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New York C. P. A. Examinations of June, 1912

Paul-Joseph Esquerre

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New York C. P. A. Examinations of June, 1912

BY PAUL-JOSEPH ESQUERRÉ, C.P.A.

PRACTICAL ACCOUNTING—PART II

UNIVERSITY OF THE STATE OF NEW YORK

33D ACCOUNTANT EXAMINATION

Wednesday, June 26, 1912—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 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 (v) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

4. TRIAL BALANCE OF THE GENERAL LEDGER OF JOHN DOE, CIVIL ENGINEER, DECEMBER 31, 1911

Cash	\$10,572.44	Manhattan Construction..	\$ 5,000.00
Furniture and fixtures ...	1,054.68	Report No. 1 Sewanee	
Real estate (Rutherford		Creek Railroad	5,300.00
home)	6,000.00	Report No. 2 Englewood	
Investments in stocks	15,457.50	Reservoir	4,500.00
Investments in bonds	3,000.00	Report No. 3 Long Acre	
Missouri Pacific—margin		Library	3,200.00
account	13,000.00	Connecticut T r a m w a y s	
Accounts receivable	15,361.32	Company	1,950.00
General expense	9,800.00	Earnings—consulting	2,000.00
Interest	1,060.00	Report fees	16,000.00
		Sharp & Co., brokers.....	11,310.00
		Stocks and bonds	4,300.00
		Capital	21,745.94
	\$75,305.94		\$75,305.94

Analyses:

General expense—Salaries: John Doe \$6,000, other salary \$1,800; rent \$1,000; advertising \$600; cables and telegrams \$90; stationery and printing \$110; other expenses \$200.

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Interest— Debited with \$1,300 charged by Sharp & Co., brokers, on margin account; reduced by dividends of \$390, credited by Sharp & Co. on margin account. Balance on loans since repaid.

Manhattan Construction Co.—Represents consulting fees received during the year 1911, the contract running from month to month, with no expense to John Doe.

Reports 1-3 Are completed and delivered. Account contains fees, less expenses.

Connecticut Tramways Co.—Represents \$2,000 received November 1, 1911, and expenses of \$50; according to terms of contract, John Doe, is to act as consulting engineer for 10 months and to receive altogether \$5,000.

Report Fees—Fees received under contract for report. \$9,000 received on contracts on which no work has been done; balance is earned.

Stocks and Bonds—Are sold. Account represents balance.

Additional Facts—Dividends on stocks received during the year amount to \$1,985 of which \$1,000 was applied to the account Investment Stocks and \$985 was applied to Stocks and Bonds sold.

Prepare (a) a balance sheet at December 31, 1911 with your certificate attached, (b) an income statement showing John Doe's true earning power as a civil engineer, (c) the journal entries supporting your adjustments of the books, if any.

5. The following is the trial balance of the Rawdeal Co. June 1, 1911, on which day the directors of the Company resolve that the secretary of the Company be authorized to call a meeting of the stockholders, to vote on the immediate dissolution of the Company:

Land	\$15,000.00	*Bond secured by mortgage—6%	\$26,000.00
Building and realty fixtures	40,000.00	Interest accrued on bond secured by mortgage...	312.00
Machinery and machine tools	35,000.00	Accounts payable	21,700.00
Shop and hand tools (in store)	5,000.00	Reserve for depreciation of building	5,300.00
Furniture and personalty fixtures	9,700.00	Reserve for depreciation of machinery	8,000.00

* Building and realty fixtures pledged thereunder.

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Raw materials and freight thereon 10,350.00 Accounts receivable 23,400.00 Cash in bank and in offices 11,320.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$149,770.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	Reserve for depreciation of furniture and fixtures 5,100.00 Surplus 23,358.00 Capital stock, authorized, issued and outstanding.. 60,000.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$149,770.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>
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The stockholders' meeting was held on July 1, 1911, and the dissolution took place. The Company sold the building and its equipment to the mortgagee for \$34,000 as of August 15, 1911. On September 1, 1911 the cash book showed:

Debits: Building and realty fixtures \$7,454; machinery \$25,340; shop and hand tools \$2,100; furniture and fixtures \$3,700; raw materials \$7,950; accounts receivable \$23,130.

