
(k) A number of miscellaneous individual policies

To verify interest prepaid the auditor should obtain the list of notes on which such interest is prepaid—showing the dates of the notes, the payees, the terms of the notes, the maturity dates and rates of interest, the total discount or prepaid interest, and the portion of such interest to be carried forward as a deferred charge to future operations. It is preferable that this schedule be prepared by the client, usually by adding extra columns to the notes-payable schedule, and the auditor should then thoroughly check or test the prepayments of interest as shown by the client's schedule, cross-indexing the total prepayment to the deferred-charges schedule.

In the case of taxes prepaid and chargeable to future operations, the amount of taxes paid, and the period for which paid, should be ascertained and the amount should be included with other prepaid items in the balance-sheet. Quite often the greatest difficulty in the case of taxes is to determine the period covered, and special attention should be given this part of the verification. As an instance of the logical difficulties into which the accountant is led by the present classification of prepaid expenses as non-current deferred charges, it should be observed that taxes prepaid and accrued should not be offset, because under present practice the former is treated as a deferred charge whereas the latter is an accrued liability which affects the current position.

3. Make inquiries to determine the company's policy as to amortization of deferred charges, such as whether bond discount is being amortized on a straight-line basis or bond-outstanding method or otherwise. If development and similar expenditures are deferred, they should be written off over a reasonable period having regard to the character of the expenditures.

Schedule, page 191.

For additional small and miscellaneous items of deferred expense, a schedule somewhat as follows may be prepared:

MISCELLANEOUS DEFERRED EXPENSES, DECEMBER 31, 19—

Date incurred	For what	Amount of original charge	Amount written off	Balance (date of audit)	Explanation of how written off, or why carried as deferred expense
		$	$	$	

The above form was used in the audit of a newspaper, and the balance carried forward as of the date of the audit amounted to many thousands of dollars. It included advances to correspondents for trips to various parts of the world, particularly to Russia, dues to various press clubs, newspaper associations, etc., prepaid special-issue expenses, freight and cartage on unused paper, permanent alteration expenses and numerous other items of expense.

4. As prepaid expenses and deferred charges may be considered to include two classes of items which differ somewhat in their nature different treatment is sometimes accorded them. Prepaid expenses, as representing those items which eventually will be included in manufacturing or other operating expenses may, if desired, be set up as a separate item under deferred charges or may be included as a separate caption on the balance-sheet.
Report on Audit, Chapter XIII, page 8
Form 10K, page 287.

It may be that items other than those discussed in this chapter will be found in various audits and will be carried in the balance-sheets as deferred charges to future operations. Deferred charges, in many cases at least, have no tangible or realizable value and must accordingly be considered entirely from the viewpoint of a going concern. In practice, moreover, clients will often be found who do not wish to defer prepaid items even when the amounts are quite large. If the policy in this respect is consistent from year to year, the auditor cannot object to it; the junior on the audit, however, should bring the matter to the attention of his principal.

The duty of the auditor, then, when deferred charges are shown in the statements of financial condition, is to determine (a) whether or not the charges made to such accounts during the period under audit, or possibly from the inception of the accounts, were valid and proper charges, and (b), if so, the proportion of those charges which may properly be carried forward to the operations of future periods. This involves not only the arithmetical accuracy of the amounts carried forward, but also the propriety of the charges.

Chapter IX

CURRENT AND CONTINGENT LIABILITIES

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

1. Obtain a list of the recorded accounts payable and make appropriate check with the ledger accounts or with open items in the voucher register, according to the system in use. Reconcile the total with the controlling account in the general ledger. Investigate any large balances which do not represent specific or recent items. Obtain confirmation from the creditor if any account appears to be irregular. If there are accounts in dispute, large enough to affect substantially the total of current liabilities, investigate the causes of dispute.

Schedule, page 203.

The auditor should list from the voucher register all items unpaid as of the close of the period under audit or should check the list as prepared by the client's office force. The total of this list should be agreed with the general-ledger trial balance, and disbursements for the last month of the audit period should be checked against the items marked "paid" in the voucher register, as it is quite possible that items might be marked off in the voucher register as being paid when checks may have been made out for the same amounts but to other parties. Debit balances included in the total of accounts payable should be carefully investigated, for not infrequently these amounts represent payments on account of bills which should have been set up in the books but, for some reason, have not been approved for entry.

In preparing or checking the above list all items not properly included as trade accounts payable should be earmarked and then properly classified. It will ordinarily be found that even though the best kind of voucher system is in use, the final figure for accounts payable may contain items other than vouchers payable.

If a general account for accounts payable is kept this condition generally exists when the voucher record is also a journal for making entries to payroll, tax or interest accounts, or when postings are made to the accounts-payable general-ledger account from various sources. Under modern practice, however, there would generally be separate accounts for accounts payable and accrued liabilities.

2. The following procedures are helpful in determining that all liabilities are included in the accounts:

(a) Review vouchers entered in the voucher register and/or payments shown by the cashbook subsequent to the date of the balance-sheet to ascertain whether any of them are applicable to the period under review.

(b) Examine bills on file not vouchered or entered to ascertain if any of them belong to the period under review.

(c) Make a test examination of the monthly statements received from creditors having large balances.

(d) Examine receiving records for the last day of the period for the purpose of ascertaining that the corresponding liabilities are included.

Upon completing the analysis of the book account the auditor should obtain all vouchers entered since the close of the fiscal period and all unentered bills. All these which are dated prior to the close of the audit period, and all invoices covering items which an examination of the receiving records shows were received prior to the close of the year or were in transit (that is, ordinarily, having passed the f. o. b. point), should be listed and analyzed in accordance with the proper classifications (see schedule, page 203).

To facilitate the audit of accounts payable it is well to obtain a list of all persons authorized to approve vouchers for payment and to make certain that the signatures or initials of the officials authorized are readily recognized by the auditor. When possible, it is desirable to have available for the auditor's use cards containing copies of the initials and signatures which should later be filed with the working papers.

All missing vouchers should be listed, and the prepared list should be handed to an employee of the client with the request that the vouchers listed thereon be found and presented to the auditor. A schedule used to record lost or missing vouchers is as follows:

MISSING VOUCHERS

Date of voucher	Voucher No.	Details	Amount
			$

As vouchers are found, a line is usually drawn through the missing item. As many as possible of the vouchers should be found and checked off before the completion of the audit. Whether all vouchers are found and canceled on the list or not, the working sheets should be retained and included in the accounts-payable group in the working file.

When a voucher system is not used the auditor should obtain the trial balances of the subsidiary accounts-payable ledgers and should check the items appearing thereon with the ledger accounts. The net totals of the trial balances should be agreed with the controlling account in the general-ledger trial balance. In checking the ledgers the auditor should note particularly the character of all debit balances and should make special record of them in his working papers, for, as already stated, such amounts not infrequently represent payments for bills which should have been entered in the books, but, for one reason or another, have not been entered at the close of the period. Unless negligible in amount, or unless offset by other credit balances of the same parties, these debit balances should be transferred to and be shown as accounts receivable in the balance-sheet.

The accounts payable should be classified or grouped in accordance with the summary schedule to be prepared and made a part of the working papers. Also, when a voucher system is not in existence cash payments after the close of the year must be scrutinized in order to allocate to the period under audit any amounts that represent expenses or charges applicable thereto. With the exceptions noted the procedure in verification of accounts payable when a voucher system is not in use would be similar to the procedure when there is a voucher system.

The auditor should ascertain from the minutes of the company the dividends that have been declared and from the accounting records those that have been paid during the period under audit (see schedule, page 211). Dividends declared but not paid are a current liability and should be shown as such. Schedules should be prepared showing all dividends, both on the common and on each class of preferred stock outstanding, declared or paid during the audit period. This schedule may be as follows (see schedule, page 210):

DIVIDENDS—COMMON STOCK

Date declared	Payable to shareholders of record	Date payable	No. of shares	Dividend No.	Dividend %	Dividend amount
						$

3. Inquire if any goods have been received on consignment, and if so examine the pertinent records and ascertain that liability has been set up for all such goods sold.

4. As an additional precaution against the omission of liabilities obtain in writing from a responsible official of the company (1) a statement that all outstanding liabilities for purchases and expenses have been included in the accounts and (2) a summary of any liabilities for legal claims, infringements of patents, claims for damages, etc., not included in the accounts. It is advisable to obtain the signature of the presi-

dent or other senior officer to this statement as only a senior officer of the company may know the extent of such obligations.

5. Liabilities to affiliated companies and advances by stockholders, directors, officers and employees if material in amount should be shown separately on the balance-sheet.

Accrued Liabilities

1. Interest, taxes, wages, etc., which have accrued to the end of the period under review but are not due and payable until a later date, are grouped on the balance sheet under "accrued liabilities." Special attention is directed to the following liabilities:

2. *Interest payable.* Make inquiries to ascertain whether provision has been made for interest due or accrued. See that interest on bonds and notes payable has been provided for and give consideration to the possibility that interest may be payable on past-due book accounts, on loan accounts of officers or directors and on judgments. overdue taxes and other liens.

Schedule, page 207.

Judgments, overdue taxes and the like, may also bear interest. The auditor should ascertain whether or not any such accounts exist, and, if so, should compute or verify the amount of interest thereon.

3. *Taxes.* Ascertain the amount of accrued federal, state and local taxes including any liability for taxes withheld. In the case of some local taxes it may be necessary to inquire of the taxing authority as to the period for which taxes accrue. Determine the present situation relative to federal income taxes for the current and prior years, i.e., what years have been examined, and what years have been finally closed. If there are in dispute any items of material importance on which a difference of opinion exists, adequate provision should be made or the situation should be disclosed in a footnote to the balance-sheet, failing which reference should be made in the accountant's report.

Schedules, pages 205, 206 and 208.

The calculation of accrued taxes should be scheduled, and tax payments made during the year should be shown, with a sufficient description to indicate the character of tax and the period covered. Vouchers or receipted bills for all taxes paid should be examined. The taxes paid and the taxes accrued should be agreed with the ledger account.

4. *Salaries and wages.* If the date of the balance-sheet does not coincide with the date to which the last payroll of the period under review has been computed, ascertain the amount accrued to the date of the balance-sheet. Inquiries should also be made as to any profit-sharing or bonus plans.

Schedule, page 205.

5. *Traveling expenses and commissions.* See that provision has been made for unreported expenses of traveling salesmen and for accrued commissions.

6. *Legal expenses.* Provision should be made for any accrued liability for legal expenses.

The auditor should give special attention to bills for services, for although the bills may be dated some time in the new period the services were almost certainly rendered during the period under audit. An important source of information on liabilities for services is the minute book, particularly in the case of legal, engineering or other professional charges. Cases have been known in which legal fees, sufficiently large to have an important bearing on the financial position of the company, have not been shown in any company record except the minute book until they were paid. As in the case of most other charges for services, they were incurred and the benefits received long before payment was made.

7. *Damages.* Inquire if there are any claims or suits for damages not covered by insurance; if any evidence is found indicating such liability, obtain information on which to base an opinion as to the amount that should be set up as an accrued liability or as a reserve against probable loss.

Notes Payable

1. Obtain or prepare a schedule showing the dates and amounts of notes payable, interest rates, due dates, names of

payees, collateral, endorsers and interest accrued to the date of the balance-sheet.

Schedule, page 202.

2. See that the schedule agrees with the notes-payable book and with the balance of the notes-payable account in the ledger.

3. Confirm notes payable by obtaining from all banks in which the company maintains balances and from all note-brokers with whom the company transacts business statements of notes and drafts discounted or sold and not paid prior to the date of the balance-sheet and details of collateral held, endorsements, etc. Check the schedule with these statements. Confirm other notes payable recorded on the books, if important in amount.

Schedule, page 175.

The auditor ordinarily should have confirmation letters prepared and sent to holders of the company's notes. An exception would be a company issuing notes through a broker: in this case a single certificate from the note broker would constitute a satisfactory verification of the notes outstanding. As rapidly as the certificates or confirmations are received the items on the list of outstanding notes covered thereby should be checked off. Interest payments, discount, etc., should be scrutinized to make certain that such items do not relate to any notes not entered in the books.

One method of proving interest payments and discount is to add columns, in which these items may be entered, to the schedule on which notes payable are listed. This facilitates checking interest paid or accrued and when agreed in total with the ledger account proves that all items of interest and discount have been applied for specific obligations.

All collateral pledged for notes outstanding should be confirmed. The holders of the notes or the brokers through whom the notes were sold should be asked, when they confirm the existence of the notes, to specify any collateral held. Any securities or other property so pledged should be referred to in the balance-sheet prepared for certification. A simple pro-forma letter requesting a certificate for notes payable is as follows:

....

....

Gentlemen:

To assist in the usual annual audit of our accounts will you please notify our auditors, Kean, Swift & Co., of the extent of our liability to you as of .... 19........ Kindly show each note separately giving due date, interest accrued and date interest is payable and state what security for the notes, if any, is deposited with you.

Your compliance with this request will be appreciated.

Yours very truly,

....

Secretary or Treasurer

The standard bank confirmation form prepared by the American Institute of Accountants provides for the report of loans made by banks and for these loans no other form of confirmation is required (see schedule, page 175).

Whether or not the requests for all such letters of confirmation will be written by the client or will be prepared by the auditor and approved by the client is of little importance and may depend upon circumstances; usually, perhaps, such requests will be prepared by the client.

It is important that the auditor, when verifying notes payable, ascertain what is necessary to make notes valid, i.e., what officers are authorized to sign notes. If it is found that a single officer may sign notes, it should be reported to the person in charge of the audit in order that the matter may be taken up with the client or included in the report.

Notes payable for other than merchandise, supplies, or current loans, when the amount is significant, should be shown separately under current liabilities rather than included with other current trade liabilities. The verification of such notes would be similar to that of trade notes payable. As it is the general rule to include in current liabilities all amounts which are payable within one year, a funded debt maturing and to be retired within the coming year should be shown separately under current liabilities.

4. See that there is an adequate control of notes payable and ascertain, preferably by examination of the canceled notes, that notes paid during the period have been properly discharged. An analysis of the interest account may provide additional information regarding interest-bearing liabilities.

5. Hypothecation of any of the company's current assets or investments as collateral for notes payable or other liability should be noted on the balance-sheet.

6. Notes payable to affiliated companies and to stockholders, directors, officers and employees should be shown separately on the balance-sheet.

Contingent Liabilities

1. Make inquiries relative to the existence of contingent liabilities. Such liabilities will usually be of the following nature:

2. *Notes receivable discounted.* (See procedure suggested under notes receivable.)

3. *Indorsements and guaranties.* Ascertain from responsible officers of the company whether any indorsement of unrelated paper or any guaranties have been made and if so what security has been received to protect the company. This inquiry is especially necessary if it is known that any of the officers are interested in other enterprises.

4. *Judgments.* Any liability for judgments not appearing on the records of the company may be discovered by searching the public records; but this is within the province of lawyers, not of accountants. Many business men will not permit entry in their books of a judgment from which they intend to appeal, and it becomes difficult for the accountant to find any evidence of such a liability except by inquiry of responsible officials. Make such inquiries. If any liability exists, though not finally determined, appropriate mention of the facts should be made in a footnote to the balance-sheet.

5. *Unfulfilled contracts.* Where the nature of the business requires large purchase orders for future delivery ask for copies of such purchase orders. If the contract prices are higher

than market prices and the purchase contracts are not protected or only partly protected by firm sales orders, it may be necessary to set up a reserve for possible loss.

6. *Damages.* There may be claims or suits for damages not covered by insurance or by reserves provided therefor. If evidence is found indicating a liability of this nature, request full information so as to be able to form an opinion as to the amount which should be stated as a contingent liability.

7. *Liability for real-estate bonds and mortgages.* Investigate the possibility that any liability may result from the sale by the company of property subject to mortgage. If property subject to a mortgage has been sold there may be a contingent liability under the bond unless the mortgage has been satisfied, the satisfaction recorded and the bond canceled.

8. Notation should be made on the balance-sheet relative to contingent liabilities where the amounts involved are or may become material. In case of claims, litigation and other matters involving a legal determination it may be advisable for the accountant to obtain information, preferably in writing, from the company's legal advisors as to the probable extent of the liability.

The certificate of liabilities which should be obtained from executives of the company does not relieve the auditor of his responsibility but merely serves as an additional evidence that liabilities are not being knowingly concealed.

Liabilities in General

In endeavoring to see that all liabilities are reflected in the balance-sheet, the accountant should not go to the extreme of providing meticulously for every minor item that he happens to discover. There will always be overlapping items between years, which have no important bearing on the accounts. His function is to see that liabilities ascertainable by a reasonable examination are included in the balance-sheet.

Contingent liabilities are apt to be numerous in large companies. In the ordinary course of business there is frequently a large number of outstanding claims or suits for damages and commitments of various kinds. It is often very difficult, if not impossible, to determine the amount in money that may be involved, since the nominal amount of a suit is no measure

of the maximum amount that may have to be paid. It is generally recognized that such conditions exist and it is only necessary to refer to major or unusual situations. In case of claims, litigation and other matters involving a legal determination it may be advisable for the accountant to obtain information, preferably in writing, from the company's legal advisors as to the probable extent of the liability.

Trade accounts payable are created by contracts for the purchase of goods or services by the company and are generally evidenced by bills received after or at the time the goods are received or the services rendered. The bills should be attached to approved vouchers.

Accrued liabilities are amounts computed by the company for which bills may or may not be rendered and include accrued payrolls, taxes, interest and similar items. These items are generally shown separately in the balance-sheet under good accounting practice and the rules of the Securities and Exchange Commission. Whether several accrued liabilities should be grouped as one item or whether they should be shown separately depends upon the amount and importance of each item.

CHAPTER X

CAPITAL STOCK AND FUNDED DEBT

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

1. In the case of companies which issue their own stock, examine the stock records and stock certificate books to ascertain the amount of capital stock outstanding. See that the company is complying with the requirements of laws imposing transfer taxes.

If the transfer department of the company is so well organized and operated that serious error or fraud is unlikely, the auditor's examination might, as in other cases where internal check is involved, extend no further than is required to satisfy himself of these facts. For smaller companies or those having a relatively small number of stockholders, it may be necessary to examine the stock registers and the stock certificate books, and to prepare separate schedules of the common stockholders and of the preferred stockholders somewhat as follows:

XYZ COMPANY 7% CUMULATIVE Preferred Stock — Authorized and Issued $500,000.00, Par $100.00

In name of	Certificate No.	Number of shares	Remarks

Under "remarks" it should be stated whether or not the certificates have been receipted for, etc. In some cases it may be desirable to list all certificates, showing those which have been canceled (in the first two columns only) as well as those outstanding. The total of the "number of shares" column must account for all outstanding certificates and for the total capital as reflected in the balance-sheet.

When the stock is issued by the company itself the auditor should either satisfy himself that the company's internal organization is such that serious error is unlikely or he should compare the stock registers and stock certificate books with the lists of outstanding stockholders and should see that proper transfer-tax stamps have been purchased, attached to the documents and canceled. This frequently involves consultation with the client's legal counsel.

In examining the certificate books the auditor should observe whether or not all canceled certificates are pasted back into the certificate book and are marked "canceled." The canceled stock certificates are usually not pasted back into the certificate book in the case of larger companies having active stocks; these larger companies, however, ordinarily have transfer agents and registrars and the auditor has little reason for seeing the stock certificate books.

2. If a trust company is the registrar of the capital stock, obtain from the registrar and/or transfer agent a certificate as to the number of shares of capital stock issued and outstanding.

Schedules, pages 208 and 209.

Letters should be obtained from the transfer agents and registrar certifying to the capital stock outstanding, which should show separately the number of shares of each kind of capital stock outstanding, whether of par value or no par value.

3. If any stock has been sold during the period under review see that the cash or other consideration for which the stock was issued was in accord with authorization of the directors. Make inquiries as to the existence of any stock options, warrants, rights or conversion privileges. If any exist, details should be given on the balance-sheet.

The proceeds from the sale of the stock, whether cash or property, should be accounted for, so far as it is possible for the auditor to do so. In a first audit, the capital-stock account, like the property and surplus accounts, should be completely analyzed from the beginning of the business or for a reasonable period of time. The auditor should determine how the capital stock was set up in the books in the beginning—that is, whether or not property or cash, etc., was received for it—and he should record in his working papers all important changes in the account from that date. (See schedule, page 208 and Report on Audit, page 37.)

A schedule should be prepared in case changes in the capital stock have taken place during the year, showing (a) the shares and book value of the stock outstanding at the beginning of the period, (b) the additional issuance (including the date of issue, the number of shares issued, the par value of the shares issued, and the amount and kind of property received), (c) the shares redeemed or canceled during the year, and (d) the capital stock outstanding as of the close of the period under audit. The auditor should verify the proceeds of the sale of additional stock, tracing the cash into the cashbook and bank, or satisfying himself that the physical property has actually been transferred to and received by the corporation.

4. If stock has been subscribed on an instalment plan ascertain whether or not any payments are in arrears. If special terms have been extended to any stockholder, examine the minutes of the board of directors to see that such terms have been approved.

A schedule of such instalment sales may be prepared somewhat as follows:

XYZ Company—Instalment Sales—Common Stock

Sold to	No. of shares common	No. of instalments	Total par value	Premium or discount (red)
Silas Marner	200	5	$20,000	None
Totals	10,000		$1,000,000	None

DECEMBER 31, 19—

Amount each instalment	Instalments Paid 12/31/	Instalments Unpaid 12/31/	Total amount unpaid	Instalments paid in full and stock issued	Remarks
$4,000	3	2	$8,000	4/5/	
$200,000					

The total amount of unpaid instalments should be proved by checking against the subscription lists.

5. The capital stock or stated capital should be shown on the balance-sheet in accordance with the statutes of the state under the laws of which the corporation is organized, the articles of incorporation and the corporation's minutes. It should be borne in mind that the laws of most states have special provisions relative to the acquisition of treasury stock by a corporation.

6. Each class of stock should be stated separately on the balance-sheet, with the amount authorized, issued and outstanding and the par value per share. If the stock is of no par value the stated or assigned value per share, if any, should be shown and the redemption price or the amount of preference upon liquidation. If any stock of the company is held in the treasury it should preferably be shown as a deduction from capital stock or from surplus or from the total of the two, at either par or cost, as the laws of the state of incorporation and other relevant circumstances require. If it is included on the asset side of the balance-sheet the circumstances justifying such treatment should be indicated in the caption or in a footnote to the balance-sheet.

In scheduling treasury stock the auditor should begin with the balance as per the general-ledger trial balance at the beginning of the period under audit. Certificates of stock on hand at the close of the year should be verified by inspection. The sales and purchases of the period should be supported by brokers' advices and by cash-book entries.

Good current accounting practice is indicated by the rule of the Securities and Exchange Commission in the instruction book for form 10K which reads:

> "Reacquired stock (treasury stock) is preferably to be shown as a deduction from capital stock or from either the total of capital stock and surplus, or from surplus, at either par or cost, as circumstances require."

There may occasionally be circumstances which would justify showing treasury stock on the assets side of the balance-sheet as, for instance, the purchase of stock for resale to employees. In these somewhat rare situations a full explanation should be given either on the face of the balance-sheet or as a footnote.

7. The total amount of dividends or the dividends per share on outstanding cumulative preferred stock which are in arrears should be stated on the balance-sheet. All dividends declared but not paid at the date of the balance-sheet should be included in the current liabilities.

Funded Debt

1. Obtain from the trustee a statement of the amount of bonds outstanding, in confirmation of the liability shown on the balance-sheet. Check the accrued liability for interest on outstanding bonds, and reconcile the relative interest expense taken up in the profit-and-loss account.

Schedules, pages 207 and 208.

The audit of funded indebtedness involves the preparation of a schedule summarizing all funded indebtedness outstanding and separate schedules for each issue of bonds or other long-term indebtedness (see schedule, page 207).

2. Examine bonds redeemed during or prior to the period under review to see that they have been properly canceled, or, if they have been destroyed, the statement obtained from the trustee should show the net amount outstanding.

3. Ascertain the sinking-fund requirements of the bond indenture and see that due consideration has been given to

them. Any default in the interest or sinking-fund requirements that may exist should be mentioned on the balance-sheet.

4. Give consideration to any other important stipulation of the trust indenture concerning the accounts. Trust indentures, for example, sometimes stipulate that current assets shall be maintained at a stated amount in excess of current liabilities.

5. Check the liability on account of mortgages or other liens so far as the company's records afford data. Confirm the amounts shown by the books of account and the interest rates, due dates, etc. This may be accomplished by obtaining certificates from the mortgagees.

6. The balance-sheet should show the amount of bonds issued and in treasury or sinking funds, and also the rates of interest and the dates of maturity or, in the case of serial bonds, the annual or periodical maturities. Serial bonds, notes and mortgage instalments due within one year should be separately disclosed and if material should be included with the current liabilities.

The balances of each issue at the beginning and at the end of the fiscal period should be agreed with the general-ledger trial balance figures, and all transactions relating thereto should be fully accounted for in the working schedules. When bonds are purchased and canceled the auditor should see the cremation certificate or the canceled bonds or should obtain a letter from the trustee concerning the disposition of the bonds. When bonds are called the holders may not all turn them in promptly to the trustee, and the bonds in the possession of the trustee may be held until a sufficient number have been received to make it convenient to cremate them.

It is important to show in the balance-sheet or by means of an exhibit attached thereto, the various maturity dates of bonds and mortgages, for such facts are of great interest to bankers or other credit grantors.

In verifying treasury bonds the auditor should begin with the balance as per the general-ledger trial balance at the beginning of the period under audit. He should analyze in detail the additions of the year, seeing that each debit to the general-ledger account is fully explained. The purchases should be entered at cost price. Both the par value and the purchase price of all acquisitions of the year should be shown and entries adjusting treasury bonds to par should be checked.

Credits to this account will ordinarily consist of bonds delivered to the trustee for cancellation. Any other credits should be carefully investigated. Under present practice, particularly if the company is listed on a securities exchange, it is unlikely that treasury bonds will be resold, since there are several rules of the Securities and Exchange Commission which would make this difficult. If there are such sales the circumstances should be fully explained.

The bonds held at the time of the audit should be verified by inspecting the bonds on hand and in the treasury. In case the bonds were not counted at the same time as the cash and other securities at the close of the fiscal period, the cashbook should be scanned for any entries to this account between the close of the period under audit and the date of the actual count or examination. Broker's advices should be inspected in order to support the cashbook entries. By adding to the bonds on hand at the date of the count those retired or canceled since the close of the period under audit, and then deducting the purchases since that date, the bonds on hand at the close of the period under audit may be determined.

In the balance-sheet the item of treasury bonds should be stated separately; it is usually shown as a short-extension in the balance-sheet and is deducted at par from the outstanding bonds. In case a company's own bonds are held in other special funds, such as pension funds, insurance funds, sinking funds for other bond issues, and the like, they need not be deducted from the total bonds outstanding but should be valued as any other fund investments. However, since it is the purpose of a balance-sheet to show a company's relation to the outside business world it is preferable to deduct true treasury bonds from the total issued bond indebtedness, thus showing the net funded debt outstanding.

This chapter has outlined briefly the procedure in verifying two of the most important items in the balance-sheet: capital investment and funded indebtedness. To the inexperienced auditor it may seem that because the entries to these accounts are relatively few the verification is correspondingly unimportant—such an opinion is entirely wrong. Some very large defalcations, and manipulations as well, have been accomplished by tampering with the capital accounts, and every reasonable precaution should be taken by the auditor in his examination to assure himself that all transactions are regular and proper.

CHAPTER XI

SURPLUS, RESERVES AND PROFIT-AND-LOSS STATEMENT

(All matter in bold-face type is quoted from the American Institute of Accountants bulletin "Examination of Financial Statements by Independent Public Accountants")

1. Analyze the surplus accounts for the period covered by the examination. Reconcile the opening balance with the surplus shown in the previous balance-sheet and consider the propriety of the entries made in the surplus account.
Schedule, page 210.

In a first audit the client should be asked to provide the auditor with an analysis of the surplus account from the organization of the business to the beginning of the audit, or for a reasonable period of time. Such a statement will give the auditor a good bird's-eye view of the past operations of the business and will also serve as a check on the property account in so far as surplus adjustments may have been made to that account. (See Report on Audit, page 38.)

For the current audit, all charges and credits to surplus should be analyzed and their nature clearly indicated in the working papers. Small items which may be theoretically justified as surplus adjustments are, for convenience, often treated as miscellaneous income or expense, since it is required by the Securities and Exchange Commission and good general accounting practice to show in reports to stockholders or third parties the amount and nature of transactions handled directly through the surplus account. Obviously it is undesirable to obscure the explanation of amounts of real importance by the inclusion of items of insignificant amount.

The auditor quite frequently finds that adjustments made in the preparation of the previous balance-sheet have not been taken up in the client's books. This is particularly true in the case of the surplus and of the property and plant accounts, though not infrequently it applies to other accounts also. Until one has given thought to the problem and learned by experience how to treat it he may have difficulty in making up the accounts correctly. It is necessary to adjust the client's books to the figures which the auditor believes indicate the real situation and which he is willing to certify. The exact form such adjustments shall take is not the important point; the following is perhaps as clear and satisfactory as any:

SURPLUS ACCOUNT, DECEMBER 31, 19—

Balance, per client's books, beginning of year (date)		$
Auditor's adjustments not taken up:		
Credits:		
A (being cross-indexed to the	$	
B adjusting journal entries)		
C		
Etc.		
		$
Debits:		
X (as above)	$	
Y		
Z		
Balance, per auditor's working papers, beginning of year		$
Current additions and deductions:		
(properly explained and supported by subsidiary schedules, journal entries, etc.)		
Balance, per balance-sheet, close of year (date)		$

Each item appearing in the foregoing statement should be properly supported by and cross-indexed to subsidiary schedules, adjusting journal entries, etc., in order that the statement may be made clear to anyone who may read it.

2. Check by reference to the minutes of directors' meetings the dividends declared or paid during the period under review. If stock dividends have been distributed, ascertain that the treatment on the books is in accordance with the minutes. Adequate disclosure should be made.

Schedules, pages 210 and 211.

3. Where practicable the nature of the surplus should be shown on the balance-sheet divided under principal classifications such as:

(a) Earned surplus (or deficit).

(b) Capital or paid-in surplus.

(c) Surplus arising from revaluation.

If there are any restrictions on the surplus by reason of state laws, charter provisions, etc., such as in the case of reacquired shares, the nature of the restrictions should be indicated.

The discussion of surplus in the instruction book to form 10K prepared by the Securities and Exchange Commission deals somewhat differently with the question of showing surplus in the balance-sheet:

"Show in the balance-sheet the division of this item into (a) paid-in surplus and/or (b) other capital surplus; and (c) earned surplus; however, if, in the accounts, separate balances for these are not shown at the beginning of the fiscal year, i.e., if the company has not, up to the opening of the fiscal year, differentiated in its accounting for surplus as indicated above in (a) and/or (b) and (c), then the surplus may be stated in one amount.

"An analysis of each surplus account for the fiscal year, as shown in schedule IX, shall be given in the balance-sheet, or as a continuation of the profit-and-loss statement, or in a schedule referred to in the balance-sheet."

In any case there remains the necessity of classifying the elements of surplus as they were charged and credited in total to the surplus account under review. In cases in which it is not considered practicable to allocate specific charges to surplus against specific credits, which would result in net balances of earned, capital or other surplus, the gross transactions should be shown as they occur.

Surplus accounts prepared on this basis have been accepted by the Securities and Exchange Commission and representative corporations issue annual reports to stockholders showing a total balance of surplus at the beginning of the year and additions and deductions during the period.

The auditor must, therefore, be familiar with all the different types of surplus, whether he is to show these gross as the transactions occur or whether he is to attempt to maintain the identity of different types of surplus. Circumstances in particular cases will dictate the method of presenting surplus account. The wide latitude allowed by the Securities and Exchange Commission and current accounting practice increases, rather than diminishes, the auditor's responsibility for the statement of the surplus account.

4. The balance-sheet should show as "surplus arising from revaluation," or by some similar title, any credit resulting from increasing the book value of capital or other assets by revaluation, whether on the basis of independent appraisal or otherwise.

5. Unrealized profits should not be credited to income account either directly or indirectly, by charging against such unrealized profits amounts which would ordinarily be chargeable against income account. Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. An exception to the general rule may be made in the case of inventories in industries (such as the packing-house industry) in which it is a trade custom to take inventories at net selling prices which may exceed cost.

6. Intercompany profits on sales of securities or other property should not be taken into the consolidated surplus account until realized by sale outside the group of affiliated companies.

7. Capital surplus, however created, should not be used to relieve the income account of the current or future years of charges which would otherwise require to be made against income. This rule might be subject to the exception that where, upon reorganization, a reorganized company would be relieved of charges which would require to be made against income if the existing corporation were continued, it might be regarded as permissible to accomplish the same result without reorganization provided the facts were as fully revealed to and the action as formally approved by the stockholders as in reorganization.

8. Earned surplus of a subsidiary company created prior to acquisition does not form a part of the consolidated earned surplus of the parent company and subsidiaries; nor can any dividend declared out of such surplus properly be credited to the income account of the parent company.

9. If capital stock is issued nominally for the acquisition of property and it appears that at about the same time, and pursuant to a previous agreement or understanding, some portion of the stock so issued is donated to the corporation, it is not permissible to treat the par value of the stock nominally issued for the property as the cost of the property. If stock so donated is subsequently sold, it is not permissible to treat the proceeds as a credit to surplus of the corporation.

Profit-and-Loss Statement—General

1. Analyze the profit-and-loss account for the period and obtain or prepare a working profit-and-loss statement in as much detail as is readily available. The extent of the examination to be made is dependent upon the classification of the accounts and the factors outlined at the beginning of section II, of the bulletin. The accountant should satisfy himself that the income received and the expenditures made are properly classified insofar as the facts are known to him or ascertainable by reasonable inquiry.

2. The profit-and-loss statement should be prepared so that it will be reasonably informative. It is usually helpful to obtain corresponding figures for one or more preceding years for comparative purposes as an aid in ascertaining and

inquiring into unusual items during the year under review. The budgets adopted by the company and monthly financial statements, where available, should also be obtained for comparison with the annual results. Determine so far as possible that the company has applied its accounting principles consistently throughout the period and see that adequate explanation is made in the profit-and-loss statement of any departure from such principles.

3. A satisfactory form of profit-and-loss statement is given in Report on Audit, Chapter XIII, page 9, but any other form giving similar information may suffice. Conditions vary so widely that it is not practicable to submit a program for the examination of the profit-and-loss statement. Certain suggestions only are given relative to the individual classifications.

Reserves

1. Analyze all the reserves to determine the changes during the period, whether they be reserves deducted from the respective assets or shown on the liability side of the balance-sheet. Give careful consideration to the accounting practices of the company in setting up reserves and in making charges against them.

Schedules, pages 180, 200, 208, 224 and 225.

The term "reserves," as commonly used in balance-sheets may cover three different types of item; first, the valuation reserve measuring the exhaustion or decline in value of a specific asset; second, the reserve providing for a specific liability or group of liabilities known to exist but not yet definitely reduced to an account payable, the amount of which may or may not be exactly determinable; and third, the reserve which represents a segregation or appropriation of surplus for a specified or unspecified purpose to be carried out in the future.

The first type of reserve, of which reserve for depreciation and reserve for bad debts are examples, merely "measures the hole" in some asset and is generally deducted from the asset on the face of the balance-sheet. In the ledger the reserve account is carried separately from the asset account as the reserve is, to some extent at least, an estimate and the facts are more clearly shown when the entries to the reserve are kept separately from those affecting the asset.

Reserve for workmen's compensation, when the company is a self-insurer, is an example of the second type of reserve. Under modern practice most reserves of this type are shown under accrued liabilities.

The third type of reserve, the segregation or appropriation of surplus, is in general a statement of the company's present intention to make certain expenditures or provisions in the future. Typical of such reserves are:

Reserve for contingencies
Reserve for working capital
Reserve for plant expansion

The reserve accounts almost universally found in balance-sheets are the reserve for depreciation and the reserve for bad debts. These reserves should be deducted from their contra asset accounts, and in this volume have been discussed with the cost of properties and the accounts receivable, respectively. It will be unnecessary, therefore, to discuss them further in this chapter.

Other generally so-called reserves which have become more or less common in American balance-sheets are:

Reserve for sinking fund
Reserve for insurance (subdivided)
Reserve for loss on exchange
Reserve for depreciation of inventories
Reserve for unrealized intercompany profits on inventories
Reserve for depreciation of securities
Reserve for goodwill and patents
Reserve for loss on commitments

There are other reserve accounts that might be named, but the above group illustrates the types of reserves the auditor may ordinarily expect to find in general-ledger trial balances presented to him. A reserve can be placed in the ledger for any purpose desired, merely by charging operating income or surplus and crediting the desired reserve account. In auditing one company more than forty such reserves were found in the books of account. The above list of reserves does not include appropriated surplus under such headings as reserve for working capital or reserve for capital additions.

2. If the general or contingency reserves are of sufficient importance in comparison to the financial position or earnings of the company, it may be desirable for the company to include with its financial statements a summary of changes in reserves during the period.

Reserves should be analyzed and reasonably full schedules of all changes should be prepared. This is necessary not only for proper statement of the accounts to stockholders and management, but a schedule of the additions and charges to each reserve account is required by the Securities and Exchange Commission (see schedule VII, form 10K, page 302).

The auditor should be particularly careful in analyzing reserves to inquire into the propriety of the charges to them as well as the adequacy of each reserve to cover the contingency or liability for which it was created.

Profit-and-Loss Statement

Reasonable substantiation of a condensed income account or profit-and-loss statement is usually not difficult whether in a large or a small company, and a great part of the work will already have been done in making the examination of the balance-sheets at the beginning and end of the period. The separation of sales and deductions from sales, the determination of cost of sales and the classification of the various expenses and charges, however, are sometimes difficult in the case of a large company; and a good deal of reliance must necessarily be placed on the internal accounting classifications and control. Overhead is frequently distributed between

operations or products or even between plants and this may make it difficult, if not impracticable, for the accountant to classify the summarized profit-and-loss statement in any greater detail than that followed by the company in its internal statements or to obtain the data necessary for that purpose from the underlying records. It is most important that the accountant obtain a thorough understanding of the accounting principles and classifications adopted by the company before making his examination of the profit-and-loss statement. It will then be necessary for him to use his judgment to determine the relative importance of the different items and the amount of detailed checking which he considers necessary.

The statement of profit and loss (see pages 13 and 39, Report on Audit, Chapter XIII), should show, ordinarily, the gross returns and net returns from sales (or these may be shown in a supporting schedule), the cost of production, the gross profit of the period, the expenses of selling and administration, miscellaneous income and expense and the net profit and income of the period. A statement of additions to and deductions from the surplus account may be included in the balance-sheet or it may be appended to the periodical statement of profit and loss, in order that the surplus as shown in the balance-sheet as of the close of the fiscal period may be fully explained and reconciled with the surplus at the beginning of the period (see page 13, Report on Audit, Chapter XIII).

Figures for Federal or state income-tax returns may generally be prepared from the totals of the classification of accounts (see page 169). While the determination of differences, such as those arising from different methods of treating depreciation or inventories, exclusion of capital losses, exclusion of non-taxable income and similar items, may be matters of some detail and difficulty, the actual application of the results of these adjustments is comparatively simple. In some instances the figures appearing as a total of a column in the classification of accounts should be adjusted. In other cases, particularly when the income is stated by processes or departments rather than by the nature of the expense, a new distribution of the trial balance may be a simpler method. When it is known that differences will exist between tax returns and the statements of the company, these differences should be provided for in advance in the detailed schedules supporting the profit-and-loss items.

In the case of a company of limited size or one having a highly restricted system of internal check and control a more detailed examination than that outlined may be necessary to determine the substantial accuracy of the profit-and-loss statement. This may take the form of a more extensive test of vouchers, a test of the payrolls and an analysis of expense accounts or such other procedure as the accountant believes will be most effective in the particular circumstances. As the financial statements as a rule are not intended for wide distribution, more details are usually included in the profit-and-loss statement.

The statement of profit and loss, as shown on page 13, Report on Audit, Chapter XIII, is further detailed in the working papers following. Frequently the income statement is prepared in comparative form—which is desirable—and percentages may also be shown. Ordinarily, in the use of percentage statistics in the statement of profit and loss, net sales should represent 100%, although occasionally a more significant comparison may be obtained by considering gross sales 100%.

If it is desired to make a complete analysis of the items included in the profit-and-loss statement, schedules may be prepared analyzing the account in its various components by providing a column for each type or class of transaction. Only occasionally would such schedules be prepared except, perhaps, for specific accounts which the auditor desires to have thoroughly analyzed and verified.

Sales and Cost of Sales

1. Whenever the necessary statistics are available it is desirable to reconcile the quantities of the principal products sold with the production or purchases during the period, taking into consideration the inventories at the beginning and end of the period.

2. Ascertain by reference to the shipping records that the sales books were closed as of the last day of the period, and that no goods shipped after that date are included in the sales of the period. When a first examination is made it is well to ascertain similarly that the sales at the beginning of the period were recorded in accordance with the dates of shipment.

3. Allowances to customers for trade discounts, outward freights, reductions in price, etc., should be deducted from gross sales. It is sometimes difficult to distinguish between deductions from sales and selling expenses, and the classification adopted by the company should be accepted if reasonable and consistently applied. Price concessions, allowances and discounts are sometimes treated differently in the same trade or business. The net sales figure, after making such deductions from the gross volume of business recorded on the books, should be shown in the profit-and-loss statement, unless undesirable for trade reasons. Inquire as to the methods adopted to safeguard credits to customers for returned merchandise, claims, rebates, etc. Make a test examination to find out if the procedure is being followed.

Schedule, page 225.

4. Cost of sales includes all the costs in connection with buying and producing goods sold. Write-downs of inventory to market prices at the end of the period may have a material effect on the percentage of gross profit to sales, and where such write-downs result from general business conditions rather than from the buying or production policies of the company, it may be desirable to show them separately. See that interdepartmental profits and, in the case of consolidated statements, intercompany profits are eliminated; if this is impracticable, the reason should be stated. If the accountant is in doubt as to the adequacy of the current provision for depreciation he should make suitable comment in his report.

Schedules, pages 213, 214 and 327.

Gross Profit on Sales

Gross profit on sales is ascertained by deducting cost of sales from net sales. Compute the ratio of gross profits to net sales; compare it with that of previous years, and make inquiries to account for any marked variation.

Report on Audit, Chapter XIII, page 39.

Selling, General and Administrative Expenses

Examine the ledger accounts for selling, general and administrative expenses to see that they are properly classified and that credits which should be shown elsewhere are not improperly deducted. Extraordinary items of material significance should be shown separately.

Schedules, pages 215 and 216.
Report on Audit, Chapter XIII, page 44.

Net Profit on Sales

Net profit after deducting expenses but before other income and other charges is usually a significant figure, and determination of percentage to sales and comparison with previous years is desirable.

Report on Audit, Chapter XIII, page 2.

Other Income

Income derived from sources other than sales, such as income from investments, interest, discounts, etc., should appear under the heading "other income." The accountant should assure himself of the propriety of including each item as income. If there is extraordinary income of a material amount, proper disclosure should be made. If stock dividends received have been included as income, that fact as well as the basis on which they have been taken up should be indicated. If the company holds any of its own capital stock in its treasury dividends thereon should not be treated as a credit to the income account.

Schedule, page 214.

Other Charges

Interest charges on funded debt, notes payable and other obligations, losses on securities sold and other non-operating or extraordinary charges are usually detailed under the heading "other charges." Investigate these generally and see that they are properly included under this heading rather than as cost of sales or expenses. Provision for income and capital-stock and excess-profits taxes may be included here or deducted as a separate item in the profit-and-loss statement. Minor surplus adjustments affecting prior periods are preferably included under this caption since it is impossible to close the accounts of any one period without continual overlapping of miscellaneous income and expense items.

Chapter XII

WORKING PAPERS FOR AN INDIVIDUAL COMPANY

The form and content of the working papers and schedules required in an audit of a hypothetical company, the Ashton Metal Products Company, are described in this chapter, as well as the accounts of one of its subsidiaries, Fulton Railway Company and two other hypothetical companies, the Cool-Aire Service Corporation and the Sellburk Mercantile Company, and the supposititious Estate of Hugh Wynne. The working papers and schedules shown as illustrations are as follows:

Ashton Metal Products Company Classification of Accounts—Balance-sheet for Inclusion in Consolidated Accounts

This statement is a classification and analysis of accounts appearing in the trial balance after closing, which is copied on a sheet of working paper in a column immediately following that containing a similar trial balance at the end of the preceding period. The trial balance at the end of the preceding period is used for purposes of comparison, and this and the column headings may be inserted before beginning the audit. As soon as the trial balance is entered, schedules should be prepared for all items on which any information is required for any reason whatever. So far as the classification of accounts is concerned, the principal function of the schedules is to determine the correct distribution under the various asset and liability headings.

Where the trial balance contains more items than can be listed on one sheet of working paper, the remaining items of the trial balance are copied on another sheet and the totals of the distribution on the first sheet are carried forward to the second. The first sheet may be proved without reference to the second, as the net debits and credits of the incomplete trial balance will necessarily equal the net debits and credits of the items as distributed under the various column headings.

When the schedules are completed, which is indicated by the reference, the trial balance may be distributed, and a preliminary balance-sheet before adjustment will be produced, consisting of the totals for the various asset and liability columns. Adjustments are then applied and the resulting totals are either a balance-sheet of the individual company, if the balance-sheet headings are so arranged, or as in this case, the figures required to be carried forward to the consolidated statements.

Ashton Metal Products Company Classification of Accounts—Balance-sheet as an Individual Company

In preparing this statement, the totals of the previous classification of accounts have been used as a basis. In some cases these can be distributed directly, and in others information for distribution is obtained from the book schedules or from summaries of the items included in the balance-sheet headings. These summaries are not shown in detail here, as the information for Ashton Metal Products Company alone would be the same as that included under that company's name on the summaries to the consolidated accounts, pages 320 to 343.

Ashton Metal Products Company Classification of Accounts—Income Account

This is made up in the same general way as the balance-sheet, and consists of the balances of the nominal accounts closed to surplus or profit and loss at the end of the year distributed under the respective income account headings. The item "balance" corresponds with the total income figure per books for the period and, of course, agrees with the similar figure shown on the balance-sheet. There would in this case be no difference between the income account which is carried forward to the consolidated accounts and that which would be used for the company as an individual enterprise.

ASHTON METAL PRODUCTS CO.
BALANCE SHEET - DECEMBER 31ST 1936

		Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	A Cash	B Marketable securities	C Accounts receivable-trade, less reserve	D Metals and manufactured products	E Supplies	F Accounts receivable-officers and directors	G Prepaid expenses	H Discount on debentures
Ashton State Bank and Trust Co. - General	A1	$ 439,285	285,698	285,698							
- Payroll	A5	300	300	300							
Ashton Trust Co. - Time Deposit	A7		10,000	10,000							
Petty Cash	A8	500	500	500							
Accounts Receivable	C1	42,100	40,200			22,700			17,500		
Reserve for Bad Debts	C2	2,105	2,010			2,010					
Brooke Sales Co.	C3	149,755	110,320			110,320					
Coles Manufacturing Co.		104,340	232,150								
Dalton Metal Products Co.		325,450	199,620			199,620					
Ednor Metal Machinery Co.		154,210	120,510			120,510					
Fulton Railway Co.		8,240	5,210								
Accrued Interest Receivable	B1	1,475	725			725					
Marketable Securities	B1	65,850	99,250		99,250						
Finished Goods Inventory	D1	319,540	333,090				333,090				
Goods in Process Inventory	D2	62,170	93,140				93,140				
Raw Materials Inventory	D3	105,280	147,450				147,450				
Supplies	E1	51,390	50,080					50,080			
Land	J1	350,230	350,230								
Buildings	K2	947,220	956,550								
Machinery and Equipment	K2	2,925,940	3,018,605								
Small Tools	K2	14,760	13,710								
Furniture and Fixtures	K2	60,550	63,490								
Automobiles and Trucks	K2	3,980	3,540								
Construction	K2	8,240	10,280								
Reserve for Depreciation	L1	1,632,558	1,657,224								
Investments in Subsidiaries	I1	5,582,600	5,582,600								
Other Investments	I2	281,990	250,890		14,000						
Payroll Advances	C4	190	155			155					
Insurance Unexpired	G1	20,070	22,160							22,160	
Prepaid Expenses	G2	5,320	4,450							4,450	
Debenture Discount and Expense	H1	70,000	50,400								50,400
Patents	M1	10	10								
Notes Payable - Banks	N1	100,000	35,000								
Accounts Payable	O1	257,760	318,158								
Unclaimed Dividends	O3	380	370								
Wages Payable	P1	14,200	12,500								
Dividends Payable		30,000	-								
Taxes Accrued	Q1	11,400	14,200								
Reserve for Federal Income Tax	Q2	13,651	55,000								
Accrued Interest Payable	R1	29,000	24,292								
5% Sinking Fund Debentures	S1	3,200,000	3,200,000								
Debentures Retired	S1	960,000	1,280,000								
Capital Stock - Common	V1	5,482,600	5,482,600								
- Preferred	V1	1,000,000	1,000,000								
Surplus	W1	1,062,171	1,062,171								
Dividends Declared	W2		630,000								
Profit and Loss	W1		627,068								
				$ 296,498	113,250	452,020	573,680	50,080	17,500	26,610	50,400
Adjust inventories to physical - finished goods	D1						10,120				
- goods in process	D2						7,140				
- raw materials	D3						2,200				
- supplies	E1							210			
Repairs charged in error to machinery and equipment (through construction account)	K2										
Reverse depreciation charged on above	L1										
Increase reserve for doubtful accounts	C2					490					
Adjust unexpired insurance	G1									25	
Adjust reserve for Federal income tax	Q2										
Set up reserve for contingencies	T1										
				$ 296,498	113,250	451,530	568,500	50,290	17,500	26,585	50,400

	I Investments	J Land	K Buildings, machinery and equipment	L Reserve for depreciation	M Patents	N Notes payable to banks	O Accounts payable - trade	P Wages and salaries payable	Q Taxes accrued	R Accrued interest	S Debentures	T Reserve for contingencies	V Capital Stock	W Changes in Surplus - 1936: Surplus Dec. 31, 1935	Surplus adjustments year 1936	Dividends paid year 1936	Income year 1936
Ashton State Bank and Trust Co. - General																	
- Payroll																	
Ashton Trust Co. - Time Deposit																	
Petty Cash																	
Accounts Receivable																	
Reserve for Bad Debts																	
Brooke Sales Co.																	
Coles Manufacturing Co.							232,150										
Dalton Metal Products Co.																	
Ednor Metal Machinery Co.																	
Fulton Railway Co.							5,210										
Accrued Interest Receivable																	
Marketable Securities																	
Finished Goods Inventory																	
Goods in Process Inventory																	
Raw Materials Inventory																	
Supplies																	
Land		350,230															
Buildings			956,550														
Machinery and Equipment			3,018,605														
Small Tools			13,710														
Furniture and Fixtures			63,490														
Automobiles and Trucks			3,540														
Construction			10,280														
Reserve for Depreciation				1,657,224													
Investments in Subsidiaries	5,582,600																
Other Investments	236,890																
Payroll Advances																	
Insurance Unexpired																	
Prepaid Expenses																	
Debenture Discount and Expense																	
Patents					10												
Notes Payable - Banks						35,000											
Accounts Payable							284,777	33,381									
Unclaimed Dividends							370										
Wages Payable								12,500									
Dividends Payable																	
Taxes Accrued									14,200								
Reserve for Federal Income Tax									55,000								
Accrued Interest Payable										24,292							
5% Sinking Fund Debentures											3,200,000						
Debentures Retired											1,280,000						
Capital Stock - Common													5,482,600				
- Preferred													1,000,000				
Surplus														1,062,171			
Dividends Declared																630,000	
Profit and Loss																	627,068
	5,819,490	350,230	4,066,175	1,657,224	10	35,000	522,507	45,881	69,200	24,292	1,920,000		6,482,600	1,062,171		630,000	627,068
Adjust inventories to physical - finished goods																	10,120
- goods in process																	7,140
- raw materials																	2,200
- supplies																	210
Repairs charged in error to machinery and equipment (through construction account)			5,280														5,280
Reverse depreciation charged on above				264													264
Increase reserve for doubtful accounts																	490
Adjust unexpired insurance																	25
Adjust reserve for Federal income tax									2,549								2,549
Set up reserve for contingencies												50,000			50,000		
	5,819,490	350,230	4,060,895	1,656,960	10	35,000	522,507	45,881	71,749	24,292	1,920,000	50,000	6,482,600	1,062,171	50,000	630,000	614,018

ASHTON METAL PRODUCTS CO.

