1929

Examination [1929]

Virginia State Board of Accountancy

EXAMINATION
VIRGINIA STATE BOARD OF ACCOUNTANCY

RICHMOND, VIRGINIA

November 18, 19 and 20

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PRICE, 25 CENTS PER COPY

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EXAMINATION VIRGINIA STATE BOARD OF ACCOUNTANCY

THEORY OF ACCOUNTS

NOVEMBER 18, 1929—9:00 A. M. to 1:00 P. M.

Answer all questions

(*Do not repeat questions, but designate them by numbers and letters*)

1. The A Company had an appraisal made of its plant and has authorized you to record upon the books the proper values as given in the appraisal. Among the terms used in the appraisal company's report are the following:

    1. Going Value
    2. Depreciated Replacement Cost Value
    3. Replacement Cost Value
    4. Insurable Value
    5. Book Value

    Define each of these terms and state definitely just what values it would be proper to record upon the books.

2. (a) How would you treat the following items in the balance sheet of a corporation:

    5% mortgage bonds authorized, $1,000,000; certified and issued by the trustees, $750,000, namely (1) in the hands of the public, $400,000; (2) pledged as collateral to secure the Company's notes payable, $100,000; (3) in the custody of the treasury, $250,000.

    (b) How would you show in the balance sheet at December 31, 1928, the liability on a serial bond issue of $500,000, of which $100,000 had been retired and an installment of $20,000 was due March 1, 1929?

3. If a company has $100,000 common stock and $100,000 6% preferred stock, and the company makes net profits of $5,000 the first year, $12,000 the second year, and $16,000 the third year, what would be the annual dividends to each class,

provided the directors declare all the dividends possible each year, if the preferred stock is:

(a) Non-cumulative and Non-participating?
(b) Cumulative and Non-participating?
(c) Cumulative and fully participating?

4. (a) Machinery costing $25,000 (and against which depreciation at 10% per annum on the straight-line method had been taken on the books each year, the reserve for depreciation thereon amounting to $5,000 up to the date of fire) is insured at an estimated replacement cost of $35,000. The machinery is totally destroyed by fire and the insurance of $35,000 is collected, but it is found that the true replacement cost is $40,000, which amount is spent in replacing the machinery with similar units. What entries would you make on the books to record the above?

(b) Eighteen months after the replacement was made, this new machinery was sold for $37,500.

What entries would you make on the books to record this sale?

(c) Discuss briefly any Federal income tax features involved in either (a) or (b).

5. Name five classes of bonds; describe briefly each class.

6. A construction company at the close of its fiscal period has a number of uncompleted contracts in various stages of progress. How should they be treated in closing the books? Explain fully.

7. How are proper controls maintained by a main store over members of its chain stores? What information and procedure is necessary for the purpose of giving the proper effect to price changes in chain stores in order that the main store may maintain proper control?

8. Define the following terms used with reference to the retail method of merchandise accounting:

(a) Mark up.
(b) Mark on.
(c) Mark down.
(d) Mark down change.

Based on your definitions of above, compute the closing inventory at both cost and retail prices of the following:

Beginning inventory:	Cost	$1,000.00;	Retail	$1,500.00
Purchases:	Cost	500.00;	Retail	750.00
Sales:			Retail	800.00
Mark downs $50.00				

9. How should the following be shown in the balance sheet:

   (a) Discount on capital stock?
   (b) Discount on bonds?
   (c) Improvements to leased property?
   (d) Treasury stock?

10. Name some of the essential features to be considered when two or more companies contemplate consolidation.

PRACTICAL ACCOUNTING

PART I

PROBLEM 1

NOVEMBER 18, 1929—2:00 P. M. to 6:00 P. M.

PROBLEM I (15 points)

From the following statements and data of the Universal Manufacturing Company, prepare a statement with supporting schedules accounting for the increase in net profit, showing the variation due to increase in volume of sales, change in selling prices, and change in cost of sales.

