

1922

Examination [1922]

Virginia State Board of Accountancy

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EXAMINATION
VIRGINIA STATE BOARD OF
ACCOUNTANCY

RICHMOND, VIRGINIA
NOVEMBER 27, 28 AND 29, 1922

PRICE 25 CENTS PER COPY



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Richmond, Virginia

EXAMINATION VIRGINIA STATE BOARD
OF ACCOUNTANCY

NOVEMBER 27, 28 AND 29, 1922

COMMERCIAL LAW

NOVEMBER 27TH, 1922, 9:30 A. M. TO 1:00 P. M.

Give reasons for all answers

Do not repeat questions but designate them by numbers and letters

NEGOTIABLE INSTRUMENTS

Answer four of the following five questions

1. A delivers to B a negotiable note, dated the 5th day of November, 1922, for the sum of \$150.00, negotiable and payable sixty (60) days after date, at the Merchants National Bank, Richmond, Virginia. B subsequently, with the consent of A, changes the date of the note from the 5th to the 6th. Is the note negotiable?
2. John Jones executes his negotiable note for the sum of \$300.00, dated the 6th day of November, 1921, payable ninety (90) days after date, at the Merchants National Bank, Richmond, Virginia, to the order of James Blank. At the time of the execution of the note in question an agreement in writing is entered into between the said John Jones and James Blank, wherein it is agreed that the said John Jones may, upon the maturity of the note in question, renew the same for a like period of time upon payment of curtail of \$50.00 and interest. On January 31st, 1922, the note is sold to George Wood, a *bona fide* purchaser for value, who upon the maturity of the note, demands payment in full. What are the rights of John Jones?
3. A, an infant, executes his note for a loan of \$300.00, payable six (6) months after date, to the order of the Loan and Savings Corporation of Richmond, Virginia. Upon maturity the note is not paid. Suit is instituted thereon. Can the company recover?
4. A borrows from the Loan and Savings Corporation of Richmond, Virginia, the sum of \$300.00, executes his note for said sum, payable in sixty (60) days. The note is dated the 13th day of October, 1922. Subsequently, on the 20th day of October, 1922, the Loan and Savings Corporation requires A to procure an endorser. B endorses the note on said 20th day of October, 1922, as an accommodation to A. Suit is instituted against B on the note. Can the company recover from B?
5. (a) What is meant by an endorser "without recourse?"
(b) What is the legal rate of interest in Virginia?
(c) Can any more than the legal rate of interest be charged in Virginia; if so, under what circumstances, by whom, and by virtue of what?
(d) What is "usury"?

CONTRACTS

Answer four of the five questions

6. A purchases from B a Dodge automobile for a consideration of \$500.00, and delivers to B his note for that amount, payable in thirty (30) days, which B accepts in payment. Later B refuses to deliver.
 - (a) What are the rights of A?
 - (b) What are the rights of B if A refuses to accept delivery?
7. A places in the warehouse of B certain household furniture to be stored. There was no agreement as to the amount of storage to be charged. Six (6) months later A applies to B for his furniture, offering to pay what he, A, thinks is a reasonable storage, and the amount which would have been charged by other warehousemen in the same community. B refuses to accept the amount tendered, and refuses to deliver the goods. What are the rights of A?
8. A, a married man, agrees in writing to sell to B certain real estate in the County of Hanover for a consideration of \$6,000.00. The title is examined and found free from legal objections. B tenders to A the sum of \$6,000.00, but A's wife refuses to sign the deed.
 - (a) What are the rights of B?
 - (b) What would be the rights of A if B had refused to take the property?
9. A is the owner of a certain confectionery business in the City of Richmond, Virginia. He sells the same to B for the sum of \$3,500.00, and represents that there are no debts. The stock is actually worth \$3,000.00, and A owes to X, Y, and Z, three people with whom he has been dealing in the course of his business, the sum of \$3,000.00. What are the rights of X, Y and Z?
10. What is the statute of limitations on:
 - (a) an open account?
 - (b) a negotiable note?
 - (c) an instrument under seal?

CORPORATIONS

Answer all the following questions

11.
 - (a) What is a corporation?
 - (b) How is a corporation formed under the laws of the State of Virginia?
 - (c) How dissolved?
 - (d) How may a foreign corporation do business in Virginia?
 - (e) What is a foreign corporation?
12. Can the Board of Directors of a corporation possess the power to make or alter the by-laws of a corporation?
13. Are there any advantages to an individual who now owns a business and who is trading under his own name to incorporate; if so, what are the advantages?

