1926

Examination [1926]

Virginia State Board of Accountancy

Examination
Virginia State Board of Accountancy

Richmond, Virginia

October 26, 27 and 28, 1926

Price 25 cents per copy.

MEMBERS

VIRGINIA STATE BOARD OF ACCOUNTANCY

A. M. Pullen, C. P. A. Chairman,
Richmond, Virginia

Frederick B. Hill, C. P. A. Secretary & Treasurer,
Norfolk, Virginia

B. A. McKinney, C. P. A.
Norfolk, Virginia

Wm. L. Prince, Dean of Richmond College,
Richmond, Virginia

Thos. O. Moss, Attorney at Law,
Richmond, Virginia

EXAMINATION VIRGINIA STATE BOARD OF ACCOUNTANCY

COMMERCIAL LAW

OCTOBER 26th, 1926, 9:30 A. M. TO 1:30 P. M.

Give Reasons for all answers

Do not repeat questions, but designate them by numbers.

Answer ten of the following questions:

1. A is indebted to B in the sum of $500.00 on open account, a part of which is barred by the Statute of Limitations. He sends a check for $200.00 and requests that the same be applied to that portion of the account that is not barred. Has he the right to do this?
2. A is the householder and head of a family. His assets consist solely of a stock of merchandise. Can he set this aside as a part of his Homestead Exemption?
3. A verbally authorizes B to sell his farm for $8,000.00 cash. B sells the farm to C for $8,000.00, but agrees to give him two years within which to pay one-half of the purchase price. The remaining one-half to be paid in cash. A refuses to carry out the contract on the ground that B had no authority. In a suit brought by C against A, upon whom is the burden of proof?
4. Does a certified check operate as an assignment of a fund on deposit with the bank so certifying?
5. A forges B's name to a check for $1,000.00 on the State & City Bank of Roanoke. The Bank paying the check on October 1st, 1925, the day it was drawn. On November 1st, the Bank returns B's vouchers (or cancelled checks) including the one so forged. B does not discover the forged check until June 1st, 1926. Whose loss is it?
6. A of Virginia gives B of Maryland his bond for $5,000.00, securing the same by a deed of trust on a farm in Virginia. Can this bond be taxed in Virginia?
7. What are the husband's rights now in Virginia in his wife's real estate at her death?
8. On June 1st, 1910, A duly executes his last will and testament. On December 1st, 1910, he executes another will, simply stating that the will of June 1st was thereby revoked. On August 1st, 1911, he executed a third will, revoking the will of December 1st, without saying anything more. A's widow presents the will of June 1st, 1910, for probate. Should it be admitted?
9. A requests B to permit him to store his automobile over the week end in his garage. B, without any charge, agrees to do so. The following day B drives the car to his place of business and without fault on his part, the car is damaged by another machine that was being driven by a drunken chauffeur. Is B liable?

10. The Virginia Realty Company desires to borrow \$10,000.00 by giving a deed of trust on its real estate. In the absence of authority from the stockholders, can the Board of Directors in Virginia authorize the execution of this instrument?

11. Has the State Corporation Commission any discretion in granting or refusing to grant a charter, assuming that all the statutory requirements have been complied with?

12. A signs an agreement to subscribe to ten shares of the capital stock of a corporation to be organized in the future. A week later, before the corporation acquires its charter, he notifies the promoters that he has decided not to purchase the stock. The corporation is duly organized and sues A on his agreement. Can it recover?

PRACTICAL ACCOUNTING

PART 1

OCTOBER 26, 1925, 2:30 to 6:30 P. M. (FOR PROBLEMS I, II AND III)

PROBLEM 1

The J. A. Brown Company, a Virginia Corporation, owns 80% of the Stock of The Berry Company, also a Virginia Corporation, both Corporations doing a similar line of business.

During the year 1925, it was decided to liquidate The Berry Company because, although its operations had been previously profitable, losses had been made in the past year and no progress was thought possible.

The latter part of the year 1925 has been devoted by The Berry Company to disposing of remaining stock of merchandise, collecting accounts and paying off debts.