CONDENSED PROFIT AND LOSS STATEMENTS

	Year Ended December 31, 1927	1928
Net Sales	$560,250.00	$675,750.00
Cost of Sales	369,765.00	416,240.00
Gross Profit	$190,485.00	$259,510.00
Selling Expenses	$ 65,750.00	$ 81,250.00
General Expenses	95,000.00	98,000.00
Total Expenses	$160,750.00	$179,250.00
Net Profit from Operations	$ 29,735.00	$ 80,260.00
Other Income:		
Interest on Notes Receivable	5,000.00	6,000.00
	$ 34,735.00	$ 86,260.00
Other Deductions:		
Interest on Notes Payable	6,000.00	8,000.00
Net Profit for Year	$ 28,735.00	$ 78,260.00

Selling prices in 1928 were 6% higher than in 1927.

An analysis of the cost of sales in the two years discloses the following elements:

	1927	1928
Materials	$125,720.10	$152,870.00
Labor	110,929.50	119,850.00
Overhead	133,115.40	143,520.00
Totals	$369,765.00	$416,240.00

PRACTICAL ACCOUNTING

PART I

PROBLEM 2 (15 points)

Mr. Saunders goes into an investment syndicate on April 1, 1929, taking a 1/10 interest. He sends them $1,000.00 in cash and later gives his demand note for the balance of his participation. He hears no more from it until October 31st, when he gets a statement and a check closing out the matter.

As he is no accountant he calls you in and asks you to do the following things for him:

1. Tell him how much he has made or lost on this transaction.
2. Give him a memorandum showing him just how to enter the Profit or Loss on his Federal Income Tax Returns as of December 31, 1929.

The statement is as follows:

October 31, 1929.

Mr. M. Saunders:

Dear Sir:

The Alpha Investment Syndicate in which you have a 1/10 interest has been closed. We are pleased to give you herewith statement of all transactions on your behalf. We enclose check of $1,381.50 to close.

Very truly yours,

ALPHA INVESTMENT SYNDICATE.

April 1, Purchases:		
100 A. B. C. Common @ $200.00		$ 20,000.00
Interest Accrued on Same—3 Months	$ 300.00	
$20,000.00 Face X. Y. Z. Mortgage 6's @ $110	22,000.00	22,300.00
		$ 42,300.00

Your Account (Your Participation)

April	1st.	By Your Check		$ 1,000.00
		To Your Participation	$ 4,230.00	
		To Expenses of Purchases	5.00	
April	5th.	By Your Note of April 1, Demand		3,230.00
May	1st.	By Dividend, 8% on A. B. C.		80.00
July	1st.	By interest, X. Y. Z. 6's (6 mos.)		60.00
August	1st.	By Sale of $20,000.00 X. Y. Z. @ $115.00		2,300.00
		By Accrued Interest on Same (1 mo.)		10.00
		To Curtail Your Note	2,000.00	
		Interest on $3,230.00 (4 mo.)	64.60	
September	1st.	By Sale 100 Shares—Stock Dividend A. B. C. (100%) @ $120.00		1,200.00
		To pay up Your Note	1,230.00	
		Interest on $1,230.00 (1 mo.)	6.15	
September	15th.	By Sale 100 Shares A. B. C. @ $105.00		1,050.00
October	1st.	To Commissions and Expenses on Above Sales	12.75	
		To our Check Herewith	1,381.50	
			$ 8,930.00	$ 8,930.00

PART I

Problem 3 (20 points)

The plant of a new industry, the Virginia Manufacturing Co., began operations October 1, 1929, under the continuous production method, and is divided into three productive departments: Department "A," Department "B," and Department "C." The raw material progresses through the three departments in the order named, the finished product being "Z." However, some of the partly finished products of Departments "A" and "B" are withdrawn and sold as products "X" and "Y," respectively.

Raw material purchased and put in process during the month of October, 1929, amounted to 2,400 tons at $15. per ton. Additional data for the month with respect to each department was as follows:

Department "A"—Labor, $6,000; direct departmental expense, $4,854; indirect departmental expense, 35 per cent of labor. Spoilage amounted to 12 tons, of which no part was recoverable. 200 tons were withdrawn as partly finished product "X," and the balance passed on to Department "B." Sales of product "X" amounted to 160 tons at $26. per ton.