PARTNERSHIP

Answer all of the following questions

14. A is a secret member of the firm of X & Co. If P & Co. sold a bill of goods to X & Co.:
- (a) Who would be liable to P & Co.?
 - (b) Under the laws of the State of Virginia is there any duty on members of a co-partnership to file a certificate stating the members of the co-partnership; if so, what should the certificate recite?
15. (a) A firm is being dissolved and the assets of the firm and of each of the individual members will be distributed. The firm owes \$20,000.00 debts and has \$15,000.00 assets subject to distribution to creditors. If A owes \$5,000.00 individual debts and has \$8,000.00 assets subject to distribution; B has no debts but has assets of \$1,000.00 subject to distribution, C has no debts but has assets of \$4,000.00; D owes \$2,500.00 individual debts and has \$3,500.00 assets subject to distribution; draw up a scheme for the distribution of assets according to various priorities, and give reasons for result indicated in your scheme of distribution.
- (b) The firm of John Jones & Co. takes in A as a new partner. Is A liable for existing debts of firm of John Jones & Co.?
- (c) The firm of John Jones & Co. is being dissolved by mutual consent. To whom should notice be given, how and why?

FEDERAL INCOME TAX

Answer the following questions

16. Is the income of interest on Liberty Bond issues taxable under the law? If so, to what extent?
17. In its 1919 return the A B Company valued the inventory at cost. In the 1920 return it decides to value them at cost or market value, whichever is lower. What is your understanding of this?

BANKRUPTCY

Answer both the following questions

18. What is a "Receiver in Bankruptcy" and "Trustee in Bankruptcy"? State how and by whom each may be appointed and their duties.

19. On examining the books of A corporation you find a judgment in favor of the corporation against B for \$5,000.00, recovered on November 1st, 1921. You also find that on November 15th, 1921, B filed a voluntary petition in bankruptcy, listing certain assets and liabilities, among which liabilities is the judgment of the A corporation. You find, furthermore, upon examination of the papers in this case that on the 15th day of November, 1922, petition for discharge has not been filed. How would you treat this judgment, and state also in what period of time has the person who has filed a petition in bankruptcy to file his petition for discharge.

PRACTICAL ACCOUNTING—PART 1

NOVEMBER 27, 1922, 1:30 P. M. TO 7:00 P. M.

PROBLEM No. 1

The following is a trial balance of Warren, Hughes and Wilson, partners trading as the District Manufacturing Company at the close of business June 30th, 1922:

	DEBIT	CREDIT
Land.....	\$ 25,000.00	\$
Factory Buildings.....	75,000.00	
Office Buildings.....	5,000.00	
Machinery and Equipment.....	125,000.00	
Small Tools Purchased.....	1,500.00	
Office Furniture and Fixtures.....	2,000.00	
Patents.....	17,500.00	
Good Will.....	25,000.00	
Patterns and Drawings.....	7,500.00	
Inventories		
Raw Material.....	85,000.00	
Goods in Process.....	60,000.00	
Finished Goods.....	150,000.00	
Purchases		
Raw Materials.....	537,500.00	
Freight and Cartage.....	3,750.00	
Manufactured Goods.....	67,400.00	
Warren—Capital.....		300,000.00
Hughes—Capital.....		200,000.00
Wilson—Capital.....		100,000.00
Columbia Corporation (150 Shares no Par (Cost).....	13,875.00	
Reserve for Depreciation		
Machinery and Equipment.....		25,000.00
Factory Buildings.....		15,000.00
Office Buildings.....		1,000.00
Notes Receivable—Customers.....	29,250.00	
H. Warren—Advances.....	6,400.00	
W. Wilson—Advances.....	3,950.00	
Accounts Receivable—Customers	279,475.00	
Cash on hand.....	1,000.00	
Second National Bank—(on De- posit).....	63,300.00	
Reserve for Doubtful Accounts....		4,820.00
Accounts Payable (Including loan to company by Wilson \$50,000.00).....		336,650.00
Notes Payable.....		254,900.00

