

10-1911

C. P. A. Question Department

Leo Greendlinger

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Greendlinger, Leo (1911) "C. P. A. Question Department," *Journal of Accountancy*. Vol. 12: Iss. 6, Article 12.

Available at: <https://egrove.olemiss.edu/jofa/vol12/iss6/12>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

C. P. A. Question Department

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. problems and thereby to aid in bringing about a uniform American standard for 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 May, 1911, examination papers set by the Illinois State Board of Accountancy, also an abstract of the May, 1911, examination papers set by The Institute of Chartered Accountants of Alberta.

ILLINOIS PAPERS PRACTICAL ACCOUNTING

PART I

Wednesday, May 24—9.30 A.M. to 12.30 P.M.

75 credits necessary to pass, out of a possible 100 credits.

Each complete answer will receive 10 credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. The Ledger Balances of the accounts of John Smith at 31st December, 1910, are as follows:

Accounts Receivable	\$5,140.00
Accounts Payable	2,692.00
Bills Payable	658.00
Bills Receivable	217.00
Loan Advanced by J. Smith	500.00
Cash on Hand	44.00
Bank Overdraft	1,065.00
Inventory, January 1st, 1910	3,020.00
Purchases	7,386.00
Sales	16,406.00
Wages	4,839.00
Office Salaries	1,045.00
Travelling Expenses	503.00
Interest Paid	173.00
Stationery	284.00
Rent, Taxes and Insurance	222.00
Discounts and Allowances	258.00
Machinery Expense and Fuel	264.00
Freight	206.00
Incidental Expenses	151.00
Commissions	50.00
Rents Received	329.00
Capital	3,249.00
Bad Debts	97.00
	<hr/>
	\$48,798.00

C. P. A. Question Department

Rent, \$200.00 a year is charged to September 30th, 1910; repairs to engine estimated at \$90.00, account not yet received.

Provide $2\frac{1}{2}$ per cent. on Accounts Receivable for discounts, also \$150.00 for estimated loss by bad debts, and \$20.00 for interest accrued on loan.

Prepare Trading, and Profit and Loss Account and Balance Sheet as at December 31st, 1910.

2. A testator bequeathed by his will legacies amounting to \$6,700.00. His widow was to be paid \$1,000.00 within one month after his death, and his household furniture was specifically bequeathed to her. \$74.12 was found in the house and the cash at the bankers' was \$1,842.91. His investments were valued at \$48,461.12 (their nominal value being \$45,000.00). His real property was valued at \$68,000.00. Persons were indebted to him for loans without interest for \$450.00, while his creditors were \$7,276.54. The funeral expenses came to \$98.16, probate and miscellaneous expenses to \$4,697.45.

Draw a statement, showing the "corpus" to be dealt with by the executors, assuming that the investments were bonds bearing interest at 4 per cent, that the real property yielded 6 per cent, that the former were paid half-yearly, and the latter quarterly, and that both interests and rents fell due two months after the testator's death.

3. A corporation is formed January 1st with a nominal capital of \$5,000,000.00 in \$50.00 Shares. There is a first issue of 50,000 Shares, \$2.50 per share being due on application; \$7.50, making \$10.00 due on allotment, January 14th, \$10.00 due on February 1st, and \$10.00 due on April 1st. 44,652 Shares were applied for, and 43,822 were allotted on January 14th.

Give the Journal entries required to record these facts.

4. James Hewson and Walter Fellows had been in partnership for several years, and at December, 1909, desiring to retire, they entered into an arrangement to dispose of their business to William Jones, on the general terms that he, Jones, should take over everything as it then stood, subject to the following conditions, viz:

1. Inventory of Merchandise to be subject to a rebate of 6 per cent;
2. Accounts Receivable to have a deduction of $7\frac{1}{2}$ per cent., to meet possible losses;
3. Office Furniture to be subject to a deduction of $12\frac{1}{2}$ per cent. for depreciation;
4. Liabilities to creditors to be discharged by the 1st of February.

On the exact amount required to be paid over to the parties by Jones being ascertained, he was to pay one-fourth in Cash on February 4th, and the balance by equal installments, giving his notes for the same which are paid in cash as they fall due, dating from January 1st, at three, six and nine months, such installments to carry interest at 5 per cent. per annum.

The inventory of Merchandise in hand amounted to \$21,800.00, the accounts receivable to \$18,200.00 and the office furniture stood in the books at \$1,250.00. The sums due to creditors amounted to \$6,250.00.