BALANCE SHEET - FORM 10-K DECEMBER 31ST 1936

	Per classification of accounts	Cash on hand and in bank	Marketable securities	Notes and accounts receivable - trade	Reserve for doubtful accounts	Metals and manufactured products: Raw materials	Metals and manufactured products: In process	Metals and manufactured products: Finished	Supplies on hand	Due from subsidiaries	Accounts receivable-officers and directors	Investments: In subsidiaries	Investments: Other	Land	Buildings, machinery and equipment	Reserve for depreciation	Patents	Discount and expense on debentures	Prepaid expenses	Notes payable to bank	Accounts payable-trade	Accrued wages	Accrued taxes	Accrued interest	Accounts payable to subsidiaries	Miscellaneous accounts payable	5% Sinking fund debentures	Reserve for contingencies	Capital stock	Surplus
Cash	$ 296,498	296,493																												
Marketable securities	113,250		113,250																											
Accounts receivable - trade, less reserve	451,530			23,580	2,500					430,450																				
Metals and manufactured products	568,500					145,250	100,280	322,970																						
Supplies	50,290								50,290																					
Accounts receivable - officers and directors	17,500										17,500																			
Prepaid expenses	26,585																		26,585											
Discount on debentures	50,400																	50,400												
Investments	5,819,490											5,582,600	236,890																	
Land	350,230													350,230																
Buildings, machinery and equipment	4,060,895														4,060,895															
Reserve for depreciation	1,656,960															1,656,960														
Patents	10																10													
Notes payable - banks	35,000																			35,000										
Accounts payable - trade	522,507																				284,777				237,360	370				
Wages and salaries payable	45,881																					45,881								
Taxes accrued	71,749																						71,749							
Interest accrued	24,292																							24,292						
Debentures	1,920,000																										1,920,000			
Reserve for contingencies	50,000																											50,000		
Capital stock	6,482,600																												6,482,600	
Surplus, December 31st 1935	1,062,171																													1,062,171
Surplus adjustments	50,000																													50,000
Dividends paid	630,000																													630,000
Income	614,018																													614,018
		$ 296,498	113,250	23,580	2,500	145,250	100,280	322,970	50,290	430,450	17,500	5,582,600	236,890	350,230	4,060,895	1,656,960	10	50,400	26,585	35,000	284,777	45,881	71,749	24,292	237,360	370	1,920,000	50,000	6,482,600	996,189

ASHTON METAL PRODUCTS CO.

INCOME ACCOUNT - YEAR 1936

		Per Books Year 1935	Per Books Year 1936	Sales	Cost of sales	Interest and dividends received	Profit on debentures retired	Miscellaneous other income	Selling and general	Loss on plant sold or scrapped	Interest paid	Debentures discount and expense	Depreciation and obsolescence	Federal income tax	Balance
Sales	AA1	$ 4,234,970	4,895,340	4,895,340											
Sales Returns and Allowances	AA1	132,420	172,150	172,150											
Sales Freight	AA1	101,170	124,390	124,390											
Discounts Allowed	AA1	24,920	32,440	32,440											
Steel Purchased	BB1	914,520	1,109,300		1,109,300										
Brass Purchased	BB1	635,770	642,400		642,400										
Direct Labor	P1	820,300	952,370		952,370										
Indirect Labor	P1	323,470	279,330		279,330										
Manufacturing Expense	BB2	199,960	209,973		209,973										
Repair Labor and Expense	BB3	127,330	177,308		177,308										
Office Salaries	EE1	128,000	152,810						152,810						
Commissions Paid	EE2	205,628	236,160						236,160						
Traveling Expense		14,542	16,850						16,850						
Depreciation	L1	302,430	305,495										305,495		
General Expense	EE3	95,950	103,788						103,788						
Interest Paid	R1	118,000	101,500								101,500				
Discount and Expense on Debentures	H1	11,600	10,000									10,000			
Discount Taken		5,370	7,480		7,480										
Miscellaneous Income	DD1	4,380	10,420					10,420							
Dividends Received	B1	69,475	333,770			333,770									
Interest Received	B1	3,950	3,900			3,900									
Gain or Loss on Plant Sold or Scrapped	K6	7,370	38,168							38,168					
Gain or Loss on Debentures Retired	S1	10,390	8,900				8,900								
Change in Inventory:															
Finished Goods	D1	15,640	13,550		13,550										
Goods in Process	D2	10,160	30,970		30,970										
Raw Materials	D3	29,400	42,170		42,170										
Federal Income Tax	Q2	13,651	55,000											55,000	
Balance		155,104	627,068												627,068
				4,566,360	3,276,511	337,670	8,900	10,420	509,608	38,168	101,500	10,000	305,495	55,000	627,068
Adjust inventories to physical:															
Finished goods	D1				10,120										10,120
Goods in process	D2				7,140										7,140
Raw materials	D3				2,200										2,200
Supplies - manufacturing expense	BB2				72										72
- repair expense	BB3				138										138
Repairs charged in error to machinery and equipment (through Construction Account)	BB3				5,280										5,280
Reverse depreciation charged on above	L1												264		264
Increase provision for doubtful accounts	EE3								490						490
Adjust unexpired insurance	EE3								25						25
Adjust Federal income tax	Q2													2,549	2,549
				$ 4,566,360	3,286,761	337,670	8,900	10,420	510,123	38,168	101,500	10,000	305,231	57,549	614,018

ASHTON METAL PRODUCTS CO.

INCOME ACCOUNT CLASSIFICATION FOR FEDERAL INCOME TAX - YEAR 1936

		Per Books (after adjustment) year 1936	Gross sales	Returns and allowances	Inventory-beginning	Purchases	Miscellaneous Costs: Salaries and wages	Miscellaneous Costs: Other costs	Inventory-end	Interest received	Rent received	Capital gain or loss	Dividends received	Other income	Compensation of officers	Repairs: Salaries and wages	Repairs: Other costs	Interest paid	Taxes	Bad debts	Other Deductions: Depreciation	Other Deductions: Salaries and wages	Other Deductions: Other selling	Other Deductions: Other general	Other Deductions: Amortization of debt discount and expense	Other Deductions: Loss on property scrapped	Other Deductions: Net income
Sales	AA1	$ 4,895,340	4,895,340																								
Sales, Returns and Allowances	AA1	172,150		172,150																							
Sales Freight	AA1	124,390		124,390																							
Discounts Allowed	AA1	32,440		32,440																							
Steel Purchased	BB1	1,109,300				1,109,300																					
Brass Purchased	BB1	642,400				642,400																					
Direct Labor	P1	952,370					952,370																				
Indirect Labor	P1	279,330					279,330																				
Manufacturing Expense	BB2	209,901						168,629											41,272								
Repair Labor and Expense	BB3	182,450														101,220	81,230										
Office Salaries	EE1	152,810													100,000							52,810					
Commissions Paid	EE2	236,160																					236,160				
Traveling Expense		16,850																						16,850			
Depreciation	L1	305,231																			305,231						
General Expense	EE3	104,303																	38,398	600				65,305			
Interest Paid	R1	101,500																101,500									
Discount and Expense on Debentures	H1	10,000																							10,000		
Discounts Taken		7,480						7,480																			
Miscellaneous Income	DD1	10,420									9,500	780		140													
Dividends Received	B1	333,770											333,770														
Interest Received	B1	3,900								3,900																	
Gain or Loss on Plant Sold or Scrapped	K6	38,168										397														37,771	
Gain or Loss on Debentures Retired	S1	8,900										8,900															
Change in Inventory:																											
Finished Goods	D1	3,430			319,540				322,970																		
Goods in Process	D2	38,110			62,170				100,280																		
Raw Materials	D3	39,970			105,280				145,250																		
Federal Income tax	Q2	55,000																									55,000
Balance		616,567																									616,567
			4,895,340	328,980	486,990	1,751,700	1,231,700	161,149	568,500	3,900	9,500	9,283	333,770	140	100,000	101,220	81,230	101,500	79,670	600	305,231	52,810	236,160	82,155	10,000	37,771	671,567
Adjust 1936 depreciation per books to tax basis	L2																				3,531						3,531
			$ 4,895,340	328,980	486,990	1,751,700	1,231,700	161,149	568,500	3,900	9,500	9,283	333,770	140	100,000	101,220	81,230	101,500	79,670	600	301,700	52,810	236,160	82,155	10,000	37,771	675,098

Schedules of Book Accounts
Ashton Metal Products Co.

On pages 171 to 216 following are shown schedules supporting the accounts appearing on the books of Ashton Metal Products Company which are designed to indicate the composition of the balances, their distribution on the classification of accounts and the work done in the course of the audit of the items scheduled. These are listed in detail on page 161 and references to them appear in the classification of accounts.

A 1

ASHTON METAL PRODUCTS CO.

CASH RECONCILIATION

DECEMBER 31ST 1936

		Balance Dec. 31, 1935	Receipts	Disburse-ments	Balance Dec. 31, 1936
Ashton State Bank & Trust Co. - General Account					
Per bank statement	A4	$ 443,340	5,063,878	5,204,065	303,153
Deposit of Dec. 31, 1936 credited by bank Jan. 2, 1937, traced to January bank statement			27,830		27,830
Bank contras:					
Returned check redeposited - May			1,630	1,630	
Payroll deposit credited general account in error - February			28,140	28,140	
Checks outstanding:					
Dec. 31, 1935		4,055		4,055	
Dec. 31, 1936:					

Date	No.	Amount
11- 8-36	1136- 57	$ 3,287
12- 2-36	1236- 38	126
12-16-36	1236- 75	10,390
12-23-36	1236-102	3,180
12-26-36	1236-119	12,372
12-26-36	1236-121	9,380
12-30-36	1236-142	1,327
12-30-36	1236-143	398
12-31-36	1236-144	720
12-31-36	1236-146	1,272
12-31-36	1236-147	2,833
		45,285

		Balance Dec. 31, 1935	Receipts	Disburse-ments	Balance Dec. 31, 1936
				45,285	45,285
Per cash book'	A2, A3	$ 439,285	5,061,938	5,215,525	285,698

Receipts for Dec. 29, 30 and 31 checked to bank statement for December.

Checks returned by bank for December checked to cash book.

Checks outstanding at Dec. 31, 1935 are listed in 1935 audit papers. All were paid by bank in January 1936.

All checks outstanding at Dec. 31, 1936 except No. 1236-38 payable to Anerco, Inc. were paid by the bank in January 1937. Payment has been stopped on this check and No. 237-21 was issued to replace it on Feb. 4, 1937 as the first check has presumably been lost in the mails.

Correction notices were seen covering the bank contras.

Note to the reader: The purpose of this schedule is to reconcile the balance as shown by the cash book with the bank statement, and to agree in total the receipts and disbursements as shown by the cash book and as shown by the bank.

A 2

ASHTON METAL PRODUCTS CO.

SUMMARY OF CASH RECEIPTS BOOK

YEAR 1936

	Summary of Cash Receipts Book				Details of Miscellaneous Cash Receipts								
	Total	Brooke Sales Co.	Accounts receivable	Miscel-laneous	Total	Dalton Metal Products Co.	Accrued interest receivable	Marketable securities	Other invest-ments	Notes payable - banks	Dividends received	Miscel-laneous income	Unclaimed dividends
January	$ 525,880	505,000	16,300	4,580	4,580		750		3,730		100		
February	510,318	507,000	2,783	535	535		100				435		
March	424,650	412,000	10,000	2,650	2,650		300				2,350		
April	430,190	425,000	4,350	840	840		600				100	140	
May	447,770	444,000	3,120	650	650		450				200		
June	394,280	366,000	680	27,600	27,600				27,500		100		
July	363,170	362,000	320	850	850		750				100		
August	334,215	333,000	680	535	535		100				435		
September	294,600	130,200	2,150	162,250	162,250	150,000	300				2,450	9,500	
October	301,660	274,500	5,860	21,300	21,300		1,100	20,000			200		
November	401,290	323,600	1,940	75,750	75,750		450			75,000	300		
December	633,915	289,125	17,715	327,075	327,075						327,000		75
Year 1936	5,061,938	$ 4,371,425	65,898	624,615	$ 624,615	150,000	4,900	20,000	31,230	75,000	333,770	9,640	75
Balance December 31st 1935	439,285												
	$ 5,501,223												
	A1	C3	C1				B1	B1	I2	N1	B1	DD1	

Note to the reader: The purpose of this schedule is to analyze cash transactions according to the accounts affected, which are indicated by references at the foot of the various columns. This schedule assumes the existence of a columnar cash book. If such a book is not kept, a further schedule would be prepared, either by the auditor or by the company in which the individual items composing the monthly totals would be compiled. The purpose of this schedule is to arrive at figures to be verified, rather than to indicate any verification work.

A 3

ASHTON METAL PRODUCTS CO.

SUMMARY OF CASH DISBURSEMENTS BOOK

YEAR 1936

	Total	Discount taken	Vouchers payable	Coles Manufacturing Co.	Miscellaneous Account	Miscellaneous Amount
Jan.	$ 511,138	668	350,656	131,150	Dividends payable - preferred	$ 30,000
Feb.	503,215	693	335,224	138,684	Dividends declared - preferred	30,000
Mar.	564,642	682	326,192	149,132	Dividends declared - common	90,000
Apr.	405,350	691	265,929	140,112		
May	337,340	582	196,440	141,482		
June	384,860	347	142,496	152,711	Dividends declared - common	90,000
July	333,112	543	190,332	143,323		
Aug.	351,212	491	173,468	148,235	Dividends declared - preferred	30,000
Sept.	450,439	637	230,462	130,614	Dividends declared - common	90,000
Oct.	391,872	724	252,449	140,147		
Nov.	411,640	696	264,148	148,188		
Dec.	570,705	726	211,319	60,112	Dividends declared - common	300,000
Year 1936	5,215,525	7,480	2,939,115	1,623,890		$ 660,000
			01			
Balance Dec. 31, 1936	285,698					
	$ 5,501,223					
	A1					

Details of miscellaneous

Dividends declared - common	W2	$ 570,000
Dividends declared - preferred	W2	60,000
Dividends payable - preferred		30,000
Total as above		$ 660,000

Note to the reader: This schedule is prepared for the same purposes and from the same source as A 2.

A 4

ASHTON METAL PRODUCTS CO.

SUMMARY OF BANK STATEMENTS

December 31st, 1936

	Balance Dec. 31, 1935	Receipts	Disbursements	Balance Dec. 31, 1936
	$443,340			
January........		$ 515,860		
February.......		550,352		
March..........		415,139		
April...........		444,544		
May...........		452,725		
June...........		392,800		
July............		368,112		
August.........		326,864		
September......		307,540		
October........		289,600		
November......		412,207		
December.......		588,135		
A1	$443,340	$5,063,878	$. 5,204,065	$303,153
				A6

Note to the reader: The purpose of this schedule is to provide a figure with which to agree the total receipts and disbursements as shown by the cash book. In this case, receipts have been compiled from the bank statements and the total for disbursements arrived at by applying the balances at beginning and end to this figure. Where the bank statements are prepared by an adding machine and where there is no evidence that they have been altered or corrected either by the bank or the company, total figures arrived at by this method may be used.

A 5

ASHTON METAL PRODUCTS CO.

ASHTON STATE BANK AND TRUST CO.—PAYROLL ACCOUNT

December 31st, 1936

Balance, December 31, 1936—per bank statement.....A6		$1,282
Payroll cheques outstanding:		
#11186	$ 22	
#12023	103	
#12069	82	
#12071	12	
#12103	37	
#12104	40	
#12224	56	
#12225	8	
#12226	143	
#12227	206	
#12228	18	
#12229	23	
#12230	56	
#12231	30	
#12234	34	
#12235	31	
#12236	62	
#12237	19	
		982
Balance, December 31, 1936—per trial balance..........		$300

All checks outstanding at December 31, 1936, were paid by the bank during January, 1937.

Note to the reader: In the audit of subsidiary cash accounts, such as payroll accounts where the total receipts and disbursements are in effect included in the general cash, it is not customary to apply any further total proof. The usual methods of audit of payroll accounts are indicated in Chapters III and V, and in actual practice notes would be made on the schedule covering the work done, showing the period covered, the nature of the work and by whom it was carried out.

Report from

A 6

STANDARD BANK CONFIRMATION

Copyright, 1933, By
AMERICAN INSTITUTE PUBLISHING Co., Inc.

(Bank) ASHTON STATE BANK & TRUST CO.
225 Broad Street,
Ashton, Ohio

If this form is not used in replying, please mention reference ________

Kean, Swift & Co.,
New York, N.Y.

Dear Sirs:

We hereby report that at the close of business on December 31 1936 our records showed the following balance(s) to the credit of Ashton Metal Products Co. subject to withdrawal by check except as noted:*

	AMOUNT	DESIGNATION OF ACCOUNT	REMARKS (STATE IF BALANCE IS NOT SUBJECT TO WITHDRAWAL BY CHECK AND WHETHER OR NOT IT BEARS INTEREST)
A 4	$ 303 153	General	Checking account - no interest
A 5	1 282	Payroll	For payroll only - no interest

We further report that the above mentioned depositor was directly liable to us in respect of loans, acceptances, etc. at the close of business on that date in the total amount of $ 35,000, as follows:*

	AMOUNT	DATE OF LOAN ETC.	DUE DATE	INTEREST RATE	INTEREST PAID TO	DESCRIPTION OF LIABILITY, COLLATERAL, LIENS, ETC.
N 1	$ 15 000	11/1/36	1/30/37	5%	none paid	) no collateral
N 1	20 000	11/1/36	3/ 1/37	5%	none paid	)

and was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $ None, as below:*

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

Other direct and/or contingent liabilities, open letters of credit and relative collateral, liens, etc. were:*

Except as stated above, according to our records the said depositor was in no way obligated to us.

Yours truly,

(Bank) ASHTON STATE BANK & TRUST CO.

Date January 4 1937

By J.C. Jones, Treasurer
Authorized Officer Title

*If no such items exist, please insert "NONE". If, on the other hand, the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the above columnar headings.

Report from A 7

STANDARD BANK CONFIRMATION

(Bank) ASHTON TRUST CO.
522 State Street,
Ashton, Ohio

If this form is not used in replying, please mention reference ______

Kean, Swift & Co.,
New York, N.Y.

Dear Sirs:

We hereby report that at the close of business on December 31, 1936 our records showed the following balance(s) to the credit of Ashton Metal Products Co. subject to withdrawal by check except as noted:*

AMOUNT	DESIGNATION OF ACCOUNT	REMARKS (STATE IF BALANCE IS NOT SUBJECT TO WITHDRAWAL BY CHECK AND WHETHER OR NOT IT BEARS INTEREST)
$ 10 000	Time deposit account	Interest - 1% per annum
		Not subject to check

We further report that the above mentioned depositor was directly liable to us in respect of loans, acceptances, etc. at the close of business on that date in the total amount of $ None, as follows:*

AMOUNT	DATE OF LOAN ETC.	DUE DATE	INTEREST		DESCRIPTION OF LIABILITY, COLLATERAL, LIENS, ETC.
			RATE	PAID TO	
$					

and was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $ None, as below:*

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

Other direct and/or contingent liabilities, open letters of credit and relative collateral, liens, etc. were:*

Except as stated above, according to our records the said depositor was in no way obligated to us.

Yours truly,

(Bank) ASHTON TRUST CO.

Date January 4 1937

By H.L. Porter, Ass't. Treas
Authorized Officer Title

*If no such items exist, please insert "NONE". If, on the other hand, the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the above columnar headings.

A 8

ASHTON METAL PRODUCTS CO.

PETTY CASH

December 31st, 1936

Counted January 28, 1936, at 10:30 A. M. by J. E. Kean in presence of Mr. Uriah Heep, assistant treasurer.

Bills	$10	$130			
	5	125			
	1	72	327		
Specie	50c	24			
	25c	12			
	10c	18			
	5c	10			
	1c	1	65		

Checks:

Date	Drawer	Bank	Payee			
Jan. 27	R. S. Jones	Ashton State Bank & Trust Co.	Cash	50		
Jan. 26	J. A. Ladson	Ashton State Bank & Trust Co.	Cash	27	77	469

Vouchers:

Date	Name	For		
Jan. 25	Sunshine, Inc.	Window cleaning	10	
Jan. 27	Carl Wynne	Entertainment	6	
Jan. 27	New Calendar Co.	Calendars for executives	15	31
				$500

Checks listed above were deposited in bank Jan. 28, 1936.

Note to the reader: Except that the number of items would probably be larger, this schedule shows a typical cash account.

ASHTON METAL PRODUCTS CO.

MARKETABLE SECURITIES - DECEMBER 31ST 1936

			Balance Dec. 31, 1935	Purchases	Sales	Balance Dec. 31, 1936	Interest dates	Interest accrued Dec. 31, 1935	Interest earned	Dividends received	Cash received*	Interest accrued Dec. 31, 1936
$20,000 par value	New Era Railroad Co. - 6% bonds due 1936		$ 19,350		19,350		Apr., Oct. 1	$ 300	900		1,200	
$20,000 par value	Old Line Railroad Co. - 4½% bonds due 1981		16,125			16,125	May, Nov. 1	300	900		900	300
200 shares	Steel and Iron Fabricators, Inc. - common stock		20,000			20,000				500	500	
100 shares	Premier Manufacturing Co. - 6% preferred stock		10,375			10,375				600	600	
$25,000 par value	Southeast American Utilities Corp'n. - 4% bonds due 1976			26,000		26,000	Apr., Oct. 1		500		250) 500)	250
100 shares	United General Co. - common stock			7,500		7,500				400	400	
200 shares	Premier Manufacturing Co. - common stock			19,250		19,250				200	200	
			$ 65,850	52,750	19,350	99,250		600	2,300	1,700	4,050	550
				02								
Dividends received on investments in securities of subsidiaries		I1								327,000	327,000	
Interest and dividends received on other investments		I2						875	1,550	5,070	7,370	125
Interest on time deposit - Ashton Trust Co. - $10,000 - interest at 1% for six months.									50			50
Total								$ 1,475	3,900	333,770	338,420	725

		Amount realized	Book value	Profit
Profit on sale of securities:				
New Era bonds		$ 20,000	19,350	650
Profit on Investments	I2	A2		130
Total				$ 780
				DD1

*Details of cash received:			
Received - dividends	A2		$ 333,770
- interest	A2	$ 4,900	
Less paid on bonds purchased	02	250	4,650
As above			$ 338,420

Purchase slips from brokers checked for 1936 purchases.
See summary SB1 for market values at December 31st 1936.
See summary SI1 to SB for actual count of securities.

Note to the reader: This schedule performs the double function of showing the composition of the balance of marketable securities and accrued interest receivable thereon at the beginning and end of the year and the income earned on securities during the year by the application of receipts and payments to the beginning balance. It is a convenient form of schedule and is particularly useful for verifying income received on securities. The verification of sales and purchases of securities is the basis of the proof of interest which should have been received.

In this schedule are accumulated the totals of interest earned and accrued, using totals compiled on schedule I2, and the total of dividends received, using totals compiled on schedules I1 and I2.

C 1

ASHTON METAL PRODUCTS CO.

ACCOUNTS RECEIVABLE—DECEMBER 31ST, 1936

	Ref.	Debit	Credit
Balance December 31, 1935		$ 42,100	
Machinery sold	K6	19,908	
Supplies sold		10,285	
Loan to Carl Wynne	O2	35,000	
Deducted from payment on voucher 1173	O2		360
Deducted from payment on new auto—trade-in value—voucher 962	O2		630
Cash received	A2		65,898
Brown Machinery Co. account written off	C2		205
Balance December 31, 1936			40,200
		$107,293	107,293

Accounts receivable ledger balances at December 31, 1936			Comments of Mr. Uriah Heep, assistant treasurer
Appleton Manufacturing Co.	—1934 balance	$ 2,750	Company in receivership—expect recovery of approximately $250. Reserve should be increased to reflect expected loss.
City of Ashton	—Aug. 1936	1,100	Repaving work done for city—will be paid in Mar. 1937.
Davenport Foundry, Inc.	—June-Oct. 1936	11,380	For second-hand machinery—good. $5,000 paid in Jan.
Morris Tool Company, Inc.	—Oct.-Nov. 1936	4,680	For supplies and machinery—good.
Oldfield Screw Company, The	—Nov. 1936	2,340	For machinery and tools—good.
Western Metal Products Co.	—Dec. 1936	450	For supplies—good.
Carl Wynne, Vice-president	—June 1936	17,500	Loan to be repaid in June 1937 (loan authorized by directors at June meeting).
Total as above		$40,200	

Distribution:	
Accounts receivable—trade	$22,700
Accounts receivable—officers and directors	17,500
Total as above	$40,200

As noted above the balances at December 31, 1936, were discussed with Mr. Uriah Heep, assistant treasurer, and based on his comments, the reserve for the Appleton account was increased to $2,500, with the approval of Mr. Carton, treasurer. (C2) Mr. Carton's approval of write off of Brown account was noted on the journal voucher.

Note to the reader: As Ashton Metal Products Company sells through a subsidiary sales company, the only accounts receivable on its books are of a miscellaneous nature. The items passing through the account during the year are summarized and the totals referenced to the appropriate asset, liability, income and expense schedules and the composition of the balance indicated. The usual methods of verification are indicated in Chapters III and V.

C 2

ASHTON METAL PRODUCTS CO.

Reserve for Bad Debts

December 31st, 1936

Balance December 31, 1935		$2,105
Addition—charged income 1936 (to reserve for balance of Brown account—see below)		110
		2,215
Deduction—Brown Machinery Co. account written off	C1	205
Balance December 31, 1936—per trial balance		2,010
Additional reserve for Appleton account	EE3,—C1	490
Balance December 31, 1936		$2,500

The above balance applies against the account of the Appleton Manufacturing Co. which is in receivership.

Note to the reader: As the company sells through a selling subsidiary, the principal bad debt reserve is carried on the books of that company.

C 3

ASHTON METAL PRODUCTS CO.

BROOKE SALES CO. - CURRENT ACCOUNT

YEAR 1936

	Sales	Returns and allowances	Freight on sales: Paid to Fulton Railway	Freight on sales: Other	Discount allowed	Commissions	Furniture and fixtures transferred by Ashton	Cash	Charges and credits - net
Jan.	$ 480,392	17,030	13,740	662	3,731	23,168	1,790	505,000	81,149
Feb.	464,486	21,841	8,984	983	3,382	22,133		507,000	100,137
Mar.	530,101	13,133	11,233	1,724	3,147	25,848		412,000	63,016
Apr.	511,235	12,132	12,857	966	3,113	24,955		425,000	32,212
May	436,862	14,406	10,602	1,207	3,468	21,123		444,000	57,944
June	340,140	12,325	9,408	1,448	2,983	16,391		366,000	68,415
July	342,150	10,135	8,731	1,569	2,642	16,601		362,000	59,528
Aug.	236,548	13,300	5,110	448	2,531	11,162		333,000	129,003
Sept.	321,326	14,682	6,834	928	1,230	15,332		130,200	152,120
Oct.	433,265	16,288	8,726	1,086	1,362	20,849		274,500	110,454
Nov.	301,133	15,189	7,841	445	2,415	14,297		323,600	62,654
Dec.	497,702	11,689	8,254	604	2,136	24,301		289,125	161,593
Year 1936	$ 4,895,340	172,150	112,320	12,070	32,440	236,160	1,790	4,371,425	39,435
	AA1	AA1	AA1		AA1	EE2	K4	A2	
Balance Dec. 31, 1935									149,755
Balance Dec. 31, 1936 per trial balance									110,320

Note to the reader: This schedule is an analysis of the current account with the Brooke Sales Company, the selling subsidiary of Ashton Metal Products Company. This is compiled from monthly statements rendered by Brooke Sales Company and totals for the various columns are used in the verification of corresponding accounts as indicated by references at the foot of the columns. Schedules showing changes in current accounts for the other affiliates of Ashton Metal Products Company have not been shown, although the results are included in the accounts, as the current account of Brooke Sales Company is considered to be representative of the items generally to be found in such an account.

C 4

ASHTON METAL PRODUCTS CO.

PAYROLL ADVANCES

December 31, 1936

Operating—	John R. Evans	$22	
	Harold S. Barnes	13	
	William A. Crawford	10	
	Carl B. Hale	15	
	Edward C. Scott	18	
	Ralph D. Condon	18	
	James E. Foley	17	113
Office—	Ruth Martin	15	
	Jane Harder	11	
	Paul J. Jordan	16	42
			$155

Advance tickets signed by employees and approved by F. F. Franklin, factory superintendent for operating employees, and Uriah Heep, assistant treasurer for office employees were checked to above list.

D 1

ASHTON METAL PRODUCTS CO.

INVENTORY OF FINISHED GOODS

DECEMBER 31ST 1936

	Inventory Dec. 31, 1935 (for comparison)	Per books	Adjustment to physical	Physical inventory
Machine parts:				
Automotive	$ 40,180	43,220	260	43,480
Farm implement	23,290	21,480	1,740	19,740
Other	5,250	5,490	430	5,060
	68,720	70,190	1,910	68,280
Die stampings:				
Automotive	78,290	83,620	1,490	82,130
Plumbing	39,790	36,670	530	36,140
Other	2,880	5,320	270	5,590
	120,960	125,610	1,750	123,860
Screw machine products:				
Standard stock items	118,210	100,860	5,940	94,920
Special orders	11,650	36,430	520	35,910
	129,860	137,290	6,460	130,830
	$ 319,540	333,090	10,120	322,970
				D 4
Change in inventory		$ 13,550	10,120	3,430

Prices for larger items checked to latest cost cards for standard stock items and to job cost records for special orders. Prices on approximately 85% of total inventory were checked. Prices for stock held over from preceding year were checked with 1935 inventory prices and such items were discussed with Mr. Carl Wynne, vice-president and general manager, as to saleability. Prices were compared with sales prices.

Quantities checked to stock cards for larger items—approximately 85% of total.

Extensions of larger items checked—approximately 85% of total.

Footings of all detail sheets checked and totals traced to recap sheets.

Footings of recap sheets checked.

Method of physical inventory taking was discussed with Mr. F. F. Franklin, factory supt., under whose immediate direction the work was done. Cards are checked periodically to physical stock throughout the year, in addition to the complete physical inventory taken in December.

D 2

ASHTON METAL PRODUCTS CO.

INVENTORY OF GOODS IN PROCESS

DECEMBER 31ST 1936

	Inventory Dec. 31, 1935 (for comparison)	Per books	Adjustment to physical	Physical inventory
Machine parts	$ 20,180	46,920	2,160	49,080
Die stampings and blanks	13,230	18,940	750	18,190
Screw machine products	28,760	27,280	5,730	33,010
	$ 62,170	93,140	7,140	100,280
				D4
Change in inventory		$ 30,970	7,140	38,110

Cost cards and job cost records examined. No selling, general or administrative expenses are included in inventory costs used for process or finished goods.

Bulk of process inventory at Dec. 31, 1936 consisted of special orders on which separate job costs were kept.

Prices checked to cost cards and job cost records for approximately 75% of total.

Extensions checked for approximately 75% of total.

Footings of all detail sheets checked and totals traced to recap sheets.

Footings of recap sheets checked.

D 3

ASHTON METAL PRODUCTS CO.

INVENTORY OF RAW MATERIALS

DECEMBER 31ST 1936

	Inventory Dec. 31, 1935 (for comparison)	Per books	Adjustment to physical	Physical inventory
Amount				
Steel	$ 72,000	105,000	-	105,000
Brass	33,280	42,450	2,200	40,250
	$ 105,280	147,450	2,200	145,250
				D4
Change in inventory		$ 42,170	2,200	39,970
Quantity				
Steel - tons	1,500	2,100	-	2,100
Brass - pounds	332,800	385.909	20,000	365,909
Price				
Steel - per ton	$ 48.00	50.00	-	50.00
Brass - per pound	.10	.11	-	.11

Prices checked to recent invoices from Coles Mfg. Co. and also to trade journals for basic prices of materials corresponding to inventory items.

Quantities checked to stock cards.

Extensions checked for larger items.

Footings of all detail sheets checked and totals traced to recap sheets.

Footings of recap sheets checked.

D 4

INVENTORY CERTIFICATE

KEAN, SWIFT & CO.,
NEW YORK, N. Y.

DEAR SIRS:

In connection with your examination of the accounts of Ashton Metal Products Co. as at December 31st, 1936, I hereby certify that the inventories as at December 31st, 1936, as shown by the general books of account, a summary of which follows, are based on a physical inventory taken under my direction as of November 30th, 1936, that transactions between such date and December 31st, 1936, have been properly reflected in the accounts, and that, to the best of my knowledge and belief:

1. All stocks belonging to the company at December 31st, 1936, and having any substantial value are included, but no obsolete, damaged or useless materials or merchandise are included at prices in excess of net realizable values.
2. The quantities shown by the physical inventories are correct, were determined by actual count, weight or measurement, and were taken in substantially the same manner as the physical inventories at the close of the previous year.
3. The entire inventory is the unencumbered property of the company and does not include (a) stocks on consignment from others, (b) unshipped stocks billed to customers at or prior to December 31st, 1936, or (c) advance payments on account of purchase contracts for future deliveries.
4. Each item of inventory is priced at ....cost.... (specify basis of valuation fully, i.e., cost, the lower of cost or market, or other method), which is the same basis as used in pricing the physical inventories at the close of the previous year.
5. Liability for all items included in the inventories has been recorded in the accounts and purchase commitments were not in excess of normal requirements nor at prices in excess of current market prices.
6. The amounts stated in the following summary are fair and proper valuations of inventories as at December 31st, 1936.

Summary of Inventory Accounts

	Account	*Amount*
D1	Finished Goods	$322,970
	....	....
D2	Goods in Process	100,280
	....	....
D3	Raw Materials	145,250
	....	....
	....	....
	....	....
	Total	$568,500

NOTE:—Any exceptions to the above or necessary explanation thereof should be attached on a separate sheet as part of this certificate.

Certified as to	*Date*	*Name*	*Title*
QUANTITIES	Jan. 23, 1936	*F. F. Franklin*	Supt.
VALUES	Jan. 24, 1936	*John Smauker*	Chief Clerk
USABLE CONDITION	Jan. 23, 1936	*F. F. Franklin*	Supt.
GENERAL APPROVAL	Jan. 25, 1936	*Carl Wynne*	Vice-Pres.

E 1

ASHTON METAL PRODUCTS CO.
SUPPLIES
December 31st, 1936

	Per books	Adjustment to physical	Per physical inventory
Operating supplies			
Screw cutting oil	$ 630		630
Lubricating oil	458		458
Emery and emery wheels	2,250		2,250
Tool steel	4,895	65	4,960
Chasers	4,553	42	4,595
Cutters	3,242	140	3,102
Drills	8,295	105	8,400
Miscellaneous packing and shipping supplies	880		880
	25,203	BB2 72	25,275
Spare parts			
Electrical	3,580	155	3,425
Gears	2,055	110	1,945
Machine parts	4,718	392	5,110
	10,353	BB3 127	10,480
Repair supplies			
Sand, cement, etc.	2,530		2,530
Lumber	6,927	142	6,785
Miscellaneous	5,067	153	5,220
	14,524	BB3 11	14,535
	$50,080	210	50,290

E2

Prices were tested with recent invoices—50 items.
Test check of stock cards for quantities—50 items.
Extensions checked for items totalling approximately 50% of total amount.
Footings of detail sheets checked and totals traced to recap sheets.
Recap sheets footed.
Continuous test checking of quantities to stock cards takes place throughout the year, in addition to the complete annual physical inventory taken in December.

E2

INVENTORY CERTIFICATE

KEAN, SWIFT & CO.,
NEW YORK, N. Y.

DEAR SIRS:

In connection with your examination of the accounts of Ashton Metal Products Co. as at December 31st, 1936, I hereby certify that the inventories as at December 31st, 1936, as shown by the general books of account, a summary of which follows, are based on a physical inventory taken under my direction as of November 30th, 1936, that transactions between such date and December 31st, 1936, have been properly reflected in the accounts, and that, to the best of my knowledge and belief:

1. All stocks belonging to the company at December 31st, 1936, and having any substantial value are included, but no obsolete, damaged or useless materials or merchandise are included at prices in excess of net realizable values.
2. The quantities shown by the physical inventories are correct, were determined by actual count, weight or measurement, and were taken in substantially the same manner as the physical inventories at the close of the previous year.
3. The entire inventory is the unencumbered property of the company and does not include (a) stocks on consignment from others, (b) unshipped stocks billed to customers at or prior to December 31st, 1936, or (c) advance payments on account of purchase contracts for future deliveries.
4. Each item of inventory is priced at . . . cost . . . (specify basis of valuation fully, i. e., cost, the lower of cost or market, or other method), which is the same basis as used in pricing the physical inventories at the close of the previous year.
5. Liability for all items included in the inventories has been recorded in the accounts and purchase commitments were not in excess of normal requirements nor at prices in excess of current market prices.
6. The amounts stated in the following summary are fair and proper valuations of inventories as at December 31st, 1936.

Summary of Inventory Accounts

	Account	*Amount*
E1	Supplies	$50,290
	....	....
	....	....
	....	....
	Total	$50,290

NOTE:—Any exceptions to the above or necessary explanation thereof should be attached on a separate sheet as part of this certificate.

Certified as to	*Date*	*Name*	*Title*
QUANTITIES	Jan. 23, 1936	*John Browdie*	Storekeeper
VALUES	Jan. 24, 1936	*John Smauker*	Chief Clerk
USABLE CONDITION	Jan. 23, 1936	*John Browdie*	Storekeeper
GENERAL APPROVAL	Jan. 25, 1936	*Carl Wynne*	Vice-Pres.

G 1

ASHTON METAL PRODUCTS CO.

INSURANCE UNEXPIRED - DECEMBER 31ST 1936

Policy No.	Name of company	Covers	Amount	Dated	Expires	Premium	Unexpired at Dec. 31, 1935	Premiums paid in 1936	Charged to: Manu-facturing costs	Charged to: General expense	Unexpired at Dec. 31, 1936
1731426	Branford	Blanket policy on buildings, machinery and equipment	$ 1,500,000	1- 1-33	12-31-37	$40,000	16,000		7,200	800	8,000
312641	Canover	Blanket policy on buildings, machinery and equipment	1,500,000	5-15-31	5-14-36	40,000	3,000		2,700	300	-
672406	Canover	Blanket policy on buildings, machinery and equipment	1,500,000	5-15-36	5-14-38	16,000	-	16,000	4,500	500	11,000
2732A-214	Star	Auto - public liability, property damage, etc.	5/10,000	1- 1-36	12-31-36	100	-	100	100		-
BB 201	Post	Boiler explosion	25/60,000	7- 1-34	6-30-38	1,250	875		250		625
72109	Rialto	Payroll robbery	7,500	7- 1-36	6-30-38	200	-	200		25	175
95728	Centre	Auto - public liability, property damage, etc.	5/10,000	4- 1-35	3-31-36	100	25		25		-
226987	Centre	Auto - public liability, property damage, etc.	5/10,000	4- 1-36	3-31-37	100	-	100	75		25
7928-A	Essex	Liability - construction at plant	25/50,000	10- 1-35	9-30-36	80	60		60		-
2794871	Irving	Auto - public liability, property damage, etc.	5/10,000	1- 1-36	12-31-36	100	-	100		100	-
48324	Wisconsin	Safe burglary	10,000	4- 1-35	3-31-36	320	80			80	-
190279	Wisconsin	Safe burglary	10,000	4- 1-36	3-31-37	360	-	360		270	90
188988-L	Sterling	Warehouse - contents	100,000	3- 1-35	2-29-36	180	30		30		-
312210-L	Sterling	Warehouse - contents	100,000	3- 1-36	2-28-37	180	-	180	150		30
275890	Zenith	Accident - Private R.R. Crossing	50/250,000	7- 1-36	6-30-37	360	-	360	180		180
11271954	Palace	Workmen's compensation		11- 1-36	10-31-37	2,400	-	2,400	400		2,000
1876	Dragon	Theft of special chemical equipment	1,500	8- 1-36	7-31-37	60	-	60	25		35
							20,070	19,860	15,695	2,075	22,160
Correction of unexpired portion of policy 72109 to $150										25	25
							$ 20,070	19,860	15,695	2,100	22,135
								02	BB2	EE3	

All of the above policies were examined.

Note to the reader: The purpose of this schedule is to indicate the nature of the insurance and the amount of coverage as well as to verify the items of prepaid expense and insurance expense during the year. Where the company maintains full insurance records it may be necessary only to check those records and to summarize them. In some cases a schedule showing in columnar form the amounts of the various kinds of insurance carried is useful.

G 2

ASHTON METAL PRODUCTS CO.
PREPAID EXPENSES
December 31st, 1936

Prepaid advertising expense		$4,000
Magazine advertising for year ending April 30, 1937—balance to be charged to general expense at rate of $1,000 per month		
Advances to employees for traveling, etc.		
Carl Wynne, vice-president	$150	
Paul Jordan, engineer	150	
Arthur Crane, engineer	150	450
		$4,450

Signed receipts for above advances for traveling were seen.

H 1

ASHTON METAL PRODUCTS CO.
DISCOUNT AND EXPENSE ON DEBENTURES
December 31st, 1936

	Par value of debentures (10 year life)		
Balance December 31, 1935:			
Original discount on debentures issued ($50. per M)	$3,200,000		$160,000
Written off to December 31, 1935, on debentures retired ($50. per M)	$ 960,000	$48,000	
Written off to December 31, 1935, on debentures outstanding (3¾ years at $5. per M per year)	2,240,000	42,000	90,000
	$3,200,000		
Balance to be written off on debentures outstanding (6¼ years at $5. per M per year)	$2,240,000		70,000
Year 1936—Written off on debentures outstanding:			
Jan. 1, 1936, to April 1, 1936	$2,240,000	2,800	
April 1, 1936, to Dec. 31, 1936	$1,920,000	7,200	10,000
			60,000
Written off on debentures retired April 1, 1936 ($30. per M) S1	$ 320,000		9,600
Balance December 31, 1936 (5¼ years at $5. per M per year)	$1,920,000		$ 50,400

Note to the reader: The method of writing off discount and expense shown on this schedule is one of the less scientific methods used but is considered good practice and is permitted by the Securities and Exchange Commission. If more scientific methods are used some notes should be made as to the nature of the test of the mathematics and principles involved.

ASHTON METAL PRODUCTS CO.

INVESTMENTS IN SUBSIDIARIES—DECEMBER 31ST, 1936

	Par value per share	Number of shares out-standing	Shares owned by Ashton	Per cent. owned by Ashton	Book value	Dividends received: Per share	Dividends received: Amount
Brooke Sales Co.	$100	6,000	6,000	100	$ 600,000	$4.33	$ 26,000
Dalton Metal Products Co.	100	20,000	20,000	100	2,483,250	8.50	170,000
Fulton Railway Co.	100	20,000	10,000	50	1,000,000	1.40	14,000
Coles Manufacturing Co.	50	25,000	22,500	90	1,499,350	5.20	117,000
Balance December 31, 1936 (no change during year)					$5,582,600		$327,000
							B1

Stock of Brooke Sales Co. was acquired in 1918 for net assets in the amount of $600,000 transferred to that company in exchange for its capital stock.

Stock of Dalton Metal Products Co. was acquired in 1918 in exchange for 250,000 shares of no-par stock of Ashton. This investment is carried at the book value of Dalton stock at date of acquisition.

Stock of Fulton Railway Co. was acquired in 1915 for cash. This investment represents one-half of the initial capital of Fulton, the balance being supplied by Dalton.

Stock of Coles Manufacturing Co. was acquired in 1921 in exchange for 112,500 shares of no-par stock of Ashton. This investment is carried at the book value of Coles stock at date of acquisition.

Note to the reader: The actual count of these securities is covered on summary schedules SI 1 to SI 8.

ASHTON METAL PRODUCTS CO.

OTHER INVESTMENTS - DECEMBER 31ST 1936

	Shares of stock or par value of bonds	Book value	Classified as: Investments	Classified as: Marketable securities*	Interest dates	Interest accrued Dec. 31, 1935	Income from Investments: Interest	Income from Investments: Dividends	Cash received	Interest accrued Dec. 31, 1936
New Coast Steamship Co. - common stock	1,000	$ 100,000	100,000							
- 6% preferred stock	750	60,870	60,870			$		4,500	4,500	
Northeastern Amalgamated Mfg. Co. - 4% bonds due 1965	$ 5,000	5,200		5,200	Feb., Aug. 15	25	200		200	25
Bosthaven Rapid Transit Co. - 6% bonds due 1942	$ 10,000	8,800		8,800	Mar., Sept. 1	100	600		600	100
Fairfax Screw Machinery Corp'n. - common stock	500	50,000	50,000					500	500	
Eagle Aircraft Corp'n. - common stock	1,000	8,600		8,600						
Thames and Connecticut Railway Co. - 6% debentures due 1940	$ 25,000	22,500		22,500	Jan., July 1	750	750		1,500	
Oceanic Bank and Trust Co. - common stock	250	22,500	22,500							
Metal Industries Foreign Export Ass'n. - common stock	100	2,500	2,500							
7% preferred stock	10	1,000	1,000					70	70	
Dalton Country Club - 6% preferred stock	10	10	10							
Glory Gold Mines, Inc. - common stock	6,000	10	10							
Balance December 31st 1935		281,990	236,890	45,100						
Deductions - year 1936:										
Jun. 30 Thames and Connecticut Railway Co. - 6% debentures - called @ 110	25,000	22,500		22,500						
Jan. 7 Eagle Aircraft Corp'n. - common stock - sold	1,000	8,600		8,600						
Balance December 31st 1936		$ 250,890	236,890	14,000		$ 875	1,550	5,070	7,370	125
						B1	B1	B1	B1	B1

Sales slip from broker checked.

	Amount realized	Book value	Profit or Loss
Eagle Aircraft Corp'n. - common stock - sold	$ 3,730	8,600	4,870
Thames & Connecticut Railway Co. - 6% debentures - called @ 110	27,500	22,500	5,000
Net profit	$ 31,230	31,100	130

A2

*Securities currently quoted. See summary SB1 for market values at Dec. 31, 1936.

Note to the reader: This schedule illustrates an alternate form of security schedule suitable for a small number of securities. Schedule B1 illustrates the form more suitable to a larger number of securities. Actual count of the above securities is covered in summary schedules SI1 to SI8.

J 1

ASHTON METAL PRODUCTS CO.

LAND

December 31st, 1936

North Plant lands	$185,150
East Plant lands	152,830
Fulton Storage yard	12,250
Total, per trial balance	$350,230

There was no change in the above account during the year.

Except for land at East Plant acquired from Goliath Manufacturing Co. in 1928, valued at $132,500, in exchange for stock of Ashton, all lands are carried at cash cost.

Letter dated January 2, 1937, signed by Blank & Blank, attorneys for the company, stating that the above properties are owned in fee simple by the company as of December 31, 1936, was seen.

K 1

ASHTON METAL PRODUCTS CO.

PLANT AND EQUIPMENT

December 31st, 1936

Balance December 31, 1935			$3,960,690
Year 1936:			
Additions:			
Construction ($401,396—5,280)	K2	$396,116	
Other additions	K2	21,670	
Transferred from affiliated companies	K4	60,854	478,640
			4,439,330
Deductions:			
Sold	K2	86,260	
Scrapped	K2	225,915	
Transferred to affiliated companies	K4	66,260	378,435
Balance December 31, 1936			$4,060,895
			K2

Except for property acquired in 1928 from Goliath Manufacturing Co. in exchange for stock of Ashton all plant and equipment is carried at cash cost less cost of plant sold or scrapped. Property acquired from Goliath was valued at $750,000 (including land, $132,500), being stated value of 37,500 shares of Ashton common stock ($500,000) plus par value of 2,500 shares of Ashton preferred stock ($250,000) issued therefor and is carried at that amount less value of plant sold or scrapped since that date.

Note to the reader: This schedule is a summary of changes in plant and equipment during the year and is designed to produce the figures required for the statement of sources and disposition of funds and for form 10 K as well as the figures required for the individual companies.

K 2

ASHTON METAL PRODUCTS CO.

PLANT AND EQUIPMENT - DECEMBER 31ST 1936

	Total	Buildings	Machinery and equipment	Small tools	Furniture and fixtures	Automobiles and motor trucks	Con-struction
Balance, December 31, 1935	$ 3,960,690	947,220	2,925,940	14,760	60,550	3,980	8,240
Additions:							
Old machinery transferred from subsidiaries	21,684						21,684
New machinery purchased from subsidiary	39,170						39,170
Other purchases							(324,288
Labor	401,396						(54,403
Expense							(22,705
Tools purchased				2,270			
Furniture and Fixtures purchased 02	21,670				15,860		
Automobiles purchased						3,540	
Deductions - K6:							
Transferred to affiliated companies	66,260		56,490		9,770		
Sold	86,260		75,810	3,320	3,150	3,980	
Scrapped	225,915	15,000	210,915				
Transferred from Construction as completed K3		24,330	435,880				460,210
Balance, December 31, 1936 - per trial balance	4,066,175	956,550	3,018,605	13,710	63,490	3,540	10,280
Repairs charged to Construction in error	5,280		5,280				
Balance, December 31, 1936 - as adjusted	$ 4,060,895	956,550	3,013,325	13,710	63,490	3,540	10,280
	K1				K5		K3

Note to the reader: This schedule analyzes the ledger accounts to indicate the changes.

ASHTON METAL PRODUCTS CO.

DETAILS OF CONSTRUCTION ACCOUNT - YEAR 1936

Construction order number	Description	In progress at Dec. 31, 1935	Additions during year: Purchases: From subsidiaries	Additions during year: Purchases: From other	Additions during year: Expenses: Labor	Additions during year: Expenses: Other supplies and expense	Completed and transferred to: Buildings	Completed and transferred to: Machinery, etc.	Balance uncompleted Dec. 31, 1936
B 798	New storehouse and loading platform	$ 1,284		2,184	6,640	4,495	14,603		
B 799	Enclosed runways between buildings 1 and 2	963		6,200	2,550	14	9,727		
M8061	Purchase and install new lathes - Dept. C	3,813		1,644	3,892	628		9,977	
M8062	5 screw machines and installation (two from Dalton)	2,180	21,870	39,430	9,832	6,130		79,442	
M8063	Pneumatic cranes for shipping dept. - install		17,300	74,800	1,680	328		94,108	
M8064	Electric crane for yard - installation			110,500	8,250	2,580		121,330	
M8065	4 shearing machines - model X204 - installation		21,684		840	620		23,144	
M8066	Conveyors - Dept. B - installation			38,400	2,680	182		41,262	
M8067	Conveyors - Dept. C - installation			13,600	1,582	104		15,286	
M8068	Conveyors - Warehouse to loading platform - install			32,930	6,251	5,864		45,045	
M8069	Screening cutting machines - Dept. C - should be repairs				3,860	1,420		5,280	
M8070	New Switch Assembly - old cranes			320	142			462	
M8071	New Switchboard - Power House			400	144			544	
M8072	New Process bronze cutting machine			3,220	3,220				6,440
B 800	Structure for storing fuel			660	2,840	340			3,840
		$ 8,240	60,854	324,288	54,403	22,705	24,330	435,880	10,280
			K4	O2	P1		K2	K2	

Recapitulation

		In progress at Dec. 31, 1935	From subsidiaries	From other	Labor	Other supplies and expense	Buildings	Machinery, etc.	Balance uncompleted Dec. 31, 1936
Transferred from subsidiaries - machinery		$	60,854					60,854	
Other construction - buildings		2,247		8,384	9,190	4,509	24,330		
- machinery		5,993		315,904	41,353	16,776		369,748	10,280
Total additions to plant		8,240	60,854	324,288	50,543	21,285	24,330	430,600	10,280
Charged to repairs	BB1-L1				3,860	1,420		5,280	
Total as above		$ 8,240	60,854	324,288	54,403	22,705	24,330	435,880	10,280

Vouchers aggregating approximately 80% of purchases from other than subsidiary companies were examined.

Signed appropriations covering construction orders B800 and M8063 to M8072, inclusive, were examined.

Details shown above were taken from cost cards covering construction jobs.

K 4

ASHTON METAL PRODUCTS CO.