Direct Labor.....	322,500.00	
Indirect Labor.....	36,250.00	
Heat, Light and Power.....	13,825.00	
Installation of Machinery.....	1,364.00	
Repairs—Factory Buildings.....	2,125.00	
Repairs—Machinery and Equip- ment.....	3,160.00	
Factory Supplies.....	4,175.00	
Factory Expense.....	6,750.00	
Insurance (Unexpired 7-1-21 \$1,450.00).....	5,280.00	
Sales.....		825,590.00
Advertising.....	7,100.00	
Commissions.....	11,620.00	
Salesmen's Salaries.....	21,390.00	
Traveling Expense, Salesmen.....	10,810.00	
Interest Received.....		1,180.00
Interest Paid.....	2,735.00	
Office Salaries.....	8,385.00	
Stationery and Printing.....	1,619.00	
Telephone and Telegraph.....	376.00	
Legal and Auditing.....	1,290.00	
Discount on Sales.....	7,240.00	
Discount on Purchases.....		4,860.00
General Office Expense.....	765.00	
Fuel.....	3,850.00	
Taxes (Plant \$4,715.00 Other \$2,210.00).....	6,925.00	
Delivery Equipment purchased 9-1-21.....	5,066.00	
Total.....	\$2,069,000.00	\$2,069,000.00

Profit and Loss Ratios: Warren 45%, Hughes 35%, Wilson 20%.

Inventories June 30th, 1922:

Raw Material.....	\$67,500.00
Goods in Process.....	71,250.96
Factory Supplies.....	1,860.00
Small Tools.....	500.00

Goods held on Consignment \$19,730.00 (No consignment sales during year).

The articles manufactured are not patented; the Patent Costs (15 years to run) cover an article the manufacture of which will begin January 1st, 1923.

Machinery was purchased, installed and used, December 15th, 1921, amounting to \$12,500.00, but the price was disputed and invoice not set up on books.

A statement received from the Columbia Corporation as of December 31st, 1921, indicated the value of the stock to be \$116.25 per share. This stock is hypothecated for loans at bank.

Depreciation to be computed as follows:

Factory Buildings.....	3%	per year
Machinery and Equipment.....	10%	" "
Office Buildings.....	5%	" "
Delivery Equipment.....	25%	" "
Office Equipment.....	10%	" "
Accrued Taxes:		
Plant.....		\$3,125.00
Other.....		1,005.00
Prepaid Interest.....		790.00
Unpaid Wages:		
Direct Labor.....		8,000.00
Indirect Labor.....		2,100.00

The insurance account is divided as follows:

	Unexpired July 1, 1921	Premiums paid during year	Unexpired June 30, 1922
Factory Buildings.....	\$400.00	\$1,000.00	\$400.00
Machinery and Equipment.....	800.00	2,250.00	825.00
Office Building and Equipment.....	50.00	80.00	70.00
Delivery Equipment.....	200.00	500.00	100.00

Accounts Receivable in the sum of \$4,500.00 have been determined worthless. Raise the Reserve for Doubtful Accounts to 5% of the Accounts Receivable after charging the above amount against it.

Repairs represent:

Machinery Replacements.....	\$ 2,500.00
Building Renewals.....	1,500.00
Units Sold.....	210,303
Inventory Finished Goods July 1, 1921 (Units)....	30,000
Units Purchased (All sold).....	13,480
Inventory Finished Goods June 30, 1922 (Units)....	27,565

Prepare Operating Accounts, Balance Sheet and Partners Accounts as at June 30th, 1922. Importance will be attached to the form in which statements are submitted.

Ten days after submitting report of audit you are again called in by the Proprietors, who state that on account of the very unsatisfactory business conditions existing for the past several years and to the further fact that George Lloyd, one of their largest customers, has just failed owing \$98,500.00. They had decided to sell out to Warren who has offered Hughes and Wilson 90% for their Investment after charging off the account of Lloyd and \$150,000.00 for possible shrinkages. Show adjustment of Partners' Accounts on the basis of the above and a Condensed Balance Sheet of the business, showing therein amount due Hughes and Wilson as result of purchase.

