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Questions used by the West Virginia Board of Examiners for the examination of public accountants

West Virginia. Board of Examiners

QUESTIONS USED BY THE WEST VIRGINIA BOARD OF EXAMINERS FOR THE EXAMINATION OF PUBLIC ACCOUNTANTS

Held in Charleston, West Virginia

May 26 and 27, 1919

BOARD OF EXAMINERS:

C.P.A.
RALPH F. HOLDEN, President, - - CLARKSBURG, W. VA.
FRANK R. AMOS, Attorney, - - - FAIRMONT, W. VA,
DAVID A. JAYNE, C. P. A., Secretary, - CHARLESTON, W, VA.

AUDITING

1. How would you proceed to audit the books and accounts of a West Virginia State Bank? Give outline of Schedules of your report to the Board of Directors. What cash would you require to be on deposit or in an accredited reserve bank?

2. State how you would satisfy yourself that all outstanding liabilities of a business are properly taken up in the balance sheet. Point out what you would like to find by way of system that would simplify this task.

How would you indicate on the balance sheet December 31:

(a) Preferred dividends (cumulative) due the previous November 1st not declared.

(b) Ordinary dividends for the year, declared the following January 22.

(c) Ordinary dividends declared December 30, payable February 1st?

3. Give each step you would take in auditing a coal company, with outline of Schedules your report would show.

4. Indicate what would guide you in examining and criticizing accounts receivable carried on branch office books of a businesss, what would you require before (a), accepting the debts as good or (b) writing off those you were told were bad?

5. You are called upon to audit the books of a coal company that owns 2,500 acres of coal land with a five foot vein of workable coal that cost the company $20.00 per acre in 1900. They have constructed a plant with a capacity of 125,000 tons per year. They wish to value the coal as of March 1, 1913, enbloc, and deduct a depletion for each ton of coal mined.

How would you proceed, and what would be the depletion per ton as you would advise them?

6. Give some general principles which will guide you in determining whether too much or too little provision has been made for depreciation of buildings, machinery, tools, goodwill, patents, franchises. Would a flat rate cover all these assets satisfactorily?

7. A corporation has issued $1,000,000 of 6 per cent 20-year bonds at 90 and for 8 years has written off 5 per cent of the discount each year. Last year an opportunity occurred to buy in $200,000 at 85, which was done and the bonds cancelled. The direc-

tors propose to take up into their year's revenue $30,000, the discount saved upon extinction of this liability. Do you approve? If not, what course would you advise, or, if they insist, how would you act?

8. In auditing a lumber company you find they own 10,000 acres of West Virginia timber, that cost $15.00 per acre in 1910. The tract of timber is well located and has been cruised to cut 7,000 feet merchantable timber to the acre. You are requested to value the timber and set up a proper charge for depletion in your cost sheet. What would you fix as the value and how would you proceeed?

9. (a) Wherein do the functions of an accountant and an auditor differ?

(b) Name the threefold object of an audit.

(c) What is a difference, if any, between depreciation, obsolescence and depletion?

(d) What is the first step of an auditor in beginning an audit?

10. State five methods whereby a bookkeeper also acting as cashier may dishonestly abstract funds of a company and still keep his books in balance. Also two methods by which a bookkeeper can abstract cash which the accountant would not ordinarily detect. State your course of procedure in detecting each of the methods you enumerate.

THEORY OF ACCOUNTING

1. The accounting department of a jobbing house, consisting of five men, keeps the books, does the billing, makes city collections, handles the general and petty cash, and pays the invoices of the company.

On what general lines would you distribute the work of the department to secure the best internal check?

2. Describe three methods of treating accruals and state the advantage or the weakness of each method.

3. In performing an audit, you find on checking the customers ledger a number of accounts with credit balances; likewise, in checking the creditors ledger, you find a number of debit balances. How should amounts of this character be treated in the balance sheet.

4. A bought goods of B as follows:

May 4, 30 days	$800.00
May 30, 2 months	500.00
June 8,	400.00
June 20,	300.00

July 1 A gave B a note for sixty days drawing interest at 6 percent and dated at the average due date. Write the note.

5. Prepare a specimen form of balance sheet for a $5,000,000 manufacturing or public service corporation, which will clearly set forth the financial condition of the concern.

6. A trading corporation votes to go into voluntary liquidation, the directors (three in number) being appointed trustees, to realize on the assets and pay the debts. What change, if any, should be made in the books of the corporation and how should the trustees' transaction be recorded?

7. The Smith and Jones Manufacturing Company issued $200,000 of first mortgage 50-year 5 percent sinking fund bonds which were marketed at 98½ and 1 percent commission, and expended the entire proceeds in the erection of their plant. The discount and commission were charged to Unamortized Debt Discount and Expense Account, to be subsequently charged to Profit and Loss, proportionately, during the life of the bonds. Five years later, the company was enabled, owing to a disturbance in the financial market, to purchase $50,000 of said bonds for sinking fund

account at 95. Prepare the necessary journal entries to record correctly the above transaction on the books of the company.