Credits: Accounts payable \$21,700; expenses \$1,530.20.

Prepare (a) the journal entries affecting the dissolution of the Company, (b) a statement of realization and liquidation that will show the per cent received by the stockholders on their holdings.

6. On April 30, 1911 St. John & Co. and Carpel Bros. enter into a joint venture agreement. They each contribute \$4,000 with which they pay for goods that are shipped on May 1 to John Doe of San Francisco. St. John & Co. advance \$400 to defray freight and incidental expenses. John Doe, the consignee, is allowed 10% on the cost of the goods and is to sell them at whatever price he can obtain for them.

On June 1, 1912, on the strength of a report sent by wire, Carpel Bros. draw at sight on John Doe for \$4,000 to the order of Carl Peter of New York. On July 1, 1912 St. John & Co. receive from the consignee a check for \$11,200, all the goods being sold; on the same day St. John & Co. settle with Carpel Bros. Interest at 6% is allowed on all the transactions affecting the partners in the venture.

Prepare all the ledger accounts brought about by the above, on the books of St. John & Co., including a joint venture account. (Construct your ledger accounts in such a manner that they will explain fully what took place, and make a cross reference possible.)

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SOLUTION OF PROBLEM NO. 4

JOHN DOE, CIVIL ENGINEER

GENERAL BALANCE SHEET AT DECEMBER 31, 1911

<i>Capital Assets:</i>		<i>Proprietorship:</i>	
Real estate (home, Ruth-		Deferred credits to in-	
erford)	\$ 6,000.00	come:	
Furniture and Fixtures ..	1,054.68	Unearned fees, subject-	
<i>Investments:</i>		ing John Doe to no	
Stocks of other com-		liability other than	
panies	16,457.50	professional services:	
Bonds of other com-		Consulting fees	\$ 9,000.00
panies	3,000.00	Report fees	4,000.00
Total	<u>\$26,512.18</u>	Total deferred	
		credits	\$13,000.00
<i>Speculative Assets:</i>		Capital, as per Ex-	
Missouri Pacific stock—		hibit "B"	45,045.94
margin account:			
Cost of in-			
vestment ...	\$13,910.00		
Less due to			
Sharp & Co.,			
brokers	11,310.00		
John Doe's equity.....	<u>\$ 2,600.00</u>		
<i>Current Assets:</i>			
Cash	\$10,572.44		
Accounts receivable	18,361.32		
	<u>\$28,933.76</u>		
<i>Total Assets</i>	<u>\$58,045.94</u>	<i>Total Proprietorship</i>	<u>\$58,045.94</u>

EXHIBIT "A"

I hereby certify that, in my opinion, the above General Balance sheet, marked "Exhibit A," reflects the true financial status of the business of John Doe, Civil Engineer, at December 31, 1911.

CANDIDATE'S NO.
Certified Public Accountant.

SOLUTION OF PROBLEM NO. 4

JOHN DOE, CIVIL ENGINEER

STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED
DECEMBER 31, 1911

<i>Earnings:</i>	
Report fees	\$20,000.00

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Consulting fees	\$8,000.00	
Less consulting expenses	50.00	7,950.00
		\$27,950.00
<i>Cost of Earnings:</i>		
Expenses:		
Office salaries	\$ 1,800.00	
Rent	1,000.00	
Advertising	600.00	
Cables and telegrams	40.00	
Stationery and printing	110.00	
Other expenses	250.00	
		3,800.00
<i>Net Earnings from Operations</i>		\$24,150.00
<i>Additions to Income:</i>		
Dividends on stocks		1,985.00
		\$26,135.00
<i>Deductions from Income:</i>		
Interest on loans		150.00
<i>Income from all Sources</i>		\$25,985.00
<i>Profit on Sale of Ledger Assets:</i>		
Stocks and bonds		3,315.00
<i>Net profit for the period</i>		\$29,300.00
Deduct:		
Withdrawn by John Doe under the form of salary.....		6,000.00
<i>Net increase of capital for the period</i>		\$23,300.00
<i>Capital at beginning of the period</i>		21,745.94
<i>Capital at December 31, 1911</i> [Exhibit "A"].....		\$45,045.94

