CASE STUDIES

FOR

FRIDAY AND SATURDAY

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Cost Of Goods Sold - - And Otherwise Disposed Of

On April 1, 1975, your client, Radetronics Corporation, acquired Telefinkin, Inc., a manufacturer of portable radios. As part of the acquisition investigation, you observed the March 31, 1975 physical inventory. The inventory consisted mainly of purchased parts - - transistors, speakers tubes and similar electronic parts - - stored in a controlled store room. The inventory was carefully taken and your people on the observation team were well satisfied.

During the year, you reviewed Telefinken's system of internal control and came away with some serious concerns about the controls over inventory and cost of goods sold. There appear to be adequate controls over receiving and shipping: The Company is reasonably assured that it only pays for what it receives and that it bills all of the finished goods shipped out. But there is no perpetual inventory system to control quantities of purchased parts and the accounting system does not establish a book value control over the inventory. The Company takes a complete physical inventory of the purchased parts store room every month end. Costs of goods sold is determined by the traditional formula; beginning inventory plus purchases less than the ending inventory equals cost of goods sold.

Because of these control weaknesses, you have insisted that your people observe the physical inventory at December 31, rather than at an interim date. Your manager reports that it went off without a hitch. He also tells you that he inspected the store room and was satisfied with the physical controls over the purchased parts. He also observed the guards at the gates and was impressed that the employers all stopped to have their lunch boxes inspected.

Your manager is still concerned about Telefinkin. The gross margin from nine months of radio production is about 40% of sales, which is consisten with last year's experience. But gross margin percentages month to month vary dramatically, from 52% to 35%. The variance is not due to product mix, because the Company's cost/price worksheets indicate a standard 50% spread between cost build-ups and planned sales prices. He says he's looked everywhere but can't find an explanation for the variance in monthly gross margin statistics or the variance between planned gross margin and actual. And he points out that every percentage point change in gross margin is worth $200,000 at the bottom line.

The client acknowledges that your people have raised an interesting question. He even acknowledges that the problem may be due to employee theft of the very small, very expensive purchased parts. He asks that you send him a letter detailing your findings and your recommendations, but he concludes, "To be honest, I have to tell you that we're not going to do anything drastic at Telefinkin. Our labor relations are good, but tenuous. And besides, the Company is very profitable as it is, and is meeting the projections we established when we bought it. Finally, I can't be convinced that a more elaborate control system would pay for itself."

When you report that results of this meeting to the audit staff, the manager suggests that the traditional line on the income statement be expanded to read, “Cost of Goods Sold and Stolen.” But then he asks seriously, “Ok, so we tell management about the weaknesses in the system; should we tell the stockholders too, by mentioning it in a footnote?”

HOW WILL YOU ANSWER YOUR MANAGER?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Accounting For Hindsight

Chicago Properties is a publicly held company dealing in all kinds of commercial real estate, but specializing in apartment and condominiums. Since you've been assigned to the engagement, the mainstay of the Company's business has been the development and construction of apartment complexes which they ultimately sell to individual investors or tax shelter partnerships.

One of the Company's best customers is a local entrepeneur, Mr. T.M. Wacker. Mr. Wacker bought one of the Company's apartment projects in 1972; he bought two more in 1973; and he bought a large complex in 1974. There were no sales to Mr. Wacker in 1975, however. In fact, as you review the workpapers for the 1975 audit, you see that the 1974 transaction has been recinded, and the $800,000 profit which had been recorded last year has been reversed this year. The profit on that transaction was very material to 1974's earnings, and the reversal is a material part of the 1975 loss.

You look back at your 1974 workpapers and see that the transaction was structured as follows:

Downpayment in cash	$ 200,000
Downpayment by bank letter of credit	800,000
Note receivable	4,000,000
Total Sales Price	$5,000,000
Cost	4,200,000
Gross Profit	$ 800,000

The workpapers show that the note receivable was examined and confirmed. Your last year's audit team obtained a Dun & Bradstreet report on Mr. Wacker and it showed that he was a man of some means, but perhaps property poor. His credit was not seriously challenged however, because all of the notes he issued in previous transactions had been paid off in advance.

