

University of Mississippi

eGrove

State Publications

Accounting Archive

1924

Examination [1924]

Virginia State Board of Accountancy

Follow this and additional works at: https://egrove.olemiss.edu/acct_st



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Virginia State Board of Accountancy, "Examination [1924]" (1924). *State Publications*. 58.
https://egrove.olemiss.edu/acct_st/58

This Article is brought to you for free and open access by the Accounting Archive at eGrove. It has been accepted for inclusion in State Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

EXAMINATION
VIRGINIA STATE BOARD OF
ACCOUNTANCY

RICHMOND, VIRGINIA
OCTOBER 21, 22 AND 23, 1924

PRICE 25 CENTS PER COPY

MEMBERS
VIRGINIA STATE BOARD OF ACCOUNTANCY

Frederick B. Hill, C. P. A. Chairman,
Norfolk, Virginia

A. M. Pullen, C. P. A. Secretary & Treasurer,
Richmond, Virginia

J. A. D. Parrish, C. P. A.
Roanoke, Va.

Wm. L. Prince, Dean of Richmond College,
Richmond, Virginia

Thos. O. Moss, Attorney at Law,
Richmond, Virginia

EXAMINATION VIRGINIA STATE BOARD
OF ACCOUNTANCY

COMMERCIAL LAW

OCTOBER 21ST, 1924, 9:45 A. M. TO 1:45 P. M.

Give reasons for all answers

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

PARTNERSHIP

Answer all of the following questions

1. Jones and Davis are partners in the mercantile business, and as such they are the owners of real estate of the value of \$25,000.00. Jones dies, leaving surviving him a widow. The partnership is indebted to the extent of \$20,000.00. What becomes of the legal title to this real estate?
 - (a) What is meant by dormant partner, and how far, if at all, is he liable for the partnership debts?
 - (b) What is a limited partnership, and what are the proper steps to be taken, if any, to protect a person becoming a limited partner?
 - (c) When, if at all, is real estate held by partners treated as personalty?
 - (d) To what extent, if any, is the real estate of a deceased partner liable for the debts of the partnership. If liable, is the right of any person superior to that of the creditors?
2. A, B, and C form a partnership for the purpose of conducting a mercantile business. A contributes \$5,000.00 of the capital and B \$2,500.00 of the capital; C gives his exclusive time and is experienced, while A and B only give a portion of their time. The partnership flourishes and at the end of three years they determine to dissolve. The partnership has on hand \$10,000.00 undivided profits. How much would each be entitled to receive from the capital and profits respectively?
3. A and B are partners trading as AB & Co. in the conduct of a grocery business. They have a stock of groceries worth \$2,500.00 and fixtures worth \$1,500.00. Both are married. They dissolve and the partnership debts, though there are no homestead waiver notes, amount to \$3,000.00. Each claims his homestead exemption to the extent of \$2,000.00 in the stock of groceries and fixtures. Is this permissible?
4. A partnership composed of A, B. & Co. sold their firm assets to C, who assumes as part of the consideration to pay the firm debts, of which the partnership creditors have actual notice. The debts become due and C fails and refuses to pay.

- (a) What are the rights and remedies of the partners A and B against C?
- (b) What are the rights of the partnership creditors against either or both A and B, and C?