Machinery—Transactions with Affiliated Companies

Year 1936

New machinery purchased			
From Ednor Metal Machinery Co.:			
4 shearing machines—model 4204			$21,684
Second-hand machines transferred			
From Dalton Metal Products Co.:			
2 model 64 screw machines		$21,870	
Ednor Metal Machinery Co.:			
4 pneumatic cranes		17,300	39,170
Total machinery from affiliates included in additions	K3		60,854

Transferred to:		Net value	Depreciation	Cost	
Brooke Sales Co.:					
Office equipment	C3	$ 1,790	7,980	9,770	
Dalton Metal Products Co.:					
3 turret lathes		21,073	3,527	24,600	
1 electric welding machine		1,582	138	1,720	
1 Diesel motor		8,685	8,685	17,370	
Ednor Metal Machinery Co.:					
1 electric crane		5,230	5,230	10,460	
Fulton Railway Co.:					
7 transformers		1,170	1,170	2,340	
Total machinery		37,740	18,750	56,490	
Total transferred	K6	$39,530	26,730	66,260	66,260
Net					$ 5,406
					K1

Above information was summarized from journal vouchers.

Note to the reader: This schedule is primarily to provide information for a summary of intercompany transactions for purposes of the consolidated accounts.

K 5

ASHTON METAL PRODUCTS CO

FURNITURE AND FIXTURES

December 31st, 1936

Balance December 31, 1935		$60,550
Additions:		
4 adding machines	$1,400	
6 calculating machines	2,400	
3 draftsmen's tables	450	
6 draftsmen's benches	120	
8 venetian blinds for stenographers' offices	1,500	
4 air conditioners for executive offices	2,480	
2 water coolers	550	
10 typewriters	1,500	
5 typewriter desks and chairs	460	
6 electric fans	100	
2 showcases for samples	1,000	
Carpet for executive offices	3,200	
2 fireproof safes	700	15,860
		76,410
Deductions—see below		12,920
Balance December 31, 1936		$63,490

K2

		Cost	Depreciation	Depreciated value	Salvage	Loss
Details of deductions:						
Scrapped:						
Executive office carpets		$ 3,150	983	2,167	1,568	599
Transferred:						
To Brooke Sales Co.:						
4 showcases		3,000	2,750	250	250	
6 office desks		420	380	40	40	
3 filing cabinets		300	150	150	150	
6 book cases		600	550	50	50	
10 storage cabinets		4,500	3,270	1,230	1,230	
6 typewriters		950	880	70	70	
		9,770	7,980	1,790	1,790	
	K6	$12,920	8,963	3,957	3,358	599

Vouchers covering additions were examined.

Journal vouchers covering deductions were examined.

K 6

ASHTON METAL PRODUCTS CO.

SUMMARY OF PLANT DEDUCTIONS - YEAR 1936

	Buildings	Machinery and equipment	Tools	Furniture and fixtures	Automobiles	Total	Depreciation	Net value	Salvage	Profit or loss
Sold										
Machinery - 8 % group	$	15,410				15,410	12,228	3,182	2,655	527
- 10 % group		44,420				44,420	35,536	8,884	11,000	2,116
- 12½% group		15,980				15,980	11,985	3,995	3,600	395
Tools			3,320			3,320	2,260	1,060	455	605
Furniture and fixtures				3,150		3,150	983	2,167	1,568	599
Automobiles					3,980	3,980	2,963	1,017	630	387
		75,810	3,320	3,150	3,980	86,260	65,955	20,305	19,908	397
									C1	
Scrapped										
Buildings - garage	15,000					15,000	12,800	2,200		2,200
Machinery - 7 % group		48,685				48,685	38,321	10,364		10,364
- 8 % group		45,000				45,000	39,600	5,400		5,400
- 10 % group		95,000				95,000	80,750	14,250		14,250
- 12½% group		22,230				22,230	16,673	5,557		5,557
	15,000	210,915				225,915	188,144	37,771		37,771
Transferred										
Machinery - 7 % group		24,600				24,600	3,527	21,073	21,073	
- 8 % group		1,720				1,720	138	1,582	1,582	
- 12½% group		30,170				30,170	15,085	15,085	15,085	
Furniture and fixtures				9,770		9,770	7,980	1,790	1,790	
K4		56,490		9,770		66,260	26,730	39,530	39,530	
Total	$ 15,000	343,215	3,320	12,920	3,980	378,435	280,829	97,606	59,438	38,168
				K5		K2	L1			

The above information was summarized by the company from plant cards covering individual plant items.

Each card was checked to the summary and totals were checked to ledger accounts - see K2.

Authorization for sale or dismantlement of items seen.

ASHTON METAL PRODUCTS CO.

RESERVE FOR DEPRECIATION - DECEMBER 31ST 1936

	Total	Buildings 2%	Machinery 7%	Machinery 8%	Machinery 10%	Machinery 12½%	Machinery Total	Small tools 10%	Furniture and fixtures 10%	Autos 25%	Construction none
Balance December 31, 1935	$ 1,632,558	373,148	280,877	347,650	426,939	167,716	1,223,182	6,826	26,936	2,466	
Additions to reserve charged income	305,495	19,037	39,493	72,871	86,499	79,029	277,892	1,424	6,202	940	
	1,938,053	392,185	320,370	420,521	513,438	246,745	1,501,074	8,250	33,138	3,406	
Deductions - K6:											
Depreciation accumulated on assets sold	65,955			12,228	35,536	11,985	59,749	2,260	983	2,963	
Depreciation accumulated on assets transferred to subsidiaries	26,730		3,527	138		15,085	18,750		7,980		
Depreciation accumulated on assets dismantled	188,144	12,800	38,321	39,600	80,750	16,673	175,344				
	280,829	12,800	41,848	51,966	116,286	43,743	253,843	2,260	8,963	2,963	
Balance December 31, 1936 - per trial balance	1,657,224	379,385	278,522	368,555	397,152	203,002	1,247,231	5,990	24,175	443	
Correction for M8069 charged to repairs	264				264		264				
Balance December 31, 1936 - as adjusted	$ 1,656,960	379,385	278,522	368,555	396,888	203,002	1,246,967	5,990	24,175	443	
Basis for Depreciation											
Balance December 31, 1935	$ 3,960,690	947,220	540,150	894,900	876,270	614,620	2,925,940	14,750	60,550	3,980	8,240
Additions, year 1936	483,920	(24,330	121,330	94,108	116,850	103,592	435,880	2,270	15,860	3,540	462,250
Construction completed		(									460,210
Deductions, year 1936	378,435	15,000	73,285	62,130	139,420	68,380	343,215	3,320	12,920	3,980	
Balance December 31, 1936	4,066,175	956,550	588,195	926,878	853,700	649,832	3,018,605	13,710	63,490	3,540	10,280
Correction - repairs charged construction in error - K3	5,280				5,280		5,280				
Corrected Balance December 31, 1936	$ 4,060,895	956,550	588,195	926,878	848,420	649,832	3,013,325	13,710	63,490	3,540	10,280
Depreciation charged Income											
On beginning balance	$ 301,328	18,944	37,811	71,592	87,627	76,828	273,858	1,476	6,055	995	
On additions - at half rates	21,922	243	4,247	3,764	5,843	6,475	20,329	114	793	443	
On deductions - at half rates	17,755	150	2,565	2,485	6,971	4,274	16,295	166	646	498	
Total charge to income	305,495	19,037	39,493	72,871	86,499	79,029	277,892	1,424	6,202	940	
Correction - at half rates	264				264		264				
Corrected charge to income	$ 305,231	19,037	39,493	72,871	86,235	79,029	277,628	1,424	6,202	940	

The above information for year 1936 was summarized by the company from plant cards covering individual plant items.

Plant cards covering additions and deductions were checked to summary and depreciation calculations were checked in total.

Rates are same as those which have been in effect for the past four years and appear to be adequate.

ASHTON METAL PRODUCTS CO.

DEPRECIATION ON ASSETS ACQUIRED BY ISSUANCE OF CAPITAL STOCK AT JUNE 30TH 1928

DECEMBER 31ST 1936

Type of plant	Items	Value: Ashton capital stock	Value: Carried on Goliath's books	Reserve for Depreciation: Ashton basis	Reserve for Depreciation: Prior value basis	Depreciation, Ashton basis: Full year	Depreciation, Ashton basis: Half year	Depreciation, Ashton basis: Total	Depreciation, Prior value (tax) basis: Full year	Depreciation, Prior value (tax) basis: Half year	Depreciation, Prior value (tax) basis: Total	Adjustment to tax basis
Buildings 2%	Balance, December 31, 1935 (original cost)	$ 250,000	190,000	37,500	28,500							
	Scrapped, year 1936	15,000	11,400	2,400	1,824							
	Depreciation, year 1936			4,850	3,686	4,700	150	4,850	3,572	114	3,686	1,164
	Balance, December 31, 1936	$ 235,000	178,600	39,950	30,362							
Machinery 7%	Original cost	$ 60,000	40,000									
	Balance, December 31, 1935	$ 45,000	30,000	23,625	15,750							
	Sale, year 1936	9,000	6,000	5,040	3,360							
	Depreciation, year 1936			2,835	1,890	2,520	315	2,835	1,680	210	1,890	945
	Balance, December 31, 1936	$ 36,000	24,000	21,420	14,280							
8%	Original cost	$ 100,000	75,000									
	Balance, December 31, 1935	$ 40,000	30,000	24,000	18,000							
	Sale, year 1936	3,000	2,250	1,920	1,440							
	Depreciation, year 1936			3,080	2,310	2,960	120	3,080	2,220	90	2,310	770
	Balance, December 31, 1936	$ 37,000	27,750	25,160	18,870							
10%	Original cost	$ 200,000	175,000									
	Balance, December 31, 1935	$ 55,800	48,825	41,850	36,619							
	Sale, year 1936	15,000	13,125	12,000	10,500							
	Depreciation, year 1936			4,830	4,226	4,080	750	4,830	3,570	656	4,226	604
	Balance, December 31, 1936	$ 40,800	35,700	34,680	30,345							
Furniture 10%	Original cost	$ 7,500	6,375									
	Balance, December 31, 1935	$ 4,000	3,400	3,000	2,550							
	Sale, year 1936	1,500	1,275	1,200	1,020							
	Depreciation, year 1936			325	277	250	75	325	213	64	277	48
	Balance, December 31, 1936	$ 2,500	2,125	2,125	1,807							
	Adjustment of 1936 depreciation per Ashton Metal Products Co. books to tax basis											$ 3,531

Note to the reader: The purpose of this schedule is to adjust depreciation as taken on the books of Ashton Metal Products Company with that used on the tax return. The reason for the discrepancy being that on a merged company acquired for other than cash the basis of the former owner of the assets must be used.

M 1

ASHTON METAL PRODUCTS CO.

PATENTS

December 31st, 1936

U. S. patent #274568193 covering special screw turning lathes and Ashton pickling process—cost $20,000, carried on books at nominal amount—unchanged in 1936	$10

N 1

ASHTON METAL PRODUCTS CO.

NOTES PAYABLE—BANKS

December 31st, 1936

Notes Payable to Ashton State Bank & Trust Co.: Dated	Due	Interest Rate	Balance Dec. 31, 1935	Additional loans	Repayments	Balance Dec. 31, 1936
Nov. 1, 1935	Jan. 30, 1936	6%	$ 50,000		50,000	
Nov. 1, 1935	Feb. 29, 1936	6%	25,000		25,000	
Nov. 1, 1935	Mar. 30, 1936	6%	25,000		25,000	
Nov. 1, 1936	Dec. 31, 1936	5%		40,000	40,000	
Nov. 1, 1936	Jan. 30, 1937	5%		20,000		20,000
Nov. 1, 1936	Mar. 1, 1937	5%		15,000		15,000
			$100,000	75,000	140,000	35,000
				A2	O2	A6

See R1 for accrual of interest on above notes at December 31, 1936.

Note to the reader: If there were a number of notes payable and if interest on notes payable was the principal amount of interest paid, columns for interest, expense and accrual similar to those for accrued interest receivable shown on schedule B1 would be used. The notes have been verified by confirmation from the banks as indicated by the reference to schedule A6.

O 1

ASHTON METAL PRODUCTS CO.

ACCOUNTS PAYABLE

December 31st, 1936

Balance December 31, 1935			$ 257,760
Vouchers payable—per voucher record	O2		2,999,513
Vouchers paid—per cash book	A3	$2,939,115	
Balance December 31, 1936		318,158	
		$3,257,273	3,257,273

Details of balance at December 31, 1936

Excellent Crane Co.	$110,500
Ashton Electric & Power Co.	4,130
Electric Corpn. of Ashton	9,873
Five States Supply Corpn.	12,768
Static Conveyor Machine Co.	60,500
Super Electric & Supply Co.	5,380
Ashton State Bank & Trust Co.—Payroll Account	33,381
52 vouchers all for less than $2,500, totalling	81,626
Total as above	$318,158

Distribution

Wages payable	$ 33,381
Accounts payable—trade	284,777
Total as above	$318,158

Unpaid items checked with voucher record.

Cash disbursements for December, 1936, checked to voucher record.

Vouchers entered in voucher record in January, 1937, scrutinized for 1936 items.

O 2

ASHTON METAL PRODUCTS CO.

Summary of Voucher Record

Year 1936

Construction	K3	$ 324,288
Wages accrued	P1	1,537,638
Supplies		198,528
Manufacturing expense		44,600
Repair labor and expense		38,420
Traveling expense		2,980
General expense		51,205
Unexpired insurance	G1	19,860
Prepaid expense		25,000
Sundry—details below		756,994
		$2,999,513
		O1

Details of sundry		
Marketable securities	B1	$ 52,750
Accrued interest receivable	B1	250
Accounts receivable—dr.	C1	35,000
—cr.	C1	990
Small tools	K2	2,270
Furniture and fixtures	K2	15,860
Automobiles	K2	3,540
Notes payable—banks	N1	140,000
Unclaimed dividends	O3	85
Taxes accrued	Q1	76,870
Reserve for Federal income tax	Q2	13,651
Accrued interest payable	R1	106,208
5% Sinking Fund debentures	S1	301,500
Ashton Trust Co.—time deposit	A7	10,000
As above		$756,994

O 3

ASHTON METAL PRODUCTS CO.

Unclaimed Dividends

December 31st, 1936

Common Stock Dividends

	Total	No. 73 1936	No. 16 1931	No. 15 1930	No. 14 1929	No. 13 1928
Balance, Dec. 31, 1935	$380		132	128	60	60
*Year 1936—claimed . . . O2	85		15	20	25	25
—additions . . . A2	75	75				
Balance, Dec. 31, 1936	$370	75	117	108	35	35

*John Barty—located at new address and all back dividends paid him.

P 1

ASHTON METAL PRODUCTS CO.

WAGES PAYABLE

December 31st, 1936

Balance December 31, 1935			$ 14,200
Payrolls accrued for 1936 charged to:			
Direct labor—per trial balance		$ 952,370	
Indirect labor—per trial balance		279,330	
Repair expense—per analysis	BB3	97,360	
Construction—per analysis	K3	54,403	
Office salaries—per analysis	EE1	152,810	
		1,536,273	
Less payroll advances deducted		335	1,535,938
			1,550,138
Transferred to payroll account—per voucher record O2			1,537,638
Balance December 31, 1936			$ 12,500

Vouchers covering transfers to payroll account checked to payroll sheets.
Accrued payroll at Dec. 31, 1936, checked to ledger balance.
Methods of distributing payrolls examined into and found to be reasonable.

Q 1

ASHTON METAL PRODUCTS CO.

TAXES ACCRUED

December 31st, 1936

	Federal capital-stock tax	State franchise tax	Real-estate and personal-property taxes	Total
Accrual at December 31, 1935	$ 7,000	$4,400		$11,400
Accrual in 1936:				
Charged to manufacturing expense BB2			41,272	41,272
Charged to general expense EE3	23,000	5,080	10,318	38,398
	30,000	9,480	51,590	91,070
Payments in 1936—O2:				
City of Ashton—real-estate and personal-property tax for calendar year 1936—Vo. 348 and 952			51,590	
Collector of Internal Revenue—capital-stock tax for year ended June 30, 1936—Vo. 870	20,000			76,870
State of Ohio—franchise tax for year ended March 1, 1936—Vo. 298		5,280		
Accrual at December 31, 1936	$10,000	4,200		14,200

Vouchers covering above payments examined.
Receipted bills for real-estate taxes seen.

Accrual at December 31, 1936, consists of:	
One-half estimated capital-stock tax for year ending June 30, 1937	$10,000
Five-sixths (ten months at $420) estimated state-franchise tax for year ending March 1, 1937	4,200
Total as above	$14,200

ASHTON METAL PRODUCTS CO.

RESERVE FOR FEDERAL INCOME TAX

December 31st, 1936

Balance December 31, 1935		$ 13,651	
1936—March 15—tax for year 1935 paid	O2	13,651	
December 31—accrual for 1936 tax			55,000
Balance, December 31, 1936—per books			55,000
Adjustment after closing—as below			2,549
Balance, December 31, 1936—as adjusted			$ 57,549

Calculation of 1936 Federal Income Tax

Net Income of the year before Federal income-tax adjustment	W1	$616,567
Add back accrual for 1936 Federal income tax—per books		55,000
Adjust depreciation to tax basis	L2	3,531
Net income		675,098
Credits:		
Dividends received (85% of $333,770-B1)		283,704
Normal tax net income		$391,394

Normal tax:

$ 2,000 @ 8%	$ 160
13,000 @ 11%	1,430
25,000 @ 13%	3,250
351,394 @ 15%	52,709
$391,394	$57,549

Net income		$675,098
Credits:		
Normal tax—as above		57,549
Adjusted net income		617,549
Dividends paid { 6% Preferred—$ 90,000; Common — 570,000 }	A3	660,000
Undistributed net income		None
Normal tax—as above		$ 57,549
Surtax on undistributed net income		
Total tax		$ 57,549
Actual tax—as above		$ 57,549
Tax accrued—per books		55,000
Adjustment—as above		$ 2,549

R 1

ASHTON METAL PRODUCTS CO.

Accrued Interest Payable

December 31st, 1936

		On 5% debentures	On bank loans	Total
Balance, December 31, 1935:				
5% on $2,240,000 par value—Oct. 1 to Dec. 31, 1935		$ 28,000		
6% on 100,000 face value—Nov. 1 to Dec. 31, 1935			1,000	
Total		28,000	1,000	29,000
Accrued in 1936:				
5% on $2,240,000 par value—Jan. 1 to Mar. 31, 1936		28,000		
5% on 1,920,000 " " —Apr. 1 to Dec. 31, 1936		72,000		
6% on 50,000 face value—Jan. 1 to Jan. 30, 1936			250	
6% on 25,000 " " —Jan. 1 to Feb. 29, 1936			250	
6% on 25,000 " " —Jan. 1 to Mar. 30, 1936			375	
5% on 40,000 " " —Nov. 1 to Dec. 31, 1936			333	
5% on 20,000 " " —Nov. 1 to Dec. 31, 1936			167	
5% on 15,000 " " —Nov. 1 to Dec. 31, 1936			125	
		100,000	1,500	101,500
Total accrued		128,000	2,500	130,500
Paid in 1936	O2	104,000	2,208	106,208
Balance accrued December 31, 1936		$ 24,000	292	24,292
Details of balance at December 31, 1936				
5% on $1,920,000 par value—3 months		$ 24,000		
5% on 35,000 face value—60 days			292	

S 1

ASHTON METAL PRODUCTS CO.

5% Sinking Fund Debentures Due 1942

December 31st, 1936

		Issued	Retired	Outstanding
Balance December 31, 1935		$3,200,000	960,000	2,240,000
Retired in 1936 as per provision of sinking fund agreement—as below			320,000	320,000
Balance December 31, 1936	S2	$3,200,000	1,280,000	1,920,000

Sinking fund provides for annual retirement of $320,000 par value of debentures. In 1936 this retirement resulted in a profit as follows:

Par value—as above		$320,000
Cost	O2	301,500
		18,500
Discount thereon	H1	9,600
Profit on debentures retired		$ 8,900

Purchase slips from brokers checked for purchases in 1936.

S 2

TENTH TRUST COMPANY
OF NEW YORK
NEW YORK, N. Y.

January 6th, 1937

KEAN, SWIFT & CO.,
NEW YORK CITY

GENTLEMEN:

Pursuant to a request dated January 4th, 1937, we hereby certify to the following information according to our records with respect to the 5% Sinking Fund Debentures due 1942 of Ashton Metal Products Company as of the close of business December 31st, 1936:

1. Principal amount of securities certified and delivered in original issues	$3,200,000
2. Principal amount of securities cancelled in reduction of issue	1,280,000
3. Principal amount of securities outstanding	1,920,000
4. Principal amount of securities held alive in Sinking Fund	NONE
5. Principal amount of collateral securities held	NONE

6. Cash balance:

Release a/c	NONE	Redemption a/c	NONE
Coupons a/c	NONE	Sinking fund a/c	NONE

Very truly yours,
TENTH TRUST COMPANY OF NEW YORK
By John Browdie,
Authorized Officer

T 1

ASHTON METAL PRODUCTS CO.
RESERVE FOR CONTINGENCIES
December 31st, 1936

Amount reserved to cover possible liability for additional Federal income taxes for years 1933 and 1934 and legal fees in connection therewith, charged to surplus	W1	$50,000

This reserve was authorized as of Dec. 31, 1936, by board of directors at meeting held Feb. 4, 1937.

V 1

ASHTON METAL PRODUCTS CO.
CAPITAL STOCK
December 31st, 1936

		Shares	Amount
Common			
Authorized 600,000 shares with no par value			
Issued:			
Jan. 1, 1915, for cash		200,000	$1,000,000
Jan. 1, 1917, for 20,000 shares Dalton Metal Products Co.		250,000	2,483,250
Jan. 1, 1921, for 22,500 shares Coles Mfg. Co. stock		112,500	1,499,350
June 30, 1928,—part payment for net assets of Goliath Mfg. Co. at value approved by board of directors		37,500	500,000
Outstanding at December 31, 1936	V2-V3	600,000	$5,482,600
6% Cumulative Preferred			
Authorized 10,000 shares of the par value of $100 each			
Issued:			
Jan. 1, 1921, for cash		7,500	$ 750,000
June 30, 1928,—part payment for net assets of Goliath Mfg. Co.		2,500	250,000
Outstanding at December 31, 1936	V2-V3	10,000	$1,000,000

No change in either capital stock account during 1936.

V 2

NINTH NEW YORK TRUST COMPANY
NEW YORK, N. Y.

January 18th, 1937

KEAN, SWIFT & CO.,
NEW YORK CITY

GENTLEMEN:

We hereby certify that there were registered and outstanding according to the books of the company kept by us as registrar as of the close of business December 31st, 1936, certificates of stock of the Ashton Metal Products Company representing the following shares:

Common Capital no-par stock	600,000 shares
Cumulative 6% Preferred $100 par stock	10,000 shares

Yours very truly,
NINTH NEW YORK TRUST COMPANY,
Registrar
By SAMPSON BRASS,
Assistant Secretary

V 3

EIGHTH TRUST COMPANY
OF NEW YORK
NEW YORK, N. Y.

January 19th, 1937

KEAN, SWIFT & CO.,
NEW YORK CITY

GENTLEMEN:

In compliance with a request of the Ashton Metal Products Company, we wish to advise that our records as transfer agent indicate that the following shares of stock of that company were outstanding at the close of business December 31st, 1936:

Common Capital no-par stock	600,000 shares
Cumulative 6% Preferred $100 par stock	10,000 shares

Very truly yours,
EIGHTH TRUST COMPANY OF NEW YORK
By BARNABY RUDGE,
Vice-President

W 1

ASHTON METAL PRODUCTS CO.

SURPLUS

DECEMBER 31ST 1936

Balance December 31, 1935			$ 1,062,171
Adjustment:			
Transferred to Reserve for Contingencies	T1	$ 50,000	
Net income of the year - as below			614,018
Dividends declared and paid	W2	630,000	
Balance December 31, 1936		996,189	
		$ 1,676,189	1,676,189

Preliminary 1936 income - per books		$ 627,068
Adjust inventories to physical - finished goods	D1	10,120
- goods in process	D2	7,140
- raw materials	D3	2,200
- supplies	E1	210
Repairs charged in error to machinery and equipment (through construction account)	K2	5,280
Reverse depreciation charged on above	L1	264
Increase provision for doubtful accounts	C2	490
Adjust unexpired insurance	G1	25
Net income of the year before Federal income tax adjustment	Q2	616,567
Adjust provision for 1936 Federal income tax	Q2	2,549
Net Income of the year - as above		$ 614,018

W 2

ASHTON METAL PRODUCTS CO.

DIVIDENDS DECLARED

YEAR 1936

Number	Declared	To stockholders of record	Payable	Shares	Rate		Amount
On 6% preferred stock:							
31	Jan. 10, 1936	Feb. 1, 1936	Feb. 15, 1936	10,000	$ 3.00		30,000
32	July 10, 1936	Aug. 1, 1936	Aug. 15, 1936	10,000	3.00		30,000
						A3	60,000
On common stock:							
73	Feb. 7, 1936	Feb.29, 1936	Mar. 16, 1936	600,000	.15		90,000
74	May 8, 1936	May 30, 1936	June 16, 1936	600,000	.15		90,000
75	Aug. 7, 1936	Aug.31, 1936	Sept.16, 1936	600,000	.15		90,000
76	Nov. 27, 1936	Dec. 4, 1936	Dec. 16, 1936	600,000	.15		90,000
77 extra	Nov. 27, 1936	Dec. 4, 1936	Dec. 16, 1936	600,000	.35		210,000
						A3	570,000
							$ 630,000

W1

Z 1

ASHTON METAL PRODUCTS CO.

MINUTES

Year 1936

Stockholders' annual meeting—April 21, 1936.

Election of directors—Messrs. Crane, Cringle, Drood, Durward, Frome, Lapham, Nickleby, Shrig, Weller and Wynne.

Directors' meetings:

Jan. 10, 1936

Dividend of $3.00 declared on 6% cumulative preferred stock, payable Feb. 15 to stockholders of record Feb. 1. Construction appropriations Nos. M 8063 to 8070 approved.

Feb. 7, 1936

Dividend of 15 cents declared on common stock, payable Mar. 16 to stockholders of record Feb. 29.

Apr. 21, 1936

Officers elected as follows:

President	—Ethan Frome
Vice-president	—Carl Wynne
Vice-president	—Will Scarlet
Secretary	—Charles Brewster
Treasurer	—Sidney Carton
Assistant treasurer	—Uriah Heep

May 8, 1936

Dividend of 15 cents declared on common stock, payable June 16 to stockholders of record May 30.

June 5, 1936

Loan of $35,000 to Carl Wynne approved. Loan to be repaid $17,500 in December, 1936, and the balance in June, 1937.

July 10, 1936

Dividend of $3.00 declared on 6% cumulative preferred stock, payable Aug. 15 to stockholders of record Aug. 1.

Aug. 7, 1936

Dividend of 15 cents declared on common stock, payable Sept. 16 to stockholders of record Aug. 31.

Construction appropriations B 800 and M 8071 and 8072 approved.

Discussion of effect of new tax legislation on dividend policy of company. Resolved to delay dividend action until meeting to be held late in November.

Nov. 27, 1936

Report of executive committee on probable effect of new tax bill on company's operations and future dividend policy read and approved. Report of treasurer showing estimated profit for year considered and following dividends declared on common stock:

Regular dividend of 15 cents,

Extra dividend of 35 cents,

both payable Dec. 16 to stockholders of record December 4.

AA 1

ASHTON METAL PRODUCTS CO.

NET SALES

Year 1936

	Machine parts	Die stampings	Screw machine products	Total
Sales	$1,134,170	1,582,740	2,178,430	4,895,340
Deductions from sales:				
Sales returns and allowances	53,840	29,480	88,830	172,150
Sales freight	49,240	37,760	37,390	124,390
Discounts allowed			32,440	32,440
	103,080	67,240	158,660	328,980
Net sales	$1,031,090	1,515,500	2,019,770	4,566,360
				C3

The above figures are taken from the cumulative monthly summaries prepared by the company. All products are sold through Brooke Sales Co. and the above totals agree with credits for sales and charges for sales deductions as shown in the analysis of current account with Brooke—schedule C3.

BB 1

ASHTON METAL PRODUCTS CO.

RAW MATERIALS USED

Year 1936

	Per trial balance	Adjustments	Adjusted
Steel purchased	$1,109,300		1,109,300
Brass purchased	642,400		642,400
Change in inventory—raw materials	42,170	2,200	39,970
	$1,709,530	2,200	1,711,730

	Quantity	Price	Amount
Steel purchased—per trial balance	22,639	$49.00	1,109,300
Inventory, Jan. 1, 1936	1,500	48.00	72,000
Inventory, Dec. 31, 1936	2,100	50.00	105,000
Steel used	22,039	$48.84	1,076,300
Brass purchased—per trial balance	5,840,000	$ .11	642,400
Inventory, Jan. 1, 1936	332,800	.10	33,280
Inventory, Dec. 31, 1936	365,909	.11	40,250
Brass used	5,806,891	$ .1094	635,430

Figures for quantities purchased were summarized from current account with Coles Mfg. Co. which schedule is not included in these papers—see C3.

BB 2

ASHTON METAL PRODUCTS CO.

MANUFACTURING EXPENSE

Year 1936

Electric power		$ 34,710
Insurance	G1	15,695
Taxes	Q1	41,272
Royalty		5,200
Sundry supplies		103,260
Sundry expenses		9,836
Per trial balance		209,973
Inventory of sundry operating supplies—adjustment to physical	E1	72
		$209,901

Distribution to departments

	Per books	Adjust inventory to physical	As adjusted
Machine parts	$ 47,680		47,680
Die stampings	76,278		76,278
Screw machine products	86,015	72	85,943
Total as above	$209,973	72	209,901

The company maintains an analysis of manufacturing expenses which gives details both as to nature of the expense and as to department charged for cost purposes from which the above figures were obtained.

BB 3

ASHTON METAL PRODUCTS CO.

REPAIR LABOR AND EXPENSE

Year 1936

	Labor	Supplies and expense	Total
Machine parts dept.	$ 21,740	30,563	52,303
Die stampings dept.	25,460	16,961	42,421
Screw machine products dept.	50,160	32,424	82,584
Per trial balance	97,360	79,948	177,308
Add—repairs charged to construction in error—screw machine products dept. K3	3,860	1,420	5,280
Deduct—adjustment of supply inventories to physical:			
Spare parts—machine parts dept. E1		127	138
Repair supplies—machine parts dept. E1		11	
	$101,220	81,230	182,450

The company maintains an analysis of repair expenses which gives details of labor and other items charged to this account for each department, from which the above figures were obtained.

DD 1

ASHTON METAL PRODUCTS CO.

MISCELLANEOUS INCOME

Year 1936

Profit on sale of securities	B1	$ 780
Rent of building	A2	9,500
Collection of account previously charged off	A2	140
Per trial balance		$10,420

Note to the reader: This schedule is a summary of a ledger account which would in all probability need to be analyzed, possibly by individual items. The analysis is not shown. The reference or proof with other schedules is as indicated.

EE 1

ASHTON METAL PRODUCTS CO.

OFFICE SALARIES

Year 1936

Officers' salaries:	
Ethan Frome, President	$ 36,000
Carl Wynne, Vice-president	20,000
Will Scarlet, Vice-president	18,000
Charles Brewster, Secretary	8,500
Sidney Carton, Treasurer	10,000
Uriah Heep, Asst. treasurer	7,500
	100,000
Office salaries	52,810
Per trial balance	$152,810
	P1

Note to the reader: This schedule is prepared principally for Federal income-tax purposes.

EE 2

ASHTON METAL PRODUCTS CO.

COMMISSIONS PAID

Year 1936

Commissions paid to Brooke Sales Co. at 5% on sales less returns:		
Machine parts—Gross sales	$1,134,170	
Less returns	53,840	
Net sales	$1,080,330	54,017
Die stampings—Gross sales	$1,582,740	
Less returns	29,480	
Net sales	$1,553,260	77,663
Screw machine products—Gross sales	$2,178,430	
Less returns	88,830	
Net sales	$2,089,600	104,480
Per trial balance		$236,160
		C3

Commissions paid were checked in total by the above calculations and agreed with current account with Brooke Sales Co.

EE 3

ASHTON METAL PRODUCTS CO.

General Expense

Year 1936

	Distribution for report all miscellaneous general except		
Taxes	Taxes	Q1	$ 38,398
Insurance		G1	2,075
Advertising	Selling		12,000
Registrar and transfer agent			5,000
Legal			25,000
Auditing			12,000
Dues and subscriptions			2,600
Directors' fees			1,200
Bad debts	Doubtful accounts		110
Miscellaneous			5,405
Per trial balance			103,788
Additional bad debts	Doubtful accounts	C2	490
Adjust unexpired insurance		G1	25
			$104,303

An analysis of general expenses is maintained by the company from which the above details have been taken.

Alternative Schedules—Ashton Metal Products Co.

In order to illustrate other methods of preparing schedules than those used to support the classification of accounts, examples are given of six schedules, four of which are leading schedules supporting a working balance-sheet. The totals of the various items agree with the balance-sheet figures supported by the classification of accounts and schedule of book accounts. This method consists essentially in summarizing the various accounts composing the balance-sheet items, together with any adjustments to them on one page and using the total of that page as the figure which appears in the working balance-sheet. It is a method which is in use by leading firms and may, in some cases, be preferred to the method used as the principal example.

Four of the schedules shown, 1A, 1B, 1D and 1F, are sometimes known as "lead" schedules. The details of supporting schedules showing the composition of the individual ledger accounts would be substantially the same as those shown on pages 171 to 216. A complete set of these lead schedules is not given as it is thought that the four shown are sufficient to illustrate the method.

ASHTON METAL PRODUCTS COMPANY

CASH IN BANK AND ON HAND

1 A 12/31/36

	12/31/35	12/31/36		
	Per K. S. & Co.	Per books	K. S. & Co. adjustments	Final
Cash in bank—				
Ashton State Bank & Trust Co.				
General account..........A1	$439,285	285,698		285,698
Payroll account..........A5	300	300		300
Ashton Trust Co.				
Time deposit account.....A7		10,000		10,000
Total in bank............	439,585	295,998		295,998
Petty cash..................A8	500	500		500
	$440,085	296,498		296,498
				to B/S

ASHTON METAL PRODUCTS COMPANY

MARKETABLE SECURITIES AND INVESTMENTS

1 B 12/31/36

	12/31/35	12/31/36		
	Per K. S. & Co.	Per books	K. S. & Co. adjustments	Final
Balance-sheet classifications				
Investments in subsidiaries	$5,582,600	5,582,600		5,582,600
				to B/S
Marketable securities				
Bonds..............B2	71,975	56,125		56,125
Stocks—Preferred....B2	10,375	10,375		10,375
—Common....B2	28,600	46,750		46,750
B2	110,950	113,250		113,250
				to B/S
Other investments				
Stocks—Preferred......	61,880	61,880		61,880
—Common......	175,010	175,010		175,010
	236,890	236,890		236,890
				to B/S
General-ledger account classifications				
Investment in subsidiaries I1	5,582,600	5,582,600		5,582,600
Marketable securities...B1	65,850	99,250		99,250
Other investments......I2	281,990	250,890		250,890
Total (Reclassified above for B/S).............	$5,930,440	5,932,740		5,932,740

ASHTON METAL PRODUCTS COMPANY

MARKETABLE SECURITIES

Description of Security	12/31/35 Par value or number of shares	12/31/35 Book value	Purchased and sold Date	Purchased and sold Par value or number of shares	Purchased and sold Cost	Profit or loss	12/31/36 Par value or number of shares	12/31/36 Book value	Interest and dividends Dates	Accrued 12/31/35	Purch-ased	Earned	Received	Accrued 12/31/36
Marketable securities:-														
Bonds:														
New Era Railroad Co., Genl. Mtg. 6s, 1936	$ 20,000	19,350	10/1	$ 20,000	19,350	$ 650			A/01	$ 300		900	1,200	-
Old Line Railroad Co., Refg. & Genl. 4½s, 1981	20,000	16,125					$ 20,000v	16,125	M/N1	300		900	900	300
Northeastern Amalgamated Manufacturing Co., 4s, 1965	5,000	5,200					5,000v	5,200	F/A15	25		200	200	25
Bosthaven Rapid Transit Co., S.F. 6s, 1942	10,000	8,800					10,000v	8,800	M/S1	100		600	600	100
Thames and Connecticut Railway Co., Debentures 6s, 1940	25,000	22,500	6/30	25,000	22,500	5,000	-	-	J/J1	750		750	1,500	-
Southeast American Utilities Corp'n., 4s, 1976			7/1	25,000	26,000		25,000v	26,000	A/01	-	250	500	500	250
	80,000	71,975		20,000	15,850	5,650	60,000	56,125		1,475	250	3,850	4,900	675
								To B						
Stocks:-														
Preferred:														
Premier Manufacturing Co., 6%	100 sh.	10,375					100 sh.x	10,375				600	600	
								To B						
Common:														
Steel and Iron Fabricators, Inc.	200 sh.	20,000					200 sh.x	20,000				500	500	
Eagle Aircraft Corp'n. - no par	1,000 sh.	8,600	1/7	1,000 sh.	8,600	4,870	-	-						
United General Co.			2/1	100 sh.	7,500		100 sh.x	7,500				400	400	
Premier Manufacturing Co.			3/1	200 sh.	19,250		200 sh.x	19,250				200	200	
		28,600			18,150	4,870		46,750				1,100	1,100	
								To B						
		$ 110,950			$ 2,300	$ 780		$ 113,250						
								To B						

Purchases and sales may be entered in separate columns if transactions are more numerous and involved than in the case of this company.

In current practice it is usual to provide columns to reflect year end values based on market quotations, and the lower of cost or market values.

v Confirmed by certificate from Custody Department of Ashton State Bank and Trust Co. as of the close of business on December 31, 1936.

x Examined at vaults of Ashton State Bank and Trust Co. on January 2, 1937 by R. E. Swift.

1
D
12/31/36

ASHTON METAL PRODUCTS CO.

BALANCES WITH AFFILIATED COMPANIES

Due from or to	12/31/35 Per K.S. & Co.	12/31/36 Per books	K.S. & Co. Adjustments	Final
Brooke Sales Co.	$ 149,755	110,320 ▼		110,320
Coles Manufacturing Co.	104,340	232,150 ▼		232,150
Dalton Metal Products Co.	325,450	199,620 ▼		199,620
Ednor Metal Machinery Co.	154,210	120,510 ▼		120,510
Fulton Railway Co.	8,240	5,210 ▼		5,210
Debit balances	629,415	430,450		430,450 To B/S
Credit balances	112,580	237,360		237,360 To B/S

▼ Above balances compared with balances shown in working papers for the respective companies and found in agreement.

J.E.M.

NOTE - The advantages of entering all balances (indicating debit and credit) with affiliated companies on one lead schedule are stated below:

(1) Balances, whether debit or credit, may be more readily referred to when concentrated on one schedule.

(2) Comparison with the balance at the end of the preceding period is facilitated, even though the balance may have changed from debit to credit, or vice versa.

(3) Where the company has segregated transactions on its books for accounting convenience and carries more than one account with another affiliate, the aggregate or net balance of the several reciprocal intercompany accounts may be established, thus avoiding consolidating differences in the debit and credit totals for elimination.

By accumulating separate totals for the companies with which debit and credit balances are carried, the advantage of separate schedules for the debit and credit groups is preserved for posting to asset and liability sides of the balance sheet.

1
F
12/31/36

ASHTON METAL PRODUCTS CO.

LAND, BUILDINGS, MACHINERY AND EQUIPMENT, ETC.

	12/31/35 Per K. S. & Co.	12/31/36 Per books	K. S. & Co. adjustments	Final
Land	$ 350,230	350,230		350,230
				to B/S
Depreciable:				
Buildings	947,220	956,550		956,550
Machinery and equipment	2,925,940	3,018,605	5,280	3,013,325
Small tools	14,760	13,710		13,710
Furniture and fixtures	60,550	63,490		63,490
Automobiles and motor trucks	3,980	3,540		3,540
Construction	8,240	10,280		10,280
Total depreciable values	3,960,690	4,066,175	5,280	4,060,895
				to B/S
Total plant, property, etc.	4,310,920	4,416,405	5,280	4,411,125
Reserve for depreciation:				
Buildings	373,148	379,385		379,385
Machinery and equipment	1,223,182	1,247,231	264	1,246,967
Small tools	6,826	5,990		5,990
Furniture and fixtures	26,936	24,175		24,175
Automobiles and motor trucks	2,466	443		443
	1,632,558	1,657,224	264	1,656,960
				to B/S

1
F1
12/31/36

ASHTON METAL PRODUCTS COMPANY

DEPRECIABLE FIXED ASSETS AND RELATED RESERVES - YEAR ENDING DECEMBER 31, 1936

	—	Balance 12/31/35	Additions	Deductions	Inter-company transfers In	Inter-company transfers Out	Reclassi-fications	Balance 12/31/36	Adjustments Dr.	Adjustments Cr.	12/31/36 Final
Depreciable assets:											
Buildings		$ 947,220		15,000			24,330	956,550			956,550
Machinery and equipment:											
7 % Group		540,150		48,685		24,600	121,330	588,195			588,195
8 % "		894,900		60,410		1,720	94,108	926,878			926,878
10 % "		876,270		109,250		30,170	116,850	853,700		5,280	848,420
12-1/2% "		614,620		68.380			103,592	649,832			649,832
Total machinery and equipment		2,925,940		286,725		56,490	435,880	3,018,605		5,280	3,013,325
Small tools		14,760	2,270	3,520				13,710			13,710
Furniture and fixtures		60,550	15,860	3,150		9,770		63,490			63,490
Automobiles and motor trucks		3,980	3,540	3,980				3,540			3,540
Construction		8,240	401,396		60,854		460,210	10,280			10,280
Totals		3,960,690	423,066	312,175	60,854	66,260	-	4,066,175		5,280	4,060,895
Reserve for depreciation:											
Buildings	2%	373,148	19,037	12,800				379,385			379,385
Machinery and equipment:											
7 % Group		280,877	39,493	38,321		3,527		278,522			278,522
8 % "		347,650	72,871	51,828		138		368,555			368,555
10 % "		426,939	86,499	116,236				397,152	264		396,888
12-1/2% "		167,716	79,029	28,658		15,085		203,002			203,002
Total - machinery and equipment		1,223,182	277,892	235,093		18,750		1,247,231	264		1,246,967
Small tools	10%	6,826	1,424	2,260				5,990			5,990
Furniture and fixtures	10%	26,936	6,202	983		7,980		24,175			24,175
Automobiles and motor trucks	25%	2,466	940	2,963				443			443
Totals		1,632,558	305,495	254,099		26,730		1,657,224	264		1,656,960

Schedules of Book Accounts—Brooke Sales Co.

As the Brooke Sales Company is the selling company of the consolidated enterprise used as an example, it is necessary, in order to give examples of customary schedules for accounts receivable and reserve for bad debts, to give supporting schedules for these accounts for the selling company. Supporting schedules for the other subsidiary companies are not given as they would be the same in form and principle as those used for the Ashton Metal Products Company.

ACCOUNTS RECEIVABLE - DECEMBER 31ST 1936

Accounts receivable	Balance Dec. 31, 1936	Paid in January 1937	Comments of Mr. A. Large, Credit Manager
A - M Ledger			
Aristotle Auto Concern	$ 26,480	25,100	Old balance $575 (May 1936) in dispute, expected settlement 50%. Balance current.
Brunsvelt Screw Co.	38,750	5,800	Although past due to extent of $9,660. this account is considered good.
Carousel Manufacturing Co., Inc.	33,940	3,900	Seasonal business. Longer credit term extended during off season.
Dardenel Parts, Inc.	19,550	18,200	December billings.
Esten Motors, Inc.	63,280	21,800	Old customer. Account will be reduced when delivery of new models commences.
Grand View Corp'n., Ltd.	2,760	150	Account considered doubtful.
Monarchy Steel Products, Inc.	14,430	10,300	November and December account. Good.
400 other debit balances, largest $1,000, aggregating	185,360		
20 credit balances, largest $500, aggregating	4,500		
	380,050		
N - Z Ledger			
Nobility Presser Co.	25,720	10,400	Always slow. Promises to reduce balance to $20,000.
Overhead Machinery, Inc.	75,860	14,210	Sells on installment plan. 120 days allowed. Account for Sept. $16,180 now past due.
Playtime Products Co.	1,420	- -	No further credit being extended. Probably some loss - say $500.
Royal Machine Products Co.	20,460	20,460	Good account - paid in January
Steel and Brass, Inc.	47,500	45,100	Good account - special discount arrangement see C 4.
United General Corp'n.	28,610	23,400	October billing $2,500 in dispute. Expect full settlement
Union Die Products, Inc.	12,400	- -	September account. Payment promised in February.
Votan Manufacturing Co.	1,560	- -	Goods returned for changes. Will be shipped again in February.
250 other accounts, largest $1.000, aggregating	123,680		
	337,210		
Per trial balance	$ 717,260		
Suspended accounts			
Ashton Metal Fabricators	$ 1,960		In receivership expected recovery 10%.
Bosstown Brass Works	11,430		Reorganization. 50% offered but not accepted. May take securities.
Jonah Radiator Co.	980		Some recovery expected. Owner promises full payment although company is bankrupt.
Krunchly's Auto Parts, Inc.	240		Bankruptcy petition filed. Some recovery expected.
Great Lakes Supplies, Ltd.	4,450		Old customer. Now shipping C.O.D. Will pay if conditions improve. Considered doubtful.
Per trial balance	$ 19,060		

Complete lists of accounts receivable furnished by company were footed and compared in detail with customers' ledgers. Comments of Mr. Large verified as to billing dates, etc.

Note to the reader: In practice a complete list of accounts receivable would be included in the working papers and would be examined. For illustration a partial list is included here.

C 2

BROOKE SALES CO.

ACCOUNTS RECEIVABLE

December 31st, 1936

	Dec. 31, 1935	Dec. 31, 1936	Payments since Dec. 31, 1936
November and December accounts	$414,840	483,680	272,560
October	130,320	112,430	95,620
September	110,860	80,210	59,400
August	39,440	15,300	14,210
Older than August	58,760	30,140	10,630
Credit balances	2,900	4,500	3,900
	$751,320	717,260	

Statement showing aging of accounts examined and compared with customers' ledgers. Usual credit terms 2%–20; net 60 days.

Credit conditions discussed with Mr. Large, credit manager.

Bulk of overdue balances considered collectible. Proportion has been appreciably reduced in year. Reserve appears adequate—see schedule C3.

C 3

BROOKE SALES CO.

RESERVE FOR BAD DEBTS

December 31st, 1936

Balance, December 31, 1935		$18,340
Reserve provided for additional doubtful accounts		12,240
Bad accounts written off—details below	$ 2,860	
Balance, December 31, 1936	27,720	
	$30,580	30,580

Reserve at December 31, 1936, covers following accounts:

Suspended accounts:	
Ashton Metal Fabricators	$ 1,800
Bosstown Brass Works	5,000
Jonah Radiator Co.	980
Krunchleys Auto Parts, Inc.	240
Great Lakes Supplies, Ltd.	4,450
A—M Ledger:	
Aristotle Auto Concern	300
Grand View Corpn., Ltd.	2,500
Sundry accounts	7,530
N—Z Ledger:	
Playtime Products Co.	500
Sundry accounts	4,420
As above	$27,720

Accounts written off

Bayline Brass Co.	$ 1,250
John Deer Co.	525
Alex Alexander, Inc.	1,085
As above	$ 2,860

Approval of Mr. Brooke, president, for additional provision for doubtful accounts and of write-off noted on journal entries.

Reserve appears to be adequate.

C 4

BROOKE SALES CO.

RESERVE FOR CASH DISCOUNTS

December 31st, 1936

Reserve for cash discounts based on experience tables which show an average of .8% on sales:		
Reserve calculated on billings—Dec. 10–31, 1936		
Billings	$515,000	
Reserve at .8%		$4,120

C 5

BROOKE SALES CO.

NOTES AND ACCEPTANCES RECEIVABLE

December 31st, 1936

	Dated	Due	Interest rate	Amount	Comments
Appagheny Corpn.	Oct. 15, 1936	Feb. 15, 1937	6%	$ 4,000	Seen
Burston Machines, Inc.	Nov. 10, 1936	Feb. 10, 1937	6%	2,500	Seen
Grandly Sales Co.	Oct. 20, 1936	Jan. 20, 1937	6%	1,500	Paid in Jan.
Overhead Machinery, Inc.	July 1, 1936	Mar. 30, 1937	6%	10,600	Seen
Rollem Steel Co.	Sept. 15, 1936	Jan. 15, 1937	6%	3,200	Paid in Jan.
Service Parts Corpn.	Dec. 5, 1936	Mar. 5, 1937	6%	2,900	Seen
				$24,700	

Notes marked "seen" were examined in office of Mr. Small, treasurer, on Jan. 30.

List was compared with notes receivable record. Dates, interest rates and amounts were checked.

Note of Appagheny Corpn. endorsed for $500 paid in January, signed by A. R. Small, treasurer.

All of the above notes were considered good by Mr. Small.

Other Examples of the Use for the Classification of Accounts

Classifications of accounts are shown for the following supposititious organizations:

Fulton Railway Company
Cool-Aire Service Corporation
Sellburk Mercantile Company
The Estate of Hugh Wynne

Financial statements are also included for all but the first company which forms part of the consolidated group of the Ashton Metal Products Company. Individual working papers are not shown as these would follow the general form of those given for the Ashton Metal Products Company.

The Fulton Railway Company illustrates the method of keeping the books according to a prescribed classification, in this case, that of the Interstate Commerce Commission, and at the same time, preparing statements to be included in a consolidation classified in an entirely different manner. This also would apply to public utility and other corporations which are required to keep their accounts according to a specific system but which at the same time must be consolidated with the companies by which they are owned.

The Cool-Aire Service Corporation shows how this method may be applied to a company primarily engaged in rendering and servicing equipment where a large number of accounts are required for operating purposes which are reduced to a comparatively simple financial statement.

The Sellburk Mercantile Company illustrates another type of business to which this method can be applied without difficulty. This company, which is a partnership, and the Estate of Hugh Wynne illustrate the applicability of the classification of accounts to other than corporate enterprises.

FULTON RAILWAY CO.

BALANCE SHEET - DECEMBER 31ST 1936

	Per Books December 31st 1935	Per Books December 31st 1936	Cash	Accounts receivable-trade, less reserve	Supplies	Prepaid expenses	Land	Buildings, machinery and equipment	Reserve for depreciation	Accounts payable-trade	Wages and salaries payable	Taxes accrued	Capital stock	Surplus Dec. 31, 1935	Dividends paid year 1936	Income year 1936
Road	$ 1,629,760	1,620,610					1,216,760	403,850								
Equipment:																
Locomotives	457,140	457,140						457,140								
Freight-train cars	302,480	312,180						312,180								
Passenger-train cars	65,910	66,100						66,100								
Work equipment	10,130	10,130						10,130								
Miscellaneous equipment	3,860	3,850						3,850								
General expenditures	102,300	102,300					102,300									
Cash	12,540	11,240	11,240													
Net balances receivable from Agents and Conductors	5,930	3,280		3,280												
Traffic and car service balances receivable	43,390	36,170		36,170												
Miscellaneous Accounts Receivable	930	790		790												
Materials and Supplies	47,980	48,280			43,300	4,980										
Rents and Insurance Premiums paid in advance	490	450				450										
Other Unadjusted Debits	1,130															
Common Capital Stock	2,000,000	2,000,000											2,000,000			
Audited Accounts and Wages Payable	5,730	6,180								1,790	4,390					
Traffic and car service balances payable	63,180	15,720								15,720						
Liability for Provident Funds	1,380	1,470								1,470						
Tax Liability	7,390	9,110										9,110				
Other Deferred Liabilities	5,060	4,320								4,320						
Accrued Depreciation - Road	114,470	138,830							138,830							
Accrued Depreciation - Equipment	402,910	413,290							413,290							
Other Unadjusted Credits	180	340								340						
Profit and Loss - Balance	83,670	83,260												83,670	28,000	27,590
			11,240	40,240	43,300	5,430	1,319,060	1,253,250	552,120	23,640	4,390	9,110	2,000,000	83,670	28,000	27,590
Adjust Federal Income Tax												596				596
			$ 11,240	40,240	43,300	5,430	1,319,060	1,253,250	552,120	23,640	4,390	8,514	2,000,000	83,670	28,000	28,186

FULTON RAILWAY CO.