PROBLEM NO. 2

One of your clients, a minority stockholder in the Union Corporation (organized January 1st, 1921) of Richmond, Va., who lives in St. Louis, Mo., sends you the following Balance Sheet, which he has received from the Secretary of the Company, with the request that you investigate the records of the Company and report to him:

<i>Assets</i>	December 31, 1921	May 31, 1922
Current.....	\$31,701.33	\$34,923.57
Fixed Properties.....	12,144.08	54,012.46
Stock Discount.....	1,400.00	2,733.33
Organization Expense.....	2,250.00	2,250.00
<i>Total</i>	<u>\$47,495.41</u>	<u>\$93,919.36</u>
<i>Liabilities</i>		
Current.....	\$25,326.45	\$57,112.23
Capital.....	22,168.96	36,807.13
<i>Total</i>	<u>\$47,495.41</u>	<u>\$93,919.36</u>

You were refused access to the general books and accounts but were told that you may inspect the minute-book, in which you find the following:

February 20, 1921.—Increase in Capital Stock to \$25,000.00 par value \$100.00 (85 shares were sold) authorized, also the payment of a stock dividend equivalent to 50% of the present capital of \$10,000.00 to all stockholders of record this date.

January 24, 1922—Increase in Capital Stock authorized to \$75,000.00 to be sold to stockholders at \$66.66 $\frac{2}{3}$ per share (40 shares having been sold).

February 25, 1922—Ordered that the Plant Site be written up on the books in the sum of \$9,488.32 as per appraisal.

Submit a clear and concise statement to your client setting forth the facts you think he should know and make brief comment thereon.

THEORY OF ACCOUNTS

NOVEMBER 28, 1922—9 A. M. TO 12:30 P. M.

Answer all questions

Do not repeat questions but designate them by numbers and letters

1. What is the difference, if any, between the following:
 - (a) Balance Sheet, Trial Balance, Statement of Assets and Liabilities, Statement of Affairs.
 - (b) Income and Expense, Receipts and Disbursements.
Describe each.
2.
 - (a) How many methods of bookkeeping are generally recognized?
 - (b) Define each, and state their difference, if any.
 - (c) What method would you recommend for all classes of business?
 - (d) In the different methods of bookkeeping, if there be more than one, what is the procedure under each in the preparation of Operating and Financial statements.
3. From the following accounts prepare a Balance Sheet as of December 31, 1921, and Profit and Loss Statement for year then ended, without the use of figures, showing the form in which you would present them:

Treasury Stock	Notes Receivable Discounted
Notes Payable	Collections on Bad Debts previously charged off
Discounts allowed on Sales	General Expense
Trade Acceptances Payable	Auto Trucks
Dividends Paid	Petty Cash Fund
Discounts received on Purchases	Bond Interest Paid
Interest received on Liberty Bonds	Trade Acceptances Receivable
Returns & Allowances on Sales	Reserve for Bad Debts
Merchandise Inventory (At beginning of period—Inventory at end of period is also given you)	Officers Accounts Overdrawn
Surplus	Liberty Bonds
Furniture & Fixtures	Depreciation
U. S. Income & Excess Profits	Purchases
Taxes Paid	Insurance (Part Prepaid)
Notes Receivable (Trade Debtors)	Cash Value Life Insurance Policy
Accrued Interest on Bonds Outstanding	20 Year Debenture Bonds
Buildings	Accounts Receivable (Trade Debtors)
Sales	U. S. Capital Stock Tax Paid
Reserve for Depreciation	Sinking Fund
Taxes (State and City)	Cash deposited with Banks
Land	Capital Stock
Traveling Expenses	Interest Paid on Notes Payable (Part Prepaid)
	Accounts Payable

4. The Acme Corporation obtains a charter under the laws of the State of Virginia—authorized Capital—minimum \$100,000.00—maximum \$500,000.00. A subscribes for \$50,000.00, paying cash \$30,000.00, and his note for \$20,000.00 with interest. B subscribes for \$100,000.00, paying cash \$50,000.00 and transferring to the corporation his manufacturing plant (the appraised

value of which is \$75,000.00), consisting of Land, Building, Machinery, etc., in full settlement for his subscription. C subscribed for \$100,000.00, paying cash \$65,000.00, and note of E, with interest, for \$35,000.00.

D subscribes for \$100,000.00, which subscription has not been paid.

In order to float the stock it was necessary to pay a commission of 5%.

The organizers have also made the following advances: Attorney's Fees \$800.00, Charter Fees \$140.00, and have agreed to pay \$175.00 for your services.

Prepare Journal Entries and Balance Sheet.