NEGOTIABLE INSTRUMENTS

Answer four of the following questions

- 5. A and B are the joint makers of a note to the Loan & Savings Corporation of the City of Richmond for the sum of \$500.00. A files a petition in bankruptcy. There are sufficient assets of A to pay the note in full, but the Loan Company negligently fails to prove its claim in the bankruptcy proceedings. Thereafter suit is instituted against A and B by the Loan Company. Can the Loan Company recover against either A or B? Reasons.
- 6. A executes his negotiable note to B for the sum of \$500.00 for money due at a game of cards. Before maturity of the note, B sells said note to C for the sum of \$400.00 and C sells same, before maturity, to D for the sum of \$450.00. C and D both are ignorant of the fact that the note was given for a gambling debt. The note is not paid at maturity. What are the rights of D against C, and B, and A?
 - (a) What constitutes a holder in due course of negotiable paper?
 - (b) What are the defenses, if any, against a negotiable note in the hands of an innocent holder for value?
 - (c) When is a negotiable note payable on demand due, and within what time must payment be demanded in order to fix the liability of the endorser?
 - (d) What is the effect of omitting the words "or order" after a payee's name on a note, and, how, if at all, does it affect the note?
- 7. A requests B and C to endorse a note for him for the sum of \$100.00. In the upper left hand corner of the note the figures "\$100.00" were written, the remainder of the note being left in blank. In this condition the note is signed by A and endorsed by B and C. Subsequently, and without the knowledge of either B or C, A changes the figures of "\$100.00" to \$500.00," and fills out the note in proper form, takes it to the bank and has the same discounted. Suit is instituted against B and C by the bank. Can there be a recovery?
- 8. A is the maker and B, C, and D are endorsers of a negotiable note, which comes to E, a *bona fide* holder for value, in due course and before maturity. The note is due at the bank on February 22, 1924, and E presents it for payment on the 23rd of February, 1924 and payment is refused. The note is not protested. Can E hold A, B, C, and D liable upon the note?
- 9. A acquires from B, on the 10th of December, 1923, a note dated December 9, 1922, payable on demand. Is he a holder in due course?

- (a) What is the legal rate of interest in Virginia?
- (b) May more than the legal rate of interest be charged? If so, under what circumstances, and by whom?
- (c) Is a rate of interest of 42% per year permissible in Virginia; if so, by whom?

CORPORATIONS

Answer all of the following questions

10. The authorized capital of the Peoples Bank of South Hill, Va. is \$15,000.00. Upon the examination of this bank, it was found that there was a loan made to A for the sum of \$4,000.00 with endorsers whose financial condition is excellent. Is this a proper loan? If not, state what is necessary.
 - (a) How may a bank be authorized to do business?
 - (b) Is it necessary that the Directors take an oath of office?
11. A is the owner of stock in a corporation and pledges it to B. Who has the right to vote this stock in a meeting of the stock holders of the corporation?
 - (a) What right has a director of a corporation to contract with his company?
 - (b) What is the general rule as to the authority of an officer of a corporation?
 - (c) When may a corporation enter into contracts and undertakings which are not strictly within its express powers?
 - (d) When may a corporation own real estate?
12. The State Bank agreed to take over the note of A for \$10,000.00 which had previously been discounted by the Union Bank. The note, unindorsed, together with unearned interest was turned over to the State Bank. The Cashier of the Union Bank agreed to take the note up in thirty days. The object of the transfer was merely to reduce the liability of A at the Union Bank. The note was not paid by A. Is the Union Bank responsible to the State Bank?
13. The charter and preferred stock certificates of A Company provide that the holders of the preferred stock should be entitled to accumulative dividends at the rate of 6% *per annum*, payable out of the "surplus or net earnings"; the charter further provides that in case of liquidation the holders of the preferred stock "shall be paid the par amount of their preferred shares, and the amount of dividends accumulated and unpaid thereon before any amounts shall be payable to the holders of the common stock." The Corporation is dissolved and B is the holder of \$50,000.00 preferred stock. Is he entitled to dividends up to date of dissolution, though such dividends were not earned, in preference to any distribution of the assets to the holders of the common stock?

