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C. P. A. Examinations and How to Pass Them

By
WILLIAM ARTHUR CHASE, LL. B., C. P. A.

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Q "I look upon modern accounting as a system by which a business is analyzed, its different parts are weighed and measured, their relations one to another, at least their quantitative relations, are ascertained with precision, useful comparisons are instituted, the centers of waste and weakness are laid bare, and the way is made plain for continuous improvement. Now it is clear that such accounting as this involves the mastery of endless details, but it involves also the subordination of details to general principles, and the reference of all measurements and comparisons to a conception of the ultimate purposes toward which the given business is to be directed, and the whole sweep of policy and method by which the ends proposed are to be attained. Here is a field for the exercise of a high grade of scientific insight and imagination. The subject is accordingly one suitable for a place among the courses of our universities."—*Elmer E. Brown, Ph. D., Former U. S. Commissioner of Education.*

C. P. A. EXAMINATIONS AND HOW TO PASS THEM

Also examination questions as set by various
state boards of examiners

This treatise forms part of a course in Higher Accountancy

Under Supervision of

WILLIAM ARTHUR CHASE, LL. B., C. P. A.

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Ex-Member and Secretary of the State Board of Examiners in
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This course in Higher Accountancy is designed to meet the demand for
efficient training in the higher branches of accountancy and to assist
students to pass the C. P. A. Examinations.

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1911

C. P. A.

Examinations and How to Pass Them

WILLIAM ARTHUR CHASE.

The profession of public accountancy is a much older one than many people imagine. If one would get an idea of its age and scope one would do well to read the interesting, exhaustive, and indeed monumental work published a few years ago entitled "A History of Accounting and Accountants" by Mr. Richard Brown, C.A., of Edinburgh, the Secretary of the Board of Examiners in Accountancy of Scotland. In reviewing this book, the London *Spectator* declared that Mr. Brown had established the claim of accountancy to be regarded as a learned profession.

In a lecture which I delivered at the University of Illinois in 1906,* I drew attention to Mr. Brown's work and was largely indebted to the information it gave me for the brief historical review there attempted. This is one of the works that the student of accountancy should, if possible, read at the outset of his studies, as it will enable him to compass a view of the past and present boundaries of his future profession, such as it would be difficult for him to obtain in any other way.

It will be seen from this historical review that the present position of the profession of public accountancy is the result of an evolutionary process which has adapted an ancient art and science to a later environment. In the application of capital to purposes of reproductive employment, the tendency for some years has been to the co-operative rather than to the individual form of enterprise. Mill, in his work on political economy, says: "Production on a large scale is greatly promoted by the practice of forming a large capital by the combination of many small contributions; the advantages of the joint-stock principle are numerous and important. But if we look to the other side of the question, we shall find that individual management has also very great advantages over joint stock. The chief of these is

* Published in the *Journal of Accountancy* for July, 1906.

the much keener interest of the managers in the success of the undertaking." This latter assertion is based on a well recognized trait of human nature, and the principle which Mr. Mill enunciates would be true whether the contributions were large or small, and would be applicable to the conservation for reproductive employment of the wealth of others in any form.

Accountancy has been defined as the art and science of business advice and administrative control, and the periodical independent review by competent professional advisers cannot but have a beneficial and bracing effect upon the internal management. We hold that even where an enterprise is individually owned and controlled this external examination is highly desirable; much more then is it desirable when those in authority are trustees for the savings, investments or property of others. In the complex organization of society as it now exists, these conditions are apparent not merely in the activities of trade, but in many other forms, as, in addition to trading corporations or partnerships, estates managed by others than the beneficiaries, estates in bankruptcy, executors and administrators under wills, trust companies, banks and insurance companies, etc.

Enough has been said to show the importance of the modern profession of accountancy in relation to our present social needs and condition, and it is not surprising that in Great Britain about the middle of the last century it was felt that the time had come when the old haphazard course of training should be superseded by methods as onerous and effective as those which had long obtained and which every one admitted to be necessary in the case of law or medicine. These considerations led to the founding of the British chartered societies; and it became certain that in America, the same causes being at work, the same result would follow.

In October, 1894, there appeared an article in the *North American Review* by Mr. J. L. Reid entitled "A Much Needed Profession," in which he drew attention to the high professional position occupied by the Public Accountants of Great Britain and the many and important duties they undertake. In the course of his remarks he referred to a report on this subject made by the American Consul-General at Manchester, England, to the United States Government, in which was said, among

other things: "The Chartered Accountants are regarded in England with great confidence and favor. They are a well organized and specially educated class whose business consists in supervising the accounts of private firms, public companies, banks, etc. By paying a retaining fee to a firm of Chartered Accountants, any one can have the books of any enterprise and the condition of its affairs examined by an expert. I believe that a similar organization in our country would become most useful and popular. There is a wide field for its operation and great need of some better professional inspection in a multitude of interests both private and public."

This condition which the Consul-General deemed so important has been brought about.

The New York Certified Public Accountant law was passed in 1896, and Pennsylvania, Illinois, Maryland, California, Washington, New Jersey, Michigan, Florida, Utah, Colorado, Connecticut, Georgia, Louisiana, Ohio and Montana have now adopted similar legislation, while in some other states bills are pending. An inspection of these various statutes shows that as regards the examinations, the requirements are very similar. They usually demand as a necessary antecedent to admission to the examinations, a high school education or its equivalent, and comprise papers set in these four subjects: Theory of Accounts, Practical Accounting, Auditing, Commercial Law. All the acts contain what are called "Waiver Clauses," which provide that those accountants who have been practicing on their own account as public accountants for a certain number of years prior to the passage of these statutes, and who apply within a given time after their passage, may be granted the degree of Certified Public Accountant without examination, if in the opinion of the Boards of Examiners their qualifications are such as to make this reasonable, and it is true that at the present time the vast majority of the Certified Public Accountants of the United States have so received their diplomas. It is also true that the great majority of the candidates who have taken the examinations have failed to pass them. In Great Britain the average of failures is about 40 per cent, in America from 50 to 75 per cent; and the cause of this, I believe, to be the defective training and preparedness of the American aspirants, their igno-

rance of the scope and importance of the profession of public accountancy, and the notion which many of them seem to have had that the degree of C. P. A. was an attractive and high-sounding title which was primarily designed as a decoration for more or less competent bookkeepers.

The American examiners have from the first established and maintained a professional standard second to none in the world, and the consequence is that the American degree is now known and highly esteemed all over the world. If in deference to a certain and, I believe, passing clamor, this standard were to be lowered, the result would simply be that the best work of the profession would be performed by foreign accountants, as the business man, when it becomes a question of obtaining professional advice, is naturally resolved to get the best he can find and does not care two straws whether it is furnished him by America, England or Central Africa; and accountants have not and probably never will have a professional national monopoly in the nature of that enjoyed by lawyers and doctors. Given equal professional knowledge, the American accountant in meeting competition ought to be in a better position than the foreigner, through his greater familiarity with the business needs and conditions of his country, but without this equal knowledge his case is hopeless.

It is in the hope that the experience of one who has passed through the examinational ordeal, might not be without assistance to those who in the future may have the intent to essay it, that these articles have been written, and he cannot do better than proffer to them the advice of Lady Macbeth to her husband:

“If we should fail?

We fail!

But screw your courage to the sticking place
And we'll not fail.”

MEMORABILIA.

What is the attitude of mind a candidate should cultivate, and what should be his feelings toward the examiners? When I was a boy a few of us sometimes loudly proclaimed that we knew more than they; that we were confident we should not obtain fair treatment at their hands, and pretended to regard them generally as our natural foes; but deep down in our hearts we knew that we should receive justice and often justice tempered with mercy.

Some candidates are disposed to think that the examiners lie awake at night, devising diabolical traps in which their victims may be caught. Others imagine that they feel an unholy pleasure when a few only pass the examinations, while many assert that even if they appear not to know very much about accountancy, they ought to be let through, as they have devoted a good deal of time to a study of the subject.

It is well for the candidate to dismiss all such ideas from his mind. Of course, taking examiners the world over, or in any given country, it is a truism to say that as a body they are not perfect. So far, I have encountered very few things that are. Long ago Horace said, "Nihil est beatum ab omne parte,"* but I believe the examiners in accountancy in this country are fair-minded men of considerable ability, and keenly anxious to do their duty to their profession, the candidates and the public. It is certain that no examiner worthy of the position he occupies would deliberately set "traps" for the unwary, and I am sure they feel it cause for regret that so few, comparatively, of the examinees are successful.

In examinations there are certain general rules of guidance which students entering would do well to bear in mind, and, applying as they do to all, necessarily include those we are most particularly concerned with.

The writing should be clear and easy to read; the figures especially should be plain and should not run into one another.

* Nothing is satisfactory in every particular.

The examiners sometimes have a great many papers to go through. Try to make their work as little difficult for them as you can. The answers should be free from verbiage, not discursive, but to the point, and this can be accomplished without the sacrifice of completeness. Many candidates, knowing that they cannot answer a question, will try to shade their reply off into some matter that they think they are conversant with, trusting that the examiners will fail to discover their ignorance of the information asked for. This is a very old trick and one that seldom pays.

If "Yes" or "No" is a possible reply, do not try to hazard a lucky guess, but reason the thing out as well as you can. The examiners will give you more credit for an able argument to a wrong conclusion than for a right response which is obviously a fortunate experiment.

When you have given your answer as completely as you can, it is a good thing to stop. Do not add something that may destroy the favorable impression you may have made. It is related that at a *viva voce* examination in Divinity at Oxford a candidate was asked, "Who was the first king of Israel?" He did not know, but he thought he would have a try, and answered "Saul." Seeing by the examiners' faces that he had guessed rightly, he considered it would be a good idea to show his knowledge still further, so he added "also called Paul," which, of course, settled him.

We were always told at school it was a dangerous thing to jest with the examiners, though I admit the temptation is sometimes a strong one. Should it overcome you, be sure, at any rate, that the joke is a good one. The gentleman who defined a floating asset as a steamboat may have thought this funny, but it is just possible an examiner might not see it in the same light. At a recent examination held in Europe the question was asked, "Distinguish between fixed and floating assets," and the answer given was "Fixed and floating assets are advertising hoardings that cannot be destroyed, as they are made of sheet iron." This reads like an extract from Alice in Wonderland, and is the sort of answer one would imagine the March Hare or the Mad Hatter to have given if they should have entered for an examination in accountancy.

Examiners all try to avoid ambiguity in their questions, but the English language lends itself readily to this form of phraseology. If a question, or part of one, should seem to you capable of more than one construction, choose the one that appears the more reasonable and at the same time indicate the other possible conclusion. While your work should be neat, do not waste time in elaborate rulings. An accountant is not a drawing-master and what he wants is a clear and technically accurate presentation of the facts. This matter of clearness and technical form is very important. An eminent English accountant said his aim was always to make his statements so clear that his grandmother would be able to understand them. You can show a ledger account just as well without perpendicular rulings as with them.

Try to arrive at the examination room a little before the examination begins so that you may be in a calm and equable frame of mind before the questions are given out, and do not work too hard right up to the examinational period. It is a good plan, if you can manage it, to take a few days' rest. Go away and play golf or baseball or fish, or do something or other to take your mind off your work; and get plenty of sleep, if you possibly can, both immediately before and during the examination.

Lastly, when the battle finally confronts you, and the papers are given out, before you begin to answer the questions study them with exceeding care. Any time you may consume in this way will be amply repaid. Select those first that you think you can do best, and, above all things, give the examiners what they ask for. If they want journal entries, give them; if they don't ask for journal entries, don't give them. You will get no credit for putting in a lot of information that was not required. You will simply have wasted valuable time and possibly caused unnecessary irritation when your papers are being marked. Never be guilty of the impertinence of telling an examiner that he has requested something that is not necessary. The chances are considerable that he is a much better judge of this than you are.

Once more, follow carefully the directions that are given for the conduct of the examinations. It is better to use the blank books, papers or forms that you may be furnished with. If you are permitted to substitute your own in any degree, at

least see that the sheets are numbered properly, are in consecutive order and not mixed up anyhow in the envelopes.

THEORY OF ACCOUNTS.

Many have complained that it is often difficult to distinguish between questions of theory and those which may more properly be said to belong to that branch of an accountant's profession which is included in the term "Auditing," or in what is called "Practical Accounting." I think there is some truth in this. In Pennsylvania the law says: "The examination shall be based upon an examination in Commercial Law and General Accounting," and I think this form, leaving the designation of the various papers to be decided by the examiners in accordance with such rules as they may adopt, is better than that more general one which is to be found in most of the statutes, which declare that the examinations shall be held in the Theory of Accounts, in Practical Accounting, in Auditing and in Commercial Law.

However, where the law fixes the status of the examinations, the examiners have no choice in the matter, and since the accountancy subjects in this country are most generally defined in the manner I have given, we will so discuss them.

It is safe to assume that in the paper we are now considering you will be asked ten questions and will have three hours, or an average allowance of eighteen minutes to each, in which to answer them.

I believe one great reason why so many students fail in the accountancy examinations is because they are not well read in the literature of their profession. Each of the professions has its literature; that, say, of law or medicine, is a very extensive one. But these are old professions and their literature has been accumulating through many years. If, in law, you need a work on a given subject, as Commercial Paper or Contracts, if a lawyer, you know where to go for it.

Now, the profession of accountancy, in its modern form, is a new profession and, as I have shown, of more recent evolution in America than in Great Britain. A great deal of its most valuable literature is hidden away in periodicals and magazines,

while such standard works as exist, not many in number, are, as is only natural, mainly by British (chiefly English) authors.

It would be well, then, that the student of accountancy should first of all make up his mind to learn the English pounds, shillings and pence tables. If he considers this a hardship, he should reflect that many scientists have made themselves familiar with French or German simply to read some work in one or both of those languages with which they desired to acquaint themselves. Be thankful that you are recommended not to learn a language as a French or German student might be, but only something much easier than the multiplication table. No doubt, as time goes on, American works will increase—the signs already point to this, but we are dealing with facts as they are, not as they may be in twenty-five years. Read the literature of the profession, and not books which are merely devised for the purpose of “cramming.” The inclination to make a show of knowledge with as little trouble as possible is apparently not peculiar to civilized beings. A missionary, writing from a station on the northern shore of Victoria Nyanza, says: “Even in darkest Africa the native is quite an adept at dodging the examiner. It was brought to our notice some time back that many natives were coming forward for baptism who could not read at all. They used to learn off portions by heart. They would then come to the classes and sit with their books in their hands, pretending to read, but in reality merely reeling off what they had learned. When the time came for them to be examined, they used to cram up likely questions and answers. If one of the questions they knew by heart happened to be asked, they were all right, and in this way many of them managed to pass muster.”

If the student is an inhabitant of a large city, he may have access to an excellent library, or he may find it possible to attend the lectures now being given in a number of our leading universities; but in the case of many neither of these courses will be open, and again he may find it more convenient or he may desire, for other reasons, to study at home. In this case, he cannot do better than take a course of study in such an institution as the LaSalle Extension University, which has planned a course especially fitted to meet the needs of such students.

1. In order that the student may have some idea of the sort

of questions he may look for in this paper (The Theory of Accounts), I will give ten which I think are fairly representative:

2. If called upon to prepare the Balance Sheet and Profit and Loss Account of a trader whose books had been kept by single entry, how would you proceed?

3. In writing up the books of a manufacturing firm, what principles would you be guided by in charging the expenditure to Capital or Revenue?

4. Explain the difference between an Account of Receipts and Payments and an Account of Income and Expenditure.

5. Give a specimen ruling of what is, in your opinion, the best form of keeping a Petty Cash Book, and explain its working.

6. Under what circumstances is it desirable to raise a reserve or contingency fund, and how would you proceed to do it?

7. Illustrate the difference between Depreciation at 6 per cent yearly on the original value of Plant and Machinery without deduction, and $7\frac{1}{2}$ per cent yearly on the value remaining after deduction of the previous year's charge—say, at the end of six years on \$100,000.00. Which would you advise?

8. A and B purchased from the executors of C a business for which they paid \$10,000.00 in excess of the estimated assets taken over. Where would the \$10,000.00 appear in A and B's Balance Sheet at the end of the first year's trading and what would it represent? State whether or not you would consider it necessary or desirable that any part of the \$10,000.00 should be written off annually, and give your reasons.

9. Irrespective of the independent audit by a Certified Public Accountant, how would you endeavor to organize the financial arrangements and the system of bookkeeping of a large firm or corporation so that there might be the best internal check possible?

10. A corporation is formed to purchase and amalgamate the businesses of three firms carrying on the same class of business. There are considerable differences between the capitals, the gross sales, the working expenses and the net profits of the three firms. The amount to be allotted to each firm in shares of the corporation for its capital and good-will is agreed to be referred to you. State what points would have to be considered by you before issuing your report.

11. State shortly what you understand by Cost Accounts, and explain how the profit or loss on any specific contract may be arrived at under a proper system.

There is one feature of accountancy questions which many students find puzzling, and that is the fact that (to put it as simply as possible) the same word does not always mean the same thing, *e. g.*, a "reserve fund," or the term "plant." This arises from the somewhat primitive condition of the nomenclature and terminology of the science. Rome was not built in a day, and the nomenclature and terminology of older sciences, such as botany, for example, are the result of many years of testing and trying by some of the finest intellects the world has known. Even now it is said there is no very accurate system of nomenclature of colors in general use, the most accurate plan for scientific purposes being to refer to a portion of the solar spectrum by giving the distance between any two of the lines.

The matter of accounting definitions, however, is, I understand, to be shortly considered by the American Association of Public Accountants.