EXHIBIT "B"

SOLUTION OF PROBLEM No. 4

JOHN DOE, CIVIL ENGINEER

ADJUSTING JOURNAL ENTRIES

Salary, John Doe	\$6,000.00	
Office salaries	1,800.00	
Rent	1,000.00	
Advertising	600.00	
Cables and telegrams	40.00	
Stationery and printing	110.00	
Other expenses	250.00	
To general expenses		\$9,800.00
To set up result of analysis of general expense.		

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Missouri Pacific—margin account\$1,300.00
 To interest \$1,300.00

To charge the speculative investment account with the interest charged thereon by the brokers; this has been erroneously debited to income.

Interest\$ 390.00
 To Missouri Pacific—margin account \$ 390.00

To take out of interest account, and credit to the speculative investment account the dividends on stocks held on margin, as credited by the brokers.

Manhattan Construction Co.\$5,000.00
 To earnings—consulting \$5,000.00

To credit to earnings the fees earned on this contract, and close the personal account which gives the impression that the account is a liability.

Reports Nos. 1, 2, 3\$13,000.00
 To report—fees \$13,000.00

To credit to earnings the profits made on these contracts, and close the personal accounts which give the impression that the accounts are liabilities.

Accounts receivable\$5,000.00
 To consulting fees unearned \$5,000.00

To set up the amounts receivable under contract with Connecticut Tramways Co., and reflect the same amounts in an account from which the earnings will be taken as they mature.

Engineering expense\$ 50.00
 To Connecticut Tramways Co. \$ 50.00

To set up the expenses incurred under this contract, which have been debited to a personal account supposed to contain the earnings.

Connecticut Tramways Co.\$2,000.00
 To accounts receivable \$2,000.00

To close the personal account which was opened upon receipt of the first installment of \$2,000, but had the disadvantage of giving the impression that it was a liability; and credit the amount received thereunder to the accounts receivable which were charged with the whole fee contracted for, as shown in a journal entry preceding this one.

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Report fees	\$9,000.00	
To report fees unearned		\$9,000.00
To take out of the earnings the amount received under contracts on which no work has been done.		
Consulting fees unearned	\$1,000.00	
To engineering earnings		\$1,000.00
For amount earned in November and December, at the rate of \$500 a month.		
Investment in bonds	\$1,000.00	
Stocks and bonds	985.00	
To dividends on stocks		\$1,985.00
To increase investments by amount of dividends credited to them; decrease profit shown to have been made on investments sold by amount of dividends which reduced the cost; and to show the dividends as additions to income.		

SOLUTION OF PROBLEM No. 5

THE RAWDEAL COMPANY

TREASURER'S STATEMENT OF REALIZATION, LIQUIDATION AND DISSOLUTION

REALIZATION AND LIQUIDATION:

Assets to be realized:

Land	\$15,000.00	
Building and realty fixtures	40,000.00	
Machinery and machine tools	35,000.00	
Shop and hand tools	5,000.00	
Furniture and personalty fixtures	9,700.00	
Raw material	10,350.00	
Accounts receivable	23,400.00	
Total assets to be realized...		\$138,450.00

Liabilities to be Liquidated:

<i>a Outstanding at June 1, 1911:</i>		
Bond secured by mortgage	\$26,000.00	
Interest accrued on bond and mortgage	312.00	
Accounts payable	21,700.00	
Total		\$48,012.00
<i>b Incurred during dissolution:</i>		
Additional interest on bond and mortgage	234.00	
Total liabilities to be liquidated		\$ 48,246.00

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Assets Realized:

a In cash:

Building and realty fixtures	\$ 7,454.00
Machinery	25,340.00
Shop and hand tools	2,100.00
Furniture and fixtures	3,700.00
Raw materials	7,950.00
Accounts receivable	23,130.00
Total	\$69,674.00

b Through liquidation of mortgage liability:

Buildings and realty fixtures	26,546.00
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Total assets realized	96,220.00
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Liabilities Liquidated:

a In cash:

Accounts payable	\$21,100.00
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b Through realization of assets:

Building and realty fixtures..	26,546.00
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Total liabilities liquidated	\$48,246.00
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Assets Not Realized:

Land	15,000.00
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Losses on Realization of Assets:

Building and realty fixtures.....	\$ 6,000.00
Machinery and machine tools	9,660.00
Shop and hand tools	2,900.00
Furniture and personalty fixtures.....	6,000.00
Raw material	2,400.00
Accounts receivable	270.00

Total	27,230.00
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Total realization and liquidation.....	\$186,696.00	\$186,696.00
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Distribution of Surplus:

Balance of surplus at June 1, 1911.....	\$ 23,358.00
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Transfer of appropriated surplus:

Reserves for depreciation:

Building and realty fixtures	\$ 5,300.00	
Machinery and machine tools	8,000.00	
Furniture and personalty fixtures...	5,100.00	18,400.00

Losses of realization of un-depreciated book value of assets, as shown above \$27,230.00

Additional interest on bond and mortgage incurred during dissolution 234.00

Expenses incident to realization and liquidation 1,530.20

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Final dividend of 21.273% paid		
in cash	12,763.80	\$ 41,758.00
Total	\$ 41,758.00	\$ 41,758.00

Liquidation of the Company's Liability to Stockholders:

Capital stock outstanding.....	\$60,000.00	
Cash paid to stockholders:		
Balance June 1, 1911		\$11,320.00
Net proceeds of realization and liquidation, after deducting expenses and dividend of 21.273%		33,680.00
Total paid to stockholders, i. e., 75% of stock		\$45,000.00
Value of land remaining unsold, representing 25% of the outstanding stock to be distributed when disposed of		15,000.00
Total	\$60,000.00	\$60,000.00

SOLUTION OF PROBLEM NO. 5—PART II

THE RAWDEAL COMPANY

JOURNAL

Pro-Forma

June 1, 1911 At a meeting of the board of directors held this day, it was resolved:

"That the secretary be and is hereby authorized to call a special meeting of stockholders, for the purpose of considering a proposition to dissolve the Rawdeal Company at once."

July 1, 1911 The stockholders of the Rawdeal Company having been apprised of the above resolution of the board of directors, and notified, both by mail and by publication, that a meeting would be held on July 1, 1911, the meeting was duly held on this day, and it was resolved that the Company be dissolved forthwith. Accordingly the secretary was instructed to file the proper papers with the Secretary of State.

In accordance with the above resolutions, the Company has been dissolved, and the following entries are made to reflect the transactions incident to the dissolution, as well as to group the resulting facts so as to show what took place.

NOTE—Credits of Journal entries Nos. 1, 5, 10, 11, and 12, and debits of Journal entries Nos. 2, 4, 7, and 8 should not be posted from the Journal, since they have been posted from the books of original entry. Debits and credits to Realization and Liquidation should be posted in detail.