Your people had also gotten a confirmation from Wacker's bank confirming that they issued a letter of credit in favor of Chicago Properties drawn against Mr. Wacker. In effect, the bank confirmed that they would pay $800,000 to Chicago Properties on demand; Wacker was apparently committed to either pay the bank or take out an $800,000 bank loan in satisfaction of the bank's payment to Chicago Properties. The letter of credit was good for 180 days, issued at the date of the sale, October 1, 1974 and expiring March 31, 1975.

As it was originally structured, this 1974 transaction met the criteria specified in the AICPA's Audit Guide, "Profit Recognition On Sales of Real Estate." For completed apartment houses, the Guide requires a 20% downpayment, and Wacker's combination cash/letter of credit totaling $1,000,000 qualified exactly.

You ask what happened to the Wacker transaction, and the client's Controller explains that Mr. Wacker asked for a 90-day extension of the letter of credit in March and then again in June of 1975. Finally, in September, he acknowledged that he did not have enough cash or borrowing power to meet his commitment and he asked to be excused. The Controller explained that although the apartment complex was not fully rented, it was a showplace and Chicago Properties was happy to take it back. Besides, they felt they could not lean too heavily on Mr. Wacker because of their long-time business association.

You inquire into that long-time association in more detail, and you find that Mr. Wacker pre-paid all of his earlier commitments to Chicago Properties, apparently because he was able to re-sell the apartment houses quickly - - as soon as he got them rented up. In fact, as you look at the pattern of transactions with Mr. Wacker, you see that each of the sales to him followed fairly closely on the heels of his payments on his own sales of property previously purchased.

Rhetorically, you ask the Controller whether Mr. Wacker really intended to go through with the 1974 transaction. The Controller assures you that Mr. Wacker will be happy to confirm his honest intentions, and that the management of Chicago Properties will give you a letter of representations attesting to the bona fides of that transaction. When you ask why the Company let Mr. Wacker extend the letter of credit twice and then let him out from under the deal, the Controller explains condescendingly, "You don't kick a good customer when he's down."

WHAT WILL YOU DO ABOUT THE $800,000 PROFIT RECISION IN THE 1975 FINANCIAL STATEMENTS?

Liquidity Problems

Revolutionary, Inc., has been a client of yours ever since it was formed in 1973. The Company was organized to develop a new method of residential construction. The original impetus (and the original capital) came from American Home Builders, Co., a very large construction company audited by another CPA firm. American originally put up $2,500,000 but Revolutionary went through that cash in no time at all. American put in another $2,500,000 and simultaneously, Revolutionary had a public offering of stock, raising an additional $5,000,000. Revolutionary's experimentation looks promising, and several of the pilot projects have been very successful. However, the Company has been eating up cash at a startling rate, averaging almost $1,000,000 a month. Up until now, American has been willing to lean funds to Revolutionary for operating purposes: American has loaned Revolutionary $15,000,000, on five year notes due in 1978, 1979 and 1980.

Most of Revolutionary's expenditures were for salaries and supplies. And they were expensed as incurred. However, the Company has also invested substantially in an assembly line plant and has capitalized a significant amount of legal and similar expenses related to patent rights.

This has been a difficult time for home construction and American is having trouble. In fact, one morning you read in the Wall Street Journal that American has announced its intention to sell its 50% interest in Revolutionary. When you stop by the Revolutionary offices to discuss this development, you find that the Treasurer has already anticipated your question. He has been in contact with American's Chief Financial Officer and Revolutionary has been assured that American will continue to provide operating finances as might be required, at least until Revolutionary can float another stock offering and get on its own feet.

You wonder out load whether American would be willing to put that commitment in writing. The Revolutionary Treasurer suggests that they probably would not, simply because they could not afford to encumber their own financial picture with a legal obligation. You point out that unless American will give some form of written commitment - - or unless Revolutionary can line up some other firm source of financing - - you will have to reflect this new uncertainty in your audit report on Revolutionary's financials. The Treasurer observes dryly, "How can it be any worse; your opinion is already subject to all of our assets. Do you mean you're now going to be subject to our liabilities as well?"