PRACTICAL ACCOUNTING.

I think the experience of the different examiners in the different states will be that more candidates fail in Practical Accounting than in any other of the subjects. There must be, of course, a reason for this and this reason we will endeavor to discover.

These papers consist of accounting problems, any of which, in principle, may arise in actual practice, and the candidate is required to work out a correct solution, or one as nearly correct as he can accomplish. The questions are a statement of facts, more or less complex, and it is required, given this basis, that the answers shall show the results which must be reached from the original data, and these results are expressed in the technical form and language of accounting, and generally by the use of figures. Moreover, a very important condition, the solution must be arrived at within a given time, which the candidate not infrequently thinks is too short.

The failures, then, may be said to arise either from a misapprehension on the part of the candidate of the facts stated,

or, if he should clearly understand these, from his inability to give the results required in technical form and language in the period allotted. The questions are various in length and usually take from half an hour to an hour to work. Perhaps one reason why candidates more often complain of the shortness of the time allowed in this paper than in the others is because here there is less scope for surmising and theorizing, many of the answers being susceptible of a measure of proof by the candidates themselves.

In order, then, that the candidate may successfully pass through this arduous part of his ordeal, he must, in the first place—given the natural aptitude, a most important reservation—have acquired the ability to grasp quickly a certain statement of facts, and possibly a complicated statement. If he cannot learn to do this, he has mistaken his vocation. We see constantly, in the case of successful lawyers, what a pronounced and important part of their mental make-up this power is, and we also find it in successful physicians. The accountant, then, in this particular, is only required to do that which is a *sine qua non* in other professions. I believe that this power and habit generally originate in the training one receives in matters of general knowledge. “As the clearness of our conceptions chiefly depends upon the carefulness and accuracy of our observing and comparing faculties, so their appropriateness, or rather the chance we have of hitting upon the appropriate conception in any case, mainly depends upon the activity of the same faculties. He who, by habit grounded on sufficient natural aptitude, has acquired a readiness in accurately observing and comparing phenomena will perceive so many more agreements, and will perceive them so much more rapidly than other people that the chances are much greater of his perceiving in any instance the agreement on which the important consequences depend.” (Mill’s Logic, Book IV, Chap. 2, Par. 5.)

Now, we will assume the necessary natural aptitude and preliminary mental training and ask ourselves what course the student would best follow in his application of these things to the matter in hand.

He should remember that while a bookkeeper’s experience is usually limited to the data of a particular enterprise, a public

accountant's knowledge must embrace those of many, and that it is, therefore, of the highest importance that he should be thoroughly grounded in fundamental principles, and that study of the literature of his profession, of which I have spoken, will be here of the greatest help to him. As an essential part of his practical training, the student should obtain as many as he can of the papers that have been set in the different states (some of which are published hereafter), and especially those of his own state, and work the problems.

Herbert Spencer said that accounting problems were as good training for the mind as mathematics, and the student will find that with continued practice his brain will become more perceptive and more agile, and his familiarity with the technique of the method of statement will increase. It goes without saying he should never leave a problem as long as there is anything in it he does not understand.

I am satisfied that many candidates who would otherwise pass fail in this paper through a certain grave defect in their training. When the candidate commences with his problems he should go slowly, but some months before the examination he should attempt to put on speed, until at least a month before the appointed time he should have satisfied himself that he has so quickened his pace that he is fully up to the examinational standard, and when he begins this process of acceleration he should habitually work with his watch in front of him.

A gentleman who passed second in all England the final examination of the English Institute told me that some time before the date set he went to one of the leading coaches in the country for training. His coach said to him, "Now, at first I don't want you to attempt to work too fast, but I do want you, in the case of every paper, to note on it the time it takes so that I may see the progress you are making; and I shall expect to find that before I have finished with you the time standard required in the examination will be reached." If any of you have ever learned to fence, you will remember how awkward at first were your movements, and how far removed from the finished performance of your master, yet the difference between yourself and him was in time narrowed by practice.

Since an accountant must be familiar with many businesses,

the problems he studies and works should cover a wide range and I would suggest these:

Trading and Profit and Loss Accounts, and Balance Sheets from Trial Balances; Partnership Accounts, which suggest many nice problems; The Conversion of Trading Firms into Corporations; Corporation Accounts; Joint Adventure Accounts; The Amalgamation of Businesses; Head Office and Branch Accounts; Professional Practitioners' Accounts and accounts generally dealing with revenue from other than commercial sources; Bankrupts' and Insolvents' Accounts; Statements of Affairs and Deficiency Accounts; The Accounts of Executors and Administrators; Municipal Accounts; Bankers' and Insurance Companies' Accounts.

If this seems a long list, we must remember that from time to time questions relating to one or the other of these subjects have been set, and we must not have a weak place in our harness, as my experience in examinations has been that the things we don't get up are often the things we get.

To sum up, then, we require:

- (a) Natural aptitude and general mental culture.
- (b) A wide knowledge of the literature of the profession.
- (c) A thorough grounding in fundamental principles.
- (d) As many problems as we can obtain, extending over as wide a range of subjects as possible.
- (e) A thorough understanding of these.
- (f) The recognition of the importance of the time element in training.
- (g) Before the examination, a good night's sleep and our courage screwed to the sticking point.

AUDITING.

Auditing is one of the oldest and one of the principal divisions of the profession of accountancy, and the longer one is in practice, the more is one impressed with its importance, an importance which, while now largely recognized in the different parts of the British Empire, is only beginning to be understood in the United States.

Even in the very exceptional case of businesses where the system of accounting is as perfect as may be, nothing can take

the place of the independent external periodical review, and the necessity for it is founded as we have before said in the very constitution of human nature. Intelligent criticism is good for every one in every department of life. Without it, one is apt to grow rusty and lazy, and in the present day there is the very special reason, the safeguarding the interests of those whose money may be invested in an enterprise, but who take, and who can from the nature of the thing take, no part in the management of that in which they are so vitally interested.

Now, what goes to the making of a good auditor? In the words of an old writer, faithfulness, prudence, and knowledge of his business. "It is not necessary to speak to the auditors about making audits, for they ought to be so prudent and so faithful and so knowing in their business that they have no need of others teaching about things connected with the accounts." Now, the faithfulness and the prudence we will here take for granted, and confine ourselves to the knowing of our business.

To pass a respectable examination in auditing, it is undoubtedly a great advantage to have had some practical experience in a Public Accountant's office. The principle would be equally true in other professions.

When I entered a law school and began to read law, the learned judge who was one of our professors, and one of the best lawyers in the country, said to us, "It will be a great advantage, gentlemen, if while you are attending these lectures, you spend at least a portion of the time in a lawyer's office, as you will then be in a position to see the practical working of those things that as a matter of theory you learn from the books."

In some of the states, but not in all, a period of service in an accountant's office is obligatory before the candidate can sit for the examination, and if this is the case in a given instance, that, of course, settles it, but the question arises: Can a candidate, in those states where this period of service is not required, hope to pass the examination in this subject, if he shall be unable for one reason or another to obtain this actual experience? And the answer based on examinational results is, that he may. I think, however, that then there can be no doubt but that he will labor under a certain disadvantage, and that he will find it necessary to study the authorities on auditing with especial care.

Speaking of the nature and principles of an audit, Mr. Pixley, in his work, "Auditors," says, "An audit to be effectual, that is, to enable the auditor to certify as to the accuracy of the accounts presented, may for practical purposes be divided into three parts; namely, to guard against (1) Errors of Omission; (2) Errors of Commission, and (3) Errors of Principle."

An "error of omission" would lie in the failure to charge one's self with all cash received or liability incurred; of "commission," in improperly recording an original entry, or when transferring items from one book to another, in entering a wrong amount; and of "principle" in capitalizing expenditure that ought to be charged against revenue.

The questions set in this paper are usually ten, and the time allowed three hours, and in order that the reader may see for himself what he may reasonably expect, I subjoin some that I consider fairly representative.

1. What are the nature and principles of an audit?
2. Illustrate the bearing of the term "depreciation" upon accounts representing investments in stocks and shares, buildings, leases, plant and machinery, and profit and loss.
3. In auditing the accounts of the first financial year of a corporation which was formed to acquire an established business, what documents, books, etc., would you require to have produced for your inspection?
4. It is frequently alleged that dividends have been paid out of capital. Explain this statement and point out in what ways a dividend can be so paid.
5. Are there, in your opinion, any circumstances which would justify the addition to actual cost of any anticipated profit, in the case of partially manufactured goods, or of an uncompleted engineering contract, or in similar cases?
6. In your examination, as auditor of securities consisting of bonds to bearer, inscribed stocks, certificates for shares and bills receivable, what would be your method of procedure and what main object would you have in view?
7. A firm expends large sums upon advertisements in order to form a business. Assuming that the expenditure thereon decreases annually until in the seventh year it reaches a point representing a normal annual cost under this head, how would you

expect the amounts to be treated in each year's balance sheet? In your reply let \$70,000.00 be the expenditure of the first year, and decrease \$10,000.00 annually.

8. What steps would you, as auditor, take to see that proper provision had been made for bad and doubtful debts in the case of a private firm? In the case of a corporation?

9. In auditing the accounts of a trading firm or corporation, state the steps you would take to verify the cash book.

10. If you were asked to make an examination of a firm's books for the purpose of giving a certificate of profits with a view to its conversion into a corporation, how would you make your examination, and what are the chief points to which you would direct your attention?

BUSINESS, OR COMMERCIAL, LAW.

Not long ago I was discussing the questions usually set in the legal paper with an eminent lawyer, when he said to me: "I am rather inclined to doubt the usefulness of this portion of the accountancy examinations." I answered: "I have rarely been engaged in an important audit that I have not found what knowledge of law I possess of the greatest service to me, and, in fact, I constantly find it of use in unexpected ways." "Yes," he replied, "but you know some law that is worth while."

In England some few accountants are members of the bar, Mr. F. W. Pixley, to wit, and I personally know one of the assistant examiners of the English Institute, who is also a barrister. The Inns of Court, however, very properly will not permit a man to practice both professions, and, in my opinion, no attempt should be made to do so in this country. But it may be a question whether it would not be a good thing for the accountancy student, at some period of his career, to graduate from a recognized law school, even if he should not take the additional step of being admitted as a lawyer. That there is something in this is shown by the practice in Scotland, where the student, during his term of apprenticeship, is required to attend the law lectures in the subjects relating to his profession at one of the universities.

To the young man, then, who has a high professional ideal

before him, I would say spend three years in a law school, and such a one will possibly find the greater part of this section not of much service to him. Those, however, who will not have this opportunity and who may not have the inclination, can, I trust, peruse it not altogether without profit.

We will take, first, the case of the student who may desire as thorough a legal education as he can obtain, but who has to rely upon himself to get it. What legal books should he read? All students should be familiar with the Federal Banking Law, the Bankruptcy Act, and certain statutes of their own state, namely, those relating to corporations, insurance, banking, trust companies, partnerships, commercial paper, frauds, limitation of actions, and administrators and executors, and the student I am now considering would do well to read the exceedingly valuable works comprised in the course in American Law and Procedure, published by the LaSalle Extension University, and edited by Professor James Parker Hall, Dean of the University of Chicago Law School, and by James DeWitt Andrews, of the New York bar.

For the student who desires *multum in parvo*, so as to get the information necessary to enable him to pass the accountancy examination in as short a time and with as little labor as possible, I would recommend Hirschl's Business Law, in one volume, also published by the LaSalle Extension University.

As in the case of "theory" and "auditing," the questions are usually ten in number, and the time allowance three hours, and I have selected specimens as now given:

1. What do you know about the doctrine of *ultra vires* as applied to officers of a corporation? Give an example.

2. How far is the fact that a person shares in the profits of a business conclusive evidence that he is a partner? What further evidence, if any, is necessary to determine whether he is a partner or not?

3. What do you understand by the phrase, "A seal is said to import a consideration"? A says to X, "I want to take your watch to pieces, but I will put the pieces together again." X consents, but A, after taking it to pieces, refuses to put it together again, and contends that there was no consideration for his promise to do so. Is he right? Give your reasons.

4. In what cases will a purchaser of goods from a seller
 - (a) who is not the owner of them,
 - (b) who has only a voidable title to them, himself get a good title?
 5. State the various ways in which an agent's authority may be determined.
 6. When and how does the failure to present a bill of exchange for payment affect the rights of the holder?
 7. How far is the right of stoppage *in transitu* affected by the transfer of bills of lading? Would the fact that the transferee had not paid the consignee, or that the transfer was by way of security for an advance, affect your answer?
 8. Can a corporation, if it chooses to do so, issue preferred stock?
 9. Is it necessary to copyright trade marks and trade brands to protect the owner against their use by competitors?
 10. In your state what does the law provide as to the payment in part, or in full, of the issue of capital stock by a corporation?
-

In conclusion, it will be well again to ask ourselves the question: Why is it that hitherto, in America, so many of those who have taken the accountancy examinations have failed to pass them? As I have already said, in Great Britain the percentage of failure is about forty; in the United States from fifty to seventy-five. I repeat, that I believe the answer to be that here the majority of the candidates have had but a limited notion of the breadth and scope of the profession of accountancy and have often suffered from defective training and want of preparedness; and many, too, by nature have been unsuited for this vocation. It does not follow that because a man is a good book-keeper, and nothing more, that, therefore, he will make a good accountant. One may be what is called "quick at figures," and yet a poor accountant. On the other hand, he may be slow at figures and yet a good accountant. Of course, an accountant must know all, or a great deal, about the different forms of book-keeping, but he must be familiar with a great deal besides. The essential qualification is that required in all professions—an analytical mind, an ability to get at the necessary facts and to adapt this knowledge to varying requirements.

A man may be an excellent bookkeeper; for many years he may have had charge of the accounts of some one important concern, yet if he thinks that this knowledge alone will pass him, he is woefully mistaken; much less, then, are his chances if he is simply a poor or an indifferent bookkeeper. At the same time, if he has a natural aptitude for the profession and is prepared to spend the necessary time and to go through the necessary course of training, his knowledge of bookkeeping, if it is knowledge that is worth anything, may be and will be of great service to him. He has, at any rate, advanced so far on his journey, and, as far as his information extends, has so much less to learn; but it is true that many bookkeepers, while capable of considerable mechanical accuracy, do not understand, apparently have no desire to understand, and never will understand the fundamental principles of their art. Let these be thankful for the goods the gods provide, and continue to do their duty in that station of life to which it has pleased God to call them, in the consciousness that they are at present very useful, and, in certain directions in the future, may become very important members of society, but not Certified Public Accountants.

To those who feel they are fitted by nature for this career, I would say, make up your minds to go through the necessary preliminary preparation, and do not try to take the examinations too soon. In Great Britain the period of training is from three to five years in an accountant's office; three years for those with a university degree and five years for those without; and judging by the analogy of the other professions and the experience of the one we are considering, this is not too long an interval. In the case of those who have to acquire the general educational knowledge necessary before the period of technical training is reached, a term of six years in all, or longer, would seem to be reasonable. Many men in the natural anxiety to take the examinations as quickly as possible go up, and, while nearly passing, fail. If I am playing golf and, when putting, my ball stops an inch from the cup, I have not by that stroke made the hole. So with the examinations. To them and to golf, as well as to other things, the lines of Browning apply:

“Oh, the little more, and how much it is!

And the little less, and what worlds away!”

While I have considered it necessary to dwell on the importance and the advantage, during preparation, of the practical experience of an accountant's office, I would not have it understood that I think no one can pass the examinations without it. We find, from the analogy of the law, that the training of a law school enables some to succeed in the bar examinations and that of a university school of accountancy, or even private reading, if well directed and thorough, may suffice; but the office experience cannot be dispensed with and must be had first or last; if not before the examinations, then afterwards.

If, as a result of the hints I have given in this treatise, I may have assisted any of my readers, for whom especially it has been written, to have escaped some of the dangers into which, without them, they might have fallen, or may have pointed them to the road to future success, I shall have been more than repaid.

THE EXAMINATION QUESTIONS WHICH FOLLOW ARE GIVEN AS ILLUSTRATIONS MERELY. NO OFFICIAL ANSWERS TO THESE QUESTIONS HAVE BEEN PUBLISHED OR ISSUED.

UNIVERSITY OF ILLINOIS

EXAMINATION FOR CERTIFICATE AS CERTIFIED PUBLIC ACCOUNTANT.
CHICAGO, ILL., MAY 27, 28, AND 29, 1913.

THEORY OF ACCOUNTS.

Tuesday, May 27—9:30 A. M. to 12:30 P. M.

75 credits necessary to pass out of a possible 100 credits. The credits to be allowed for each question are stated at the foot of each question.

Candidates must observe the following Rules:

A. Your examination number should be placed on all papers, and under no circumstances must your name be given.

B. Candidates need not answer the questions in the order they are given, and in answering, merely give the number of the questions answered; the questions themselves should not be copied down as a preface to your answer.

C. Candidates should endeavor to answer the number of questions requested in each group, but no more than that number should be answered as no additional credits will be allowed for excess answers.

D. The general intelligence with which the questions are answered will be considered in the marking, as well as the technical accuracy of each answer.

ANSWER ALL OF THE FOLLOWING EIGHT QUESTIONS.

1. What are the essential differences between— (a) A Trial Balance; (b) A Statement of Affairs; (c) A Balance Sheet?

Also between— (a) A Trading Account; (b) A Profit and Loss Account; and (c) A Manufacturing Account?

What distinction is made in the form of accounts prescribed for Railroad Companies by the Interstate Commerce Commission as between—(a) Income Account; (b) Profit and Loss Account? Describe briefly the kind of items to be credited or charged to the latter.