Department "B"—Labor, $5,600; direct departmental expense, $4,400; indirect departmental expense, 30 per cent of labor; other charges $200. Spoilage in this department amounted to 8 tons, 75 per cent of which was recovered and sold at $10. per ton. 180 tons were withdrawn as partly finished product "Y," and the balance passed on to Department "C." Sales of product "Y" amounted to 100 tons at $32.50 per ton.

Department "C"—Labor, $6,000; direct departmental expense, $4,600; other charges, $400; indirect departmental expense, 35 per cent of labor. Spoilage in this department amounted to 10 tons, of which 50 per cent was recovered and sold at $8.00 per ton. 400 tons of finished product "Z" were sold at $41. per ton. No material remained in process.

Selling and administrative expenses for the month amounted to $2,750.00.

You are required to prepare:

(a) Summary of Costs and Production.

(b) Journal entries to record Cost of Manufactured Product, Cost of Manufactured Product Sold, and Sales.

Show journal entries for the three separate manufactured product accounts, as follows: Cost of "X," cost of "Y," and cost of "Z."

(c) Departmental Profit and Loss Statement.

PRACTICAL ACCOUNTING

PART II

NOVEMBER 19, 1929—9:00 A. M. to 1:00 P. M.

(Work any two of problems 4, 5 and 6, but only two)

PROBLEM 4 (25 points)

The balance sheets of companies X, Y, and Z, as at December 31, 19298, were as follows:

	Company X	Company Y	Company Z
Cash	$ 50,000.00	$ 25,000.00	$ 25,000.00
Accounts Receivable	375,000.00	60,000.00	25,000.00
Notes Receivable	25,000.00		
Inventories	300,000.00	175,000.00	140,000.00
Investments:			
Capital Stock of Company Y	250,000.00		
Capital Stock of Company Z	100,000.00		
Land	85,000.00	10,000.00	5,000.00
Buildings	600,000.00	150,000.00	100,000.00
Machinery and Equipment	300,000.00	90,000.00	30,000.00
Deferred Charges	15,000.00		
Goodwill	1,000,000.00	200,000.00	
Deficit			50,000.00
	$ 3,100,000.00	$ 710,000.00	$ 375,000.00

	Company X	Company Y	Company Z
Accounts Payable	$ 50,000.00	$ 170,000.00	$ 168,000.00
Notes Payable	135,000.00	55,000.00	50,000.00
Accrued Liabilities	10,000.00	3,000.00	900.00
First Mortgage 6% Gold Bonds	500,000.00		
Reserve for Depreciation—Bldgs.	60,000.00	18,000.00	4,000.00
Reserve for Depreciation—Machinery and Equipment	45,000.00	14,000.00	2,100.00
Capital Stock—7% Preferred	1,000,000.00		
Capital Stock—Common	1,000,000.00	150,000.00	150,000.00
Surplus	300,000.00	300,000.00	
	$ 3,100,000.00	$ 710,000.00	$ 375,000.00

Company X acquired a 95% interest in Company Y and a 90% interest in Company Z on January 1, 1928, at which time Company Y had a surplus of $240,000.00 and Company Z a deficit of $60,000.00.

Immediately thereafter Company Z purchased factory buildings from Company X for $100,000.00, the cost of which buildings to Company X was $80,000.00. Company Z provided for depreciation at the rate of 4% on buildings and 7% on machinery and equipment.

The X company's inventories at December 31, 1928, contained goods purchased from the Y and Z companies, on which those companies made profits of $10,000.00 and $5,000.00, respectively.

The accounts receivable of Company X include $150,000.00 due from Company Y and $100,000.00 due from Company Z. The accounts receivable of Company Y include $20,000.00 due from Company Z.

On the basis of the above information prepare a consolidated balance sheet at December 31, 1928. Submit your working papers relative thereto.