HOW MIGHT THIS NEW DEVELOPMENT AFFECT YOUR OPINION ON REVOLUTIONARY'S FINANCIAL STATEMENTS?

Foreign Currency Transactions

Your client, World Wide Lines, entered into a contract with a Japanese ship builder for the construction of a multi-ton tanker. The contract was signed in December, 1974 and called for a total purchase price of 3,000,000,000 yen to be paid in three annual installments, December, 1975, December, 1976 and December, 1977. When New World signed the contract, the yen/dollar ratio was 300 to 1. The feasibility study for the tanker was based on a purchase price of $10,000,000 and so, New World thought it best to protect their negotiated price. They purchased a hedge against the yen from an international bank: The bank agreed to sell World Wide 3,000,000,000 yen, as the loan payments came due, at the 300 to 1 rate.

World Wide made the first payment in December, 1975. The tanker's construction is proceeding according to plan and the project is looking better all the time. The Company was particularly pleased with their decision to hedge the yen because the ratio in December, 1975 fell to 280 to 1. Everyone was a little startled that the dollar had sunk that low against the yen. The Company was so convinced that the ratio was unnaturally depressed that they decided to capitalize on the opportunity. In late December they went back to the international bank and sold the hedge, realizing a profit of $500,000. They plan on including that $500,000 profit in 1975's income as "Foreign Exchange Gain."

During your final audit work in early 1976, you see that the dollar has come back against the yen, but the ratio is still only around 285 to 1. You ask World Wide's management if they are not concerned about their yen exposure. They re-emphasize their certainty that the dollar will come back substantially. And the Treasurer explains, "In any event, we are confident that the tanker will be profitable. We have been reviewing our original feasibility study, and the way the oil market is going, our tanker will be a gold mine. Even if the yen/dollar ratio deteriorates further so that we have to pay $12,000,000 or $13,000,000 for the ship, our charter fees will be such that the tanker will return a better profit than we had earlier hoped. The hedge really wasn't necessary: It was just a foray into the exchange market that turned out profitably."

HOW SHOULD WORLD WIDE ACCOUNT FOR THE $500,000 GAIN RESULTING FROM THE LIQUIDATION OF THE FOREIGN EXCHANGE CONTRACT?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

ESOPs

Southeast Products Corp., is a closely held company with a reputation for quality products and stodgy management. 80% of the stock is owned by the founders: The remaining 20% is owned by a handful of younger employees. One of the founders, who has been the salesman, is in ill-health and semi-retired. He has said he would like to retire completely, but he is reluctant to pull out of management unless he can also pull out his investment in the Company. He has been trying to sell his stock to several outsiders - - much to the consternation of the other founders who are reluctant to have any outside influence in the Company.

One of the younger management people asks you about an article he read describing Employee Stock Ownership Plans. He asks whether an ESOP could solve the Company's dilemma. He asks, "Could we form an ESOP, have it buy the stock from our elderly vice-president, and give it to the young bucks over a period of years instead of our usual bonus?" You agree to work with him on a proposal for the Board of Directors. You develop the following scheme: A trust would be established to acquire the 20,000 shares owned by the sales vice-president, at an apparent fair value of $10.00 per share. The trust would borrow the requisite $200,000 from a local bank - - the stock would be pledged as collateral and the Company would guarantee the loan. The Company would make payments on the bank debt instead of making bonus distributions to the younger management group. The stock held by the trust would be distributed to the younger management group over a period of years in proportion to their normal bonuses.

The plan seems to meet everyone's needs: The older management group has undisturbed control of the Company, at least for a little while. The younger management group gets a little bigger piece of the action and the promise of future influence - - and no outsiders are involved. However, there may be one stumbling block - - the elderly treasurer is proud of the Company's fiscal conservatism and is clearly troubled by the novelty of the proposal. When you finish your presentation, he thanks you and acknowledges the advantages of your proposal. But he says he cannot vote for the plan until he understands the answers to the following four questions:

- Must the Company reflect the bank debt on its own books?
- And if so, what is the contra entry?
- How should the Company account for payments to the bank?
- How will the shares owned by the trust affect the Company's earnings per share?