INCOME ACCOUNT - YEAR 1936

	Per Books Year 1935	Per Books Year 1936	Sales	Cost of sales	Miscellaneous other income	Loss on plant sold or scrapped	Depreciation and obsolescence	Federal income tax	Balance
Operating Revenues:									
Freight Transportation	$ 264,980	287,430	287,430						
Passenger Transportation	1,450	1,320	1,320						
Other Transportation	29,030	27,140	27,140						
Rent from Equipment	6,290	6,170	6,170						
Miscellaneous Income	3,170	4,230	4,230						
Operating Expenses:									
Maintenance of Way and Structures	49,290	53,920		31,856			22,064		
Maintenance of Equipment	71,860	77,470		11,311		9,300	56,859		
Transportation	105,460	109,150		109,150					
Traffic	4,130	4,790		4,790					
General	34,120	37,140		37,140					
Miscellaneous Rent Income	310	310			310				
Railway Tax Accruals	15,030	16,540		12,130				4,410	
Balance	25,370	27,590							27,590
			326,290	206,377	310	9,300	78,923	4,410	27,590
Adjust Federal Income Tax								596	596
			$ 326,290	206,377	310	9,300	78,923	3,814	28,186

COOL-AIRE SERVICE CORP'N.

BALANCE SHEET - DECEMBER 31ST 1936

	Per books Dec. 31, 1935	Per books Dec. 31, 1936	Cooling and condition-ing machines	Fixtures, auto-mobiles and trucks	Reserve for deprec-iation	Insurance unexpired	Service parts and supplies	Accounts receiv-able	Cash	Capital stock	Rentals received in advance	Taxes accrued State and municipal	Taxes accrued Federal income	Accounts payable	Dividend payable	Surplus Balance Dec. 31, 1935	Surplus Income 1936	Surplus Dividend
Rental Equipment:																		
Coolers - Type K-1	$ 12,202	13,982	13,982															
Coolers - Type G-2	14,680	14,101	14,101															
Conditioners - Type A.C.-2	56,808	64,924	64,924															
Conditioners - Type S 34	13,506	73,102	73,102															
Equipment on hand:																		
Coolers - Type G-2	3,204	2,680	2,680															
Conditioners - Type A.C.-2	6,104	4,960	4,960															
Conditioners - Type S 34	-	12,967	12,967															
Office and shop equipment	3,684	4,202		4,202														
Automobiles and trucks	2,561	3,778		3,778														
Service parts and supplies	4,923	6,745					6,745											
Accounts receivable - rentals	6,832	18,487						18,487										
- care and maintenance	321	1,007						1,007										
- sales	684	1,891						1,891										
Other accounts receivable	325	414						414										
Cash - First National Bank	28,419	37,526							37,526									
- First Trust Co.	5,000	5,000							5,000									
- State Bank - Payroll Account	500	500							500									
Petty Cash	500	500							500									
Insurance unexpired	482	1,497				1,497												
Capital Stock	100,000	100,000								100,000								
Reserve for depreciation:																		
Rental equipment - Coolers - Type K-1	7,280	8,640			8,640													
- Coolers - Type G-2	6,130	6,982			6,982													
- Conditioners - Type A.C.-2	35,122	48,964			48,964													
- Conditioners - Type S 34	1,837	10,120			10,120													
Equipment on hand - Coolers - Type G-2	650	898			898													
- Conditioners - Type A.C.-2	1,080	832			832													
- Conditioners - Type S 34		906			906													
Office equipment	2,060	2,532			2,532													
Automobiles and motor trucks	2,060	2,382			2,382													
Accounts payable	6,840	24,982												24,982				
Taxes accrued	2,400	11,730										3,860	7,870					
Rentals paid in advance	1,694	6,342									6,342							
Dividends payable		10,000													10,000			
Dividend		10,000																10,000
Surplus	6,418	6,418														6,418		
Balance		49,371															49,371	
			$ 186,716	7,980	82,256	1,497	6,745	21,799	43,526	100,000	6,342	3,860	7,870	24,982	10,000	6,418	49,371	10,000

COOL-AIRE SERVICE CORP'N.

INCOME ACCOUNT

YEAR ENDED DECEMBER 31ST 1936

	Per Books Year 1936	Service rentals and charges	Cost of service	Sales of used equipment	Cost of used equipment sold	Selling expense	General and administrative	Miscellaneous taxes	Interest	Depreciation	Federal income tax	Balance
Income - Rentals	$ 152,906	152,906										
- Care and maintenance	2,483	2,483										
- Sales (Profit on used equipment sold)	6,322			14,896	8,574							
Expenses	68,572		32,165			10,684	25,723					
Taxes - miscellaneous	4,023							4,023				
Depreciation	31,447									31,447		
Interest - net	428								428			
Federal Income Tax	7,870										7,870	
Balance	49,371											49,371
		$ 155,389	32,165	14,896	8,574	10,684	25,723	4,023	428	31,447	7,870	49,371

COOL-AIRE SERVICE CORPORATION

Balance Sheet

December 31st, 1936

Assets

Fixed:		
Cooling and conditioning equipment		$186,716
Fixtures, automobiles and trucks		7,980
		194,696
Less, reserve for depreciation		82,256
		112,440
Current:		
Insurance unexpired	$ 1,497	
Service parts and supplies	6,745	
Accounts receivable	21,799	
Cash	43,526	73,567
		$186,007

Liabilities

Capital Stock:		
Authorized, issued and outstanding 10,000 shares of a par value of $10.00 each		$100,000
Current:		
Rental charges received in advance	$ 6,342	
Miscellaneous taxes accrued	3,860	
Federal income tax accrued	7,870	
Accounts payable	24,982	
Dividend payable	10,000	53,054
Surplus:		
Deficit December 31st, 1935	6,418	
Income year ended December 31st, 1936	49,371	
	42,953	
Dividend No. 2, $1.00 per share	10,000	32,953
		$186,007

COOL-AIRE SERVICE CORPORATION

Income Account

Year Ended December 31st, 1936

Gross Profit:		
Service rentals and charges		$155,389
Cost of service		32,165
		123,224
Sales of used equipment	$14,896	
Cost of used equipment sold	8,574	6,322
		129,546
Expense:		
Selling	10,684	
General and administrative	25,723	
Taxes, other than Federal income taxes	4,023	
Interest paid	428	40,858
Income, before depreciation and provision for Federal income taxes		88,688
Depreciation		31,447
		57,241
Provision for Federal income tax		7,870
Net Income of the Year		$ 49,371

SELLBURK MERCANTILE CO.

BALANCE SHEET

DECEMBER 31ST 1936

	Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	Land	Buildings, fixtures and equipment	Reserve for deprec-iation	Real estate held for sale	Supplies	Inventory of merchan-dise	Accounts receivable: Land sales	Accounts receivable: Customers - less reserve	Accounts receivable: Other	Notes receivable	Cash	Insurance and other expenses prepaid	Accounts payable - trade	Accrued wages	Accrued taxes	Other accrued liabil-ities	Net Worth: Jon Sellers - capital Dec. 31, 1935	Net Worth: Mark Burkett - capital Dec. 31, 1935	Net Worth: Income for year 1936 Jon Sellers share	Net Worth: Income for year 1936 Mark Burkett share	Net Worth: Drawings - year 1936 Jon Sellers	Net Worth: Drawings - year 1936 Mark Burkett
Land	$ 3,000	3,000	3,000																					
Buildings	15,940	15,940		15,940																				
Store fixtures and equipment	37,680	38,940		38,940																				
Automobiles and trucks	3,260	3,400		3,400																				
Reserve for depreciation:																								
Buildings	8,200	8,600			8,600																			
Store fixtures and equipment	16,940	19,835			19,835																			
Automobiles and trucks	1,620	1,673			1,673																			
Notes receivable	2,100	1,830										1,830												
Petit ledger	21,430	26,435								25,982	453													
Doubtful accounts receivable	9,431	8,340								8,340														
Reserve for doubtful accounts receivable	9,431	8,340								8,340														
Claims	1,674	925									925													
Accounts receivable - land sales	2,620	2,140							2,140															
Merchandise Inventory	108,325	126,683						126,683																
Merchandise in Transit	9,230	6,240						6,240																
Merchandise consigned in	-	7,280						7,280																
Consigned Merchandise - Dept. A	-	4,265						4,265																
- Dept. B	-	3,015						3,015																
Reserve for mark-downs	2,680	4,780						4,780																
Insurance unexpired	385	460												460										
Prepaid expenses	1,641	895												895										
Supplies on hand	385	762					762																	
Cash on hand	2,642	3,834											3,834											
Cash in banks	62,430	82,360											82,360											
Real estate held for sale	6,240	6,240				6,240																		
Vouchers payable	19,560	16,900													16,900									
Wages and salaries accrued	1,326	2,240														2,240								
Taxes accrued	4,280	7,060															7,060							
Oil container deposits	320	360																360						
Jon Sellers - drawings		2,500																					2,500	
Mark Burkett - drawings		2,500																						2,500
Jon Sellers - capital	114,696	114,696																	114,696					
Mark Burkett - capital	109,360	109,360																		109,360				
Balance		39,580																			19,790	19,790		
			3,000	58,280	30,108	6,240	762	128,143	2,140	25,982	1,378	1,830	86,194	1,355	16,900	2,240	7,060	360	114,696	109,360	19,790	19,790	2,500	2,500
Correction of accrual for State sales tax																	882				441	441		
			$ 3,000	58,280	30,108	6,240	762	128,143	2,140	25,982	1,378	1,830	86,194	1,355	16,900	2,240	6,178	360	114,696	109,360	20,231	20,231	2,500	2,500

SELLBURK MERCANTILE CO.

INCOME ACCOUNT

YEAR ENDED DECEMBER 31ST 1936

	Year 1935	Year 1936	Sales	Cost of sales	Departmental direct expense	General and office expenses	Doubtful debts collected	Interest received - net	Balance
Sales	$ 508,940	628,902	628,902						
Purchases	388,020	486,321		486,321					
Changes in inventory	5,320	13,268		13,268					
Departmental expense	74,089	86,047			86,047				
General salaries and expense	23,040	25,806				25,806			
Depreciation	4,186	5,016			5,016				
Interest paid	121	64						64	
Interest received	195	385						385	
Discounts earned	2,450	3,422		3,422					
Discount expense	2,160	2,431	2,431						
Sales cash over and short	10	28			28				
Miscellaneous income and expense	198	684				1,775	1,091		
Balance	25,081	39,580							39,580
			626,471	469,631	91,091	27,581	1,091	321	39,580
Correct accrual of State sales tax					882				882
			$ 626,471	469,631	90,209	27,581	1,091	321	40,462

SELLBURK MERCANTILE COMPANY

Balance Sheet

December 31st, 1936

Assets

Fixed:			
Land			$ 3,000
Buildings, store fixtures and equipment		$ 58,280	
Less, reserve for depreciation		30,108	28,172
			31,172
Real Estate Held for Sale			6,240
Current:			
Office and sales supplies		762	
Inventory of merchandise		128,143	
Accounts receivable—land sales		2,140	
Accounts receivable—customers	$34,322		
Less, reserve for uncollectible accounts	8,340	25,982	
Other accounts receivable		1,378	
Notes receivable		1,830	
Cash in banks and on hand		86,194	246,429
Other Assets:			
Insurance unexpired and miscellaneous prepaid expenses			1,355
			$285,196

Liabilities and Net Worth

Current:		
Accounts payable—trade	$ 16,900	
Accrued wages	2,240	
Accrued taxes	6,178	
Miscellaneous accrued liabilities	360	25,678

Net Worth:

	Jon Sellers Capital	Mark Burkett Capital	Total	
Balance at December 31st, 1935	$114,696	109,360	224,056	
Income for the year ended December 31st, 1936, per income account	20,231	20,231	40,462	
Less, drawings	2,500	2,500	5,000	
Net addition to capital accounts	17,731	17,731	35,462	
Balance December 31st, 1936	$132,427	127,091	259,518	259,518
				$285,196

SELLBURK MERCANTILE COMPANY

Income Account

Year Ended December 31st, 1936

Sales of merchandise		$626,471
Cost of merchandise sold		469,631
Gross profit on merchandise sold		156,840
Departmental direct expense		90,209
Departmental profit		66,631
General and office expenses		27,581
		39,050
Add miscellaneous income:		
Collection of accounts previously written off	$1,091	
Interest received—net	321	1,412
Net Income		$ 40,462

ESTATE OF HUGH WYNNE

COMPOSITION OF BALANCE SHEET

DECEMBER 31ST 1936

	Per Books Dec.31,1936	Undistributed: Cash	Undistributed: Securities	Undistributed: Estate of Hugh Wynne	Income and Expense	Distributed: Helen Wynne	Distributed: Carl Wynne	Distributed: Jane Wynne	Distributed: Alice Blaze	Distributed: General
Estate of Hugh Wynne	$ 3,482,015			57,218	962,376	1,596,435	194,495	194,496	194,495	282,500
Helen Wynne - Devisee of Real Estate	561,933					561,933				
Helen Wynne - Specific Legatee	62,194					62,194				
Helen Wynne - Residuary Legatee	575,668					575,668				
Carl Wynne - Residuary Legatee	115,167						115,167			
Jane Wynne - Residuary Legatee	115,168							115,168		
Alice W. Blaze - Residuary Legatee	115,167								115,167	
General Legatees	282,500									282,500
Helen Wynne, Carl Wynne, Jane Wynne, Alice Blaze, Joint Residuary Legatees	634,624					396,640	79,328	79,328	79,328	
Cash	32,160	32,160								
Steel and Iron Fabricators, Inc. - Common	11,234		11,234							
First National Bank	6,000		6,000							
Premier Manufacturing Co. - Preferred	7,824		7,824							
Funeral expenses	8,934				8,934					
Administrative expenses - 1935	4,127				4,127					
- 1936	22,984				22,984					
Business expenses - 1935	160				160					
- 1936	3,420				3,420					
Income - 1935	13,827				13,827					
- 1936	126,934				126,934					
Loss on sale of securities - 1935	38,926				38,926					
- 1936	1,124				1,124					
Taxes paid - 1935	986,920				986,920					
- 1936	36,542				36,542					
		$ 32,160	25,058	57,218						

ESTATE OF HUGH WYNNE

Comparative Balance Sheet

November 7th, 1935, and December 31st, 1936

	November 7th, 1935	December 31st, 1936
Assets		
Real estate	$ 561,933	......
Miscellaneous personal property	62,194	......
Securities	2,791,632	25,058
Accounts receivable	22,168	......
Cash	58,691	32,160
	$3,496,618	57,218
Liabilities		
Accounts payable	$ 14,603	......
Estate of Hugh Wynne	3,482,015	57,218
	$3,496,618	57,218

ESTATE OF HUGH WYNNE—DECEASED NOVEMBER 7TH, 1935

Distribution of Estate Per Books of Account

To December 31st, 1936

Estate of Hugh Wynne—November 7th, 1935		$3,482,015
Income received		140,761
		3,622,776
Less:		
Funeral expenses	$ 8,934	
Administrative expenses	27,111	
Business expenses	3,580	
Loss on sale of securities	40,050	
Taxes	1,023,462	1,103,137
Net Estate		2,519,639
Distributions:		
Helen Wynne—Real estate	561,933	
—Specific (personal property)	62,194	
—Residuary legatee	575,668	
Carl Wynne —Residuary legatee	115,167	
Jane Wynne —Residuary legatee	115,168	
Alice Blaze —Residuary legatee	115,167	
General legatees	282,500	
Joint residuary legatees	634,624	2,462,421
Undistributed		$ 57,218
Cash		$ 32,160
Securities		25,058
As above		$ 57,218

Chapter XIII

CONSOLIDATED REPORTS AND WORKING PAPERS

The consolidated working papers for the hypothetical enterprise taken for an example are designed to produce:

Published accounts for stockholders
Comprehensive report to management
Form 10 K as required by the Securities and Exchange Commission

In order to understand the purpose and function of the working papers it is necessary to be familiar with the reports which are to be produced, and with that purpose in view, and not as models or examples of report writing or Security and Exchange Commission practice, these statements are shown for the Ashton Metal Products Company and subsidiaries.

It is quite possible that in many cases the report to management would not be as elaborate or detailed as is shown here. The greater part of the text of the report is devoted to summarizing and rearranging the results as shown by the accounts to bring special points to the attention of the management or to emphasize certain phases of the operations. There might be many situations where, for instance, the profit before depreciation, Federal taxes and financial charges might be a figure of little or no significance.

In the average manufacturing company situated as is the Ashton Metal Products Company this figure probably is of interest to the management. The data showing the distribution of profit to the various plants might or might not be useful according to circumstances.

As a rule a statement of the changes in financial condition and sources-and-disposition-of-funds statement is of value but is not obligatory. This also applies to the statement of return on investment and changes in plant and equipment.

It is generally desirable to summarize the work which was done in the audit, but this might be shown in much less detail than is indicated in the report and might in rare cases be expanded.

Other statements and statistics might often be useful in a report, but as the report presented is merely something to which schedules may be related and is not intended as a model or criterion, no attempt will be made to discuss these here.

It is also quite possible that some of the schedules included in the report could be omitted where these are of little interest or where the transactions covered are of an insignificant amount.

The report is, however, merely an example in the same way that the working papers are examples and should be considered as neither a maximum nor a minimum.

Following the reports is a chart of the subsidiaries of the Ashton Metal Products Company and a chart showing the relationship of financial books and records of consolidated enterprises to working papers and to the various statements and reports prepared therefrom, after which are presented the following:

The report to management serves three purposes:

One, it gives the management an impartial and detailed review of operations and the company's position.

Two, it provides for reference purposes, statements showing the composition of the various items in the balance-sheet and income account, both by the nature of the item and by companies.

Three, it reconciles the published accounts with the statements included in form 10 K and supports in detail those items in form 10 K which are not required to be supported in reporting to the Securities and Exchange Commission.

With the exception of page 38, descriptive consolidated surplus account, the figures appearing in the report are derived from schedules in the working papers. This surplus account, which goes back to the organization of the company, is assumed to be prepared from previous published accounts and the figures used in it can not be checked in any working papers shown here. It is presented as an example of what has been, in practice, a useful statement for management and one which, once started, is not difficult to maintain from year to year.

The manner in which the reports are prepared from the consolidated working papers is shown in general by the chart, page 307, and the details are explained in the notes to the consolidated working papers.

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

REPORT ON AUDIT

Year Ended December 31st, 1936

KEAN, SWIFT & Co.

Certified Public Accountants

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

REPORT ON AUDIT
Year Ended December 31st, 1936

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KEAN, SWIFT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

New York, N. Y.

TO THE BOARD OF DIRECTORS,
ASHTON METAL PRODUCTS CO.,
ASHTON, OHIO

DEAR SIRS:

We have made a general audit of ASHTON METAL PRODUCTS COMPANY and its subsidiaries for the year ended December 31st, 1936, and present herewith consolidated balance-sheet and income and surplus accounts followed by supporting schedules.

Operations

The operations for the year 1936 of ASHTON METAL PRODUCTS COMPANY and its subsidiaries—Brooke Sales Company, Coles Manufacturing Company, Dalton Metal Products Company, Ednor Metal Machinery Company and Fulton Railway Company resulted in a profit of $1,813,750 before charging depreciation, Federal income taxes, interest and other financial charges as compared with a profit on the same basis for the year 1935 of $1,283,997:

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	Year 1935	Year 1936
Profit on manufacturing and railway operations	$2,497,397	3,106,243
Selling and general expenses (including provision for doubtful accounts)	1,213,400	1,292,493
Operating profit	1,283,997	1,813,750
Depreciation and obsolescence charged off during year	912,820	958,444
	371,177	855,306
Other income (interest, dividends and miscellaneous)	28,735	40,270
Profit on retirement of debentures	10,390	8,900
	410,302	904,476
Interest paid	118,000	101,500
Bond discount written off during year	11,600	10,000
Loss on retirement or disposal of plant and equipment	28,610	59,748
	158,210	171,248
Net profit before Federal income taxes	252,092	733,228
Federal income tax	37,201	112,428
Net profit	214,891	620,800
Of which there has been apportioned to minority stockholders	5,144	12,965
Ashton Metal Products Co. share of net income	$ 209,747	607,835

Net profits per share of common capital stock, after provision for preferred dividends, increased from $.25 for the year 1935 to $.91 for the year 1936. Operating profit improved to the extent of $529,753 over the preceding year, the various subsidiaries contributing to this improvement in the proportions indicated:

		Year 1935	Year 1936	Per cent. increase	Gross profit increase
Ashton Metal Products Co.	Sales	$ 3,976,460	4,566,360	14.835	
	Cost	3,444,469	3,776,287	9.633	$258,082
Dalton Metal Products Co.	Sales	2,725,960	2,960,970	8.621	
	Cost	2,338,394	2,469,456	5.605	103,948
Ednor Metal Machinery Co.	Sales	1,370,820	1,539,580	12.311	
	Cost	1,338,640	1,460,670	9.116	46,730
Fulton Railway Co.	Gross earnings	304,950	326,290	6.998	
	Operating expense	194,760	206,377	5.965	9,723
Coles Manufacturing Co.	Sales	3,023,890	3,518,335	16.351	
	Cost	2,801,820	3,184,995	13.676	111,270
	Total sales and earnings	11,402,080	12,911,535	13.238	
	Cost of sales and operating expense	10,118,083	11,097,785	9.683	
Profit on manufacturing operations		$ 1,283,997	1,813,750		$529,753

There has been a general improvement in the operations of the company during the year 1936 as shown by the following table. One company, the Ednor Metal Machinery Co., which showed a loss of $13,280 in 1935, showed a profit before Federal income tax of $32,250 in 1936, an improvement of $45,530 over the results of the previous year:

	Profit before Federal income tax		
	Year 1935	Year 1936	Increase
Ashton Metal Products Co.	$ 99,513	340,336	240,823
Brooke Sales Co.	12,890	30,080	17,190
Dalton Metal Products Co.	63,909	147,402	83,493
Ednor Metal Machinery Co.	13,280	32,250	45,530
Fulton Railway Co.	29,420	32,000	2,580
Coles Manufacturing Co.	59,640	151,160	91,520
	$252,092	733,228	481,136

Selling and Administrative Expenses

Selling and administrative expenses increased 6.52% over the year 1935 but represented a smaller percentage of net sales of product as shown by the following table, sales having increased 13.97%:

	Selling and administrative expenses (Actual expenses of Brooke Sales Co. substituted for commission charged operating units)					
			Increase or decrease		Per cent. of sales	
	Year 1935	Year 1936	Amount	Per cent.	1935	1936
Ashton Metal Products Co.	$ 429,347	485,295	55,948	13.03	10.80	10.63
Dalton Metal Products Co.	388,693	369,518	19,175	4.93	14.26	12.48
Ednor Metal Machinery Co.	221,250	234,240	12,990	5.87	16.14	15.21
Coles Manufacturing Co.	174,110	203,440	29,330	16.85	31.29	25.77
	$1,213,400	1,292,493	79,093	6.52	13.58	12.69

Changes in Financial Condition

Net current assets decreased $227,958 and the current

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ratio was reduced:

	December 31st 1935	December 31st 1936	Increase or decrease
Current assets	$3,686,954	3,478,913	208,041
Current liabilities	1,201,811	1,221,728	19,917
Net current assets	$2,485,143	2,257,185	227,958
Current ratio	3.07 to 1	2.85 to 1	

During the year funds of $1,697,597 were made available to the company of which $1,640,092 represented cash profit. The sources and disposition of these funds are as follows:

Ashton Metal Products Co. share of net income per income account		$ 607,835
Net income apportioned to minority stockholders		12,965
Total income		620,800
Losses and expenses not involving cash outlay:		
Depreciation	$ 958,444	
Loss on property scrapped and dismantled	59,748	
Discount on debentures written off	10,000	
	1,028,192	
Less profit on retirement of debentures	8,900	1,019,292
Cash profit		1,640,092
Received from sales of equipment		57,505
Total funds available		1,697,597
Expended for:		
Machinery and equipment	972,200	
Debentures retired	301,500	
Dividends paid to stockholders of Ashton Metal Products Co.	630,000	
Dividends paid to minority stockholders	13,000	
	1,916,700	
Increase in prepaid expenses	8,855	1,925,555
Decrease in net current assets		$ 227,958

Return on Investment

The following table shows the income and investment attributable to the various constituent companies and the percentage of return thereon, based on the average investment in net assets at the beginning and end of the year:

	Profit for the year	Average investment in net assets (page 48)	Per cent. return on average investment in net assets
Ashton Metal Products Co.	$287,018	1,919,236	14.9548
Brooke Sales Co.	26,493	711,846	3.7217
Coles Manufacturing Co.	111,362	1,747,281	6.3734
Dalton Metal Products Co.	126,359	2,284,407	5.5314
Ednor Metal Machinery Co.	28,417	492,039	5.7754
Fulton Railway Co.	28,186	2,083,763	1.3526
Consolidated	$607,835	9,238,572	6.5793

Plant and Equipment

During the year the plant and equipment account showed a net increase as follows:

	Buildings and equipment increase or decrease	
	Year 1935	Year 1936
Ashton Metal Products Co.	$ 39,180	100,205
Brooke Sales Co.	9,720	14,090
Dalton Metal Products Co.	89,160	185,020
Ednor Metal Machinery Co.	8,230	6,500
Fulton Railway Co.	4,500	730
Coles Manufacturing Co.	77,290	98,070
	$211,620	404,615

This increase represents the net amount of all entries to plant and equipment accounts made during the year and indicates as nearly as may be ascertained the change in the company's investment in buildings and equipment. This net change, however, is made up of dismantlements, sales and other disposal of property as well as cash expenditure for additions as the following indicates:

Expended for new construction		$972,200
Cost of plant and equipment scrapped or sold	$528,100	
Accumulated depreciation on equipment transferred, charged to reserve	39,485	567,585
Net increase, as above		$404,615

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Balance-sheet, Income and Surplus Accounts

The balance-sheet and income and surplus accounts for the year 1936 have been prepared in accordance with the same principles as were applied to the accounts for the year 1935, and the accounts are shown under the same classifications. They agree substantially with those used for the annual report to the stock exchange and to the Securities and Exchange Commission and, in those cases where there are differences in classification, generally due to grouping items of small amount or little significance, the differences are indicated in the schedules supporting the balance-sheets and income accounts submitted with this report.

Property, plant and equipment of the company are carried at cash cost or in the case of physical properties of Goliath Manufacturing Company acquired in part through the issue of common stock without par value and in part by the issue of 6% cumulative preferred stock of company at an agreed value as approved by the board of directors at the date of acquisition of such properties.

Property, plant and equipment of subsidiaries (the accounts of which are included in the consolidated balance-sheet) are carried at cost to such subsidiaries.

Investments consist of securities held for trade purposes and are shown at cost.

Supplies on hand are valued at cost and prepaid expenses represent payments in advance for services not yet rendered to the company.

Raw materials, goods in process and finished products on hand are valued at cost at December 31st, 1936, which was not in excess of market prices at that date.

We have received certificates from responsible officials certifying to the quantities of material contained in the inventory and to its ownership and condition. We have satisfied ourselves that prices used are correct on the basis stated in the accounts, including fabrication cost

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of products, finished or in process, and have checked the arithmetical accuracy of the greater part of the inventory.

We have satisfied ourselves of the propriety of charges to capital accounts, have examined trade and other accounts receivable and have satisfied ourselves that adequate provision has been made for those considered doubtful or uncollectible, have satisfied ourselves that all known liabilities, contingent or otherwise, have been provided for, and have verified by inspection, by certificates or by correspondence, investments, cash, outstanding capital stock, outstanding debentures and notes payable.

Respectfully submitted,

KEAN, SWIFT & Co.,

Certified Public Accountants

New York, March 9th, 1937

As published to stockholders

ASHTON METAL PRODUCTS COMPANY

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET - DECEMBER 31ST 1936

A S S E T S

CURRENT ASSETS:			
Cash on hand and in banks		$ 746,028	
Marketable securities - at cost (value based on December 31st 1936 market quotations $103,275)		113,250	
Notes and accounts receivable - trade, less reserve for doubtful accounts		991,170	
Inventories of materials and manufactured products - at cost		1,449,395	
Supplies on hand - at cost		161,570	
Accounts receivable from officers and directors		17,500	3,478,913
DEFERRED CHARGES:			
Prepaid expenses		104,495	
Discount and expense on debentures - see note D		50,400	154,895
INVESTMENTS - see note B			236,890
FIXED ASSETS - see note C:			
Land for plant sites, railroad right of way and other lands		2,276,530	
Buildings, machinery and equipment	$ 11,627,405		
Less reserve for depreciation	5,186,300	6,441,105	
Patents		10	8,717,645
			$ 12,588,343

L I A B I L I T I E S

CURRENT LIABILITIES:		
Notes payable - banks	$ 35,000	
Accounts payable - trade	868,847	
Wages and salaries payable	106,961	
Taxes accrued	186,628	
Interest accrued	24,292	1,221,728
ASHTON METAL PRODUCTS COMPANY 5% SINKING FUND DEBENTURES, DUE 1942 - see note E:		
Issued	3,200,000	
Less retired and destroyed	1,280,000	1,920,000
RESERVE for contingencies		50,000
CAPITAL STOCK AND SURPLUS of subsidiary company owned by minority interest		194,125
CAPITAL STOCK:		
6% Cumulative Preferred authorized and issued 10,000 shares of the par value of $100 each	1,000,000	
Common - authorized and issued - 600,000 shares without par value	5,482,600	6,482,600
SURPLUS		2,719,890
		$ 12,588,343

See explanatory notes, page 10.

As published to stockholders

ASHTON METAL PRODUCTS CO.

and Subsidiary Companies

CONSOLIDATED INCOME ACCOUNT - YEAR ENDED DECEMBER 31ST 1936

Sales and earnings		$ 10,182,785
Cost of sales - operating expenses, maintenance and repairs and taxes, except income taxes		7,076,542
Income from operations		3,106,243
Other income:		
Interest and dividends received	$ 12,160	
Profit on debentures retired	8,900	
Miscellaneous other income	28,110	49,170
Total income		3,155,413
Selling and general expense	1,292,493	
Loss on disposal or dismantlement of capital assets	59,748	
Interest - on 5% sinking fund debentures	100,000	
- on notes payable to bank	1,500	
Amortization of debenture discount and expense	10,000	1,463,741
Income before provision for depreciation and obsolescence and Federal income taxes		1,691,672
Provision for depreciation and obsolescence		958,444
Net income before provision for Federal income tax		733,228
Provision for Federal income tax		112,428
Net income		620,800
Minority share of income		12,965
Consolidated net income		$ 607,835

CONSOLIDATED SURPLUS ACCOUNT - YEAR ENDED DECEMBER 31ST 1936

Surplus, December 31st 1935	$ 2,861,215	
Minority interest	69,160	2,792,055
Consolidated net income		607,835
		3,399,890
Dividends paid - on 6% cumulative preferred stock	60,000	
- common stock	570,000	630,000
		2,769,890
Transferred to reserve for contingencies to provide for possible additional income taxes for prior years		50,000
Surplus, December 31st 1936	2,789,015	
Minority interest	69,125	
Consolidated surplus, December 31st 1936		$ 2,719,890

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As published to stockholders

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

Notes to Consolidated Balance Sheet

NOTE A—Principles Applying in Consolidation

In order to present the status of the company's interest in subsidiaries where the interest owned (directly or through other subsidiaries) is 90% or more of the issued stock, the assets and liabilities of said subsidiaries as they appear upon the books of said subsidiaries are distributed under appropriate headings on the consolidated balance-sheet. The interest of minority stockholders of a subsidiary, the accounts of which are consolidated, is shown on the balance-sheet.

NOTE B—Investments—Basis

Investments in sundry companies consist of securities permanently held for trade purposes and are carried at cash cost or, in the case of securities, the value of which has been definitely determined to be less than cash cost, at an approximation to such determined value.

NOTE C—Property, Plant and Equipment—Basis of Valuation

(a) Property, plant and equipment of the company are carried at cash cost or in the case of physical properties of Goliath Manufacturing Company acquired in part through the issue of common stock without par value and in part by the issue of 6% cumulative preferred stock of company at an agreed value as approved by the board of directors at the date of acquisition of such properties.

(b) Property, plant and equipment of subsidiaries (the accounts of which are included in this consolidated balance-sheet) are carried at cost to such subsidiaries.

NOTE D—Method of Extinguishing Discount and Expense on Debentures

Discount and expense on debentures is prorated and written off in equal installments over the term of the debentures except that, when debentures are purchased for sinking fund requirements, the cost of such debentures for the purpose of calculating profit or loss is increased by the amount of discount and expense which would have applied over the entire remaining life of such debentures.

NOTE E—Sinking Fund Requirements

Under the sinking fund provisions of the indenture covering the $3,200,000 5% sinking fund debentures due 1942 of Ashton Metal Products Company, the company will be obligated on or before December 31st of each year, to deliver to the trustee to be retired and canceled, $320,000 par value of the said debentures.

NOTE F—Surtax on Undistributed Income

Dividends paid during the year exceeded the estimated taxable income and no provision for surtax on undistributed profits is required.

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As published to stockholders

KEAN, SWIFT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

New York, N. Y.

TO THE BOARD OF DIRECTORS,
ASHTON METAL PRODUCTS COMPANY,
ASHTON, OHIO

We have made an examination of the consolidated balance-sheet as of December 31st, 1936, of ASHTON METAL PRODUCTS COMPANY and the other corporations whose accounts are consolidated with its accounts as stated in note A to the consolidated balance-sheet and of their consolidated income and surplus accounts for the calendar year 1936. In connection with our audit we examined or tested the accounting records of the company and other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of the transactions.

In our opinion, based on our examination, such balance-sheet, income and surplus accounts together with the notes attached thereto or appearing thereon fairly present in accordance with accepted principles of accounting consistently maintained by the company and its subsidiaries the consolidated position of the company and its consolidated subsidiaries as of December 31st, 1936, and the combined results of their operations for the calendar year 1936.

KEAN, SWIFT & COMPANY,

Certified Public Accountants

New York, February 21st, 1937

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies
COMPARATIVE CONSOLIDATED BALANCE SHEET - DECEMBER 31ST 1935 AND 1936

Page	ASSETS	December 31st 1935			As published December 31st 1936			Increase / Decrease	
	CURRENT ASSETS:								
14	Cash on hand and in banks		$ 966,425			$ 746,028		$ 220,397	
15	Marketable securities - at cost (value based on December 31st 1935 market quotations $95,340; on December 31st 1936 market quotations $103,275)		110,950			113,250		2,300	
16	Notes and accounts receivable - trade, less reserve for doubtful accounts		1,085,045			991,170		93,875	
17	Inventories of metals and manufactured products		1,356,194			1,449,395		93,201	
19	Supplies on hand		168,340			161,570		6,770	
20	Accounts receivable from officers and directors		-	3,686,954		17,500	3,478,913	17,500	208,041
	DEFERRED CHARGES:								
22	Prepaid expenses		95,640			104,495		8,855	
34	Discount and expense on debentures		70,000	165,640		50,400	154,895	19,600	10,745
23	INVESTMENTS			236,890			236,890		
	FIXED ASSETS:								
24	Land for plant sites, railroad right of way and other lands		2,276,530			2,276,530			
25	Buildings, machinery and equipment	$ 11,222,790			$ 11,627,405				
26	Less reserve for depreciation	4,678,188	6,544,602		5,186,300	6,441,105		103,497	
27	Patents		10	8,821,142		10	8,717,645	-	103,497
				$ 12,910,626			$ 12,588,343		$ 322,283

Page	LIABILITIES	December 31st 1935		As published December 31st 1936		Increase / Decrease	
	CURRENT LIABILITIES:						
28	Notes payable - bank	$ 100,000		$ 35,000		$ 65,000	
29	Accounts payable - trade	898,140		868,847		29,293	
30	Wages and salaries payable	65,490		106,961		41,471	
31	Taxes accrued	79,181		186,628		107,447	
	Dividends payable	30,000				30,000	
32	Interest accrued	29,000	1,201,811	24,292	1,221,728	4,708	19,917
34	ASHTON METAL PRODUCTS COMPANY 5% SINKING FUND DEBENTURES, due 1942:						
	Issued	3,200,000		3,200,000		-	
	Less retired and destroyed	960,000	2,240,000	1,280,000	1,920,000	320,000	320,000
35	RESERVE for contingencies				50,000		50,000
36	CAPITAL STOCK AND SURPLUS of subsidiary company owned by minority interest		194,160		194,125		35
37	CAPITAL STOCK:						
	6% Cumulative Preferred - authorized and issued - 10,000 shares of the par value of $100 each	1,000,000		1,000,000			
	Common - authorized and issued - 600,000 shares without par value	5,482,600	6,482,600	5,482,600	6,482,600		-
13 & 38	SURPLUS		2,792,055		2,719,890		72,165
			$ 12,910,626		$ 12,588,343		$ 322,283

ASHTON METAL PRODUCTS COMPANY

and Subsidiary Companies

COMPARATIVE CONSOLIDATED INCOME ACCOUNT - YEARS ENDED DECEMBER 31ST 1935 AND 1936

Page		Year ended December 31st 1935		As published Year ended December 31st 1936		Increase
39	Sales and earnings		$ 8,934,630		$ 10,182,785	$ 1,248,155
39	Factory cost of goods sold		6,437,233		7,076,542	639,309
	Income from operation		2,497,397		3,106,243	608,846
	Other income:					
42	Interest and dividends received	$ 8,165		$ 12,160		
34	Profit on debentures retired	10,390		8,900		
43	Miscellaneous other income	20,570	39,125	28,110	49,170	10,045
	Total income		2,536,522		3,155,413	618,891
44	Selling and general expense	1,213,400		1,292,493		
25	Loss on disposal or dismantlement of capital assets	28,610		59,748		
	Interest - on 5% sinking fund debentures	116,000		100,000		
	- on notes payable to bank	2,000		1,500		
34	Amortization of debenture discount and expense	11,600	1,371,610	10,000	1,463,741	92,131
	Income before provision for depreciation and obsolescence and Federal income taxes		1,164,912		1,691,672	526,760
26	Provision for depreciation and obsolescence		912,820		958,444	45,624
	Net income before provision for Federal income tax		252,092		733,228	481,136
31	Provision for Federal income tax		37,201		112,428	75,227
	Net income		214,891		620,800	405,909
	Minority share of income		5,144		12,965	7,821
	Consolidated net income		$ 209,747		$ 607,835	$ 398,088

COMPARATIVE CONSOLIDATED SURPLUS ACCOUNT - YEARS ENDED DECEMBER 31ST 1935 AND 1936

Page		1935		1936	
	Surplus	$ 2,738,824		$ 2,861,215	
	Minority interest	66,516	2,672,308	69,160	2,792,055
	Consolidated net income		209,747		607,835
			2,882,055		3,399,890
	Dividends paid - on 6% cumulative preferred stock	90,000		60,000	
	- on common stock	-	90,000	570,000	630,000
			2,792,055		2,769,890
35	Transferred to reserve for contingencies to provide for possible additional income taxes for prior years		-		50,000
	Surplus	2,861,215		2,789,015	
	Minority interest	69,160		69,125	
	Consolidated surplus		$ 2,792,055		$ 2,719,890

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CASH ON HAND AND IN BANKS

	December 31st 1935	December 31st 1936	Increase Decrease
Ashton Metal Products Co.	$ 440,085	296,498 C	143,587
Brooke Sales Co.	200,440	194,560	5,880
Dalton Metal Products Co.	148,380	170,830	22,450
Ednor Metal Machinery Co.	40,450	18,030	22,420
Fulton Railway Co.	12,540	11,240	1,300
	841,895	691,158 B	150,737
Coles Manufacturing Co.	124,530	54,870	69,660
Per Balance Sheet - page 12	$ 966,425	746,028 A	220,397

NOTE - Per Balance Sheets, Form 10 K, December 31st 1936
A - Registrant and subsidiary companies
B - Registrant and 100% owned subsidiary companies
C - Registrant only

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MARKETABLE SECURITIES

Balance December 31st 1935		$ 110,950
Additions, year 1936:		
Premier Manufacturing Co. - common stock	$ 19,250	
Southeast American Utilities Corp'n. - 4% bonds due 1976	26,000	
United General Co. - common stock	7,500	52,750
		163,700
Deductions, year 1936:		
Eagle Aircraft Corp'n. - common stock	8,600	
New Era Railroad Co. - 6% general mortgage bonds due 1936	19,350	
Thames and Connecticut Railway Co. - 6% debentures due 1940	22,500	50,450
Per Balance Sheet, December 31st 1936 - page 12		$ 113,250A

Details of balance at December 31st 1936

	Par value or number of shares	Value based on December 31st 1936 market quotations	Book value
Bosthaven Rapid Transit Co. - 6% sinking fund gold bonds, due 1942	$ 10,000	$ 8,500	8,800
Northeastern Amalgamated Mfg. Co. - 4% gold bonds due 1965	5,000	4,925	5,200
Old Line Railroad Co. - 4-1/2% refunding and general mortgage bonds due 1981	20,000	15,100	16,125
Premier Manufacturing Co. - common stock (par $100)	200 sh.	19,500	19,250
Premier Manufacturing Co. - 6% preferred stock (par $100)	100 sh.	11,200	10,375
Southeast American Utilities Corp'n. - 4% gold bonds due 1976	$ 25,000	26,250	26,000
Steel and Iron Fabricators, Inc. - common stock (par $50)	200 sh.	10,500	20,000
United General Co. - common stock (no par)	100 sh.	7,300	7,500
		$ 103,275	
As above			$ 113,250

Details of profit on securities sold or redeemed

	Realized	Book value	Profit or loss
Eagle Aircraft Corp'n. - common stock - 1,000 shares sold	$ 3,730	8,600	4,870
New Era Railroad Co. - 6% general mortgage bonds due 1936 - $20,000 par value redeemed	20,000	19,350	650
Thames and Connecticut Railway Co. - 6% debentures due 1940 - $25,000 par value called at 110	27,500	22,500	5,000
	$ 51,230		
		$ 50,450	
Per page 43			$ 780

NOTE A - Per all balance sheets, Form 10 K, December 31st 1936

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NOTES AND ACCOUNTS RECEIVABLE—TRADE, LESS RESERVES FOR DOUBTFUL ACCOUNTS

	December 31st 1935	December 31st 1936
Customers:		
For metals and manufactured products:		
Accounts	$ 999,175	936,430
Notes and acceptances	18,900	24,700
Railway freights, etc.	13,860	10,320
Supplies and equipment sold	72,140	53,790
	1,104,075	1,025,240
Less reserve for doubtful accounts	33,695	47,320
	1,070,380	977,920
Other accounts receivable:		
Accrued interest receivable	1,475	725
Miscellaneous accounts	13,190	12,525
Per balance-sheet—page 12	$1,085,045	991,170

	Registrant only	Registrant and 100% owned subsidiary companies	Registrant and subsidiaries
Customers:			
For metals and manufactured products:			
Accounts		$869,240	936,430
Notes and acceptances		24,700	24,700
Railway freights, etc.		10,320	10,320
Supplies and equipment sold	$21,600	53,790	53,790
Other accounts receivable:			
Accrued interest receivable	725	725	725
Miscellaneous accounts	1,255	8,965	12,525
Per balance-sheets, form 10 K, December 31st, 1936	23,580	967,740	1,038,490
Less reserve for doubtful accounts	2,500	34,960	47,320
Per balance-sheets, form 10 K, December 31st, 1936	$21,080	932,780	991,170

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INVENTORIES OF METALS AND MANUFACTURED PRODUCTS

	December 31st 1935	December 31st 1936
Finished products:		
Machine parts	$ 92,870	91,520
Die stampings and blanks	167,630	165,990
Screw machine products	145,280	174,330
Machinery	44,690	72,380
	450,470	504,220
Goods in process:		
Machine parts	67,310	87,220
Die stampings and blanks	32,790	31,860
Screw machine products	34,500	60,330
Machinery	77,240	69,150
Partly fabricated steel	149,580	201,064
Partly fabricated brass	84,834	104,111
	446,254	553,735
Raw materials:		
Steel	283,640	204,380
Brass	152,620	145,930
Machinery parts	23,210	41,130
	459,470	391,440
Per balance-sheet—page 12	$1,356,194	1,449,395

Details of inventories at December 31st, 1936, by companies are given on page following.

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DETAILS OF INVENTORIES OF METALS AND MANUFACTURED PRODUCTS

DECEMBER 31ST, 1936

	Raw materials	Goods in process	Finished products
Ashton Metal Products Co.			
Machine parts		$ 49,080	68,280
Die stampings and blanks		18,190	123,860
Screw machine products		33,010	130,830
Partly fabricated steel		105,000	
Partly fabricated brass		40,250	
		245,530 C	322,970 C
Dalton Metal Products Co.			
Machine parts		38,140	23,240
Die stampings and blanks		13,670	42,130
Screw machine products		27,320	43,500
Partly fabricated steel		61,450	
Partly fabricated brass		30,730	
		171,310	108,870
Ednor Metal Machinery Co.			
Machinery	$ 41,130	69,150	72,380
	41,130 B	485,990 B	504,220 B
Coles Manufacturing Co.			
Steel	204,380	48,030	
Brass	145,930	39,470	
	350,310	87,500	
Deduct intercompany profit in inventory		19,755	
Totals, per page 17	$391,440 A	553,735 A	504,220 A

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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SUPPLIES ON HAND

	December 31st 1935	December 31st 1936
Ashton Metal Products Co.	$ 51,390	50,290 C
Dalton Metal Products Co.	29,980	31,660
Ednor Metal Machinery Co.	8,670	5,340
Fulton Railway Co.	47,980	43,300
	138,020	130,590 B
Coles Manufacturing Co.	30,320	30,980
Per balance-sheet—page 12	$168,340	161,570 A

Details of supplies on hand at December 31, 1936

	Operating supplies	Spare parts	Repair supplies	Total December 31st 1936
Ashton Metal Products Co.	$25,275	10,480	14,535	50,290
Dalton Metal Products Co.	18,820	9,630	3,210	31,660
Ednor Metal Machinery Co.	2,680	1,844	816	5,340
Fulton Railway Co.	13,410	9,210	20,680	43,300
	60,185	31,164	39,241	130,590
Coles Manufacturing Co.	10,640	11,563	8,777	30,980
As above	$70,825	42,727	48,018	161,570

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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ACCOUNTS RECEIVABLE FROM OFFICERS AND DIRECTORS

Ashton Metal Products Co.
Loan to Carl Wynne, vice-president—per balance-sheet, December 31st, 1936—page 12 . . . . . $17,500 A

NOTE A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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DUE FROM SUBSIDIARIES

	Registrant only	Registrant and 100% owned subsidiary companies
Current:		
Ashton Metal Products Co.:		
Brooke Sales Co.	$110,320	
Ednor Metal Machinery Co.	120,510	
Fulton Railway Co.:		
Coles Manufacturing Co.		5,990
Per balance-sheets, Form 10 K, December 31st, 1936	$230,830	5,990
Non-current:		
Ashton Metal Products Co.:		
Dalton Metal Products Co.	$199,620	
Per balance-sheet, Form 10 K, December 31st, 1936	$199,620	

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PREPAID EXPENSES

	December 31st 1935	December 31st 1936
Unexpired insurance	$74,170	77,385
Miscellaneous	21,470	27,110
Per balance-sheet—page 12	$95,640	104,495

	Registrant only	Registrant and 100% owned subsidiary companies	Registrant and subsidiary companies
Unexpired insurance	$22,135	$56,835	$ 77,385
Miscellaneous	4,450	22,630	27,110
Per balance-sheets, Form 10 K, December 31st, 1936	$26,585	$79,465	$104,495

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INVESTMENTS

	Shares	Par value	Balance December 31st 1935 and 1936
Dalton Country Club—6% preferred stock	10	$ 1,000	$ 10
Glory Gold Mines, Inc.—common stock . .	6,000	6,000	10
Fairfax Screw Machinery Corpn.—common stock	500	50,000	50,000
Metal Industries Foreign Export Assn.:			
7% preferred stock	10	1,000	1,000
Common stock	100	2,500	2,500
New Coast Steamship Co.:			
Common stock	1,000	100,000	100,000
6% preferred stock	750	75,000	60,870
Oceanic Bank & Trust Co.—common stock	250	25,000	22,500
Per balance-sheet—page 12			$236,890 A

None of the above securities are currently quoted.
NOTE A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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LAND FOR PLANT SITES, ETC.

	Balance December 31st 1935 and December 31st 1936
Ashton Metal Products Co.	$ 350,230 C
Dalton Metal Products Co.	462,240
Ednor Metal Machinery Co.	20,000
Fulton Railway Co.	1,319,060
	$2,151,530 B
Coles Manufacturing Co.	125,000
Per balance-sheet—page 12	$2,276,530 A

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

BUILDINGS, MACHINERY AND EQUIPMENT

	Balance December 31st 1935	Additions: Construction	Additions: Transferred—(at net value)	Deductions: Sold or scrapped	Deductions: Transferred—(original cost)	Balance December 31st 1936	Reserve for depreciation December 31st 1936 (page 26)	Depreciated book value December 31st 1936
Ashton Metal Products Co.	$ 3,960,690	439,470	39,170	312,175	66,260	4,060,895 C	1,656,960	2,403,935
Brooke Sales Co.	98,410	27,410	3,130	16,450		112,500	54,730	57,770
Dalton Metal Products Co.	3,666,310	195,970	31,765	9,545	33,170	3,851,330	1,915,640	1,935,690
Ednor Metal Machinery Co.	510,350	49,430	5,230	28,840	19,320	516,850	254,220	262,630
Fulton Railway Co.	1,252,520	60,020	1,170	59,260	1,200	1,253,250	552,120	701,130
Total—Ashton Metal Products Co. and 100% owned subsidiaries	9,488,280	772,300	80,465	426,270	119,950	9,794,825 B	4,433,670	5,361,155
Coles Manufacturing Co.	1,734,510	199,900		101,830		1,832,580	752,630	1,079,950
Per balance-sheet—page 12	$11,222,790	972,200	80,465	528,100	119,950	11,627,405 A	5,186,300	6,441,105

Details of deductions	Sold or scrapped	Transferred (original cost)
Original cost	$528,100	119,950
Accumulated depreciation—page 26	410,847	39,485
Depreciated value	117,253	80,465
Amount realized—net	57,505	80,465
Loss on sale or dismantlement—per income account—page 13	$ 59,748	None

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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RESERVE FOR DEPRECIATION

	Balance December 31st 1935	Depreciation charged to income—page 13	Deductions from reserve: Depreciation on items transferred	Deductions from reserve: Depreciation on items sold or scrapped	Balance December 31st 1936
Ashton Metal Products Co..	$1,632,558	305,231	26,730	254,099	1,656,960 C
Brooke Sales Co...........	48,760	15,840		9,870	54,730
Dalton Metal Products Co..	1,605,160	326,850	10,635	5,735	1,915,640
Ednor Metal Machinery Co.	233,080	45,220	2,020	22,060	254,220
Fulton Railway Co........	517,380	78,923	100	44,083	552,120
	4,036,938	772,064	39,485	335,847	4,433,670 B
Coles Manufacturing Co....	641,250	186,380		75,000	752,630
Per balance-sheet—page 12.	$4,678,188	958,444	39,485	410,847	5,186,300 A

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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PATENTS

Ashton Metal Products Co.
Patent covering special screw turning lathes and Ashton pickling process which cost $20,000, written down to nominal value—per balance-sheet—December 31st, 1936—page 12.................. $10 A

NOTE A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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NOTES PAYABLE—BANK

Notes of Ashton Metal Products Co. payable to Ashton State Bank & Trust Co.:

Dated	Due	Interest rate	December 31st 1935	December 31st 1936
Nov. 1st 1935	Jan. 30th 1936	6%.......	$ 50,000	
Nov. 1st 1935	Feb. 29th 1936	6%	25,000	
Nov. 1st 1935	Mar. 30th 1936	6%	25,000	
Nov. 1st 1936	Jan. 30th 1937	5%		20,000
Nov. 1st 1936	Mar. 1st 1937	5%		15,000
Per balance-sheet, page 12...............			$100,000	35,000 A

NOTE A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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ACCOUNTS PAYABLE—TRADE

	December 31st 1935	December 31st 1936
Ashton Metal Products Co.	$253,370	285,147 C
Brooke Sales Co.	14,430	14,180
Dalton Metal Products Co.	355,520	371,140
Ednor Metal Machinery Co.	26,240	20,190
Fulton Railway Co.	71,120	23,640
	720,680	714,297 B
Coles Manufacturing Co.	177,460	154,550
Per balance-sheet—page 12	$898,140	868,847 A

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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WAGES AND SALARIES PAYABLE

	December 31st 1935	December 31st 1936
Ashton Metal Products Co.	$18,970	45,881 C
Brooke Sales Co.	470	290
Dalton Metal Products Co.	22,300	19,140
Ednor Metal Machinery Co.	4,180	5,280
Fulton Railway Co.	4,410	4,390
	50,330	74,981 B
Coles Manufacturing Co.	15,160	31,980
Per balance-sheet—page 12	$65,490	106,961 A

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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TAXES ACCRUED

	Accrued December 31st 1935	Accrued in year 1936	Payments during year 1936	Accrued December 31st 1936
Ashton Metal Products Co.	$25,051	137,219	90,521	71,749 C
Brooke Sales Co.	12,170	42,532	38,785	15,917
Dalton Metal Products Co.	17,960	104,531	80,090	42,401
Ednor Metal Machinery Co.	1,170	12,838	3,665	10,343
Fulton Railway Co.	7,390	15,944	14,820	8,514
	63,741	313,064	227,881	148,924 B
Coles Manufacturing Co.	15,440	66,494	44,230	37,704
Per balance-sheet—page 12	$79,181	379,558	272,111	186,628 A

Amounts reserved for in year 1936 were charged as follows:

	Real-estate and personal-property taxes	Federal capital-stock tax	Federal income tax	Sales and miscel-laneous taxes	Total—as above
Manufacturing cost—page 41.	$136,432				136,432
Selling expense—page 44.				36,015	36,015
General expense—page 44.	32,758	35,620		14,175	82,553
Railway operating costs.	11,440	240		450	12,130
Provision for Federal income tax—per income account—page 13.			112,428		112,428
	$180,630	35,860	112,428	50,640	379,558
Details of accrual at December 31st, 1936					
Ashton Metal Products Co.	$	10,000	57,549	4,200	71,749
Brooke Sales Co.	2,255	200	3,587	9,875	15,917
Dalton Metal Products Co.	15,120	5,000	22,131	150	42,401
Ednor Metal Machinery Co.	5,439	750	3,833	321	10,343
Fulton Railway Co.	4,550	150	3,814		8,514
	27,364	16,100	90,914	14,546	148,924
Coles Manufacturing Co.	14,370	1,500	21,514	320	37,704
As above.	$ 41,734	17,600	112,428	14,866	186,628

NOTE—Per balance-sheets, Form 10 K, December 31st, 1936.
A—Registrant and subsidiary companies.
B—Registrant and 100% owned subsidiary companies.
C—Registrant only.