The Journal of Accountancy

You are asked, as representing Jones, to prepare the Ledger Accounts as they will have recorded, and given effect to the foregoing arrangement in Jones's ledger.

5. A and B purchased land in Porto Rico on January 1st, 1909, and started a tobacco plantation, the former bringing in \$100,000.00 and the latter \$50,000.00 capital in cash. Five per cent. per annum is paid upon capital, while the net profits or losses are divided equally. They draw as partnership salaries, \$1,250.00 a year each and make no other withdrawals.

In the first year they spend \$75,000.00 for the purchase of and payment for the land, buildings, etc., and \$15,000.00 in planting the 1910 crop, which was sold in 1910 for \$40,000.00, but upon which had been paid in 1910 and up to the date of the Sale, \$2,500.00 for wages and sundry expenses.

In 1910 they spent \$25,000.00 in further developing the estate and \$40,000.00 in planting the 1911 crop.

Draw a Balance Sheet at the end of each year, 1909, and 1910, and in the partners' Capital Accounts therein show the condition consequent on results, there being no other assets or liabilities than these mentioned above, and the bankers' debit or credit balance, as the case may be.

PRACTICAL ACCOUNTING

PART II

Wednesday, May 24—1.30 to 4.30

6. Having been employed to certify to the profits of a manufacturing concern for the past five years for prospectus purposes, your work reveals that the recorded profits require adjustment as follows:

YEAR	LEDGER	ADJUSTMENT ACCOUNT
1906 profit	\$54,920.00	Reduce by \$4,200.00
1907 profit	69,100.00	Increase by 8,520.00
1908 profit	41,320.00	Reduce by 6,900.00
1909 loss	1,640.00	Reduce by 1,020.00
1910 profit	22,060.00	Increase by 1,360.00
	Average Profit	Net Reduction
	\$37,150.00	\$200.00

Those interested point out to you that as only the average profit for the period is required to be certified to, you may disregard the small difference of \$200.00.

State succinctly your attitude and draft the certificate.

7. The Directors of a manufacturing concern incorporated in Illinois deem it expedient to pay an interim dividend out of the current year's profits, therefore at the close of the seven months' operations require you as the Company's Auditor to advise them as to an amount that would not then nor prospectively for the balance of the fiscal year be a disbursement out of capital. State in from 100 to 150 words your method of procedure.

C. P. A. Question Department

8. On June 1, 1910, Corwin & Co. discounted at five per cent. per annum with their bank a three months' note dated May 1, 1910, for \$5,000.00. The bank's semi-annual accounting takes place June 30, 1910.

What entries did the above transaction necessitate on the books of the bank (a) on June 1, 1910, (b) on June 30th, 1910?

9. A corporation was granted a charter from the State in October, 1910, to take over two concerns as of June 30th, 1910; the transfer was completely effected by November 1, 1910. Capital Stock (fully paid) \$250,000.00.

The accounting was continued in the books of the purchased plants until June 30, 1911, when the net profits for the year were found to be \$10,500.00 and \$18,000.00.

What dividend, apart from financial considerations, would such a showing justify?

10. Anderson & Brooks are equal partners. Their balance sheet on June 30, 1910, was as follows:

Assets—

Merchandise Inventory	\$35,000.00	
Accounts Receivable	61,000.00	
Furniture and Fixtures	2,500.00	
Cash	500.00	
Investments	3,000.00	
	<hr/>	\$102,000.00

Liabilities—

Accounts Payable	\$50,000.00	
Bank Overdraft	15,000.00	
Anderson's Capital	21,000.00	
Brooks' Capital	16,000.00	
	<hr/>	\$102,000.00

Conway is to enter the firm; preliminary thereto Anderson & Brooks revise their Balance Sheet by writing off \$15,000.00 for bad debts, \$500.00 from Furniture and Fixtures, 15 per cent. from inventory, 25 per cent. for loss on investments, and establish a good will account of \$5,000.00.

Conway pays in \$5,000.00 as his one-third interest, to which amount the other parties agree respectively to adjust their capital.

Give the starting balance sheet of the new firm.

THEORY OF ACCOUNTS

Tuesday, May 23—9.30 A.M. to 12.30 P.M.

75 credits necessary to pass, out of a possible 100 credits.

Each complete answer will receive 10 credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. "A" died, leaving an estate consisting of:

The Journal of Accountancy

Real Estate, valued at	\$30,000.00
Share in Partnership, estimated at.....	175,000.00
Shares of Stock	75,000.00
Household Furniture	19,500.00
Cash at Bankers	4,000.00

The will provided for annuity of \$1,000.00 payable to Testator's wife out of income, the remainder of the income being divisible among his six children equally so long as they live and until the youngest attains the age of 21 years.

