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C.P.A. examination questions set by The Minnesota State Board of Accountancy

Minnesota. State Board of Accountancy

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C. P. A.
EXAMINATION
QUESTIONS

SET BY

The Minnesota State Board of
Accountancy

November 12, 1913

FOURTH EXAMINATION

NOVEMBER, 1913.

MEMBERSHIP OF THE BOARD.

BENJAMIN FRANKLIN, JR., C. P. A.....	Chairman
HENRY W. MANN	Secretary
THOMAS W. MITCHELL, Ph. D.	Treasurer

MINNESOTA STATE BOARD OF ACCOUNTANCY

Examination November 12, 1913

EXAMINATION IN ACCOUNTING. PART I.

Answer Question 1 or Questions 2 and 3.

Time Allowance, Four Hours.

1. The following is the trial balance, as at April 30, 1913, of the Reliance Brewing Company's general ledger, the operating accounts representing one month's operations:

Real estate	\$ 26,000.00	Common stock.....	\$ 500,000.00
Buildings	233,000.00	Preferred stock.....	381,400.00
Plant and machinery....	143,500.00	First mortgage bonds...	250,000.00
Floating cooerage.....	18,400.00	Mortgage saloon proper-	
Bottles and cases.....	54,250.00	ties	17,280.00
Pumps	8,650.00	Bills payable.....	50,000.00
Signs	20,000.00	Accounts payable.....	29,600.00
Tools and hose.....	3,500.00	Deposits payable.....	5,575.00
Saloon furniture.....	46,250.00	Accrued taxes.....	7,550.00
Horses, wagons, etc....	26,150.00	Accrued wages.....	450.00
Office furniture.....	5,000.00	Accrued bond interest...	3,900.00
Saloon properties.....	233,000.00	Accrued dividends.....	4,449.67
Leaseholds	57,000.00	Package	17,650.00
Patents, trade-marks, etc.	499,400.00	Saloon properties rev-	
Preliminary expense....	8,500.00	enue	8,700.00
Investments	400.00	Leaseholds revenue.....	20.00
Bills received	40,000.00	Res. for bad debts.....	7,120.00
Loans	38,150.00	Renewal reserve.....	182,150.00
Rents receivable.....	10,300.00	Bad debts recovered....	50.00
Customer's accounts....	57,900.00	Interest and discount...	1,725.00
Bad debts.....	450.00	Mash sales.....	250.00
Sundry Accts. Rec.....	6,000.00	Keg beer sales.....	26,000.00
Revenue stamps on hand	600.00	Bottled beer sales	21,660.00
Cash	25,000.00	Surplus	124,301.33
Insurance	2,000.00		
Brewery license.....	85.00		
Bottled beer stock.....	1,650.00		
Stock room inventory...	28,000.00		
Bottled beer in tanks			
and revenue.....	565.00		
Expenses prepaid.....	200.00		
Brewery labor	1,025.00		
Bottling labor.....	1,100.00		
Brewmaster's salary...	225.00		
Bottling superintendence	180.00		
Keg beer drivers' wages	560.00		
Bottled beer drivers'			
wages	835.00		
Keg beer stock.....	15,475.00		
Brewery supplies.....	280.00		
Bottling supplies.....	900.00		
General office supplies...	75.00		
Brewery light, heat and			
power	1,580.00		
Bottling, light heat and			
power	525.00		
Keg beer, light, heat and			
power	465.00		
General office, light heat			
and power.....	135.00		
Brewery taxes.....	150.00		
Bottling works taxes...	50.00		
Keg beer storehouse			
taxes	100.00		
Bottled beer storehouse			
taxes	30.00		
General office taxes....	30.00		
Repairs to brewery Bldg.	10.00		
Repairs to brewery ma-			
chinery	5.00		
Repairs to bottling ma-			
chinery	35.00		
Bottle breakage, bottling	95.00		

Revenue stamps, keg beer	3,700.00	
Revenue stamps, bottled beer	1,350.00	
Stable expense.....	900.00	
Collection expenses, keg beer	1,430.00	
Collection expenses, bottled beer.....	550.00	
Traveling expenses, keg beer	5.00	
Traveling expenses, bottled beer.....	1,310.00	
Auto expense, bottled beer	500.00	
Saloon expense, keg beer	585.00	
Ice, keg beer.....	20.00	
Advertising, bottled beer	560.00	
Storage, bottled beer....	15.00	
General office payroll...	1,300.00	
Officers' salaries.....	3,000.00	
Interest and discount...	410.00	
Bond interest.....	1,300.00	
Returns and allowances, keg beer.....	730.00	
Returns and allowances, bottled beer.....	3,935.00	
Freight, outward.....	466.00	
	<u>\$1,639,831.00</u>	<u>\$1,639,831.00</u>