On bringing your audit up to December 31, 1925, you arrive at the following balance sheets:

THE J. A. BROWN COMPANY

Cash	$ 25,000.00	Accounts Payable	$ 95,000.00
Accounts Receivable	200,000.00	Bills Payable	100,000.00
Inventory (Merchandise)	150,000.00	Reserve Doubtful Debts	20,000.00
Buildings	50,000.00	Reserve Depreciation	10,000.00
Furniture and Fixtures	10,000.00	Capital Stock (Common)	100,000.00
Berry Stock (at par)	40,000.00	Surplus	150,000.00
	$475,000.00		$475.000.00

THE BERRY COMPANY

Cash	$100,000.00	Reserve Doubtful Debts	$ 10,000.00
Accounts Receivable	50,000.00	Capital Stock	50,000.00
		Surplus	90,000.00
	$150,000.00		$150,000.00

You are then shown resolutions just passed, effective December 31, 1925, and are asked to revise your figures by giving effect to them on the books of the Companies as of that date.

THE BERRY COMPANY:

(1) To add $10,000.00 to Reserve for Doubtful Debts in order that remaining doubtful accounts may be fully covered as to all losses in further liquidation.

(2) To pay out cash on hand ($100,000) as a dividend to stockholders of record as of date.

(The Berry Company resolutions to be considered as effective prior to those below)

THE J. A. BROWN COMPANY:

Pursuant to terms of recently amended charter, that the present stockholders surrender their present stock and receive therefor (a)

$200,000 in new 7% cumulative Preferred Stock, to be issued in $100 share certificates (b) the remainder of the book value of capital stock and surplus be issued to stockholders in the shape of non-par Common Stock, both issues to be in proportion to old shares held, the number of new common shares to be governed by a nominal issue value of $1.00 per share.

REQUIRED:—

(1) A final balance sheet of The J. A. Brown Company after giving effect to entries arising from all resolutions.

(2) A consolidated balance sheet of the two companies after resolutions are effective.

(3) A brief discussion covering:

(*a*) Effect as to Federal Income Tax on The J. A. Brown Company on account of Berry Company dividend.

(*b*) Effect on The J. A. Brown Company stockholders as to Federal Income Tax on account stock surrender and issue of new stock.

(The two corporations to be regarded as affiliated under Federal Income Tax law).

(Do not consider tax features in making balance sheets).

PRACTICAL ACCOUNTING

PART 1

Problem 2

The Excelsior Clothespin Company began operations in January, 1925, leasing land at a nominal rental from a railroad company, erecting a plant on it and, finding a market from the beginning, did an active business.

On the night of August 15, 1926, their plant with all its contents including stock of material for manufacture was completely destroyed by fire. All records were lost except Accounts Receivable Ledger and Trial Balance book which the bookkeeper had taken home with him in order to reconcile ledger with its controlling account as of July 31st.

You are employed by them to assist in making an insurance claim. After spending some days with them and in communication with customers and creditors you find yourself in possession of the following:

(*a*) Trial balances, viz:—

	December 31, 1925 Dr.	December 31, 1925 Cr.	July 31, 1926 Dr.	July 31, 1926 Cr.
Cash	$ 2,000.	$	$ 1,700.	$
Accounts Receivable	16,000.		16,400.	
Material Account	40,000.		28,000.	
Supplies (Packing boxes, Cartons, Nails, etc.)	4,000.		3,000.	
Superintendent	3,000.		1,750.	
Labor	24,000.		16,000.	
Repairs	2,500.		2,000.	
Power (Electric)	2,400.		1,400.	
Salesman Salary & Expenses	3,000.		1,750.	
Bookkeeper & Office Expense	2,500.		1,500.	
Officers Salaries	6,000.		3,500.	
Rent (10 years)	100.			
Interest	500.			
Plant	25,000.		25,000.	
Reserve for Depreciation				2,500.
Notes Payable		13,000.		
Sales		90,000.		60,000.
Insurance Paid	2,000.			
Cash Discounts (on Sales)			2,000.	
Capital Stock		30,000.		30,000.
Surplus				11,500.
	$133,000.	$133,000.	$104,000.	$104,000.

(*b*) In the back of the Trial Balance book, you find memorandum of Inventory of December 31, 1925, listed and extended by bookkeeper, viz:

Material, $13,000.
Supplies, 1,000.

(Bookkeeper explains that books were closed December 31, 1925).