What books and accounts would you open for the executors, and what information would you require to enable you to write them up and adjust the capital and income?

2. The Bristol Manufacturing Company issued and sold on the 1st of January, 1911, to A and B, 100 (50 to each at the same price) First Mortgage Bonds of \$500.00 each, bearing interest at 4 per cent. per annum, and received \$48,000.00 in cash.

What records of the transactions should be made, and in what books?

3. The profits of a corporation with a paid up capital of \$5,000,000.00 amount to \$337,193.08 for a given year, without allowing for its mortgage interest. At the end of the previous financial year there was left a balance of undivided profits of \$27,806.92.

Its 4 per cent. mortgages are \$500,000.00 and its 6 per cent. mortgages are \$750,000.00. How much must be taken from the previous year's Surplus balance to pay the Stockholders a dividend of 6 per cent.?

4. A charitable institution receives annual subscriptions and donations and employs a canvasser who has to induce persons to become subscribers and who is also authorized to receive subscriptions and donations.

State what you consider the best system of bookkeeping to guard against peculation, and what regulations you would lay down for the conduct of the financial affairs of the institutions.

5. Specify some of the closing entries to be made, after the agreement of the Trial Balance in the books of an architect's business in which two partners are interested.

6. Make out a Foreign Bill of Exchange in duplicate. Why is the bill duplicated? What happens when the "First" is presented to the drawee for acceptance and it is the "Second" which is endorsed?

7. A manufacturing concern finds that in the past fiscal year the prime or manufacturing profit was thirty-four per cent. of the profit on sales. On June 30 of the current period the Directors want an approximate inventory without count or schedule and call upon you to do so. Illustrate your plan of procedure—(150-200 words).

8. In summarizing the nominal accounts of a manufacturing concern to determine the results of operations for a period, (a) what would be the order and character of the three closing accounts? (b) What nature of accounts form the elements of each? (c) Give your reasons.

9. What form of ledger would be appropriate to an enterprise in which the accounts bear interest at 5 per cent. per annum on current

C. P. A. Question Department

transactions; illustrate a ledger account in detail, showing the method of computing the interest and balancing it into principal semi-annually.

10. What is an accommodation bill? Describe the three usual methods of raising money on such paper.

AUDITING

Tuesday, May 23—1.30 to 4.30 P.M.

75 credits necessary to pass, out of a possible 100 credits.

Each complete answer will receive 10 credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. A Chicago Corporation does Business in Brazil where its capital is invested, a Balance Sheet and Profit and Loss Account in Brazilian currency being sent over at the end of each year for amalgamation with the Chicago accounts. During the last year assume that a heavy fall in exchange took place, say from 54 cents per milreis to 36 cents. At what rate of exchange would you take the Brazilian assets for the purpose of the American Balance Sheet? Would you treat the Buildings, Machinery and Plant differently from the floating assets? Explain.

2. The \$500.00 six per cent. bonds of a corporation are issued at \$450.00 redeemable at par, by ten annual drawings. How would you treat these bonds in the Profit and Loss Account and Balance Sheet?

3. The following Profit and Loss Account is presented to you for audit by the Directors of a Company, who intimate their willingness to modify it in accordance with your suggestions. How would you re-draw it so as to show the exact profit for the period under audit?

To Rent	\$1,672.00	By Interest on Invest-	
“ Inventory	15,325.00	ments	\$4,660.00
“ Bad Debts	1,242.00	“ Inventory	17,806.00
“ Interim Dividend ...	5,000.00	“ Sales	83,236.00
“ Depreciation	650.00	“ Balance from last	
“ Purchases	66,728.00	year.....	2,627.00
“ Directors' Fees	2,000.00	“ Sundries	12.00
“ Proposed Dividend..	4,000.00	“ Reserve Fund trans-	
“ Salaries	2,463.00	ferred	2,000.00
“ General Expense....	3,791.00		
“ Wages	7,402.00		
“ Balance	68.00		
	\$110,341.00		\$110,341.00

4. In auditing the accounts of a bank, what evidence would you require produced in respect of the following assets: Loans, Bills discounted, Government Bonds? State also to what points you would direct your attention in the examination of each class of security.

5. What, in your opinion, is the best method of stating the Profit

The Journal of Accountancy

and Loss Account of a trading corporation so that it shall give the greatest possible desirable information to the Stockholders?