HOW WILL YOU ANSWER THE TREASURER'S QUESTIONS?

Purchase Accounting

Aggressive has decided that the conglomerate movement is still viable. They have been acquiring closely held companies and building a small empire. Their most recent acquisition is a little larger than any of the earlier ones, and it has presented some interesting accounting problems. The facts are as follows:

1. The acquired company was controlled by the originating family, but 48% of the stock was held by a diverse group of 20 local investors. The stock was traded infrequently and there is no established market. That Company's principal assets are inventory and receivables, and based on the latest audited financial statements its net book value was $8.00 per share.

2. Aggressive purchased the stock held by the family, giving cash and 10% ten-year notes. Taking the notes at their face value, the purchase price for the controlling interest was $10.00 per share.

3. Aggressive offered a new issue of convertible preferred stock for the remaining outstanding shares, share for share. Aggressive's investment banker has said that he cannot value the preferred stock because it will have such a limited market and because the future of Aggressive's common stock is so unpredictable. The preferred stock carries a 40¢ dividend - - and a reasonable capitalization rate would give it a minimum value of $4.00 per share.

Under the provisions of APB Opinion 16, the acquisition is clearly a purchase. Aggressive intends to value the 52,000 shares purchased from the control group at the price paid, $10.00 per share. They argue that the value of the consideration given is self-evident, and they are probably right; although some argument could be made about imputing a higher interest rate on the notes. The effect of this accounting is to capitalize the premium paid to acquire control of the Company. The premium will simply be treated as good will and amortized over some future period, probably 40 years.

The Company intends to account for the shares they receive in exchange for the preferred stock at their book value, $8.00 per share. They argue that for this part of the transaction, the consideration received is more readily determinable than the consideration given. Again, you have to admit that they have a point - - the fair value of the assets Aggressive received as a result of the exchange is probably equal to the acquired Company's book value, $8.00 per share. And there certainly is a question as to the value of the preferred stock. Aggressive is willing to admit that they were able to get the minority's stock at a good price simply because it was a wide-spread minority. They argue that the "bargain purchase" should not be given accounting recognition because it would result in net negative good will which would flow to income very rapidly, as the receivables and the inventory turned over.

You leave the client, promising to think their proposal over. When you get back to the office and have a chance to look at this acquisition in total, you have an uncertain, uncomfortable feeling. Your human side is uncomfortable because Aggressive took advantage of the minority shareholders, but the financial statements will not communicate that fact. Your business side is uncomfortable because the accounting is a hodge podge. Your technical side is completely comfortable because the accounting proposed by the client goes exactly by the book. In the morning, you'll have to tell the client whether or not your firm is comfortable with their proposed accounting.

HOW SHOULD AGGRESSIVE ACCOUNT FOR THIS TWO STEP ACQUISITION?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Purchasing A Portfolio of Loans

Your client, American Financial Services, Inc., is a savings and loan holding company. You just met with the Controller to review American's acquisition of the Ohio Savings and Loan Association. American plans to acquire Ohio by exchanging preferred stock for all of Ohio's outstanding common shares, and it will clearly have to be accounted for as a purchase under APB 16.

The meeting was attended by appropriate people from American and Ohio, and Ohio's auditor as well. As you discussed the accounting for the acquisition, the auditor quoted from APB 16, noting that in a purchase the total consideration paid is to be allocated over the fair value of the assets and liabilities acquired. The value of the preferred stock to be issued in the acquisition is almost equal to Ohio's book value, and so it would appear that there is no good will involved. However, Ohio's auditor pointed out that Ohio's loan portfolio is only earning 6 ½% and therefore, its fair value has to be much less than its book value - - perhaps as much as $7,000,000 less. The book value of Ohio's other assets and liabilities is probably equal to their fair values. The auditor acknowledged that Ohio was only paying 5 ½% to its depositors but he reasoned that the deposits are payable on demand and, as a result, their fair value has to be equal to their book value.