PART II

PROBLEM 5 (25 points)

The balance sheet of the Specialty Manufacturing Company at October 31, 1929, was as follows:

SPECIALTY MANUFACTURING COMPANY

BALANCE SHEET

October 31, 1929

ASSETS

CURRENT ASSETS:		
Cash	$ 50,750.00	
Accounts Receivable	225,300.00	
Notes Receivable	17,500.00	
Inventories	225,000.00	
		$ 518,550.00
PLANT ACCOUNT:		
Land (Paid for by Preferred Stock—at par)	$ 75,000.00	
Buildings (Paid for by Preferred Stock—at par)	425,000.00	
Machinery and Equipment (Acquired from time to time—mostly by borrowed capital)	815,000.00	
Furniture and Fixtures	12,750.00	
	$ 1,327,750.00	
Less Reserve for Depreciation on Machinery and Equipment	33,835.00	
		1,293,915.00
Patents		250,000.00
Bond Discount Unamortized		26,750.00
		$ 2,089,215.00

LIABILITIES

CURRENT LIABILITIES:		
Accounts Payable	$ 73,750.00	
Notes Payable—Banks	235,000.00	
Notes Payable—Advances by Officers	125,000.00	
Accrued Liabilities	12,325.00	
		$ 446,075.00
BONDED INDEBTEDNESS:		
First Mortgage—6% Bonds	$ 500,000.00	
Second Mortgage—8% Bonds	200,000.00	
		700,000.00
CAPITAL AND SURPLUS:		
Preferred Stock (Par value $100 per share)	$ 500,000.00	
Common Stock (Par value $100 per share. Authorized $750.00)	250,000.00	
Surplus (All dividend requirements met to date)	193,140.00	
		943,140.00
		$ 2,089,215.00

The Appraised value of Plant Assets, based on Appraisal of the General Appraisal Company, was as follows:

	APPRAISED		
	Cost to Replace, New	Depreciation Accrued	New Less Depreciation
Land	$ 92,725.00		$ 92,725.00
Buildings	550,000.00	$ 32,500.00	517,500.00
Machinery and Equipment	780,000.00	17,000.00	763,000.00
Furniture and Fixtures	15,000.00	3,000.00	12,000.00
	$ 1,437,725.00	$ 52,500.00	$ 1,385,225.00

The company has decided upon a refinancing program, as at October 31, 1929, which contemplates the following:

First:

The books are to be adjusted to give effect to the appraised values of plant assets.

Second:

Patents owned, acquired by issuance of $250,000.00 of Common Stock, are to be re-valued on the basis of a recent offer made by a prospective purchaser. The offer was bona fide and was for a cash consideration of $500,000.00.

By vote of Directors and Stockholders, the increased value of Patents is to be the basis for issuing additional fully paid ($100. par value) shares of Common Stock, and constitutes "additional payment for Patents."

Third:

Common Stock is then to be changed from $100.00 par value, to no par value shares, authority to issue 50,000 no par value shares having been obtained.

Fourth:

Common Stockholders are to receive a "stock-split" of 6 shares of no par value common for each share of $100.00 par value common held.

Fifth:

In order to effect a complete refinancing, the Company proposes to create new issues of Bonds and Stocks, as follows:

(a) First Mortgage—6% Gold Bonds—$1,000,000.00 Divided into 10,000 units of $100.00 each.

(b) Class "A" 8% Preferred Stock—$500,000.00 Divided into 5,000 shares of $100.00 each.

Sixth:

It is proposed to market these new issues in units, that is, in the following combinations:

A.	\$100.00 Bond 1 share No Par Value Common Stock	for \$115.00
B.	\$100.00 Preferred Stock 1 share No Par Value Common Stock	for \$122.50
C.	\$100.00 Bond \$100.00 Preferred Stock	for \$197.50

(For the present purposes, it is to be assumed that both the Bonds and the Preferred Stock will all be sold according to plans A and B, and that only 15,000 shares of non par value Common will be sold.)

Seventh:

The proceeds thus obtained are to be used in retiring the previously outstanding—

1st Mortgage Bonds	@	\$101.50
Preferred Stock	@	100.00
2nd Mortgage Bonds	@	97.50
Bank Loans		
Advances by Officers		

The balance, if any, is to be added to working capital.

Eighth:

Expense (other than Bond or Stock Discount or Premiums), connected with this refinancing is estimated to be \$22,725.00.

Requirement:

You are asked to give effect to the foregoing in a Balance Sheet, as of October 31, 1929 (which Balance Sheet will no doubt be used in the Underwriter's Selling Prospectus). Attach appropriate certificate.