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INTEREST ACCRUED

	December 31st 1935	December 31st 1936
Ashton Metal Products Co.		
On 5% sinking fund debentures:		
5% on $2,240,000 par value—October 1st to December 31st, 1935	$28,000	
5% on $1,920,000 par value—October 1st to December 31st, 1936		24,000
On notes payable to Ashton State Bank & Trust Co.:		
6% on $100,000 face value—November 1st to December 31st, 1935	1,000	
5% on $35,000 face value—November 1st to December 31st, 1936		292
Per balance-sheet—page 12	$29,000	24,292 A

NOTE A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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DUE TO SUBSIDIARIES

	Registrant	Registrant and 100% owned subsidiary companies
Ashton Metal Products Co.:		
Coles Manufacturing Co	$232,150	232,150
Fulton Railway Co	5,210	
Dalton Metal Products Co.:		
Coles Manufacturing Co		127,290
Per balance-sheets, Form 10 K, December 31st, 1936	$237,360	359,440

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5% SINKING FUND DEBENTURES

5% sinking fund debentures, due December 31st, 1942, to be retired by use of sinking fund in groups of $320,000 par value each calendar year after date of issue:

	Original proceeds	Par value	Discount	
Issued December 31st, 1932...	$3,040,000	3,200,000		160,000
Three years ended December 31st, 1935:				
Discount written off..................			42,000	
Debentures purchased and retired......		960,000	48,000	90,000
Balance December 31st, 1935............		2,240,000		70,000
Year 1936:				
Discount written off—per income account—page 13....................			10,000	
Debentures purchased and retired (see below)..........................		320,000	9,600	19,600
Per balance-sheet, December 31st, 1936—page 12............................		$1,920,000 A		50,400

Details of profit on debentures retired, year 1936

Par value of debentures retired............................	$320,000
Cost...	301,500
	18,500
Discount on debentures purchased—as above.................	9,600
Profit on debentures retired—per income account—page 13.....	$ 8,900

Note A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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RESERVE FOR CONTINGENCIES

Amount reserved to cover contingent liability for undetermined additional Federal income taxes for the years 1933 and 1934, and legal fees in connection therewith—charged Surplus—page 13, per balance-sheet, December 31st, 1936—page 12..............$50,000 A

Note A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANY OWNED BY MINORITY INTEREST

	Balance December 31st 1935	Share of earnings of subsidiary company	Dividends	Balance December 31st 1936
Coles Manufacturing Co.:				
Capital stock—2,500 shares...........	$125,000			125,000
Surplus apportioned thereto..........	69,160	12,965	13,000	69,125
Per balance-sheet—page 12.............	$194,160	12,965	13,000	194,125 A

Note A—Per balance-sheet, Form 10 K, December 31st, 1936—Registrant and subsidiary companies.

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CAPITAL STOCK

	Shares	Amount
6% Cumulative Preferred		
Authorized—10,000 shares of the par value of $100 each		
Issued:		
January 1st, 1921—for cash......................	7,500	$ 750,000
June 30th, 1928—partial payment for net assets of Goliath Manufacturing Co.....	2,500	250,000
	10,000	1,000,000
Common.		
Authorized—600,000 shares without par value—		
Issued:		
January 1st, 1915—for cash......................	200,000	1,000,000
January 1st, 1917—for 20,000 shares of the capital stock of Dalton Metal Products Co.........................	250,000	2,483,250
January 1st, 1921—for 22,500 shares of the capital stock of Coles Manufacturing Co.	112,500	1,499,350
June 30th, 1928—partial payment for net assets of Goliath Manufacturing Co.....	37,500	500,000
	600,000	5,482,600
Total, per balance-sheet, December 31st, 1936—page 12........		$6,482,600 A

Note A—Per all balance-sheets, Form 10 K, December 31st, 1936.

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DESCRIPTIVE CONSOLIDATED SURPLUS ACCOUNT

	2 years Jan. 1, 1915 to Dec. 31, 1916	4 years Jan. 1, 1917 to Dec. 31, 1920	16 years Jan. 1, 1921 to Dec. 31, 1936	22 years Jan. 1, 1915 to Dec. 31, 1936
Sales and earnings	$11,180,565	80,652,805	169,764,350	261,597,720
Cost of sales, including all taxes, selling and general expenses	9,350,150	67,509,485	149,476,610	226,336,245
	1,830,415	13,143,320	20,287,740	35,261,475
Miscellaneous income	19,110	321,900	1,043,410	1,384,420
	1,849,525	13,465,220	21,331,150	36,645,895
Interest paid on borrowed money including debenture discount and expenses	225,000	1,500,000	1,859,800	3,584,800
	1,624,525	11,965,220	19,471,350	33,061,095
Depreciation and obsolescence	325,000	1,650,000	13,971,264	15,946,264
Net income	1,299,525	10,315,220	5,500,086	17,114,831
Minority share of income			264,081	264,081
Consolidated net income	1,299,525	10,315,220	5,236,005	16,850,750
Surplus adjustments—reserves not required—add			192,890	192,890
Available for dividends	1,299,525	10,315,220	5,428,895	17,043,640
Dividends paid—preferred			847,500	847,500
—common	400,000	8,550,000	4,526,250	13,476,250
Balance of surplus	$ 899,525	1,765,220	55,145	2,719,890
Dividends paid per share of common capital stock outstanding	$ 2.00	19.00	7.73	28.73
Average annual dividends paid per share of common capital stock outstanding	$ 1.00	4.75	.48	1.31

Condensed Balance-sheets pertinent to above Surplus

	Jan. 1, 1915	Dec. 31, 1916	Dec. 31, 1920	Dec. 31, 1936
Fixed assets, less depreciation reserve	$ 800,000	2,775,800	6,198,400	8,717,645
Investments		119,800	196,500	236,890
Net current assets	200,000	1,083,475	3,817,620	2,257,185
Deferred charges, etc.		70,450	185,475	154,895
	$ 1,000,000	4,049,525	10,397,995	11,366,615
Capital stock	$ 1,000,000	1,000,000	3,483,250	6,482,600
Minority interest				194,125
Debentures		2,000,000	4,000,000	1,920,000
Reserves		150,000	250,000	50,000
Surplus		899,525	2,664,745	2,719,890
	$ 1,000,000	4,049,525	10,397,995	11,366,615
Book value of stock per share, of common capital stock outstanding	$ 5.00	9.50	13.66	15.34

NOTE—Above is summarized from the published accounts.

SALES, COST OF SALES AND OPERATING INCOME

	Ashton Metal Products Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	Eliminate inter-company transactions	Registrant and 100% owned subsidiary companies	Coles Manufacturing Co.	Eliminate inter-company transactions	Total year 1936	Total year 1935
Gross sales and earnings	$ 4,895,340	3,254,760	1,624,180	326,290	229,610	9,870,960	3,575,165	2,740,890	10,705,235	9,552,770
Less - returns and allowances	172,150	147,390	52,370		229,610	371,910	27,300	12,140	399,210	307,380
- sales freight	124,390	114,980	16,240			26,000	13,080		26,940	232,140
- discounts allowed	32,440	31,420	15,990			79,850	16,450		96,300	78,620
	328,980	293,790	84,600		229,610	477,760	56,830	12,140	522,450	618,140
Net sales, per Income Account - page 13	4,566,360	2,960,970	1,539,580	326,290		9,393,200	3,518,335	2,728,750	10,182,785	8,934,630
Factory cost of goods sold:										
Materials used (steel, brass and machine parts) - page 40	1,711,730	974,350	683,270			3,369,350	2,474,990	2,723,431	3,120,909	2,714,953
Direct labor	952,370	605,190	282,160			1,839,720	263,660		2,103,380	1,918,460
Manufacturing costs - details page 41	664,201	548,640	280,600			1,493,441	276,315		1,769,756	1,569,280
Cost of manufacturing	3,328,301	2,128,180	1,246,030			6,702,511	3,014,965	2,723,431	6,994,045	6,202,693
Add railway operating expenses				206,377		206,377			206,377	194,760
Deduct increase in inventory of finished products and work in process (add in 1935)	41,540	29,330	19,600			90,470	33,410		123,880	39,780
Factory cost of goods sold, per Income Account - page 13	3,286,761	2,098,850	1,226,430	206,377		6,818,418	2,981,555	2,723,431	7,076,542	6,437,233
Operating income	$ 1,279,599	862,120	313,150	119,913		2,574,782	536,780	5,319	3,106,243	2,497,397
Per cent. of net sales										
Gross sales and earnings	% 107.20	109.92	105.50	100.00		105.09	101.62		105.13	106.92
Returns, allowances, freights and discounts	7.20	9.92	5.50			5.09	1.62		5.13	6.92
Net sales	100.00	100.00	100.00	100.00		100.00	100.00		100.00	100.00
Raw materials used	37.48	32.90	44.38			35.87	70.35		30.65	30.39
Direct labor	20.86	20.44	18.33			19.59	7.49		20.66	21.47
Manufacturing costs	14.55	18.53	18.22			15.90	7.85		17.38	17.56
Cost of manufacturing	72.89	71.87	80.93			71.36	85.69		68.69	69.42
Add railway operating expenses				63.25		2.19			2.03	2.18
Deduct increase in inventory of finished products and work in process (add in 1935)	.91	.99	1.27			.96	.95		1.22	.45
Factory cost of goods sold	71.98	70.88	79.66	63.25		72.59	84.74		69.50	72.05
Operating income	% 28.02	29.12	20.34	36.75		27.41	15.26		30.50	27.95
Per cent. of cost of manufacturing										
Raw materials used	% 51.43	45.78	54.84			50.27	82.09		44.62	43.77
Direct labor	28.61	29.44	22.64			27.45	8.75		30.08	30.93
Manufacturing cost	19.96	25.78	22.52			22.28	9.16		25.30	25.30
	% 100.00	100.00	100.00			100.00	100.00		100.00	100.00

MATERIALS USED - STEEL, BRASS AND MACHINE PARTS

	Ashton Metal Products Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co. (machine parts)	Coles Manufacturing Co.	Eliminate inter-company transactions	Total year 1936	Total year 1935
Inventory, December 31st 1935	$ 105,280	89,480	23,210	436,260	14,436	639,794	546,987
Purchased - year 1936	1,751,700	977,050	701,190	2,389,040	2,728,750	3,090,230	2,807,760
	1,856,980	1,066,530	724,400	2,825,300	2,743,186	3,730,024	3,354,747
Inventory, December 31st 1936	145,250	92,180	41,130	350,310	19,755	609,115	639,794
Used - per page 39	$ 1,711,730	974,350	683,270	2,474,990	2,723,431	3,120,909	2,714,953

OTHER MANUFACTURING COSTS

	Ashton Metal Products Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Coles Manufacturing Co.	Total year 1936	Total year 1935
Indirect labor	$ 279,330	154,680	128,810	94,595	657,415	674,070
Operating supplies	95,708	66,570	66,820	47,200	276,298	242,820
Repair labor	101,220	81,850	11,320	22,840	217,230	170,620
Repair supplies	81,230	39,300	14,950	31,960	167,440	136,140
Insurance	15,695	18,320	3,560	6,530	44,105	49,870
Taxes	41,272	60,600	5,060	29,500	136,432	74,860
Packing and shipping		24,820	12,970		37,790	34,180
Power, light and heat	34,710	36,420	22,160	31,460	124,750	100,990
Royalties	5,200			12,230	17,430	10,420
Rent for additional factory space		54,000			54,000	54,000
Miscellaneous	9,836	12,080	14,950		36,866	21,310
Total, per page 39	$ 664,201	548,640	280,600	276,315	1,769,756	1,569,280

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INTEREST AND DIVIDENDS RECEIVED

	Year 1935	Year 1936
Ashton Metal Products Co.:		
Dividends on marketable securities	$ 600	1,700
Dividends on investments	1,925	5,070
Interest on marketable securities	4,400	3,850
Interest on time deposit	.....	50
Brooke Sales Co.:		
Interest on notes and accounts receivable	1,240	1,490
Per income account—page 13	$8,165	12,160

Per profit-and-loss statements, Form 10 K, year 1936:	
Registrant and subsidiaries—as above	$12,160
Add dividends received by Ashton Metal Products Co. from Coles Manufacturing Co., eliminated in consolidation	117,000
Registrant and 100% owned subsidiary companies	$129,160

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MISCELLANEOUS OTHER INCOME

	Year 1935	Year 1936
Profit on sale of marketable securities—page 15	$ 1,142	780
Rents received	18,000	24,810
Profit on sale of supplies	1,384	1,820
Miscellaneous	310	890
	20,836	28,300
Net loss on lunch room operations	266	190
Per income account—page 13	$20,570	28,110

	Registrant and 100% owned subsidiary companies	Registrant and subsidiary companies
Profit on sale of marketable securities	$ 780	780
Rents received	14,810	24,810
Profit on sale of supplies	......	1,820
Miscellaneous	470	890
	16,060	28,300
Net loss on lunch room operations	430	190
Per profit-and-loss statements, Form 10 K, year 1936	$15,630	28,110

SELLING AND GENERAL EXPENSES

	Year 1936								
	Ashton Metal Products Co.	Brooke Sales Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Inter-company eliminations	Registrant and 100% owned subsidiary companies	Coles Manufacturing Co.	Total	Year 1935
SELLING EXPENSE:									
Commissions	$ 236,160	70,500	155,369		391,529	70,500	15,712	86,212	71,820
Office salaries		47,795		18,560		66,355	19,690	86,045	85,280
Salesmen's salaries		59,280		30,000		89,280	11,570	100,850	93,380
Salesmen's expenses		95,689		15,260		110,949	4,498	115,447	107,632
Office expense		25,920		8,550		34,470	10,150	44,620	33,230
Advertising	12,000		10,000	10,000		32,000	10,000	42,000	27,000
Sales tax		36,015				36,015		36,015	29,360
	248,160	335,199	165,369	82,370	391,529	439,569	71,620	511,189	447,702
GENERAL AND ADMINISTRATIVE EXPENSE:									
Office salaries	152,810		65,020	55,100		272,930	53,240	326,170	289,020
Research and experimental expense			75,250	20,180		95,430		95,430	109,140
Legal expense	25,000		20,000	20,000		65,000	20,000	85,000	85,000
Auditing expense	12,000		10,000	12,000		34,000	10,000	44,000	44,000
Taxes-real estate	10,318	845	9,060	815		21,038	11,720	32,758	36,924
-Federal capital stock	23,000	320	8,000	1,900		33,220	2,400	35,620	25,400
-state franchise	5,080	1,765	4,740	1,230		12,815	1,360	14,175	14,100
Traveling expense	16,850		13,721	8,600		39,171	7,835	47,006	49,310
Insurance	2,100		1,780	2,150		6,030	1,540	7,570	9,200
Registrar and transfer agent	5,000					5,000	2,000	7,000	7,000
Directors' fees	1,200		200	250		1,650	300	1,950	1,800
Miscellaneous	8,005		10,940	28,475		47,420	10,535	57,955	63,774
	261,363	2,930	218,711	150,700		633,704	120,930	754,634	734,568
Provision for doubtful accounts	600	12,240	1,770	1,170		15,780	10,890	26,670	31,130
Per Income Account - page 13	$ 510,123	350,369	385,850	234,240	391,529	1,089,053	203,440	1,292,493	1,213,400
						B		A	
Per cent. of net sales									
Selling expense	% 5.44		5.58	5.35		4.68	9.07	5.02	5.01
General and administrative expenses	5.72		7.39	9.79		6.75	15.32	7.41	8.22
Provision for doubtful accounts	.01		.06	.08		.17	1.38	.26	.35
Total	% 11.17		13.03	15.22		11.60	25.77	12.69	13.58

NOTE—Per profit and loss statements, Form 10 K, year 1936
A—Registrant and subsidiary companies
B—Registrant and 100% owned subsidiary companies

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies
COMPOSITION OF CONSOLIDATED BALANCE SHEET - DECEMBER 31ST 1936

ASSETS	Ashton Metal Products Co. Registrant only (Per Form 10 K)	Brooke Sales Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	Eliminations	Registrant and 100% owned subsidiary companies (Per Form 10 K)	Coles Manufacturing Co.	Eliminations	Ashton Metal Products Co. and subsidiaries (Per Form 10 K)	Per published accounts (page 8)
Cash	$ 296,498	194,560	170,830	18,030	11,240		691,158	54,870		746,028	746,028
Marketable securities	113,250						113,250			113,250	113,250
Notes and accounts receivable - trade	23,580	763,190	34,040	132,540	14,390		967,740	70,750		1,038,490)	991,170
Reserve for doubtful accounts	2,500	27,720	3,110	1,630			34,960	12,360		47,320)	
Inventories - Raw materials				41,130			41,130	350,310		391,440)	
- In process	245,530		171,310	69,150			485,990	87,500	19,755	553,735)	1,449,395
- Finished	322,970		108,870	72,380			504,220			504,220)	
Supplies on hand	50,290		31,660	5,340	43,300		130,590	30,980		161,570	161,570
Accounts receivable from officers and directors	17,500						17,500			17,500	17,500
Due from subsidiaries - current	230,830		145,200	27,300	25,850	423,190	5,990	359,440	365,430	-	
Prepaid expenses	26,585	11,520	32,090	3,840	5,430		79,465	25,030		104,495	104,495
Discount and expense on debentures	50,400						50,400			50,400	50,400
Investments in sundry companies	236,890						236,890			236,890	236,890
Investments in securities of subsidiaries	5,582,600		1,500,000			5,583,250	1,499,350		1,499,350	-	
Due from subsidiaries - not current	199,620					199,620	-				
Land	350,230		462,240	20,000	1,319,060		2,151,530	125,000		2,276,530	2,276,530
Buildings, machinery and equipment	4,060,895	112,500	3,851,330	516,850	1,253,250		9,794,825	1,832,580		11,627,405	11,627,405
Reserve for depreciation	1,656,960	54,730	1,915,640	254,220	552,120		4,433,670	752,630		5,186,300	5,186,300
Patents	10						10			10	10
	$ 10,148,218	999,320	4,588,820	650,710	2,120,400	6,206,060	12,301,408	2,171,470	1,884,535	12,588,343	12,588,343
LIABILITIES											
Notes payable - bank	$ 35,000						35,000			35,000	35,000
Accounts payable - trade	285,147	14,180	371,140	20,190	23,640		714,297	154,550		868,847	868,847
Accrued wages	45,881	290	19,140	5,280	4,390		74,981	31,980		106,961	106,961
Accrued taxes	71,749	15,917	42,401	10,343	8,514		148,924	37,704		186,628	186,628
Accrued interest	24,292						24,292			24,292	24,292
Due to subsidiaries - current	237,360	256,840	164,780	123,650		423,190	359,440	5,990	365,430	-	
Due to subsidiaries - not current			199,620			199,620	-				
Ashton Metal Products Co. - 5% Sinking Fund											
Debentures - Issued	3,200,000						3,200,000			3,200,000	3,200,000
- Retired	1,280,000						1,280,000			1,280,000	1,280,000
Reserve for contingencies	50,000						50,000			50,000	50,000
Capital Stock of Ashton Metal Products Co.:											
Preferred	1,000,000						1,000,000			1,000,000	1,000,000
Common	5,482,600						5,482,600			5,482,600	5,482,600
Capital Stock of subsidiary companies:											
Owned by company and subsidiaries		600,000	2,000,000	500,000	2,000,000	5,100,000	-	1,125,000	1,125,000		
Owned by minority								125,000		125,000)	194,125
Surplus apportioned to minority								69,125		69,125)	
Surplus:											
Since acquisition	996,189	112,093	1,308,489	8,753	83,856		2,491,874	247,771	19,755	2,719,890	2,719,890
When acquired			483,250			483,250	-	374,350	374,350	-	
	$ 10,148,218	999,320	4,588,820	650,710	2,120,400	6,206,060	12,301,408	2,171,470	1,884,535	12,588,343	12,588,343

ASHTON METAL PRODUCTS CO.

and Subsidiary Companies

COMPOSITION OF CONSOLIDATED INCOME ACCOUNT - YEAR ENDED DECEMBER 31ST 1936

	Ashton Metal Products Co.	Brooke Sales Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	Eliminations	Ashton Metal Products Co. and 100% owned subsidiaries	Coles Manufacturing Co.	Consolidated adjustments and eliminations	Per published accounts (page 9)
INCOME:										
Sales	$ 4,566,360		2,960,970	1,539,580	326,290		9,393,200	3,518,335	2,728,750	10,182,785
Interest and dividends received	337,670	1,490	44,000			254,000	129,160		117,000	12,160
Profit on debentures retired	8,900						8,900			8,900
Miscellaneous other income	10,420	4,410	490		310		15,630	12,480		28,110
Commissions earned		391,529				391,529				
	4,923,350	397,429	3,005,460	1,539,580	326,600	645,529	9,546,890	3,530,815	2,845,750	10,231,955
EXPENSE:										
Factory cost of goods sold	3,286,761		2,098,850	1,226,430	206,377		6,818,418	2,981,555	2,723,431	7,076,542
Selling and general expense	510,123	350,369	385,850	234,240		391,529	1,089,053	203,440		1,292,493
Loss on disposal or dismantlement of fixed assets	38,168	1,140	1,420	1,440	9,300		51,468	8,280		59,748
Interest	101,500						101,500			101,500
Amortization of debt discount and expense	10,000						10,000			10,000
Provision for depreciation and obsolescence	305,231	15,840	326,850	45,220	78,923		772,064	186,380		958,444
Provision for Federal income tax	57,549	3,587	22,131	3,833	3,814		90,914	21,514		112,428
	4,309,332	370,936	2,835,101	1,511,163	298,414	391,529	8,933,417	3,401,169	2,723,431	9,611,155
Consolidated net income	614,018	26,493	170,359	28,417	28,186	254,000	613,473	116,681	122,319	607,835
Minority share of income								12,965		12,965
Net income	$ 614,018	26,493	170,359	28,417	28,186	254,000	613,473	129,646	122,319	620,800

ASHTON METAL PRODUCTS COMPANY

and Subsidiary Companies

COMPOSITION OF CONSOLIDATED SURPLUS ACCOUNT - YEAR ENDED DECEMBER 31ST 1936

	Ashton Metal Products Co. Registrant only (per Form 10 K)	Brooke Sales Co.	Dalton Metal Products Co.	Ednor Metal Machinery Co.	Fulton Railway Co.	Eliminations	Registrant and 100% owned subsidiary companies (per Form 10 K)	Coles Manufacturing Co.	Consolidated adjustments and eliminations	Registrant and subsidiary companies (per Form 10 K)	Per published accounts (page 9)
Surplus December 31st 1935:											
Ashton Metal Products Co. and subsidiaries	$ 1,062,171	111,600	1,308,130	7,170	83,670		2,558,401	248,090	14,436	2,792,055	2,792,055
Minority interest								69,160		69,160	
	1,062,171	111,600	1,308,130	7,170	83,670		2,558,401	317,250	14,436	2,861,215	
Income for the year 1936:											
Ashton Metal Products Co. and subsidiaries	287,018	26,493	126,359	28,417	28,186		496,473	111,362		607,835	607,835
Minority interest								12,965		12,965	
Inter-company	327,000		44,000			254,000	117,000	5,319	122,319		
	614,018	26,493	170,359	28,417	28,186	254,000	613,473	129,646	122,319	620,800	
Dividends paid:											
Minority interest								13,000		13,000	
Inter-company		26,000	170,000	30,000	28,000	254,000		117,000	117,000		
Ashton Metal Products Co. shareholders	630,000						630,000			630,000	630,000
Surplus adjustment - transferred to reserve for contingencies - page 35	50,000						50,000			50,000	50,000
	65,982	493	359	1,583	186		66,527	354	5,319	72,200	
Surplus December 31st 1936:											
Ashton Metal Products Co. and subsidiaries - page 45	996,189	112,093	1,308,489	8,753	83,856		2,491,874	247,771	19,755	2,719,890	2,719,890
Minority interest								69,125		69,125	
	$ 996,189	112,093	1,308,489	8,753	83,856		2,491,874	316,896	19,755	2,789,015	

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AVERAGE INVESTMENT

Net Assets for Year 1936

	Book value of investment at January 1st 1936	Book value of investment at December 31st 1936	Average investment
Ashton Metal Products Co. (eliminating investment in subsidiaries)	$1,954,343	1,884,130	1,919,236
Brooke Sales Co.	711,600	712,093	711,846
Coles Manufacturing Co. (eliminating minority share)	1,747,440	1,747,121	1,747,281
Dalton Metal Products Co. (eliminating investment in subsidiaries)	2,284,772	2,284,043	2,284,407
Ednor Metal Machinery Co.	492,830	491,247	492,039
Fulton Railway Co.	2,083,670	2,083,856	2,083,763
Consolidated	$9,274,655	9,202,490	9,238,572

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ORGANIZATION

Name—The Ashton Metal Products Co.

Incorporated January 1st, 1915, under laws of State of Delaware

Annual meeting third Tuesday in April

Officers—President	Ethan Frome
Vice-president	Carl Wynne
Vice-president	Will Scarlet
Secretary	Charles Brewster
Treasurer	Sidney Carton
Assistant Treasurer	Uriah Heep

Directors—Ichabod Crane
Thomas Cringle
Edwin Drood
Quentin Durward
Ethan Frome
Silas Lapham
Nicholas Nickleby
Jasper Shrig
Samuel Weller
Carl Wynne

Executive committee—Ethan Frome
Carl Wynne
Edwin Drood
Silas Lapham

Annual Report to Securities and Exchange Commission

It is assumed that the stock of the Ashton Metal Products Company is listed on a securities exchange registered with the Securities and Exchange Commission and that, therefore, the annual report form 10 K is required to be filed.

Nothing is contained in the form 10 K for the Ashton Metal Products Company which is not, in substance, found in reports already submitted to the Securities and Exchange Commission which fill their requirements. Obviously many situations would arise which are not covered here, as the purpose of presenting this report is primarily to show the relation of the working papers to the annual report form 10 K required by the Securities and Exchange Commission.

It is also quite possible that the situations shown here might be treated somewhat differently and still have the approval of the commission. While it is unlikely that many of the schedules could be further condensed and still fill the requirements of the commission there is no reason to believe that some expansion of certain of the schedules would be criticized although, as a general rule, the commission seems to incline towards as much brevity as is consistent with a fair statement of the facts. It is, therefore, obvious that the form 10 K as presented, while it may be considered as not violating any of the rules of the commission, is not to be taken as a criterion or "specimen form" for reference but is merely presented to show how the working papers may be used to prepare such a report.

ASHTON METAL PRODUCTS COMPANY

Financial Statements and Schedules Submitted with Annual Report Form 10 K to Securities and Exchange Commission

FINANCIAL STATEMENTS AND SCHEDULES OMITTED FROM ANNUAL REPORT FORM 10 K TO SECURITIES AND EXCHANGE COMMISSION

Profit-and-loss statement of registrant only for the calendar year 1935.
Omitted in accordance with item 8, IA (2) of instruction book for form 10 K for corporations.
Schedule IA—Marketable securities—Other security investments.
Omitted in accordance with item 8, IV 2 and item 8, IV 10 of instruction book for form 10 K for corporations.
Schedule IV—Intangible assets.
Omitted in accordance with Note I (a) to schedule IV of instruction book for form 10 K for corporations.
Schedule V—Reserve for depreciation and/or amortization of intangible assets.
This schedule is not applicable.

ACCOUNTANTS CERTIFICATE

KEAN, SWIFT AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
New York, N. Y.

ASHTON METAL PRODUCTS COMPANY,
ASHTON, OHIO

We have made an examination of the following financial statements as set forth in the annual report form 10 K of Ashton Metal Products Company to be filed pursuant to section 13 (a) and (b) of the Securities Exchange Act of 1934 and the Regulations of the Securities and Exchange Commission made thereunder:

1. The consolidated balance-sheet as of December 31st, 1936, of Ashton Metal Products Company and of the other corporations whose accounts are consolidated with its accounts as stated in note A to the consolidated balance-sheet (which other corporations are hereinafter referred to as consolidated subsidiaries) and their consolidated profit-and-loss statement and surplus account for the calendar year 1936,

2. The consolidated balance-sheet as of December 31st, 1936, of Ashton Metal Products Company and 100% owned subsidiary companies, the accounts of which are consolidated with its accounts, as stated in note A to their consolidated balance-sheet, and their consolidated profit-and-loss statement and surplus account for the calendar year 1936,
3. The balance-sheet as of December 31st, 1936, of Ashton Metal Products Company (which corporation is hereinafter referred to as the registrant) and its surplus account for the calendar year 1936,

together with the other supporting schedules referred to in said annual report.

In connection with a general audit of Ashton Metal Products Company and its consolidated subsidiaries, we examined or tested the accounting records, together with other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the calendar year 1936, but we did not make a detailed audit of the transactions.

In our opinion, based on our examination, such balance-sheets and profit-and-loss statements and surplus accounts and other supporting schedules referred to above and hereto annexed, together with the notes attached thereto or appearing thereon, fairly present in accordance with accepted principles of accounting in the industries in which the registrant and its subsidiaries operate, consistently maintained by the registrant and its subsidiaries, (1) the consolidated position of the registrant and its consolidated subsidiaries, the consolidated position of the registrant and its 100% owned subsidiaries which owe no long term or funded debt to persons other than the registrant and the position of the registrant, all as at December 31st, 1936, and (2) the separate or combined results, as the case may be, of their operations for the calendar year 1936.

KEAN, SWIFT & Co.,
Certified Public Accountants

New York, April 21st, 1937

ASHTON METAL PRODUCTS COMPANY

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31ST 1936

(See Notes A to H attached)

ASSETS

CURRENT ASSETS:			
Cash on hand and in banks		$ 746,028	
Marketable securities - at cost (value based on December 31st 1936 market quotations $103,275)		113,250	
Notes and accounts receivable - trade	$ 1,038,490		
Less reserve for doubtful accounts - schedule VII	47,320	991,170	
Raw materials and manufactured products - see note B:			
Raw materials	391,440		
In process	553,735		
Finished	504,220	1,449,395	
Supplies on hand - see note C		161,570	
Accounts receivable from officers and directors		17,500	3,478,913
INVESTMENTS - see note D:			
Investments in sundry companies			236,890
PROPERTY, PLANT AND EQUIPMENT - see note E:			
Land - schedule II		2,276,530	
Buildings, machinery and equipment - schedule II	11,627,405		
Less reserve for depreciation - schedule III	5,186,300	6,441,105	8,717,635
INTANGIBLE ASSETS:			
Patents			10
DEFERRED CHARGES:			
Discount and expense on debentures - see note F		50,400	
Prepaid expenses		104,495	154,895
			$ 12,588,343

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:		
Notes payable to bank	$ 35,000	
Accounts payable - trade	868,847	
Accrued wages	106,961	
Accrued taxes	186,628	
Accrued interest	24,292	1,221,728
LONG TERM DEBT - schedule VI - see note G:		
Ashton Metal Products Co. 5% sinking fund debentures, due 1942		1,920,000
RESERVES - schedule VII - see note H:		
Reserve for contingencies		50,000
CAPITAL STOCK AND SURPLUS:		
Capital stock and surplus of subsidiary owned by minority:		
Capital stock - schedule VIII	125,000	
Surplus apportioned thereto	69,125	194,125
Capital stock of Ashton Metal Products Co. schedule VIII:		
Authorized, issued and outstanding:		
6% Cumulative preferred:		
10,000 shares of the par value of $100 per share	1,000,000	
Common:		
600,000 shares without par value	5,482,600	
	6,482,600	
Surplus - schedule IX	2,719,890	9,202,490
		$ 12,588,343

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

Notes to Consolidated Balance-Sheet

NOTE A—Principles Applying in Consolidation

In order to present the status of the registrant's interest in subsidiaries where the interest owned (directly or through other subsidiaries) is 90% or more of the issued stock, the assets and liabilities of said subsidiaries as they appear upon the books of said subsidiaries are distributed under appropriate headings on the consolidated balance-sheet. The interest of minority stockholders of a subsidiary, the accounts of which are consolidated, is shown on the balance-sheet.

NOTE B—Inventories of Raw Materials and Manufactured Products

Brass and steel purchased for further fabrication and machine parts purchased for assembling, are classified as raw materials. Raw materials which have entered into any of the manufacturing processes are classified as manufactured products in process, and those which are completed and ready for shipment to customers are classified as finished.

Inventories of raw materials and manufactured products are calculated at cost which is not in excess of current market values.

NOTE C—Supplies on Hand

Supplies on hand, including replacement parts as well as current supply items, are carried at cost.

NOTE D—Investments—Basis

Investments in sundry companies consist of securities permanently held for trade purposes and are carried at cash cost or, in the case of securities, the value of which has been definitely determined to be less than cash cost, at an approximation to such determined value.

NOTE E—Property, Plant and Equipment—Basis of Valuation

(a) Property, plant and equipment of the registrant are carried at cash cost or in the case of physical properties of Goliath Manufacturing Company acquired in part through the issue of common stock without par value and in part by the issue of 6% cumulative preferred stock of registrant at an agreed value as approved by the board of directors at the date of acquisition of such properties.

(b) Property, plant and equipment of subsidiaries (the accounts of which are included in this consolidated balance-sheet) are carried at cost to such subsidiaries.

NOTE F—Method of Extinguishing Discount and Expense on Debentures

Discount and expense on debentures is prorated and written off in equal installments over the term of the debentures except that when debentures are purchased for sinking fund requirements the cost of such debentures for the purpose of calculating profit or loss is increased by the amount of discount and expense which would have applied over the entire remaining life of such debentures.

NOTE G—Sinking Fund Requirements

Under the sinking fund provisions of the indenture covering the $3,200,000 5% sinking fund debentures due 1942 of Ashton Metal Products Company, the registrant will be obligated on or before December 31st of each year, to deliver to the trustee to be retired and canceled, $320,000 par value of the said debentures.

NOTE H—Reserve for Contingencies

The Federal income taxes for the years 1933 and 1934 have not yet been determined. The company's counsel advise that no additional tax is legally due for these years, but the reserve has been provided to cover counsel fees and any possible Federal income taxes for which the company may later admit liability. All known liabilities are provided for in the balance-sheets.

ASHTON METAL PRODUCTS COMPANY

and 100% owned Subsidiary Companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31ST 1936

(See Notes A to I attached)

ASSETS

CURRENT ASSETS:			
Cash on hand and in banks		$ 691,158	
Marketable securities - at cost (value based on December 31st 1936 market quotations $103,275)		113,250	
Notes and accounts receivable - trade	$ 967,740		
Less reserve for doubtful accounts - schedule VII	34,960	932,780	
Raw materials and manufactured products finished and in process - see note C:			
Raw materials	41,130		
In process	485,990		
Finished	504,220	1,031,340	
Supplies on hand - see note D		130,590	
Due from subsidiary less than 100% owned		5,990	
Accounts receivable from officers and directors		17,500	2,922,608
INVESTMENTS:			
Investment in securities of subsidiary less than 100% owned - schedule I - see note B		1,499,350	
Investments in sundry companies - see note E		236,890	1,736,240
PROPERTY, PLANT AND EQUIPMENT - see note F:			
Land - schedule II		2,151,530	
Buildings, machinery and equipment - schedule II	9,794,825		
Less reserve for depreciation - schedule III	4,433,670	5,361,155	7,512,685
INTANGIBLE ASSETS:			
Patents			10
DEFERRED CHARGES:			
Discount and expense on debentures - see note G		50,400	
Prepaid expenses		79,465	129,865
			$ 12,301,408

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:		
Notes payable to bank	$ 35,000	
Accounts payable - trade	714,297	
Accrued wages	74,981	
Accrued taxes	148,924	
Accrued interest	24,292	
Accounts payable to subsidiary less than 100% owned	359,440	1,356,954
LONG TERM DEBT - schedule VI - see note H:		
Ashton Metal Products Co. 5% sinking fund debentures, due 1942		1,920,000
RESERVES - schedule VII - see note I:		
Reserve for contingencies		50,000
CAPITAL STOCK AND SURPLUS:		
Capital Stock of Ashton Metal Products Co. - schedule VIII:		
Authorized, issued and outstanding:		
6% Cumulative preferred 10,000 shares of the par value of $100 per share	1,000,000	
Common 600,000 shares without par value	5,482,600	
	6,482,600	
Surplus - schedule IX	2,491,874	8,974,474
		$ 12,301,408

ASHTON METAL PRODUCTS COMPANY
and 100% owned Subsidiary Companies (see Note A)

Notes to Consolidated Balance Sheet

NOTE A—Principles Applying in Consolidation

Assets and liabilities of subsidiaries which are wholly owned and which owe no long term or funded debt to persons other than the registrant and which may be considered in practical effect operating divisions of the registrant, itself an operating company, are consolidated in the foregoing balance-sheet.

Coles Manufacturing Company, a subsidiary whose accounts are consolidated in the general consolidated balance-sheet, but are not consolidated in the foregoing balance-sheet, is not wholly owned.

In order to present the status of the registrant's interest in the subsidiaries included in this consolidated balance-sheet, their assets and liabilities as they appear upon the books are distributed under appropriate headings on the foregoing consolidated balance-sheet.

NOTE B—Equity in Subsidiaries not Consolidated

Investment in Coles Manufacturing Company, a subsidiary which is not wholly owned and whose accounts are included in the general consolidated balance-sheet of the registrant and subsidiaries but not in the balance-sheet of the registrant and 100% owned subsidiaries, carried at $1,499,350 as shown on Schedule I, has not been adjusted for the accumulated profits of such subsidiary since date of first inclusion in consolidated balance-sheet of registrant and subsidiaries, which profits at December 31st, 1936, amounted to $247,771, all of which has been reflected in the general consolidated balance-sheet.

NOTE C—Inventories of Raw Materials and Manufactured Products

NOTE D—Supplies on Hand

NOTE E—Investments—Basis

NOTE F—Property, Plant and Equipment—Basis of Valuation

NOTE G—Method of Extinguishing Discount and Expense on Debentures

NOTE H—Sinking Fund Requirements

NOTE I—Reserve for Contingencies

NOTE—The foregoing notes correspond to notes B, C, D, E, F, G, and H to the general consolidated balance-sheet and would be repeated in full in an annual report, form 10 K or registration statement form A 1 or A 2.

ASHTON METAL PRODUCTS COMPANY

Registrant only

BALANCE SHEET

DECEMBER 31ST 1936

(See Notes A to H attached)

ASSETS

CURRENT ASSETS:			
Cash on hand and in banks		$ 296,498	
Marketable securities - at cost (value based on December 31st 1936 market quotations $103,275)		113,250	
Notes and accounts receivable - trade	$ 23,580		
Less reserve for doubtful accounts-schedule VII	2,500	21,080	
Raw materials and manufactured products, finished and in process - see note B:			
In process	245,530		
Finished	322,970	568,500	
Supplies on hand - see note C		50,290	
Due from subsidiaries - current		230,830	
Accounts receivable from officers and directors		17,500	1,297,948
INVESTMENTS:			
Investment in securities of subsidiaries - schedule I - see note A		5,582,600	
Investment in sundry companies - see note D		236,890	
Due from subsidiary - not current		199,620	6,019,110
PROPERTY, PLANT AND EQUIPMENT - see note E:			
Land - schedule II		350,230	
Buildings, machinery and equipment - schedule II	4,060,895		
Less reserve for depreciation - schedule III	1,656,960	2,403,935	2,754,165
INTANGIBLE ASSETS:			
Patents			10
DEFERRED CHARGES:			
Discount and expense on debentures - see note F		50,400	
Prepaid expenses		26,585	76,985
			$ 10,148,218

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:		
Notes payable to bank	$ 35,000	
Accounts payable - trade	285,147	
Accrued wages	45,881	
Accrued taxes	71,749	
Accrued interest	24,292	
Accounts payable to subsidiaries	237,360	699,429
LONG TERM DEBT - schedule VI - see note G:		
Ashton Metal Products Co. 5% sinking fund debentures, due 1942		1,920,000
RESERVES - schedule VII - see note H:		
Reserve for contingencies		50,000
CAPITAL STOCK AND SURPLUS:		
Capital stock of Ashton Metal Products Co. - schedule VIII:		
Authorized, issued and outstanding:		
6% Cumulative Preferred - 10,000 shares of the par value of $100 per share	1,000,000	
Common - 600,000 shares without par value	5,482,600	
	6,482,600	
Surplus—schedule IX	996,189	7,478,789
		$ 10,148,218

ASHTON METAL PRODUCTS COMPANY
(Registrant only)

Notes to Balance Sheet

NOTE A—Equity in Consolidated Subsidiaries at December 31st, 1936

Investments in directly owned subsidiaries whose accounts are consolidated in the general consolidated balance-sheet as shown on the books of the registrant amount to	$5,582,600
The equity of registrant in the net assets of the same consolidated subsidiaries as shown on the books of the latter amounted to	8,826,056
The difference represents accumulated profits of such subsidiaries arising since the date of first inclusion of the assets and liabilities of such subsidiaries in the consolidated balance-sheets, which accumulation is reflected in the general consolidated balance-sheet and surplus accounts, but is not reflected in the foregoing balance-sheet of registrant only	$3,243,456

NOTE B—Inventories of Raw Materials and Manufactured Products

NOTE C—Supplies on Hand

NOTE D—Investments—Basis

NOTE—The foregoing notes correspond to notes B, C, and D to the general consolidated balance-sheet and would be repeated in full in an annual report, form 10 K or registration statement form A 1 or A 2.

NOTE E—Property, Plant and Equipment—Basis of Valuation
Same as E (a) to consolidated.

NOTE F—Method of Extinguishing Discount and Expense on Debentures

NOTE G—Sinking Fund Requirements

NOTE H—Reserve for Contingencies

NOTE—The foregoing notes correspond to notes F, G, and H to the general consolidated balance-sheet and would be repeated in full in an annual report, form 10 K or registration statement form A 1 or A 2.

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS STATEMENT
YEAR ENDED DECEMBER 31ST, 1936

(See Notes A to E, attached)

Sales and earnings		$10,182,785
Cost of sales:		
Inventories of raw materials and manufactured products at beginning of year	$1,356,194	
Costs—see schedule X	7,169,743	
	8,525,937	
Inventories of raw materials and manufactured products at end of year	1,449,395	7,076,542
Balance		3,106,243
Selling expense	511,189	
General and administrative expense	754,634	
Provision for doubtful accounts	26,670	1,292,493
		1,813,750
Other income:		
Dividends received—schedule XI	6,770	
Interest received	5,390	
Profit on retirement of debentures—see note C	8,900	
Miscellaneous other income	28,110	49,170
		1,862,920
Income deductions:		
Interest paid—on long term debt	100,000	
—on notes payable to bank	1,500	
	101,500	
Loss on sale of capital assets—see note D	59,748	
Amortization of debenture discount and expense	10,000	
Provision for depreciation	958,444	1,129,692
Net income before provison for Federal income tax		733,228
Provision for Federal income tax		112,428
Net income		620,800
Minority share of income		12,965
Consolidated net income		$ 607,835

ASHTON METAL PRODUCTS COMPANY
and Subsidiary Companies

Notes to Consolidated Profit and Loss Statement

NOTE A—Basis

This statement covers the registrant and subsidiaries where the interest owned (directly or through other subsidiaries) is 90% or more of the issued stock. (See note A to consolidated balance-sheet of registrant and subsidiary companies.)

NOTE B—Intercompany Sales and Profits

Sales of products to affiliates have been eliminated except sales of machinery manufactured by Ednor Metal Machinery Co. and with this exception the sales shown in the consolidated profit and loss statement include only sales to others than the registrant and consolidated subsidiaries.

Sales of machinery to affiliates, $21,684, have not been eliminated as these are not of material amount and are carried, for depreciation purposes, at cost to that company on books of Ashton Metal Products Co.

Intercompany profits, where these are material, have been eliminated in the consolidated profit and loss statement. The principal intercompany transactions are sales of partly fabricated metals to manufacturing affiliates. The inventories of manufacturing subsidiaries include so far as is ascertainable, no intercompany profit.

NOTE C—Profit or Loss on Debentures Retired

Profit or loss on debentures retired is included in consolidated profit and loss statement in order to conform the financial statements to the basis required by United States income-tax laws.

NOTE D—Profit and Loss on Sale of Capital Assets

Where profit on sale of capital assets is incidental to ordinary dismantlements or retirements of property, plant and equipment the same is carried into profit and loss statements. Losses arising in connection with similar transactions are treated in the same manner.

NOTE E—Surtax on Undistributed Income

Dividends paid during the year exceeded the estimated taxable income and no provision for surtax on undistributed profits is required.

ASHTON METAL PRODUCTS COMPANY
and 100% owned Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS STATEMENT
YEAR ENDED DECEMBER 31ST, 1936

(See Notes A to E, attached)

Sales and earnings		$9,393,200
Cost of sales:		
Inventories of raw materials and manufactured products at beginning of year	$ 880,280	
Costs—see schedule X	6,969,478	
	7,849,758	
Inventories of raw materials and manufactured products at end of year	1,031,340	6,818,418
Balance		2,574,782
Selling expense	439,569	
General and administrative expense	633,704	
Provision for doubtful accounts	15,780	1,089,053
		1,485,729
Other income:		
Dividends received—schedule XI	123,770	
Interest received	5,390	
Profit on retirement of debentures—see note C	8,900	
Miscellaneous other income	15,630	153,690
		1,639,419
Income deductions:		
Interest paid—on long term debt	100,000	
—on notes payable to bank	1,500	
	101,500	
Loss on sale of capital assets—see note D	51,468	
Amortization of debenture discount and expense	10,000	
Provision for depreciation	772,064	935,032
Net income before provision for Federal income tax		704,387
Provision for Federal income tax		90,914
Net income		$ 613,473

ASHTON METAL PRODUCTS COMPANY
and 100% owned Subsidiary Companies

Notes to Consolidated Profit and Loss Statement

NOTE A—Basis

This statement covers the registrant and subsidiaries which are wholly-owned and which owe no long term or funded debt to persons other than the registrant and which may be considered, in practical effect, operating divisions of the registrant. (See note A to consolidated balance-sheet of registrant and 100% owned subsidiary companies.)

NOTE B—Intercompany Sales and Profits

NOTE C—Profit or Loss on Debentures Retired

NOTE D—Profit and Loss on Sale of Capital Assets

NOTE E—Surtax on Undistributed Income

NOTE—The foregoing notes correspond to notes B, C, D and E to the general consolidated profit-and-loss statement and would be repeated in full in an annual report, form 10 K or registration statement form A 1 or A 2.

ASHTON METAL PRODUCTS COMPANY

SCHEDULE I—INVESTMENTS IN SECURITIES OF SUBSIDIARY COMPANIES

Column A	*Column E* Balance December 31st, 1936	
Title of issue and name of issuer	Number of shares	Amount in dollars
Consolidated Balance-sheet of Registrant and 100% owned Subsidiary Companies		
Coles Manufacturing Co.	22,500	$1,499,350
Balance-sheet of Registrant only		
Brooke Sales Co.	6,000	$ 600,000
Coles Manufacturing Co.	22,500	1,499,350
Dalton Metal Products Co.	20,000	2,483,250
Fulton Railway Co.	10,000	1,000,000
		$5,582,600

NOTE—There have been no changes during the year.

ASHTON METAL PRODUCTS COMPANY

SCHEDULE II - PROPERTY, PLANT AND EQUIPMENT

Column A Classifications	Column B Balance December 31st 1935	Column C Additions at cost	Column D Retirements or sales	Column E Other deductions (see note)	Column F Balance December 31st 1936
Consolidated Balance Sheet of Registrant and Subsidiary Companies					
Land	$ 2,276,530				2,276,530
Plant and equipment	$ 11,222,790	972,200	528,100	39,485 (1)	11,627,405
Consolidated Balance Sheet of Registrant and 100% owned Subsidiary Companies					
Land	$ 2,151,530				2,151,530
Plant and equipment	$ 9,488,280	772,300	426,270	39,485 (1)	9,794,825
Balance Sheet of Registrant only					
Land	$ 350,230				350,230
Plant and equipment	$ 3,960,690	478,640	378,435		4,060,895

NOTE 1 - Accumulated depreciation to date charged reserve for depreciation at time of inter-company transfers of assets. See Schedule III.

ASHTON METAL PRODUCTS COMPANY

SCHEDULE III - RESERVE FOR DEPRECIATION

Column A	Column B	Column C	Column D	Column E		Column F
	Balance December 31st 1935	Additions charged profit and loss	Total of Column B and Column C	Retirements and Renewals	Other deductions (see note)	Balance December 31st 1936
Consolidated Balance Sheet of Registrant and Subsidiary Companies						
Reserve for depreciation of plant and equipment	$ 4,678,188	958,444	5,636,632	410,847	39,485 (1)	5,186,300
Consolidated Balance Sheet of Registrant and 100% owned Subsidiary Companies						
Reserve for depreciation of plant and equipment	$ 4,036,938	772,064	4,809,002	335,847	39,485 (1)	4,433,670
Balance Sheet of Registrant only						
Reserve for depreciation of plant and equipment	$ 1,632,558	305,231	1,937,789	280,829	-	1,656,960

NOTE 1 - Accumulated depreciation to date charged reserve for depreciation at time of inter-company transfers of assets.

ASHTON METAL PRODUCTS COMPANY

and Subsidiary Companies

SCHEDULE VI - FUNDED DEBT

Column A Title of issue and name of issuer	Column B Amount authorized by indenture	Column C Amount outstanding exclusive of that in treasury	Column D Amount outstanding as per Balance Sheet	Column E Amount pledged	Column F Amount in treasury	Column G Amount held by persons whose statements are filed herewith	Column H Amount in sinking and other funds	Column I
Ashton Metal Products Company 5% sinking fund debentures due 1942	$ 3,200,000	1,920,000	1,920,000	NONE	NONE	NONE	NONE	Additional amounts may not be issued

NOTE - This information applies also to the Balance Sheet of Registrant and 100% owned subsidiaries and to the Balance Sheet of the Registrant only.