CONTRACTS

Answer five of the following questions

14. A's automobile is stolen from his garage in the City of Richmond on October 10th. On the morning of the 11th he publishes in the

- Richmond papers, an offer of reward of \$500.00 for the capture and return of the machine. On the morning of October 12th, B, of Charlottesville, Va., having seen the offer of reward, meets the thief on the street in Charlottesville, recognizes and captures the car. In the meantime, A has published in the Richmond papers, on the morning of the 12th a withdrawal of the reward. This fact was unknown to B. Can B recover the reward?
15. B compromises a past due note of C for 50% of its face value under the impression that it is barred by the statute of limitations. He afterwards finds that the note was not barred. Can he set aside the compromise on the ground of mistake?
 - (a) What constitutes a *valuable consideration*, and in what class of contracts is such a consideration necessary?
 - (b) What contracts, if any, are required to be in writing?
 - (c) What contracts of infants are valid?
 - (d) What is the liability of an infant trader in Virginia?
 16. A is engaged in the hardware business. He dies, leaving two insurance policies, one for the sum of \$10,000.00, payable to his wife and one for \$5,000.00, payable to his mother. His other assets are \$15,000.00, consisting of fixtures and stock in trade, and his liabilities aggregate \$20,000.00. How would the assets be distributed, and assuming that there were no homestead waiver notes, what are the rights of the widow?
 17. A writes to B offering him 1,000 bushels of wheat at \$2.20 per bushel f. o. b. Louisa, Va. After the letter is posted, but before B receives it, A dies. B accepts the offer, not knowing of A's death. What rights, if any, has B against A's estate?
 18. In making an audit of the affairs of B, a citizen of Richmond, Va., who has been electrocuted for the murder of his wife, you find an insurance policy with the Equitable Life Insurance Co. for \$10,000.00, payable to B's estate. The policy is silent as to the effect of death by the hand of law as a punishment for crime. Would you treat this policy as an asset?
 19. AB & Co. has been engaged in the commission merchant business for a number of years and as such had an account with CD & Co. in a like kind of business. On May 15, 1920, A B & Co. go out of business when does the Statute of Limitations begin to run on this account, and what is the limitation?

BANKRUPTCY

Answer all of the following questions

20. (a) How may an *involuntary* petition in bankruptcy be filed?
- (b) What is meant by an adjudication in bankruptcy?
- (c) What are the duties of a Referee in Bankruptcy?
- (d) What is meant by a preference?

21. You are employed to audit the affairs of AB Co. While you are making the audit a petition in bankruptcy is filed and you are listed as a general creditor. There is due to you \$275.00. Are you entitled to be paid in full out of the assets?
22. A files a petition in bankruptcy and lists as a liability the sum of \$300.00 obtained from B by means of a false financial statement. B institutes suit in the State Court. Is he entitled to prosecute his suit, or is he required to prove his claim in the bankruptcy proceedings?

FEDERAL INCOME TAX

Answer all three of the following questions

23. In valuing inventories for Federal tax purposes, what is meant by "latest purchase price"?
24. What is meant by "Realization of Appreciation," Act of 1918?
25. A Virginia corporation has the following items of income and deduction for the year 1923:

Gross profits from sales.....	\$ 25,000.00
Dividends from U. S. Steel Stock.....	5,000.00
Proceeds received upon maturity of 20-year endowment life insurance policy upon the life of its president (annual premium, \$825, no interest to be considered).....	10,000.00
Interest on Federal Farm Loan Bonds.....	1,000.00
Collection of a bad debt charged off in 1919.....	1,000.00
Federal tax for 1922.....	2,500.00
Virginia State income tax for 1921.....	470.00
Donations.....	1,000.00
Loss of account receivable through bankruptcy sale made in June, 1921.....	500.00

What is the Federal Income tax?

PRACTICAL ACCOUNTANCY—PART I

OCTOBER 21ST, 1924, 2:45 P. M. TO 7:15 P. M.

QUESTIONS

PROBLEM 1

You are engaged to make an audit of the Virginia Tobacco Company, Danville, Virginia, for the year ended December 31, 1923. A Balance Sheet taken from the books is as follows:

ASSETS

Cash in Bank.....	\$ 12,342.12
Accounts Receivable:	
Customers.....	226,290.84
Lygrave and Company.....	1,341.50
Consignments.....	76,847.28
Inventories:	
Raw Material.....	2,102.75
Finished Goods.....	186,994.02
Investments::	
Carolina Stemmer Company.....	3,000.00
Lygrave and Company—1100 Shares Stock at \$100.00 par value.....	110,000.00
Fixed Properties.....	355,663.18
Total.....	<u>\$ 974,581.69</u>

