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Accountancy; Accountants' department; Examination questions; Expert accountant in Ohio

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ACCOUNTANCY.

These columns are intended to embrace topics of interest to accountants, and discussions of, and decisions upon, matters of law involved in various branches of accountancy. Cases bearing upon the management and distribution of trust estates and property are published under this head. These are of importance to trust companies, bankers, and all others charged with the management of trust property; as well as to accountants employed to investigate trusts, make reports, and assist in the rendering of accounts.

EXAMINATION QUESTIONS.

Below is a complete set of the examination questions prepared by the New York State Board of Examiners of expert public accountants pursuant to Chapter 312, Laws 1896, and propounded at the first licensing examination under that law for the issue of certificates to "Certified Public Accountants," conferring the right to use the distinguishing initials C. P. A., held at Buffalo and New York, Tuesday and Wednesday, December 15 and 16, 1896. Names of Board of Examiners, Frank Broaker, Charles E. Sprague, C. W. Haskins.

Subject: Theory of Accounts.

Tuesday, Dec. 15, 1896—9:15 a. m. to 12:15 a. m., only.
100 credits; necessary to pass, 75.

Answer questions 1, 2, 3, 4, 8, 13 and five of the others, but no more. If more than 5 of these questions are answered only the first five of these answers will be considered. Each complete answer will receive ten credits. 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. Use one side of sheet only.

1. State the essential principles of double entry bookkeeping and show wherein it differs from single entry bookkeeping.

2. Describe the following and show wherein they differ: (a) trial balance, (b) balance sheet, (c) statement of affairs, (d) realization and liquidation account.

3. In devising a system of accounts for a business, what are the main subjects for consideration, and in what order should they have attention?

4. Describe the following and show wherein they differ: (a) revenue account, (b) trading account, (c) profit and loss account, (d) deficiency account.

5. State the purposes for which series of perpendicular columns are employed in books of original entry and how these purposes may be accomplished relative to the following conditions: (a) several ledgers comprehended in one system of

accounts, (b) several departments comprehended in one business, (c) several accounts comprehended in income and expenditure.

6. Describe the following and show wherein they differ: (a) statement of income and expenditure, (b) statement of receipts and payments.

7. Describe a method of keeping accounts so that the aggregate sums due from customers and due to creditors can be known without preparing a schedule of the accounts of such customers and creditors, and so that an independent balance of the ledger, containing only the real, nominal, special and controlling accounts, exclusive of the individual accounts of customers and of trade creditors may be taken.

8. Define and differentiate (a) capital and revenue, (b) capital receipts and revenue receipts, (c) capital expenditure and revenue expenditure.

9. How may the accounts in a trial balance be best arranged to facilitate the preparation of a business and financial statement?

10. Define and differentiate: (a) fixed assets and cash assets, (b) fixed liability and floating indebtedness, (c) fixed charges and operating expenses.

11. Describe the following kinds of accounts: (a) personal (b) impersonal, (c)

real, (d) nominal, (e) current, (f) summary.

12. Describe the process and state some of the purposes of analyzing a ledger.

13. Describe the nature of the following accounts: (a) sinking fund, (b) reserve fund, (c) redemption fund, (d) depreciation fund, (e) contingent fund, (f) investment fund.

14. Define the following: (a) stock, (b) capital, (c) surplus, (d) deficiency (e) capital stock, (f) preferred stock, (g) common stock (h) share capital, (i) loan capital.

15. Describe the nature of the following accounts, (a) merchandise, (b) construction, (c) consignment, (d) joint, (e) subscription, (f) expense, (g) maintenance, (h) venture, (i) suspense, (j) dividend.

Subject: Practical Accounting.

Tuesday, December 15, 1896—1:15 to 4:15 p.m. only.
100 credits; necessary to pass, 75.

Answer questions 1 and 2, and two of the others, but no more. If more than two of these other questions are answered only the first two of these answers will be considered. Each complete answer will receive 25 credits. 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 Use one side of sheet only.