6. A corporation took an inventory of its stock on December 31, 1910, at which time it was overdrawn at its bank about \$25,000.00. It kept its cash book open (as of December 31) for the greater part of January, during which time there was collected from Customers over \$240,000.00 and \$176,000.00 of this was applied to payment of liabilities accruing in January.

State the effect of these January transactions upon the financial showing and your attitude as auditor in certifying to the statement.

7. During the past fiscal year a concern under audit has not shown profit sufficient to justify paying a dividend. The manager in order to avoid showing a loss disregards the usual depreciation reserve charges for structures, plant, machinery, tools and implements.

What would be your view as auditor under the circumstances? Give your reasons as a feature of your report.

8. In reviewing the schedules of open customers' accounts receivable for the purpose of setting up a reserve against irrecoverable amounts how would you proceed? Lay out your method and state what conditions would prompt inquiry as to a possible default in any one item.

How should a reserve for cash discounts on outstanding accounts receivable be computed?

9. In an audit if

- (a) Cash is received but not properly accounted for—
- (b) Cash is paid for goods that were never delivered—
- (c) Cash is paid out for wages that were not earned—

All with fraudulent intent, state concisely what means you would devise to prevent such happening in the future.

10. What is the Auditor's duty as to the inventory of a manufacturer's stock on hand—

- 1. As to the prices of raw material.
- 2. As to the quantities of all items.
- 3. As to the extensions, additions and summaries.
- 4. As to the condition of schedules and summations comparatively with those of the opening of the term.
- 5. As to obsolete, spoiled, uncatalogued or pattern goods.
- 6. As to its effect, in ratio, as a total on the gross profit.

COMMERCIAL LAW

Thursday, May 25—9.30 A.M. to 12.30 P.M.

75 credits necessary to pass, out of a possible 100 credits.

Each complete answer will receive 10 credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. Define the following:

- (a) Accommodation paper,
- (b) Bill of exchange,

C. P. A. Question Department

- (c) Demurrage,
- (d) Escrow,
- (e) Collateral,
- (f) Receiver,
- (g) Executor,
- (h) Administrator,
- (i) Conservator,
- (j) Guardian.

2. (a) How many incorporators are required to form a corporation for profit under the laws of Illinois?
(b) What is the difference between the liability of a partner and of a stockholder in a corporation?
3. (a) What is the difference between preferred and common stock of a corporation?
(b) Is there any provision of the Illinois law for preferred and common stock?
4. (a) By whom are the directors of a corporation elected under the laws of Illinois?
(b) Under the laws of Illinois, by whom are the By-Laws of a corporation, for profit, made?
5. How should an agent execute a paper in order that it may be binding on his principal and not upon the agent?
6. What is meant by stoppage in transit, and who can exercise that right?
7. What effect as to the fund in the bank, has the drawing of a check thereon by the depositor and the delivery of the check to the payee?
8. What is the difference between a sale and a consignment?
9. Describe the Statute of Frauds, and state the purpose of its enactment.
10. Prepare a short form of Power of Attorney authorizing the attorney in fact to act generally for the Principal.

INSTITUTE PAPERS

INTERMEDIATE

BOOKKEEPING—PRACTICAL AND THEORETICAL

PAPER No. I

Time, 3½ hours.

1. State briefly what the difference is in (a) A Statement of Receipts and Disbursements and (b) A Statement of Income and Expenditure.
2. From the following figures prepare a Statement of Revenue and Expenditure and a Statement of Income and Expenditure:

Cash on Hand	\$250.00
Cash in Bank	4,000.00
Interest received	500.00
Interest accrued	100.00
Merchandise purchased	10,000.00

The Journal of Accountancy

Cash paid for Merchandise	8,000.00
Sales Account	15,000.00
Accounts receivable	3,000.00
Wages paid	900.00
Wages accrued	100.00
Rents received	600.00
Rents accrued	100.00
Insurance	150.00
Taxes	100.00
Expenses	200.00
Accounts payable	2,000.00

3. It is usual in Partnership Accounts before closing the Books to credit the Partners with Interest on their Capital. State concisely the reason why this is done.

4. A, B, C and D are Partners. Under their Partnership Agreement, they contribute capital in the following proportions—A one-sixth, B one-fourth, C one-third, and D one-fourth, and are to share profits and losses as follows—A one-third, B one-fourth, C one-fourth and D one-sixth. Interest at the rate of 5 per cent. per annum is to be paid on their capital. On December 31st, 1910, the books are closed and accounts prepared and signed. It is then discovered that the Interest for the year has been omitted to be credited to the Partners' Capital Accounts. Instead of altering the Balance Sheet it is agreed to make an adjusting entry at the beginning of 1911. Give the Journal entry, assuming that the total capital is \$60,000.00.