8. If a company sells its own bonds at a premium, is the premium received a legitimate profit of the company?

9. What are the requirements of federal reserve banks in regard to financial statements of borrowers from member banks?

COMMERCIAL LAW

1. (a) How many incorporators are required for Commercial Corporation?

   (b) What portion of the stock must be subscribed before beginning business?

2. What are the essential features of an enforceable contract?

3. If one endorser of a Negotiable paper is released, does it release all of them?

4. Can one partner transfer his interest to a stranger without consent of his Co-partners?

5. Are domestic partnerships obliged to make and file Income Tax Returns?

6. (a) Name some powers impliedly confirmed on every corporation.

   (b) Name some powers which will not be implied.

7. Has a Stockholder a right to examine the books of a corporation? If so, for what purpose?

8. If an instrument containing these words "I promise to pay" is signed by two or more persons, what is their liability?

9. (a) When should a check be presented for payment?

   (b) May the holder of an un-certified check sue the bank?

10. (a) What effect does the death of a party have on a contract?

    (b) What is the effect of the bankruptcy of a party to a contract?

PRACTICAL ACCOUNTING

1. Union County undertakes two public improvements, viz: a road estimated to cost $50,000, and a sewer estimated to cost $40,000.

The work is to be paid for out of proceeds of county bonds falling due at various dates and redeemable from assessments levied against property presumably benefitted, to the amount of the actual cost of the work and incidental charges when these are determined.

Bonds to the above amounts are sold realizing a premium of 1 percent which is added to the funds. The cost of the two undertakings when completed is $50,000 and $40,500 respectively, for which assesments are levied.

Assessments are collected as follows: for roads, $30,200, with interest of $1,310; for sewers, $29,400, with interest of $1,250. The interest in each case goes to the funds.

Road bonds, par value $20,000, and sewer bonds, par value $15,000, mature and are redeemed.

Prepare a trial balance of the transaction from which the status of the county debt and the funds and assessments at the conclusion of the above transaction could be ascertained.

2. Smith and Roberts are partners, trading under the name of Smith, Roberts & Company. The following is a trial balance of the partnership books:

Cash	$ 12,300.00	
Notes Receivable	32,700.00	
Accounts Receivable	47,000.00	
Merchandise Inventory	3,650.00	
Furniture and Fixtures	3,000.00	
Buildings	13,000.00	
Real Estate	50,000.00	
Notes Payable		$ 30,000.00
Accounts Payable		13,100.00
Purchases	84,000.00	
Sales		152,000.00
Advertising	2,600.00	
Commissions	3,050.00	
General Expense	12,900.00	
Office Salaries	9,300.00	
Insurance (1 year)	625.00	

Cash Discount	375.00	
Interest	175.00	
Discount and Allowances		550.00
Exchange	25.00	
Postage	1,650.00	
J. Smith, Drawing Account	2,400.00	
F. Roberts, Drawing Account	1,900.00	
J. Smith, Capital Account		50,000.00
F. Roberts, Capital Account		35,000.00
	$280,650.00	$280,650.00

Notations:

Inventory on hand, $5,365.
Unexpired insurance, 4 months.
Unused advertising materials, $165.
Office salaries due, $240.
Division of profits: Smith ⅝ths, Roberts, ⅜ths.
Prepare balance sheet and profit and loss account.

3. By partnership agreement existing between Brown and Gray, Brown has 2-3 of the profits and Gray 1-3. Brown's capital account stands credited $50,000. Gray's capital account stands credited $40,000. The assets of the partnership consists of the following:

Factory and Machinery	$75,000.00
Stock as per Inventories	30,000.00
Accounts Receivable	15,500.00

The liabilities are as follows:

Accounts payable	$15,000.00
Notes Payable	10,000.00
Overdraft Bank	5,500.00

Gray takes over the liabilities as above mentioned, and the assets at the following agreed valuation:

Factory and Machinery	$70,000.00
Stock as per Inventories	26,000.00
Accounts Receivable	14,000.00

An arrangement is made whereby Gray received $500 from Brown for accepting sole liability for discounted bills receivable.

Make up a statement showing the amount that Brown should receive, it being understood that losses on capital are borne by the partners in the proportion in which the profits are divided.

4. The National Manufacturing Company began business on January 1, 1912, and its balance sheet of January 1, 1913, is stated as follows:

		Assets	Liabilities
Cash in Bank		$ 69,433.00	
Office Fund		100.00	
Customers Accounts		273,842.00	
Inventory, Raw Materials		83,247.00	
Inventory, Supplies		4,932.00	
Inventory, Finished Goods		42,761.00	
Office Equipment		8,746.00	
Patents		125,000.00	
Real Estate		320,000.00	
Buildings		175,000.00	
Machinery		265,000.00	
Apartment House Property:			
Site	$10,000.00		
Building	30,000.00		
		40,000.00	
Bonds—dated and issued Dec. 31, 1912 maturing and payable at the end of 50 years—interest at 6 percent payable semi-annually			$200,000.00
Premiums on bonds Issued			20,000.00
Sundry Merchandise Creditors			78,392.00
Reserve for bad debts			8,294.00
Reserve for Depreciation on Buildings			10,000.00
Reserve for Depreciation on Machinery			30,000.00
Capital Stock, preferred 7 percent cumulative from Jan. 1, '13			500,000.00
Capital Stock, Common,			500,000.00
Surplus			61,375.00
		$1,408,061.00	$1,408,061.00