(*c*) You find from material creditors and from customers that the prices paid for materials and supplies throughout the whole history of company have been uniform, contracts having been made in the beginning for long time periods and are not yet exhausted, and that goods have been invoiced to customers at one price during the whole time, although in 1926, a 5% discount has been allowed on accounts paid within ten days.

(*d*) No material or supplies were received from July 31 to August 15, 1926, but on going to railroad for record of any shipments you secure copy of bill-of-lading of August 15, for three cars of product. These cars were on siding alongside plant on the night of fire and were destroyed with plant. They were being shipped on order to Brill & Company and invoiced to them on August 15th at $3,000. The Superintendent states that all finished goods on hand had been put in these cars.

(*e*) Insurance consists of—

(*a*) Three year policy (Aetna Insurance Company) on plant and machinery for $20,000, containing 80% co-insurance clause. (Usual policy—no special clauses).

(*b*) Three year policy (Hartford Insurance Company) on materials, supplies and product in plant, $6,000 containing 80% co-insurance clause. (Usual policy—no special clauses).

REQUIRED:—

From above data prepare statement of losses, supporting same by computations and give amount recoverable on each loss and from whom.

PRACTICAL ACCOUNTING
PART 1

Problem 3

In 1920 A. A. Adams owned 500 acres land 10 miles from Cosmos, Fla., underlaid with a deposit of Phosphate Rock. He had it prospected by a leading authority who informed him that the deposit was of fair quality and would average about 4,000 tons per acre, worth, by the usual standards, 10 cents per ton as it lay.

He interested others in a project to mine this property and a corporation was formed with a capital of $800,000., Adams putting in the land for $200,000 in stock, and the others putting in $600,000 cash. A plant with all accessories is erected at a cost of $500,000.

They contract for the removal of overlying earth at $1,000 per acre removals to be kept well ahead of mining.

Knowing that the plant will have to be kept in efficient order until all the Rock is mined out, they estimate that $100,000 will cover the scrap value at the end of operations.

Taking above into consideration they set up the following scale of reserves to be burdend against cost of each ton mined:

For Overburden Removal	25 cents per ton product
For Depletion of Rock	10 cents per ton product
For Obsolescence of Plant	20 cents per ton product

All repairs and necessary replacements to go against current costs.

At the end of five years they have:

(*1*) Removed Overburden from 300 acres.

(*2*) Mined out 200 acres, securing 600,000 tons product at a cost (including reserves) of $2.50 per ton, and sold same at $3.00 per ton cash basis.

(*3*) Abandoned 50 acres of the 100 acres uncovered, but yet unmined, on account of presence of too high percentage of Iron making product unsalable.

(*4*) Recently (during the boom) sold 50 acres adjoining a lake (overburden not removed) to a wealthy New Yorker for immediate occupancy for $200,000 cash, with the stipulation that all the remaining land (450 acres) will be turned over to him free when mining operations are completed. (Plant removal allowed).

Before proceeding further, they employ you to reset their books in line with their experience.

REQUIRED:—

(*1*) Assuming no dividends have been paid, make up a Balance Sheet as at the end of above transactions, after giving effect to any adjustments you consider necessary.

(*2*) Give new scale of reserves (if any change is in your opinion required).

Note:

(5) Thorough sampling and extensive borings show that no more iron will be encountered and that the quantity and quality of the rock will be approximately the same as in the area already mined.

PRACTICAL ACCOUNTING

PART 2

October 27, 1926, 9:00 A. M. to 1:00 P. M.

Problem 4

Coleman & Company, Inc., Norfolk, Va., Retail Fancy Grocers, on December 31, 1925, had the following balance sheet:—

ASSETS		LIABILITIES	
Cash	$ 5,500.00	Accounts Payable	$ 3,000.00
Accounts Receivable	12,500.00	Notes Payable	20,000.00
Merchandise (at cost or market)	24,500.00	Capital Stock	15,000.00
Supplies	500.00	Surplus	8,000.00
Furniture and Fixtures	3,000.00		
	$46,000.00		$46,000.00

On January 1, 1926, they opened a Bank Street Branch and a Plume Street Branch to be run on "Cash and Carry" plan strictly.