5. Smith and Jones purchase Household property for \$50,000 on the following terms, viz., \$20,000 cash and a Mortgage for \$30,000. Each provides \$11,000 to make first payment and provide a small Capital. The expenses in connection with the purchase amounted to \$300. Smith is to collect the rents and manage the property and to receive three-fifths, and Jones two-fifths of the ultimate profit. At the end of two years they sell the property, subject to the Mortgage, for \$30,000, viz.—Cash \$25,000 and Lots valued at \$5,000. The Income from the property just paid the Mortgage Interest and all expenses except the \$300 of expenses in connection with the purchase. Smith and Jones have not drawn anything.

Show how the proceeds of the sale, the Bank Balance and Lots should be divided between Smith and Jones.

6. What is the meaning of "Fixed" and "Wasting" Assets? How should they be treated in a Company's Balance Sheet?

7. In a Company's Balance Sheet you find the following accounts, viz.:

Real Estate, Buildings, Machinery, Tools, Horses and Wagons,
Patent Rights, Raw Material and Merchandise.

Which of these would you consider "Fixed" and which "Wasting" Assets?

8. What do you understand by the terms "Trial Balance" and "Balance Sheet"?

C. P. A. Question Department

9. From the following figures make up the Trial Balance and Balance Sheet of the A Company as at December 31st, 1910:

Capital Stock	\$200,000.00
Capital Stock paid in	100,000.00
Accounts receivable	10,000.00
Bills payable	20,000.00
Accounts payable	15,000.00
Bills receivable	25,000.00
Sales	262,500.00
Purchases	190,000.00
Stock, Jan. 1st, 1910	30,000.00
Stock, December 31st, 1910	45,000.00
Overdraft at Bank	10,000.00
Cash on Hand	2,500.00
Reserve for Depreciation	8,000.00
Land, Buildings and Plant	120,000.00
Bad Debts Reserve	2,000.00
Repairs	1,500.00
Freight	4,000.00
Duty	2,000.00
Cartage	500.00
Salaries	12,000.00
General Expenses	4,000.00
Unpaid Dividends	500.00
Wages	35,000.00
Contingent Account	10,000.00
Suspense Account	500.00
Profit and Loss Account, Jan. 1, 1910.....	9,000.00

The figures given are in Balance.

PARTNERSHIP AND COMPANY LAW

Time, 3 hours.

1. (a) Define partnership.
(b) Is the sharing of profits conclusive evidence of a partnership?
(c) A was introduced by B to C on the understanding that B was to share in the profits and losses of the transactions in trade between A and C. On A becoming indebted to C in connection with such transactions, is B liable thereon to C?
2. In a partnership of accountants, has one partner implied authority to bind the other by promissory note made in the name of the firm where given for a firm debt?
3. A member of a firm of accountants received into his custody for the purpose of checking same, negotiable bonds of a Company whose accounts he was auditing, and absconded with same. Are his partners liable to the Company?
4. A hotel property is acquired by two partners for \$20,000, a cash

The Journal of Accountancy

payment of \$5,000 being contributed to equally by them. One partner manages the hotel and out of its earnings pays off the balance of liability. The other partner does not give any attention or time to the partnership affairs. At the end of ten years, on a dissolution of the partnership, is the working partner entitled to remuneration for his services, the partnership agreement being silent in this respect, and the profits having been allowed to accumulate?

5. A and B, partners, dissolve and B carries on business in the firm name with C, a new partner. A customer of the old firm sold goods to the new firm after the change but without notice of it. After receiving notice of it he sued the new firm for the price of the goods. Being unable to recover amount of his judgment on account of the firm's insolvency, he sued the late partner. Is he entitled to do so?

6. What is the doctrine of holding out, and give an illustration of it.

7. Is a person who is admitted as a partner into an existing firm liable for debts then owing by the firm?

8. What are preference shares in a company? What is cumulative and non-cumulative preference stock?

9. Mention briefly the contents of a petition for incorporation under the Manitoba Joint Stock Companies Act, and contents of a memorandum of association under Alberta Ordinance, and steps necessary in each Province to obtain incorporation.

10. Is the contract of a trading company binding if not under seal? State authority for answer.

11. A purchased shares in a company at a discount which were issued to him as being fully paid up. He assigned shares to B, telling him that they were fully paid up. On the company going into liquidation, is B liable to creditors for the difference under par at which shares were purchased by A?