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No. 1	Realization and Liquidation	\$138,450.00	
	To land		\$ 15,000.00
	Building and realty fixtures		40,000.00
	Machinery and machine tools		35,000.00
	Shop and hand tools		5,000.00
	Furniture and personalty fixtures....		9,700.00
	Raw material		10,350.00
	Accounts receivable		23,400.00
	To transfer the undepreciated book value of the assets to be realized to an account which will show the individual as well as the aggregate result of the realization.		
No. 2	Bond secured by mortgage	26,000.00	
	Interest accrued on bond and mortgage....	312.00	
	Accounts payable	21,700.00	
	To realization and liquidation		48,012.00
	To transfer the book amount of the liabilities to be liquidated, to an account which will show the individual as well as the aggregate liquidation.		
No. 3	Surplus	234.00	
	To realization and liquidation		234.00
	To set up in the group account, and charge to surplus, the additional interest on bond and mortgage, accrued between June 1, 1912, and the date of the sale of the pledge by the mortgagee.		
No. 4	Cash	69,674.00	
	To realization and liquidation		69,674.00
	To record in the group account the proceeds of the realization of the assets, as follows:		
	Building and realty fixtures....	\$ 7,454.00	
	Machinery	25,340.00	
	Shop and hand tools	2,100.00	
	Furniture and fixtures	3,700.00	
	Raw materials	7,950.00	
	Accounts receivable	23,130.00	
		<u>69,674.00</u>	
No. 5	Realization and liquidation	21,700.00	
	To cash		21,700.00
	To record in the group account the liquidation of the liability "Accounts Payable."		
No. 6	Realization and liquidation	26,546.00	
	To realization and liquidation		26,546.00
	To record on the credit side of the group account the proceeds of the sale of the pledge securing the mortgage bond, which were retained by the mortgagee to satisfy		

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his claims for principal and interest; and, on the debit side, the liquidation of the liability through that retention of proceeds.

No. 7	Land	15,000.00	
	To realization and liquidation		15,000.00
	To take out of the group account the book value of the asset land, which has not been realized.		
No. 8	Surplus	27,230.00	
	To realization and liquidation		27,230.00
	To record in the group account, and charge to surplus, the loss sustained on the undepreciated value of the assets disposed of, as follows:		
	Building and realty fixtures....\$	6,000.00	
	Machinery and machine tools...	9,660.00	
	Shop and hand tools	2,900.00	
	Furniture and personalty fixtures	6,000.00	
	Raw material	2,400.00	
	Accounts receivable	270.00	
		<u>\$27,230.00</u>	
No. 9	Reserve for depreciation of realty fixtures..	5,300.00	
	Reserve for depreciation of machinery and machine tools	8,000.00	
	Reserve for depreciation of furniture and personalty fixtures	5,100.00	
	To surplus		18,400.00
	To transfer to the account from which they were appropriated the reserves for depreciation which will act as offsets of the losses sustained on the undepreciated value of the assets.		
No. 10	Surplus	1,530.20	
	To cash		1,530.20
	For expenses incident to realization, liquidation and dissolution.		
No. 11	Surplus	12,763.80	
	To cash		12,763.80
	For final dividend of 21.273% paid in cash to stockholders.		
No. 12	Capital stock	45,000.00	
	To cash		45,000.00
	For distribution of cash to stockholders, the distribution representing 75% of the par value of the stock. The balance is represented by the asset land, still unsold.		

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SOLUTION OF NO. 6

JOINT VENTURE

BOOKS OF ST. JOHN & CO.

JOINT VENTURE

1911						
	May 1	Carpel Bros.—investment....	\$ 4,000.00	1911		
		St. John & Co.—investment..	4,000.00	May 1	Consignee—goods	\$ 8,000.00
		“ “ “ expenses ...	400.00	1912		
	1912			July 1	Consignee—profit	8,000.00
	July 1	Consignee—commissions	800.00		Carpel Bros.—interest	20.00
		St. John & Co.—interest on investment	280.00			
		Carpel Bros.—interest on investment	280.00			
		St. John & Co.—interest on advances	28.00			
		Carpel Bros.—profit	3,116.00			
		St. John & Co.—profit	3,116.00			
			\$16,020.00			\$16,020.00

CARPEL B ROTHERS

	1912			1911		
	June 1	Consignee—draft	\$ 4,000.00	May 1	Joint venture—investment ...	\$ 4,000.00
		Joint venture—interest draft.	20.00	1912		
		Cash—settlement	3,376.00	July 1	Joint venture—interest on investment	280.00
					Joint venture—profit	3,116.00
			\$ 7,396.00			\$ 7,396.00

ST. JOHN & CO.

