Journal of Accountancy

Volume 12 | Issue 5 Article 12

9-1911

C. P. A. Question Department

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Conducted by Leo Greendlinger, M.C.S., C.P.A.

Criticism and exchange of ideas will clear many a doubt and at the same time improve shortcomings. To solve, compare and criticise C. P. A. examinations is the object of this department. With the aid of suggestions and criticism from the professional brethren, it can undoubtedly be achieved. Inquiries will be cheerfully answered.

Following are the examination questions in Theory of Accounts, Auditing and Commercial Law; also the second and fourth problems in Practical Accounting, set by the New York State Board of Accountancy at the June, 1911, examination, together with a solution to problem five.

Tuesday, June 27, 1911—9.15 A.M. to 12.15 P.M., only

Theory of Accounts

"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, p. 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 the 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. What books of account do you consider necessary for the conduct of a small business? Describe their form and use.

2. What general order do you suggest for arranging the accounts when only one ledger is necessary for a moderate business?

3. Mention the different kinds of ledgers that you would install in a concern where the transactions were large and varied.

4. Describe fully the construction of a profit and loss account. What various meanings may its balance have and how should it be treated in the different organizations under which business is conducted?

5. At the end of a fiscal year a concern inventoried its raw material at cost. Do you approve of this method? State your reasons fully.

Group II. 6. A corporation organized under the laws of the State of New York has a capital of $200,000—viz. 1,000 shares common and 1,000 shares preferred stock, par value $100 each. The patents were bought of the patentee for $50,000 common and $50,000 preferred stock. The patentee donated one-half of each issue of his stock to the company for its use in securing additional capital. Show entries necessary to record these transactions and state what accounts you would set up in relation thereto.

7. A mining corporation has assets comprising among others leases,

good will, patents, rent and royalties paid in advance. How would you deal with them in the profit and loss account and balance sheet?

8. The Hayward Company has declared a dividend of ten per cent on its capital stock of $100,000, payable July 1, 1910; stock books close on June 15, 1910. Describe the accounting procedure incident thereto and state who may participate in the dividends.

9. In closing the books of a corporation, how would you value goods consigned at selling prices to consumers under an agreement by which consignees pay for goods as used?

10. The books of a corporation show balances at the debit or credit of the following accounts: rents from tenements, reserve for accounts receivable, depreciation on machinery, depreciation on furniture and fixtures, bond redemption account, bills receivable, dividend on preferred stock. State which should enter into profit and loss account and which should appear in balance sheet. Why?

Group III. 11. A fire insurance company's assets include stocks and bonds that it carries at market price regardless of cost. Is this in accordance with your views? Give reasons.

12. Describe the process of closing the books of a corporation at the end of its fiscal year, showing trading account and profit and loss account, caption and allocation being a prerequisite.

13. Describe the method of determining the number of shares of capital stock held by each of the several stockholders of a corporation, giving fully the titles of the books in which the facts are registered and stating how the books should be opened and operated.

14. A company leases for a term of fifty years certain unimproved property for factory purposes, paying a ground rent of $1,000 per year. The company erects certain buildings thereon for its own use at a cost of $40,000, which are to become the property of the owner at the expiration of the lease. State how you would treat this proposition in the company's books of account.

15. The budget of a municipality includes appropriations for seven separate departments. Set up such accounts as you believe will cover the financial operations incident thereto, with supposed receipts and disbursements.

Tuesday, June 27, 1911—1.15 to 9.15 P.M.

PRACTICAL ACCOUNTING

PART I

Answer two questions but no more. Answers in excess of the number required will not be considered. Do not repeat the 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.

The first and third problem appeared in the last number of the Journal.

2. A contracts with a textile establishment to sell the mill's annual output on the following conditions:

The mill is to bill the output to A at cost. A is to finance the mill to the extent of seventy-five per cent of cost on receipt of goods. The balance is to be remitted by A, as the various shipments are sold less five per cent and advances. At the end of the year an analysis of A's affairs reveals the following as shown by his books, the goods being sold at ten per cent profit above factory cost (mill shipments $7,327,918.18):

	Debits	Credits
Mill Advances	$5,545,938	$5,000,000
Mill Sales	6,400,000	7,840,710
Freight and Cartage	90,000	80,000
Customers	7,840,710	7,632,200
Cash	7,610,200	5,635,938
Discounts	22,000	
Commission		320,000
Mill Account		1,000,000
	$27,508,848	$27,508,848

Prepare A's financial statement.

Wednesday, June 28, 1911—9.15 A.M. to 12.15 P.M., only

Practical Accounting

Part II

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.

4. A stock brokerage firm composed of three partners agreed to dissolve December 31, 1910.

The original investments contributed January 2, 1910, were as follows:

A cash $100,000, B cash $150,000, C, $40,000. C's capital account was credited with $80,000 and his seat in the Stock Exchange held by the firm as collateral for the same.