12. A company is formed to carry on a shipping and forwarding business on Lake Winnipeg. May it contract to purchase all the timber to be cut by A in order to secure carriage of same?

BANKING

Time, 3 hours.

1. To what two classes of persons may a Bank lend money under Section 88 of the Bank Act? What are the classes of goods upon which such security can be taken, and is substitution allowed? and if so, on what conditions?

2. The Bank Act provides that goods hypothecated to a Bank under Section 88 cannot be sold without notice to the pledger. These goods are divided into two classes:

- (a) Give the names of the goods comprising one class which cannot be sold without consent in writing of the owner until notice of the time and place of such sale has been given, stating the conditions upon which such notice must be given.

C. P. A. Question Department

- (b) Give the names of the goods, etc., other than those manufactured in (a), which cannot be sold without the consent of the owner until a certain notice is given, stating the conditions upon which such notice is required.
- (c) Without the consent of the owner, how can a sale be effected under the power of sale authorized in the Bank Act?
3. Is there any authority under the Bank Act by which a Bank may loan money upon security of standing timber and the rights or licenses held by persons to cut or remove such timber? If so, is a Bank authorized to deal with such timber or licenses as it might do with negotiable securities?
4. State fully how and on what conditions a Warehouse Receipt or Bill of Lading may be legally taken by a Bank.
5. It frequently happens that a Bank makes advances upon a promise to give security. Under what authority are the advances so made, and is the Promise to give Security regarded as the Security itself? State fully your views respecting this matter.
6. A has advances from a Bank secured by the hypothecation of Warehouse Receipts for merchandise. He brings a fresh Warehouse Receipt to the Bank for merchandise valued at \$1,200, and asked to be allowed to substitute it for a Warehouse Receipt representing goods of a like value already hypothecated. State fully what your action would be in the matter and your reasons therefor.
7. In a Promissory Note signed by two or more persons, what is the respective significance of "I," "We," "We jointly," and "We jointly and severally"?
8. What are the essential contents of a protest of a Promissory Note or Bill of Exchange?
9. Give a form of a Waiver of Protest.
10. Where there are several endorsers upon a Promissory Note what are the rights of the endorsers respectively as against the others?

AUDITING

Time, 3 hours.

1. As Auditor of a Company, the audit having been completed by your assistant, what questions would you ask him in order to satisfy yourself that he had gone properly into the question of the existence or value of the following assets enumerated in the Balance Sheet—

Plant, Machinery, Fixtures, etc.;
Work in Progress;
Stock in Trade;
Book Debts;
Cash in Bank;
Cash on Hand;

and that all liabilities for goods purchased or expenses had been included? If there was a loan due by the Company which did not appear

The Journal of Accountancy

in the books as a liability, should his audit under any circumstances have detected its existence? If so, state what you would have expected him to have found in the books.

2. You are auditing the books of a firm of manufacturers. The senior partner is to be paid out, as at the end of the year under audit at a figure based on the net profits for that year. The accounts have been prepared under the direction of the junior partner and you have reason to suspect that he has under-estimated the profits. Name a few of the more important points to which you will pay particular attention in your audit with a view to preventing this.

3. You have completed the audit of the books of the firm of Thomas Brown & Company for the year ending March 31st, 1911, and wish to send a short report with a Balance Sheet and Profit and Loss Account. Write such a report, utilizing the following points: The accounts are sufficiently vouched; the profit for the year after reserving \$500 for bad debts is \$1,500; no interest has been charged on capital accounts; after adding the above \$500 to \$3,000 reserved for bad debts at March 31st, 1910, and writing off \$1,900, there remains a provision for bad debts of \$1,600; you consider this sufficient; the loss on the business to March 31st, 1910, was \$3,750; fixtures which you reported as having been over-valued last year have now been properly valued.

NOTE.—Do not attempt to prepare a balance sheet or profit and loss account.

4. Deal with the points of interest to accountants involved in any one of the following cases—

Lee v. Neuchatel Asphalt Company;
Kingston Cotton Mills;
Irish Woollen Company.

5. You are auditing the accounts of a private firm who ask you to accept certain items as correct. This may be perfectly proper as between the partners if they all understand that a complete audit is not being made, but what risk do you take in certifying such accounts and how may you guard yourself against such risk?