The agreement made with the Manager of each Branch is:—

(*1*) To furnish on Manager's requisition merchandise plainly marked at sale price (this being only price with which Manager is to be acquainted), the Manager signing delivery tickets, on checking goods into Branch.

(*2*) Manager is to deposit to Company's credit receipts from all sales at designated bank and turn duplicate deposit tickets over to Company's office.

(*3*) Manager is to be paid $200.00 per calendar month salary and a commission of 1% on all sales, except sales of stale goods and goods broken in ordinary handling, on which he is to get 25% on what he receives for them.

(*4*) Company's representative is to visit Branch every week and set aside stale and broken goods (bread, pies, etc.) and Manager is to keep record of sales price of such goods set aside, and for what sold.

(*5*) Company is to pay all expenses of Branch and furnish supplies (paper, twine, boxes, etc.) out of Company's Main Store supplies at cost.

The Main Store continues to operate selling both on cash and credit.

At the end of the second month (February 28) the officers of the Company ask you to make an audit as of that date requesting that you frame your report so as to show (*1*) Operating Statement (or statements) which shall show operations of Main Store and of Branches and result of all operations. (*2*) Balance sheet of the Company as of February 28th. (*3*) That you outline a better system of keeping Branch store accounts, if in your opinion the present system is faulty.

You will consider the following figures and statements as resulting from your examination and proceed to prepare your report along the lines requested, making also any other statements you may think necessary:—

TRIAL BALANCE AS OF FEBRUARY 28, 1926

	Dr.	Cr.
Cash	$ 5,075.00	
Purchases	18,000.00	
Sales		$35,000.00
Discounts on purchases		1,000.00
Salespeople	2,100.00	
Office help	500.00	
Delivery Expense	2,700.00	
Rent	300.00	
Lights and Water	250.00	
Inventory (Jan. 1st—Merchandise)	24,500.00	
Supplies	650.00	
Accounts Receivable	4,200.00	
Notes Payable		10,000.00
Accounts Payable		2,000.00
Furniture and Fixtures	3,000.00	
Bank Street Branch	3,475.00	
Plume Street Branch	6,250.00	
Capital Stock		15,000.00
Surplus		8,000.00
	$71,000.00	$71,000.00

Inventory Main Store — Merchandise — $22,500.00 (Cost or Market
Supplies — 350.00 (Cost)

As to the two accounts with Branches appearing above you find that goods delivered to Branches have been marked up 20% on Cost and so charged to Branches, this marked up figure being placed on all merchandise so delivered as its Sale price at the Branch; that such deliveries have been credited to Sales and charged to the Branch accounts; that the Branch accounts have also been charged with expenses, supplies, etc., and credited with cash deposited by Branches from sales made on them. The Ledger pages of the Branch accounts in the General Ledger are, in detail, as follows:—

BANK STREET BRANCH

1926			Dr.	Cr.
Jan.	1	Merchandise	$ 3,000.00	
"	1	Supplies	50.00	
"	5	Paid Dobbs Furniture Co. for Fixtures for Branch	800.00	
"	7	By Cash (Deposits)		$ 600.00
"	12	Merchandise	500.00	
"	15	By Cash (Deposits)		1,200.00
"	21	Supplies	40.00	

" 22	Cash (Deposits)		1,000.00
" 22	Merchandise	1,500.00	
" 31	Cash (Deposits)		1,000.00
" 31	Paid Manager (Salary)	200.00	
" 31	Advanced Manager on Commissions	20.00	
" 31	Paid Helper $50.00—Rent $75.00	125.00	
" 31	Water and Light Bills	15.00	
Feb. 3	Merchandise	1,000.00	
" 8	Cash (Deposits)		800.00
" 12	Advanced Manager on Commissions	25.00	
" 15	Cash (Deposits)		1,000.00
" 21	Merchandise	2,400.00	
" 27	Supplies	60.00	
" 28	Manager Salary $200.00, Helper $50	250.00	
" 28	Rent $75.00—Water and Lights $15	90.00	
" 28	Cash (Deposits)		1,000.00
	Balance		3,475.00
		$10,075.00	$10,075.00
Feb. 28	Balance	$ 3,475.00	