LIABILITIES

Accounts Payable:	
Creditors.....	\$ 25,017.35
Leaf Tobacco Company.....	5,116.47
Notes Payable.....	50,500.00
Capital Stock.....	700,000.00
Capital Surplus.....	75,764.10
Net Profits for Year 1923.....	\$ 134,171.87
Less, Deficit, January 1, 1923.....	15,988.10
	<u>118,183.77</u>
Total.....	<u>\$ 974,581.69</u>

Your investigation discloses that the Company owns the Leaf Tobacco Company which operates on capital furnished by the Virginia Tobacco Company. A Balance Sheet of the Leaf Tobacco Company as at December 31, 1923 is as follows:

ASSETS

Cash in Banks.....	\$ 1,103.44
Accounts Receivable:	
Customers.....	11,544.88
Virginia Tobacco Company.....	5,116.47

Consignments.....		7,114.13
Inventory:		
Finished Goods.....		8,806.31
Fixed Properties.....		5,693.54
		<hr/>
Total.....	\$	<u>39,378.77</u>

LIABILITIES

Notes Payable.....	\$	25,000.00
Operating Surplus January 1, 1923.....	\$	6,168.30
Net Profits for Year.....		8,210.47
		<hr/>
Total.....	\$	<u>14,378.77</u>
		<hr/>
Total.....	\$	<u>39,378.77</u>

The Company also owns 1100 out of a total of 1112 shares of stock (\$100.00 par value) in Lygrave and Company, New York importers of teas and silks, which was acquired in 1922 by transferring assets to Lygrave and Company amounting to \$34,235.90. A Balance Sheet of Lygrave and Company as at December 31, 1923 is as follows:

ASSETS

Cash in Banks.....	\$	2,348.81
Accounts Receivable:		
Customers.....		27,654.14
Inventory:		
Finished Goods.....		50,890.86
Due from Subscribers to Capital Stock.....		200.00
Fixed Properties.....		412.50
Goodwill.....		70,327.95
		<hr/>
Total.....	\$	<u>151,834.26</u>

LIABILITIES

Accounts Payable:		
Creditors.....	\$	35,826.42
Virginia Tobacco Company.....		1,341.50
Notes Payable.....		19,340.57
Capital Stock.....	\$	111,200.00
Net Loss for Year.....		15,874.23
		<hr/>
Net Capital.....		95,325.77
		<hr/>
Total.....	\$	<u>151,834.26</u>

You do not have access to the books of the two latter Companies and rely upon statements furnished by other auditors. You ascertain

that in opening the books of Lygrave and Company errors were made in setting up the Inventory Accounts in the sum of \$5,436.15.

Prepare the proper statements to reflect the financial condition of the Companies as at December 31, 1923.

The Allied Tobacco Company was chartered as of January 1, 1924 with an authorized capital stock of \$2,000,000.00, consisting of 6% Preferred \$1,000,000.00 and Common \$1,000,000.00, for the purpose of acquiring the Virginia Tobacco Company, Leaf Tobacco Company, Lygrave and Company.

An agreement was entered into with the stockholders of the Virginia Tobacco Company and Lygrave and Company that they should receive in lieu of their holdings stock in the Allied Tobacco Company as follows:

	PREFERRED	COMMON
Stockholders—Virginia Tobacco Company.....	\$ 500,000.00	\$ 500,000.00
Minority Stockholders—Lygrave and Company.....	1,200.00	1,200.00
Total.....	<u>\$ 501,200.00</u>	<u>\$ 501,200.00</u>

The remainder of Common Stock was subscribed and sold at par value.

Prepare journal entries necessary to open the books of the Allied Tobacco Company, and balance sheet after posting.