(10 Credits)

2. What do you understand to be the difference between—Personal Accounts, Impersonal Accounts, Real Accounts and Nominal Accounts, and what does the term “Primary Accounts” mean to you?

(10 Credits)

3. Explain briefly the functions of a “Working Fund,” and what is meant by the term “Imprest System”?

(5 Credits)

4. Briefly express the important clauses that you as an auditor would expect to find in a Partnership Agreement.

(10 Credits)

5. What are “Contingent Liabilities”? Should they be embraced in a Balance Sheet? If so, how? Give two illustrations.

(5 Credits)

6. The account books of a Jobbing House comprise—General (or Private) Ledger, a Purchase Ledger and three Sales Ledgers—A-L, M-Z and Country, a Cash Book, a Sales Journal and a Purchase Invoice Book. All the Ledgers are necessary to obtain a Trial Balance.

Draft suitable forms for the last three books mentioned and state what other books are necessary, and in what respect the system of accounting should be changed so that errors can be localized to the respective Ledgers.

(12½ Credits)

7. (a) Upon what theory is the maxim based that Inventories should be valued at Cost or Market Value, whichever is lower at the date of the Balance Sheet; and under what circumstances, if any, is it permissible to value Raw Materials at Market Prices for Balance Sheet purposes, where said Market Prices are in excess of Cost owing to a

EXAMINATION QUESTIONS.

gradual or sudden rise in prices after the materials were purchased?

- (b) Assuming an Automobile Manufacturing Company made a contract for Rubber Tires at \$35.00 each with the understanding that it was to receive a rebate of \$5.00 a tire if the purchases exceeded 40,000 Tires and that at the end of the season, when the accounts were made up, say on July 31, it was found that 45,000 Tires had been purchased and a claim for the Rebates was thereupon made and a check in settlement was received on August 31 following. On July 31 there were 15,000 Tires on hand. At what prices should they be valued for Inventory purposes, and how should the rebate be dealt with in the accounts for the year ending July 31?

(12½ Credits)

8. In what respect and for what purpose could comparative statistics or percentages be made use of as regards the following:

- (a) Gross Profit
- (b) Wages
- (c) Inventory of Merchandise
- (d) Merchandise Consumed
- (e) Costs of Selling
- (f) Detection of Fraud

(12½ Credits)

9. Give the order of procedure, and describe tersely in enumerated paragraphs the steps required when called upon to adjust an incorrect trial balance which the bookkeeper cannot agree.

(10 Credits)

ANSWER EITHER ONE OF THE FOLLOWING TWO QUESTIONS:

10. What do you understand by the term "Dividends paid out of Capital"? What in your opinion would constitute such payment, and mention any circumstances that may occur to you to justify such payment?

(12½ Credits)

11. Mention under what circumstances, if any, reconstruction or rehabilitation expenses of a Street Railway Company may properly be charged to the Property Accounts.

(12½ Credits)

PRACTICAL ACCOUNTING.

PART I.

Tuesday, May 27—1:30 P. M. to 4:30 P. M.

ANSWER ALL OF THE FOLLOWING FOUR QUESTIONS:

1. M. F. commenced business January 1, 1913, and early in February handed you his Day Book with the following entries in it and requested you to open a set of Double Entry Books and submit a Trial Balance as of the close of business January 31, 1913. Draft the Trial Balance.

Jan. 1	Commenced business with Cash Capital....	\$ 12,500.00
" 1	Deposited in Bank.....	11,750.00
" 3	Bought Merchandise from Jas. Harrison & Co	2,700.00
" 3	Sold Goods to Wm. Adams	2,400.00
" 7	Bought Merchandise from W. Smith & Co.	3,225.00
" 8	Paid Wages in Cash.....	40.00
" 8	Sold Goods to H. Allan & Co.....	2,675.00
" 10	Received Check from Wm. Adams (Discount \$60.00)	2,340.00
" 10	Bank Deposit	2,340.00
" 11	Paid Jas. Harrison & Co. by Check (Discount \$135.00)	2,565.00
" 12	Paid by Cash 3 months rent.....	200.00
" 13	Bought Merchandise from H. Kershaw... ..	3,700.00
" 15	Paid Wages in Cash.....	40.00
" 15	Paid Office Expenses in Cash.....	35.00
" 17	Sold Goods to H. Hobson.....	1,600.00
" 19	Sold Goods to Wm. Adams.....	800.00
" 21	Sold Goods to H. Allan & Co.....	1,250.00
" 22	Paid Wages in Cash.....	40.00
" 22	Paid Expenses of Office in Cash.....	25.00

EXAMINATION QUESTIONS.

“ 25	Paid W. Smith & Co. by Check (Discount \$160.00)	3,065.00
“ 26	Received Check from H. Allan & Co. (Discount \$75)	2,600.00
“ 26	Bank Deposit	2,600.00
“ 29	Paid Wages in Cash.....	40.00
“ 29	Paid Office Expenses in Cash.....	20.00

There was \$175.00 cash on hand at the close of the month, the balance being M. F.'s personal expenditures.

(10 Credits)

2. Assuming a scheme was on foot for the consolidation of 6 competitive Manufacturing Companies engaged in the same line of business, and that you were invited to formulate a scheme for the valuation of the Goodwill and Assets of the respective Companies that would be fair and equitable to all parties. Outline generally the plan you would recommend, dealing specifically and separately with—(a) Goodwill; (b) Plant and Equipment; (c) Inventories, of Raw Material, Work in Process and Finished Stock, respectively, and (d) Accounts and Bills Receivable.

(25 Credits)

3. A. & B., equal partners in a Manufacturing business, admit their Factory Superintendent, C, as an equal Partner with them in the Profits without his furnishing any capital, A. & B. reserving to themselves, in case of dissolution, any Goodwill which may have accrued to the business.

On December 31, 1912, a Balance Sheet was drafted and approved by all concerned, as follows:

ASSETS:

Real Estate and Plant...	\$	90,000.00	
Merchandise Inventory....		35,000.00	
Accounts Receivable.....		25,000.00	
Bills Receivable.....		15,000.00	
Cash and Bank Funds....		18,000.00	\$183,000.00
		<u> </u>	<u> </u>

LIABILITIES:

Bills Payable	\$	10,000.00	
Accounts Payable		12,500.00	
A's Account	\$	4,500.00	
B's Account		4,000.00	
C's Account		2,000.00	10,500.00
<hr/>			
Capital Accounts—			
A	\$	75,000.00	
B	75,000.00	\$ 150,000.00	\$183,000.00
<hr/> <hr/>			

Later the business was sold as a "going" concern and the Partnership dissolved. The purchaser assumes all outside liabilities and pays the sum of \$225,000.00 cash,—of which the Real Estate and Plant is valued at \$120,000.00. Draft the settlement Accounts as between the Partners.

(20 Credits)

4. The following is the condition of affairs of X Y Z Company on December 31, 1912, when a Receivership is applied for:

TRIAL BALANCE OF X Y Z COMPANY.

	Dr.	Cr.
Goodwill	\$ 25,000.00	
Real Estate at Cost	10,000.00	
Building and Plant	37,500.00	
Machinery and Equipment	32,500.00	
Inventories Material and Supplies....	17,500.00	
Finished and Partly Finished Stock..	36,000.00	
Accounts Receivable—		
Good	60,000.00	
Doubtful	25,000.00	
Bad	15,000.00	
Notes Receivable	10,000.00	
Investment	5,000.00	
Cash	5,000.00	
Experimental and Development Ex-		
penses	22,000.00	
Prepaid Insurance Premiums.....	3,000.00	
Notes Payable		\$100,000.00

Mortgage Payable, Secured by Real Estate	7,500.00	
Accounts Payable	61,000.00	
Rentals Due	5,000.00	
Pay Rolls Accrued.....	10,000.00	
Reserve Fund	15,000.00	
Surplus	30,000.00	
Capital Stock—		
15,000 Shares of \$10.00 each, \$5.00 paid up	75,000.00	
	<u>\$303,500.00</u>	<u>\$303,500.00</u>

The Real Estate has increased in value and is said to be worth \$20,000.00, while it is estimated that the Buildings and Plant are fully worth \$25,000.00, the Machinery and Equipment, being of a special character and unsuitable for any other business, are worth no more than scrap value, viz., \$2,500.00. The Materials and Supplies are good and fully worth the price at which they are carried on the books, but of this stock material of a value of \$10,000.00 is pledged as collateral on Warehouse Receipts against Accounts Payable on open account. The Finished and Partly Finished Stock, if put into saleable condition will bring \$30,000.00, but it is estimated that it will cost \$5,000.00 to accomplish this. Of the Doubtful Accounts 50% is all that is considered collectible, while the Notes are good and Investments are of no value. Of the Notes Payable \$50,000.00 are fully secured by Accounts Receivable pledged thereagainst, while all other Accounts Payable except those partially covered by Raw Material are unsecured and the Rentals due and Pay Rolls Accrued are considered as Preferential Claims. The Unpaid Subscriptions on the Capital Stock are considered to be worth 75% of the face value.

Customers' Notes to the extent of \$25,000.00 have been discounted at the Banks on the Company's endorsement on which it is estimated \$5,000.00 will eventually prove to be uncollectible.

Draw up a Statement of Affairs for submission to the Creditors with a relative Deficiency Account, showing separately the position of the unsecured Creditors and of the Stockholders, respectively.

(25 Credits)

ANSWER EITHER ONE OF THE FOLLOWING TWO QUESTIONS:

5. Prepare Estate and Distribution Accounts of Chas. Carmichael (widower) deceased, September 30, 1912, who left the following Property:

Life Insurance	\$ 33,750.00	
Household Effects, appraised.....	2,500.00	
Real Estate, appraised.....	37,500.00	
Bank Account	7,500.00	
Investment Securities (Market Sept. 30, 1912)	60,000.00	\$141,250.00
		<u> </u> <u> </u>

Current Debts at time of death, \$3,000.00. Funeral Expenses, \$475.00. Law Expense and Inheritance Tax, \$9,000.00.

The Securities realized \$65,000.00 and the house effects netted \$3,750.00.

The special bequests (tax free) were \$3,750.00.

The eldest son John elected to accept the option his father had granted him of taking the Real Estate at \$40,000.00.

The residue was to be divided equally among the three sons, John, James and William, who were required to bring into hotchpot or collation money advanced to them five years back, to-wit, \$17,500.00, \$21,250.00, and \$10,000.00, respectively.

(20 Credits)

6. Draw up a brief but effective classification of General Ledger Accounts suitable for a Company with a total Capital Investment of say \$750,000.00, doing an annual business of about \$1,000,000.00, employing about 300 men, and with 500 Customers' Accounts. Assume the Company manufactures and sells to Dealers Bicycles of 10 different patterns and styles and does a small business in the sale of duplicate parts. The accounts to be framed to permit of the preparation monthly of an approximate Balance Sheet and approximate Profit and Loss Account without the taking of a Physical Inventory except at the annual closing on September 30 of each year.

State the classification in the order in which, in your opinion, the accounts should appear in the Ledger, giving briefly, your reasons therefor, and indicate which accounts, if any, should be supplemented with subsidiary Ledgers or other sub-account records.

(20 Credits)

PRACTICAL ACCOUNTING.

PART II.

Wednesday, May 28—9:30 A. M. to 12:30 P. M.

ANSWER ALL OF THE FOLLOWING FOUR QUESTIONS:

7. The Accounting Firm of C. P. & A. employs you as a Senior Accountant and for your initial job requires you to draft a Bills Receivable Account and a Bills Payable Account from memoranda taken from the diary of a client, who is an export broker, as follows:

1912:

Jan.	2	Took G. D.'s note 90 days settlement of account	\$ 600.00
"	3	Accepted M. O.'s 30 day draft, documents attached for goods shipped me from Paris..	1,945.00
"	4	Received from Bank of Havana 60 day draft for proceeds of accounts collected by them	425.00
"	24	Received from B. A. note at 30 days on settlement of account	650.00
"	25	Drew on C. M. 15 days from date for account of goods shipped to London.....	350.00
"	26	Accepted L. H.'s draft 60 days sight.....	750.00
"	28	Received C. M.'s draft accepted Jan. 26th....	350.00
"	29	Discounted G. D.'s note at Bank, received..	591.25
Feb.	5	Paid M. O. Draft	
"	10	Discounted Bank of Havana Draft, received.	411.65
"	11	C. M. Draft returned.	
"	26	B. A. Note paid.	

Draft the said Accounts.

(15 Credits)

8. From the following three Trial Balances prepare a Consolidated Balance Sheet as at December 31, 1912, in the form you would draw it up for presentation to the Stockholders of the Parent Company (The Safety Razor Company) showing as separate items therein (a) the total Goodwill of the Combined Companies; and (b) the Net Profits accruing to the new Corporation, viz., to The Safety Razor Company.

SAFETY RAZOR COMPANY.

Trial Balance at December 31, 1912.

Preferred Stock		\$1,500,000.00
Common Stock		1,500,000.00
Investments in Subsidiary Companies:		
4,000 Shares of Stock of L. W. Co.		
and 4,000 Shares of Stock of		
Steel Blade Co., both of \$100.00		
each at Cost	\$2,500,000.00	
Accounts Payable		20,000.00
Dividends from Subsidiary Companies		100,000.00
Administration Expenses	25,000.00	
L. W. Co. Current Account	100,000.00	
Steel Blade Company Advances.....	150,000.00	
Cash	270,000.00	
Organization Expenses	75,000.00	
	\$3,120,000.00	\$3,120,000.00

L. W. COMPANY.

Trial Balances at December 31, 1912.

	Dr.	Cr.
Properties and Plant	\$ 325,000.00	
Goodwill	250,000.00	
Investment in Steel Blade Co.—		
2,000 Shares of a Par Value of \$100		
each cost \$300,000.00.....	400,000.00	
Inventories	250,000.00	
Receivables	195,000.00	
Cash	90,000.00	
Capital Stock (4,000 Shares).....		\$9,400,000.00
Accounts Payable		125,000.00
Steel Blade Company		175,000.00
Surplus (Includes \$100,000.00 added		
to Book Value of Investment in		
Steel Blade Co.).....		710,000.00
Safety Razor Co.....		100,000.00
	\$1,510,000.00	\$1,510,000.00

STEEL BLADE COMPANY.

Trial Balance at December 31, 1912.

	Dr.	Cr.
Goodwill	\$ 50,000.00	
Property and Plant	325,000.00	
Inventories	190,000.00	
Receivables, General	105,000.00	
L. W. Company	195,000.00	
Cash	10,000.00	
Capital Stock (6,000 Shares).....		\$ 600,000.00
Accounts Payable		90,000.00
Safety Razor Company		150,000.00
Surplus or Deficit		35,000.00
	\$ 875,000.00	\$ 875,000.00

In the preparation of your Consolidated Balance Sheet be guided by the following assumed facts:

1. That the Safety Razor Co. was formed on March 28, 1912, and acquired its stock ownership in the two subsidiary Companies, as shown in its Trial Balance, on April 1, 1912.
2. That at January 1, 1912, the L. W. Company had a Surplus of \$605,000.00 and the Steel Blade Company a Deficit of \$50,000.00.
3. That no Inventory was taken of either the L. W. Company or the Steel Blade between January 1 and December 31, 1912, the business of the Companies being continued without interruption notwithstanding the change in ownership of the Capital Stocks as indicated above.
4. That prior to December 31, 1912, the L. W. Company declared a dividend of \$100,000.00 payable to the Parent Company which was duly taken up on the books of both Companies, being passed through the Current Accounts and charged against the Surplus of the L. W. Company prior to December 31, 1912.
5. That the differences in the Current Accounts between the Steel Blade Company and the L. W. Company represents

as to \$10,000.00 Merchandise in Transit, and as to the remaining \$10,000.00 a charge for Rental of Warehouse for the last six months of 1912, which has been credited to the Rent Account on the books of the Steel Blade Company.

6. That it is estimated on reliable authority which may be accepted as final that from January 1 to March 31, 1912, the Net Profits of the L. W. Company amounted to \$30,000.00, while during the same period the Steel Blade Company lost \$15,000.00.

Attach your consolidating working papers to the Consolidated Balance Sheet you prepare.

(25 Credits)

9. A "Single Entry" set of books for 1912 are sent to you with an order to state a Profit and Loss Account for the year and a Balance Sheet at December 31. The starting Capital was \$34,500.00.

The Accounts Receivable	Jan. 1	\$26,500.00	Dec. 31	\$44,000.00
" " Payable	" "	7,500.00	" "	9,750.00
" Merchandise	" "	8,500.00	" "	9,500.00
" Plant and Machinery	" "	10,000.00	" "	10,000.00
" Furniture & Fixtures	" "	700.00	" "	700.00

A Summary of the Cash Book for the year shows as follows:

Received:

Accounts Receivable	....	\$30,000.00
Capital paid in	.....	2,500.00

Disbursed:

Bank Overdraft Jan. 1	..	3,700.00
Accounts Payable	.....	12,500.00
General Expense	.....	5,000.00
Wages	.....	7,750.00
Personal Account	.....	1,500.00

leaving a Bank Account of \$2,000.00, and Currency on hand \$50.00.

Provide 5% Interest on Capital, disregarding additions during the year and personal drafts, deducting 10% for Plant and Machinery Depreciation, 5% for Furniture and Fixtures, and 5% for Bad Debt Reserve.