The following allowances for depreciation are made for the month of April:

Brewery buildings.....	\$185.00	Bottling buildings	\$ 80.00
Brewery machinery.....	185.00	Bottling machinery.....	110.00
Brewery equipment.....	35.00	Bottling tools and hose.....	15.00
Stationery cooperage.....	90.00	Floating cooperage.....	185.00
Pumps, keg beer.....	175.00	Signs, ½ K. B., ½ B. B.....	255.00
Horses, wagons, etc.—½ keg beer, ½ bottled beer.....	\$185.00		
Saloon furniture and fixtures.....	925.00		
Warehouse and storage building and machinery—keg beer.....	630.00		
Bottles and cases—bottled beer.....	860.00		
General offices and office furniture.....	105.00		

The insurance is distributable as follows:

Brewery	\$80.00	Bottling works.....	\$ 25.00
General offices.....	20.00	Cooperage, keg beer, storehouse, etc.....	30.00
Bottled beer storehouse, cases, etc.	10.00	Unexpired	1,835.00

The stable expense is divisible ½ to keg beer sales, ½ to bottled beer sales.

The leaseholds are being written off at the rate of \$725 per month; the preliminary expense at the rate of \$150 per month. The company charges Profits and Losses and credits Accrued Dividends the average monthly accrual of the 7% cumulative preferred dividend.

The consumption of stock-room materials during April consisted of: Malt, \$5,700; Hops, \$1,320; Grits, \$1,200.

The Keg Beer Stock April 1st, consisted of 8,000 barrels at a cost value of \$15,475. The net brew during the month was 5,400 barrels. The Keg Beer Sales were 3,700 barrels; sent to bottling works 1,350 barrels. The Bottled Beer Stock April 1st consisted of 2,000 cases at cost value of \$1,650. The number of cases bottled was 9,150. Sales amounted to 9,100 cases.

With the above data prepare:

- (1) A Keg Beer Production Account;
- (2) A Keg Beer Stock Account;
- (3) A Bottled Beer Production Account;
- (4) A Bottled Beer Stock Account;
- (5) A Keg Beer Sales Account;
- (6) A Bottled Beer Sales Account;
- (7) A Profit and Loss Account;
- (8) A Balance Sheet as at April 30, 1913.

2. A certain municipality published the following statement of its condition on Dec. 31, 1912, and of its operations during the preceding fiscal year.

The disbursements include the following "capital outlays":

	"From Revenues"	"From Bonds"
General government	\$ 30,304.30	\$128,972.04
Protection to life, etc.	48,342.54	8,657.46
Health and sanitation	6,865.28	105,299.14
Highways	23,496.14	744,038.52
Recreation	40,119.90	245,916.56
Municipal industries	64,353.62	691,599.44
Miscellaneous	256,162.40	.....
	\$469,644.18	\$1,924,483.16

The "Revenues" contain the following items among others:

	Misc. Rev.	Misc. Park Rev.	Capital Receipts
Bond premiums	\$ 9,574.42	\$1,403.38	\$10,000.00
Sales—Old furniture	125.00	.....	.....
Ordinance books	28.00	.....	.....
Horses	720.00	135.00	.....
Houses .....	.....	580.00	.....
Motor cycle	440.00	.....	.....
Junk, etc.	400.42	.....	.....
Accrued int. on bonds sold..	.....	.....	8,879.96
	\$11,287.84	\$2,118.38	\$18,879.96

Assets.		Liabilities.	
Real Est., Bldgs. & Plant.	\$17,230,520	R. R. aid bonds.....	\$ 60,000
Machinery, Fixt. & Equip- ment	656,000	Refunding bonds.....	2,792,900
Sinking funds.....	155,000	Fire station bonds.....	120,000
Bonds purchased by water department	233,300	Workhouse bonds.....	60,000
Cash in capital funds.....	793,700	City hall bonds.....	400,000
Current cash.....	337,734	Park acquisition bonds...	887,900
Cash in trust funds.....	78,466	Street intersection bonds.	307,500
Delinquent taxes.....	738,000	Boulevard intersection bonds	158,600
		Municipal industry bonds.	4,995,700
		Special improvement bonds	3,076,800
		Sidewalk scrip.....	127,592
		Accounts payable.....	457,016
		Judgments outstanding...	43,526
		Tax bill fund.....	5,555
		Firemen's relief fund.....	37,449
		Condemnation fund.....	35,462
		Surplus	6,656,720
	\$20,222,720		\$20,222,720

Condensed Statement of Revenues and Expenditures.