PRACTICAL ACCOUNTANCY—PART I

PROBLEM 2

R. C. Jones conducts a general real estate business, but specializes in opening up new subdivisions. He agreed with R. W. Bryant, that, if Bryant would furnish the capital necessary to buy and develop the Homesite subdivision, he, Jones would undertake to sell it for their joint account. Jones was to receive no salary for selling the property and keeping the books, but all other selling expenses were to be charged as expense. No allowance is to be made for interest on partners' balances, but all other expenses are to be charged and the profits divided equally.

On February 1, 1924, they purchased the 20 acres comprising the sub-division at \$3,000.00 per acre, paid one-half in cash from Bryant's funds and gave a 6 per cent mortgage for the balance. By the terms of the mortgage any part of the property could be released from the mortgage at any time by paying the pro-rata amount.

In February and March the property was improved by grading, etc., at a cost of \$10,000, which was also paid from funds supplied by Bryant.

The property was subdivided into 160 lots of equal size, 80 of which were listed to sell at \$900.00 and the balance at \$600.00.

The \$900.00 lots were sold, 45 in May and 23 in June and 12 were still unsold at June 30. The 600.00 lots were sold, 29 in May and 35 in June, leaving a balance of 16 still unsold at June 30. All the lots were sold for one-half cash, and the mortgages for the balance were immediately sold to banks at par without endorsement or guarantee. In each case the lots were released from the purchase money mortgage by payment of the pro-rata amount. The releases were obtained and the payments made on the last of the month in which the sale was made.

The expenses of advertising and selling, amounting to \$11,000.00, were paid by Jones from the proceeds of the sales, which he had deposited in his own account when they were received. He also made the payments on the mortgage.

Prepare a statement showing the respective interests of the two partners; a statement showing the profits to June 30, 1924; a cash account, and a balance sheet at June 30th, 1924.

PRACTICAL ACCOUNTANCY—PART I

PROBLEM 3

The following balances were taken from the general ledger of the Bank and Trust Company of Virginia at the close of business December 10, 1923. Prepare Statement of Financial Condition detailing the Profit and Loss account therein. A dividend of 8% was declared on December 9th payable January 1, 1924. The Undivided Profits Account is omitted:

Loans and Discounts.....	\$	500,000.00
Treasurers' Checks.....		5,325.00
Bond Adjustment Reserve.....		2,730.00
Expense.....		17,600.00
Capital Stock.....		100,000.00
Cash.....		41,375.00
Due to Banks.....		8,000.00
Furniture and Fixtures.....		8,650.00
Certificates of Deposit.....		37,500.00
Taxes.....		7,400.00
Bills Overdue.....		20,000.00
Exchange Received.....		1,050.00
Customers Liability Account Acceptances.....		20,000.00
Reserve for Taxes.....		2,175.00
Interest Unearned.....		8,725.00
Customers Draft Collection Account.....		25,000.00
Banking House and Lot.....		50,000.00
Surplus.....		75,000.00
Christmas Club.....		9,450.00
Demand Loans.....		100,000.00
Notes and Bills Rediscounted.....		79,250.00
Safe Deposit Rentals.....		425.00
Reserve Bank Accounts.....		36,500.00
Cash Items.....		5,750.00
Deposits Subject to Check (Overdraft \$3,825.00).....		375,000.00
Demand Loan Interest Accrued.....		3,870.00
Investments—Stocks and Bonds.....		65,000.00
Commissions (Trust Department).....		15,750.00
Interest Earned.....		31,000.00
Other Real Estate Owned.....		20,000.00
Savings Deposits.....		140,000.00
Due from Banks.....		27,350.00
Acceptances Executed.....		20,000.00
Checks for Clearings.....		11,675.00
Dividend Checks.....		150.00
Interest on Deposits.....		18,300.00
Certified Checks.....		8,640.00
Cash Short.....		300.00
Trust Deposits.....		20,000.00
Rents Received.....		1,250.00
Interest Accrued on Deposits.....		12,350.00

THEORY OF ACCOUNTS

OCTOBER 22, 1924—9 A. M. TO 1 P. M.