SCHEDULE VIII - CAPITAL STOCK

Column A Name of issuer and title of issue		Par value per share	Column B Number of shares authorized by charter	Column C Number of shares outstanding exclusive of number held in treasury	Column D Amount in dollars per Balance Sheet	Column E Number of shares in treasury	Column F Number of shares held by persons whose statements are filed herewith	Column G Number of shares held by parents	Column H Number of shares reserved for officers and employees	Column I Number of shares reserved for options, warrants, conversions and other rights
Ashton Metal Products Co.	- 6% Cumulative preferred capital stock	$ 100	10,000	10,000	$ 1,000,000	NONE	NONE	NONE	NONE	NONE
	- Common capital stock	no par value	600,000	600,000	5,482,600	NONE	NONE	NONE	NONE	NONE
Consolidated subsidiaries:										
Brooke Sales Co.	- Common capital stock	100	6,000	6,000	NONE	NONE	NONE	NONE	NONE	NONE
Coles Manufacturing Co.	- Common capital stock	50	25,000	25,000	$ 125,000	NONE	NONE	NONE	NONE	NONE
Dalton Metal Products Co.	- Common capital stock	100	20,000	20,000	NONE	NONE	NONE	NONE	NONE	NONE
Ednor Metal Machinery Co.	- Common capital stock	50	10,000	10,000	NONE	NONE	10,000	NONE	NONE	NONE
Fulton Railway Co.	- Common capital stock	100	20,000	20,000	NONE	NONE	10,000	NONE	NONE	NONE

NOTE - Shares in column F are shares owned by a subsidiary whose accounts are consolidated in the general consolidated balance sheet.

- Shares held by registrant in subsidiaries are shown on schedule I.

ASHTON METAL PRODUCTS COMPANY

SCHEDULE VII - RESERVES

Column A	Column B	Column C		Column D	Column E
		Additions			
	Balance December 31st 1935	Charged to to profit and loss	Charged to surplus	Charges to reserve - credited accounts receivable	Balance December 31st 1936
Consolidated Balance Sheet of Registrant and Subsidiary Companies					
Reserves deducted in the balance sheet from the assets to which they apply:					
Reserve for doubtful accounts	$ 33,695	26,670		13,045	47,320
Other reserves:					
Reserve for contingencies	$ -		50,000		50,000
Consolidated Balance Sheet of Registrant and 100% Owned Subsidiary Companies					
Reserves deducted in the balance sheet from the assets to which they apply:					
Reserve for doubtful accounts	$ 23,315	15,780		4,135	34,960
Other reserves:					
Reserve for contingencies	$ -		50,000		50,000
Balance Sheet of Registrant Only					
Reserves deducted in the balance sheet from the assets to which they apply:					
Reserve for doubtful accounts	$ 2,105	600		205	2,500
Other reserves:					
Reserve for contingencies	$ -		50,000		50,000

ASHTON METAL PRODUCTS COMPANY

Schedule IX—Surplus

Consolidated Balance-sheet of Registrant and Subsidiary Companies

Surplus December 31st, 1935	$2,861,215	
Minority interest	69,160	2,792,055
Net income for the year		607,835
		3,399,890
Charges to Surplus:		
Surplus adjustment, credited reserve for contingencies, to provide for possible liability for additional Federal income taxes, claimed by U. S. Treasury Department for years 1933 and 1934	50,000	
Dividends declared and paid during the year	630,000	680,000
Surplus December 31st, 1936	2,789,015	
Minority interest	69,125	
Consolidated Surplus December 31st, 1936		$2,719,890

Consolidated Balance-sheet of Registrant and 100% owned Subsidiary Companies

Surplus December 31st, 1935		$2,558,401
Net income for the year		613,473
		3,171,874
Charges to Surplus:		
Surplus adjustment, credited reserve for contingencies, to provide for possible liability for additional Federal income taxes, claimed by U. S. Treasury Department for years 1933 and 1934	$ 50,000	
Dividends declared and paid during the year	630,000	680,000
Surplus December 31st, 1936		$2,491,874

Balance-sheet of Registrant only

Surplus December 31st, 1936		$1,062,171
Net income for the year		614,018
		1,676,189
Charges to Surplus:		
Surplus adjustment, credited reserve for contingencies, to provide for possible liability for additional Federal income taxes, claimed by U. S. Treasury Department for years 1933 and 1934	$ 50,000	
Dividends declared and paid during the year	630,000	680,000
Surplus December 31st, 1936		$ 996,189

ASHTON METAL PRODUCTS COMPANY

Schedule X—Supplementary Profit and Loss Information

Column A	*Column B* Charged directly to profit and loss		*Column D*
Item	Costs	Other	Total
Registrant and Subsidiary Companies			
Maintenance and repairs	$443,040		443,040
Depreciation	$	958,444	958,444
Taxes, other than Federal income and excess profits taxes	$148,562	118,568	267,130
Rents and royalties	$ 71,430		71,430
Registrant and 100% owned Subsidiary Companies			
Maintenance and repairs	$388,240		388,240
Depreciation	$	772,064	772,064
Taxes, other than Federal income and excess profits taxes	$119,062	103,088	222,150
Rents and royalties	$ 59,200		59,200

ASHTON METAL PRODUCTS COMPANY

Schedule XI—Income From Dividends

Year Ended December 31st, 1936

Column A Title of issue and name of issuer	*Column B* Amount of dividends —Cash	*Column C* Amount of equity in net profit and loss for the year ended December 31st, 1936
Consolidated Profit and Loss Statement of Registrant and Subsidiary Companies		
Marketable securities	$ 1,700	
Other security investments	5,070	
Total	$ 6,770	
Consolidated Profit and Loss Statement of Registrant and 100% owned Subsidiary Companies		
Coles Manufacturing Co.—Common Capital Stock	$117,000	116,681
Marketable securities	1,700	
Other security investments	5,070	
Total	$123,770	

ASHTON METAL PRODUCTS COMPANY
CHART OF SUBSIDIARIES

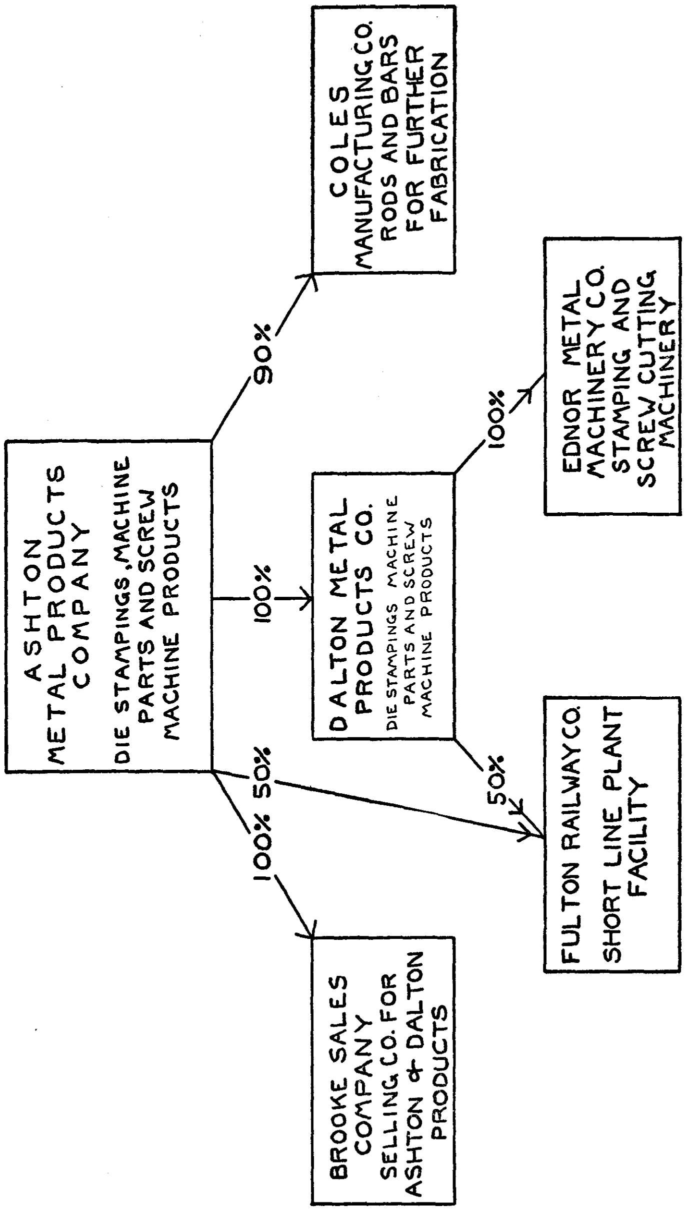

Chart Showing Relationship of Financial Books and Records of a Consolidated Enterprise to Audit Working Papers and to the Various Statements and Reports Prepared Therefrom

This chart shows the relationship of financial books and records of a consolidated enterprise to audit working papers and to the various statements and reports prepared therefrom. Reading from top to bottom we see first the names of the companies, and next a division representing the financial books and records. From these, as the arrow leading to the division representing the general ledger trial balance indicates, is prepared the general ledger trial balance, which is in turn transferred to the classification of accounts, indicated by a division next below.

Adjustments, represented by a division to the right of the general ledger trial balance, are shown with arrows pointing both to the financial books and records and to the classification of accounts, indicating that adjustments made to the classification of accounts must also be made, although not necessarily at the same time, to the financial books and records. This refers to adjustments to the accounts of the individual company only.

Schedules explaining balances of the book accounts appearing on the classification of accounts and on the general ledger trial balance, are prepared and are referenced to the classification of accounts, as is indicated by the arrow pointing from the division representing the classification of accounts to that representing the schedules of book accounts to the left. While it is true that the schedules of book accounts are prepared in many cases directly from the financial books and records, the arrows are not intended to indicate the source of the information, but are intended to indicate that the sched-

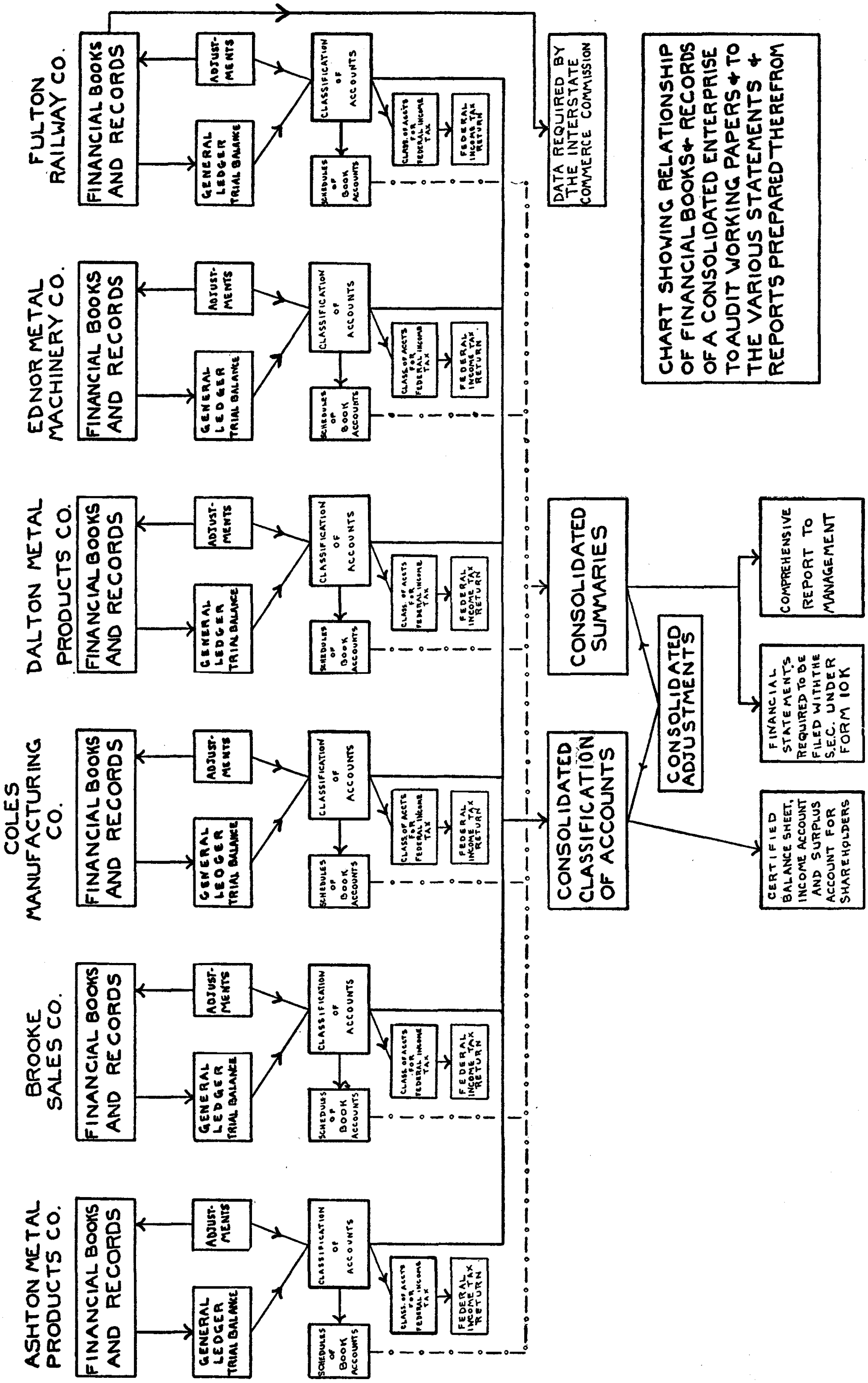
CHART SHOWING RELATIONSHIP OF FINANCIAL BOOKS & RECORDS OF A CONSOLIDATED ENTERPRISE TO AUDIT WORKING PAPERS & TO THE VARIOUS STATEMENTS & REPORTS PREPARED THEREFROM
ASHTON METAL PRODUCTS CO.
BROOKE SALES CO.
COLES MANUFACTURING CO.
DALTON METAL PRODUCTS CO.
EDNOR METAL MACHINERY CO.
FULTON RAILWAY CO.
FINANCIAL BOOKS AND RECORDS
GENERAL LEDGER TRIAL BALANCE
ADJUST-MENTS
CLASSIFICATION OF ACCOUNTS
SCHEDULES OF BOOK ACCOUNTS
CLASS. OF ACCTS FOR FEDERAL INCOME TAX
FEDERAL INCOME TAX RETURN
DATA REQUIRED BY THE INTERSTATE COMMERCE COMMISSION
CONSOLIDATED CLASSIFICATION OF ACCOUNTS
CONSOLIDATED SUMMARIES
CONSOLIDATED ADJUSTMENTS
CERTIFIED BALANCE SHEET, INCOME ACCOUNT AND SURPLUS ACCOUNT FOR SHAREHOLDERS
FINANCIAL STATEMENTS REQUIRED TO BE FILED WITH THE S.E.C. UNDER FORM 10K
COMPREHENSIVE REPORT TO MANAGEMENT

ules of books accounts support and are referenced to the classification of accounts.

The classification of accounts for Federal income tax is prepared directly from the classification of accounts proper, either by adjusting totals as they appear in the columns of the classification of accounts or by recopying and redistributing the trial balance and adjustments. The Federal income-tax return is, of course, a statement of the figures thus arrived at on the Federal income-tax classification.

The totals of the classification of accounts, as indicated by the solid line, are carried directly to the consolidated classification of accounts, represented by a single division below, and thence directly to the certified balance-sheet, income account and surplus account. The approximate information appearing on the schedules of the book accounts is gathered together and classified in the consolidated summaries, the purpose of which is to collect data for the preparation of the comprehensive report to management and form 10 K as filed with the Securities and Exchange Commission. The transfer of the data from the book schedules to the consolidated summaries is indicated on the chart by a broken line. The consolidated adjustments shown as a division immediately below the consolidated classification of accounts and consolidated summaries, as the two arrows indicate, are carried to those statements before the totals of those statements are used for the preparation of the final reports and accounts.

The Fulton Railway Company keeps its books as required by the Interstate Commerce Commission. There are no difficulties experienced in using accounts prepared on that basis in the classification of accounts, and the data required by the Interstate Commerce Commission may be obtained directly from the face of the ledger, as indicated by the solid line connecting the division representing that data with the financial books and records of the Fulton Railway Company.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

BALANCE SHEET

DECEMBER 31ST 1936

	A	B	C	D	E	F	G	H	I	J	K
	Cash	Marketable securities	Accounts receivable - trade, less reserve	Metals and manufactured products	Supplies	Accounts receivable - officers and directors	Prepaid expenses	Discount on debentures	Investments	Land	Buildings, machinery and equipment
Ashton Metal Products Co.	$ 296,498	113,250	451,530	568,500	50,290	17,500	26,585	50,400	5,819,490	350,230	4,060,895
Brooke Sales Co.	194,560		735,470				11,520				112,500
Dalton Metal Products Co.	170,830		176,130	280,180	31,660		32,090		1,500,000	462,240	3,851,330
Ednor Metal Machinery Co.	18,030		158,210	182,660	5,340		3,840			20,000	516,850
Fulton Railway Co.	11,240		40,240		43,300		5,430			1,319,060	1,253,250
	691,158	113,250	1,561,580	1,031,340	130,590	17,500	79,465	50,400	7,319,490	2,151,530	9,794,825
Coles Manufacturing Co.	54,870		417,830	437,810	30,980		25,030			125,000	1,832,580
Per Books	746,028	113,250	1,979,410	1,469,150	161,570	17,500	104,495	50,400	7,319,490	2,276,530	11,627,405
Inter-company eliminations			988,240						7,082,600		
Equity of minority shareholders in Coles											
Eliminate inter-company profit in inventory				19,755							
Per Published	$ 746,028	113,250	991,170	1,449,395	161,570	17,500	104,495	50,400	236,890	2,276,530	11,627,405

	L	M	N	O	P	Q	R	S	T	U	V	W			
												Changes in Surplus - 1936			
	Reserve for depreciation	Patents	Notes payable - banks	Accounts payable - trade	Wages and salaries payable	Taxes accrued	Interest accrued	Debentures	Reserve for contingencies	Minority interest	Capital stock	Surplus Dec. 31, 1935	Surplus adjustments year 1936	Dividends paid year 1936	Income year 1936
Ashton Metal Products Co.	1,656,960	10	35,000	522,507	45,881	71,749	24,292	1,920,000	50,000		6,482,600	1,062,171	50,000	630,000	614,018
Brooke Sales Co.	54,730			271,020	290	15,917					600,000	111,600		26,000	26,493
Dalton Metal Products Co.	1,915,640			735,540	19,140	42,401					2,000,000	1,791,380		170,000	170,359
Ednor Metal Machinery Co.	254,220			143,840	5,280	10,343					500,000	7,170		30,000	28,417
Fulton Railway Co.	552,120			23,640	4,390	8,514					2,000,000	83,670		28,000	28,186
	4,433,670	10	35,000	1,696,547	74,981	148,924	24,292	1,920,000	50,000		11,582,600	3,041,651	50,000	884,000	867,473
Coles Manufacturing Co.	752,630			160,540	31,980	37,704					1,250,000	691,600		130,000	129,646
Per Books	5,186,300	10	35,000	1,857,087	106,961	186,628	24,292	1,920,000	50,000		12,832,600	3,733,251	50,000	1,014,000	997,119
Inter-company eliminations				988,240							6,225,000	857,600		371,000	371,000
Equity of minority shareholders in Coles										194,125	125,000	69,160		13,000	12,965
Eliminate inter-company profit in inventory												14,436			5,319
Per Published	5,186,300	10	35,000	868,847	106,961	186,628	24,292	1,920,000	50,000	194,125	6,482,600	2,792,055	50,000	630,000	607,835

Note to the reader: CONSOLIDATED CLASSIFICATION OF ACCOUNTS This is made up from the totals of the classification of accounts for the individual companies carried forward to this statement. To the totals of these are applied the consolidated adjustments and the resulting totals are the amounts shown in the published accounts, report pages 8 and 9. In order to prepare the balance sheets and profit and loss statements as required in Form 10 K summaries are prepared, SB1 to SEE1, for all items which are shown in greater detail on those balance sheets than in the published. The consolidated classification of accounts and the consolidated summaries are used in the same way to prepare the statements showing composition of consolidated balance sheet, income and surplus account, pages 45, 46 and 47 of the report to management.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

INCOME ACCOUNT

YEAR 1936

	AA Sales	BB Cost of sales	CC Interest and dividends received	Profit on deben-tures retired	DD Miscel-laneous other income	EE Selling and general	Loss on plant sold or scrapped	Interest paid	Debenture discount and expense	Deprecia-tion and obsoles-cence	Federal income tax	Balance	Minority share of income
Ashton Metal Products Co.	$ 4,566,360	3,286,761	337,670	8,900	10,420	510,123	38,168	101,500	10,000	305,231	57,549	614,018	
Brooke Sales Co.			1,490		395,939	350,369	1,140			15,840	3,587	26,493	
Dalton Metal Products Co.	2,960,970	2,098,850	44,000		490	385,850	1,420			326,850	22,131	170,359	
Ednor Metal Machinery Co.	1,539,580	1,226,430				234,240	1,440			45,220	3,833	28,417	
Fulton Railway Co.	326,290	206,377			310		9,300			78,923	3,814	28,186	
	9,393,200	6,818,418	383,160	8,900	407,159	1,480,582	51,468	101,500	10,000	772,064	90,914	867,473	
Coles Manufacturing Co.	3,518,335	2,981,555			12,480	203,440	8,280			186,380	21,514	129,646	
Per Books	12,911,535	9,799,973	383,160	8,900	419,639	1,684,022	59,748	101,500	10,000	958,444	112,428	997,119	
Eliminate inter-company transactions	2,728,750	2,728,750	371,000		391,529	391,529						371,000	
Minority equity in net income of Coles												12,965	12,965
Eliminate inter-company profit in inventory		5,319										5,319	
Per Published	$ 10,182,785	7,076,542	12,160	8,900	28,110	1,292,493	59,748	101,500	10,000	958,444	112,428	607,835	12,965

BROOKE SALES CO.

BALANCE SHEET - DECEMBER 31ST 1936

	Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	Cash	Accounts receivable - trade, less reserve	Prepaid expenses	Buildings, machinery and equipment	Reserve for depre- ciation	Accounts payable - trade	Wages and salaries payable	Taxes accrued	Capital stock	Surplus Dec. 31, 1935	Dividends paid year 1936	Income year 1936
Olney National Bank - General	$ 41,390	24,570	24,570											
- Payroll	200	200	200											
Laurel State Bank:														
Transmittal a/c #1	86,180	70,150	70,150											
Transmittal a/c #2	72,470	99,440	99,440											
Petty Cash	200	200	200											
Accounts Receivable - Customers	751,320	717,260		721,760				4,500						
Notes and Acceptances Receivable	18,900	24,700		24,700										
Suspended Accounts	16,765	19,060		19,060										
Reserve for Cash Discounts	3,570	4,120		4,120										
Reserve for Bad Debts	18,340	27,720		27,720										
Ashton Metal Products Co.	149,755	110,320						110,320						
Dalton Metal Products Co.	137,230	145,200						145,200						
Fulton Railway Co.	2,470	1,320						1,320						
Advances to Agents	1,430	1,790		1,790										
Furniture and Fixtures	13,940	17,280				17,280								
Automobiles and Motor Trucks	84,470	95,220				95,220								
Reserve for Depreciation	48,760	54,730					54,730							
Insurance Unexpired	5,950	4,380			4,380									
Prepaid Expenses	5,580	7,140			7,140									
Accounts Payable	12,970	6,040						6,040						
Accounts Payable - Agents	1,460	3,640						3,640						
Wages Payable	470	290							290					
Taxes Accrued	10,400	12,330								12,330				
Reserve for Federal Income Tax	1,770	4,140								4,140				
Common Capital Stock	600,000	600,000									600,000			
Surplus	111,600	111,540										111,600	26,000	25,940
			194,560	735,470	11,520	112,500	54,730	271,020	290	16,470	600,000	111,600	26,000	25,940
Adjust Reserve for Federal Income Tax										553				553
			$ 194,560	735,470	11,520	112,500	54,730	271,020	290	15,917	600,000	111,600	26,000	26,493

Note to the reader: CLASSIFICATION OF ACCOUNTS
Brooke Sales Company
Coles Manufacturing Company
Dalton Metal Products Company
Ednor Metal Machinery Company

The classification of accounts for the foregoing companies are presented here and the totals may be traced into the consolidated classification of accounts. Classifications of accounts for Ashton Metal Products Company and Fulton Railway Company are shown in the previous chapter.

BROOKE SALES CO.

INCOME ACCOUNT - YEAR 1936

	Per Books Year 1935	Per Books Year 1936	Interest and dividends received	Miscellaneous other income	Selling and general	Loss on plant sold or scrapped	Depreciation and obsolescence	Federal income tax	Balance
Commissions Earned	$ 348,515	391,529		391,529					
Interest Earned	1,240	1,490	1,490						
Office Salaries	50,280	47,795			47,795				
Salesmen's Salaries	57,380	59,280			59,280				
Salesmen's Expenses	88,435	95,689			95,689				
Commissions Paid	61,320	70,500			70,500				
Taxes	31,460	38,945			38,945				
Depreciation	13,900	15,840					15,840		
Office Expense	24,230	25,920			25,920				
Bad Debts Expense	10,370	12,240			12,240				
Miscellaneous Other Income	3,720	4,410		4,410					
Profit and Loss on Property Sold, Dismantled, etc.	3,210	1,140				1,140			
Federal Income tax	1,770	4,140						4,140	
Balance	11,120	25,940							25,940
			1,490	395,939	350,369	1,140	15,840	4,140	25,940
Adjust Federal Income Tax								553	553
			$1,490	395,939	350,369	1,140	15,840	3,587	26,493

COLES MANUFACTURING CO.

BALANCE SHEET - DECEMBER 31ST 1936

	Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	Cash	Accounts receivable-trade, less reserve	Metals and manu-factured products	Supplies	Prepaid expenses	Land	Buildings, machinery and equipment	Reserve for depreciation	Accounts payable-trade	Wages and salaries payable	Taxes accrued	Capital stock	Surplus Dec. 31, 1935	Dividends paid year 1936	Income year 1936
Colestown National Bank - General	$ 124,130	54,470	54,470														
- Payroll	300	300	300														
Petty Cash	100	100	100														
Accounts Receivable - Customers	57,480	67,190		67,190													
Reserve for Bad Debts	10,380	12,360		12,360													
Ashton Metal Products Co.	104,340	232,150		232,150													
Dalton Metal Products Co.	115,140	127,290		127,290													
Fulton Railway Co.	4,370	5,990									5,990						
Employees Accounts Receivable	820	1,450		1,450													
Freight Claims	1,390	2,110		2,110													
Finished Goods Inventory	26,480	37,390			37,390												
Goods in Process Inventory	27,610	50,110			50,110												
Raw Materials Inventory	436,260	350,310			350,310												
Supplies	30,320	30,980				30,980											
Land	125,000	125,000						125,000									
Buildings	220,470	265,200							265,200								
Machinery and Equipment	1,470,460	1,524,170							1,524,170								
Automobiles and Motor Trucks	30,990	31,150							31,150								
Furniture and Fixtures	2,170	2,170							2,170								
Construction	10,420	9,890							9,890								
Reserve for Depreciation	641,250	752,630								752,630							
Insurance Unexpired	17,480	20,550					20,550										
Prepaid Expenses	4,300	4,480					4,480										
Accounts Payable	177,460	174,430									154,550	19,880					
Unclaimed Wages	20																
Wages Payable	15,140	12,100										12,100					
Taxes Accrued	7,240	16,190											16,190				
Reserve for Federal Income Tax	8,200	20,790											20,790				
Capital Stock	1,250,000	1,250,000												1,250,000			
Dividends Paid		130,000														130,000	
Surplus	691.600	821.970													691,600		130,370
			54,870	417,830	437,810	30,980	25,030	125,000	1,832,580	752,630	160,540	31,980	36,980	1,250,000	691,600	130,000	130,370
Adjust Reserve for Federal Income Tax													724				724
			$ 54,870	417,830	437,810	30,980	25,030	125,000	1,832,580	752,630	160,540	31,980	37,704	1,250,000	691,600	130,000	129,646

COLES MANUFACTURING CO.

INCOME ACCOUNT - YEAR 1936

	Per Books Year 1935	Per Books Year 1936	Sales	Cost of sales	Miscel-laneous other income	Selling and general	Loss on plant sold or scrapped	Depre-ciation and obsolescence	Federal income tax	Balance
Sales of Steel	$ 1,860,120	2,309,615	2,309,615							
Sales of Brass	1,208,660	1,265,550	1,265,550							
Returns and Allowances	21,230	27,300	27,300							
Sales Freight	10,380	13,080	13,080							
Discounts Allowed	13,280	16,450	16,450							
Direct Labor	258,470	263,660		263,660						
Indirect Labor	75,710	94,595		94,595						
Manufacturing Expense	151,180	190,210		190,210						
Steel Purchased	1,302,100	1,378,880		1,378,880						
Brass Purchased	858,640	1,010,160		1,010,160						
Office Salaries	66,320	72,930				72,930				
General Expenses	67,370	67,690				67,690				
Selling Expenses	24,140	51,930				51,930				
Depreciation	167,480	186,380						186,380		
Bad Debts Expense	16,280	10,890				10,890				
Purchase Discounts	6,630	8,490		8,490						
Miscellaneous Other Income	11,790	12,480			12,480					
Loss on Property Sold, Dismantled, etc.	6,740	8,280					8,280			
Change in Inventory:										
Steel	34,840	74,280		74,280						
Brass	11,120	11,670		11,670						
Goods in Process	25,250	22,500		22,500						
Finished Goods	8,950	10,910		10,910						
Federal Income Tax	8,200	20,790							20,790	
Balance	51,440	130,370								130,370
			3,518,335	2,981,555	12,480	203,440	8,280	186,380	20,790	130,370
Adjust Federal income tax									724	724
			$ 3,518,335	2,981,555	12,480	203,440	8,280	186,380	21,514	129,646

DALTON METAL PRODUCTS CO.

BALANCE SHEET - DECEMBER 31ST 1936

	Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	Cash	Accounts receivable-trade, less reserve	Metals and manufactured products	Supplies	Prepaid expenses	Investments	Land	Buildings, machinery and equipment	Reserve for depreciation	Accounts payable - trade	Wages and salaries payable	Taxes accrued	Capital stock	Surplus Dec. 31, 1935	Dividends paid year 1936	Income year 1936
Dalton Bank & Trust Co. - General	$ 147,380	169,830	169,830															
- Payroll	500	500	500															
Petty Cash	500	500	500															
Accounts Receivable - Customers	30,040	32,190		32,190														
Reserve for Bad Debts	1,510	3,110		3,110														
Ashton Metal Products Co.	325,450	199,620										199,620						
Brooke Sales Co.	137,230	145,200		145,200														
Coles Manufacturing Co.	115,140	127,290										127,290						
Ednor Metal Machinery Co.	10,990	26,200										26,200						
Fulton Railway Co.	12,330	10,190										10,190						
Freight Claims	2,500	1,850		1,850														
Finished Goods Inventory	86,240	108,870			108,870													
Goods in Process Inventory	72,430	79,130			79,130													
Raw Material Inventory	89,480	92,180			92,180													
Supplies	29,980	31,660				31,660												
Land	462,240	462,240							462,240									
Buildings	980,330	996,760								996,760								
Machinery and Equipment	2,610,560	2,770,180								2,770,180								
Small Tools	17,270	16,300								16,300								
Furniture and Fixtures	47,680	47,740								47,740								
Automobiles and Motor Trucks	2,130	4,150								4,150								
Construction	8,340	15,100								15,100								
Reserve for Depreciation	1,605,160	1,915,640									1,915,640							
Investments in Subsidiaries	1,500,000	1,500,000						1,500,000										
Insurance Unexpired	28,250	26,580					26,580											
Prepaid Expenses	4,660	5,510					5,510											
Accounts Payable	355,520	371,140										371,140						
Taxes Accrued	8,430	20,270												20,270				
Reserve for Federal Income Tax	9,530	35,790												35,790				
Common Capital Stock	2,000,000	2,000,000													2,000,000			
Dividends Paid		170,000															170,000	
Surplus	1,791,380	1,948,080														1,791,380		156,700
Accrued Wages	22,300	19,140											19,140					
			170,830	176,130	280,180	31,660	32,090	1,500,000	462,240	3,850,230	1,915,640	734,440	19,140	56,060	2,000,000	1,791,380	170,000	156,700
Adjust Reserve for Federal Income Tax														13,659				13,659
Machinery in transit										1,100		1,100						
			$ 170,830	176,130	280,180	31,660	32,090	1,500,000	462,240	3,851,330	1,915,640	735,540	19,140	42,401	2,000,000	1,791,380	170,000	170,359

DALTON METAL PRODUCTS CO.

INCOME ACCOUNT - YEAR 1936

	Per Books Year 1935	Per Books Year 1936	Sales	Cost of sales	Interest and dividends received	Miscell-aneous other income	Selling and general	Loss on plant sold or scrapped	Depreciation and obsolescence	Federal income tax	Balance
Sales	$ 2,984,180	3,254,760	3,254,760								
Returns and Allowances	126,440	147,390	147,390								
Sales Freight	104,600	114,980	114,980								
Discounts Allowed	27,180	31,420	31,420								
Direct Labor	590,320	605,190		605,190							
Indirect Labor	149,910	154,680		154,680							
Manufacturing Expenses	184,320	197,680		197,680							
Repair Expenses	107,420	121,150		121,150							
Steel Purchased	609,870	657,220		657,220							
Brass Purchased	307,290	319,830		319,830							
Office Salaries	47,320	65,020					65,020				
Commissions Paid	142,887	155,369					155,369				
Traveling Expense	13,603	13,721					13,721				
State and Municipal Taxes	70,870	74,400		60,600			13,800				
Depreciation	310,480	326,850							326,850		
Provision for doubtful accounts	1,320	1,770					1,770				
General Expenses	122,960	136,170					136,170				
Packing and Shipping Expense	23,990	24,820		24,820							
Purchase Discounts	7,180	10,290		10,290							
Miscellaneous Other Income	370	490				490					
Dividends Received	4,000	44,000			44,000						
Profit and Loss on Property Sold and Dismantled	3,280	1,420						1,420			
Change in Inventory:											
Raw Material	15,320	2,700		2,700							
Goods in Process	11,260	6,700		6,700							
Finished Goods	8,970	22,630		22,630							
Federal Income Tax	9,530	35,790								35,790	
Balance	59,750	156,700									156,700
			2,960,970	2,098,850	44,000	490	385,850	1,420	326,850	35,790	156,700
Adjust Federal Income tax										13,659	13,659
			$ 2,960,970	2,098,850	44,000	490	385,850	1,420	326,850	22,131	170,359

EDNOR METAL MACHINERY CO.

BALANCE SHEET - DECEMBER 31ST 1936

	Per Books Dec. 31, 1935	Per Books Dec. 31, 1936	Cash	Accounts receivable -trade, less reserve	Metals and manu-factured products	Supplies	Prepaid expenses	Land	Buildings, machinery and equipment	Reserve for depre-ciation	Accounts payable-trade	Wages and salaries payable	Taxes accrued	Capital stock	Surplus Dec. 31, 1935	Dividends paid year 1936	Income year 1936
Sheffield Trust Co. - General	$ 40,150	17,730	17,730														
- Payroll	200	200	200														
Petty Cash	100	100	100														
Accounts Receivable	177,180	132,540		132,540													
Reserve for Bad Debts	1,360	1,630		1,630													
Ashton Metal Products Co.	154,210	120,510									120,510						
Dalton Metal Products Co.	10,990	27,300		27,300													
Fulton Railway Co.	2,120	3,140									3,140						
Finished Goods Inventory	44,690	72,380			72,380												
Goods in Process Inventory	77,240	69,150			69,150												
Raw Material Inventory	23,210	41,130			41,130												
Supplies	8,670	5,340				5,340											
Land	20,000	20,000						20,000									
Buildings	124,390	124,390							124,390								
Machinery and Equipment	367,140	373,280							373,280								
Furniture and Fixtures	15,620	15,980							15,980								
Automobiles and Motor Trucks	3,200	3,200							3,200								
Reserve for Depreciation	233,080	254,220								254,220							
Insurance Unexpired	1,930	3,290					3,290										
Prepaid Expenses	480	550					550										
Accounts Payable	26,240	20,190									20,190						
Wages Payable	4,180	5,280										5,280					
Taxes Accrued	1,170	6,510											6,510				
Common Capital Stock	500,000	500,000												500,000			
Surplus	7,170	9,360													7,170	30,000	27,810
Reserve for Federal Income tax		4,440											4,440				
			18,030	158,210	182,660	5,340	3,840	20,000	516,850	254,220	143,840	5,280	10,950	500,000	7,170	30,000	27,810
Adjust Reserve for Federal Income tax													607				607
			$ 18,030	158,210	182,660	5,340	3,840	20,000	516,850	254,220	143,840	5,280	10,343	500,000	7,170	30,000	28,417

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EDNOR METAL MACHINERY CO.

INCOME ACCOUNT - YEAR 1936

	Per Books								
	Year 1935	Year 1936	Sales	Cost of sales	Selling and general	Loss on plant sold or scrapped	Depreciation and obsolescence	Federal income tax	Balance
Sales	$ 1,427,340	1,624,180	1,624,180						
Returns and allowances	27,290	52,370	52,370						
Sales Freight	15,990	16,240	16,240						
Direct Labor	249,370	282,160		282,160					
Direct Materials	647,020	714,330		714,330					
Manufacturing Expenses	120,190	133,760		133,760					
Indirect Labor	124,980	128,810		128,810					
Office Salaries	79,380	85,100			85,100				
General Expenses	66,240	73,375			73,375				
Research and Experimental Expense	19,140	20,180			20,180				
State and Municipal Taxes	5,170	7,105		5,060	2,045				
Depreciation	42,170	45,220					45,220		
Discounts allowed	13,240	15,990	15,990						
Purchase Discounts	10,190	13,140		13,140					
Bad Debts Expense	2,140	1,170			1,170				
Profit and Loss on Property Sold. Dismantled, etc.	3,290	1,440				1,440			
Selling Expense	49,180	52,370			52,370				
Packing and Shipping Expense	10,190	12,970		12,970					
Inventories:									
beginning	120,970	145,140		145,140					
end	145,140	182,660		182,660					
Federal Income Tax		4,440						4,440	
Balance	13,280	27,810							27,810
			1,539,580	1,226,430	234,240	1,440	45,220	4,440	27,810
Adjust Federal income tax								607	607
			$ 1,539,580	1,226,430	234,240	1,440	45,220	3,833	28,417

CONSOLIDATED SUMMARIES

On pages 320 to 343 following are shown summaries supporting the various balance-sheet, income and surplus items prepared from the classification of accounts and the book schedules. The purpose of these summaries is not so much to support the balance-sheet, income and surplus items as to provide the information for their further analysis which is required in the preparation of the report to management and the annual report to the Securities and Exchange Commission. These summaries are, as a rule, prepared after the classifications of accounts are completed, although a substantial amount of preliminary work can be done on them if desired.

It will be observed that pages 320 to 322 give the basis of the entries on the consolidated classification of accounts for the various intercompany eliminations. It is considered preferable to prepare a summary for these entries rather than to attempt to accomplish this by direct distribution on the classification of accounts, as the nature and relation of a particular item to the consolidated accounts cannot always be known from the information contained in the books of the individual company.

Summary S ZZI, page 344, does not support any balance-sheet or income account item, but is prepared to support the statement of sources and disposition of funds used in the report to management. The various summaries are prepared with this statement in view. It is not difficult when preparing the summaries to separate items relating to sources and disposition of funds from other items, but such segregation is frequently difficult if it must be made after schedules or summaries are prepared in which no distinction is made between items which should or should not appear in this statement.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

BALANCE SHEET ELIMINATIONS - INTER-COMPANY

DECEMBER 31ST 1936

On books of	Description		Accounts receivable (affiliated companies)	Investments	Accounts payable (affiliated companies)	Capital stock	Surplus Dec. 31, 1935	Income year 1936	Dividends paid year 1936
Ashton	Current account with	Brooke	$ 110,320						
		Dalton	199,620						
		Ednor	120,510						
		Fulton			5,210				
	Investment in	Brooke		600,000					
		Dalton		2,483,250					
		Fulton		1,000,000					
	Dividends received from	Brooke						26,000	
		Dalton						170,000	
		Fulton						14,000	
Brooke	Current account with	Ashton			110,320				
		Dalton			145,200				
		Fulton			1,320				
	Capital Stock owned by	Ashton				600,000			
	Dividends paid to	Ashton							26,000
Dalton	Current account with	Ashton			199,620				
		Brooke	145,200						
		Ednor			27,300				
		Fulton			10,190				
	Investment in	Ednor		500,000					
	Dividends received from	Ednor						30,000	
	Capital Stock owned by	Ashton				2,000,000			
	Surplus when purchased by	Ashton					483,250		
	Dividends paid to	Ashton							170,000
	Investment in	Fulton		1,000,000					
	Dividends received from	Fulton						14,000	
Ednor	Current account with	Ashton			120,510				
		Dalton	27,300						
		Fulton			3,140				
	Capital Stock owned by	Dalton				500,000			
	Dividends paid to	Dalton							30,000
	Forward		602,950	5,583,250	622,810	3,100,000	483,250	254,000	226,000

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

BALANCE SHEET ELIMINATIONS - INTER-COMPANY

DECEMBER 31ST 1936
(Continued)

On books of	Description		Accounts receivable (affiliated companies)	Investments	Accounts payable (affiliated companies)	Capital stock	Surplus Dec. 31, 1935	Income year 1936	Dividends paid year 1936
	Forward		$ 602,950	5,583,250	622,810	3,100,000	483,250	254,000	226,000
Fulton	Current account with	Ashton	5,210						
		Brooke	1,320						
		Dalton	10,190						
		Ednor	3,140						
	Capital Stock owned by	Ashton				1,000,000			
		Dalton				1,000,000			
	Dividends paid to	Ashton							14,000
		Dalton							14,000
	Ashton and 100% owned subsidiaries		622,810	5,583,250	622,810	5,100,000	483,250	254,000	254,000
Ashton	Current account with	Coles			232,150				
	Investment in	Coles		1,499,350					
	Dividends received from	Coles						117,000	
Dalton	Current account with	Coles			127,290				
Fulton	Current account with	Coles	5,990						
Coles	Current account with	Ashton	232,150						
		Dalton	127,290						
		Fulton			5,990				
	Capital Stock owned by	Ashton				1,125,000			
	Surplus when purchased by	Ashton					374,350		
	Dividends paid to	Ashton							117,000
			$ 988,240	7,082,600	988,240	6,225,000	857,600	371,000	371,000

Note to the reader: CONSOLIDATED BALANCE SHEET ELIMINATIONS The purpose of this schedule is to gather together on one schedule all eliminations which need to be made as part of the process of consolidation, the totals being carried to the consolidated classification of accounts.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

INCOME ACCOUNT ELIMINATIONS - INTER-COMPANY

YEAR 1936

On books of	Description		Sales	Cost of sales	Dividends received	Miscellaneous other income	Selling and general expense	Balance
Ashton	Commissions paid to	Brooke	$				236,160	
	Freight paid to	Fulton	112,320					
	Dividends received from	Brooke			26,000			
		Dalton			170,000			
		Fulton			14,000			
Brooke	Commissions received from	Ashton				236,160		
		Dalton				155,369		
	Dividends paid to	Ashton						26,000
Dalton	Commissions paid to	Brooke					155,369	
	Freight paid to	Fulton	107,120					
	Dividends received from	Ednor			30,000			
		Fulton			14,000			
	Dividends paid to	Ashton						170,000
Ednor	Freight paid to	Fulton	10,170					
	Dividends paid to	Dalton						30,000
Fulton	Freight received from	Ashton	112,320					
		Dalton	107,120					
		Ednor	10,170					
	Dividends paid to	Ashton						14,000
		Dalton						14,000
	Ashton and 100% owned subsidiary companies		-		254,000	391,529	391,529	254,000
Ashton	Purchases of steel from	Coles		1,109,300				
	Purchases of brass from	Coles		642,400				
	Dividends received from	Coles			117,000			
Coles	Sales of steel to	Ashton	1,109,300					
		Dalton	657,220					
	Sales of brass to	Ashton	642,400					
		Dalton	319,830					
	Freight paid to	Fulton	12,140					
	Dividends paid to	Ashton						117,000
Dalton	Purchases of steel from	Coles		657,220				
	Purchases of brass from	Coles		319,830				
Fulton	Freight received from	Coles	12,140					
			$ 2,728,750	2,728,750	371,000	391,529	391,529	371,000

Note to the reader: CONSOLIDATED INCOME ACCOUNT ELIMINATIONS The purpose of this schedule is to gather together on one schedule all eliminations which need to be made as part of the process of consolidation, the totals being carried to the consolidated classification of accounts.

SB 1

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF MARKETABLE SECURITIES - DECEMBER 31ST 1936

Number of shares of stock or par value of bonds	Description of Security	Book value	Value based on market quotations: Exchange	Quotation	Amount
\$20,000 par	Old Line Railroad Co. - 4½% bonds due 1981	\$ 16,125	Ashton Stock Exchange	75½	\$ 15,100
200 shares	Steel and Iron Fabricators, Inc. - common	20,000	Ashton Curb Exchange	52½	10,500
100 shares	Premier Manufacturing Co. - 6% preferred	10,375	Ashton Stock Exchange	112	11,200
\$25,000 par	Southeast American Utilities Corp'n. - 4% bonds due 1976	26,000	Unlisted	105	26,250
100 shares	United General Co. - common	7,500	Ashton Curb Exchange	73	7,300
200 shares	Premier Manufacturing Co. - common	19,250	Ashton Stock Exchange	97½	19,500
\$ 5,000 par	Northeastern Amalgamated Mfg. Co. - 4% bonds due 1965	5,200	North City Stock and Commodity Exchange	98½	4,925
\$10,000 par	Bosthaven Rapid Transit Co. - 6% bonds due 1942	8,800	Ashton Stock Exchange	85	8,500
		\$ 113,250			\$ 103,275

All above prices are closing prices for Dec. 31, 1936 as published in the Ashton Daily Times except quotation for Southeast American Utilities Corp'n. bonds, not traded in on that day, is average of bid and asked prices. Actual count of above securities is shown in summary schedules SI1 to SI8.

Note to the reader: This summary shows market value as well as cost and is used to arrive at the market value as shown on the balance sheet and in preparation of page 15 of report to management.

SC 1

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF ACCOUNTS RECEIVABLE - DECEMBER 31ST 1936

	Per Form 10 K				Details of trade accounts (for report to management)				
					For products sold				
	Total	Affiliates	Reserve for doubtful accounts	Trade accounts - total	Accounts	Notes	For supplies and equipment sold	Railway freight accounts	Miscel-laneous
Ashton	$ 451,530	430,450	2,500	23,580			21,600		1,980
Brooke	735,470		27,720	763,190	736,700	24,700			1,790
Dalton	176,130	145,200	3,110	34,040			32,190		1,850
Ednor	158,210	27,300	1,630	132,540	132,540				
Fulton	40,240	25,850		14,390				10,320	4,070
Ashton and 100% owned	1,561,580	628,800	34,960	967,740	869,240	24,700	53,790	10,320	9,690
Coles	417,830	359,440	12,360	70,750	67,190				3,560
Per books	1,979,410	988,240	47,320	1,038,490	936,430	24,700	53,790	10,320	13,250
Eliminate inter-company accounts	988,240	988,240							
Per published	$ 991,170	-	47,320	1,038,490	936,430	24,700	53,790	10,320	13,250

	Total	Affiliates	Reserve for doubtful accounts	Trade accounts - total	Indebtedness of subsidiaries not current
		SC2	SC3		
Ashton and 100% owned - as above	$ 1,561,580	628,800	34,960	967,740	
Eliminate inter-company accounts	622,810	622,810			
Per Form 10 K	$ 938,770	5,990	34,960	967,740	
Ashton	$ 451,530	430,450	2,500	23,580	
Transfer account with Dalton which company has a deficiency of net current assets		199,620			199,620
Per Form 10 K	$ 451,530	230,830	2,500	23,580	199,620

Note to the reader: The purpose of this summary is to produce the figures required for Form 10 K which are indicated by the references and to provide information for the report to management, page 16.

S C2

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF ACCOUNTS RECEIVABLE - AFFILIATES - DECEMBER 31ST 1936

On books of	Receivable from	Amount Total	Amount Items	Inter-company accounts which agree	Inter-company accounts which do not agree	Inter-company accounts which agree - 100% owned companies
Ashton		$ 430,450				
	Brooke		110,320	110,320		110,320
	Dalton		199,620	199,620		199,620
	Ednor		120,510	120,510		120,510
Brooke		-	-			
Dalton		145,200				
	Brooke		145,200	145,200		145,200
Ednor		27,300				
	Dalton		27,300	26,200	1,100	27,300
	Adjustment Dalton			1,100	1,100	
Fulton		25,850				
	Ashton		5,210	5,210		5,210
	Brooke		1,320	1,320		1,320
	Ednor		3,140	3,140		3,140
	Coles		5,990	5,990		
	Dalton		10,190	10,190		10,190
		628,800		628,800	-	$ 622,810
Coles'		359,440				
	Ashton		232,150	232,150		
	Dalton		127,290	127,290		
		$ 988,240		988,240	-	

SC1

Note to the reader: This schedule is prepared to determine the amount of inter-company accounts receivable which should be eliminated against inter-company payables, schedule SO2, and is prepared in most cases from items appearing on the trial balances of individual companies but where this detail is insufficient, the analysis furnished by the schedules of book accounts is used.

SC 3

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF RESERVE FOR DOUBTFUL ACCOUNTS

DECEMBER 31ST 1936

Information required for Schedule VII, Form 10 K

	Balance Dec. 31, 1935	Additions charged to income	Bad accounts charged to reserve	Balance Dec. 31 1936
Ashton	$ 2,105	600	205	2,500
Brooke	18,340	12,240	2,860	27,720
Dalton	1,510	1,770	170	3,110
Ednor	1,360	1,170	900	1,630
Ashton and 100% owned	23,315	15,780	4,135	34,960
Coles	10,380	10,890	8,910	12,360
Consolidated	$ 33,695	26,670	13,045	47,320

SC1

SD 1

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF INVENTORIES - DECEMBER 31ST 1936

		Total	Finished	In process	Raw materials
Ashton		$ 568,500	322,970	245,530	
Dalton		280,180	108,870	171,310	
Ednor		182,660	72,380	69,150	41,130
Ashton and 100% owned		1,031,340	504,220	485,990	41,130
Coles		437,810		87,500	350,310
Per books		1,469,150	504,220	573,490	391,440
Eliminate inter-company profit	SD2	19,755		19,755	
Per published and per Form 10 K		1,449,395	504,220	553,735	391,440

Details of finished - for report to management

	Total	Machine parts	Die stampings	Screw machine products	Machinery
Ashton	$ 322,970	68,280	123,860	130,830	
Dalton	108,870	23,240	42,130	43,500	
Ednor	72,380				72,380
As above	$ 504,220	91,520	165,990	174,330	72,380

Details of in process - for report to management

	Total	Machine parts	Die stampings	Screw machine products	Machinery	Partly fabricated Steel	Partly fabricated Brass
Ashton	$ 245,530	49,080	18,190	33,010		105,000	40,250
Dalton	171,310	38,140	13,670	27,320		61,450	30,730
Ednor	69,150				69,150		
Coles	87,500					48,030	39,470
Inter-company:							
Ashton SD2	12,059					8,400	3,659
Dalton SD2	7,696					5,016	2,680
As above	$ 553,735	87,220	31,860	60,330	69,150	201,064	104,111

Details of raw materials - for report to management

	Total	Steel	Brass	Machinery parts
Ednor	$ 41,130			41,130
Coles	350,310	204,380	145,930	
As above	$ 391,440	204,380	145,930	41,130

Note to the reader: This schedule is a summary of inventory totals as they appear on the individual companies classifications of accounts and shows the figures required for Form 10 K and for page 17 of report to management.

SD 2

ASHTON METAL PRODUCTS CO.—CONSOLIDATED

CALCULATION OF INTER-COMPANY PROFIT IN INVENTORY

December 31st, 1936

	Dec. 31, 1935			*Dec. 31, 1936*		
	Quantity	Price	Amount	Quantity	Price	Amount
Steel inventory—tons:						
Ashton..........	1,500	$48.00	72,000	2,100	$50.00	105,000
Dalton..........	1,300	48.00	62,400	1,254	50.00	62,700
	2,800	48.00	134,400	3,354	50.00	167,700
Average cost of production by Coles..		45.00	126,000		46.00	154,284
Inter-company profit		$ 3.00	8,400		4.00	13,416
Brass inventory—pounds:						
Ashton..........	332,800	$ .10	33,280	365,909	$ .11	40,250
Dalton..........	270,800	.10	27,080	268,000	.11	29,480
	603,600	.10	$ 60,360	633,909	.11	$ 69,730
Average cost of production by Coles..		.09	54,324		.10	63,391
Inter-company profit		$ .01	$ 6,036		$ .01	$ 6,339
Total inter-company profit...........			$ 14,436			$ 19,755
Balance, December 31st, 1936:						
Ashton—SD 1:						
Steel...........				2,100	$ 4.00	8,400
Brass...........				365,909	.01	3,659
						12,059
Dalton—SD 1:						
Steel...........				1,254	4.00	5,016
Brass...........				268,000	.01	2,680
						7,696
					As above	$19,755

Note to the reader: This schedule shows the method of arriving at inter-company profit included in the inventory of partly fabricated steel and brass which is used as an elimination on the consolidated classification of accounts.