1. Jones & Robinson, merchants, are unable to meet their obligations. From their books and the testimony of the insolvent debtors the following statement of their condition is ascertained:

Cash on hand.....	\$5,500
Debtors: \$1,000 good; \$600 doubtful; but estimated to produce \$200; \$1,000 bad.....	2,600
Property estimated to produce \$9,000.....	14,000
Bills receivable, good.....	4,250
Other securities; \$3,000 pledged with partially secured creditors; remainder held by the fully secured creditors.....	28,000
Jones, drawings.....	9,000
Robinson, drawings.....	8,400

Sundry losses	13,500
Trade expenses.....	7,400
Creditors, unsecured.....	25,000
Creditors, partially secured.....	23,900
Creditors, fully secured.....	17,000
Preferential claims: wages, salaries and taxes..	700
Jones, capital,	10,000
Robinson, capital.....	16,050

Prepare a statement of affairs, showing the liabilities and the assets with respect to their realization and liquidation; also a deficiency account showing such of the above stated particulars as would account for the deficiency shown by the statement of affairs.

2. A, B and C enter into partnership January 1, 1895. A contributes \$8,500, B, \$5,500, and C. \$4,500. The profits and losses are to be divided in the same proportion. December 31, 1895, the partners agree that before dividing profits and losses there shall be charged as an expense of the business and placed to their individual credit, salaries as follows: A, \$800, B, \$700, C, \$600.

December 31, 1895, the trial balance of their books showed (as per table on following page.)

Their inventory of stock on hand Dec. 31, 1895, amounted to \$11,337.50. Unexpired insurance premiums, \$91. December 31, 1895, \$300 was paid for January [1896] rent in advance.

Prepare a trading account [cost as against proceeds], a profit and loss account and a balance sheet, also partners' capital accounts as of December 31, 1895, allowing 6 per cent. interest on capital and reserving 2½ per cent. for losses on consignments.

3. A buys a gas business at receiver's sale, taking over the entire plant, subject to a bonded indebtedness of \$9,500. A sells the same to the B Gas Company, incorporated under the laws of the state of New York for the purpose of acquiring this property from him, and having an authorized capital of \$30,000, divided

into 300 shares of \$100 each. C, D and E subscribe each for one share of the capital stock of the company, and the company purchases the property from A for 297 shares and assumes the bonded indebtedness stated.

ment, *which is to remain intact*, they share profits and losses in the proportion of A 47½ per cent., B 27½ per ct., C 25 per cent., in addition to specified salaries.

At the end of the year the partnership

Capital, A.....		\$8,500 00
Capital, B.....		5,500 00
Capital, C.....		4,500 00
Cash on hand and in bank.....	\$1,900 48	
Stock, January 1, 1895.....	11,550 00	
Purchases.....	51,666 70	
Sales.....		25,650 80
Plant and fixtures.....	2,068 92	
Book accounts receivable, including consignments....	20 745 83	
Consignments.....		33,822 70
Trade creditors.....		14,855 66
Loan account.....		6,250 00
Loan interest.....		125 00
Salaries.....	1,257 00	
Wages.....	2,025 00	
Trading expenses.....	1,052 65	
Interest and discount.....	1,273 45	
Losses on exchange.....	2,108 00	
Commissions.....		3,510 20
Drawings, A (includes \$800 salary allowance).....	2,750 25	
Drawings, B (includes 700 salary allowance).....	2,345 65	
Drawings, C (includes 600 salary allowance).....	1,970 43	
	\$102,714 36	\$102,714 36

On making and appraising an inventory of the property for the purpose of distribution to proper accounts the following conservative values, exclusive of good will, franchise rights, etc, are ascertained:

Land.....	\$2,000
Buildings.....	6,000
Coal-gas plant, machinery and fittings.....	3,800
Water-gas plant, machinery and fittings.....	6,000
Mains.....	27,000
Meters.....	1,200
Supplies.....	1,500
Office furniture and fixtures.....	300
Sundry other items.....	1,200
	\$ 49,000

Frame the necessary entries to open the company's books and show the capital stock and the fixed assets on the face of the ledger. Prepare a balance sheet.

4. Three partners invest capital as follows: A \$100,000, B, \$60,000, C \$40,000. On this basis of capital invest-

terminates with a loss of \$10,000, which includes the salaries drawn by the partners. It appears that C had drawn against prospective profits to the amount of \$5,000, and thereby impaired his capital investment by said amount. They discontinue business and proceed to liquidate and distribute the surplus assets monthly as realized. C engages in other business, leaving A and B to attend to the realization and liquidation of the firm's affairs. A and B jointly are to charge C 5 per cent. for collecting and paying to him his share in the surplus assets.