(20 Credits)

10. A Partnership existing between A and B expired by effluxion of time, and A being the Senior member decided to withdraw altogether in favor of his son C, who, for some years had been connected with the firm. This B agreed to on the understanding that he (B) should assume the Senior position and take the larger share of Profits which A up to that time had enjoyed, while C, in turn, should take the place of B; and a new Partnership on these lines was entered into, it being further agreed that for the purpose of the adjustment of the Partners' Accounts, *inter se*, the Goodwill of the business should be valued on the basis of five years' purchase of the average Profits for the last three years, after allowing B a salary for having taken the active part in managing the business during this period, of \$5,000.00 per annum. As between A and C it was also agreed that A would loan C the necessary funds for the new Partnership, while B met his obligations in cash on the morning of January 1, 1913.

From the foregoing and the following data, prepare—

First—A Balance Sheet of the old Partnership as at December 31, 1912, with relative Statement of Profits for the year ending on that date, showing Sales, Cost of Sales and Gross and Net Profits, etc., etc., supplemented with statement showing how "Cost of Sales" is arrived at.

Second—Prepare statements of the Partners' Accounts, giving effect to the retirement of A from the Firm and the admission of C, and to the change in the status of B.

Third—Show the Balance Sheet of the new Partnership at January 1, 1913, after B had met his obligations.

Assume (1) That in the old Partnership A had a $\frac{3}{4}$ interest and B $\frac{1}{4}$; (2) that the Net Profits for the years 1910 and 1911 as originally arrived at and passed to the credit of the Partners' Accounts were \$30,000.00 and \$40,000.00, respectively; (3) that Interest is to be credited on the Capital Accounts at

the rate of 5% per annum; and (4) that Depreciation should be written off the Properties at the rate of 6% per annum.

Trial Balance of A and B—at December 31, 1912.

	Dr.	Cr.
Cash	50,000.00	
Accounts Receivable	100,000.00	
Accounts Payable		\$ 101,000.00
Sales		500,000.00
Inventories of Raw Materials at Jan. 1, 1912	97,500.00	
Inventories of Operating Supplies, Jan. 1, 1912	15,000.00	
Inventories of Finished Stock, Jan. 1, 1912	67,500.00	
Raw Material Purchases	140,000.00	
Productive Labor	105,000.00	
Power, Heat & Light Expenses and Taxes	40,000.00	
Other Operating Expenses and Sup- plies purchased	18,000.00	
Property Account	125,000.00	
A's Capital Account		200,000.00
B's do		100,000.00
A's Drawings	12,000.00	
B's Drawings	6,000.00	
Selling Expenses	85,000.00	
General and Administration Expenses	40,000.00	
	\$ 901,000.00	\$ 901,000.00

The Inventories at December 31, 1912, were as follows:

Raw Material	100,000.00
Finished Stock	75,000.00
Operating Supplies	17,500.00
Taxes Accrued and not taken up amounted to.....	2,500.00
Payrolls Accrued and not taken up amounted to.....	7,500.00
Insurance Premiums Prepaid	3,000.00

(25 Credits)

ANSWER ANY ONE OF THE FOLLOWING TWO QUESTIONS:

11. A is the owner and operator of a Stone Quarry which, owing to weather conditions, cannot be operated between December 1 and February 28. B caused damage to the Quarry which delayed the commencement of operations until April 15th, from which date the Quarry was worked until November 30 and produced 71,000 cu. yds. at a quarry cost of 29c per cu. yd. The product from all sold at 77c per cu. yd. Overhead Expense for the year \$10,000.00. B repaired the Quarry at his own expense. You are required by the lawyer for A to indicate the measure of consequential damage as a basis for action. In your answer, illustrate your method.

(15 Credits)

12. In taking up the audit of the accounts of a Company for the year December 31, 1912, you find that the adjustments made at the previous audit for the year 1911 have not been taken on the books and that therefore the books are not in agreement with the audited accounts as of that date. Assuming the following were the Adjustments referred to, what, if any, disposition would you make of the items at this audit, illustrating your answer with draft Journal Entries, viz.:

To record—

(1)	Invoices for Merchandise in Transit at December 31, 1911, not on books	\$ 5,000.00
(2)	Invoices for Merchandise received but not entered	10,000.00
(3)	Reserve for Bad Debts (said Debts were written off in 1912)	2,000.00
(4)	Factory Expense Bills of 1912 not tendered until January, 1912	750.00
(5)	Pay Roll Accrued at December 31.....	6,000.00
(6)	Insurance Premiums paid in advance at Dec. 31, 1912	500.00
(7)	Taxes for year ending Dec. 31, 1911, not entered until May, 1912	1,000.00
(8)	Reserve against excess valuation of Inventory December 31, 1911	10,000.00

(9)	Depreciation not taken up on books prior to January, 1911, \$5,000.00, year ending December 31, 1911, \$1,000.00	6,000.00
(10)	To write off an unlocated difference in the Accounts Receivable Controlling Account at December, 1911, which, however, was located and cancelled in 1912	1,500.00
	(15 Credits)	

AUDITING.

Wednesday, May 28—1:30 to 4:30 P. M.

ANSWER ALL OF THE FOLLOWING EIGHT QUESTIONS:

1. What points call for special attention in the audit of the accounts of an Executor at the first audit one year after his appointment?

(10 Credits)

2. In course of an audit as of June 30, 1911, of a Jobbing Dry Goods concern, you find an account with a customer as follows:

1911:		1911:	
Jan. 1 Balance.....	\$ 4,170.00	Jan. 20 Bills Receivable 4 Mos.....	\$ 1,670.00
Feb. 22 Bills Receivable	2,500.00	Feb. 20 Cash.....	500.00
Mar. 31 Merchandise.	1,400.00	Feb. 20 Bills Rec. 3 Mos.	2,000.00
May 22 Bills Receivable	2,000.00	Apl. 20 Bills Rec. 4 Mos.	1,400.00
May 23 Bills Receivable and Exp.....	1,675.00	May 20 Cash.....	500.00
June 30 Mdse.....	950.00	May 20 Bills Rec. 3 Mos.	1,500.00
	<u> </u>	June 30 Balance.....	5,125.00
	\$12,695.00		
June 30 Balance....	<u><u>\$ 5,125.00</u></u>		<u><u>\$12,695.00</u></u>

What are your deductions as regards this account, how should it be stated in the Balance Sheet and assuming the Bills taken

in part settlement of the account have been discounted, how should they appear in the Balance Sheet?

(5 Credits)

3. (a) At a financial or Balance Sheet Audit made some two or three weeks after the date of the Balance Sheet, would you consider it necessary to count the Cash, and how would you verify the Bank Balance? State *exactly* what procedure you would follow, giving your reasons therefor.
- (b) Under what circumstances, if any, would you examine the Securities owned by a Corporation, and if you think this course unnecessary, give your reasons why; and should you think it necessary, state how you would proceed in the event the Securities are not in the Company's possession?

(10 Credits)

4. (a) How would you ascertain that all Liabilities had been taken up on the books as at the close of the Company's fiscal year, and should you be informed that some of the Liabilities omitted represented merchandise received but not inventoried, would the explanation be satisfactory?
- (b) Do you consider it necessary to vouch the entries in the Journal? State the reasons for your answer. Do you see any objection to the practice of passing Journal entries through the Cash Book? Explain fully.

(10 Credits)

5. The Marquis Mfg. Co. executed a Mortgage on their Factory property for \$35,000.00 at six per centum per annum, payable semi-annually. Principal payable \$1,000.00 at each interest date, payments to be endorsed on the note.

Interest coupon notes in decreasing amounts were also executed.

In your audit you find all the Notes and Coupons were entered

on the Bills Payable Record and were in agreement with the Ledger Account.

- (a) In view of the contract obligation, is the entry correct?
- (b) How should the liability be shown on your financial statement?

(10 Credits)

6. In making up a Consolidated Balance Sheet of a Holding or Patent Company and two Subsidiary Companies where, in the case of one of the Subsidiary Companies its entire Capital Stock has been acquired at less than par, and in the case of the other, at a substantial premium, how would you deal with such discount and premium, respectively, in the Consolidated Balance Sheet?

In the event that all the Stock of one of the Subsidiary Companies was not owned by the Parent Company, how should such proportion of said stock belonging to the minority stockholders, together with the proportion of Surplus appertaining thereto, be stated in the Balance Sheet?

(10 Credits)

7. As an Auditor, to what extent would you charge yourself with responsibility for the accuracy both as to facts and figures of the following:

- (a) Inventories—Manufactured—In Process—Merchandise—Supplies.
- (b) Starting Balance Sheet.
- (c) Wages.
- (d) Securities held by an Insurance Company.
- (e) Accounts Receivable—Trade, Personal, Consignments.

(10 Credits)

8. In examining the accounts of a Corporation for a period of five years for a Bond House contemplating the placing of a large bond issue, to what points would you direct your especial attention?

(15 Credits)

ANSWER ANY TWO OF THE FOLLOWING FOUR QUESTIONS:

9. A Parent Company holding Notes Receivable from a Subsidiary Company to the extent of \$100,000.00 endorses and discounts said Notes with its Bankers, thus creating a Contingent Liability thereunder. In preparing a *Consolidated* Balance Sheet of the *two* Companies, state how and where the Liability would appear.

(10 Credits)

10. In auditing the accounts of an Engineering Corporation, you find a number of engines have been shipped to dealers on consignment, against which the dealers have made deposits of 75% of the invoice price. The engines were invoiced out to the dealers at the regular contract prices, being carried in Accounts Receivable, the deposits referred to being credited to the same accounts. In drawing the Balance Sheet, how would you consider these items should be stated, and on what basis of valuation?

(10 Credits)

11. As a feature of an audit made in March to cover the fiscal term ended December 31, describe your method of proving the Bills Receivable on hand as shown in the Balance Sheet of December 31.

(10 Credits)

12. In the course of an audit of a Stove Manufacturer's books as of March 31, 1912, you notice that three invoices respectively for pig iron, sand, and fire brick, dated March 22, 27, and 28, were entered on the books in April. What does this signify, and how may it affect your report?

(10 Credits)

COMMERCIAL LAW.

Thursday, May 29—9:30 A. M. to 12:30 P. M.

1. What is your opinion as to the liability of the person whose name is signed to a promissory note, in the following cases:

- (a) Where the note is signed with his name by another at his direction.

- (b) Where he signs and delivers the note without consideration to the party who seeks to enforce it.
- (c) Where he signs and delivers the note without consideration and it is subsequently negotiated for value to the party who seeks to enforce it.
- (d) Where his signature is forged by the party who seeks to enforce it.
- (e) Where his liability is sought to be enforced by one to whom it was negotiated for value by the party forging his signature.
- (f) Where the instrument sued on is not dated; does not state that it is given for value and does not specify the place where it is drawn or the place where it is payable.
- (g) Where the holder of the note has, without the assent of the maker, changed its date.
- (h) Where the holder of the note has, without the assent of the maker, changed its place of payment.
- (i) Where the holder of the note has unintentionally marked it canceled.

2. (a) What is the legal effect of failure to make presentment for payment on the date of a promissory note:

- (1) Upon the liability of the maker of the note.
 - (2) Upon the liability of an ordinary endorser.
 - (3) Upon the liability of an endorser for whose accommodation the note was made.
- (b) Under what circumstances, if any, is presentment for payment sufficient though made subsequent to the day of maturity?
- (c) What do you understand by "days of grace"? Are they recognized in this State?

3. What is your opinion as to the value at maturity of a promissory note of a solvent maker (assuming the transaction to be wholly in Illinois) for One Thousand Dollars, dated May 1, 1912, due May 1, 1913, with Interest after date at eight per cent. per annum? Give your reasons.

4. An Illinois Corporation on May 1, 1913, carries as assets

two notes due and payable January 1, 1912. The makers of the two notes in their lifetime resided in Illinois. The maker of the first note died April 1, 1912. An Administrator was appointed April 5, 1912, and he is still serving. The maker of the second note died January 15, 1912, and an Administratrix, who is still serving, was appointed June 1, 1912. Neither note has been filed as the basis of a claim in the Probate Court. How do you regard these assets?

5. (a) John Smith dies insolvent. He has carried on business in co-partnership with his brother (also insolvent) as John Smith & Co.

State generally the respective rights in the individual and co-partnership property of the following creditors:

- (1) A creditor who holds a note signed and endorsed John Smith & Co.
- (2) A creditor who holds a note signed and endorsed John Smith.
- (3) A creditor who holds a note signed and endorsed by both John Smith & Co. and John Smith.

(b) What bearing, if any, upon a claim against an insolvent estate has the fact that the claimant holds certain bonds as collateral to the note on which the claim is based.

6. An Illinois Corporation, in its statement, represents that it has outstanding an issue of—

“cumulative, non-voting, non-participating, seven per cent. preferred stock.”

Give your interpretation of the expression quoted.

7. An Illinois Corporation issues stock which it denominates “Guaranteed dividend stock,” and recites in the certificate:

“The Corporation guarantees to the holder hereof annual dividends at the rate of seven per cent.”

What is the holder’s remedy against the corporation, if there be a remedy, in case the corporation runs at a loss and no dividends are declared or paid?

8. An Illinois Corporation authorized by its Charter to do a general brokerage business acquires real estate as follows:

- (a) It purchases an inexpensive lot improved by a one-story building which it occupies as an office.

- (b) It acquires from its debtor in satisfaction of a legal claim a piece of farm property.
- (c) It invests its surplus funds in a city lot improved by an office building.

What limitations, if any, are there upon the right of the corporation to carry permanently as corporate assets these three parcels of real estate.

9. An Illinois Corporation has outstanding one hundred shares of common stock. A, B, C, D and E, who act together, hold sixty shares and F holds forty shares. A by-law recites—

“Each stockholder shall have one vote only for each share of stock standing in his name.”

At the annual meeting A, B, C, D and E vote sixty shares each for themselves as directors. Can F procure representation on the Board, and if so, how?

10. A customer buying on an open account sends his check for a portion of an undisputed balance and writes across the face—

“In full of all accounts to date.”

What is the legal effect of the creditor's acceptance of and the payment of the check?

NEW YORK C. P. A. EXAMINATIONS.

University of the State of New York.

35TH ACCOUNTANT EXAMINATION.

THEORY OF ACCOUNTS.

Tuesday, June 24, 1913—9:15 A. M. to 12:15 P. M., only.

“The regents of the university shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose. * * *”

Laws of 1896, ch. 312, sec. 2.

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

Group I

1. State the principles that underlie the mechanism of the statement of resources and show their application.
2. Show how the proprietor's account, under the theory of single entry, may be so kept that in a small business where the cost of goods sold is easily determined, the net worth of the business may be known at any time.
3. In the business of a factor what does the balance of sales account represent? Why?
4. In formulating a profit and loss statement for manufacturing concern in which factory rent is an element, under what classification would you allocate it in order to be economically sound?
5. Outline the theory of accounts pertaining to the business of a commission merchant.

Group II

6. Overhead factory expenses are sometimes computed on the basis of labor, sometimes on the basis of material and sometimes on both; at other times the expense is computed on the machine hour basis. Why are these arbitrary methods adopted?

7. What knowledge must a transfer agent possess in order to safeguard his company in the transfer of its certificates of stock?

8. Overhead factory expense is computed on the hour basis in a paint shop with unskilled labor and in a machine shop with skilled labor. How would such application affect cost?

9. Distinguish between simple and compound interest as generally understood and in the latter case between nominal and effective rates.

10. Explain what is understood by an arbitrage and cite an example.

Group III

11. Indicate *three* different ways through which the foreign indebtedness or claim of a New York merchant may be liquidated.

12. Explain by means of a diagram the theory of foreign exchange, comprehensively showing transactions of equivalent value between R & S importers and exporters respectively in New York and D & G importers and exporters respectively in Berlin.

13. In a manufacturing establishment what would you consider the essential factors to be borne in mind when making provision for depreciation? Explain the *annuity* method of providing for the same.

14. Explain *six* different ways of apportioning depreciation charges from year to year and point out clearly their distinguishing features.

15. A large hotel is furnished on the installment plan. Explain, giving reason, whether the question of interest is of importance to (a) the seller, (b) the buyer.

University of the State of New York.

35TH ACCOUNTANT EXAMINATION.

PRACTICAL ACCOUNTING.

PART I.

Tuesday, June 24, 1913—1:15 to 4:15 P. M., only.

The practical accounting paper consists of part I and part II.

“The regents of the university shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose.

* * *”

Laws of 1896, ch. 312, sec. 2.

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

1. The Allen Automobile Co. assembles cars on orders only. The following is a synopsis of its factory activities for a given period:

Parts purchased	\$ 65,000
Parts manufactured (material cost)	225,000
Productive labor (125 per cent. of material)	281,250
Factory expense	451,200

Cost of cars:

Parts purchased consumed	55,000
Parts manufactured (material cost)	75,000
Productive labor (145 per cent. of material)	188,500
Factory expense	226,200
Material on hand, unmanufactured	200,000

Create a technical trial balance of the cost ledger and an inventory of the stock room.

2. A French merchant having a debt of £10,000 to liquidate in London in 45 days, desires to know where it would be the most advantageous for him to purchase English money, in Paris, Amsterdam or Berlin.

The market quotations in the respective places on a certain given date reveal the following:

<i>Paris</i>		Frs.
London paper at sight.....	25.275	less 6%
Amsterdam paper at 3 mo.....	205	less 4%
Berlin paper at 3 mo.....	121 $\frac{1}{4}$	and 4%

<i>Amsterdam</i>		Disc. in London
Guilders		
12.075 at 2 months.....		6%

<i>Berlin</i>		Disc. in London
Reischmarks		
20.25 at 3 months.....		6%

Prepare the required statement, ignoring all banking charges and selling commissions.