PART II

Problem 6 (25 points)

TRIAL BALANCE OF THE RICHMOND COAL COMPANY, JUNE 30, 1929.

Cash in General Office	$ 4,005.87	
First National Bank	16,685.02	
Accounts Receivable	26,359.90	
Commissary Inventory, June 30, 1928	15,525.65	
Compensation Fund Deposit with State	341.55	
Pay Roll Advances	318.27	
Machinery and Equipment	94,853.63	
Dwellings	60,248.19	
Tipple	10,000.00	
Store Building	5,000.00	
Railroad Siding	50,000.00	
Mine Development	25,000.00	
Mining Rights	50,000.00	
Accounts Payable		$ 39,585.12
Notes Payable		20,000.00
First Mortgage Bonds, 6%		150,000.00
Capital Stock		100,000.00
Surplus		22,714.32
Depreciation Reserve		24,935.64
Coal Sales (63,365 Net Tons of 2,000 lbs.)		174,203.94
Commissary Sales		51,400.69
Smithing		764.71
Rent of Dwellings		7,114.92
Miscellaneous Revenue (Hauling, etc.)		1,122.79
Cash Discounts		1,125.60
Commissary Purchases	38,249.86	
Mining Labor	101,087.54	
Superintendence and Engineering	4,800.00	
Mine Supplies	26,092.07	
Salaries and Expenses—Commissary	3,600.00	
Salaries of Officers	16,000.00	
Office Expense	6,552.86	
Workmen's Compensation Insurance	1,665.87	
Liberty Loan Account	29,500.00	
Interest on Bonds	4,500.00	
Interest on Notes Payable	1,200.00	
Taxes—State and County	1,067.25	
Income Taxes—Federal	964.20	
Interest on Liberty Loan		650.00
Total	$ 593,617.73	$ 593,617.73

Accruals—6-30-29.

State and County Taxes	$ 750.00
Interest on Bonds	4,500.00
Royalties, 10c per Gross Ton of 2,240 lbs.	(To be Computed)

Inventories—6-30-29.

Commissary	$ 18,544.44
Mine Supplies	1,000.00
Coal	None

The Commissary has book accounts amounting to $1,265.72 which have not been credited to sales nor added to the Inventory, but which are to be taken into account in report.

Depreciation (1 year):

Machinery and Equipment	10%
Dwellings	5%
Tipple	5%
Store Buildings	5%
Mine Development	10%
Mining Rights	5%

The railroad siding has been deeded to the railroad company by the mine company, but the mine company is to be allowed the use of same for the period of operation, which is estimated at 20 years and the charge on the books is to be extinguished accordingly.

REQUIRED: *Income and Profit and Loss Statement* (Show operations of commissary separately).
Balance Sheet June 30, 1929—Submit work sheet with solution.

AUDITING

NOVEMBER 19, 1929—2:00 P. M. to 6:00 P. M.

Answer all questions

(Do not repeat questions, but designate them by numbers and letters)

1. How would you verify notes receivable where partial payments have been made on same?

2. In auditing the accounts of a concern, you find that the recorded cash receipts for the year aggregated $467,150.75. You also find that all receipts, as shown by the records, were deposited in bank.

   (a) Would you consider this as conclusive evidence that all receipts had been properly accounted for?

   (b) If not, give illustrations of how irregularities could exist and state procedure you would follow to detect same.

3. In auditing the books of a ladies-ready-to-wear concern you find that a large portion of their sales consists of garments which are laid aside and partial payments accepted thereon, delivery being made upon full payment. A card record of each sale is maintained and controlled by an account in the general ledger. State in detail how you would verify and establish the accuracy of these accounts.

4. State several methods of verifying inventories. What exception, if any, would you take to the reduction of inventories by a flat rate of discount?

5. How would you proceed to make a balance sheet audit of the accounts of an investment house dealing only in first mortgages and collateral trust bonds?

6. You are engaged to audit the accounts of a Corporation which succeeded a partnership. The cash records are incomplete but a complete record of all sales for the year is available.
State in detail the procedure you would follow in verifying the cash and in determining the balance, if any, which should be on hand at the close of the year.