Auditor's available cash Dec. 31, 1911.....		\$ 827,366.18
Revenues.		
General revenue—Property tax.....	\$1,447,973.78	
Miscellaneous revenues.....	262,355.40	
General park revenues.....	165,783.56	
Miscellaneous park revenues.....	17,199.32	
Special assessments, installments.....	859,421.00	
Special assessments, cash.....	36,691.78	
Municipal industries, net receipts.....	536,834.66	
Capital receipts.....	1,850,486.28	
Refunds by individuals.....	4,005.78	
Trust funds, net receipts.....	162,672.14	\$5,343,423.70
		<u>\$6,170,789.88</u>
Disbursements.		
General government.....	\$ 299,081.90	
Protection to life and property.....	491,518.18	
Health and sanitation.....	253,808.38	
Highways.....	873,843.26	
Recreation.....	353,087.32	
Municipal industries.....	965,194.36	
Debt service.....	1,310,187.32	
Trust funds.....	110,555.50	
Miscellaneous.....	303,613.66	\$4,960,889.88
		<u>1,209,900.00</u>
Auditor's available balance Dec. 31, 1912.....		\$6,170,789.88

Point out the good features and the chief defects of this method of accounting and reporting, describe the requisite features of the best known form of municipal report and, as far as the data given will permit, re-cast the report so as to illustrate this best form.

3. A certain business corporation has accumulated a large surplus and decides to use the full amount in building a warehouse for the use of its business. What methods of representing this fact in the accounts would be proper?

MINNESOTA STATE BOARD OF ACCOUNTANCY

Examination November 12, 1913

EXAMINATION IN ACCOUNTING. PART II.

Answer Question 4 and three others.

Time Allowance, Three Hours.

4. The officers and leading citizens of Modern City are in a state of mental confusion. Modern City owns its water plant and sells water to most private consumers at 8c per 1,000 gallons, but to some industrial plants at lower rates. The City also uses a large quantity of water in its municipal buildings at public drinking fountains and in cleaning and sprinkling park and city streets, but does not measure the water thus used and does not, in its accounting, take account of it.

The Mayor, in a public address, referred to the water system as a successful and "paying" municipal industry. The supervisor of waterworks gave out an interview stating that when depreciation, tax losses and interest on the investment were considered, the water system was on the contrary, a losing venture. The controversy thus begun, others rushed into it.

You are called in to examine the accounts and conditions and report the facts. You find the following information in the comptroller's accounts:

	1906	1907	1908
Water revenue	\$282,610.87	\$294,923.91	\$323,160.15
Operating expenses	139,139.94	140,199.94	140,645.69
Interest on water bonds.....	77,200.00	77,200.00	77,200.00
	1905	1906	1907
Investment, Dec. 31.....	\$5,668,648.00	\$5,835,640.00	\$6,039,850.00
Thousand gallons pumped	6,426,709	6,420,027	6,526,900
Slippage at pumps.....	10%	10%	10%
Thousand gallons water sales.....	3,532,636	3,686,549	4,039,502

The accounts have been kept on a basis of accruals, but no allowance for depreciation has been made either in operating expenses or the investment valuation, the latter representing simply the cost of construction.

This "investment" valuation includes the cost of two pumping stations which have been long out of use; this cost includes land \$40,000, buildings \$142,978, equipment \$195,272. You estimate the accumulated depreciation of the remainder of the plant to Dec. 31, 1905, to be \$1,040,408, and the depreciation for 1906-8 as follows:

	1906	1907	1908
Depreciation	\$67,486.00	\$69,291.00	\$69,560.00

Some parties to the controversy think that 4 per cent interest should be allowed on the investment, others 6 per cent; and that, since if the water system were privately owned the city would derive a revenue from taxation, this tax revenue loss should be counted as expense or deducted from income in deciding whether the water system "pays."

The water bonds are not liabilities of the water department specifically, but are a part of the general bonded debt of the city; the interest is not a specific claim against the earnings of the water department. The tax rate amounts to 8/10 of 1% of full estimated market value.

Prepare an operating statement, showing the net income or loss of the water department after making such allowances as you deem proper for depreciation, water used by the city, interest on investment and tax loss, stating your reasons for the introduction or omission of any such items, and show to what degree the water department "pays" or "fails to pay."