3. The following is the trial balance of Oliver and James, Agents, Buffalo branch, December 31, 1912:

New York office.....		\$2,500
Accounts receivable	\$3,000	
Cash in bank.....	2,500	
Expenses	800	
Merchandise account		3,800
	<u>\$6,300</u>	<u>\$6,300</u>

Inventory \$2,000.

From the above data make the journal entries to adjust the New York books.

University of the State of New York.

35TH ACCOUNTANT EXAMINATION.

PRACTICAL ACCOUNTING.

PART II.

Wednesday, June 25, 1913—9:15 A. M. to 12:15 P. M., only.

“The regents of the University shall make rules for the examination of persons applying for certificates under this act,

and may appoint a board of three examiners for the purpose.

* * *''

Laws of 1896, ch. 312, sec. 2.

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4. William Pitt and John Fox, merchants with offices in Manchester and New York, equally interested in a business venture, decide to dissolve the partnership as at December 31, 1911, at which time their financial position is as follows:

Accounts receivable uncollected.....	£4,000	=	\$19,480
Office furniture on hand.....	£ 100	=	487
Accounts payable unliquidated.....	£ 900	=	4,383

The accounts had been kept in dual currency.

Pitt acts as liquidator and takes over the business, agreeing to purchase the furniture at a 10 per cent. reduction as at January 1, 1912, and to allow on the same date to Fox £600=\$2,922 for his share of the goodwill.

The accounts receivable are collected on the following dates:

April 15/12 ...	£1,000=\$4,870	April 23/12 ...	£ 100=\$ 487
June 10/12 ...	£1,600= 7,792	October 8/12 ...	£1,200= 6,844

The balance is uncollectible and considered lost.

The accounts payable are liquidated in full as follows:

March 11/12 ...	£ 100=\$ 487	April 20/12 ...	£ 200=\$ 974
May 30/12 ...	£ 300= 1,461	October 26/12...	£ 300= 1,461

After deduction of the payments made, the net receipts are realized on a certain average date (to be determined) from the date of dissolution.

Pitt advances to Fox £1,000=\$4,870 on March 31, 1912, and pays him the balance on January 1, 1913, with interest at 6 per cent. per annum.

Prepare an account current in English currency *only* (calcu-

lating interest at above stated rate) as Pitt shall render to Fox, disclosing the amount due the latter as at January 1, 1913.

5. A and B are partners owning two retail stores, one in Paterson and the other in Newark. They agree to dissolve partnership as of July 1, 1912. The two stores are valued July 1, 1912, as follows: Paterson, \$4,573.50; Newark, \$3,600. On this basis B contemplates purchasing A's interest. On being furnished with the following data, B requests you to inform him if the inventory of the Paterson store January 1, 1912, was correct as A claims:

Value of the alleged inventory January 1, 1912, in the	
Paterson store	\$3,800.00
Purchases for both stores, January to July, paid for..	5,128.80
Due to creditors on account of both stores, July 1....	1,500.00
Cash sales, Newark store.....	1,875.00
Cash sales, Paterson store.....	3,105.00
Purchases, Paterson store, January to July.....	3,325.00
Profits 50 per cent. of sales.	

Prepare a statement proving whether or not the inventory of the Paterson store January 1, 1912, was correct as stated.

6. Prepare a plan of a depositor's ledger for a trust company that allows 2 per cent. interest on daily balances. Incorporate in this plan the following particulars exemplifying X's account:

Deposits—July 1, 1911, \$5,000. October 1, \$50. November 1, \$60. April 1, 1912, \$50. May 1, \$60. July 1, \$4,807.78. July 1, \$2,045. August 1, \$100. November 1, \$120.

Withdrawals—July 1, 1911, \$4,245. July 1, 1912, \$7,103.30.

University of the State of New York.

35TH ACCOUNTANT EXAMINATION.

AUDITING.

Wednesday, June 25, 1913—1:15 to 4:15 P. M., only.

“The regents of the university shall make rules for the examination of persons applying for certificates under this act,

and may appoint a board of three examiners for the purpose.
* * *,"

Laws of 1896, ch. 312, sec. 2.

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Group I

1. A, engaged in the jobbing business, enters into a copartnership agreement with B, the terms of which are in substance as follows: B is to share in the gains and losses of the business at the ratio of $37\frac{1}{2}$ per cent., which is in proportion to his investment of \$6,000. A is to act as general manager, cashier, etc., and is to render an accounting to B at the end of every six months. The books are kept by single entry. They are day-book, check book, provided with proper columns and space for deposits, drawings and particulars, and a general ledger kept in accordance with the purpose of single entry. All moneys received or paid pass through the bank. You are engaged to render the accounting to B at the end of the first six months. State what information you would consider necessary to convey to B and how you would proceed to obtain it from the material at hand.

2. What are the chief points to which attention should be directed in dealing with fluctuating currency in the books of accounts of merchants?

3. An auditor, on completing an investigation of the affairs of an importing house, certifies that the accounts are correct as recorded in the books. Would you criticize this certification? If so, why?

4. An importer of automobiles receives shipments in accordance with *bona fide* orders placed against six months' acceptances with interest. He stores the merchandise in bonded warehouses subject to withdrawal. At the end of the fiscal period it is customary to omit from the inventory such warehouse goods

as are left and also the acceptances unpaid. In being asked to certify the statement of conditions at a given time, how would you deal with this state of facts?

5. A, B and C are equal partners, each having subscribed \$5,000 to the partnership. A pays in \$3,000, leaving \$2,000 still due the partnership on his capital account. It is agreed for the present that this \$2,000 can remain unpaid, provided A pays interest on same, which he does. Later a dispute arises as to how this interest shall be credited. A claims that it should be included with the earnings of the business, the profits of which are to be divided equally among the three partners. B and C claim that this interest should be divided between them only, as they fully lived up to their obligations under the partnership agreement, while A had only partially done so. To what account should the interest on the deferred payment be credited?

Group II

6. In auditing the accounts of a manufacturing firm, what salient features of the cost ledger should receive attention?

7. In auditing the accounts of a manufacturing contractor, what manipulations of the cost accounts should the auditor anticipate, to guard against inflating profits?

8. What common expedient is resorted to by manufacturing contractors to hide their losses in the cost ledger?

9. In auditing the accounts of a factor, what equitable method should the auditor employ to ascertain the amount of interest due to or from the consignor with respect to the account sales?

10. What documentary evidence would you require to prove the acceptance of bills payable by a factor, against goods in transit?

Group III

11. What method would you adopt to prove the outstanding certificates of stock to be correct as represented on the transfer ledger?

12. The value of the lease of a piece of property for 20 years, with privilege of renewal for a like period, is carried on the books at its value in fee simple. Would you pass this unnoticed? If not, why not?

13. In the books of a manufacturing corporation whose ac-

counts you are investigating for creditors, you learn from outside sources that accounts assigned to a discount company have been concealed. Explain how this may have been done and the methods you would pursue to detect it.

14. Three corporations are to be merged. In examining the records of Corporation B formed three years previously with an authorized capitalization of \$250,000, you find the entire capital stock carried on the books as fully paid in. The facts you ascertain are as follows:

There are three directors, X, Y and Z, composing all the subscribers to the stock. The payments have been received at a directors' meeting with all present. X subscribed for \$100,000 worth of stock and paid all in cash; Y subscribed for \$75,000 worth of stock and paid \$50,000 in cash and a note of \$25,000 on demand; Z subscribed for \$75,000 worth of stock and paid \$25,000 in cash and a note of \$50,000 on demand.

These notes are carried among the assets and are still unpaid at the time of your examination, no interest having been collected. Y and Z cannot make good. In preparing a report on this state of facts, what recommendations would you make and why?

15. In auditing the books of a concern you detect the following:

A customer paid \$100 in currency on account of a debt and returned \$10 worth of merchandise. The entry in the cash book records a receipt of only \$90 and the return book a return of \$20. The money not properly accounted for was taken by the book-keeper. In reporting these facts state where in this transaction you find a defalcation, a fraud committed or an embezzlement.

University of the State of New York.

35TH ACCOUNTANT EXAMINATION.

COMMERCIAL LAW.

Thursday, June 26, 1913—9:15 A. M. to 12:15 P. M., only.

“The regents of the university shall make rules for the examination of persons applying for certificates under this act, and

may appoint a board of three examiners for the purpose. * * *”

Laws of 1896, ch. 312, sec. 2.

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

Group I

1. A sends to B, in settlement of an undisputed account amounting to \$1,000, a check for \$850, bearing the inscription “In full payment of account.” B deposits the check in his bank for collection but credits A’s account only with \$850. Is A liable for the balance? If so, why? If not, why not?

2. A received from B an order in writing to ship a barrel of paint “via New York Central” to Rochester. When the barrel reached destination it was empty. Can A recover from the railroad for the value of the paint? Explain.

3. A stores goods with B, a warehouseman. The goods are stolen from the warehouse without negligence on the part of B. Is B liable for the goods? If so, why? If not, why not?

4. A makes a promissory note in favor of B for \$100, payable in one year after date, at 4 per cent. The note is dishonored at maturity and nothing is paid on it for two years. How much is due?

5. A guaranteed the performance of a contract by B. The contract was, however, performed by B & Co., a firm of which B was a member. On the breach of the contract the creditor brought action against A on the guaranty. Is A liable? Explain.

Group II

6. A steamboat owned by a corporation and not insured by it, is insured by D, a stockholder, in a reputable company. Subsequently the steamboat is destroyed by fire. The insurance company refuses to pay D, claiming that he, D, has no insurable interest. Is D’s claim collectible? Explain.

7. A owns several coal yards; he puts B in charge of one of them with instructions to hire only a certain number of men.

B hires more than this number of men. Is A liable for their wages? Explain.

8. With what provision of the law must one comply in order to conduct a general mercantile or manufacturing business in this State in a fixed location as agent for another?

9. A invested \$5,000, B \$1,000 and C his skill in a partnership. After settlement is made with creditors it is found that the firm has lost \$1,000 and in addition A has loaned the firm \$1,000. How would you close up the partnership? What amounts are due the partners respectively?

10. When may a special partner lawfully receive interest on the capital contributed by him?

Group III

11. Among the assets of a corporation are several notes from subscribers in payment of an installment of capital stock after it has been called in and payment required. What liabilities does this impose on the directors?

12. A is the *bona fide* holder of a note for \$1,000, payable three months after date and made by the N company, a domestic corporation. The note is executed by the proper officers of the corporation, who are authorized to do this by the board of directors, and is to bear interest at the rate of 10 per cent. Is the corporation liable on the usurious note? If so, for how much? If not, why not?

13. A piece of real property covered by a mortgage is insufficient to satisfy the mortgage debt. With respect to other creditors, what rank does the mortgagee have for the balance due him on the personal property of the mortgagor?

14. Give the order of payment to creditors of an insolvent corporation.

15. (a) What claim, if any, have stockholders as against other creditors on funds set aside for payment of a dividend declared payable?
- (b) What claim, if any, have they on the general assets of the corporation when no specific funds have been set aside?

PENNSYLVANIA C. P. A. EXAMINATIONS OF
NOVEMBER, 1912.

GENERAL ACCOUNTING.

QUESTION 1.

A company issues \$1,000,000.00 bonds (denomination \$1,000 each), dated January 1, 1910, bearing interest at 5 per cent. and maturing January 1, 1920. These bonds were sold at 80 per cent. of their par value.

The mortgage provides for a sinking fund to be created by annual payments of \$50,000.00, and at December 31, 1911, the balance sheet of the company, among other items, shows the following which relate to these transactions:

Discount on bonds.....	debit \$ 160,000.00
Trustee of sinking fund.....	debit 102,000.00
First mortgage bonds.....	credit 1,000,000.00

On January 1, 1912, the trustee purchased 113 bonds out of the funds in his possession at \$900.00 each, which were canceled.

State what entries should be made in respect to these transactions; also give your views as to the proper treatment of discount on bonds, both as to when they are purchased and canceled, as in the foregoing, and when they are not redeemed until maturity.

QUESTION 2.

Outline a simple classification of accounts for the operation of a blast furnace (pig iron), giving explanatory text under each account head, and suggesting a proper method for providing for the cost of relining a furnace; also show separately a grouping of the accounts in the order you would suggest to present a monthly statement of profit and loss.

QUESTION 3.

In a large manufacturing and trading corporation adequately organized, describe fully the methods and procedure on which

the disbursing officer bases his assurance that invoices about to be paid are correct in every respect.

QUESTION 4.

You are instructed to examine and report upon the accounts of an electric lighting company in Upper Woodland, Pa., on behalf of a banker with a view to his purchasing and operating the property.

The company supplies light and power to manufactories, the municipality, miscellaneous business establishments, residences, etc., under the usual varieties of contracts.

(1) Describe fully the information usually required for a complete report.

(2) Upon arriving on the field you find that the only records of the company's financial operations are a bank account, a meter readings book, copies of bills rendered to consumers but no consumers' ledger, miscellaneous paid and unpaid bills for purchases and expenses, and capital stock books. The principal owner of the company being in the supply and contracting business has financed and constructed the property, but his operations in respect of same have not been spread on the company's accounts with exception of partial payments on account, which appear in the bank account. Describe fully your procedure in procuring the necessary information for your report.

QUESTION 5.

What recommendations would you make for preventing fraud in the following departments of a bank:

1. Depositors' accounts.
2. Loans.
3. Revenue and expense accounts.

Discuss fully your recommendations and give the reasons in support of them.

QUESTION 6.

(a) Outline the Revenue and Expense accounts of a life insurance company and their proper treatment at annual closing periods.

(b) In the annual report of a life insurance company to the

Insurance Department of Pennsylvania, what is comprised under the captions:

“Non-Ledger Assets.”

“Non-Ledger Liabilities.”

QUESTION 7.

You are retained by the prospective purchaser of a business to make an examination of the accounts covering a period of five years ended December 31, 1911.

The vendor has furnished the following statements to the prospective purchaser:

Gross profits—yearly average.....	\$315,000.00
Expenses—yearly average.....	220,000.00
	<hr/>
Net profit	\$ 95,000.00
	<hr/>

Also balance sheet as follows:

Assets:

Cash	\$ 20,000.00
Accounts receivable	250,000.00
Bills receivable	50,000.00
Merchandise on hand as inventoried..	500,000.00
Deferred charge for commissions due salesmen	10,000.00
	<hr/>
Total	\$830,000.00

Liabilities:

Accounts payable	\$120,000.00
Bills payable	200,000.00
Accrued commissions	10,000.00
Capital	500,000.00
	<hr/>
Total	\$830,000.00
	<hr/>

EXAMINATION QUESTIONS.

You find from the books that the following items constitute the entries in the profit and loss account for the period:

<i>Gross Sales.</i>		<i>Selling Expenses.</i>	
1907	\$1,000,000.00	1907	\$ 175,000.00
1908	900,000.00	1908	125,000.00
1909	1,250,000.00	1909	160,000.00
1910	1,000,000.00	1910	115,000.00
1911	1,000,000.00	1911	115,000.00

<i>Cost of Goods Sold.</i>		<i>Administrative and Gen. Exp.*</i>	
1907	\$ 650,000.00	1907	\$ 100,000.00
1908	600,000.00	1908	95,000.00
1909	925,000.00	1909	80,000.00
1910	700,000.00	1910	75,000.00
1911	700,000.00	1911	60,000.00

Losses incurred through failure to collect sundry debtors' accounts during the last three years, amounting to \$15,000.00, \$45,000.00, and \$65,000.00, respectively, were charged to the proprietor's capital account.

The terms under which the business is to be sold are based on the value of the net assets at December 31, 1911, plus an amount equivalent to one-half of the net profit for the five years. On this basis the vendors have asked for \$737,500.00.

Write such a report as you would submit to your client (using the figures and other information contained in this question), with the proper exhibits and comments upon them as to features which would be of interest to your client as a purchaser of the business.

QUESTION 8.

Describe methods for determining on behalf of the insurance companies the value of a stock of merchandise on hand at the

*Gradual reduction of administrative expenses effected by proprietor taking smaller compensation for his own services each year.

date of a loss by fire in a trading establishment under each of the following conditions:

1. Where inventories are taken but once a year at the annual closing of the books;
2. Where a card or loose-leaf record is kept of quantities only of each article;
3. Where monthly book inventories are arrived at by extending cost of sales in the sales records.

What special considerations would there be to which your attention should be directed before arriving at your conclusion?

QUESTION 9.

You are called upon to close the books of a contractor in a building operation. Describe fully and specifically what you would take into consideration in the closing of the said books.

QUESTION 10.

Write fully your mode of procedure in making an audit of a municipality. Give full particulars, with an illustration, using your own figures.

QUESTION 11.

A manufacturing company, owning many patents and constantly acquiring new ones, some by way of outright purchase and about an equal number being taken out as the result of the efforts of its own experimental department, asks you to outline the best method of dealing with this account, having in mind:

- (a) The ascertainment of costs of manufacture.
- (b) The annual balance sheet which is submitted to stockholders and to the general public.

Outline fully your views on this subject.

QUESTION 12.

Messrs. Brown & Wilson have applied to the Pennsylvania National Bank for a loan of \$20,000, and have submitted the following profit and loss account and balance sheet:

EXAMINATION QUESTIONS.

PROFIT AND LOSS ACCOUNT.
For Year Ending June 30, 1912.