The amounts collected monthly, less liabilities liquidated and expenses and losses on realization [exclusive of the 5 per cent. collection charged to C, the amount of which is to be equally divided between A and B], are as follows:

First Month.....	\$20,250 50
Second month.....	30,490 75
Third month.....	60,890 25
Fourth month.....	58,725 10
Fifth month.....	6,717 68
Last month.....	4,425 72
	\$181,500 00

Prepare partners' accounts showing the amounts payable monthly to each, without prejudice to the rights or individual interests of the others.

5. On January 15, 1896, A of New York, sent to B of London, account sales, showing net proceeds due February 15, 1896, \$17,500, and remitted sixty day sight exchange at \$4.82 for balance of account.

A had on November 15, 1895, invested \$5,000 in a demand draft, exchange at \$4.85, which he remitted to B, and on December 15, 1895, he had further remitted to B a 30 day date draft for £1,759, 16s. 8d., exchange at \$4.83, drawn on C of London, who owes A \$9,000 on open account. Interest to be calculated at 6 per cent. (360 day basis), London date 12 days subsequent to New York date.

Prepare account current as rendered by A to B; also the accounts of B and C as they appear in A's ledger.

6. A, B and C agree to purchase and sell coffee for their joint account.

They purchase 3,000 bags of coffee for \$58,500, and one month thereafter sell the same at 16 cents per lb. (say 130 lbs. to the bag). The warehouse charges, labor, cartage, weighing, brokerage, etc. amount to \$600.

A contributes cash.....	\$20,000 00		
B contributes note at			
4 months.....	\$19,000		
Discount at 6 per cent			
on same	?		?
C contributes cash.....	\$18,000		
C contributes note at			
3 months.....	\$2,500		
Discount at 6 per cent			
on same	?	?	?
			\$59,982 50

It was arranged that each should contribute equally to the requisite purchase money, in default of which, interest at 6 per cent. per annum for the month covering the transaction was to be calculated between them to equalize their respective contributions.

Prepare an account of the venture; also separate accounts of A, B and C, showing the share of each in the final net proceeds.

Subject: Auditing.

Wednesday, Dec. 16, 1896—9:15 a.m. to 12:15, p.m. only.
100 credits; necessary to pass, 75.

Answer questions 1, 8, 10, 14, 15 and five of the others, but no more. If more than five of these other questions are answered only the first five of these answers will be considered. Each complete answer will receive 10 credits. 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. Use one side of sheet only.

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

2. Explain the principal points to which an auditor should direct his attention in conducting the audit of the accounts of an incorporated company.

3. If the actual cash on hand at the date of the balance sheet had not been verified by the auditor on the day of balancing, what method should be employed to prove its correctness before signing the accounts?

4. In an audit where an exhaustive detailed examination of the books is not stipulated, or not practicable, what examination is essential to insure their general correctness?

5. What means should be employed to detect the wilful omission to enter in the books under audit, sales made or cash received?

6. State what should be required of a company or firm by one who is to make an audit of his books.

7. What evidence should be required as to the correctness of values of assets [other than customer's accounts] entered in the books?

8. State what is necessary in auditing cash payments, and how to prevent the reproduction and passing of vouchers a second time.

9. State what examination should be made of the receivable book accounts of a firm or company to ascertain what accounts if any should be written off as bad?

10. How may it be determined whether certain expenditures of a manufacturing business were of the nature of maintenance and repairs or constituted an actual betterment of the plant? State how in each case they should be dealt with in the balance sheet and in the profit and loss account.

11. In auditing the accounts of a business for the first time, what books should be produced? What would be the first duty of the auditor respecting these books?

12. 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?

13. To what extent should an auditor hold himself responsible for the correctness of [a] inventories, [b] pay-rolls, [c] depreciations and discounts?

14. In an audit stipulating for the examination of all vouchers of every description, what would be proper vouchers for the following: purchases, returned purchases, sales, returned sales, cash receipts, cash payments, journal entries?

15. 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] open book accounts receivable, [e] stocks, bonds and other investment, [f] bills receivable?

Subject: Commercial Law.

Wednesday, December 16, 1896—1:15 to 4:15 p.m. only.
100 credits; necessary to pass, 75.

Answer questions 1, 2, 7, 8, 10, and five of the others, but no more. If more than five of these other questions are answered only the first five of these answers will be considered. Each complete answer will receive ten credits. 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. Use one side of sheet only.

a. Draw the following promissory notes and forms of indorsement:

NOTES.

1. Not negotiable; maker, John Brown; payee, Walter Jones; amount, \$1,000.25; time, four months; place of payment, B'k. of America.
2. Negotiable; maker, payee, amount, time and place of payment as in 1.
3. Negotiable; requiring no indorsement.