Among other items that appear on the books on December 31, 1913, are the following:

	Debits	Credits
Labor	$468,932.00	
Salaries and Superintendence at $10,000.00	90,360.00	
Supplies—Cash Purchases	37,637.00	
Sales Discount	18,395.00	
Customers Return and Allowances	8,474.00	
Sales		$1,545,572.00
Raw Materials Purchases, average cost per ton $22.00	639,034.00	
Shop Expense	9,461.00	
Selling and Delivery Expense	86,017.00	
Rent from Apartment House		4,000.00
Taxes, Insurance and Repairs, Apartment House	1,200.00	
Repairs on Machinery and Buildings	30,955.00	
Office Expense	2,478.00	
Taxes	7,842.00	
Insurance	6,000.00	
Bad debts	2,407.00	
Old Machine (cost $2,000.00) sold		1,400.00
Interest on Bonds	12,000.00	
Collections from Customers Amount to		$1,502,927.00
Payments to Merchandise Creditors Amount to		664,626.00
Loaned out on Call on Dec. 31, 1913		50,000.00

On March 1, 1913, the company bought an adjoining site on which it began in November, 1913, to erect an addition to its plant, to be completed by March, 1914. The price was $40,000.00, the company assuming a 6 per cent $20,000.00 mortgage, payable December 31, 1913. The surveying and legal expenses paid amount to $200.00. Taxes assessed against the property December 31, amount to $600.00.

Inventories at December 31, 1913:

Supplies	$ 8,129.00
Finished Goods	20,495.00
Raw Materials, 2,163 tons, the market price of which at Dec., 1913, is $24.00 per ton.	
Rea lEstate is Estimated to be worth	350,000.00
Dividends have been declared payable in April, 1914, of 3 1-2 percent on Preferred Capital Stock and 2 1-2 per cent on Common Capital Stock.	
Prepaid Insurance Premiums	1,000.00

Depreciation Reserves to be Credited Covering:

Buildings	4,050.00
Machinery	17,625.00
Office Equipment	875.00
Bad Debts	7,716.00

From the foregoing facts prepare statement of income and expense for the year and balance sheet at December 31, 1913. Omit cents in your calculations. In a brief report submit any criticisms which suggest themselves to you.

From the following comparative Balance Sheet, make statement showing disposition of income:

ASSETS	1916	1915
Plant and Equipment	$ 37,277.11	$ 36,551.03
Inventory—Material	24,334.05	29,650.17
" Supplies	6,077.69	6,070.91
Cash in Bank	2,100.90	1,716.31
" On Hand	6.44	1.44
Accounts Receivable	10,792.56	6,512.01
Interest on Accounts Receivable	34.58	
Notes Receivable	2,848.71	
Workmans Compensation Commission	121.71	
Deferred Insurance	287.98	650.28
Office Supplies	90.00	95.00
Taxes	41.67	
Treasury Stock	400.00	
Total	$ 84,413.40	$ 81,247.15
LIABILITIES		
Capital Stock	$ 26,000.00	$ 26,000.00
Surplus	47,378.46	43,025.81
Accounts Payable	789.42	147.81
Notes Payable		4,000.00
Reserve for Interest	6.12	
" " Taxes	387.57	1,051.41
" " Freight and Allowances	215.85	
" " Hospital Fund	750.00	
" " Depreciation	8,885.98	7,022.12
Total	$ 84,413.40	$ 81.247.15

Net profit for the year $33,492.86.

Dividends paid during the year $28,850.00.

Surplus Adjustment—Debit $290.21.

ROSTER OF WEST VA. CERTIFIED PUBLIC ACCOUNTANTS

Charles A. Ashcon, Martinsburg.
Henry Butterworth, New York City.
Arthur B. Bacon, New York City.
S. C. Boord, Fairmont.
H. A. Baschart, Pittsburg, Pa.
T. Peyton Brown, Bluefield.
F. D. Clifford, Huntington.
E. C. Conley, Huntington.
Jesse L. Cramer, Parkersburg.
Norman Fitzhugh, Charleston.
William T. Green, Charleston.
Ralph F. Holden, Clarksburg.
Okey K. Hayslip, Huntington.
Charles M. Jameson, New York City.
David A. Jayne, Charleston.
Walter P. Kohr, Wheeling.
Samuel Logan, Parkersburg.
R. S. Lemon, Parkersburg.
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Moses P. Morris, Huntington.
Lorelle V. Reed, Terra Alta.
H. B. Scott, Pittsburgh, Pa.
S. Charles Steele, Fairmont.
Marvyn Scudder, New York City.
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Andrew U. Wilson, Wheeling.
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