Stock at July 1, 1911.....	\$ 50,000.00
Purchases	40,000.00
Wages and salaries.....	8,000.00
Office expenses	7,000.00
Miscellaneous expenses	15,000.00
Interest on loans.....	2,700.00
Bad debts	800.00
Profit	37,000.00
	\$160,500.00
Sales, less returns.....	\$ 80,000.00
Stock at June 30, 1912.....	75,000.00
Dividends on investments.....	5,500.00
	\$160,500.00

BALANCE SHEET, JUNE 30, 1912.

Assets:

Book debts	\$250,000.00
Stock as per inventory.....	75,000.00
Investments at cost.....	50,000.00
Goodwill	10,000.00
Lease of premises.....	5,000.00
Furniture	1,000.00
Cash	500.00
	\$391,500.00

Liabilities:

Trade creditors	\$344,500.00
Loans	27,000.00
Partner's capital at July 1, 1911.....	\$ 8,000.00
Profit for year.....	37,000.00
	\$45,000.00
Less drawings during year.....	25,000.00
	20,000.00
	\$391,500.00

The bank has handed you these accounts and asked for your opinion as to the advisability of making the loan and as to the form in which the accounts are presented.

QUESTION 13.

What do you understand by Perpetual Inventory? How is it maintained and how may it be verified? What would you re-

quire in relation to such an inventory before accepting it in a balance sheet under your audit without qualifying your certificates?

QUESTION 14.

A manufacturer owes \$100,000.00 on his plant at 5 per cent. per annum, due at the end of five years from date. He secures an agreement, however, to pay the debt in equal annual installments which will include principal and interest. What amount is he required to pay each year?

QUESTION 15.

A company, whose accounts you are auditing, shows among its assets an item of \$100,000 for a lease upon a warehouse. The lease was acquired ten years ago and has still forty years to run. The book value consists of \$50,000 paid for the lease at the time it was acquired and an additional \$50,000 expended upon rebuilding property five years ago. Nothing has heretofore been written off the asset account and its present realizable value is conservatively estimated at \$150,000.

In preparing the accounts for the present year the following methods have been proposed by various officials and you are asked to decide which one should be adopted, giving your reasons therefor, as well as the reasons upon which you base your decision in rejecting the others:

- (1) The property being worth more than the book value, nothing should be written off.
- (2) Such profits as it is not desired to distribute in dividends may occasionally be written off in reduction of the account.
- (3) An equal one-fortieth part should be written off annually.
- (4) A sinking fund should be created that would produce \$100,000 upon the expiry of the lease.

QUESTION 16.

The Atlas Trading Company leases a store for a period of ten years at a total rental of \$450,000, to be paid in monthly installments of \$3,750 each. Before the lease goes into effect, however, an arrangement is entered into whereby the company agrees to pay \$25,000 on the date upon which the lease takes effect. For this payment they are to receive a credit of \$30,000, applying on the total rental of \$450,000, the difference between

the amount of the credit and the amount actually paid being intended to represent compound interest on the advance.

Under the revised lease the company agrees to make monthly payments for the original period of ten years at the rate of \$3,500 per month.

State concisely how you would treat upon the books of the company the transactions arising under this lease.

QUESTION 17.

The Scranton Land Company is incorporated and purchases fifty acres of land, which it subdivides into blocks and lots. It then negotiates the sale of first mortgage bonds secured upon the whole property in an amount equal to one-third of the purchase price of the property. From the proceeds of the bonds sold, the company proposes to make streets, sewers, sidewalks and carry out other necessary improvements before placing the lots upon the market for sale.

Sales of lots are to be made upon contracts calling for a payment, as at date of execution, amounting to 10 per cent. of the sale price of each lot sold, the balance to be paid in monthly installments of 10 per cent., each title to pass to the purchaser as soon as he has paid one-half.

Outline a system of accounts to show the original investment, bonded indebtedness and the application of the proceeds of the bonds, the contracts for sale of lots, and the liquidation of these contracts, having particular reference to the ascertainment and distribution of profits.

QUESTION 18.

Prepare a sample statement of an administrator's final account for presentation in a probate court.

QUESTION 19.

What is meant by hidden reserves?

What is meant by hidden assets?

Describe some of these, and write your opinions as to the advisability of having them.

QUESTION 20.

Write a report of at least one hundred words each of an audit—

(a) When the books are correct.

(b) When the books are incorrect.

MASSACHUSETTS.
SECOND PUBLIC ACCOUNTANT EXAMINATION.

AUDITING.

Monday, June 27, 1910.

Answer questions 1, 2, 3, and 7 others, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

1. What is an auditor? What are his duties and responsibilities? What are the objects to be attained by an audit?

2. Describe the plan of audit of the books of a concern, other than a bank, with which you are personally familiar?

3. Describe the steps necessary to make a complete audit of a savings bank.

4. How may the correctness of the following items in a balance sheet be determined: (a) accounts receivable, (b) securities, (c) inventory of finished stock, (d) inventory of raw materials, (e) bank balances, (f) accounts payable, (g) notes payable?

5. In preparing the balance sheet of a business at the close of a year, how would you treat each of the following items: (a) bad and doubtful debts, (b) premiums for fire insurance unexpired, (c) interest paid in advance on notes payable discounted, (d) discount on accounts receivable, (e) discount on accounts payable, (f) depreciation of plant?

6. Describe the various steps to be taken in auditing the accounts of an executor for the first year after the death of the testator.

7. Describe the steps necessary to make a complete audit of a Trust Company.

8. What measures should be taken by an auditor to satisfy himself that all liabilities had been brought into the Balance Sheet?

9. A firm having several branches maintains an account with each branch in the Ledger and charges to such account all goods sent to the agents for stock. When stock is taken the balance of each branch account is treated as ordinary Accounts Receiv-

able and is included in the General Debts owing to the firm. If you see any objections to this method, state them, and say how you would deal with the accounts.

10. State generally your views as to what constitutes capital expenditure and expenditure properly chargeable against revenue. Under what circumstances would an auditor be justified in refusing his certificate of audit?

11. In auditing the accounts at the conclusion of the first fiscal year of a corporation formed to acquire an established business, what documents and records should be examined in addition to the ordinary books and subjects of an audit?

12. State what means should be adopted to verify (a) cash sales, (b) discounts allowed, (c) discounts received, (d) sold goods returned, (e) allowances on sales.

13. A manufacturing corporation desires a certificate of its average annual profits for three years; after charging up all costs, expenses and depreciation, and an allowance for bad debts, it is found that the profits for the first year were \$62,000, for the second year \$64,000 plus \$10,500 profit on sale of investments, and for the third year \$72,000 plus \$8,400 profit on the sale of real estate. How would you write your certificate?

14. What is the duty of the accountant who undertakes to examine a going business for the purpose of issuing a certificate showing the net earnings of the business for the preceding five years to (a) the owners, (b) those investing money therein on the faith of the report?

15. What safeguards in accounting would you suggest to a client to prevent loss of stock by theft?

THEORY OF ACCOUNTS.

Monday, June 27, 1910.

Answer questions 1, 2, 3, and 7 others, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

1. Trace the various operations in a well regulated office from the time an order is given for the purchase of material until such material is paid for, to protect the company from any possible loss in the transaction.

2. In what ways may a bookkeeper, who is also the cashier, and whose books are kept by double entry and apparently are correct, conceal thefts?

3. Describe the theory of double entry bookkeeping and state its advantages.

4. Discuss the different methods of dealing with, first, Repairs, and second, Replacements, in connection with (a) a concern that writes off annually sufficient depreciation to cover the life of the machinery, and (b) a concern where no depreciation is written off, and where it is claimed the machinery is kept as good as new. Can you name some other reason why depreciation should be considered in respect to machinery other than that of wear and tear?

5. On what basis should the following assets be valued in the preparation of a balance sheet: (a) manufactured goods, (b) partially manufactured goods, (c) raw material, (d) accounts receivable, (e) stocks, bonds and other investments, (f) notes receivable?

6. Explain how you would install a system of bookkeeping arranged so that only the proprietor, officers and auditor shall be cognizant of its financial condition and annual profits or losses.

7. Purchases, sales, returns and allowances are frequently posted to one account called Merchandise. Describe the limitations of an account so kept, and suggest, with your reasons therefor, an improved method of recording these transactions.

8. State your understanding of the difference between Gross Profit and Net Profit.

9. What is usually included in the account "organization expenses" in the books of a company? How should this account be treated? Give reasons.

10. In a statement of the earnings of a business to be sold on the basis of its earning capacity, how should the question of interest paid on accounts payable, on notes payable and on loans be treated?

11. If any money has been received by a company on account of work in process, how should such receipts be treated?

12. Define (a) funded debt, (b) floating indebtedness, (c)

fixed charges. May interest on floating debt properly be considered a fixed charge?

13. What is a contingent liability? For what purpose and in what form should such liabilities appear in a statement of financial condition?

14. What is a sinking fund?

15. What disposition should be made, by a trustee, of an amount received by him for the sale of the "rights" to subscribe to stock? Give reasons.

PRACTICAL ACCOUNTING.

PART I.

Wednesday, June 29, 1910.

Answer question 1 and one other, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

1. On December 1, 1907, the following particulars are furnished of the position of John Mapleton, insolvent: Factory equipment cost \$15,000, estimated to realize \$10,000; stock of finished goods, \$10,000, estimated worth \$7,500; material and supplies, \$2,500, estimated worth \$1,000; furniture and fixtures, \$900, estimated worth \$200; investments valued at \$25,275, of which \$15,000 is held by bankers as security for a loan of \$12,000; accounts receivable, \$6,250, of which \$2,500 are good, \$1,250 bad and \$2,500 estimated to realize \$1,500; cash, \$575, of which \$25 represents petty expense items not charged up, and \$50 an I. O. U. of a former employe, which is worthless; accounts payable, \$28,500; notes payable, \$25,000, of which \$12,000 is due bankers; wages due, \$500; rents due and past due, \$1,000; capital on January 1, 1907, as shown by the books, \$15,000; loss by sale of investment May 1, 1907, \$5,000; loss in trading account January 1, 1907, to December 1, 1907, \$3,500. Drawings charged personal account of John Mapleton, \$1,000. Make up a statement of affairs and a deficiency account as at December 1, 1907.

2. The fiscal year of a Manufacturing Company ends June 30, 1908, and the bookkeeper presents a statement to the Directors made up in the following form:

Gross sales	\$285,000.00	
Increase of Inventory	15,000.00	\$300,000.00
		<hr/>
Cost of Sales:		
Operating expenses, material & supplies	257,000.00	
Plant expense	12,000.00	
Freight on returned goods.....	600.00	
Sundry purchases finished goods.....	10,400.00	\$280,000.00
		<hr/>
Manufacturing Profit		\$ 20,000.00
Other income:		
Miscellaneous earnings	1,500.00	
Profit on Contracts	6,500.00	
Discount on purchases	500.00	\$ 8,500.00
		<hr/>
		\$ 28,500.00
Less:		
Discount on sales	2,875.00	
Rebates and allowances.....	1,125.00	4,000.00
		<hr/>
Net Plant Profit		\$ 24,500.00
Less:		
General expenses	5,500.00	
Interest	1,500.00	7,000.00
		<hr/>
Net profit		\$ 17,500.00

You are required to make up a Profit and Loss statement in regular form, using such of the above figures as may be necessary together with these following: Inventory June 30, 1907: Material, \$115,000; supplies, \$35,000; finished goods, \$45,000. Inventory June 30, 1908: Material, \$140,000; supplies, \$10,000; finished goods, \$60,000; material used in factory during the year, \$75,000; wages, \$122,500; fuel, \$2,500; repairs and renewals, \$2,000; other operating expenses, \$55,000, which includes \$25,000 supplies used.

3. A firm of four partners agreed to sell their business to a corporation. Their assets and liabilities were as follows: No. 1, capital, \$145,500; No. 2, capital, \$123,500; No. 3, \$153,000; No.

4, \$152,330; building \$125,000; machinery, fixtures, etc., \$38,335; stock, \$150,940; accounts receivable, \$328,680; bills receivable, \$37,005; cash, \$17,030; horses and wagons, \$1,230; unexpired insurance, \$175; accounts payable, \$124,065. It was further agreed that the partners were to be paid for good will, based on a year and a quarter purchase of the last three years' profits, which were respectively \$32,620, \$37,450 and \$50,650.

Prepare a Balance Sheet, bringing in the good will as an asset and distributing it among the four.

PRACTICAL ACCOUNTING.

PART II.

Wednesday, June 29, 1910.

Answer question 1, and one other, but no more. Do not repeat question, but write answer only, designated by number stated in question paper.

4. A branch office business was started the first of the year, the head office advancing \$5,000 cash. During the first year merchandise was shipped to branch, invoiced at \$75,000. An auditor checking up the business at the close of the year finds the following:

Merchandise sales were \$60,000, with selling price of goods 20% advance on invoice.

Proper vouchers were on file duly receipted for following payments:

Rebates and allowances on damaged goods.....	\$ 1,500.00
Salaries and other expenses.....	4,500.00
Freights.....	2,500.00

The books also showed:

Remittances to head office.....	35,000.00
Uncollected accounts.....	15,000.00

the balance of the sales having been realized in cash, less rebates and allowances as noted.

The cash on hand and inventory of unsold goods, together with the foregoing records, properly account for everything.

Prepare statement, such as an auditor would make in reporting to the head office, balancing the business of the branch house.

5. Robert Adams and William Stevens are equal partners. On the night of July 3 their stock and fixtures were destroyed by fire. A trial balance which Adams had at his home showed the following condition of the ledger at the close of business June 30:

Robert Adams	\$ 600.00	\$ 7,450.00
William Stevens	600.00	7,450.00
Cash	3,309.00	
Fixtures	1,500.00	
Merchandise Purchases	32,600.00	
Merchandise Sales		24,800.00
Notes Receivable	1,000.00	
Notes Payable		2,000.00
Interest	120.00	50.00
Expense	780.00	
Customers	4,500.00	
Creditors		3,259.00
	\$45,009.00	\$45,009.00

The property is fully covered by insurance. The insurance company, for the purpose of estimating the value of the merchandise destroyed, has agreed to allow 35% as the average gross gain on the sales and to pay 66 $\frac{2}{3}$ % on the value of fixtures as shown by the ledger. On the basis of this agreement, state the result of the business and the capital of each partner.

6. The capital of three partners—A, B and C—in a manufacturing business, January 1, 1896, was \$26,000, of which A owned 1/5, B 2/5 and C 2/5. On December 31, 1896, one year thereafter, the condition was found to be as follows: Real Estate, \$15,000; Plant and Machinery, \$7,000; Stock on hand, \$2,000; Book Debts Receivable, \$6,000; Cash in Bank, \$2,500; Creditors' Notes Payable, \$8,000; Partners' Withdrawals, A (including interest), \$1,500; Partners' Withdrawals, B (including interest), \$1,200; Partners' Withdrawals, C (including interest), \$2,000.

After crediting up interest on capital at the rate of 6%, show the net result for the year, and distribute the same, in the proper proportions, to the partners' accounts.

Prepare individual partners' accounts, showing the condition of each at the end of the year.

COMMERCIAL LAW.

Monday, June 27, 1910.

Answer questions 1, 2, and 4 others, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

1. (a) A and B are partners. A issues notes in the firm's name without B's knowledge and pockets the proceeds. Is the firm liable? If so, why?

(b) The firm owes \$100,000 and has assets of \$50,000. A owes \$40,000 and has \$18,000; B owes \$2,000 and has \$30,000. What are the rights of the firm creditors and the individual creditors and how should the assets be distributed and why?

2. When is a merchant insolvent under the Bankruptcy Act? What constitutes an account of bankruptcy?

3. Explain the taxation in Massachusetts of (a) a foreign corporation, (b) a domestic corporation, (c) a firm;

(1) By whom taxed, method and rate;

(2) Where they have factories in different towns within the state;

(3) Where they have factories, some in and some outside the state;

(4) Remedies for over-taxation.

4. Define General Partnership and Special Partnership.

5. (a) In organizing how should the capital stock of a Massachusetts corporation be paid?

(b) A Massachusetts corporation wishes to dissolve. How is it done?

6. Define real property; personal property.

7. Does a dividend on stock, declared before a testator's death, but not payable till after his death, become a part of his estate or does it belong to the life tenant as income?

8. State the difference between a sale and a consignment.

9. Define the following:

(a) Contract.

(b) Bill of Exchange.

(c) Promissory note; state essentials of same.

(d) Chattel mortgage.

10. What constitutes an insurable interest in property?

VIRGINIA C. P. A. EXAMINATIONS.

**COMPLETE LIST OF QUESTIONS SET AT THE FIRST EXAMINATION
HELD BY THE VIRGINIA STATE BOARD OF ACCOUNTANCY, NOV. 17
TO 19, 1910.**

While some examiners believe in the policy of secrecy, thereby bringing upon themselves and C. P. A. Laws in general a certain degree of criticism, this Board has adopted the more open and beneficial policy of inviting criticism and suggestions from leading accountants and authorities on accounting procedure, in an effort to establish as high a standard as possible for the profession in that state. The plan of allowing the candidate his choice of ten or twelve out of fifteen questions is certainly commendable, and the allotment of time given to the solutions of the different sets seems appropriate. As a test of ability and as a matter of self-education anyone interested in the science of accountancy will be benefited by endeavoring to answer these questions within the specified time limit and without access to any outside helps.

THEORY OF ACCOUNTS.

Answer twelve (12) questions, but no more. Time limit three and one-half hours.

1. State the essential principles of the following forms of bookkeeping and describe the method of determining the profit or loss of a business under each system: *a.* Single entry. *b.* Double entry.