	1912			1911		
	July 1	Cash—settlement	\$ 7,824.00	May 1	Joint venture—investment....	\$ 4,000.00
					“ “ advances ...	400.00
				1912		
				July 1	Joint venture—interest on investment	280.00
					Joint venture—interest on advances	28.00
					Joint venture—profit	3,116.00
			\$ 7,824.00			\$ 7,824.00

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CONSIGNEE

May 1 1912 Joint venture—goods\$ 8,000.00 July 1 1912 Joint venture—profit 8,000.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$16,000.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	June 1 1912 Carpel Bros.—draft\$ 4,000.00 July 1 1912 Joint venture—commission .. 800.00 Cash—settlement 11,200.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$16,000.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>
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CASH

July 1 1912 Consignee—balance due on sales\$11,200.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$11,200.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	July 1 1912 Carpel Bros.—settlement\$ 3,376.00 St. John & Co.—settlement.. 7,824.00 <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <p style="text-align: right; margin-right: 20px;">\$11,200.00</p> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/>
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COMMENTS ON PROBLEMS OF PART II

PROBLEM NO. 4

An acceptable solution of this problem depended upon the candidate's clear understanding of the logic of accounting methods and of the results which they strive to obtain.

The first thing to be borne in mind is that the statement of income and profit and loss, which the problem requires, has to be so constructed as to draw a sharp line between what John Doe has earned as civil engineer; what he has earned as a result of his activities outside of his business; what he has lost through the financing of his enterprise; what he has obtained in the form of profits through the sale of his invested profits of prior periods; and, finally, the net amount which he has sent to his capital account after deducting from his net profit for the period, the amount withdrawn by him under the form of salaries.

It must appear, from reading of the requirements of the problem, that the general expenses which contain an amount of \$6,000.00 paid by John Doe to himself under the form of salaries, must be relieved of that amount, in order that his true earning power as a civil engineer may be shown.

Passing now to the consideration of the individual items which necessitate adjustments:

(a) The interest charged by Sharp & Co., brokers, on the value of the stock purchased by them, on margin, for the account of John Doe, represents cost of carrying the stock; the dividends received by the broker are the property of John Doe who has legal title to the securities, and reduce the cost of carrying the margin investment. It is plain, then, that the speculative investment account should be debited with the interest and credited with the dividends. It is only when this has been done that John Doe's true equity may be shown at its true worth, since he owes the broker not only the proportion of the original cost which the margin does not cover, but, as well, the difference between the interest charged and the dividends credited.

(b) In regard to income earned and income unearned: Reports 1, 2 and 3, as they appear on the trial balance, create the impression that they are liability accounts, while the reading of the text of the problem elucidates the fact that they are net earnings. It seems, then, that a journal entry should be made, closing those personal accounts into the earning account "Report Fees" which appears also on the trial balance. There is no apparent reason why two different methods of recording should have been adopted by John Doe, and, if only for the sake of uniformity, a logical adjustment of the facts is in order. Thus, we obtain an account containing true earnings, and, at the same time, an amount of \$9,000, which, while received in cash, has not yet been earned. Hence, we must now take out of the earning account "Report Fees," and set aside as unearned, the fees received, for which John Doe is liable to the extent of services to be performed.

(c) The account "Manhattan Construction Company" is essentially an earning account, although, in common with the three accounts following, it gives the impression of being a liability. It should be closed by journal entry into the account "Earnings-Consulting."

(d) The adjustment of the facts given in connection with the Connecticut Tramways Co., could be made in several ways, all of which might be as good as and perhaps simpler than the one given in this solution. It is believed, however, that it is advantageous to John Doe to have in his general ledger two accounts, one of which will at all times reflect the balance due

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by his client, while the other measures the money value of his liability for professional services.

As to what the problem states as "Additional Facts."

The result of the entries made by John Doe in connection with the dividends received by him on the stocks which he owned outright has been to reduce their book value; thus, the profit shown by his books at the time of the sale of certain securities was inflated by the amount of the value of the asset which had been lost through the failure to show the income received thereunder. If the Statement of Income which is to be submitted is to be accurate, that is to say if the analytical arrangement of nominal facts is to reflect the true fluctuations of assets and liabilities during the period, we must send back to the debit of investments still held the amount of book value which has been erroneously deducted therefrom, and to the account "Stocks and Bonds" which purports to represent the profit made on sales of investments the amount of the income received thereunder prior to the sale of the asset.