INDORSEMENTS.

4. Indorsement by above payee, in blank.
 5. Indorsement by above payee, to Robinson & Co. in full, and further negotiable.
 6. Indorsement by Robinson & Co., relieving them from further liability.
 7. Indorsement by Robinson & Co., to Henry Miller, not further negotiable.
- b. When an indorsed promissory note is not payable at maturity:

1. What course should the holder pursue in order to prove presentation?

2. Against whom can the holder bring suit for recovery?
 3. Against whom can the indorser who has been compelled to pay this dishonored note bring suit for recovery?
 4. Under what circumstances is an indorser relieved from liability?
 5. How may the holder be relieved from the necessity of protesting for non-payment?
 6. What are the principal defenses that may be urged by the maker of a note in an action for non-payment?
 7. What defense, (good as against the payee or indorser who has knowledge thereof) will not relieve the maker from liability to a subsequent purchaser in good faith before maturity?
 8. How is the liability of indorsers affected by an agreement between the holder and the maker of the note to extend time of payment beyond maturity?
- c. Draw the following bills of exchange and forms of indorsement and acceptance:
- DOMESTIC BILL.
1. Drawer, Smith & Jones, Boston; drawee, Brown & Robinson, New York; amount, \$500 50; payee, Edward Hunt, New York; time, 10 days sight.
 2. Indorsement by payee in blank.
 3. Acceptance by drawee, payable at Bank of New York.
- FOREIGN BILL.
1. Drawer, J. M. Wilson, Son & Co., London; drawee, Flint, Eddy & Co., New York; amount, \$9,000, 50; payee, Marquand & Bro., Boston; time, 60 days date.
 2. Indorsement by payee to . . . in full.
 3. Form of drawee's acceptance.
- d. If the drawee of a draft or bill of exchange refuses to accept the same on presentation:
1. How is the due date of the draft or bill affected?
 2. In what manner, if any, is he liable under the draft, or bill, if he has funds of the drawer or is indebted to the drawer?
 3. On what grounds can the holder commence action?
 4. How can a third party prevent the bill from becoming due at once, and what would be his position if obliged to pay the bill?
- e. What is a *corporation*, and how does it differ from a joint stock company?
- f. Describe briefly the following:
1. A sole corporation.
 2. A corporation aggregate.
 3. An eleemosynary corporation.
 4. A public corporation.
 5. A private corporation.
- g. Answer briefly:
1. How may corporations be created?
 2. What acts of a corporation are called *ultra vires*?
 3. What is a *franchise*?
 4. Through whom does a corporation act in transacting its business?
 5. By whom must all contracts, deeds, mortgages, leases and other instruments binding a corporation be signed and whence do the signers derive their authority?
 6. Explain the manner of issuing and of transferring the capital stock of a corporation and state the principal rights acquired by stockholders.
 7. What is the limit of a stockholder's liability?

8. How may a corporation be dissolved?
- h.* Answer briefly:
1. What is a contract?
 2. How is a contract made?
 3. What are some kinds of contracts which must be in writing?
 4. What are some forms of contracts which must be under seal?
 5. Which contracts if made on Sunday are void, and which not void?
- i.* Answer briefly:
1. What is a *debt* and what can a creditor demand in payment of a debt?
 2. When a creditor accepts in satisfaction payment of less than the full amount of a debt, how can the debtor guard against further demands?
 3. When, where and to whom must payment of a debt be made?
 4. Is a debtor legally entitled to a receipt?
 5. Which has the prior right to apply a payment against any one of several debts, the debtor or the creditor?
6. When a partial payment is made on a debt bearing interest, in what manner is it applied?
 7. When does the period of limitation begin to run, and what are some of the ways in which its operation can be modified?
- j.* What is a *partnership*? How may the relationship of partner be established? Define *nominal partner*, *dormant partner*, *silent partner*, *special partner*.
- k.* In what respects are partners trustees for each other, and in what respects are they agents for each other?
- l.* What are the relative liabilities of a new partner and a retiring partner?
- m.* How is a limited partnership formed?
- n.* State the difference between a sale and a consignment.
- o.* What kind of action can the consignor maintain against a consignee who converts to his own use the proceeds of the sale of consignor's goods?

EXPERT ACCOUNTANT IN OHIO.

Power to compel witnesses to testify in investigations of school districts. Opinion of Attorney-General Monnett.