5. (a) What is the difference between Capital and Capital Stock of a corporation?
(b) If a reserve has been created out of profits to establish a Sinking Fund to provide for a bonded debt, what disposition should be made of the reserve after cancellation of the debt?
6. State how you would handle the Surplus on the books and in the Balance Sheet of a Corporation changing, in reorganization, its Capital Stock of \$100.00 par value to non-par value stock. Would you consider such Surplus available for dividends after the change? State fully your views as to the above and as to the advantages or disadvantages of issuing non-par value stock.
7. State the various methods generally used by trading concerns to arrive at the amount of Inventory of Merchandise on hand. Which do you approve of? Explain.
8. You are called in by a client to suggest the proper method of handling Notes Receivable. Upon investigation you find notes on hand amounting to \$10,000.00 and notes endorsed and discounted at bank \$45,000.00. State the plan you would outline, showing all entries necessary from the first receipt of a note until it was finally paid, when:
 - (a) It is paid by maker at maturity.
 - (b) It is partially paid at maturity, and a new note given for the balance.
 - (c) It is protested for non-payment at maturity.
 - (d) It is taken up with a new note of the same amount, with interest added, at maturity.
9. (a) Of what practical use is a cost sheet?
(b) Prepare a cost sheet of some manufacturing industry with which you are familiar, using your own figures.
10. What annual rate of depreciation would you recommend to be set up as a reserve on the following classes of assets:
 - (a) Frame Buildings
 - (b) Concrete Buildings
 - (c) Brick Buildings
 - (d) Automobiles
 - (e) Auto Trucks
 - (f) Machinery
 - (g) Water Power Rights
 - (h) Furniture & Fixtures
 - (i) Land

PRACTICAL ACCOUNTING—PART 11

NOVEMBER 28, 1922, 1 P. M. TO 6:30 P. M.

PROBLEM 3

On January 1, 1906, the Santee Timber Holding Company was organized for the purpose of acquiring and developing certain timber tracts in South Carolina.

On February 28, 1906, the following contract was entered into with the Carolina Lumber Company:

1—*a*—The Timber Holding Company was to sell timber to the Carolina Lumber Company for \$1.00 per thousand feet for all cuttings from original purchase tracts until the original estimated footage thereon was exhausted.

b—That after cutting out the estimated footage on original purchase tracts the overrun was to be deeded to the Carolina Lumber Company as and when determined; but to be paid to and realized by the Santee Timber Holding Company at .50 cents per thousand as and when cut.

2—That on subsequent purchases of timber the Timber Holding Company was to charge such price for stumpage as would be warranted by the conditions of purchase, the overrun to remain the property of the Holding Company.

3—That on all footage cut, except on overrun tracts from original purchases, \$1.50 per thousand feet was to be advanced by the Carolina Lumber Company for further purchases and the payment of existing debts.

4—That only such expenses as are applicable to the purchase and care of timber are to be paid by the Santee Timber Holding Company.

On January 1, 1918, you are called in by the Santee Timber Holding Company to prepare from their records a financial statement. Your investigation discloses the following facts:

1-1-06—Capital Stock sold for cash.....	\$185,000.00
1-1-06—Office Equipment purchased.....	4,000.00
2-1-06—Original purchase tracts for cash.....	48,000.00
12-31-07—2nd purchase of 267,000,000 feet for cash \$50,000.00 and bonds for \$200,000.00 without interest, maturing \$10,000.00 each year beginning 12-31-1908.	
Salaries, executive and clerical, cruising, fire protection and other charges paid.....	18,000.00
Taxes paid.....	7,500.00
Organization expenses (mostly cruising, preliminary surveys, etc.).....	8,500.00
Cuttings from original purchase tracts 3-1-06 to	

9-30-17—130,000,000 feet.

Cuttings from second purchase tracts 1912 to 1917

both inclusive 95,000,000 feet at 30c. per M in excess of cost.

Original estimate on first purchase was cut out 9-30-17; and the remaining timber, estimated at 50,000,000 feet, was deeded to the Carolina Lumber Company on October 1, 1917. You also find that during October, November, and December, 1917, the Carolina Lumber Company cut 6,000,000 feet from overrun tracts according to contract.

On December 15, 1917, notes amounting to \$50,000.00 at 90 days were given the Carolina Lumber Company on account of advances. You are also notified that the lumber company immediately discounted \$20,000.00 of the notes with local banks.