The expression of the adjusted facts in statement form is sufficiently clear in the solution presented not to require any further comments. Without wishing to reopen an odious discussion in regard to the merits of the statement of income as compared with the merits of the profit and loss account, it may be said that since the board of C. P. A. examiners required a "Statement," it would have been, to say the least, unwise to submit an account. This is the time and the place to point out to the candidates the danger of not conforming to the requirements of practical tests.

The balance sheet submitted in this solution is interesting, because it contains no liabilities whatever. The reason why the amount due to Sharp & Co., brokers, has been deducted from the book value of the speculative asset is that, strictly speaking, John Doe is liable to his brokers only in case he decides to take up the stock which they hold for him on margin. He may order that the stock be sold at a time when its fluctuation will be favorable to him; in this case, he will pay the broker nothing whatever; the broker will, on the contrary, send him a cheque for the amount of his equity in the stock sold.

If, the balance sheet shows no liabilities of any kind, it is

evident that John Doe is the absolute proprietor of all his assets, even to the inclusion of the values representing the amount of the "Deferred Credits to Income." In regard to the latter, it is firmly believed that they represent absolute proprietorship, since John Doe's only liability on the premises is one of professional services, so long as his business remains on the basis of a going concern. It may be said, further, that so far as the contract with the Connecticut Tramways Company is concerned, the fees receivable thereunder are, to all intents and purposes, a retainer, which must be paid at all events, whether or not the engineer is called in consultation during the period involved.

PROBLEM NO. 5

The theory of what has been referred to in C. P. A. examinations as either "account" or "statement" of realization and liquidation, is generally misunderstood by the student of accounting, because he fails to appreciate the conditions under which business concerns face dissolution, or weather financial storms in the hands of a trustee.

In the past, we have had problems assuming that: (a) the dissolution was attended to by a duly-appointed receiver, or trustee; (b) the affairs of the concern suffering from financial embarrassment were being conducted temporarily by a receiver whose duty it was to operate the business, and to turn back to the rehabilitated company the assets and liabilities shown by his books at the close of his administration; (c) the concern was dissolving voluntarily at the hands of one of its officers.

It would be fatal to imagine that the treatment of the realization and liquidation statement (or account) is identical under the three conditions named, and that the form given for one in the course of a class room demonstration applies to all of them.

Whenever a receiver assumes control of the affairs of a concern, with a view to dissolution, he may or he may not open new books. Whatever the case may be, the statement of realization and liquidation which he may prepare in final accounting properly states: (a) that he debits himself with the assets taken over to be realized; (b) that he credits himself with the liabilities which had to be liquidated out of the proceeds of the assets; (c) that, standing charged with the net book value of the assets,

he accounts: (1) for the assets, by showing what he has received for them in cash, and what he has lost thereunder; (2) for the liabilities, by showing what he disbursed to liquidate them; (3) for the shrinkage of realized assets due to the payment of expenses incident to the winding up; and (4) for the values, positive and negative, which he has been unable to realize or to liquidate.

When a receiver takes hold of the affairs of a concern with a view to operating and rehabilitating the business, common sense would seem to indicate that his task is not to realize and to liquidate, but to administer. Hence, any statement which he may render in final accounting, is not a statement of realization and liquidation, but a statement of his administration. If properly constructed, it contains: (a) the details of the assets and liabilities existing at the beginning of his administration; (b) the details of the increases of assets and liabilities during his receivership; (c) the manner of disposal of the assets through: (1) their being consumed in the course of operations; (2) their loss through unsatisfactory collections or otherwise; (3) their sale, either under the form of trading goods, or manufactured goods; (4) their disbursement under the form of cash; (5) their return to the company from whom he took them over. In regard to the liabilities, their disposal must be shown either as liquidated or as returned to the concern from whom they came. At this point his accounting resolves itself into a recital of the operating gains and losses made or sustained during the receivership. It would be folly, under these conditions, to attempt to make his statement conform with the theoretical school form of realization and liquidation account (as statement) which is generally guaranteed as "sure to pass the candidate."