PLUME STREET BRANCH

1926		Dr.	Cr.
Jan. 1	Merchandise	$ 3,000.00	
" 3	Supplies	50.00	
" 5	½ Payment to Dobbs Furniture Co. on Fixtures(bal. in 6 mos.)	500.00	
" 8	Cash (Deposits)		$ 1,000.00
" 16	Merchandise	1,500.00	
" 25	Cash (Deposits)		1,000.00
" 30	Merchandise	1,500.00	
" 31	Paid Manager Salary	200.00	
" 31	Paid Helper $50.00—Rent $100.00	150.00	
" 31	Water and Light Bills	20.00	
Feb. 3	Supplies	50.00	
" 5	Cash (Deposits)		1,100.00
" 8	Merchandise	2,100.00	
" 10	Advanced Manager on Commissions	100.00	
" 15	Cash (Deposits)		500.00
" 20	Merchandise	1,500.00	
" 24	Merchandise returned to Main Store (Charged to purchases on return at Branch selling price)		1,200.00
" 28	Manager Salary Paid	200.00	
" 28	Helper—$50.00—Rent—$100.00	150.00	
" 28	Water and Light Bills	30.00	
	Balance		6,250.00
		$11,050.00	$11,050.00
Feb. 28	Balance	$ 6,250.00	

The only record kept at the Branches is that of the sale of stale and broken goods set aside and sold, and these records show:—

Bank Street Branch—	Set aside (at Sale price)	$400.00
	Sold for	100.00
	On hand	None
Plume Street Branch—	Set aside (at Sale price)	$500.00
	Sold for	100.00
	On hand	None

Cash received for above was deposited along with other cash for which each Branch was credited.

The Inventories of Merchandise (at Branch Sales price) in the two Branches on February 28th, as taken by Company representative and certified to by the Managers, (also of supplies at price furnished to Branch) are:

Bank Street Branch —Merchandise $1,500.00—Supplies $80.00
Plume Street Branch—Merchandise $3,000.00—Supplies $20.00

THEORY OF ACCOUNTS

OCTOBER 27, 1926—2 P. M. TO 6 P. M.

Answer all Questions:

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

---

1. In your own language give a short description of the philosophy an d the fundamental principles underlying any system of accounts based on theories of double entry bookkeeping. In connection with the foregoing define:
   (*a*) Assets and Liabilities—and state why they are respectively placed on the left and right hand sides of the balance sheet?
   (*b*) Real Accounts and Nominal Accounts.
   (*c*) Revenue and Expense.
   (*d*) Receipts and Disbursements—and differentiate between (*c*) and (*d*).

2. When compiling statements of operations giving percentages of the various costs and of profit, should sales or cost of sales be used as the base?
   Give examples of each method by following the operations of a given business from the sales to the net profit.

3. A municipality has just purchased the holdings of the Water Company that supplied the City and the question has arisen as to the treatment of depreciation and the reserve for depreciation.
   A contends that the sinking fund which has been established to provide for the redemption of the bonds makes the depreciation reserve unnecessary, and gives as his reason that at the expiration of the life of the bonds, the plant will belong to the City and the City has given nothing in return as the water rents covered operating expenses and sinking fund payments.
   B contends that the sinking fund relates to the bonds only and that the wearing out of the plant should be provided for in the form of a reserve.
   Who is correct A or B? Give reasons for your answer and explain the general theory relating to sinking funds and allowances for depreciation.

4. A corporation issued and sold for cash 3,000 shares at par $100.00 per share, and subsequently buys 2,000 shares at $90,00. It later sells 1,000 of these shares at $95.00 and 500 at $88.00, and 500 at $105.00. Give the entries necessary to record these transactions. Supply, in very condensed form, other accounts to perfect a balance sheet and show therein the condition immediately after purchasing the stock as well as immediately after each of the sales.

5. Wherein would the accounts of a Receiver for a bankrupt corporation differ from those of any other corporation? Outline a system

of accounts for a Receiver which would appropriately take care of such transactions that might arise in a Receivership.

6. How would you record on the books of account and in operating statements—

   (*a*) The receipt of a refund of Federal Income Taxes including interest thereon.

   (*b*) The payment of additional Federal Income Taxes including interest and penalty thereon.

   How would you show these items in preparing the Income Tax Return of—

   (*c*) A Corporation.
   (*d*) A Partnership.
   (*e*) An Individual.