2. Define the following: *a.* Gross profit. *b.* Net profit. *c.* Trading Account. *d.* Profit and Loss account. *e.* Active assets. *f.* Fixed assets. *g.* Current liabilities. *h.* Funded debt. *i.* Cash discount. *j.* Trade discount.

3. Define the following and state what essential difference there is between them: *a.* Trial balance. *b.* Balance sheet.

4. Define the following and state how each should be treated in the books of a corporation: *a.* Reserve. *b.* Sinking fund.

5. Define the following and state how you would treat them

in a balance sheet: *a.* Prepaid expenses. *b.* Contingent liabilities.

6. Describe the following and state some of their respective advantages and disadvantages: *a.* Voucher system. *b.* Loose leaf system.

7. Describe the process of changing a set of books from single entry to double entry.

8. State the purpose and describe the process of analyzing a ledger.

9. What are controlling accounts? For what purpose are they employed and how are they conducted?

10. Name two methods of distributing the overhead or indirect expenses of a factory so as to equitably apportion the same to the cost of the different articles manufactured, and state briefly the advantages and disadvantages of each method.

11. How do the accounts of a corporation and those of a co-partnership differ in treatment of the following: *a.* Capital invested? *b.* Distribution of profits?

12. Describe two different methods in ordinary use for writing off the premium on bonds purchased, stating briefly their respective advantages and disadvantages. What is the most scientific way of treating said premiums?

13. If called in to make an examination of the accounts of a mercantile concern which had suffered a fire loss six months after the taking of the latest inventory, how would you determine the value of the merchandise on hand at time of fire? What verification of the accounts, if any, would you make?

14. Should a manufacturing concern invoice its goods sent to branch houses (1) at selling price, or (2) at the prevailing wholesale price of the same or similar goods obtainable in the open market, or (3) at cost? State advantages and disadvantages of each method.

15. Define cost accounting, and state wherein manufacturing or factory costs differ from commercial or selling costs.

PRACTICAL ACCOUNTING.

Questions 2 and 5 must be answered. Questions 1, 3 and 4 are optional with the applicant, who must answer two of them but no more. Time limit three and one-half hours.

QUESTION No. 1.

Smith, Hill and Davis engage in business under an agreement that Smith is to have a salary of \$200, Hill, \$150 and Davis, \$100 per month, respectively; that the earnings are to be determined at any time at the request of any partner and the profits divided on a basis of the amount of business secured by each. They are in business nine months and find their accounts as follows:

Smith's business	\$4,500.00
Hill's business	2,800.00
Davis' business	3,000.00
Net profits	2,100.00

They then decide to rescind the salary agreement and divide the profits shown on a basis of amount of business secured individually, treating the salary drawn as an advance.

You find errors during the nine months' period, namely:

Office furniture, charged to operation	\$ 65.00
Accounts receivable, Smith's business, uncollectible	210.00
Funds advanced by Davis, credited to his earning account	400.00

Items not yet paid or entered into accounts:

Smith's salary	\$200.00
Hill's salary	150.00
Advertising	27.50
Clerk hire	130.00
Telephone	6.00
Rent	50.00
Stationery expense	15.00

Show the journal entries necessary to readjust the accounts; make a statement of the Profit and Loss account and each partner's personal account, showing all corrections.

QUESTION No. 2.

The A. B. Corporation has a dispute with its agents, C and D, regarding the amount due from the agency account, and asks you to state the account, which all agree to accept as a basis of

EXAMINATION QUESTIONS.

settlement. On the books of C and D you find three accounts with the A. B. Corporation, as follows :

OLD ACCOUNT.

May 14, 1908.....	\$ 2,500.00	Apr. 1, 1908.....	\$59,141.49
		May 5, 1908.....	19,434.05
June 19, 1908.....	13,582.00	June 5, 1909.....	7.50
July 15, 1908.....	28,781.37	Dec. 31, 1909.....	5,756.06

NEW ACCOUNT.

Apr. 6, 1909.....	\$ 4,976.50	May 3, 1909.....	\$10,000.00
Apr. 17, 1909.....	3,219.86	May 18, 1909.....	17,000.00
Apr. 19, 1909.....	7,111.65	May 18, 1909.....	184.66
Apr. 24, 1909.....	6,293.21	June 10, 1909.....	10,000.00
Apr. 29, 1909.....	4,915.91	June 20, 1909.....	6,500.00
May 17, 1909.....	3,219.73	June 20, 1909.....	318.44
May 20, 1909.....	4,071.11	July 10, 1909.....	700.00
June 8, 1909.....	1,895.19	July 10, 1909.....	43.71
June 12, 1909.....	3,434.26	Aug. 10, 1909.....	7,500.00
June 19, 1909.....	2,699.28	Sept. 20, 1909.....	10,000.00
June 24, 1909.....	4,115.22	Oct. 11, 1909.....	609.90
Aug. 1, 1909.....	2,573.82	Nov. 5, 1909.....	5,000.00
Aug. 5, 1909.....	3,089.74	Dec. 10, 1909.....	3,500.00
Sep. 15, 1909.....	1,576.74		
Sep. 18, 1909.....	2,429.05		
Sep. 29, 1909.....	5,472.82		
Nov. 1, 1909.....	2,338.20		
Nov. 3, 1909.....	2,222.18		
Dec. 17, 1909.....	2,927.54		
Jan. 3, 1910.....	1,782.90	Jan. 15, 1910.....	10,000.00
Jan. 7, 1910.....	2,089.11	Jan. 25, 1910.....	2,500.00
Jan. 13, 1910.....	1,016.01	Jan. 31, 1910.....	80.44
Jan. 26, 1910.....	4,540.13	Feb. 1, 1910.....	5,000.00
Jan. 28, 1910.....	2,708.68	Feb. 3, 1910.....	123.22
Feb. 15, 1910.....	4,817.71	Feb. 15, 1910.....	4,000.00
Feb. 18, 1910.....	795.31	Feb. 15, 1910.....	97.88
Feb. 20, 1910.....	3,212.50	Mar. 1, 1910.....	4,000.00
Mar. 18, 1910.....	1,834.11	Mar. 31, 1910.....	20.55
Mar. 26, 1910.....	1,752.52	Apr. 10, 1910.....	5,000.00
Apr. 1, 1910.....	1,919.19	Apr. 30, 1910.....	5,000.00
Apr. 9, 1910.....	1,786.54	May 20, 1910.....	7,500.00
Apr. 15, 1910.....	2,447.83	May 20, 1910.....	36.45
Apr. 24, 1910.....	3,584.32	June 10, 1910.....	5,000.00
Apr. 24, 1910.....	138.32		
May 15, 1910.....	3,497.86	June 30, 1910.....	4,000.00
May 20, 1910.....	3,690.43	June 30, 1910.....	164.06
June 3, 1910.....	1,477.66	July 1, 1910.....	7,500.00
June 9, 1910.....	1,548.29		
June 15, 1910.....	2,180.75	July 24, 1910.....	5,000.00
June 30, 1910.....	3,844.22		
July 16, 1910.....	4,571.59		
July 23, 1910.....	2,085.79	Aug. 1, 1910.....	5,000.00
July 28, 1910.....	1,787.22	Aug. 20, 1910.....	4,500.00
July 29, 1910.....	3,970.87	Aug. 31, 1910.....	102.92
Aug. 1, 1910.....	2,226.69	Sep. 20, 1910.....	8,000.00
Aug. 7, 1910.....	1,001.04		
Aug. 14, 1910.....	3,112.05		
Aug. 15, 1910.....	2,026.69		

Aug. 22, 1910.....	1,138.74		
Sep. 5, 1910.....	1,173.08		
Sep. 7, 1910.....	2,003.77		
Sep. 17, 1910.....	1,933.39		
Sep. 21, 1910.....	1,552.70		
Sep. 23, 1910.....	1,273.12		
Oct. 9, 1910.....	1,284.72	Oct. 10, 1910.....	2,000.00
Oct. 15, 1910.....	2,965.19	Oct. 10, 1910.....	5,000.00
Oct. 25, 1910.....	2,829.99	Oct. 10, 1910.....	239.81
Nov. 1, 1910.....	3,149.81	Nov. 3, 1910.....	6,000.00
Nov. 7, 1910.....	3,288.62	Nov. 3, 1910.....	172.72
Nov. 16, 1910.....	2,091.50	Nov. 17, 1910.....	5,000.00
Nov. 19, 1910.....	1,082.16	Nov. 30, 1910.....	27.45
Nov. 22, 1910.....	1,279.80		

INTEREST ACCOUNT.

Apr. 1909.....	\$ 185.65
Apr. 1909.....	82.90
May 1909.....	1,733.68
June 1909.....	642.25
July 1909.....	527.28
July 1909.....	1,455.13
July 1909.....	1,019.71
Aug. 1909.....	89.56
Aug. 1909.....	199.61
Sep. 1909.....	1,647.29
Oct. 1909.....	193.21
Oct. 1909.....	317.77
Oct. 1909.....	103.82
Nov. 1909.....	1,264.17
Dec. 1909.....	686.68
Jan. 1910.....	228.92
Jan. 1910.....	814.30
Jan. 1910.....	376.32
Jan. 1910.....	324.58
Feb. 1910.....	100.00
Feb. 1910.....	286.35
Mar. 1910.....	1,213.94
Apr. 1910.....	203.23
Apr. 1910.....	224.00
May 1910.....	1,000.00
May 1910.....	436.25
June 1910.....	339.31
July 1910.....	467.22
July 1910.....	224.67
July 1910.....	245.93
Aug. 1910.....	213.33
Sep. 1910.....	1,183.59
Oct. 1910.....	221.63
Nov. 1910.....	377.31

Prepare a comprehensive monthly statement of the account, combining the three separate ledger accounts, adding interest (computed on monthly balances) for any year or parts of a year for the period April 1, 1908, to Nov. 30, 1910.

QUESTION No. 3.

The Boulevard Land Corporation is organized in your home city for the purpose of acquiring 100 acres of land, having the same laid off into suitable lots for residential property.

The Company is capitalized at \$25,000, which stock is taken in equal amounts and paid for by 10 stockholders. The property is purchased for \$35,000, a first mortgage being accepted for \$15,000 and the balance, \$20,000, paid in cash, the remaining \$5,000 derived from sale of capital stock being used to advertise and pay expenses of putting the property on the market.

There is a release clause in the mortgage providing that all owners of lots on the boulevard can obtain clear title by paying \$25 per front foot to the mortgagee, all other lots being released at rate of \$15 per front foot.

The stockholders decided to reserve 10 lots 50 feet in width, facing the boulevard, for their own use, each stockholder drawing a lot number from a hat to ascertain which one of the ten should belong to him.

A and B are engaged in the real estate business and are also stockholders in this corporation, and by vote of the stockholders are appointed the general sales agents for the Boulevard Land Corporation.

In making an audit of the accounts you find that the Company has paid \$9,500 in releases; \$7,000 to release lots purchased by outsiders; and \$2,500 to pay for the release of free lots drawn by A & B as stockholders. Would you have any comment to make regarding this or any adjustments to make in the accounts? Explain in detail.

QUESTION No. 4.

On account of the inability to make collections or to borrow funds, Johnson, Jones & Jacobs are forced into bankruptcy. Their statement to the receiver is as follows:

ASSETS.	
Property, consisting of factory and land.....	\$37,500.00
Machinery	12,800.00
Office furniture and fixtures	1,250.00
Cash on hand and in bank	900.00
Stock on hand, raw goods.....	5,000.00
Stock on hand, finished for sale	10,000.00
Accounts receivable	20,000.00
	\$87,450.00

LIABILITIES.

Mortgage on property and plant	\$40,000.00	
Bills payable	25,000.00	
Accounts payable	15,000.00	
Surplus	7,450.00	
		<u>\$87,450.00</u>

What accounts would you transfer to the receiver?

Open a proper set of books for the receiver covering this business.

QUESTION No. 5.

B dies March 23, 1905, leaving an estate consisting of the following property in charge of his executors, X, Y and Z:

Cash in bank	\$10,000.00	
Accounts receivable from:		
1	\$2,000.00	
2	3,000.00	
3	1,000.00	
4	3,000.00	
5	1,000.00	
6	4,000.00	
7	2,000.00	
8	3,000.00	
9	4,000.00	
10	1,000.00	
		<u>\$24,000.00</u>
Stocks and bonds:		
1—100 shares Union Bank (par value \$100.00).....	\$12,000.00	
2—40 shares Traders Bank (par value \$100.00).....	12,000.00	
3—\$1,000.00 C. & O. 4's—J. & J.....	1,050.00	
4—\$5,000.00 P. R. R. 6's—M & S.....	4,500.00	
5—\$10,000.00 N. Y. C. 3½'s—J. & J.....	10,450.00	
		<u>\$40,000.00</u>

and three parcels of unimproved real estate.

Three of his heirs are also indebted to him for money loaned:

C	\$5,000.00	
D	6,000.00	
E	7,000.00	
		<u>\$18,000.00</u>

The will directs the executors to dispose of the real estate, convert the other assets and distribute the funds, to wit:

Widow	one-half
C {	
E.....	} one-sixth each.
D.....	
C.....	

Up to April 30, 1906, the executors collect all the accounts receivable with the exception of items No. 3, No. 6 and No. 10, on which they realized only \$4,500, the balance being uncollectible.

Bonds No. 3 and No. 5 matured January 1, 1906, and bond No. 4 matured March 1, 1906, and were redeemed at par. Stock No. 2 is sold at \$325 and stock No. 1 at \$125, both sales taking place on April 15, 1905.

The real estate is sold for cash, \$5,000; and mortgages, \$10,000.

Interest has been received on bank balances, \$300; accounts receivable, \$50; and on each of the bonds at the regular interest periods in full.

The executors pay decedent's debts and funeral expenses, \$1,000; counsel fees, \$500; safe deposit box rent, \$10; and office expenses incident to collection of income, \$500. The executors waive their claim to commissions, but ask for an allowance to cover expenses incurred by them of \$75 each.

State the executor's first and final account and prepare a statement for the purpose of guiding the court in directing a distribution to be made to the heirs.

QUESTION No. 6.

Time limit four hours.

The Gunsaulus Corporation, organized under a general charter of the State of Virginia, operate coal mines, saw mills, a private railroad and have their own timber holdings.

All the accounts are kept in one mammoth ledger, with usual books of original entry, at the general office in Norfolk. They engaged the services of yourself to audit the books for the past year (ending June 30, 1909). The accounts in the ledger have been forwarded back and forth to economize stationery, and the trial balance is as follows:

ACCOUNT	DEBIT	CREDIT
Plant and Equipment—Mine A.....	\$31,955.26	
New Plant—Mine 7.....	62,173.27	
Stumpage—cut for saw mill.....	7,524.26	
Capital stock.		\$581,500.00
Betterment to mines 3 and 4	2,783.42	
Local purchase logs.	51.66	
Saw mill repairs.	1,360.31	
Cash.	7,436.05	
Development—Mine 1.	3,822.37	
Timber and land	240,305.26	
Planing mill repairs.	341.43	
Accounts receivable.	76,421.91	

ACCOUNT—(Continued)	DEBIT	CREDIT
Mine engineering tools.....	225.00	
Petty cash—mines.....	750.00	
Lumber—outside purchase.	79.20	
Lighterage on lumber	57.95	
Mine administration, salaries and supplies.....	2,195.22	
Petty expenses at mines.	1,649.28	
Tenant houses at mines.....	2,117.22	
Lumber, logs, etc., on hand.....	50,853.60	
Saw mill payroll.	4,141.41	
Planing mill payroll.	2,421.95	
Commissary merchandise.	8,642.58	
Feed and labor, mines stables.....	925.75	
Electric repairs at mines.	467.97	
Commissary payroll.	726.65	
Logging payroll.	200.00	
Unearned insurance premiums.	3,918.49	
Mine cars.	6,139.78	
Lath mill payroll.....	249.65	
Electric plant—mines.	3,190.00	
Interest on loans covering mine plant construction.....	7,226.73	
Mines warehouse stock.	1,743.22	
Lath mill repairs.....	7.27	
Railroad equipment.	74,710.38	
Railroad payroll and expense.....	2,241.86	
Camp equipment	22,192.34	
Camp payroll.	1,549.75	
Yard and shed repairs.....	112.10	
Logging railroad trackage.....	47,769.13	
Salaries.	1,021.67	
Unclaimed miners' wages.		246.17
Coal sales.		\$57,280.78
Building material on hand at mines.	810.75	
Interest on funds to develop No. 1 mine.....	240.00	
Mine office furniture and fixtures.....	1,459.17	
Mine officers' house furnishing.....	513.29	
Mine railway trackage and switches.....	3,916.82	
Telephone line—mill to woods.....	436.56	
Freight on logs to saw mill.....	1,614.40	
Camp boarding house equipment.....	1,500.00	
Interest and discount.....	422.09	
Mine store expense and labor.....	2,472.83	
Mine store freight.	472.98	
Saw mill machine shop.....	2,328.53	
Outside investments.....	1,949.90	
Advanced to new corporation.....	1,373.27	
Mill plant.	324,982.92	
Sales of lumber.		28,033.11
Sales of lath and shingles.....		2,392.45
Insurance—mill.	85.30	
Operation Chicago office.....	1,000.00	
Allowances and discounts—coal shipments.....	637.40	
Repairs and expense, mine stables.....	124.22	
Mine office, salaries and supplies.....	1,562.23	
Mine engineering, salaries and supplies.....	625.00	
Traveling expenses, mines manager.....	221.67	
Interest—current loans at mines.....	125.00	
General expense.	853.80	
Discount on lumber sold.....	1,931.60	
Bills payable.		172,667.50
Accounts payable, audited.....		24,287.03

EXAMINATION QUESTIONS.