When an officer of a corporation attends to its voluntary dissolution, his accounting consists in recording on the books, as they stood at the time it was decided to dissolve, the transactions incident to the realization of the assets, to the liquidation of the liabilities, to the final distribution of the remaining surplus, if any, and to the settlement of the stock liability of the corporation which brings about the cancellation of the stock certificates outstanding. Hence it seems that in the case of the problem given at this examination, the statement made by the treasurer consisted of three distinct self-balancing parts:

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Part one states: (*a*) the assets and the liabilities which were found on the books on the day of the resolution of the board of director; (*b*) the new assets and the new liabilities (if any) received and incurred during dissolution; (*c*) the manner in which the assets were realized and the liabilities liquidated; (*d*) the losses sustained through the realization of the assets; and (*e*) the particular assets (if any) which have not been sold.

Part two: accounts for the distribution of the surplus resulting from the original balance at June 1st, 1911, adjusted to reflect the losses sustained, as a result of, and the expenses incident to, the dissolution of the company.

Part three: accounts for the liquidation of the company's liability to stockholders.

The peculiarity of the problem is that no mention is made of the amount received for the sale of the land. This, of course opens the field to the imagination of the candidate. Two assumptions are possible: (*a*) the land was sold with the buildings; in this case a loss should be shown for the full value of the land, and the balance of the surplus account should show an impairment of capital: (*b*) the land was not sold, and is still held by the company subject, perhaps, to being leased to purchaser of the building: in this case part three of the statement rendered by the treasurer properly shows that the liability of the company to the stockholders has been liquidated only to the extent of 75% of the par value of the stock, the balance being subject to further distribution depending upon the proceeds of a subsequent sale of the land. The second assumption has been selected as the basis for this solution, not because it appears more logical or plausible than the first, but because it makes the facts a little more difficult to express.

The journal entries to be made according to requirements of the problem constituted the most dangerous part of the test. On the morning preceding the practical test, the candidate was called upon to express his views concerning the technique of journalizing, and to show wherein they harmonized with the theory of the evolution of the books of account. The answer to the question in theory referred to here was given in the August JOURNAL OF ACCOUNTANCY. It must have convinced many unsuccessful candidates that their failure was due, to a great extent,

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to their lack of proper respect for the journal. Let it be repeated here that a journal entry unexplained is no journal entry at all.

The difference between a good and an indifferent solution being that the former is ethical in every respect, whereas the latter strives only for the arithmetical result, it will not appear extravagant to state

1. That the journalizing required by problem No. 5 should have begun by a "*pro forma*" entry displaying the candidate's knowledge of corporation accounting.
2. That the candidate should have shown, by a proper explanation concerning such entries submitted by him, as applied to part one of the statement, that he was aware of the fact that the journalizing incident to the presentation of a statement of realization and liquidation could only purport to gather facts precisely as they would have been gathered, in practice through the medium of analyses of the books, preparatory to the rendering of such a statement.
3. That the order in which the entries were made should have been closely related to the order of the statement itself.

PROBLEM No. 6

This test is so simple as almost to render unnecessary any comments thereon. The only point of interest is the account "Joint Venture." It is evident that this account should reveal everything which took place during the venture. It should show an investment of \$8,000.00 divided between the two adventurers; the consignment of \$8,000 representing the goods acquired out of the contributions of Carpel Brothers and St. John Co.; an advance of \$400.00 by the latter; an additional charge of \$8,000 to the consignee, representing the excess value of the sales made by him over the consigned value of the goods; all the items of interest which were credited to the adventurers as a consequence of their investments and of their advances, and also as a consequence of one of them drawing against the consignee prior to the due date of settlement; the commission paid to the consignee; and, finally, the profits made by each adventurer as a result of the joint adventure.