7. In auditing the books of a Corporation which is engaged in the seafood business, you find that a revenue agent previously disallowed, as an expense, the sum of $1,000.00, representing a part of the cost of repairing and replacing deck

on one of its boats. The boat in question has been fully depreciated.

In adjusting the books to give effect to the disallowance by the revenue agent, what entries would you make? Give reasons for your answer.

8. In verifying disbursements, state whether or not you would consider a cancelled check payable to a known creditor and properly endorsed by him as a proper and sufficient voucher. If not, give reasons.

9. The residents of a suburb adjoining a large city received the necessary legal permission to form a district and to issue bonds for the construction of water mains. They made a contract with the city to furnish them with water at a wholesale rate, the quantity supplied to be determined by a meter to be installed where the district and city mains connected; the city was to read the meter on the 25th of each month and render a bill on the last day of the month.

The district board of directors appointed a Treasurer who was to keep all records and receive and disburse all cash; they also made the following regulations:

1. Residents desiring service are required to make written application on prescribed form and pay in advance the connection service fee before being turned on.

2. Consumers' meters are to be read on the 25th of each month and invoiced on the last day of the month.

3. Consumers' rates were fixed to cover water purchased from the city, interest and redemption of bonds, and administrative and maintenance expenses.

4. Accounts not paid by the 15th of the month are to have service cut off.

At the first quarterly meeting of the District Board of Directors the Treasurer informed them that earnings were not sufficient to pay the city for water used. The Board of Directors had both the city and consumers' meters tested and they were found correct.

You were then engaged to thoroughly audit the Treasurer's records which consisted of:

1. Consumers' applications for service.

2. Meter reader's record of consumers' meter readings.

3. Service man's record of turn on and cut off.

4. Consumers' ledger, which showed the monthly readings, monthly consumption, monthly charge and payments.

5. Cash receipts and disbursement record.

State how you would verify the fact that the Treasurer's records accounted for all revenue and your reason for each verification. If you found after audit that the Treasurer's accounts were correct, what would be your recommendation to the Board of Directors for locating the discrepancy.

10. What evidence would you expect to find in support of the following transactions of a manufacturing corporation:

(a) Purchase of raw materials?
(b) Payment of dividends?
(c) Payment of bond interests?
(d) Purchase of securities as sinking fund investments?

COMMERCIAL LAW

NOVEMBER 20, 1929—9:00 A. M. to 1:00 P. M.

Designate questions by numbers

In answering these questions the candidate should give reasons in every case for his answer. Answer any ten questions.

1. Write out in full the approved form of a negotiable promissory note.

2. Give four differences between a partnership and a corporation.

3. The delivery clerk of the Richmond Grocery Company borrows its automobile to remove his own household goods on Sunday, and negligently runs over some one, is the Richmond Grocery Company liable? Explain.

4. A, B, and C are lawyers practicing as a partnership, C buys a Fordson Tractor and has it charged to the firm. The two other members of the firm repudiate C's bargain. Can the seller of the Fordson Tractor collect his claim from the firm? Give reasons.

5. How do you form a partnership?

6. (a) What are the by-laws of a corporation?

   (b) Can the business of a corporation be changed by the by-laws so that it will be different from that authorized in the certificate of incorporation? Give reasons.

7. Why does a wife join in a deed when her husband conveys real property?

8. A dies and in his Will leaves all his personal property to Y, and his real property to X, which of the two would take these items named below:

   50 shares of stock in a corporation wholly engaged in the real estate business.
   A mortgage held by A on lands known as Mt. Middleton.
   A's household furniture.
   A's homestead.

9. A beggar approaches you on a lonely country road while you are eating your lunch. He asks for something to eat. You refuse to give it to him. Ten minutes afterwards he falls from exhaustion and is severely injured. May he sue you for the injury?

10. (a) What is the difference between libel and slander?

(b) A Congressman on the floor of the House of Representatives calls the most prominent minister in Richmond a liar and a thief, could the minister sue him for slander?

11. What do you mean by the right of contribution?

12. In examining a bank you find that it has been their custom to accept checks of corporations in payment of personal loans of the officers of said corporations. What exception, if any, would you give note to this, and why?