6. In preparing a report for a prospectus, what objection is there to stating the average profits for a number of years?

7. State briefly the advantages and disadvantages of a continuous audit.

8. Would you vouch the entries in a Journal? Give reasons for your answer.

9. State briefly how a system of audit notebooks may be used. Indicate the advantages and disadvantages of such a system.

ADVANCED BOOKKEEPING AND ACCOUNTS

PAPER NO. 2

Time, 3½ hours.

1. From the following Balances of a Life Assurance Company at

C. P. A. Question Department

31st December, 1910, draw up a Statement showing Receipts and Disbursements and thereafter a Balance Sheet as at that date:

Mortgages on Real Estate	\$6,500,000.00
Municipal and School Debentures	200,000.00
Premium Income	1,800,000.00
Home Office Building	350,000.00
Death Claims outstanding	20,000.00
Surrender Values claimable	5,000.00
Stocks and Bonds	350,000.00
Stocks and Bonds written up	20,000.00
Dividends to Shareholders	50,000.00
Taxes and Licenses	17,000.00
Expenses, Commissions, etc.....	500,000.00
Policy Holders; for claims Annuities and Surrender Values	350,000.00
Loans on Company's Policies	850,000.00
Interest due and accrued	200,000.00
Cash in Banks	40,000.00
Investment Reserve Fund	15,000.00
Policy Holders' Profits unpaid	1,500.00
Interest Income	475,000.00
Profits on Sales of Securities	1,500.00
Investment Expenses	30,000.00
Outstanding and Deferred Premiums.....	340,000.00
Advance Payments on Premiums	12,000.00
Shareholders' Dividend due	30,000.00
Considerations for Annuities	20,000.00
Reassurances	20,000.00
Reserve; Policies and Annuities	6,000,000.00

In Statement insert whatever figure is necessary so that both sides will agree; in Balance Sheet the difference between the two sides may be shown as Surplus.

2. A Manufacturing Company is to be sold to another Company, but, before the price to be paid for its assets is fixed, a statement of its average Profits for the past three years is required. You find that the debits and credits to the Profit and Loss Account are as follows, viz.:

December 31st, 1908: Selling Expense, \$9,000; Partners' Drawings, \$4,000; Interest on Overdraft, \$2,000; Interest on Mortgage, \$1,000; Gross Profit on Trading Account, \$65,000. December 31st, 1909: Selling Expense, \$8,200; Partners' Drawings, \$5,000; Interest on Overdraft, \$1,800; Interest on Mortgage, \$1,000; Gross Profit on Trading Account, \$70,000; Profit on Land sold, \$3,000. December 31st, 1910: Selling Expense, \$9,100; Partners' Drawings, \$6,000; Interest on Overdraft, \$2,200; Interest on Mortgage, \$1,000; Loss on Building by Fire, \$500; Gross Profit on Trading Account, \$75,000; Appreciation on Land, \$10,000.

Give average profit and figures as to how you arrive at results.

3. What are the first duties of an assignee upon taking possession

The Journal of Accountancy

of an Estate under an Assignment or Trust Deed, and in what manner should a statement of the condition of the Assignor's affairs be prepared and the different Assets properly tabulated? Also what method should be adopted in arriving at a valuation of these assets and the providing for the payment of privileged and secured claims in full from the general proceeds?

What methods are required for the realizing of these Assets, and under what different controls would they be considered in cases of voluntary Assignments or judicial proceedings under a Winding-up Act?

What authority does an Assignee or Trustee require to dispose of Assets held by him as Trustee or Assignee?

How should a Statement be prepared so as to give definite and separate information as to the value of an Estate where the Assets and Liabilities have simply been considered generally without proper classification? For instance:

Amount due Mdse., Creditors	\$12,000.00
Amount owing on Mortgages, on Real Estate,	
Lots 1, 2, and 3	1,750.00
Amount owing on Mortgage on Dwelling occupied by Debtor	1,500.00
Amount Indirect Liabilities as Endorser	10,000.00
Amount due for Taxes	200.00
Wages, Privileged	175.00
Wages, Non-privileged	250.00
Rent, Privileged by Law	125.00
Amount due, being unpaid Subscriptions on Stock in Light Company	400.00
	<u>\$26,400.00</u>

4. The following is the Trial Balance (for year ending December 31st, 1908) of Messrs. Stevenson & Smith, trading as Commission and General Grain Merchants:

	<i>Dr.</i>	<i>Cr.</i>
Capital, W. Stevenson		\$60,000.00
Capital, J. Smith		40,000.00
Stock of Grain on hand as per Certified Lists... \$56,000.00		
Do. (in Transit)	2,900.00	
Sundry Debtors	34,000.00	
Cash (Office)	100.00	
Cash (Bank)		1,100.00
Sundry Investments	10,000.00	
Sundry Creditors		22,000.00
Interest		700.00
Discounts	1,000.00	
Exchange	100.00	
Mortgage Account		7,500.00
Premises	25,000.00	

C. P. A. Question Department

Furniture and Fixtures	2,500.00	
Insurances	2,000.00	
Freight (Recoverable)	1,500.00	
Elevator Charges	6,000.00	
Freight	15,500.00	
W. Stevenson, Drawing Account, May 1st, \$1,500; Aug. 31st, \$3,500	5,000.00	
J. Smith, Drawing Account, Feb. 28th, \$1,600; Sept. 30th, \$2,000	3,600.00	
Commission		6,400.00
Storage	4,500.00	
Grain Account		32,000.00
	\$169,700.00	\$169,700.00

With a view to arriving at the exact position of affairs before sale of the business to a Company, draw up a Balance Sheet at that date. Interest on Drawings to be charged at 6 per cent. from date, and Capital Accounts to be credited with profits pro rata.

A limited Company with a nominal Capital of \$100,000.00, consisting of 250 Cumulative Preference shares of \$100 each and 750 Ordinary shares of \$100 each; and a Loan Capital of \$50,000.00 Debenture stock was formed to acquire and carry on the business.

The purchase price was agreed at \$125,000.00, to be paid in 750 Ordinary shares of \$100 each fully paid; 150 Preference shares of \$100 each fully paid, and \$15,000.00 Debenture stock fully paid, the balance \$20,000.00 in cash.

The Vendors agreed to pay off all Creditors (including Mortgagee), and guaranteed Book Debts; the Company taking over the whole business with the exception of Cash and Investments.

The remainder of the Share and Loan Capital was allotted to the Public. Make the necessary entries to close the Partnership Books, and to open those of the new Company in the manner required by law.

State what method of valuation you would adopt in taking Stock of Grain on hand, and give an opinion as to price paid—

- (1) For the business as a whole;
- (2) For goodwill.

The profits for the four previous years had been—

1907	\$9,600.00
1906	10,000.00
1905	9,800.00
1904	12,000.00

The Journal of Accountancy

ADVANCED BOOKKEEPING AND ACCOUNTS

PAPER No. 3

Time, 3½ hours.

COST ACCOUNTS

1. State briefly the objects in ascertaining costs.
2. Classify costs—that is, give the main divisions into which you would divide costs.
3. What do you understand by the following terms—
 - (a) Overhead;
 - (b) Prime Cost;
 - (c) Direct Labor;
 - (d) Indirect Labor;
 - (e) Efficiency Department;
 - (f) Predetermined Costs;
 - (g) Standardizing of Conditions.
4. Name three methods of distributing Overhead to the product and briefly explain each.
5. In order to reduce costs by—
 - (a) Increasing the Output;
 - (b) Reducing the Overhead;what wage systems would you recommend? Name two only and describe them.

The following is a list of the successful candidates at the New York, June, 1911, Examination, who are entitled to receive C. P. A. certificates:

BEUKERS, LEON C.....	57 W. 82d St., New York City.
BRODERICK, DILLON F.....	1866 7st St., Brooklyn, N. Y.
ESQUERRÉ, PAUL J.....	108 W. 141st St., New York City.
GOLDBERG, MORRIS W.....	105 W. 112th St., New York City.
GOLDSCHMIDT, HERMANN E.....	528 W. 151st St., New York City.
HARDY, WILLOUGHBY D.....	11½ W. 37th St., New York City.
IVES, RAYMOND	411 W. 114th St., New York City.
MACÉLVEEN, WILLIAM	412 St. Nicholas Ave., New York City.
MADDEN, JOHN T.....	113 Waverley Place, New York City.
MOORE, ALBERT S.....	549 Springdale Ave., E. Orange, N. J.
MULLER, MARCUS A.....	252 W. 130th St., New York City.
NUSBAUM, WILLIAM J.....	92 Hudson Ave., Albany, N. Y.
PHINNEY, ROBERT N.....	329 W. 48th St., New York City.
READING, EDWARD J.....	155 Mill St., Paterson, N. J.
REEVE, FREDERIC E.....	Maplewood, N. J.
SONDERLING, SAMUEL J.....	16 William St., New York City.
WATSON, JOHN E.....	19 Fillmore Place, Brooklyn, N. Y.
WYTHES, HAROLD A.....	165 Broadway, New York City.