Answer all Questions

Do not repeat questions but designate them by numbers and letters

1. What, in your opinion, is the proper way to set up "Reserve for Depreciation" on the Ledger and on the Balance Sheet in order to avoid probable miscalculation or misunderstanding on the part of the company or the public? Why?
2. What are the special accounting requirements pertaining to estates of deceased persons?
3. The Economy Installment House sold Mrs. Brown in 1920 a dining room suite that cost them \$200.00 for \$400.00. Installment payments were made by Mrs. Brown, as per her contract, amounting to a total of \$100.00 per year for 1920, 1921 and 1922. In 1923, before any further installments were due, Mrs. Brown departed for Europe and permitted her dining room suite to revert by forfeit, according to the terms of her contract, to the Economy Installment House, who took back the furniture into their stock of merchandise. State what method you would adopt to place a value on the returned furniture for inventory purposes and what entries should be made for each of the four years. Suggest a record so ruled as to adequately provide for installment sales and collections.
4. A contract for construction of a corporation's plant and machinery completely installed is executed to cost in the aggregate \$200,000.00 and the payment is to be made in one sum within ten days after completion by the contractor and acceptance by the corporation. During the course of construction, the contractor finds that he will need funds at periodic intervals before the date set in the contract for the one and final payment. In consideration of the corporation's making such advance payments, it is mutually agreed that the total expenditure by the corporation shall be reduced to \$190,000.00. Where should this unexpected saving of \$10,000.00 be reflected in the books of account? Explain your reasoning.
5. A prospective purchaser of a going concern with which you are familiar engages you to make an examination of its accounts and records and report to him your findings so that he may intelligently reach a decision in the matter of the proposed purchase. What data would you submit in your report?
6. How should the following items be treated on the books:
 - (a) Expenditures for incorporating, organizing and promoting a new corporation.
 - (b) Cumulative Preferred Dividends Unpaid.
 - (c) Expenses incurred in securing a lease of property.
 - (d) Traveling and other expenses incurred in procuring contracts.

7. By the stipulations of its articles of agreement, a partnership's profits are distributable to its three partners as follows: A 11-25, B 8-25 and C 6-25, and in the event of the death of either partner his survivors take the deceased partner's share in the proportion they already shared the profits. A dies. What proportion of the profits would B and C each take afterwards?
8. The authorized capital stock of a corporation is \$500,000.00, divided into 5,000 shares, par value \$100.00. Of this amount, \$400,000.00 has been subscribed and paid for in full. The corporation purchases ten shares of a dissatisfied stockholder for \$75.00 a share, and five other stockholders each donate five shares to the company. Five shares of the purchased stock and all the donated stock are sold for \$50.00 a share.
- (a) Draft proper entries and show the Ledger accounts and balances. (b) How would the balances of the accounts in (a) appear in a Balance sheet? (c) Give the entries and show the Ledger accounts and balance if the capital stock were of no par value, but 5,000 shares had been issued at \$80.00 and the other conditions remain as stated in the first paragraph. (d) How would the balances of the accounts in (c) appear in a Balance Sheet?
9. (a) When customers' notes receivable or trade acceptances given a merchant for goods purchased from him are discounted at bank, how should they be handled on the books and why? (b) What liability, if any, exists as far as the merchant who discounts them is concerned at any particular date when his books are closed. (c) Should they appear on his Balance Sheet and if so, how?
10. A piano manufacturer has ten customers who take his goods on consignment only, report pianos sold each month, inventory of those on hand, and they remit for those sold. The manufacturer bills the pianos to them at his regular wholesale price and when they pay him for those sold, they deduct a cash discount of 2% no matter how long they have had them in stock. State:
- (a) What entries the manufacturer should make when he ships the goods to the consignees, bearing in mind the fact that they are his property until sold. (b) What entries the manufacturer should make when he receives the monthly sales records and the checks for the purchase price less cash discount. (c) Should the manufacturer keep any records besides his regular accounts and if so, what? (d) What entries should the consignees make when the pianos are received on consignment and in what records? (e) What entries should the consignees make when a piano is sold and in what records? (f) What principles are involved in consignments which are different from those pertaining to straight sales by the manufacturer for cash or on credit?