He suggested that the loan portfolio should be discounted to its fair value and the $7,000,000 difference would, as a result, be classifed as good will. The loan discount would naturally be amortized to income over the life of the portfolio, say 10 years: The good will would be amortized against income over some appropriate period, say 40 years.

American's Treasurer was delighted with this suggestion and asked for your opinion. He quickly pointed out that there must be some good will involved in the acquisition because after all, American is buying a going business and Ohio does have some very fine locations. He asked you why you never thought of this idea before. You explained that in prior years there was never any significant difference between the rate of return earned on the loan portfolio and the prime interest rate in effect at the date of the acquisition. You added that you were not sure that discounting was really the proper thing to do in this case. The Controller's expression suggested that your reluctance was the result of sour grapes. He asked you to come back later in the day with a response to this proposal.

CAN YOU ACCEPT THE PROPOSAL FROM OHIO'S AUDITOR?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Historical Cost Accounting

The President of East Coast Enterprises had been looking for a merger candidate that would give his Company an entry into the lucrative California market. He was finally able to purchase the West Coast Corporation, an old, well established Company. East paid a premium over book value to get West, but everyone was satisfied that the price was fair. East's acquisition team reported that West had used a relatively simply accounting system. Capitalization policies were very conservative, and so, West's financial statements understated the value of its assets. But vacation pay was expenses as paid, and pension accruals were based solely on the actuaries' computation of cash needed - - the accrual was at the far end of the range allowed by APB Opinion 8.

When the acquisition was consummated, East Coast's accounting people went through the West Coast balance sheet, item by item. They obtained appraisals on all of West's fixed assets and established values for various assets and liabilities, in accordance with East Coast's accounting policies. They allocated East Coast's total purchase price over West's individual assets and liabilities and produced a new opening balance sheet. A summary of the balance sheet data for old West and new West are shown in the attachment.

Because West Coast still has bonds outstanding in public hands, separate financial statements will be required. You meet with the Controllers of East and West to discuss the preparation of those separate financials, and it's apparent that you have stepped into a buzz-saw. The East Coast financial people has assumed that West's financial statements would be prepared on the parent's cost basis, using the same numbers as will be used when West is consolidated with East Coast. However, the West Coast financial people believe that the West Coast financial statements should be presented using West's original costs. They argue that, legally, West is no different now than it ever was; and that East Coast's costs and West Coast's costs are entirely different. East Coast's controller turns to you and says, "You'll have to issue an audit report on West's separate statements - - which numbers present West's balance sheet in accordance with generally accepted accounting principles?"

WHICH ALTERNATIVE FAIRLY PRESENTS WEST - - IN ACCORDANCE WITH GAAP?

Historical Cost Accounting
Financial Data Attachment

	Old West	New West
Current Assets	$ 40,000	$ 40,000
Property, Plant & Equipment	100,000	150,000
Intangibles	15,000	- -
Goodwill		10,000
	$155,000	$200,000
Current Liabilities	$ 20,000	$ 30,000
Pension Liabilities	- -	10,000
Long-Term Debt	80,000	80,000
Stockholders' Equity	25,000	
Retained Earnings	30,000	
East's Purchase Price		80,000
	$155,000	$200,000

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Stock Transactions With Employees

As a partner in the Indianapolis office, you have responsibility for a wide-variety of clients. Today, you are scheduled to visit the two extremes: You plan to call on Gigantic Corp., a world-wide conglomerate, headquartered in Indianapolis. The Treasurer has asked you to stop by and review a new stock option plan they are considering for their top management group. Later in the day, you are to visit Local Stores, Inc., a family owned retailer, a long-time tax and audit client of your firm. The family asked you to stop by and meet a new man they've just hired as a store manager. They want this new man eventually to become a key part of the business.

At Gigantic, the Treasurer explains that the condition of the stock market has negated the value of the traditional stock option plan. The traditional plan had met al objectives: The employees were pleased with their compensation and the Company avoided any charge to income. Now however, the employees have asked for a direct participation in the Company's growth, apart from the vicissitudes of the marketplace.