The partnership agreement recites the following facts: A is allowed to withdraw $10,000 and charge same to expense; B is allowed to withdraw $15,000 and charge same to expense; C is allowed to withdraw $20,000 and charge same to expense.

Interest on partners' capital five per cent per annum on original amount, profits or losses to be shared equally.

The interim transactions during the year as transcribed from the blotter were:

Purchases of 1,000 bonds, par value $1,000 each, for $1,005,000, maturing January 2, 1920.

Purchases of stocks for customers, long, 50,000 shares (par value $100) for $4,750.00.

Sales of stocks for customers, short, 50,000 shares (par value $100) for $4,625,000.

Margin received in cash from customers, long, $500,000.

Margin received in cash from customers, short, $500,000.

The following loans were made from banks on securities:

On bonds $750,000; interest paid in full to December 31, 1910, $32,500.

On stocks $150,000; interest paid in full to December 31, 1910, $6,000.

To complete transactions for account of customers all stocks were either borrowed or loaned.

The earnings comprised, commissions $175,000 received in full, interest receivable $85,000, of which $70,000 was collected.

The expenses were $62,500 (exclusive of partners' allowances or interest paid on capital), of which $2,500 remained at time of dissolution.

The partners had withdrawn as follows: A $16,500, B $18,750, C $18,500. The market value of the bonds was $1,004,500. The Stock Exchange seat was finally sold to B for $85,000, the profit therefrom reverting to the firm.

Prepare statements, prior to dissolution, showing (*a*) cash receipts and disbursements and balance on deposit in bank, (*b*) income and expenditures, (*c*) condition at time of dissolution, (*d*) partners' respective capital accounts.

Wednesday, June 28, 1911—1.15 to 4.15 P.M., only

Auditing

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. Define auditing.

2. If called on to verify the merchandise account of a manufacturing concern, what steps would you take to make the necessary investigation?

3. The cash of a concern had not been proved at any regular period and at the date of the audit the pass book had not been balanced with the bank. How would you proceed to prove the correctness of the cash balance as shown by the cashbook?

4. What would be your procedure in examining the capital stock books of a corporation? What books would you require? Give reasons why such an audit may be necessary.

5. Give a brief report of the affairs of a small manufacturing concern. What points, in your opinion, call for special attention?

Group II. 6. In auditing the affairs of a railway company, how should the auditor determine whether or not the earnings are correctly stated?

7. An auditor who is employed to close the accounts of a firm and prepare a balance sheet finds that the current work is behind and that no trial balance has been effected for over a year. How should he proceed?

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

9. A company takes a large number of notes (bills receivable) from its customers and when in need of funds discounts or sells them. What accounts, if any, should appear to care for the contingent liability thus created to satisfy you as auditor?

10. Set forth in detail and in order of importance the instructions you would give an assistant in the audit of an electric railway, a bank, a stock broker.

Group III. 11. State in detail the successive steps to be taken in auditing the accounts of an executor of an estate.

12. Give example of such assets and liabilities not usually found on books of account, as should be considered by the auditor when preparing an income and profit and loss account at the close of a fiscal period.

13. What method should an auditor employ in determining the value of stock, of accounts receivable, of additions to plant and property account?

14. What conditions would influence you in fixing the rate of depreciation on buildings, machinery and tools, fixtures and patterns?

15. Describe your mode of procedure in connection with some audit on which you have been engaged. Relate the nature of the business, answering in sufficient detail to enable the examiners to form an opinion regarding your knowledge.

Thursday, June 29, 1911—9.15 A.M. to 12.15 P.M., only

Commercial Law

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. Define (*a*) insurance, (*b*) insurer, (*c*) insured, (*d*) premium, (*e*) risk, (*f*) insurable interest.

2. Define the following: (*a*) agency, (*b*) guaranty, (*c*) artificial person, (*d*) legatee, (*e*) testator.

3. Define (*a*) partnership, (*b*) ostensible partner, (*c*) dormant partner, (*d*) corporation, (*e*) stockholder, (*f*) common stock, (*g*) preferred stock, (*h*) certificate of deposit.

4. Classify estates in land with respect to their duration and define each.

5. Define the following: (*a*) will, (*b*) abstract of title, (*c*) guardian, (*d*) trust, (*e*) certified check.

Group II. 6. State the steps necessary for the formation of a joint stock association. In what respects does it differ from an ordinary partnership and in what respects does it resemble a corporation?

7. What contracts under the New York Statute of Frauds, must be in writing?

8. Who are the common carriers under the New York law? State the liability of a common carrier at common law, under the New York law. To what extent can the carrier limit his liability under the latter law? To what special supervision, if any, are common carriers subjected?