PRACTICAL ACCOUNTANCY—PART II

OCTOBER 22ND, 1924, 2:15 P. M. TO 7:00 P. M.

PROBLEM 4

The Montclare Marl Products Company was incorporated in 1920. The operations for the past two years have shown substantial losses. The officers have financed the Company as far as their resources would permit and being unable to proceed further, the creditors have engaged you to examine the affairs of the Company and report to them in order that they may know whether to proceed with the operations or start proceedings in bankruptcy. The following trial balance was established by you as at December 31, 1923:

	DR.	CR.
Cash on Hand and in Banks.....\$	1,751.88	
Accounts Receivable.....	50,000.00	
Notes Receivable.....	10,000.00	
Inventory—January 1, 1923 (80) Tons).....	566.00	
Land (Plant Site).....	4,500.00	
Buildings—Plant.....	38,000.00	
Machinery and Equipment.....	30,000.00	
Investments.....	8,250.00	
Development (Removing Over- Burden, Etc.).....	12,463.75	
Goodwill.....	25,000.00	
Land and Marl Deposits.....	47,500.00	
Notes Payable.....		\$ 87,500.00
Mortgage Payable (Secured by Real Estate).....		10,000.00
Accounts Payable (Including Loans of Officers).....		23,680.46
Pay Rolls Accrued.....		7,337.50
Taxes Unpaid.....		1,137.50
Reserves for Depreciation—Buildings and Machinery.....		15,000.00
Surplus.....		30,831.69
Capital Stock—Common 10,000 Shares—Par Value \$10.00 Each (5.00 paid up).....		50,000.00
Capital Stock—Preferred.....		25,000.00
Sales (6000 Tons).....		36,344.54
Repairs.....	3,410.20	
Salaries—Salesmen.....	1,200.00	
Labor.....	12,614.62	
Advertising.....	2,638.76	
Fuel.....	6,469.59	
Telephone and Telegraph.....	251.66	
Bags and Twine.....	9,607.17	
Printing and Stationery.....	414.26	
Supplies.....	627.42	
Taxes.....	244.91	

Insurance (Unexpired Portion \$1,820.22).....	2,815.53	
Salaries—Officers.....	1,200.00	
Salary—Superintendent.....	3,725 00	
Miscellaneous.....	253.42	
Storage and Freight.....	2,959.35	
Interest and Discount.....	6,587.18	
Travelling.....	2,281.24	
Legal and Auditing.....	307.76	
Watchman.....	401.85	
Auto Expense.....	790.14	
Total.....	<u>\$ 286,831.69</u>	<u>\$ 286,831.69</u>

8300 tons of marl were mined during the year; the depletion charge being 10c per ton. There is an estimated shrinkage of 25% in manufacture. Owing to the nature of the engagement no depreciation is to be considered for the period. After preparing Operating Statement and Balance Sheet in accordance with the foregoing, an analysis of the conditions, and information obtained, develops the following facts:

The Goodwill, it appears, was purchased by the issue of preferred stock to the officers.

The quality of lime manufactured was said to be inferior, therefore, many disputed customers' accounts are on the books. The value of the Accounts Receivable is estimated as follows: Good \$25,000.00; Doubtful \$12,500.00; Bad \$12,500.00. The Real Estate and Marl Deposits are considered valuable notwithstanding the failure of this Company to operate successfully and would probably bring \$60,000.00, whereas the buildings are worth only \$20,000.00. Because of obsolescence and extreme wear and tear the machinery and equipment could not be sold for more than \$2,500.00. The investments which are pledged as security for certain loans of the officers appear to be of no value. The stock of goods on hand would probably bring cost, but to dispose of it would necessitate the purchase of bags and labor amounting to \$1,000.00. 50% of the doubtful accounts are considered collectible; the notes, however, appear to be good. Of the Notes Payable \$20,000.00 are fully secured by Accounts Receivable pledged there against. The Pay Rolls Accrued and Unpaid Taxes are considered preferential claims.