The Treasurer designed a new plan: The Company would create a pseudo-stock which would receive dividends but would not vote. Each employee would be given an opportunity to buy a certain number of shares of the pseudo stock at a price equal to the Company's net book value per common share at the date of grant. It's understood that the pseudo shares would not be tradeble and would have to be sold back to the Company when the employee retires, or otherwise leaves the firm. The refund price would be based on the Company's net book value per common share at the time the employee turns in the pseudo-shares.

The Treasurer argues that this is a normal stock transaction because the employees have actually put their own money at risk. Therefore, he is satisfied that there is no compensation expense connected with the program. After some further discussion you disagree. You tell him that the program is in essence a profit sharing plan and in your judgment, that portion of the Company's earnings which increase the book value of the pseudo-shares must be considered to be compensation and charged against earnings. After some further argument, you convince the Treasurer of your position and he decides to abandon the idea.

Moving on, you stop to visit with the folks at Local Stores, Inc. You meet the new store manager and the members of the family. They explain that to get the new manager, they had to give him a piece of the action. The Company sold him a newly issued block of shares so that he has about a 25% interest in the Company. The shares have been restricted, however - - the certificates are stamped with the legend, "These shares may only be sold directly to the Company." There is no market for the stock and so, it was agreed that the new manager would buy in at current book value. It has also been agreed that the Company would buy the shares back at book value if for any reason he decided to leave. You congratulate them all and wish

them well. As you get ready to leave, the bookkeeper stops you to say that she's never encountered a stock sale, but that she simply debted cash and credited common stock. "That was the right entry, wasn't it?" You agree, that's the right entry, at least for the moment.

SHOULD LOCAL STORES RECOGNIZE COMPENSATION EXPENSE IF THE BOOK VALUE OF THE NEW MANAGER'S SHARES GOES UP?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Depreciation

The new Pension Reform Act has been an opportunity and a challenge for your client, Comprehensive Financial Services. CFS operates a series of mutual funds, particularly designed for pension funds and similar fiduciary institutions. CFS's customers can pick and choose from a wide variety of funds with a wide variety of investment objectives. Under the Pension Reform Act, Trustees are responsible to maintain a specified level of diversity in their funds' investment portfolio. And CFS's shopping list of diverse funds gives them an important marketing edge in the competition for pension business.

The pressure for diversification has stimulated the imagination of all of the investment services. CFS and a number of its competitors have begun offering a mutual fund investing in real estate. The CFS real estate fund has purchased a number of apartment houses, hotels, and commercial buildings. The real estate fund is a little different than the common stock funds, and as a consequence, CFS asks all of the participants in the fund to leave their moneys invested for a specified period. But the real estate fund is similar to the common stock funds in many other important ways. Certainly, the participants expect to share in the cash flow from rentals of the property, but they also expect to share in any appreciation. In fact, CFS promotes the real estate fund as an appropriate place to put long-term money where appreciation is a principle objective. Because of that objective, CFS has promised to provide financial statements of the real estate fund on a "current value" basis, based on annual appraisals of all of the properties.

CFS's Treasurer has called you in for advice. He stands looking at a mock up of the financial statement for the real estate fund and looks perplexed. He has thought through the balance sheet presentation - - the real estate investments will be shown at their current value, with original cost shown parenthetically as a reference point. He also has an income statement roughed out, as follows:

Rental Revenues	XXX
Other Income	XXX
	XXX
Property Costs	XX
Administration Costs	XX
Operating Income	XXX
Gain in Current Value	XX
Net Income For the Year	XXX

The Treasurer explains his question about the earnings statement: "Our people have conflicting ideas. Some say we should charge the rental operation with depreciation expense, picking the depreciation back up as an increase or a decrease in the appreciation. The logic for that

presentation is that it provides an income statement more comparable to other real estate entities. On the other hand, others in our group argue against a depreciation charge because depreciation is not relevant to an investor who is looking for appreciation. Some have even suggested that increasing the gain in current value for an arbitrary depreciation adjustment will confuse and maybe even mislead. I can see merits to both arguments." He asks, "What do you think?"

WHAT DO YOU THINK?