5. You are called in by the President of the San Luis Potosi Mining Co. to devise and install a system of accounting comprising the transactions at the main office in St. Paul and at the mine in Mexico. The corporation is registered under the law of the State of Delaware and stock is being sold all over the country. The laws of Mexico demand that a set of books be kept in that country comprehending the assets and liabilities, and operations carried on there, but the directors are desirous of having the accounting so designed as to have the whole system controlled from the St. Paul office. State briefly how you would propose to handle this proposition, and also how you would deal with the matter of exchange between Mexican and U. S. A. currency.

6. In designing a system of cost accounting how would you propose to make the commercial books reflect the manufacturing operations in order that perpetual inventories of raw materials and finished products may be maintained? Take some manufacturing business with which you are conversant as an illustration and describe briefly the operating of the necessary accounts in the General Ledger, and also how you would propose to handle the question of factory expense in arriving at the cost of finished products.

7. Why should the cost of marketing or selling a commodity always be kept separate from the cost of manufacturing the same? Give an illustration of how the executive of a business may be misled if these expenditures are not definitely segregated.

8. The Star City Rapid Transit Co. has issued \$10,000,000 of 5 per cent 25-year gold bonds at 95, secured by a mortgage which contains a sinking fund clause to the effect that each year the company is to pay to the trustee under the mortgage for sinking fund purposes a sum equal to 10 per cent of the net revenue from operation after providing for operating expenses and taxes. This net revenue the first year was \$3,000,000. The trustee invested the money received in bonds of this issue at 98. How would you represent the bond discount at time of the sale of the bonds, at the close of each fiscal year, and on the sinking fund investment? What entries would you make to represent the sinking fund requirement and compliance with it? Explain fully.

MINNESOTA STATE BOARD OF ACCOUNTANCY

Examination November 12, 1913

QUESTIONS IN AUDITING.

Time Allowance, Three Hours.

Answer Any Twelve Questions.

1. As Auditor of a corporation carrying numerous items on its Balance Sheet under the caption of "accounts receivable," what consideration would guide you in deciding which were doubtful or bad? State how you would assess their value and also under what circumstances you would make enquiry as to possible defalcations in any of the items. Also state how you would verify the accounts and bills payable.

2. A firm of manufacturers make considerable extensions and improvements to their property and plant. You find that the material used is from their own stores, and that the labor is included in their monthly pay-roll sheets.

What steps would you suggest or take in order to satisfy yourself that such additions had been correctly charged as capital expenditure? Do you object to overhead expenses being included as part of the capital expenditure. If so, why?

3. State briefly your procedure for discovering frauds or errors in the accounts of a company because of—

- (1) Merchandise charged to customer but still in store;
- (2) Merchandise received into store but not recorded on books;
- (3) Merchandise delivered but not charged to customer;
- (4) Cash received but not entered in Cash Book;

and your suggestions as to methods of bookkeeping, etc., for preventing these in the future.

4. What procedure would you adopt to verify inventory of plant?

5. In your examination of the Horses and Wagons Account of a Company you find the following transactions have taken place:

- (1) Purchase of new horses to replace dead ones.
- (2) Horses exchanged and payment made for difference in value.
- (3) Loss of horses and wagons through accident, covered by insurance.

How would you suggest such matters should be treated in the Horses and Wagons Account?

6. Define "Internal Check" and give five suggestions with a view to efficient control and the prevention and detection of fraud.

7. State concisely how you would treat Branch Accounts in the Head Office books, and your reasons for so doing.

8. Referring to the previous question, in preparing a Combined Operating Statement, what special accounts should be examined?

9. State the special features which pertain to the audit of the books and accounts of a Milling Company.

10. State the special features which pertain to the audit of the books and accounts of a Theatre.

11. State your understanding of the term "Contingent Liability" and give three examples of how it may occur. How would you treat such a liability on the Balance Sheet?

12. You are called upon to investigate the accounts of a corporation for a period of ten years and to certify to the following:

Net Sales in each year;

Net Profit in each year;

Actual Cash introduced into the business.

Discuss the proper method of procedure to arrive at these figures, not overlooking the fact that the Company has several branches who sell to each other and that the capital stock was partly issued at a premium.

13. State carefully the tests you would apply to the inventory so as to ensure, as far as possible, its accuracy.

14. When certifying a Balance Sheet do you object to the bulking of several assets in one account? If so, why? Give one example where it is policy to do this.