ACCOUNT—(Continued)	DEBIT	CREDIT
Special loan.		35,000.00
Taxes—mines.	178.53	
Insurance—mines.	1,271.11	
Legal expense—mines.	785.00	
Royalty on coal mined.	4,989.77	
Mining labor.	29,871.23	
Surplus.		195,764.45
Sales of wood.		186.00
Rent of dwellings and miscellaneous income.		278.00
Yardage and tunnel extension at mines.	2,743.22	
Delivery of coal to tipple.	3,571.28	
Maintenance of way—mines.	710.11	
Maintenance of air—mines.	739.10	
Props, ties and caps.	497.17	
Mine foreman, salary.	800.00	
Maintenance of mine cars.	209.38	
Mine machinists' and engineers' wages.	1,378.78	
Smithing—mines.	672.10	
Fuel—mines power house.	297.51	
Removal of slate.	551.98	
Deadwork at mines.	47.21	
Electric supplies at mines.	2,488.55	
Insurance during construction of mines plant.	937.97	
Norfolk & Western Ry. claims at mines.	71.00	
Repairs to miners' houses.	171.19	
Legal expense—obtaining right of way to mines.	342.68	
Live stock at mines.	3,850.00	
Taxes during construction of mines plant.	313.71	
Mine commissary merchandise.	8,427.60	
Rental from miners' houses.		1,572.27
Cartage and sale of coal to tenants.		70.09
	\$1,099,277.85	\$1,099,277.85

They have agreed to a plan whereby the coal mine operation will be taken over by a new corporation, and therefore ask that you separate the lumber and coal accounts, make up a separate set of statements to cover each business (balance sheet, and statement of operation, with supporting schedules showing the profit and loss account and surplus account in detail)—the capital stock to stand as part of the lumber accounts.

You find as follows:

That at the beginning of the fiscal year the capital stock issued and paid for amounted to \$575,500, John Johnson and Henry Mears, having performed their duties in a way acceptable to the officials, were allowed to purchase for cash 40 shares and 20 shares each of the capital stock respectively, at \$125 per share (par \$100), and that the \$25 premium per share had been credited to Surplus Account.

Bills Receivable account was balanced, and closed but in going through the accounts you found Bills Receivable, for lumber

accounts, renewed from time to time, amounting to \$2,791.17, which certain customers had not yet paid.

Mine No. 1 is in a state of development and has not been as yet operated.

In Accounts Receivable \$15,180.92 cover coal shipments.

In Bills Payable \$50,725 cover mine investments.

Insurance premiums not matured \$726.10 on mine policies.

Taxes paid in advance \$78.53.

Of the surplus, before closing the accounts, \$98,958.44 arises from mine operation prior to year ending June 30, 1909.

\$12,790.79 of Accounts Payable Audited cover mine bills.

Close their books, showing necessary journal entries to adjust accounts.

The Flat Top Fuel Corporation secures a charter and capitalizes with an issue of \$250,000 preferred stock and \$200,000 common stock. The preferred stock is subscribed as follows:

The Gunsaulus Corporation \$150,000

(They to transfer all assets and liabilities, as shown by your statement covering the mines property, to the Flat Top Fuel Corporation, any equity to apply as a payment on this subscription, balance to be paid on call.)

A. Murphy \$50,000
(\$25,000 paid in cash, balance on call.)

Andrew White \$50,000
(\$25,000 paid in cash, balance on call.)

Show proper entries to make the transfer in the books of the Gunsaulus Corporation and a balance sheet after doing so; also entries to open books of Flat Top Fuel Corporation and a balance sheet after doing so.

The General Manufacturing Co., Inc., capitalized at \$30,000, of which the Gunsaulus Corporation owns 50 per cent, the Rock Lumber Company 25 per cent and the Severn River Lumber Company 25 per cent agree to take over the business of each of the three concerns named for the purpose of increasing the total output and adding new products, it being agreed that any difference in holdings appearing in the consolidated Balance Sheet is to be adjusted later.

The Gunsaulus Corporation agree to dispose of its plant for \$250,000; reserve its timber holdings and \$8,000 of Accounts Re-

ceivable not considered collectible; also assume all liabilities excepting such Accounts Payable Audited as remain unpaid. The other companies submit the following balance sheets:

ROCK LUMBER COMPANY.

ACCOUNT	DEBIT	CREDIT
Cash on hand and in bank.....	\$ 6,410.81	
Bills receivable.....	2,131.55	
Bills payable		\$77,191.94
Lumber, logs, etc.	52,176.59	
Unexpired insurance premiums.....	1,317.58	
Mill supplies and extras.....	819.26	
Teams.	2,859.65	
Standing timber lands.....	300,000.00	
Accounts payable.		15,197.94
Surplus.		401,321.76
Mill plant.	60,500.00	
Accounts receivable.	67,496.20	
	\$493,711.64	\$493,711.64

SEVERN RIVER LUMBER COMPANY.

ACCOUNT	DEBIT	CREDIT
Cash.	\$ 438.72	
Bills receivable.....	6,008.91	
Lumber, logs, etc.....	97,303.43	
Unexpired insurance premiums.....	417.93	
Mill supplies and extras.	742.59	
Teams.	62.50	
Bills payable.		\$39,604.38
Standing timber and lands.....	42,811.83	
Tugboat.	2,019.39	
Outside investments.	6,300.00	
Mill plant	30,000.00	
Accounts payable		7,912.84
Surplus.		172,093.42
Accounts receivable.....	33,505.34	
	\$219,610.64	\$219,610.64

None of the capital stock of the new corporation has been paid for. From the figures you have at your disposal, make a balance sheet showing the interests of each company separately, and items of the same class in comparison with each other.

Draft a balance sheet for the Gunsaulus Corporation to cover its present condition.

AUDITING.

Answer twelve (12) questions, but no more. Time limit four hours.

1. Give a brief outline of the duties and responsibilities of an auditor.

2. In auditing cash payments, how would you prevent the reproduction and passing of vouchers a second time?

3. In auditing the accounts of a corporation for the first year of its existence, what records and documents should be examined in addition to the books of account and the vouchers?

4. If you had not been present to count the cash actually on hand at the date of the balance sheet, how would you afterwards verify its correctness?

5. How would you reconcile the balance shown by the bank settlement in the pass book with the balance shown by the check book or cash book? Having done this, is it necessary to check the deposits shown in the pass book with the receipts shown in the cash book?

6. In preparing the balance sheet of a corporation, how would you treat arrears of "cumulative" dividends on preferred stock?

7. To what extent is it permissible to carry as an asset the "organization expenses" of a corporation?

8. To what extent do you consider it necessary to verify the following: *a.* Inventories. *b.* Pay rolls. *c.* Discounts. *d.* Depreciation.

9. Give a full detailed account of your procedure in auditing the cash account of a large mercantile corporation.

10. In auditing the books of a concern whose accounts receivable are kept in one or more subsidiary ledgers, with a proper controlling account in the general ledger, what verification, if any, would you make of such accounts?

11. State how you would verify the following: *a.* Purchases. *b.* Returned purchases. *c.* Sales. *d.* Returned sales. *e.* Cash receipts. *f.* Cash payments. *g.* Journal entries.

12. State briefly, and in order of procedure, the different steps to be taken in a bank examination.

13. State your method of procedure in auditing the accounts of a building and loan association.

14. Define and differentiate capital expenditure and revenue expenditure.

15. In the case of a corporation which has been in existence

for several years, if you were engaged to audit the accounts for the last year only, would you consider it necessary to inspect the minute book, stock ledger, bond register or any of the entries in the books of account at dates prior to that covered by your audit? Give reasons.

COMMERCIAL LAW.

Answer ten questions, but no more. Time limit three and one-half hours.

1. State briefly the method to be followed in Virginia in each of the cases following: *a.* Forming an ordinary business corporation. *b.* Dissolving an ordinary business corporation. *c.* Issuing bonds of an ordinary business corporation.

2. Describe the following stocks and securities issued by corporations; state their leading characteristics, the assets securing them, respectively, and their order of preference in case of liquidation: *a.* Preferred stock. *b.* Common stock. *c.* First mortgage bonds. *d.* Promissory notes securing loans.

3. Define the following: *a.* Liability of persons associating themselves together and engaging in business as a corporation, when the incorporation is defective or incomplete. *b.* Liability of stockholders after perfecting the incorporation. *c.* Public service corporations.

4. Distinguish between State (Virginia) banks and National banks in the following particulars: *a.* Method of forming. *b.* Minimum capital stock prescribed by law. *c.* Liability of stockholders in case of insolvency.

5. Collateral has been deposited with the payee of a promissory note, but with no special contract as to converting same or subjecting it to the payment of the note, which is not paid. How should the payee proceed to convert or subject the collateral toward the satisfaction of the debt evidenced by the note?

6. Give the order of payment in the distribution of the estate of a decedent.

7. When an endorsed promissory note is not paid at maturity: *a.* What course should the holder pursue in order to prove that payment has been demanded of the maker of the note? *b.* Against whom has the holder a right of recovery? *c.*

Against whom has an endorser who has been compelled to pay a dishonored note a right of recovery? *d.* Under what circumstances is an endorser relieved from liability as such? *c.* How may the liability of the endorser be preserved without protest for non-payment?

8. How should the assets of a co-partnership, and the assets of the respective individual members thereof, be applied when the several members owe individual debts in addition to the debts owing by the co-partnership?

9. Define general agent and special agent, respectively, and state the general rules as to liability of the principal for acts of each kind of agent.

10. State three ways by which an agency may be created, and three ways by which it may be terminated.

11. Name three kinds of partnership recognized under the laws of Virginia; and state, briefly, their distinguishing characteristics.

12. Distinguish between partners in general business and partners in common of a tract of land.

13. What is a contract? Name the essential elements of a valid contract, and state who are legally qualified to make contracts.

14. Mention briefly the distinctive characteristics of a building and loan association.

15. When does the statute of limitations apply in Virginia on: *a.* Promissory notes? *b.* Bonds? *c.* Written contracts? *d.* Contracts under seal? *e.* Open accounts? *f.* Judgments? *g.* Mutual accounts between merchant and merchant?

CALIFORNIA.

The following are representative problems from the C. P. A. examination set by the California State Board of Accountancy on May 28, 29, and 30, 1908:

THEORY OF ACCOUNTS.

1. Describe the usual method of procedure in determining the net profit or loss of a business, the books being kept by
 - (a) Single entry.
 - (b) Double entry.
2. Define the following and explain the difference:
 - (a) Revenue account.
 - (b) Trading account.
3. Describe and state purposes of a Deficiency Account.
4. Define the following accounts:
 - (a) Personal.
 - (b) Impersonal.
 - (c) Real.
 - (d) Nominal.
5. For what purpose would the analysis of a ledger be made? Explain the method you would pursue.

AUDITING.

1. State the different kinds of audits and describe them.
2. What would be required from a firm or corporation by an auditor before entering upon the audit of the books?
3. In making the first periodical audit of a corporation that had personally taken over the business of a firm, what would you include in your examination besides the usual books and accounts, and for the purpose of ascertaining what facts?
4. From the information gathered and noted throughout an audit, what matters would you call especial attention to, and what schedules and statistical statements would you furnish the client?
5. What constitutes capital expenditure?

6. Would an auditor be justified in certifying to the accuracy of accounts in which such expenditure appeared without making inquiry into the real character of same? If not, why not? If he would, why?

COMMERCIAL LAW.

1. Define a general partnership and also the following:
 - (a) Nominal partner.
 - (b) Silent partner.
 - (c) Dormant partner.
 - (d) Special partner.
2. Define a corporation and name the different kinds.
3. What acts of corporation are ultra vires?
4. Define a contract, and state what contracts must be in writing.
5. Define a sale of personal property, and define a consignment.
6. State the points of difference between a sale and a consignment.

PRACTICAL ACCOUNTING.

1. Two partners named Wilson and Peters find at the end of the first year's business the Balance Sheet shows that Wilson's interest is worth \$18,000.00, and Peters' \$9,000.00.

The good-will of the firm is worth \$3,000.00. Each draws profits in the proportion of his investment.

They conclude to take in another partner, and he is to have one-quarter interest in the new firm.

What sum must the new partner contribute? How will the partnership accounts appear after the payment in of the additional capital?

How will the profits be divided? Give skeleton form of accounts.

2. The firm of Jones, Smith & Brown failed, and the following is the data the books disclosed:

Unsecured creditors: E, \$35,000.00; F, \$27,500.00; G, \$26,000.00; H, \$24,500.00; I, \$17,500.00; J, \$15,000.00; K, \$2,000.00; Rent, \$500.00; Preferred, \$750.00; Book accounts receivable, \$42,500.00, of which there are Goods accounts \$37,500.00; Bad

accounts, \$3,125.00; Doubtful, \$1,875.00, estimated to produce \$625.00; Bills Receivable, A, \$3,000.00; B, \$4,250.00; C, \$2,500.00; D, \$1,500.00; Land and Buildings, \$25,000.00; Plant and Machinery, \$8,500.00; Merchandise on hand, \$5,000.00; Furniture and Fixtures, \$1,500.00; Cash on hand, \$15,000.00; Sundry profits, \$37,500.00; Sundry losses, \$30,000.00; Trading expenses, \$17,500.00; Jones' capital account, \$5,000.00, and drawings, \$10,000.00; Smith's capital account, \$3,750.00, and drawings, \$15,000.00; Brown's capital account, \$3,750.00, and drawings, \$17,500.00. Show how you would have prepared the statements of Assets and Liabilities, etc., if you had been employed to do the work.

3. On December 31, 1886, the Balance Sheet of a Corporation showed the following assets and liabilities:

Capital Stock.....	\$200,000.00	Real Estate.....	\$55,000.00
Creditors' Accts...	20,000.00	Plant.....	95,000.00
Bills Payable.....	26,000.00	Accounts Rec'vble	45,500.00
Profit and Loss....	20,500.00	Inventory.....	59,000.00
		Cash on hand.....	12,000.00

4. On December 31, 1887, one year later, the Balance Sheet showed the following:

Capital Stock.....	\$200,000.00	Real Estate.....	\$57,000.00
Creditors' Accts...	22,000.00	Plant.....	85,500.00
Mortgage.....	20,000.00	Accounts Rec'vble	43,500.00
Profit and Loss....	38,900.00	Inventory.....	73,750.00
		Cash on hand.....	11,150.00
		Other investments.	10,000.00

Prepare tabulations showing what has become of profits.

WASHINGTON.

(State of Washington Examination, September, 1907.)

QUESTION 24.

On December 31, 1906, the Trial Balance of the Mukilteo Shipbuilding Company was as follows:

Real Estate.....	\$ 300,000.00	
Buildings.....	158,000.00	
Equipment.....	847,500.00	
Good-will.....	50,000.00	
Cash.....	46,474.20	
Discount earned.....		\$ 10,120.37
Discount allowed.....	5,600.14	
Interest—general.....	3,300.20	
Insurance.....	3,030.89	
Accounts Payable.....		75,871.38
Depreciation reserve.....		58,272.00
Common Stock.....		1,000,000.00
Preferred Stock.....		500,000.00
Sales.....		1,371,491.17
Accounts Receivable.....	156,028.75	
Inventory of raw materials and work in progress December 31, 1905..	184,567.39	
Operating, maintenance and general expenses.....	709,988.65	
Depreciation.....	25,000.00	
Purchases.....	691,985.47	
Bond interest (one-half year to June 30, 1906).....	2,000.00	
Taxes accrued (estimated).....		5,300.00
Bills Payable.....		35,000.00
Accrued interest on Bills Payable...		900.27
First mortgage bonds (4%).....		100,000.00
Surplus.....		26,250.50
	\$3,183,475.69	\$3,183,475.69

The inventory of raw materials and work in progress on December 31, 1906, is valued at \$309,062.05. Before the books are finally closed, it is determined to (a) make a reserve of $1\frac{1}{2}\%$ of \$140,000.00 of the accounts receivable to provide for possible bad and doubtful accounts; (b) add \$1,000.00 to the taxes accrued (estimated) account; (c) to carry to depreciation reserve account a further sum of \$5,000.00. Interest on the bonds to December 31st is also to be provided for.

It is found that *bona fide* renewals of equipment, costing \$17,500.00 have been charged to operating expense; that repairs to equipment, amounting to \$6,000.00 have been charged to equipment account; that \$1,500.00, proceeds of old machinery sold, have been credited to sales account; and that a bill of \$1,560.25 for raw materials received and used, has not been entered on the books. These items are to be taken into account before the books are closed. Three per cent of the net profits for the year is then to be reserved for special compensation to management.

Make journal entries to give effect to the various adjustments above described, and prepare balance sheet and profit and loss account as they will finally appear.

SOLUTION.

JOURNAL OF THE MUKILTEO SHIPBUILDING COMPANY.

ADJUSTMENT ENTRIES.

Equipment	\$17,500.00	
To Operating, Maintenance and General Expenses		\$17,500.00
To transfer and adjust <i>bona fide</i> renewals of equipment, having been charged to operating expenses, to equipment account.		
Operating, Maintenance and General Expenses	6,000.00	
To Equipment		6,000.00
To transfer and adjust this amount charged to equipment, yet constituting only repairs to equipment, but no increase.		

Sales	1,500.00	
To Equipment		1,500.00
To transfer this sum constituting a sale of old machinery, charged errone- ously among sales.		
Raw Materials (purchases).....	1,560.25	
To Accounts Payable		1,560.25
Constituting a charge for raw mate- rials bought, but which, by oversight, have not been entered on the books.		