COLUMBUS, O., December 17, 1896.

Hon. O. T. Corson, State School Commissioner,
Columbus, Ohio.

DEAR SIR: This department has the honor to be in receipt of a communication from you asking for an official opinion in writing on section 365, R. S. especially requesting to know the power of an accountant to compel witnesses to testify when directed by your department on a complaint for fraudulent use of money, first, as to the power, and second, as to the course he should pursue in the event that the witness should refuse to appear and give the testimony required by this section.

Section 364 makes it incumbent on you as school commissioner, when a complaint is made

in writing, verified by the affidavits of at least three free holders and taxpayers, resident of any school district of the state, and setting forth sufficient grounds and demanding an examination of the books, accounts and vouchers, etc., you are authorized and required to appoint some trustworthy and competent accountant for the purpose of investigating such complaint. And such accountant shall visit such school district, take possession of all the books and papers, vouchers and accounts of such district, and investigate the truth of the allegations of such complaint, and the condition of the school fund of such district.

Section 365 empowers such examiner to call before him forthwith upon written notice, and examine witnesses under oath to be administered

by him. And he shall immediately after completing such investigation, report in writing, etc.

Section 2 R. S., requires each person chosen or appointed to an office under the constitution or laws of the state, before entering upon the discharge of his duties, to take an oath of office, and this, I take it, is true, whether the special statute appointing the officer requires such oath or not.

Section 5252 provides, disobedience of a subpoena, a refusal to be sworn except in case of a refusal to pay fees on demand, a refusal to answer as a witness when lawfully ordered, may be punished as a contempt of the court or officer by whom the attendance or testimony of the witness is required. The exception to this principle, under the constitution, would be that a witness is not bound to answer any question that will directly or indirectly criminate himself and he has a right to determine for himself whether the answer will have that effect. But a witness may not refuse to answer a question pertinent to the issue, on the ground that the answer will tend to disgrace such witness, when it will not tend to criminate him when the witness so testifies.

Section 5253 provides that when a witness fails to attend in obedience to a subpoena the officer before whom his attendance is required, may issue an attachment to the sheriff, coroner or constable of the county, commanding him to arrest and bring the person therein named, before such officer at the time and place to be fixed in the attachment, to give his testimony and answer for the contempt. If the attachment is not for immediately bringing the witness before the court or officer, a sum may be fixed in which the witness may give an undertaking with surety for his appearance, which sum shall be indorsed on the back of the attachment, and if no sum is so fixed and indorsed, it shall be \$100. And if the witness was not per-

sonally served, the court may by a rule order him to show cause why an attachment should not issue against him.

When a witness fails to attend in obedience to the subpoena, the court or officer may fine him in a sum not exceeding fifty dollars, or may imprison him in the county jail, there to remain until he submits to be sworn, and testify or give his deposition. The fine imposed by the court shall be paid into the county treasury, and that imposed by an officer shall be for the use of the party for whom the witness was subpoenaed and the witness shall also be liable to the party injured for any damage occasioned by his failure to attend, or his refusal to be sworn and testify, or to give his deposition.

It would seem to me that if such accountant was duly appointed and qualified, and complies strictly with the powers and duties imposed under section 364 and section 365, that the written notice provided for in said section supplies the place of a subpoena, and when such subpoena is properly served upon a witness, such witness is bound to appear before such officer, and such officer would have like powers of a notary public under similar circumstances; without such means and powers to enforce the duties devolving upon such examiner, the section would be a dead letter law. It is not a judicial act in the sense of the constitution conferring judicial powers upon the courts of the state. When the question propounded involves no question of privilege on the part of the witness, it is his duty to answer, if ordered by the accountant to do so. And if he is properly before the accountant under such written notice, and he refuses to answer when ordered by the officer, he may be committed as a contumacious witness, in compliance with the above statute cited for such procedure.

Respectfully submitted,

F. S. MONNETT, Attorney General.

December Bank Clearings, says Bradstreets', reflect the disappointingly quiet condition of trade following the November activity growing out of election. The total clearings at 68 cities for the last month of the year aggregate \$4,687,326,080, a decrease of nearly 7 per cent. from December 1895, although a gain of

2.7 over November, and an increase of 2.3 per cent. over January, the heaviest month's total in 1896. Compared with December 1894, the increase is 9.3 per cent., and compared with December, 1893, following the panic, the increase is more than 15 per cent.--The "Investor."