9. Under the Negotiable Instruments Law what constitutes a sufficient presentment of a negotiable instrument for payment? Where should presentment be made? When may presentment be dispensed with? What constitutes a material alteration in a negotiable instrument?

10. Give the substance of the statute providing for the rendering of financial statements by a corporation to its stockholders.

Group III. 11. A, the owner of real estate, dies intestate, leaving no children, but three grandchildren, two of them children of a deceased son, and the other the child of a deceased daughter. To whom does the real estate descend and in what proportion?

12. A and B are partners. If C recovers a judgment against A for a personal debt may a firm chattel be sold to satisfy this judgment? If so, what title would the purchaser at such sale acquire? Does he become a partner with B and has he any rights as to an accounting from B?

13. A owes B money on a gambling debt. B employs C to collect the same, agreeing to pay him twenty-five per cent of the amount collected. C persuades A to pay the debt, the total amount thereof going to B in the first instance. Later, C sues B to recover his proportion for the collection. Will he succeed? Give reasons for your answer.

14. A bank certified a check that had been altered by changing the date, name of payee and by raising the amount, and the bank subsequently paid the same to the defendant. Subsequently thereto, the bank sued the defendant for the amount thus paid. Can it recover? Or does its certification of the check amount to a warranty of the genuineness of the body of the check as to the payee or amount? Explain.

15. May a stockholder object to an act of his corporation as Ultra Vires after he has acquired and accepted pecuniary benefit thereunder, when such an act is neither Malum Prohibitum nor Malum In Se?

SOLUTION TO PROBLEM FIVE

THE PROSPEROUS COMPANY

Incorporated under the laws of the State of New York
with an
AUTHORIZED CAPITAL
of
$500,000.00
divided into 2,500 shares of common and 2,500 shares of preferred capital stock par value of each $100.00

Common Stock Subscriptions	$500.00		
Unsubscribed Common Stock	249,500.00		
Unsubscribed Preferred Stock	250,000.00		
To Authorized Common Stock		$250,000.00	
Authorized Preferred Stock		250,000.00	
for the respective subscription to five shares of the Common Capital stock of this Company by ....one share each, also to place the authorized issued on the books			
Plant, Good Will and Sundry Assets		$599,500.00	
To John Peters, Vendor			$599,500.00
for the transfer to this Company of his rights, title and interest in all of the assets, including the goodwill acquired by him from X, Y, and Z, Companies fully enumerated in the bill of sale dated................, approved by the Board of Directors, as shown in the Minute Book page...			
First Mortgage Treasury Bonds		$150,000.00	
To First Mortgage Payable			$150,000.00
in accordance with the resolution of the Board of Directors the Company was authorized to issue $150,000.00 of first mortgage bonds payable ....bearing five per cent interest.			
Subscription to Common Stock		$249,500.00	
Subscription to Preferred Stock		250,000.00	
To Unsubscribed Common Stock			$249,500.00
Unsubscribed Preferred Stock			250,000.00
for John Peters's subscription to balance of unsubscribed stock.			
John Peters, Vendor		$599,500.00	
To Subscription to Common Stock			$249,500.00
Subscription to Preferred Stock			250,000.00
Treasury First Mortgage Bond			100,000.00

for 2,495 shares of common and 2,500 shares of preferred stock and ...... bonds issued to the above in full payment for the assets transferred to this Company.

Cash	$500.00	
To Common Stock Subscription		$500.00

payment for subscription by the respective subscribers.

In accordance with a resolution of the Board of Directors fully recorded in the Minute Book page ....the following entry is made in order to place the various assets acquired, on the books of the Company.

Land and Buildings	$75,000.00	
Plant Machinery	200,000.00	
Tools, Equipment and Fixtures	50,000.00	
Inventories	100,000.00	
Accounts Receivable	28,000.00	
Cash	12,000.00	
Good Will	134,500.00	
To Plant, Good Will and Sundry Assets		$599,500.00

Accounts Receivable	$5,000.00	
To Reserve for bad and doubtful debts		$5,000.00

This entry is made in order to record the doubtful and bad accounts to the controlling account.

THE PROSPEROUS COMPANY

BALANCE SHEET AS AT.............. 19..

ASSETS:			LIABILITIES AND CAPITAL		
Land and Buildings...		$75,000.00	First Mortgage Payable...		$150,000.00
Plant and Machinery.		200,000.00	Capital:...		
Tools, Equipment and			Common..	$250,000.00	
Fixtures...........		50,000.00	Preferred	250,000.00	500,000.00
Inventories..........		100,000.00			
Accounts Receivable...	$33,000.				
Less Reserve	5,000.	28,000.00			
Cash		12,500.00			
Good Will...........		134,500.00			
First Mortgage Treasury Bonds.........		50,000.00			
		$650,000.00			$650,000.00