S E1

ASHTON METAL PRODUCTS CO.—CONSOLIDATED

Summary of Supplies on Hand

December 31st, 1936

	Total	*Details for report to management* Operating supplies	Spare parts	Repair supplies
Ashton	$ 50,290	25,275	10,480	14,535
Dalton	31,660	18,820	9,630	3,210
Ednor	5,340	2,680	1,844	816
Fulton	43,300	13,410	9,210	20,680
Ashton and 100% owned	130,590	60,185	31,164	39,241
Coles	30,980	10,640	11,563	8,777
Per books and published	$161,570	70,825	42,727	48,018

Note to the reader: This schedule provides the figures for page 19 of the report to management.

S G1

ASHTON METAL PRODUCTS CO.—CONSOLIDATED

Summary of Prepaid Expenses

December 31st, 1936

	Total	*Details for report to management* Unexpired insurance	Miscellaneous
Ashton	$ 26,585	$22,135	$ 4,450
Brooke	11,520	4,380	7,140
Dalton	32,090	26,580	5,510
Ednor	3,840	3,290	550
Fulton	5,430	450	4,980
Ashton and 100% owned	79,465	56,835	22,630
Coles	25,030	20,550	4,480
Per books and published	$104,495	77,385	27,110

Note to the reader: This schedule provides the details shown on page 22 of the report to management.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF SECURITY COUNT

DECEMBER 31ST 1936

On books of	Account included in	Name of security	Book value		Units - par value or shares	Seen in vault	Verified by Certificate of Ashton State Bank and Trust Co.	Seen in custody of	Not seen
Ashton	Investments in subsidiaries	Brooke Sales Co.	$ 600,000		6,000	6,000			
		Coles Manufacturing Co.	1,499,350		22,500	22,500			
		Dalton Metal Products Co.	2,483,250		20,000	20,000			
		Fulton Railway Co.	1,000,000	5,582,600	10,000	10,000			
	Other investments	New Coast Steamship Co. - common	100,000		1,000	1,000			
		do - preferred	60,870		750	750			
		Northeastern Amalgamated Mfg. Co. - bonds	5,200		5,000		5,000		
		Fairfax Screw Machinery Corp'n. - common	50,000		500	500			
		Bosthaven Rapid Transit Co. - bonds	8,800		10,000		10,000		
		Eagle Aircraft Corp'n. - common	8,600		1,000				Sold
		Thames & Connecticut Railway Co. - debentures	22,500		25,000				Redeemed
		Oceanic Bank & Trust Co. - common	22,500		250	250			
		Metal Industries Foreign Export Ass'n.:							
		common	2,500		100	100			
		preferred	1,000		10	10			
		Dalton Country Club - preferred	10		10	10			
		Glory Gold Mines, Inc. - common	10	281,990	6,000			S. Carton, treas. 6,000	
	Marketable securities	New Era Railroad Co. - bonds	19,350		20,000				Sold
		Old Line Railroad Co. - bonds	16,125		20,000		20,000		
		Steel & Iron Fabricators, Inc. - common	20,000		200	200			
		Premier Manufacturing Co. - preferred	10,375	65,850	100	100			
Total				5,930,440	148,420				
Dalton	Investments in subsidiaries	Ednor Metal Machinery Co.	500,000		10,000	10,000			
		Fulton Railway Co.	1,000,000	1,500,000	10,000	10,000			
Total December 31, 1935				7,430,440	168,420				
Year 1936									
Ashton	Other investments	Eagle Aircraft Corp'n. - common		8,600	1,000				Sold
		Thames & Connecticut Railway Co. - debentures		22,500	25,000				Redeemed
	Marketable securities	Southeast American Utilities Corp'n. - bonds		26,000	25,000		25,000		
		United General Co. - common		7,500	100	100			
		Premier Manufacturing Co. - common		19,250	200	200			
		New Era Railroad Co. - bonds		19,350	20,000				Redeemed
Total December 31, 1936				$ 7,432,740	147,720	81,720	60,000	6,000	

Note to the reader: This is primarily a schedule having to do with verification and is supported by details of the count of securities. It will be observed that numbers of certificates and the names in which the security is held are indicated. Both of these are of great importance. The name in which they are held and the manner in which the certificates are endorsed indicate that the company has title to them and the numbers, if the same from year to year, indicate that the securities have not been disturbed. Change in numbers from one count to another should be brought to the attention of a responsible official immediately as this may indicate that securities were extracted for use as collateral or some other unauthorized purpose during the year and later replaced or that some other irregularity had occurred. Certificates not in the name of the company not properly endorsed should be brought to the attention of a responsible official as carelessness in this respect might be dangerous to the company if the securities are, in fact, the company's property or it may indicate that securities are claimed as company property which are merely held for safe-keeping. It will be observed that a column "Units - par value or shares" is shown. At first sight it may appear somewhat illogical to add shares and dollars together. However, the total is a mathematical check and has been found in practice to be of considerable value as the change in the aggregate of par value of bonds and number of shares must be accounted for. Errors are frequently brought to light and it is a means of insuring that changes in securities by stock dividends, split-ups and other changes where the number of shares differs but the amount in money remains the same are recognized.

SI 2

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

1936

Securities marked A—Counted in vault of Ashton State Bank & Trust Co., January 2nd, 1937, between 9 A.M. and 10:30 A.M. by R. E. Swift in the presence of Messrs. Carton and Brewster.

Securities marked B—Seen in Treasurer's office January 2nd, 1937, at 11 A.M. by J. E. Kean.

SI 3

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of	Certificate number	Units—par value or shares	
Bosthaven Rapid Transit Co.					
6% sinking fund gold bonds					
Due 1942			601–610	10,000	
Interest dates—Mar., Sept. 1					
Coupons attached:					
No. 19—Mar. 1, 1937, to					
No. 30—Sept. 1, 1942					

Certificate of Ashton State Bank & Trust Co. seen

		In name of	Certificate number	Units—par value or shares	
Brooke Sales Co.					
Common stock					
Authorized $600,000		T. Cringle —endorsed	1	1	A
Par value	$100	S. Carton —endorsed	2	1	A
		E. Drood —endorsed	3	1	A
		E. Frome —endorsed	4	1	A
		Ashton	5	5,996	A
				6,000	
Coles Manufacturing Co.					
Common stock					
Authorized $1,250,000		Ashton	361	10,000	A
Par value	$ 50	"	362	10,000	A
		"	363	1,000	A
		"	364	1,000	A
		"	365	495	A
		E. Frome —endorsed	366	1	A
		C. Wynne —endorsed	367	1	A
		I. Crane —endorsed	368	1	A
		E. Drood —endorsed	369	1	A
		A. B. Coles—endorsed	370	1	A
				22,500	

SI 4

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of		Certificate number	Units—par value or shares	
Dalton Country Club						
6% preferred stock						
Par value	$100	Ashton		3	10	A
Dalton Metal Products Co.						
Common stock						
Authorized $2,000,000		C. Wynne	—endorsed	64	10	A
Par value	$100	S. Carton	—endorsed	65	10	A
		E. Frome	—endorsed	66	10	A
		T. Cringle	—endorsed	67	10	A
		I. Crane	—endorsed	68	10	A
		Ashton		71	950	A
		"		73	9,000	A
		"		74	10,000	A
					20,000	
Ednor Metal Machinery Co.						
Common stock						
Authorized $500,000		F. E. Edwards	—endorsed	29	1	A
Par	$50	Q. R. Norwood	—endorsed	30	1	A
		E. Frome	—endorsed	31	1	A
		S. Carton	—endorsed	32	1	A
		Dalton		33	9,996	A
					10,000	
Eagle Aircraft Corpn.						
Common stock						
No par value		Ashton		842	439	
		"		936	1	
		"		1,113	540	
		"		486	20	
					1,000	
		Sold in 1936				
Fairfax Screw Machinery Corpn.						
Common stock						
Par value	$100	Ashton		463	250	A
		"		513	249	A
		E. Frome	—endorsed	514	1	A
					500	

SI 5

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of		Certificate number	Units—par value or shares	
Fulton Railway Co.						
Common stock						
Authorized $2,000,000		E. Frome	—endorsed	31	1	A
Par value	$100	C. Wynne	—endorsed	32	1	A
		T. Cringle	—endorsed	33	1	A
		Ashton		34	5,000	A
		"		35	2,000	A
		"		36	2,000	A
		"		38	1	A
		"		39	5	A
		"		40	990	A
		S. Lapham	—endorsed	41	1	A
		Dalton		42	10,000	A
					20,000	
Glory Gold Mines, Inc.						
Common stock						
Par value	$ 1	Ashton		8	5,983	B
		"		11	7	B
		"		17	10	B
					6,000	
Metal Industries Foreign Export Assn.						
Common stock						
Par value	$ 25	Ashton		8	50	A
		"		9	25	A
		"		13	25	A
					100	
7% preferred stock						
Par value	$100	E. Frome	—endorsed	4	10	A
New Era Railroad Co.						
6% general mortgage bonds						
Due 1936				M 15 to		
Interest dates—Apr., Oct. 1				M 19	5,000	
				A 46	5,000	
				A 57	5,000	
				A 98	5,000	
		Redeemed in 1936			20,000	

SI 6

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of	Certificate number	Units—par value or shares	
New Coast Steamship Co.					
Common stock					
Par value	$100	Ashton	12	100	A
		"	13	100	A
		"	14	100	A
		"	15	100	A
		"	16	100	A
		"	48	500	A
				1,000	
Preferred stock—6%					
Par value	$100	Ashton	38	350	A
		"	39	350	A
		"	43	50	A
				750	
Northeastern Amalgamated Mfg. Co.					
4% gold bonds					
Due 1965			M 438 to M 441	4,000	
Interest dates—Feb., Aug. 15			M 512	1,000	
Coupons attached:					
No. 23—Feb. 15, 1937, to				5,000	
No. 80—Aug. 15, 1965					

Certificate of Ashton State Bank and Trust Co. seen

Oceanic Bank & Trust Co.					
Common stock					
Par value	$100	Ashton	11	250	A

SI 7

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of		Certificate number	Units—par value or shares	
Old Line Railroad Co.						
4½% refunding and general mortgage gold bonds				M 239 to		
Due 1981				M 248	10,000	
Interest dates—May, Nov. 1				VM 670	10,000	
Coupons attached:						
No. 11—May 1, 1937, to					20,000	
No. 100—Nov. 1, 1981						
Certificate of Ashton State Bank and Trust Co. seen						
Premier Manufacturing Co.						
Preferred stock—6%						
Par value	$100	E. Frome	—endorsed	8	100	A
Common stock						
Par value	$100	E. Frome	—endorsed	347	100	A
		"	"	763	100	A
					200	
Southeast American Utilities Corpn.						
4% gold bonds				M 92	1,000	
Due 1976				M 95	1,000	
Interest dates—Apr., Oct. 1				M 97 to		
Coupons attached:				M 99	3,000	
No. 21—Apr. 1, 1937, to				N 4	10,000	
No. 100—Oct. 1, 1976				N 11	10,000	
					25,000	

Certificate of Ashton State Bank and Trust Co. seen

SI 8

ASHTON METAL PRODUCTS CO.

SECURITY COUNT

December 31st, 1936

		In name of	Certificate number	Units—par value or shares	
Steel and Iron Fabricators, Inc.					
Common stock					
Par value	$ 50	Ashton	848	190	A
		"	912	5	A
		"	915	5	A
				200	
Thames and Connecticut Railway Co.					
6% debentures			N 838 to		
Due 1940			N 860	23,000	
Interest dates—Jan., July 1			N 861	1,000	
			N 863	1,000	
				25,000	
		Called in 1936			
United General Co.					
Common stock					
No par value		Ashton	MC 468	100	A

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF PLANT AND EQUIPMENT - DECEMBER 31ST 1936

	Balance Dec. 31, 1935	Balance Dec. 31, 1936	Increase	Construction	Transferred from affiliates- at net value	Transferred to affiliates- gross value	Sold or scrapped	Cost	Depreciation to date	Salvage	Loss
				Details for report to management				Details for report to management — Details of sold and scrapped			
Ashton	$ 3,960,690	4,060,895	100,205	439,470	39,170	66,260	312,175	$ 312,175	254,099	19,908	38,168
Brooke	98,410	112,500	14,090	27,410	3,130		16,450	16,450	9,870	5,440	1,140
Dalton	3,666,310	3,851,330	185,020	195,970	31,765	33,170	9,545	9,545	5,735	2,390	1,420
Ednor	510,350	516,850	6,500	49,430	5,230	19,320	28,840	28,840	22,060	5,340	1,440
Fulton	1,252,520	1,253,250	730	60,020	1,170	1,200	59,260	59,260	44,083	5,877	9,300
Ashton and 100% owned	9,488,280	9,794,825	306,545	772,300	80,465	119,950	426,270	426,270	335,847	38,955	51,468
Coles	1,734,510	1,832,580	98,070	199,900			101,830	101,830	75,000	18,550	8,280
Per books and published	11,222,790	11,627,405	404,615	972,200	80,465	119,950	528,100	$ 528,100	410,847	57,505	59,748
Transfer for Form 10 K					80,465	80,465					
Per Form 10 K	$ 11,222,790	11,627,405	404,615	972,200		39,485	528,100				

Note to the reader: This summary is prepared to produce figures for page 25 of the report to management and for schedule II of Form 10 K.

SL 1

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF RESERVE FOR DEPRECIATION

DECEMBER 31ST 1936

	Balance Dec. 31, 1935	Balance Dec. 31, 1936	Increase	Depre- ciation charged income	Depre- ciation on plant transfers to affiliates	Depre- ciation on plant sold or scrapped
Ashton	$ 1,632,558	1,656,960	24,402	305,231	26,730	254,099
Brooke	48,760	54,730	5,970	15,840		9,870
Dalton	1,605,160	1,915,640	310,480	326,850	10,635	5,735
Ednor	233,080	254,220	21,140	45,220	2,020	22,060
Fulton	517,380	552,120	34,740	78,923	100	44,083
Ashton and 100% owned	4,036,938	4,433,670	396,732	772,064	39,485	335,847
Coles	641,250	752,630	111,380	186,380		75,000
Per books and published	$ 4,678,188	5,186,300	508,112	958,444	39,485	410,847

Note to the reader: This schedule supports page 26 of the report to management and schedule III of Form 10 K.

S 01

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF ACCOUNTS PAYABLE - TRADE

DECEMBER 31ST 1936

	Total	Inter-company	Trade accounts	Unclaimed dividends
Ashton	$ 522,507	237,360	284,777	370
Brooke	271,020	256,840	14,180	
Dalton	735,540	364,400	371,140	
Ednor	143,840	123,650	20,190	
Fulton	23,640		23,640	
Ashton and 100% owned	1,696,547	982,250	713,927	370
Coles	160,540	5,990	154,550	
Per books	1,857,087	988,240	868,477	370
Inter-company accounts	988,240	988,240		
Transfer unclaimed dividends			370	370
Per published	$ 868,847	-	868,847	-
Ashton and 100% owned	$ 1,696,547	982,250	713,927	370
Inter-company accounts	622,810	622,810		
Transfer unclaimed dividends			370	370
Per Form 10 K	$ 1,073,737	359,440	714,297	-

S O2

ASHTON METAL PRODUCTS CO.—CONSOLIDATED

Summary of Accounts Payable—Affiliates

December 31st, 1936

On books of	Payable to	Amount: Total	Amount: Items	Inter-company accounts which agree	Inter-company accounts which do not agree	Inter-company accounts which agree—100% owned companies
Ashton		$237,360				
	Fulton		5,210	5,210		5,210
	Coles		232,150	232,150		
Brooke		256,840				
	Ashton		110,320	110,320		110,320
	Dalton		145,200	145,200		145,200
	Fulton		1,320	1,320		1,320
Dalton		363,300				
	Ashton		199,620	199,620		199,620
	Coles		127,290	127,290		
	Ednor		26,200	26,200		26,200
	Fulton		10,190	10,190		10,190
Adjustment	Ednor	1,100	1,100	1,100		1,100
Fulton		—	—			
Ednor		123,650				
	Ashton		120,510	120,510		120,510
	Fulton		3,140	3,140		3,140
		982,250		982,250		622,810
Coles		5,990				
	Fulton		5,990	5,990		
		$988,240		988,240		

Note to the reader: See S C2.

S Q1

ASHTON METAL PRODUCTS CO.—CONSOLIDATED

Summary of Taxes Accrued

December 31st, 1936

	Total	Real estate and personal property	Federal capital stock	Federal income	Sales taxes	Miscellaneous
Ashton	$ 71,749		10,000	57,549		4,200
Brooke	15,917	2,255	200	3,587	9,740	135
Dalton	42,401	15,120	5,000	22,131		150
Ednor	10,343	5,439	750	3,833		321
Fulton	8,514	4,550	150	3,814		
Ashton and 100% owned	148,924	27,364	16,100	90,914	9,740	4,806
Coles	37,704	14,370	1,500	21,514		320
Per books and published	$186,628	41,734	17,600	112,428	9,740	5,126

Note to the reader: This schedule is prepared to support page 31 of the report to management and to produce figures required in Form 10 K.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF MINORITY INTEREST

DECEMBER 31ST 1936

		Total net assets	Shares	Per cent.	Minority interest
Minority Interest in Coles Manufacturing Co.					
1935 Dec. 31	- Total net assets	$ 1,941,600			
	- Minority interest		2,500	10.00	194,160
1936	- Acquired by Ashton	None			None
	- Net income	129,646			12,965
	- Surplus adjustments	None			None
	- Dividends	130,000			13,000
1936 Dec. 31	- Total net assets	$ 1,941,246			
	- Minority interest		2,500	10.00	194,125
	- Owned by Ashton		22,500	90.00	
			25,000	100.00	

Proof:	
Capital Stock	$ 1,250,000
Surplus Dec. 31, 1936	691,246
As above	$ 1,941,246

Note to the reader: This schedule is prepared to provide figures used for equity of minority stockholders on the consolidated classification of accounts and supports page 36 of the report to management.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF SALES - YEAR 1936

Details for report to management

Sales of Products

	Total	Gross sales	Returns and allowances	Freight out	Discount	Freight revenues
Ashton	$ 4,566,360	4,895,340	172,150	124,390	32,440	
Dalton	2,960,970	3,254,760	147,390	114,980	31,420	
Ednor	1,539,580	1,624,180	52,370	16,240	15,990	
Fulton	326,290					326,290
Ashton and 100% owned	9,393,200	9,774,280	371,910	255,610	79,850	326,290
Coles	3,518,335	3,575,165	27,300	13,080	16,450	
Per books	12,911,535	13,349,445	399,210	268,690	96,300	326,290
Inter-company sales	2,728,750	2,728,750				
Inter-company freight				241,750		241,750
Per published	$ 10,182,785	10,620,695	399,210	26,940	96,300	84,540
Ashton and 100% owned - as above	$ 9,393,200	9,774,280	371,910	255,610	79,850	326,290
Inter-company freight				229,610		229,610
Per Form 10 K	$ 9,393,200	9,774,280	371,910	26,000	79,850	96,680

Note to the reader: This schedule supports the consolidated profit and loss statement shown in Form 10 K and sales as shown on page 39 of the report to management.

S BB1

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF COST OF SALES - YEAR 1936

		Details for report to Management					Details for Profit and Loss Statements, Form 10 K			Details of costs for Schedule X, Form 10 K			
	Total	Materials used	Direct labor	Manufac-turing costs	Change in inventory - finished and in process	Railway operating expense	Inventory beginning	Inventory end	Costs	Taxes other than Federal income taxes	Repairs	Rents and royalties	Other costs
Ashton	$ 3,286,761	1,711,730	952,370	664,201	41,540		486,990	568,500	3,368,271	41,272	182,450	5,200	3,139,349
Dalton	2,098,850	974,350	605,190	548,640	29,330		248,150	280,180	2,130,880	60,600	121,150	54,000	1,895,130
Ednor	1,226,430	683,270	282,160	280,600	19,600		145,140	182,660	1,263,950	5,060	26,270		1,232,620
Fulton	206,377					206,377			206,377	12,130	58,370		135,877
Ashton and 100% owned	6,818,418	3,369,350	1,839,720	1,493,441	90,470	206,377	880,280	1,031,340	6,969,478	119,062	388,240	59,200	6,402,976
Coles	2,981,555	2,474,990	263,660	276,315	33,410		490,350	437,810	2,929,015	29,500	54,800	12,230	2,832,485
Per Books	9,799,973	5,844,340	2,103,380	1,769,756	123,880	206,377	1,370,630	1,469,150	9,898,493	148,562	443,040	71,430	9,235,461
Inter-company purchases	2,728,750	2,728,750							2,728,750				2,728,750
Inter-company profit in inventory	5,319	5,319					14,436	19,755					
Per Published	$ 7,076,542	3,120,909	2,103,380	1,769,756	123,880	206,377	1,356,194	1,449,395	7,169,743	148,562	443,040	71,430	6,506,711

Ashton Metal Products Co.

	Total	Materials used	Direct labor	Manufac-turing costs	Change in inventory - finished and in process	Inventory beginning	Inventory end	Costs	Taxes other than Federal Income taxes	Repairs	Rents and royalties	Other costs
Direct labor	$ 952,370		952,370					952,370				952,370
Indirect labor	279,330			279,330				279,330				279,330
Manufacturing expenses	209,901			209,901				209,901	41,272		5,200	163,429
Repair expenses	182,450			182,450				182,450		182,450		
Steel purchased	1,109,300	1,109,300						1,109,300				1,109,300
Brass purchased	642,400	642,400						642,400				642,400
Purchase discounts	7,480			7,480				7,430				7,430
Change in inventory:												
Finished goods	3,430				3,430	319,540	322,970					
Goods in process	38,110				38,110	62,170	100,280					
Raw materials	39,970	39,970				105,280	145,250					
	$ 3,286,761	1,711,730	952,370	664,201	41,540	486,990	568,500	3,368,271	41,272	182,450	5,200	3,139,349

Note to the reader: This schedule provides figures required for profit and loss statements Form 10 K and for Schedule X Form 10 K, as well as figures for costs shown on page 39 of report to management. This is made up partly from the classifications of accounts of the subsidiary companies and partly from the schedules of book accounts as is indicated by the summary shown for Ashton Metal Products Co. Similar details would, in actual practice, need to be collected for each company. It also supports pages 40 and 41 of the report.

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ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF INTEREST AND DIVIDENDS RECEIVED

YEAR 1936

	Total	Dividends received: Inter-company	Marketable securities	Other invest-ments	Interest
Ashton	$ 337,670				
Brooke		26,000			
Dalton		170,000			
Fulton		14,000			
Coles		117,000			
Other securities			1,700	5,070	3,850
Time deposit					50
Brooke	1,490				
Notes and accounts					1,490
Dalton	44,000				
Ednor		30,000			
Fulton		14,000			
Per books	383,160	371,000	1,700	5,070	5,390
Inter-company dividends	371,000	371,000			
Per published	12,160	-	1,700	5,070	5,390
Transfer for Form 10 K			5,070	5,070	
Per Form 10 K	$ 12,160	-	6,770	-	5,390
Ashton and 100% owned:					
Per books	$ 383,160	371,000	1,700	5,070	5,390
Inter-company dividend	254,000	254,000			
	129,160	117,000	1,700	5,070	5,390
Transfer for Form 10 K		6,770	1,700	5,070	
Per Form 10 K	$ 129,160	123,770	-	-	5,390

Note to the reader: This schedule supports Form 10 K as indicated by the references and supports in total page 42 of the report to management, the details on this page being obtained from the book schedules.

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ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF MISCELLANEOUS INCOME

YEAR 1936

	Total	Details for report to management: Commis-sions - inter-company	Rents received	Lunch room operations	Miscell-aneous	Shown separately
Ashton	$ 10,420 (		9,500		140	
Profit on sale of marketable securities	(					780
Brooke	395,939 (		4,200		210	
Ashton	(	236,160				
Dalton	(	155,369				
Dalton	490		800	430	120	
Fulton	310		310			
Ashton and 100% owned	407,159	391,529	14,810	430	470	780
Coles	12,480 (		10,000	240	420	
Profit on sale of supplies	(					1,820
Per books	419,639	391,529	24,810	190	890	2,600
Inter-company commissions	391,529	391,529				
Per published	28,110	-	24,810	190	890	2,600

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ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SUMMARY OF SELLING AND GENERAL EXPENSES

YEAR 1936

Figures for report to management

			Selling		General		
		Total	Inter-company	Other	Taxes	Other	Doubtful accounts
Ashton	$	510,123	236,160	12,000	38,398	222,965	600
Brooke		350,369(		299,134	2,930		12,240
Sales tax		(		36,015			
Dalton		335,850	155,369	10,000	21,800	196,911	1,770
Ednor		234,240		82,370	3,945	146,755	1,170
Ashton and 100% owned		1,430,582	391,529	439,569	67,073	566,631	15,780
Coles		203,440		71,620	15,480	105,450	10,890
Per books		1,684,022	391,529	511,189	82,553	672,081	26,670
Inter-company commissions		391,529	391,529				
Per published	$	1,292,493	-	511,189	82,553	672,081	26,670

Ashton Metal Products Co.

			Selling		General		
		Total	Inter-company	Other	Taxes	Other	Doubtful accounts
Office salaries	$	152,810				152,810	
Commissions paid		236,160	236,160				
Traveling		16,850				16,850	
General expense		104,303		12,000	38,398	53,305	600
	$	510,123	236,160	12,000	38,398	222,965	600

Note to the reader: This schedule provides figures required for Schedule X, Form 10 K and for the profit and loss account for Form 10 K and provides totals against which page 44 of the report to management may be proved, details of which page are obtained from the book schedules.

ASHTON METAL PRODUCTS CO. - CONSOLIDATED

SOURCES AND DISPOSITION OF FUNDS STATEMENT - YEAR 1936

	Consolidated Balance Sheet Dec. 31, 1935	Consolidated Balance Sheet Dec. 31, 1936	Change	Cash and cash assets - net change	Cash profit	Cash received for sale of equipment	Cash expended	Depreciation	Loss on sale of equipment	Profit on retirement of debentures	Debenture discount and expense written off	Contra - see notes below
Cash	$ 966,425	746,028	220,397	220,397								
Marketable securities	110,950	113,250	2,300	2,300								
Notes and accounts receivable - trade	1,085,045	991,170	93,875	93,875								
Inventories	1,356,194	1,449,395	93,201	93,201								
Supplies	168,340	161,570	6,770	6,770								
Accounts receivable from officers and directors		17,500	17,500	17,500								
Prepaid expenses	95,640	104,495	8,855				8,855					
Discount and expense on debentures	80,000	60,400	19,600								10,000	9,600 (1)
Investments	236,890	236,890	-									
Land	2,276,530	2,276,530	-									
Buildings, machinery, etc.	11,222,790	11,627,405	404,615			57,505	972,200		59,748			450,332 (2)
Reserve for depreciation	4,678,188	5,186,300	508,112					958,444				450,332 (2)
Patents	10	10	-									
Notes payable - banks	100,000	35,000	65,000	65,000								
Accounts payable - trade	898,140	868,847	29,293	29,293								
Wages and salaries payable	65,490	106,961	41,471	41,471								
Taxes accrued	79,181	186,628	107,447	107,447								
Dividends payable	30,000	-	30,000	30,000								
Interest accrued	29,000	24,292	4,708	4,708								
5% Sinking Fund Debentures	2,240,000	1,920,000	320,000				301,500			8,900		9,600 (1)
Reserve for Contingencies	-	50,000	50,000									50,000 (3)
Minority Interest	194,160	194,125	35		12,965		13,000					
Capital Stock	6,482,600	6,482,600	-									
Surplus - beginning	2,802,055	2,802,055	-									
- income		607,835	607,835		1,627,127			958,444	59,748	8,900	10,000	
- dividends paid		630,000	630,000				630,000					
- Surplus adjustment		50,000	50,000									50,000 (3)
				$ 227,958	1,640,092	57,505	1,925,555	-	-	-	-	-

Notes 1 - This represents the amount of bond discount and expense on bonds retired.
2 - Depreciation on buildings, machinery and equipment, sold, transferred and scrapped.
3 - Amount segregated from surplus as a reserve against possible liability for additional Federal income taxes for prior years.

Note to the reader: This schedule is not, in reality, part of the audit working papers but is a device by which a statement of sources and disposition of funds may be prepared. It supports the figures used on pages 3 and 4 of the report to management and the analysis of the changes in the balance sheet is obtained from the various consolidated summaries affected which have been made up with the separation of the elements into cash and other than cash in mind.

Chapter XIV

WORKING PAPERS FOR LARGER CONSOLIDATIONS

Mechanical Difficulties

While some of the problems of consolidated accounts are involved in the hypothetical enterprise, the accounts of which form the basis for the working papers described in this book, there are other difficulties which appear when a large number of companies is to be combined, particularly when the information is not all available at one time and is not presented by the various constituent companies in the same form or under the same classifications.

There are serious mechanical difficulties in reducing a mass of detailed figures, prepared by different men at different places, to a satisfactory degree of uniformity and order. These difficulties are most noticeable in the first audit of a group of newly consolidated companies, or in the consolidation for reorganization or financing of a number of previously unrelated companies.

The principles according to which a consolidated balance-sheet should be drawn up have been often enunciated and illustrated by writers of varying degrees of authority and lucidity. Although the ground has not been fully covered and certain controversial points have not been decided, yet there is sufficient information at hand for the practitioner or student to establish a reasonable theoretical basis for consolidating the accounts of several affiliated or controlled companies and to support his basis by citations from recognized authorities. However, if his problem be in any way a large one, he may still be in somewhat of a quandary.

Mechanical Methods of Consolidation

In addition to the method of preparing consolidated accounts described later in this chapter there are two methods which are recommended in textbooks or met with in practice, neither of which appears to be entirely satisfactory when consolidated accounts are to be prepared for a large number of constituent companies.

The first method is that of arranging the trial balances side by side and applying adjustments in an adjustment column after the various balance-sheet items have been totaled across. The difficulties of arrangement, of providing adequate space, and of reference, are obvious when complicated adjustments are required.

In another frequently used method a schedule is prepared for each item appearing on the balance-sheet or income account and the individual items from the trial balances of the constituent companies are posted to these schedules and adjusting journal entries are made and posted. This method is probably better than the one first described, but its principal disadvantage is that it cannot conveniently be balanced sectionally or at various times in the progress of the work of consolidation. This increases the likelihood of error and frequently leads to loss of time when the accounts are finally drawn off and an attempt to balance is made.

If there is a small number of companies in the consolidation, and if the trial balances are substantially correct, or if the trial balances themselves have been classified under the balance-sheet headings and have been adjusted before the items are posted to the individual schedules, this method may work fairly well. However, there is one objection to this method which is always present, that is, the difficulty of distinguishing which part of an item in the consolidated accounts represents book figures and which portion represents adjustments.

These two methods have many other disadvantages which would be brought out by an attempt to apply them to a large and complex set of consolidated accounts, but it is not proposed to discuss these in detail here. They are, however, quite fully described in an article which appeared in *The Journal of Accountancy* in June, 1923, entitled "Mechanical Difficulties in Consolidating Accounts."

The first of these methods may be called for convenience the "horizontal method" and the second the "ledger posting" or the "agglomerative method."

Application of the Vertical or Synopto-Synthetic Method

Let us assume, in our examination, conditions that approximate those which occur in actual practice. For instance, our practitioner has received supposedly final trial balances from his field men for all companies, say on the fifteenth of February. By the seventeenth the trial balances are entered on the schedule making up the combined accounts and the eliminating and adjusting entries are drafted and partly posted. On the eighteenth the morning's mail includes:

(a) A revised trial balance from Company D, our practitioner's men having discovered a serious error in the inventory basis after sending in the trial balance.

(b) A ruling from the Treasury Department, which makes advisable a reconsideration of certain points of depreciation policy.

(c) A telegram from the president of the parent company saying that he has not been able to arrange for the settlement of a certain claim against the corporation but that the company will have to pay damages of about $20,000. When the accountant first brought up the matter of this claim, the president of the company was confident it could be settled and the accounts were made up on that basis, not to be published, of course, until the settlement had been confirmed.

While going through this interesting if not particularly enlivening correspondence, one of the juniors comes in and points out that in companies H, K and L accrued interest has been calculated on a basis different from that used for the rest of the companies, and that companies O and P, foreign branches not audited by our practitioner, in respect of which his certificate is qualified, have not taken up accrued interest at all and appear to have taken their inventory on a basis entirely different from that used by the rest of the constituent companies. The auditor immediately cables companies O and P for the required information and directs that the accrued interest be recalculated for companies H, K and L. Journal entries for items 1, 2 and 3 of the morning's mail are made.

Without going into the difficulties of applying all this belated and somewhat disturbing information to accounts prepared by the other two methods let us see how it will be applied under the third or vertical method.

It appears that what our practitioner requires is a method which combines flexibility, continuity of structure and visibility of components.

First, flexibility, because it should be equally applicable to a combination of two companies or a hundred.

Second, continuity of structure, for it should be possible to make adjustments to an unlimited extent before and after repeated incomplete or part closings without necessitating any rewriting and without breaking up the continuity of and interrelation of the accounts themselves or of the adjusting entries.

Third, visibility of components, which will make possible simple and effective analysis and synthesis of any combined balance-sheet or income-account item, or, from the point of view of the individual company, the quick and accurate determination of the final resting place in the combined accounts of any individual trial-balance item.

Fourth, a steady advance towards the final combined accounts; that is, each entry or distribution should be made with a definite relation to the final accounts, its bearing on the final accounts to be evident and the results to be susceptible to sectional proof.

Subsidiary benefits which accompany the foregoing features are:

A number of men may work on the combined accounts at one time.

As soon as the last adjustment is made the final figures are ready as they are in balance up to the last adjustment, having been proved company-by-company and entry-by-entry as the work was done, and schedules for the combined accounts are, from one point of view, unnecessary or, from another, already prepared, as the columns for the various balance-sheet and income-account headings are complete lists of the items contained in the amounts taken into the combined accounts.

The "synopto-synthetic" or "vertical" method, which appears to meet the foregoing requirements, is briefly, to enter and distribute each trial balance as shown in examples for company A and X and combine them as shown in the example "combined balance-sheet" and "combined income account."

Synopto-Synthetic Method is Flexible and Adjustments are Easily Made

Let us see to what extent this method fulfills the requirements.

In the first place, it is flexible. No difficulty would be experienced in combining a hundred trial balances, as it would simply mean a summary of one hundred lines, or two or three sheets carried forward.

Adjustments are made by entering all the debits and credits of one entry on one line under their appropriate balance-sheet or income-account headings, not accounts.

The accounts affected should be indicated in the explanation or on a schedule so that the entry may later be properly made on the books, but the first purpose of the adjustment is not to adjust the books but to forward the preparation of the combined accounts and is, therefore, distributed to its correct balance-sheet or income-account heading. The cause and effect of each adjustment is thus apparent on its face.

As a general, although not invariable, rule, adjustments affecting one company only should be made on that company's accounts, while adjustments affecting several companies, such as elimination of investments in subsidiary companies, elimination of intercompany sales or profits and similar entries can usually be made most conveniently on the summary sheet.

If, however, it is discovered that an adjustment is to be made after the totals of the individual companies' accounts have been carried forward to the summary, no difficulty is caused. An adjustment may be made, of course, indicating the company to which it is applicable, on the summary sheet, whether or not it has been totaled or ruled off. The words "per report" or "per published accounts" indicate that the combined accounts have been completed and approved. At no time before this should the summary be ruled off, although it may be totaled as frequently as need be.

Let us assume that the accounts of our practitioner have been carried to the point indicated by "totals as at February 17th" on the combined balance-sheet and income account. By that time he has before him in the combined statements:

(a) A combined balance-sheet and income account complete up to that time.
(b) A summary by companies of the components of each balance-sheet or income-account item.
(c) A summary of each and of all adjusting journal entries affecting the combined accounts.

On the individual companies he has:

(a) The trial balances at beginning and end per books.

(b) The distribution over the balance-sheet and income-account items of each book account.

(c) The adjustments to be made on each company, their cause and effect.

(d) The totals of each balance-sheet or income-account item as carried forward to the combined accounts.

(e) The composition of each balance-sheet or profit-and-loss item carried forward to the combined accounts.

Several Men Can Work at Once on Classification of Accounts

In place of transcribing trial balances on a combined schedule, as is necessary in the horizontal method, or of posting from the trial balances, as is necessary in the agglomerative method, the trial balance is copied once and for all on the classification of accounts for each company and extended under the appropriate balance-sheet and income-account headings. This, it will be observed, can, and in most cases should, be done by the man doing the actual audit work. For example, in our twenty-company combination, if there were three teams of two men each for companies A to F, G to L, and M, N, Q, R and S, respectively, the accounts would be sent in properly distributed and with the necessary adjustments made thereon as completed by the different teams. Assuming January 15th for a starting date, the accounts would come in, say, in this order:

		1st team	2nd team	3rd team
January 20th	Company	A	G	M
January 25th	Company	B	H	N
January 30th	Company	C	I	Q
February 4th	Company	D	J	R
February 9th	Company	E	K	S
February 14th	Company	F	L	

All this time men in the office would be working on the X company's accounts and as soon as any subsidiary company's accounts came in, these could be examined by the principal who could give them sufficient time to satisfy himself of their correctness and the propriety of any adjustments and could direct that they be completed and entered on the combined classification of accounts. As far as the combined balance-sheet is concerned they are completed. Intercompany accounts could be matched up company by company while there was still time to run down differences, summary schedules for a combined report could be partly prepared and notes could be made for final eliminating entries.

From the foregoing it will be seen that under the horizontal and agglomerative methods two or three men only can work at the final combining of the accounts and that only after all trial balances are ready, while with the vertical method as many men as are desired up to two or three per company may be employed on the actual combining of the accounts. In our present supposititious case we have six field men, two men in the office and two men on the X company's accounts, a total of ten men, besides the principal, working at once on the actual combination of the figures. The distribution of labor and clearness of result are more important than the saving of labor, but even in this respect there is a considerable advantage in the synopto-synthetic as opposed to the horizontal or agglomerative method. In the vertical method a trial balance is written once only, whereas under the horizontal it must be copied; and under the vertical method an item is described once, whereas under the agglomerative method the description as well as the amount of the item must be transferred to the balance-sheet or income-account schedule if hopeless confusion is not to result.

The solution of the difficulties caused by our practitioner's belated information is shown in the example of the combined classification of accounts from "totals as at February 17th" downward.

Simple Rules to be Followed

The practical success of this method may be assured if the following simple rules are observed:

(a) One line to one entry.

(b) No notes or explanations apart from account titles, schedule numbers and journal-entry explanations to be made on classifications of accounts.

(c) Account affected always to be indicated in journal entries, or if no account is affected, as in distribution entries, that should be shown.

(d) Company's name, if an individual company is affected, to be shown on all entries on combined classification of accounts.

(e) Every balance-sheet and income account to have a heading. If there are too many for the number of columns on a sheet of analysis paper, cut off the last column of the first sheet and start backward on the second sheet, for example:

Headings									
1st sheet	1	2	3	4	5	6	7	8	9 Cut off

Headings					
2nd sheet	14	13	12	11	10

There is no reason to be alarmed by a large number of headings. A certain waste of paper will result, but a great amount of time will be saved.

The illustration given in this chapter is merely an extension of the use of the method described in the detailed working papers of the Ashton Company. Supporting schedules and summaries would be made up in precisely the same manner for a large group of companies as for the comparatively small group used as an example.

As the accounting problems increase in complexity and as the work grows in volume, the value of the method described becomes more apparent. There is no situation in combined or consolidated accounts that cannot be dealt with by this method clearly, concisely and with the minimum of labor and complication.

Conclusion

The examples given here show only the distribution of the trial balance and the combination of the accounts without any supporting statements, and they lead to a corporate balance-sheet only.

In actual practice, the totals of the consolidated classification of accounts would be supported by consolidated summaries made up in the same way as the consolidated summaries (Chapter XIII), from which would be prepared reports to the Securities and Exchange Commission, comprehensive report to management, special statements for trustees of bonds, and any other statements required for special purposes. Examples of these summaries have not been given, as no different or additional methods or procedures would be illustrated.

BALANCE SHEET - DECEMBER 31ST 1936

		Land	Plant and equipment	Reserve for depreci-ation	Trade invest-ments	Inventories	Accounts receiv-able	Marketable securi-ties	Cash	Capital stock	7% Mortgage bonds	Accounts payable	Income year 1936	Surplus Dec. 31, 1935	Dividends	Contra
Company A		$ 3,000	30,500	4,320		2,820	9,735	3,000	170	10,000		4,780	2,625	10,000	2,500	20,000
B		1,000	35,000	6,000		20,000	7,500	2,000	500	25,000		9,500	9,500	10,000		6,000
C		500	10,000	2,000		4,000	2,500		1,000	5,000		500	1,500	2,000		7,000
D			10,000	2,500		1,000	1,000		500	5,000		3,750	750	1,000		1,000
E		1,000	11,000	3,000		7,000	4,000	3,000	1,000	10,000		1,000	2,000	2,000		9,000
F			10,000	1,500		2,000	1,000		500	5,000		3,500	1,500	1,000		1,000
G			12,000	2,000		8,000	5,000	3,500	500	15,000		1,500	3,500	4,000		3,000
H			9,000	3,000		8,000	1,000		500	10,000		500	1,000	2,000		2,000
I			9,000	1,500		7,000	3,500		200	10,000		950	1,250	2,000		4,000
J			25,000	2,500		3,000	1,000		500	15,000		1,000	3,000	13,000	10,000	5,000
K		1,200	32,000	4,000		1,000	3,500		300	20,000		1,800	4,200	3,000		5,000
L			34,000	5,000		4,000	3,000		150	25,000		2,000	5,150	4,000	5,000	5,000
M			22,000	4,000		2,000	1,000		500	10,000		2,400	1,100	2,000		6,000
N			10,000	3,000		1,000	500		250	5,000		1,500	750	500		1,000
O			18,000	2,000		4,000	3,000		500	15,000		500	3,000	4,000		7,000
P			19,000	1,500		2,000	2,000		1,000	15,000		500	2,500	2,000	2,500	5,000
Q		2,500	48,000	7,000		3,000	1,000		500	25,000		300	3,700	10,000		9,000
R			22,000	1,000		1,000	1,000		500	15,000		500	1,500	1,500		5,000
S		2,000	14,000	2,000		2,000	2,000		500	10,000		500	1,200	1,800		5,000
X (Parent)		20,000	143,250	49,700	267,500	116,320	19,425	5,000	34,720	250,000	235,000	35,855	70,330	96,330	25,000	106,000
		31,200	523,750	107,520	267,500	199,140	72,660	16,500	44,290	500,000	235,000	72,835	112,555	172,130	45,000	-
To eliminate capital stock of subsidiary companies owned by X (Parent) Co.					250,000					250,000						
To eliminate dividends received on the above													20,000		20,000	
To eliminate inter-company accounts							6,500					6,500				
To eliminate inter-company profits in inventories						9,000							9,000			
Totals as at February 17th		31,200	523,750	107,520	17,500	190,140	66,160	16,500	44,290	250,000	235,000	66,335	83,555	172,130	25,000	-
Adjustment of inventory	Co. D					300							300			
Adjustment of depreciation	Co. B			2,600									2,600			
Adjustment of depreciation	Co. X			8,100									8,100			
Claim liability	Co. X											20,000	20,000			
Adjustment of accrued interest	Co. H						100						100			
Adjustment of accrued interest	Co. K						125						125			
Adjustment of accrued interest	Co. L											200	200			
Interest accrual	Co. O						125						125			
Interest accrual	Co. P						200						200			
Adjustment of inventory	Co. O					800							800			
Adjustment of inventory	Co. P					900							900			
Per report		$ 31,200	523,750	96,820	17,500	192,140	66,510	16,500	44,290	250,000	235,000	86,535	76,405	172,130	25,000	-

X (PARENT) CO. COMBINED

INCOME ACCOUNT - YEAR 1936

	Sales	Inventories Dec. 31, 1935	Labor	Raw materials	Factory overhead including depreciation	Inventories Dec. 31, 1936	Adminis-trative expenses and taxes	Interest paid	Rents and royalties	Income from investments and interest received	Balance
Company A	$ 36,009	2,290	9,000	13,005	3,400	2,820	8,634	32		157	2,625
B	180,000	21,000	44,000	69,000	41,000	20,000	25,000		9,500		9,500
C	30,000	5,000	11,500	7,900	5,200	4,000	2,900				1,500
D	20,000	1,500	5,000	6,000	5,000	1,000	2,750	1,500			750
E	60,000	6,500	15,000	22,000	16,000	7,000	5,500				2,000
F	28,000	2,100	12,000	8,000	5,000	2,000	1,400				1,500
G	72,000	9,000	30,000	26,000	9,000	8,000	2,500				3,500
H	79,000	7,000	28,000	39,000	7,000	8,000	6,000			1,000	1,000
I	64,000	6,000	27,000	29,000	5,000	7,000	2,750				1,250
J	35,000	4,000	10,000	19,000	4,000	3,000	1,000		3,000		3,000
K	24,000	2,000	8,000	9,000	1,000	1,000	1,800			1,000	4,200
L	38,000	3,500	14,000	11,000	4,000	4,000	3,350	1,000			5,150
M	26,000	2,500	8,000	10,000	5,000	2,000	1,400				1,100
N	19,000	1,600	6,000	7,000	2,000	1,000	2,650				750
O	72,000	3,500	27,000	35,000	11,000	4,000	2,500				3,000
P	42,000	2,800	10,000	16,000	9,000	2,000	3,700				2,500
Q	60,000	3,100	28,000	24,000	3,000	3,000	1,200				3,700
R	28,000	900	10,000	6,000	5,000	1,000	5,600				1,500
S	49,000	3,000	22,000	18,000	4,000	2,000	2,800				1,200
X (Parent)	715,905	120,900	212,500	207,465	179,790	116,320	58,615	16,800	1,320	32,855	70,330
	1,677,914	208,190	537,000	582,370	324,390	199,140	142,049	19,332	13,820	35,012	112,555
To eliminate dividends paid by subsidiary companies to X (Parent) Company										20,000	20,000
To eliminate inter-company profits in inventories						9,000					9,000
To eliminate inter-company sales	96,000			96,000							
Totals as at February 17th	1,581,914	208,190	537,000	486,370	324,390	190,140	142,049	19,332	13,820	15,012	83,555
Adjustment of inventory — Co. D						300					300
Adjustment of depreciation — Co. B					2,600						2,600
Adjustment of depreciation — Co. X					8,100						8,100
Claim liability — Co. X							20,000				20,000
Adjustment of accrued interest — Co. H										100	100
Adjustment of accrued interest — Co. K										125	125
Adjustment of accrued interest — Co. L								200			200
Interest accrual — Co. O										125	125
Interest accrual — Co. P										200	200
Adjustment of inventory — Co. O						800					800
Adjustment of inventory — Co. P						900					900
Per report	$ 1,581,914	208,190	537,000	486,370	313,690	192,140	162,049	19,532	13,820	15,362	76,405

X (PARENT) CO.

BALANCE SHEET - DECEMBER 31ST 1936

Account titles	Trial balance per books Dec. 31, 1935	Trial balance per books Dec. 31, 1936	Land	Plant and equipment	Reserve for depreciation	Trade investments	Inventories	Accounts receivable	Marketable securities	Cash	Capital stock	7% Mortgage bonds	Accounts payable	Income year 1936	Surplus Dec. 31, 1935	Dividends	Contra
Plant Ledger	$ 75,500	87,300		137,000	49,700												
Real Estate	10,000	12,000	12,000														
Factory Site, No. 5 Plant	-	7,500	7,500														
Preliminary Expense, No. 7 Plant	-	1,250	500	750													
Accounts Receivable Ledger	115,230	116,320						10,500		450			630				106,000
Vouchers Payable	32,500	25,900						1,100					27,000				
Investment Ledger	257,000	275,000				267,500		2,500	5,000								
William H. Scroggs	9,000	7,320					7,320										
Raw Material	36,900	45,000					45,000										
Notes Receivable - Cotton Crepe Co.	17,000	-															
Wisconsin Oil Co.	7,000	9,000				9,000											
Alfred Jones, Secretary	-	320								320							
Storekeeper, No. 9 Mill	500	500								500							
"Revivifying Process"	500	1,500		1,000			500										
Experimental Department	6,000	7,500		4,000			1,000	2,000		500							
Research Department	2,500	3,000		500				2,250		250							
Triple X Selling Co.	2,700	3,200						3,000		200							
Finished Goods, Product A	22,000	15,000					15,000										
Finished Goods, Product B	22,000	20,000					20,000										
Finished Goods, Product C	14,000	22,500					22,500										
Finished Goods, Product D	16,000	20,000					20,000										
Profit and Loss	54,330	104,480												104,480			
Surplus	67,000	96,330													96,330		
Dividends	25,000	25,000														25,000	
Capital Stock Authorized	300,000	300,000									300,000						
Capital Stock Unissued	50,000	50,000									50,000						
7% Bonds Authorized	350,000	350,000										350,000					
7% Bonds Unissued	75,000	75,000										75,000					
7% Bonds Purchased	20,000	40,000										40,000					
Cash	20,000	32,500								32,500							
Per Books			20,000	143,250	49,700	276,500	131,320	21,350	5,000	34,720	250,000	235,000	27,630	104,480	96,330	25,000	106,000
Wisconsin Oil Co. Stock written off						9,000								9,000			
Additional Reserve for Bad Debts								2,000						2,000			
Reduce inventories to market							15,000							15,000			
Interest accrued on Overdue Accounts								75						75			
Six months Interest on $235,000 7% Bonds													8,225	8,225			
Carried to Combined Accounts			$ 20,000	143,250	49,700	267,500	116,320	19,425	5,000	34,720	250,000	235,000	35,855	70,330	96,330	25,000	106,000

X (PARENT) CO.

INCOME ACCOUNT-YEAR 1936

Account titles	Per Books Year 1935	Per Books Year 1936	Sales	Inventories Dec. 31, 1935	Labor	Raw materials	Factory overhead including depreciation	Inventories Dec. 31, 1936	Adminis-trative expenses and taxes	Interest paid	Rents and royalties	Income from investments and interest received	Balance
Sales, Product A	$ 142,560	190,962	190,962										
" " B	136,810	168,700	168,700										
" " C	140,700	185,750	185,750										
" " D	117,040	170,493	170,493										
Manufacturing Account	450,500	586,500		120,900	212,500	207,465	176,955	131,320					
Insurance	2,610	2,835					2,835						
Officers' Salaries	20,000	25,000							25,000				
Office Salaries	8,750	10,250							10,250				
General Expense	7,450	9,320							9,320				
Taxes	2,650	3,045							3,045				
Interest on Bonds	18,550	8,575								8,575			
Rent - Jonesville Houses	300	420									420		
Revivifying Royalties	280	900									900		
Income from Investments	26,500	32,000										32,000	
Interest on Overdue Accounts	650	780										780	
Balance	54,330	104,480											104,480
Per Books			715,905	120,900	212,500	207,465	179,790	131,320	47,615	8,575	1,320	32,780	104,480
Wisconsin Oil Co. Stock Written Off									9,000				9,000
Additional Reserve for Bad Debts									2,000				2,000
Reduce Inventories to Market								15,000					15,000
Interest Accrued on Overdue Accounts												75	75
Six months interest on $235,000 7% Bonds										8,225			8,225
Carried to Combined Accounts			$ 715,905	120,900	212,500	207,465	179,790	116,320	58,615	16,800	1,320	32,855	70,330

A COMPANY

BALANCE SHEET - DECEMBER 31ST 1936

Account titles	Trial balance per books Dec. 31, 1935	Trial balance per books Dec. 31, 1936	Land	Plant and equipment	Reserve for depreciation	Trade investments	Inventories	Accounts receivable	Marketable securities	Cash	Capital stock	Accounts payable	Income year 1936	Surplus Dec. 31, 1935	Dividends	Contra
Land and Buildings	$ 10,000	10,000	2,000	8,000												
Machinery	15,000	17,500		17,500												
Accounts Receivable Ledger	8,350	9,760						10,310		170		720				
C. A. Creavey	750	500					500									
Government Bonds	6,000	3,000				3,000										
Development, No. 2 Account	8,000	8,620	1,000	5,000			2,620									
Sinker Shaft Mine	250	500				500										
Surplus	6,630	10,000												10,000		
Reserve for Depreciation	3,800	4,320			4,320											
Accounts Payable	25,800	24,060										4,060				20,000
Capital Stock	10,000	10,000									10,000					
Dividends	-	2,500													2,500	
Balance	4,120	4,000											4,000			
Per books			3,000	30,500	4,320	3,500	3,120	10,310		170	10,000	4,780	4,000	10,000	2,500	20,000
To correct error in distribution						3,000			3,000							
To write-off worthless investment						500							500			
To write-off bad accounts								600					600			
Interest accrued on Government Bonds								25					25			
To reduce inventories to market							300						300			
Carried to Combined Accounts			$ 3,000	30,500	4,320	-	2,820	9,735	3,000	170	10,000	4,780	2,625	10,000	2,500	20,000

A COMPANY

INCOME ACCOUNT - YEAR 1936

Account titles	Per books Year 1935	Per books Year 1936	Sales	Inventories Dec. 31, 1935	Labor	Raw materials	Factory overhead including depre- ciation	Inventories Dec. 31, 1936	Adminis- trative expenses and taxes	Interest paid	Income from investments and interest received	Balance
Sales	$ 35,147	36,009	36,009									
Factory Expense	11,648	12,175		2,290		13,005		3,120				
Depreciation	2,610	2,700					2,700					
Insurance	425	425					425					
Payroll	14,800	15,000			9,000				6,000			
General and Office Expenses	1,125	1,100					275		825			
Taxes	598	612							612			
Legal Expense	-	50							50			
Bad Debts	70	47							47			
Interest	249	100								32	132	
Balance	4,120	4,000										4,000
Per Books			36,009	2,290	9,000	13,005	3,400	3,120	7,534	32	132	4,000
Worthless Investment (Sinker Shaft Mine) written off									500			500
To write off bad accounts									600			600
Interest accrued on Liberty Bonds											25	25
To reduce inventories to market								300				300
Carried to Combined Accounts			$ 36,009	2,290	9,000	13,005	3,400	2,820	8,634	32	157	2,625

CHAPTER XV

INDEXING AND FILING WORKING PAPERS

Standardization in Working Papers

As has been pointed out in an earlier chapter, standardization in the form of working papers does not imply any particular rigidity in the application of auditing or accounting procedure, but is rather a method of expressing in a uniform and orderly way the results of the application of these procedures to various enterprises, which, while differing in size, organization or object, must present accounts in substantially the same form and under the same general principles.