For the purpose of this problem expenses should be apportioned 50% to each purchase and considered as at the date of purchase.

Prepare journal entries necessary to give effect to the foregoing and General Balance Sheet at December 31, 1917.

You are now informed that the Carolina Lumber Company will purchase the timber rights of the Timber Holding Company, together with all other assets, and assume all liabilities for \$555,000.00.

The following Balance Sheet of the Carolina Lumber Company December 31, 1917, is handed to you for purpose of consolidation by purchase:

Cash.....	\$ 64,278.00	Notes Payable.....	\$ 30,000.00
Accounts Receivable.....	370,845.00	Accounts Payable...	56,521.00
Notes Receivable.....	30,000.00	Reserve for Depreciation.....	96,391.00
Inventory of Lumber.....	58,078.00	Capital Stock.....	42,000.00
Liberty Bonds.....	4,500.00	Surplus.....	1,134,765.00
Stock of Santee Timber Holding Co. at cost.....	2,400.00		
Standing Timber.....	239,184.00		
Fixed Properties.....	384,618.00		
Other Corporate Stocks.....	185,000.00		
Prepaid Expense.....	2,774.00		
Treasury Stock.....	3,000.00		
Good Will.....	15,000.00		
	<hr/>		<hr/>
	\$1,359,677.00		\$1,359,677.00

Prepare journal entries of sale for books of Timber Holding Company and entries of purchase for books of Carolina Lumber Company.

Prepare Balance Sheet of Carolina Lumber Company after giving effect to the purchase and an issue of bonds sufficient to pay for the net assets purchased and to retire bonds of Holding Company.

PROBLEM NO. 4

The Smith Cotton Company was incorporated in 1910 with a paid in Capital of \$50,000.00 represented by 500 shares of stock of the par value of \$100.00 per share. The business was operated at a loss until March 31st, 1914, at which time John Smith, who owned 450 of the 500 shares, became dissatisfied and desired to retire. An agreement was entered into between Smith and the other stockholders (George Brown and Henry Jones) whereby Smith was permitted to withdraw from the Corporation. The parties are designated as Smith (First Part) and Company (Second Part) the terms of the agreement being, in part, as follows:

First—Smith to pay off debt to the banks (which he had assumed in the sum of \$45,000.00).

Second—Smith to assign his stock to the remaining stockholders.

Third—Company to collect the Notes Receivable and all book accounts and convert into cash all other assets and apply the proceeds, first; to the payment of the liabilities of the Company; second, to Smith such amount as may be necessary for him to complete the payment of his indebtedness to the banks.

The agreement also takes into account certain interest features which are omitted here.

A trial balance of the accounts as shown by the books on March 31st, 1914, is as follows:

	Debit	Credit
Cash.....	\$ 64.82	\$
Balance in Banks.....	9,625.99	
Accounts and Notes Receivable.....	85,027.35	
Bagging and Ties.....	916.90	
Guano.....	29.62	
Cash Surrender Value Life Ins. Policy.....	2,489.37	
Corporate Stocks (Cost).....	11,188.04	
Interest in Trade Associations.....	252.31	
Real Estate.....	2,200.00	
Furniture and Fixtures.....	234.08	
Commissions.....	1,129.85	
Interest.....	888.11	
Sales Account.....	1,270.57	
Accounts Payable.....		25,172.91
Notes Payable (For Merchandise)....		17,432.40
Commissions.....		8,494.11
Cotton Account.....		438.70
Capital Stock.....		50,000.00
Surplus.....		13,778.89
Total.....	\$115,317.01	\$115,317.01

An investigation of the affairs of the Company disclosed the following items which did not appear on the books:

Accounts Receivable.....	1,886.60
Accounts Payable.....	1,512.54
Notes Payable (representing speculations in Cotton in prior years (\$45,000.00, accrued interest \$962.25).....	45,962.25
Assumed by Smith	

No settlement was made with Smith until June 10th, 1922. In the meantime the business was continued by the remaining stockholders (Brown and Jones) who kept a separate set of books for the new business, and who took over the following Assets of the old business:

Bagging and Ties.....	\$ 916.90
Cash Surrender Value of Life Ins. Policy.....	2,489.37
Furniture and Fixtures.....	234.08

The interim transactions, between March 31st, 1914, and June 10th, 1922, are as follows:

Interest Collected on Notes and Accounts.....	\$9,205.99
Profit on Sale of Guano.....	9.08
Dividends on Corporate Stocks.....	1,320.00
Profit on Sale of Corporate Stock (Cost \$10,000.00)..	1,668.58
Loss on Interest in Trade Associations.....	229.06
Rent from Real Estate.....	36.00
Miscellaneous Income.....	80.96
Interest paid on Trade Accounts and Notes.....	3,035.07
Attorneys Fees.....	260.12
Accounts and Notes collected (Worthless \$10,143.74)	61,427.37
Real Estate sold for.....	2,200.00
Accounts Payable paid.....	26,667.15
Notes Payable paid in full	
Notes assumed by Smith paid in full.	

Prepare adjusted trial balance and Surplus Account as at March 31st, 1914.

Prepare Statements that in your judgment should be submitted to Smith as at June 10, 1922—giving due regard to form.

AUDITING

NOVEMBER 29, 1922—9 A. M. TO 12:30 P. M.

Answer all Questions

Do not repeat questions but designate them by numbers and letters.

1. You are engaged to examine the accounts of two banks for the purpose of consolidation as of July 1, 1922. The Committee on consolidation agrees to accept your certification of the following Reserves:
 - (a) Reserve for Unearned Interest (and Discount).
 - (b) Reserve for Taxes (State and City).
 - (c) Reserve for Federal Taxes.
 - (d) Reserve for Losses.
 - (e) Reserve for Depreciation on Securities.

State your procedure fully.

2. You are engaged to make a detailed audit of a corporation's books for the current year. The company had been in business for many years, but the books had never been previously audited. State if you would confine your audit strictly to the current year. Explain fully.
3. What is meant by (a) Balance Sheet Audit, (b) Detailed Audit, (c) Periodical Audit? Give your views on each.
4. You are engaged to make a Balance Sheet Audit of the accounts of a Wholesale Grocery Corporation and find the Trial Balance of the General Ledger contains the following accounts:

(a) Capital Stock	(k) Surplus
(b) Profit & Loss	(l) Notes Payable
(c) Automobiles	(m) Goodwill
(d) Accounts Payable	(n) Accrued Salaries
(e) Income & Excess Profits Tax (Current Year)	(o) Real Estate (Land and Buildings)
(f) Real Estate Notes (Not Due)	(p) Prepaid Expenses
(g) Furniture & Fixtures	(q) Personal Account of President (Debit)
(h) U. S. Liberty Bonds (All issues in same A/C)	(r) Inventories
(i) Reserve for Depreciation	(s) Trade Acceptances Receivable
(j) Accounts Receivable	(t) Cash

State in detail how you would proceed with this audit, your methods of verification; and draft a proper form of certificate to be attached to the Balance Sheet.

5. (a) In making an examination of a bank with Capital and Surplus of \$500,000.00 you find one of the Tellers short the sum of \$15,000.00, and overdrafts of officers amounting to \$7,500.00. You find also the following items not carried on the books:

Customers Drafts Guaranteed.....	\$76,500.00
Furniture and Fixtures.....	12,500.00

State how you would handle these items and how you would treat them in a statement of financial condition.

- (b) State also what verification you would make of depositors' accounts, and name several methods whereby an efficient internal check may be maintained on these accounts.
6. (a) What do you consider a proper voucher for cash payments?
(b) How would you safeguard the reproduction and passing of vouchers a second time?
(c) How would you determine if certain expenditures of a manufacturing concern were of the nature of improvements, betterments, repairs or renewals? Explain fully.
7. State in detail the successive steps to be taken in auditing the accounts of an executor of an estate. Formulate a Summary Statement of Principal and Income showing the items usually contained therein, using your own figures.
8. You are engaged to make an audit of the affairs of a partnership. The President of the bank at which you keep your account learns that you are making the audit and questions you regarding their financial standing, &c. Would you discuss the matter with him? Why?
9. State what you consider the most important points arising in and how would you treat them in the following classes of audits:
- (a) Cotton Mill
 - (b) Lumber Manufacturing
 - (c) Building & Loan Association
 - (d) Department Store
 - (e) Installment Houses
10. How would you satisfy yourself as to the correctness of the following classes of payment:
- (a) Bond Interest
 - (b) Dividends
 - (c) Officers Salaries