MINNESOTA STATE BOARD OF ACCOUNTANCY

Examination November 12, 1913

COMMERCIAL LAW.

Answer Any Twenty Questions.

State Reasons for all Answers.

Time Allowance, Four Hours.

1. A buys a bicycle of B on Aug. 10 at 8 A. M. A was born at 10 P. M. Aug. 11th, his twenty-first birthday coming the day after the bicycle purchase. Is the contract binding?

2. A, a male student 18 years of age, engaged a room of B for 40 weeks at \$2.50 a week payable weekly. At the end of 12 weeks he left the room, having paid no rent, and B, being unable to secure another lodger, sued A for \$100. Can B recover? If so, how much?

3. X sells Y a mahogany log too large to be easily rolled over, and conceals a defect by previously rolling the defective part next to the ground. May Y avoid the contract?

4. C sells his business to D for \$2,000, and in consideration of \$3,000 additional agrees never to engage in a similar business. Is this contract enforceable?

5. A says, "I will sell you my cow for \$50." B says, "I accept." That night the cow died in A's pasture. Did the title pass?

6. X contracted to build a house for Y and obtains materials from Z and M works upon the house as the hired employee of X. Y requires X to furnish wage and material receipts or lien waivers before making payment to X. X furnishes lien waivers which read as follows, each being dated at a date subsequent to the completion of the house:

"I hereby waive all my right of lien for materials furnished X at (location)."

Signed, Z.

"I hereby waive all my right of lien for wages due me for work done for X at (location)."

Signed, M.

Z and M, not having been paid by X file liens upon Y's premises before the expiration of the period for filing such liens. Can Z and M recover from Y?

7. A takes B's mowing machine "on three days' trial and approval." Where is the title during the three days?

8. X goes to a store with Y and says, "Sell Y any amount of goods up to \$100 and if he fails to pay for them I will pay for them." The store sells Y goods valued at \$45 and, Y failing to pay for them, sues X. Is X liable?

9. P authorized A to sell his lands. Later he also authorized B to sell them. On Sept. 9th A sold them to X. On Sept. 10th B sold them to Y. P conveyed to X and Y sues P for breach of contract. Result?

10. M borrowed \$2,000 of H and gave the latter power to collect certain rents and pay himself from the proceeds. M died. Was the agency to collect the rents terminated? Suppose a tenant had paid rent to H after M's death?

11. B, in the name of C, orders goods of D, who supplies them supposing he is dealing with C. B then sells the goods to E who has no knowledge of B's trick. D brings action to recover from E. Result?

12. X orders by mail a barrel of shellac of Y, who selects a barrel answering the description and ships it to X by the M. & O. Ry. as directed. It is lost in transit. May Y maintain an action against the M. & O. Ry. for its loss?

13. B bought of C a carload of cedar posts to be shipped by C to B. When they arrived B's servants unloaded a part of them, and, discovering that they were not of good quality, so informed B. B then inspected them and because they were not of good quality, had those taken from the car replaced and refused the whole lot. C sues for the price. Is B liable?

14. In examining the affairs of a corporation you find that their Bills Payable and Accounts Payable exceed the amount stated in their articles. What would you do? What is the law covering this situation?

15. A note given by a corporation is properly signed and is endorsed by each director as director. What is the legal effect of the directors' endorsement?

16. What are the differences in legal effect of the following notes?

(a) "We jointly promise to pay, etc."

(Signed) A.
B.

- (b) "We jointly and severally promise to pay, etc."
(Signed) A.
B.
- (c) "We promise to pay, etc."
(Signed) A.
B.
- (d) "I promise to pay, etc."
Signed by A and endorsed by B.

17. What are the legal obligations of a director of a close corporation?

18. To what extent has the stockholder a right to scrutinize the minutes of the Board of Directors and the accounts of a corporation, and to be represented by an accountant in such a scrutiny? What would be your procedure if so employed?

19. To what extent and in what way may the stockholders compel the declaration and distribution of a dividend.

20. What is a "Common Carrier?" What test determines whether one is a Common Carrier or not? What is the right of eminent domain?

21. What obligations are imposed upon common carriers in the way of equality of service, of discriminations, of amount of charges?

22. What is the common law rule in regard to the liability of a Common Carrier for loss of goods intrusted with it? Can a Common Carrier limit this liability by contract? To what extent?

23. Define Bailment. Distinguish from sale. What classes of bailments are there?

24. What degree of care must the bailer give the bailed property?

A stores grain in B's warehouse. The warehouse burns because of a fire which started in the next building. Who is liable for loss?