The greatest value to be derived from standardized working papers is the advantage arising from the ability of one assistant to take up immediately and without loss of time the papers prepared by another assistant and to continue the work. In the larger accounting organizations this is very important, for not uncommonly four or five or more offices assist on a single audit. The papers, when assembled by the individual offices, are usually sent to the office auditing the head office accounts of the client, and there the auditor in charge of the work assembles the figures and prepares the schedules for the final statements or reports. The confusion that would arise in every important audit from a heterogeneous mass of such working papers, and where some uniform method in their preparation had not been adopted, is almost beyond comprehension. (See Chapter XIV, pages 347 and 348.) As a practical matter, such papers would be unintelligible, and the work of the assistants who prepared them would be largely or entirely wasted. Standardization does not mean inflexibility, but, on the contrary, it means adherence to certain well-defined principles and the sensible application of those principles to conditions affecting individual cases. Standardization in auditing procedure, in the preparation of working schedules and in the indexing and filing of the working papers thus should be of primary assistance to the staff accountant and is of inestimable value to the organization with which he is affiliated.

General Filing

Along with the filing of working papers each accounting office should have a definite system of filing correspondence and the duplicate reports and certified statements prepared for clients, in order that all material may be readily accessible and quickly available. Occasionally the correspondence concerning a specific engagement will be filed with the working papers for that engagement, but the more satisfactory way is to keep separate correspondence files for correspondence and for duplicate reports, which may be cross-indexed to the working papers. All information regarding an engagement, whether it be filed in the correspondence file, in the report file or in the working papers file, while highly confidential, is thus easily available to those entitled to it.

There are many readily usable and well-known methods of filing correspondence, and it is not the intent here to give a long discussion of them. However, it may be proper to describe briefly a comparatively simple system which is satisfactory for a medium-sized or small office, and is equally adaptable to a large office.

Correspondence

A small card, 3 x 5 inches, should be prepared by the filing department for each correspondent. On this card is recorded the name of the correspondent, a consecutive number, information as to the names of officers or other individuals of the correspondent who are associated with the correspondence, the partners and chief assistants of the accounting firm who are interested in that client, and any other information appertaining thereto. These cards are filed alphabetically and may be kept in an ordinary index file.

An ordinary correspondence folder is then prepared, and this folder, which would contain the correspondence with one or more clients, is given a consecutive number and is cross-indexed to the alphabetical index cards just described. On the outside of the folder will be written the number assigned to the correspondent and, for each client, the date on which the correspondence in that folder begins and the date on which it ends, that is, the date when a new folder is started. Because of its simplicity this method of filing correspondence is entirely satisfactory for the small or medium-sized accounting firm, while its capacity for expansion makes it also desirable for the larger office.

Working Papers

For filing purposes the working papers are given the same number as that assigned to the correspondence folder for the same client, which, as described above, is recorded on the small alphabetical index card. In case there are no working papers to correspond to the index card or to the letter file the filing clerk merely notes "no working papers" on the outside of the letter folder.

The working papers, both the permanent file papers and the current file papers, should be placed in substantial folders, and for this purpose a red fiberoid envelope 10 x 15 inches in size is, perhaps, the most satisfactory. On the outside of the envelope should be written the name of the client and the nature of the work, as, for illustration:

Ashton Metal Products Company
Annual Audit, December 31, 1936

In the upper right-hand corner of the red fiberoid envelope should be written the same number as that which appears on the correspondence folder and on the alphabetical index card, and after this number should be written a dash and the year for which the work is done. Thus, if the Ashton Metal Products Company had correspondence file No. 3,382, the audit file for that company for the year 1936 would bear the number 3,382–36. If at any time it is desired to obtain information concerning the Ashton Metal Products Company all that is necessary is for the filing clerk to turn to the alphabetical card index for that company's number (in case the file number is not remembered) and then to the numerically indexed correspondence file or working papers file. This is a simple though entirely satisfactory method of filing working papers, for it not only makes the working papers themselves easily and quickly accessible but also makes immediately available all correspondence relating thereto. Yet, if the correspondence alone is desired, or if the working papers only are wanted, either may be obtained without the other.

Report Files

Duplicate copies of the reports and certified accounts rendered to clients should be kept in a third file bearing, ordinarily, a separate and distinct classification. The method of indexing would be similar to that already explained for the correspondence; that is, a small card would be prepared for each client, on which would be written the name and address of the client and, for explanation, the nature and the dates of the statements or reports rendered. A satisfactory method is to number all reports and certified accounts consecutively. In that case they could not be filed either with the correspondence or with the working papers because each year's report would bear a number different from the previous report, while, as explained above, the working papers files would bear the same number from year to year, the only change being to designate the period for which the work was done.

The reports, under such a scheme, would be numbered consecutively and would be filed numerically. The card index would be arranged alphabetically, and thus immediate reference could be made to any report desired. Because many reports may be listed on a single card, it is well to use a card 4 x 6 inches for the alphabetical report file instead of the smaller card suggested for the correspondence file. Thus, a single client's card may have listed on it the numbers and dates of the certified accounts and audit reports for a number of years, though each report or certified financial statement would bear a number different from all the others.

Usually the head office, in case an accounting organization has offices in more than one city, will receive copies of all reports rendered by branch offices. These duplicate reports from branch offices may be filed with the reports rendered by the head office, though ordinarily they will be differentiated by prefixing to the number a designating letter. A separate letter may be used for each branch or a single letter may be used for all branch offices, thus merely designating the report as an out-of-town report.

In a small office it is sometimes satisfactory to keep duplicate copies of reports and certified accounts in a working-paper envelope filed with the current working papers. Federal income-tax papers, where these are filed separately, may also be filed in separate envelopes with the audit working papers and numbered correspondingly.

Indexing and Filing Working Papers

The working schedules should be arranged in the order of the items in the balance-sheet and in the profit-and-loss account, the schedules supporting the items on the asset side of the balance-sheet to be followed by those supporting the liabilities and the profit-and-loss items.

Each item of the trial balance entered on the classification of accounts should, unless it is unchanged from year to year or its nature is simple and completely obvious on its face, be supported by an appropriately referenced schedule.

If items distributed to several balance-sheet headings are included in one schedule, no difficulty is experienced, as the purpose of the schedule is not to explain a balance-sheet item, but to distribute a trial-balance item.

In a single company the columns on the classification of accounts (Chapter XII) constitute summaries of the balance-sheet items.

If consolidated accounts are to be prepared, the totals of the consolidated classification perform the same function and consolidated summaries are also prepared as shown in Chapter XIII.

A study of those chapters will indicate the extent and nature of the cross-indexing used.

The system of indexing employed in the example of the hypothetical Ashton Metal Products Company and which may be considered as reasonably satisfactory for a small consolidated enterprise, is as follows:

Balance-sheet headings	*Indexing in individual Co.*	*Indexing in consolidated summaries*
Cash	A	—
Marketable Securities	B	SB
Accounts Receivable	C	SC
Inventories	D	SD
Supplies	E	SE
Accounts Receivable—Employees	F	—

Balance-sheet headings	*Indexing in individual Co.*	*Indexing in consolidated summaries*
Prepaid Expenses	G	SG
Discount and Expense on Debentures	H	—
Investments	I	SI
Land	J	—
Plant and Machinery	K	SK
Reserve for Depreciation	L	SL
Patents	M	—
Notes Payable—Banks	N	—
Accounts Payable	O	SO
Wages Payable	P	—
Taxes Accrued	Q	SQ
Other Accrued Liabilities	R	SR
Debentures	S	—
Reserve for Contingencies	T	ST
Minority Interests	—	SU
Capital Stock	V	SV
Surplus	W	—
Minutes, etc.	Z	—
Sales	AA	SAA
Cost of Sales	BB	SBB
Dividends Received	CC	SCC
Miscellaneous Income	DD	SDD
Selling and General Expense	EE	SEE
Sources and Disposition of Funds	—	SZZ

Each main item, as listed above, would have one or more subschedules numbered A 1, A 2, etc., for cash; B 1, B 2 for marketable securities, and so on.

The same method would be used for each company in the consolidation, and, if items did not apply, the letters would not be used. For instance, a company having no marketable securities would show cash—A, accounts receivable—C, and so on.

The method is simple and flexible. It implies using consecutive letters for each company or group under audit, the letters being uniformly used within the group but not necessarily for every audit carried out by the auditor or firm.

Uniform Indexing

Instead of adopting the first method of indexing outlined above, some accountants prefer to use a method by which a given letter always represents a definite asset or liability appearing in the balance-sheet. One such scheme which is quite simple and which may be used with success is the following:

Capital assets (and depreciation reserves)	A	Capital stock	AA
Permanent investments	B	Funded indebtedness	BB
Inventories	C	Notes payable	CC
Accounts receivable (and reserve for bad debts)	D	Accounts payable	DD
Due from employees	E	Due to employees	EE
Notes receivable	F	Provision for Federal taxes	FF
Marketable investments (Liberty Bonds, etc.)	H	Accrued interest, taxes, etc.	JJ
Cash	K	Dividends payable	LL
Deferred charges	P	Reserves (other than bad debts and depreciation)	RR
Due from branches	X	Surplus	SS
Intercompany balances	Z	Profit and loss	TT
		Due to branches	XX
		Corporation minutes	ZZ

These symbols may quite easily be arranged to suit the needs of individual offices, and by leaving occasional gaps in the letters, proper provision may be made for unusual items.

Uniform Indexing with Single Letters Only

As typical of another uniform method of indexing working papers, in which single letters are used for both asset and liability schedules and a given letter always represents specific accounts in the balance-sheet and income statement, the following is submitted. This plan has been used for a number of years in some accounting offices and has given complete satisfaction.

A Cost of Properties

This account should include the cost of

Franchises
Real estate
Plants
Roadways
Wells
Ships
*Equipment
Extraordinary charges such as interest during construction, and proportion of general expenses
Incomplete construction

B Proceeds of Bond Sales to Be Used for Construction Expenditures

C Organization Expenses, Discount on Capital Stock Sold, Capital Stock Issued as a Bonus

NOTE—Where a capital surplus (T) exists it will probably be desirable, for balance-sheet purposes, to close this account into it.

D Trustees of Sinking Funds

This will consist of investments in sinking funds under trust deeds and of cash in the possession of trustees

E Investments

Include hereunder investments in other companies' securities

NOTE—A treasury bond represents merely a right, or medium, of creating a liability, and thereby acquiring an asset (not necessarily of an equal amount), and should not properly be considered itself as an asset.

G Special Accounts

Such an item would be "Deferred payments on land sales"

H Current Assets

Inventories of

Company's product
Ingredients
Materials and supplies

* It will, of course, be dependent upon the nature of the company's business whether tools, etc., should be included herein or under the index initial H.

It will also be dependent upon the particular circumstances whether or not it is desirable to state this group in the balance-sheet in one total or in more or less detail.

The work in progress should be segregated as between construction jobs for the company (which should be included herein) and jobs for outsiders which should be included under the index initial H.

*Cattle or other live stock
Bills receivable
Accounts receivable (less reserve for doubtful debts)
This will include—

(1) Work in progress for public
(2) Directors', officers', and employees' balances
(3) Municipal deposits, etc.
(4) Interest accrued on bills receivable

Cash in banks and on hand
Special items, such as coupon accounts, etc.

I Deferred Charges
Bond discount and expense
Taxes paid in advance
Insurance unexpired
Interest paid in advance
Other deferred items

J Capital Stock
Common stock
First preferred
Second preferred

K Subscriptions to Capital Stock
Common stock
First preferred
Second preferred

L Bonded Debt
Show each issue separately

N Borrowed Securities or Contingent Liabilities
Short-extended in balance-sheet

O Deferred Payments on Stocks of Other Companies and on Properties Purchased
On stocks
On properties

Q Current Liabilities
Bills payable
Accounts and wages payable
Deposits, such as contractors, employees, meters, etc.
Interest accrued but not due

* The nature of the company's business would have to be considered to decide whether or not this should be included under A.

Declared dividends payable
Bank overdrafts, less cash in hand
Other accounts

R Special Accounts
Income received in advance of due date, etc.

S Reserves
Depreciation
Casualty
Insurance, etc.

T Capital Surplus
Assessments on capital stock
Premium on capital stock and surplus of consolidated companies over book cost of investments
Capital stock donated to company
Discount on company's bonds acquired below par (except where discount is not carried as a deferred charge, when this should be credited to the amount charged off as discount on the year's sales of bonds)

NOTE—When this group (T) and also (C) are carried, for balance-sheet purposes the one should be set off against the other.

U Surplus		
Balance from last account		....
V Current profit-and-loss account		....
Extraordinary credits		....
Total		....
Deduct: Dividends paid	....	
Extraordinary charges	....	....
Balance		....

NOTE—A separate file will probably be necessary for the profit-and-loss schedules and should bear the initial V. The remaining items entering into the surplus account will be indexed U-1, U-2, etc.

Still other methods of indexing current working papers will suggest themselves to the experienced auditor, but these serve to illustrate the process and tend to emphasize the necessity for adopting some definite method of indexing all current working exhibits. As previously stated, not only should the general indexing be carefully done, but the cross-indexing of items appearing in one schedule to related items in other schedules is especially important because of the opportunity it affords for observing and checking the various interlocking parts of the accounts.

The Permanent File Papers

The "permanent file" papers, it has already been stated, should be kept separate from the current working papers and should include all papers which are of value for recurring audits, as distinguished from the next succeeding audit only. It will be found satisfactory to have these papers indexed by means of Arabic numerals, the papers being prefaced by a carefully prepared index sheet.

Final Filing

After the working papers have been arranged in accordance with the balance-sheet and profit-and-loss account items and have been carefully indexed and prepared for final filing, they should be punched in the upper left-hand corner and securely stapled together. The spike should be inserted with the points uppermost so as to permit the easy removal of the top papers or final statements for typing or for other use.

Except for the classification of accounts, working schedules, when wider than a single sheet of working paper, should be folded over to that width, and in the case of double sheets of working paper, two folds are necessary; first, fold the double sheet forward to the center and then fold the right half of the sheet again in the center. When the right half of the sheet is now turned over on the left half of the schedule, the three extreme right-hand columns of the sheet will be uppermost.

The assistant should write on the linen back or other cover the name of the assignment and the nature of the work performed. Not uncommonly a rubber-stamped imprint is also placed on the front cover, and the proper initials must appear on the working papers before they can be accepted by the filing room, viz.:

Date (Date of work being done)

Arranged
and indexed (Initials of assistant)

Approved
for filing (Initials of principal)

After the working papers are indexed and securely stapled together, place them in a strong fiberoid envelope for safekeeping. Mark on the outside of the envelope the name of the client and the nature of the work done. Also write in the upper right-hand corner of the envelope the file number and date, as previously explained. Since, as previously stated, these papers usually are the sole evidence of work done and of the correctness of the report or certificate, too great care can not be taken to make them easily usable by careful indexing and thoroughly protected against destruction and soiling. Yet one should remember that the work must be completed within reasonable time, and that the papers must set forth clearly and specifically all essential information needed for the verification and certification of the client's balance-sheet and accompanying income account.

Chapter XVI

RECORDS AND WORKING PAPERS FOR INCOME-TAX RETURNS OF INDIVIDUALS

Proper accounting procedure in income-tax practice requires constant care and attention both during the period when transactions giving rise to taxable income are effected and during the subsequent period when returns must be filed and examined and the proper amount of tax agreed on with the taxing authorities. Under ideal conditions, the accountant installs or approves the books and other financial records before the start of the taxable period, actually keeps or supervises the keeping of those records during the period and is always given the opportunity to advise on out-of-the-ordinary transactions before they are consummated. Given these opportunities, the preparation of income-tax returns after the close of the period becomes a simple routine matter of closing books, completing schedules and transferring the results to appropriate forms. Clear and intelligent records presented for the inspection of examining officers facilitate the examination and remove the possibility of those inequitable tax-assessments which often result from the uncertainty as to actual facts which not uncommonly exists as a result of the time which must elapse between the transaction and the examination.

Unfortunately, these ideal conditions do not always prevail. Too often returns must be prepared from insufficient records and meager information, must contain transactions concerning which full details are not readily available or which have been handled in a manner which, if not actually disadvantageous, may at least be prejudicial from an income-tax standpoint. It is obvious that in these cases, complete schedules and working papers are more than ever important. Needless to state these records should be clear as to the source of the information. This is vital in these days when the accountant or other person who prepares the returns must also sign them under oath.

A corporation, whether large or small, must keep permanent records and books of account. There are employees who are charged with the task of maintaining those records and it follows that corporate income-tax affairs must always receive a certain amount of attention, even if that is true only in the fact that the figures which are accumulated on the corporate books must eventually lead to an income-tax return. This, however, is not true of an individual. He has never been required to keep personal books, and often a man of quite large affairs has no records other than checkbook stubs, scattered bank and brokers' statements, a letter which must be found and a vest-pocket memorandum book. This condition is rapidly being corrected and the credit goes chiefly to the necessity for filing individual income-tax returns.

Inasmuch as another chapter of this book has treated the matter of adjustments necessary between the corporation income account and its income-tax return and the preparation of a tax classification through which those adjustments are placed in the form of a permanent record, this chapter will be devoted to an outline of necessary procedure and suitable records for the proper handling of income-tax matters of the individual. The system to be described has been successfully used for a number of years and has proved adaptable whether the affairs involved have been small or large.

The records hereinafter described consist chiefly of bound books, although a limited number of separate schedules are provided for final analysis at the end of the taxable period. The primary purpose of the records, whether bound or in separate schedule form, is the preparation and support of income-tax returns, and, taken as a whole, they constitute the individual's tax working records. The procedure is planned in such a manner that the permanent records contain information which would otherwise necessarily appear in the accountant's working papers.

Complete income-tax accounting procedure falls naturally under five headings, as follows:

I. Installation of financial books and records.
II. Keeping of books and records during taxable period.
III. Preparation for tax returns before close of period.
IV. Preparation and filing of returns after close of period.
V. Conducting examination of returns with examining officers.

During all of the above steps it is essential that the accountant be well versed in the law and regulations and familiar with decisions of the Board of Tax Appeals and of the courts in so far as they affect income taxes. For this purpose, he should possess copies of the current and previous revenue acts and regulations, should regularly receive weekly and cumulative bulletins and other publications of the Treasury Department and State taxing authorities, and should subscribe to at least one of the several very efficient loose-leaf tax services which are now available.

The following paragraphs will be grouped in accordance with the foregoing classification of procedure and will treat of recommended form of records and their use during the various stages of the engagement.

I. Installation of Financial Books and Records.

Five current records are necessary. These are the ledger, the cashbook, the journal, the income analysis and the security record.

The **ledger** should be of the double-entry type, should preferably be a bound book, and in many cases, because of the personal and confidential nature of individual accounts, should be equipped with a secure lock. The bound form is recommended in preference to the loose-leaf form for a number of reasons. It is more permanent. It affords a greater appearance of authenticity as an original record for presentation to an examiner. The book is the personal property of the individual and shares none of the inviolable nature of corporation books in which all shareholders have a common interest, so that none can say the taxpayer nay, should he desire to remove an account from the records for leisurely perusal. This is not as uncommon an event as might be desired, and a sure cure is the use of the bound form.

The first ledger account should be Capital, to reflect the net worth of the individual based on book values. The asset accounts should follow and controlling accounts with subsidiary ledgers are not encouraged. There should be a cash account, in agreement with the cashbook which will later be described, and separate accounts for each real-estate holding. There should be a separate account for each security holding. All transactions in the same security should appear in the same account regardless of form of ownership or location. Thus shares purchased on margin and held in brokerage accounts and shares held in bank loans as collateral should be carried in the same account as shares owned outright and held by the individual. The form of this account is considered so important that it is presented herewith as form A. The inserted shares column will prove valuable not only in the security accounts but may also be used to advantage in ledger accounts covering bank loans and accounts with brokers. In such cases it is customary to use only one shares column, which is inserted on the debit side, and shares placed in the accounts through either delivery or purchase are shown in that column in black, deliveries from the accounts or sales appearing in red. Checking off the black figures against the red in this column will leave open notations of securities held in the account at any given date. Short sales are, of course, entered in red and so remain until the covering purchases, at which time entries are made in black.

An account corresponding with each ledger security account should appear in the security record for the purpose of identifying certificates and permanently recording changes in the location thereof. The form and use of the security record will be described in its proper order.

Other asset and liability accounts follow.

The various income and expense accounts are now to be considered. Inasmuch as the system described provides a separate income analysis, all income, with the exception of that arising from the sale of capital assets, is carried in one account entitled Income, the details of which are carried in the analysis. Capital Gain and Loss account and separate accounts for each type of expense complete the list of accounts necessary in the average individual ledger.

The next record for consideration is the **cashbook,** currently written up from checkbook stubs or vouchers. This should likewise be a bound book. It should be in columnar form for distribution purposes. As a rule, the only distribution necessary for receipts is to income and to a miscellaneous column for separate posting to ledger accounts. A wider distribution is necessary for the disbursement side. The most commonly used distribution columns for this purpose are personal expenses, household expenses, personal gifts, charitable contributions, business expenses, taxes, interest paid, and miscellaneous, items in the last-named column to be posted separately. The classification of expenses depends to a large extent upon the circumstances surrounding the individual. It is often expedient to further classify the above expenses. Household expenses may, for example, be distributed to several columns in the event that the individual maintains city and country homes, and taxes may be classified as deductible and nondeductible.

The **journal** is of the usual type and requires no description. It also should be a permanently bound record, and is used to cover items entering the accounts otherwise than through cash transactions. Full description should accompany each entry. This can not be emphasized too strongly as often the journal entry description is the only permanent record of circumstances surrounding a transaction.

The **income analysis** is an important tax record and serves a number of purposes. It will be frequently mentioned in the ensuing paragraphs. As a general rule, it is written in a columnar book containing at least twenty columns, although where it is desired as an integral part of the tax working papers, it may be written on twenty-column analysis paper. Forms B, C and D are presented herewith as an indication of the form usually applicable. It is rewritten annually and serves the purpose of segregating income into the various taxable and non-taxable groups, for each of which a separate schedule is provided. It summarizes those groups into a total for agreement with the income account in the ledger. It shows total holdings of the various securities at the beginning of the year and changes in those holdings during the year, thus in effect indicating expected income in the form of dividends and interest and explaining fluctuations therein due to purchases and sales. The column containing increases and decreases in security holdings furnishes a valuable final verification of securities reported for capital gain or loss on the income-tax return.

When it is written up at the beginning of the year, all securities owned by the individual at the close of the previous year are entered in alphabetical order on the appropriate page of the record. In the specimen forms given herewith, only three of those pages are shown, the others being indicated by entries on the summary. Entries should be widely spaced down the page to provide for alphabetical entry of new holdings acquired during the year. Notation should then be made on the line on which each security has been entered in the appropriate month's column of each interest or dividend payment expected during the year. These notations may be made in the form of check marks in an upper corner, by a figure angled into the corner to indicate the day of the month on which the payment is due, or by a pencilled figure to indicate the anticipated amount of the payment. There is a great deal to be said for the last method as it furnishes a ready means for estimating future income when such information is required. Written up in this form the income analysis is ready for use.

The **security record** is in no sense a subsidiary ledger. No trial balance is ever taken and it is not kept in accord with a controlling ledger account. Each separate account therein merely further analyzes a corresponding security account in the ledger. Its purpose is to keep track of certificate numbers and location of securities in order that identification of securities sold may be possible, thus placing the individual in position to take advantage of the identification method of assigning basis rather than subjecting him to the often disadvantageous first-in, first-out basis. Form E herewith presents a recommended form. It will be noted that the transactions shown thereon are the same as those used on form A illustrating the ledger security account.

Separate columns are provided for securities held in safe deposit, in brokerage accounts, in bank loans or in other depositaries, and the final columns provide for certificate description. This is probably the most difficult record to prepare for an individual who has not heretofore been supplied with personal books. Before this record is ready for current transactions, entries must be made to cover all securities owned by the individual at the time of its installation. The information required includes the location of each certificate of each security holding, the certificate number and date and the name in which it is registered, the date on which it was acquired and its cost or other basis. To facilitate the procedure, if securities are so old that all records of date of acquisition and cost have disappeared into the mists of antiquity, the March 1, 1913 value may be used, provided of course that the period of holding began before that date. This is not always satisfactory from an income-tax standpoint, particularly if the securities should later be sold at a loss, but it at least provides a basis for entering them on the books. In these cases, care should be taken to modify the 1913 value in accordance with any changes in the form of the security which have since taken place. In many cases, it is necessary to write a substantial history of the holding into the record to substantiate the basis shown. Split-ups, merger exchanges, stock dividends, rights exercised, rights sold and many other factors must be taken into consideration. Very valuable information in this connection may be acquired from a loose-leaf capital-adjustment subscription service which is now available.

Furnished with the five records which have been described, the individual is now in position for proper and full recording of transactions occurring during the taxable period in such manner as to facilitate the preparation of income-tax returns and to support the figures shown thereon.

II. Keeping of Books and Records during Taxable Period.

Ordinary bookkeeping methods are to a great extent employed in keeping the individual's books. The usual routine of balancing checkbooks with bank statements, writing up the cashbook from the checkbooks and posting to the ledger at the end of each month is followed. Income items received in cash, such as dividends, interest or salary, are posted to the income analysis. Purchases and sales of securities made for cash and hence entering the books through the cashbook are posted to the appropriate ledger security accounts and immediately entered in the security record. If the transactions be sales, journal entries should be made recording the amount of profit or loss and corresponding entries made in the security record. Notations as to the number of shares or amount of bonds bought or sold should be made in the column containing increases and decreases in security holdings in the income analysis.

Monthly brokers' statements are then analyzed and entered in the journal. The recording of purchases and sales of securities follows the same procedure as in cash transactions, entries being made in the ledger security accounts, the corresponding accounts in the security record, and the increases and decreases column in the income analysis. Profit or loss on sales should be separately journalized. Income and expense items appearing on the brokers' statements are posted to the appropriate ledger accounts and the income items entered on the income analysis.

Journal entries should be made for all other transactions taking place during the month and any items affecting either the income analysis or the security record entered therein.

The month's column in the income analysis should now be closed. The first step is the verification that all income which should have been received during the month has been received. Inasmuch as notations have been made, as previously described, in each month's column against each security as to expected income receipts, and actual receipts have now been posted, an inspection of the column will reveal any deficiencies. It should be made certain that all discrepancies in expected amounts due to changes in security holdings, either in the form of increases caused by new holdings or decreases caused by sales, are proper and in accordance with the facts. The column indicating increases and decreases is important for this verification. The income analysis summary should now be completed and the total thereof compared with income account in the ledger with which it should agree.

The writer's experience has been that income-tax information and advice is sought by the individual more often in connection with security transactions than on any other subject. When sales are contemplated and deliveries may be made from any of several lots, the question as to which certificates should be delivered is an important one. If sales have been made, the question of proper applicable basis for the computation of capital gain or loss is often perplexing.

The security record which has been described on previous pages is designed to make as simple as possible the answers to those questions and to the numerous other tax problems that arise in connection with security transactions. On the specimen form presented as form E, a few transactions have been shown. The difference in presentation between the security record and the ledger account will be observed if comparison is made with form A, on which the same transactions have been recorded in ordinary ledger form. It will be noted that the only transactions entered in the ledger account are those involving actual changes in ownership of the security, and thus that only securities newly acquired or finally disposed of with consequent profit or loss are entered therein. The security record, however, traces each change in location of the certificates. Delivery from a safe-deposit box to a broker for deposit in a trading account or to a bank for loan collateral, involving no change in ownership, does not appear in the ledger, but is recorded in the security record.

In order that the use of the security record might be made as clear as possible, the transactions which have been used as illustrations on form E are not complicated. An original purchase followed by a stock dividend and sale of the dividend stock are first shown. Receipt of subscription rights and delivery thereof to a broker followed by exercise of the rights and later sale of the new stock are next shown. This transaction illustrates the use of the security record in the selection of the shares to be sold. It may be assumed that the individual knew that the older stock after the receipt of the stock dividend carried a cost of $50.00 per share, and that the subscription price of the new stock was the same amount. Before the sale, however, he inquired as to the tax status of his stock and consequently sold shares carrying a basic cost of $65.24, realizing a taxable profit of $6.76 per share. Had he sold shares from the older holding, the basic price would have been only $46.95 per share, and he would have realized a taxable profit of $25.05 per share. He would have been in the same position as to assets after the sale, but would have had a substantially larger income tax to pay.

The next illustration covers an additional purchase through a different broker, followed by a delivery of shares from the safe-deposit box to a bank loan. In the latter, the identity of the stock delivered was recorded through the use of certificate numbers.

On August 12, 1929, he decided to sell 200 shares and once again the security record was consulted. There were three separate lots from which the sale might be made and the most advantageous one was chosen. On a sale later in the same month, the record revealed that, although there were two lots remaining, the basic cost of each was the same. The final illustration shows the method of recording the difficulties arising from the so-called "wash sale". Stock purchased in 1932 was sold at a loss in July 1934. Nondeductibility of the loss resulted from a subsequent purchase within thirty days. The loss entry which had been made at the time of recording the sale was reversed at the time of recording the subsequent purchase and the new stock thereafter was carried on adjusted basis until finally sold in March, 1935. Although the selling price of the shares at that time was in excess of their cost in August, 1934, a deductible loss resulted, due to the application of section 113 (a) (10) of the revenue act.

One of the most difficult calculations in connection with income tax on security transactions has to do with the computation of basic cost of securities held for a number of years, on which subscription rights have frequently been received and exercised. The revenue acts and the Treasury Department regulations have invariably frowned on an average basic cost, and it is, therefore, always necessary to establish either the current basic cost of the oldest holdings for application of the first-in, first-out basis or of a particular holding which may be identified. Inasmuch as since January 1, 1925, shares purchased on the exercise of subscription rights become a different holding or lot with a different basic cost and can not be averaged with or considered a part of the original holding on which the rights were issued, it is obvious that, in cases where subscription rights are received and exercised more than once, each purchase on rights doubles the number of lots which must be considered. Each issue of rights diminishes the basic cost of the original holding and of every other holding on which the rights were received. Thus it often happens that, in the case of securities on which rights have been issued a number of times, the basic cost of the original holding has become so reduced that there is a great tax advantage in the ability to identify and deliver against sales the more recently acquired holdings. The most widely used form of schedule for the computation of basic cost of the different holdings is written on multi-columned analysis paper, two columns being assigned to each of the lots which are numbered consecutively across the top of the sheet. Transactions in chronological order are written down the schedule. The original purchase, shares and cost, is entered on the top line as "Lot one". The first exercise of rights after the original purchase is entered on the second and third lines. The entry consists of the transfer on the second line from "Lot one" to "Lot two", through the use of black and red figures, of that portion of the original cost assigned as basis to the rights, to which is added on the third line under "Lot two" the subscription cost of the new stock. Subsequent exercise of rights is entered in the same manner. "Lot three" and "Lot four" are formed on the exercise of the second issue of rights, the former drawing a percentage of the remaining original cost from "Lot one" as basis of the rights and the latter from "Lot two", to each of which is added the subscription cost of the new stock. For identification purposes, certificate numbers may be shown at the head of each column. A security holding acquired through several original purchases and the exercise of seven or eight issues of subscription rights may easily result in over one hundred different lots. These are, of course, extreme cases and fortunately do not often occur. When, however, they do occur a schedule such as has been described should be made a part of the security record account.

At least one month before the close of the taxable period it is customary to review the year's transactions to decide upon any steps which may properly be taken to minimize the income tax which must be paid thereon. This subject will be treated in the following section of this chapter.

At the close of the year when the cash book for the final month has been closed and posted and all necessary journal entries have been written on the books, a trial balance should be taken, classified for later convenience between asset and liability accounts and income and expense accounts. The income analysis should be cross-added and the summary completed and verified as to agreement with the ledger income account.

Closing of the books for the year is accomplished through the transfer of the income and expense accounts to capital account.

III. Preparation for Tax Returns before Close of Period.

Inasmuch as all transactions designed to minimize the amount of income taxes payable must be consummated in the year against which they apply, a review of the individual's accounts should be made at least one month before the close of the taxable period for the purpose of determining whether there are any steps to be taken to reduce his tax liability for the year.

An analysis of Capital Gain and Loss account should be prepared for the purpose of determining the amount of gain or loss on completed security transactions which will be recognized for income-tax purposes. Form F is presented herewith as suitable for that purpose. Inasmuch as under existing law capital loss deductions are limited to $2,000, should that analysis reveal a recognized loss in excess of that figure, no further sales should be recommended unless they are considered advisable for the purpose of establishing profits which might be offset against the excess loss and thus rendered tax-free, or it is known that contemplated further sales will result in profits exceeding the recognized loss thus far established. Should the analysis reveal a recognized taxable gain, steps should be taken to ascertain the existence of potential losses which might be established to offset that gain.

For that purpose a schedule should be prepared showing in parallel vertical columns the cost or other basis of each lot of each security holding owned by the individual, the current market value thereof, the net potential gain or loss which might be established by sale and the portion of that gain or loss which would be recognized as taxable or deductible under Section 117 of the Revenue Act. A schedule of this nature makes easily available information as to securities which might be advantageously sold for income-tax purposes.

Net taxable income for the year should be estimated. At this time, the income analysis is valuable, in that it not only furnishes information as to salary, interest, dividends and similar items subject to tax which have been received to the date of the estimate, but also supplies a means for estimating receipts of that nature for the remainder of the taxable period. Expense accounts in the ledger furnish a basis for estimating deductions.

A review of the completed estimate is often prolific of results. For example, should the taxpayer file his return on an established cash basis and be subject to year-end interest payments, the net taxable income revealed by the estimate would determine whether the payments might be made more advantageously on the last day of the year or early in the following year. Loans and accounts receivable should be studied so that, if bad debts exist therein, all steps necessary to establish them during the remainder of the year may be taken.

The working papers which are prepared at this time should be written in such form that they need not be rewritten when the tax return is prepared after the close of the period. If sufficient space is left between the period of holding groupings on schedule F, the capital gain and loss schedule, transactions consummated during the remainder of the year may later be entered therein. Separate single analysis sheets should be used to detail each class of deductions, and these also should provide space for subsequent entries.

When this preliminary work has been completed and the taxpayer and the accountant have assured themselves that all necessary steps toward determining a proper minimum tax liability for the year have been taken, the remaining tax procedure has been reduced to a simple matter of closing the books and records at the end of the year and transferring the results shown thereon to the appropriate form of income-tax return through the medium of the tax classification, which will be described in the following section.

IV. Preparation and Filing of Returns after Close of Period.

When the time arrives for the actual preparation of the income-tax return, the accountant is equipped with complete analyzed records of the year's income and expense. The income analysis has been closed and is in agreement with the ledger income account. The analysis schedules which were inaugurated during the tax preparation work before the close of the year have been closed and are in agreement with the ledger accounts. A trial balance of the ledger has been taken in such form that asset and liability accounts are segregated from income and expense accounts.

The **income-tax classification**, herewith illustrated as form G, should now be prepared. That section of the trial balance which contains income and expense accounts should be entered in the first column thereof. Income account, which appears as one figure on the trial balance, should be entered in the detail furnished by the summary of the income analysis, as shown on the illustration. Each item in this column should be supported by an analysis either in the form of a schedule prepared at the time of the preliminary tax preparation or in the book form of the income analysis.

A distribution across the sheet should now be made either to the adjustment column in which items not carried to the tax return are entered or to the appropriate column representing an item on the return.

When the income-tax classification is completed, the column totals are transferred to the tax return, the tax is computed and the return is ready for signatures and filing.

In addition to the signature of the taxpayer, the return, when filed, must bear the affidavit of the person who prepared it that it is a true, correct and complete statement of all information respecting the taxpayer's liability of which he has any knowledge. When executing this affidavit, the accountant should therefore be assured not only that the return discloses all information available to him from the taxpayer and his records, but also that there are no matters not disclosed on the return of which he has, or might reasonably be expected to have, knowledge from other sources.

The income-tax classification should now be securely bound with all analysis schedules and other working papers necessary to support the figures shown on the return and held to be submitted to the examining officer when the return is examined for correctness by the Treasury Department.

With the filing of the return with the collector of internal revenue and the payment of the tax shown thereon, the engagement is completed until such time as the Treasury Department elects to make its usual verification.

V. Conducting Examination of Returns with Examining Officers.

The usual experience is that, when a return has obviously been carefully prepared and is supported by adequate books and records, the verification by the examining officer becomes merely a routine matter and presents no difficulties to either the taxpayer or the officer.

All books, records and working papers should be made available to the officer, and the accountant should be in attendance during the entire course of the examination in order that he may answer all questions and make any explanations required by the officer. It is naturally his duty to support to the fullest extent the return which he has prepared and to safeguard the taxpayer's interests. During the examination, familiarity with current decisions and a knowledge of Treasury Department practices is of the greatest value.

When the examination has been completed and the examining officer fully satisfied as to the correctness of the return, the year's working papers should be placed in permanent file, there to await the Treasury Department's notification that the return has been accepted as filed.

Common Capital Stock of D Corporation.

1916 Jan	9	500	sho. bought @ 100	J16	50000 00	1916 Sept	9	500	sho. sold	J25	30000 00
July	15	500	" stock dividend			Dec.	31	500	sho. Bal.	✓	25000 00
			Profit on sale	J26	5000 00						
		1000			55000 00			1000			55000 00
1917 Jan	1	500	sho Balance	✓	25000 00						
1925 Jan	15	100	" bought on rights @ 50	J69	5000 00	1925 June	9	100	sho. sold	J77	7200 00
June	9		Profit on sale	J73	676 25	Dec	31	700	sho. Bal.	✓	40876 25
Oct	10	200	sho bought @ 87	J78	17400 00						
		800			48076 25			800			48076 25
1926 Jan	1	700	sho Balance	✓	40876 25						
1929 Aug	12		Profit on sale	J91	4600 00	1929 Aug	12	200	sho. sold	J90	22000 00
	19		Profit on sale	J91	20414 25		19	300	" "	J90	34500 00
						Dec.	31	200	sho Bal.	✓	9390 50
		700			65890 50			700			65890 50
1930 Jan	1	200	sho Balance	✓	9390 50						
1932 Oct	7	200	sho. bought @ 91	J110	18200 00	1932 Dec.	31	400	sho. Bal.	✓	27590 50
		400			27590 50			400			27590 50
1933 Jan	1	400	sho. Balance	✓	27590 50						
1934 Aug	9	200	sho bought @ 85	J128	17000 00	1934 July	30	200	sho sold	J124	17400 00
	9		Reverse 7/30 loss, % 30 day clause	J129	800 00		30		Loss on sale	J125	800 00
						Dec	31	400	sho Bal.	✓	27190 50
		600			45390 50			600			45390 50
1935 Jan	1	400	sho Balance	✓	27190 50	1935 March	12	200	sho sold	J161	17600 00
							12		Loss on sale	J162	200 00
						Dec.	31	200	sho. Bal.	✓	9390 50
		400			27190 50			400			27190 50
1936 Jan	1	200	sho. Balance	✓	9390 50						

FORM A

LEDGER SECURITY ACCOUNT

John Doe
Income Analysis
Year 1935

Attached Schedule	Summary	1935 JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
A	Dividends - Domestic Corporations, Taxable under Title I $	600 00	400 00	1 700 00	662 50	400 00	1725 00	600 00	400 00	1 700 00	662 50	425 00	1 725 00	11000 00
B	" " " Not " " " "	200 00			200 00			200 00			200 00			800 00
C	" - Foreign Corporations		100 00			100 00			100 00			100 00		400 00
D	Interest on Corporation Bonds, with Tax free covenant	700 00		700 00				700 00		700 00				2 800 00
E	" " " , without " " " "	1 200 00			300 00		Sale 21 81	1 200 00			300 00			3021 81
F	Interest on Tax-exempt Bonds, Federal Exemption only		125 00						125 00					250 00
G	" " " " ", Federal & State Exemption	900 00		Purchase 137 50				900 00	750 00					2412 50
H	Salaries, Directors' Fees, etc.	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	1000 00	12000 00
I	Other Income			90 00			70 00						410 00	570 00
Total	(Net income Account for Ledger) $	4600 00	1675 00	3352 50	2162 50	1500 00	2816 81	4600 00	2375 00	3400 00	2162 50	1525 00	3135 00	33254 31

FORM B
INCOME ANALYSIS SUMMARY

John Doe
Income Analysis, Year 1935
A - Dividends, Domestic Corporations Taxable under Title I

	SHARES JAN. 1, 1935	INCREASE: DECREASE DATE	INCREASE: DECREASE SHARES	1935 JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
A Corporation		Feb. 5	100	$		50.00			50.00							100.00
		June 19	100													
B Corporation		June 19	200													
		Aug. 9	200													
B Corporation	900	March 12	100		225.00			200.00			200.00			200.00		825.00
D Corporation	400	March 12	200			100.00			50.00			50.00			50.00	250.00
E Corporation	1000	Jan. 14	1000													
F Corporation	500	Sept. 24	500													
G Company	200	March 9	100													
H Corporation	900						450.00									
J Corporation	1200			600.00												
K Corporation																
SECTION OMITTED																
R Corporation	1000															
S Company	700	Nov. 9	200		175.00			175.00			175.00			175.00		700.00
Total to Summary				$ 600.00	400.00	1700.00	662.50	400.00	1725.00	600.00	400.00	1700.00	662.50	425.00	1725.00	11000.00

FORM C

PAGE FROM INCOME ANALYSIS

John Doe
Income Analysis - Year 1935
E- Interest on Corporation Bonds, without tax-free Covenant

				Face Value Jan. 1, 1935	Increase / Decrease Date	Increase / Decrease Face-Value	1935 January	February	March	April	May	June	July	August	September	October	November	December	Total
A	Corporation -	6% 1940 -	J+J 1	$ 40.000			1200 00						1200 00						2400 00
G	Company -	5% 1942	J+D 30	1.000	June 7	$1000					accrued at Sale Date	21 81							21 81
H	Corporation -	6% 1941	A+O 1	10.000						300 00						300 00			600 00
Total to Summary						$	1200 00			300 00		21 81	1200 00			300 00			3021 81

John Doe
Income Analysis - Year 1935
G- Interest on tax-Exempt Bonds, Federal & State Exemption

			Face Value Jan. 1, 1935	Increase / Decrease Date	Increase / Decrease Face-Value	1935 January	February	March	April	May	June	July	August	September	October	November	December	Total
U.S.A.	Treas. Notes, Ser. D 1938 - 1½% -	J+J 15	$ 120,000 00			900 00						900 00						1800 00
U.S.A.	Treas. Notes, Ser. X 1941 - 1½% -	F+A 15		March 18	100,000			137 50	accrued at Purchase date				750 00					612 50
Total to Summary					$	900 00		137 50				900 00	750 00					2,412 50

FORM D

PAGES FROM INCOME ANALYSIS

Common CAPITAL STOCK OF D Corporation PAR No par

DATE		PRICE		TOTAL SHARES	TOTAL AMOUNT	BOX SHARES	BOX AMOUNT	M + Co. (Brokers) SHARES	M + Co. (Brokers) AMOUNT	N + Co. (Brokers) SHARES	N + Co. (Brokers) AMOUNT	O + Co. (Brokers) SHARES	O + Co. (Brokers) AMOUNT	X Natl Bank (Loan) SHARES	X Natl Bank (Loan) AMOUNT	P + Co. (Brokers) SHARES	P + Co. (Brokers) AMOUNT	CERTIFICATES NUMBERS	CERTIFICATES IN NAME OF
1916 Jan.	9	100	Purchase through M + Co.	500	50 000 00			500	50 000 00										
July	15		100% Stock Dividend	500	—			500	—										
				1000	50 000 00			1000	50 000 00										
Sept.	9	60	Sold through M + Co.	500	30 000 00			500	30 000 00										
			Profit on sale		5 000 00				5 000 00										
				500	25 000 00			500	25 000 00										
Oct.	10		Delivered by M + Co.			500	25 000 00	500	25 000 00									721/25 10/5/16	John Doe
1925 Jan.	5		Subscription rights rec'd																
			and delivered to N + Co.																
			Basis 6.095% of cost.				1 523 75				1 523 75								
	15		Rights exercised, 1 for 5 @ 50	100	5 000 00					100	5 000 00								
June	9	72	Sold through N + Co.	100	7 200 00					100	7 200 00								
			Profit on Sale		676 25						676 25								
		46.95		500	23 476 25	500	23 476 25												
Oct.	10	87	Purchase through O + Co.	200	17 400 00							200	17 400 00						
1926 June	5		Delivered to X Natl. Bank			300	14 085 75							300	14 085 75			721/723	" "
				700	40 876 25	200	9 390 50					200	17 400 00	300	14 085 75				
1929 Aug.	12	110	Sold through O + Co.	200	22 000 00							200	22 000 00						
			Profit on Sale		4 600 00								4 600 00						
	17		Del'd by X Natl Bank to O + Co.									300	14 085 75	300	14 085 75			721/723	
	19	116	Sold through O + Co.	300	34 500 00							300	34 500 00						
			Profit on Sale		20 414 25								20 414 25						
				200	9 390 50	200	9 390 50												
1932 Oct.	7	91	Purchase through P + Co.	200	18 200 00											200	18 200 00		
1934 July	30	87	Sold through P + Co.	200	17 400 00											200	17 400 00		
			Loss on Sale		800 00												800 00		
Aug.	9	85	Purchase through P + Co.	200	17 000 00											200	17 000 00		
			Reversal of above loss entry,																
			due to 30-day clause		800 00												800 00		
				400	27 190 50	200	9 390 50									200	17 800 00		
1935 March	12	88	Sold through P + Co.	200	17 600 00											200	17 600 00		
			Loss on Sale		200 00												200 00		
				200	9 390 50	200	9 390 50												

FORM E
SECURITY RECORD ACCOUNTS

John Doe
Capital Gain or Loss
Year 1935

SHARES OR FACE OF BONDS		DATE ACQUIRED	DATE SOLD	COST PER BOOKS	SUBSTITUTED FEDERAL BASIS	MARCH 1, 1913 VALUE	SUBSTITUTED N.Y. STATE BASIS	DEC. 31, 1918 VALUE	PROCEEDS	GAIN OR LOSS ON SALE: PER BOOKS	FEDERAL: ADJUSTED	FEDERAL: SEC 117 % s	FEDERAL: RECOGNIZED	NEW YORK STATE
Held 1 year or less			1935											
100	A Corporation	Feb. 5, 1935	June 19	$ 7225 00					6940 74	284 26				284 26
200	B Corporation	June 19, 1935	Aug. 9	3700 00					3850 00	150 00				150 00
1000	G Co. 5½ Bond	Nov. 21, 1934	June 7	1000 00					970 00	30 00				30 00
				11925 00					11760 74	164 26		100	164 26	
Held over 1 year not over 2														
100	B Corporation	Feb. 6, 1934	March 12	19200 00	A 18600 00		B 18800 00		16500 00	2700 00	2100 00	80	1680 00	2300 00
Held over 2 years not over 5														
200	D Corporation	Aug 9, 1934	March 12	17000 00	C 17800 00				17600 00	200 00	200 00	60	120 00	600 00
Held over 5 years not over 10														
1000	E Corporation	Aug. 1, 1929	Jan. 14	24000 00					6400 00	17600 00		40	7040 00	17600 00
Held over 10 years														
500	F Corporation	June 7, 1912	Sept 24	9000 00		8500 00		7200 00	9500 00	500 00		30	150 00	500 00
Totals										$ 20164 26			8854 26	18964 26
Federal loss deduction limited to													$ 2000 00	

Notes

A Cost reduced by non-taxable distributions from depletion reserve, as follows:

March 15, 1934	$ 156 00	
June 15, 1934	212 00	
Sept. 15, 1934	170 00	
Dec. 15, 1934	62 00	600 00

B Cost reduced by non-taxable distributions from depletion reserve, as follows:

March 15, 1934	$ 104 00	
June 15, 1934	141 33	
Sept. 15, 1934	113 33	
Dec. 15, 1934	41 34	400 00

C Federal basis and period of holding adjusted in accordance with section 117(c)(4) of Revenue Act of 1934. The purchase of these shares on Aug 9, 1934 resulted in the nondeductibility of loss from sale of 200 shares of the same stock purchased October 7, 1932 for $18,200 00; sold July 30, 1934 for $17,400 00.

FORM F

CAPITAL GAIN AND LOSS SCHEDULE

John Doe
Income Tax Classification
Year 1935

	INCOME AND EXPENSE PER BOOKS	ADJUSTMENTS PRELIMINARY TO INCOME TAX RETURN		ITEM 1 SALARIES ETC.	3 INTEREST RECEIVED	4 INTEREST RECEIVED T.F COV.	8 CAPITAL GAIN OR LOSS	10 DIVIDENDS (a)	10 DIVIDENDS (b)	10 DIVIDENDS (c)	11 OTHER INCOME	13 INTEREST PAID	14 TAXES PAID	16 BAD DEBTS	17 CONTRI-BUTIONS	18 OTHER DEDUCTIONS	20 NET INCOME
Income Account	$																
Dividends (a)	11000 00	Corporation Depletion Per Schedule 16	109 00					10,891 00									
" (b)	800 00								800 00								
" (c)	400 00									400 00							
Interest - T.F. COV.	2800 00					2,800 00											
" - NO COV	3,021 81				3,021 81												
" - Exempt	250 00	Tax Exempt Interest	250 00														
" - "	2412 50	" " "	2,412 50														
Salaries	12,000 00			12,000 00													
Other Income	570 00										570 00						
Per trial Balance	33,254 31																
Capital gain or loss	20,164 26	Limited to $2000	18,164 26				2000 00										
Personal Expenses	6412 31	Not deductible	6412 31														
Household Expenses	12,700 00	" "	12,700 00														
Personal gifts	1,000 00	" "	1,000 00														
Charitable Contributions	200 00														200 00		
Business Expenses	50 00															50 00	
Taxes	6,500 00	Federal Income Tax	3,000 00										3500 00				
Interest Paid	950 00											950 00					
Bad Debts	500 00													500 00			
Net Def.	15,222 26		38,505 07	12,000 00	3,021 81	2,800 00	2,000 00	10,891 00	800 00	400 00	570 00	950 00	3500 00	500 00	200 00	50 00	23,282 81

FORM G
NCOME TAX CLASSIFICATION

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