7. Define the following:

   (*a*) Joint Venture
   (*b*) Reserve Funds
   (*c*) Suspense
   (*d*) Royalties
   (*e*) No-par Stock
   (*f*) Eliminations
   (*g*) Application of Funds
   (*h*) Invisible Waste

8. You have been told that the law such as is given in this examination is that as applied to accountancy. What is your idea of the relationship between law and accountancy? What, in your opinion, is the accountant's duty with respect to uncovering questions of law in his practice of accountancy?

9. In analyzing the surplus account of "A" Company, you find the balance to be $25,000.00. You also find that this amount includes $18,000.00 of appreciation on fixed assets.
   The Directors wish to declare a dividend aggregating $10,000.00. How would you advise them, and what entries would you ask to be placed on the books?

10. How would you calculate the following:

    (*a*) Merchandise Turnover.
    (*b*) Accounts Receivable Turnover.

AUDITING

OCTOBER 28, 1926—9 A. M. TO 1 P. M.

Answer all Questions:

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

1. State four different classes of audits and give the scope of each. After beginning an audit under any of the classes named by you do you know of any condition which might arise that would cause you to change your plan of procedure? Explain fully.

2. Outline a cost system for a firm manufacturing an article that requires several processes to complete. Follow the article through each process to completion and sale, and explain the details as you progress.

3. A client with some knowledge of bookkeeping residing in another city informs you that he has been appointed executor of an estate and requests you to advise him what records should be kept and to give instructions in writing as to how he should deal with and keep the accounts of his trust. Outline the information and instructions in the form of a letter.

4. Name several ways in which a defalcation might be covered in the records of

   (*a*) Building Association
   (*b*) National Bank
   (*c*) Wholesale Grocer

   From your knowledge or experience would you say that the customary audit of such institutions is sufficiently broad in its scope to detect any discrepancies that might occur? If not what recommendations would you make in order to improve this condition:

   (*d*) From the auditor's standpoint.
   (*e*) From the client's standpoint.

5. The properties occupied by a manufacturing corporation are held on lease for thirty years. The lease was acquired at a premium and large sums have been expended on additions and improvements. During the first ten years considerable sums have been set aside out of the profits each year for leasehold amortization, and the total so provided to December 31, 1925, is largely in excess of the amount necessary to write off the leasehold asset proportionately during the thirty years.

   The eleventh year, 1926, is a bad year, the profits have declined, and to enable them to pay the customary dividend the directors determined to make no provision out of the profits of that year for leasehold amortization.

   As auditor of the corporation, state what you would do, showing the form your action would take and give reasons for your procedure? Suppose an insufficient amount had been written off during the ten years what would your attitude be?

6. You are auditor for an old established corporation that has in the last few years suffered large operating losses until a deficit of $75,000.00 appears on the books. The stock is owned by the officers who draw large salaries and have large overdrafts, and you are requested by them, supported by minutes, to make an entry changing the deficit to good will. What would be your attitude in a matter of this kind? Recite some conditions that would probably influence you in determining what course to pursue.

7. In the course of an audit it is customary in some cases to procure a certificate from the officers as to the correctness of the inventories. When inventories are submitted in this manner do you consider any further verification necessary? If so, what? Would your answer be the same in the case of a
Wholesale House regarding stock on hand or a Manufacturer regarding—

   Finished Goods
   Goods in Process
   Raw Materials
   Supplies

   What other features of your audit would influence you regarding the verification of inventories?

8. In a certain manufacturing business it is necessary to make very large and numerous purchases of raw materials at the door. These purchases are paid for by the receiving clerk by checks issued on the bank. At the end of each day the checks so issued are taken up at the bank by one check issued in regular order by the accounting department and charged to purchases. It is customary also to pay the factory employees in the same manner.
Outline a system for handling these transactions, and state your audit procedure.

9. Do you think the checking of vouchers for disbursements would impart to you the necessary information for differentiating between capital and other expenditures? If so, what particular plan of procedure would you adopt? If not, to what other records or data would you go in order to ascertain the necessary information in this respect?

10. Write a report of about two hundred words dealing with an audit—

    (*a*) When the books are correct.
    (*b*) When the books are incorrect.

    including such certificate as you would make in each case.