TRUEBLOOD SEMINAR FOR PROFESSORS

ACCOUNTING & AUDITING CASE STUDIES

Reporting On Data Outside The Financial Statements

The audit of Park-A-Lot's 1975 financial statements has been particularly difficult. The Company's business has fallen off substantially, because so many people have begun to car-pool. And in addition, most of the Company's parking lots are located in major metropolitan areas where the employment trend has generally been down. Those general trends were exaggerated this year because the Company sold the parking lot it had built next to Boston's new John Hancock building. The Company expected the parking lot to be a money maker because the Hancock building was expected to attract a large number of automobile oriented people. However, the design of the building proved to be faulty, and in a strong wind the windows tended to pop out. The building was never certified for occupancy - - and worse, no one wanted to park their car in the lot because of the danger of falling glass.

Park-A-Lot sold the property at a $750,000 loss. The loss was material and in the Company's interim statements, it was presented as an extraordinary loss. After an extended and occasionally bitter argument, you convinced the client that under Accounting Principles Board Opinion Number 30, the loss could not be considered extraordinary nor could it be considered the disposition of a segment. The Company reluctantly agreed to include the loss in the body of the income statement as an unusual item. And since there were no other extraordinary items, they agreed to show only one earnings per share number on the face of the income statement - - net income for the year.

As you review the printer's proof of the draft stockholder's report, which is about to be published, you see that the Company has not given up the fight. In the highlights section, the loss on the Boston property is segregated as an extraordinary loss. And there are three earnings per share numbers:

Earnings From Continuing Operations	$1.78
Extraordinary Loss	(.68)
Net Income For The Year	$1.10

You question the President about the inconsistency between the financial statements and the highlights section and he retorts, "Your responsibility and your authority ends with the financial statements. I have the responsibility and the right to present things as I see them - - in my highlights section, in my president's letter, in my press release, or anywhere else I please."

WHAT WILL YOU DO NOW?

Trueblood Seminar for Professors

March 25-27, 1976

Professors	Schools
Mark F. Asman	Bowling Green State University
Said Atamna	Syracuse University
Arthur J. Beedle	University of British Columbia
James R. Boatman	Oklahoma State University
Robert G. Bowman	University of Oregon
Lawrence Brown	State University of New York - Binghamton
Homer H. Burkett	University of Kentucky
David Campbell	University of Notre Dame
Raymond J. Clay, Jr.	Texas Tech University
Quiester Craig	North Carolina A & T University
Martin L. Gosman	University of Massachusetts
William D. Haseman	Carnegie-Mellon University
Gary L. Holstrum	University of Florida
Todd Johnson	Rice University
Thomas Klammer	North Texas State University
John O. Mason, Jr.	The University of Alabama
Thomas I. Miller	Murray State University
A. T. Montgomery	San Francisco State University
R. Frank Page	University of Missouri – St. Louis
James E. Parker	University of Missouri – Columbia
Lawrence C. Phillips	Case Western Reserve University
H. V. Rao	Drexel University
Steven J. Rice	University of Washington
Harper A. Roehm	Wright State University
Eugene Rozanski	Southern Illinois University
Arlease Salley	Winston-Salem State University
James H. Scheiner	Duke University
James Sellers	University of Mississippi
Kenneth A. Smith	Idaho State University
William L. Strickland	Georgia Institute of Technology
Stanley E. Warner, Jr.	Old Dominion University

Guest Speaker

John C. Burton	Chief Accountant of the Securities & Exchange Commission

Touche Ross & Co. Discussion Leaders & Speakers

Joseph S. Burns	Director of Audit Operations – San Francisco
W. Donald Georgen	National Director of Accounting & Auditing
Robert S. Kay	Director of Accounting & Professional Standards
Robert E. Knox	Western Regional Director of Personnel
Henry C. Korff	Director of Personnel
James K. Loebbecke	Director of Auditing Programs
Raymond E. Perry	Director of Eastern Technical Center
Gerald A. Polansky	Partner in Charge-Washington, D.C./President-The Touche Ross Foundation
Robert J. Sack	Director of Audit Technical Services