The Unpaid Subscriptions on the Capital Stock are considered to be worth 75% of the face value.

Customers' Notes to the extent of \$15,000.00 have been discounted at the bank on the Company's endorsement, on which it is estimated \$5,000.00 will eventually prove to be uncollectible.

Prepare the necessary statements for submission to the creditors showing separately the position of the unsecured creditors and the stockholders respectively. Accompany your report with such comments as you deem pertinent.

PRACTICAL ACCOUNTANCY—PART II

PROBLEM 5

From the following figures obtained from the records of the A. B. C. Cotton Mills, at the close of business June 30, 1924, arrange an intelligent statement that will show the percentage of waste for the year.

	QUANTITIES	VALUES
Stock in process at beginning of year.....	15,500 lbs.	\$ 4,795.00
Finished yarn on hand at end of year.....	195,875 "	60,118.12
Cotton purchases.....	414,402 "	151,331.83
Cotton in process at end of year....	12,700 "	2,095.50
Cotton Fed.....	618,147 "	268,800.73
Finished yarn on hand at beginning of year.....	55,815 "	36,372.55
Shipments for year.....	401,186 "	325,335.71
Cotton on hand at beginning of year.....	591,250 "	171,719.60
Cotton on hand at end of year.....	387,505 "	54,250.70

Based on the results obtained above show the manufacturing and other costs per pound, arranged in proper order, using the following additional figures:

Manufacturing Expense.....	\$ 81,056.24
General Expense.....	21,226.20
Waste Sales.....	3,475.19
Interest and Discount.....	9,136.91
Depreciation on Buildings, Etc.....	1,636.00
Other Losses.....	2,509.74
Other Income.....	831.39

PRACTICAL ACCOUNTANCY—PART II

PROBLEM 6

A Manufacturing concern started business in Norfolk, Virginia on January 1 1922 but kept its books by the single-entry method.

After the close of the second year of operations it was found necessary to have a comparative statement and you were called in to make such a statement showing the financial condition as at December 31, 1922 and December 31, 1923 and the amount of any profit or loss, the following information being all there is available from which to draw your conclusions:

STATEMENT AS OF DECEMBER 31, 1922

(Prepared by the Bookkeeper)

Manufacturing Expense.....	\$	5,384.25
Capital Stock fully paid.....		15,000.00
Plant and Equipment.....		20,000.00
Cash.....		3,645.15
Gross Sales for year.....		11,236.15
First Mortgage Bonds (due Dec. 31, 1923).....		15,000.00
Material and Supplies (Inventory).....		4,563.84
Notes Payable.....		7,500.00
Accounts Receivable.....		6,125.36
Accounts Payable.....		2,936.43
Interest on Bonds (9 Months accrued to Dec. 31, 1922).....		562.50
Interest on Notes and Accounts Payable accrued..		326.50

During the year of 1923 there has been subscribed and paid in cash \$5,000.00 Additional Capital Stock. All the notes and old accounts payable have been paid, together with the interest accrued as above.

The Board of Directors revalued their plant and equipment in January, 1923 at \$17 500.00, and directed that of this amount a 5% charge off to depreciation be made and that 2½ per cent be carried to a reserve to cover repairs and renewals. The outstanding Bonds with accumulated interest thereon were paid when due. The Accounts Payable at December 31, 1923 amounted to \$1,146.34, non-interest bearing and were all for material and supplies.

No inventory was prepared as at December 31, 1923. The purchases during the year 1923 paid for in cash amounted to \$10,396.42. The sales during the year were \$28,726.50 of which 10% are still uncollected and considered good. For the purpose of estimating the inventory the management considers the gross profit to be 50 per cent of the sales.

Of the Accounts Receivable at January 1, 1923, the amount of \$5,496.43 was collected, and the balance, you are instructed, are uncollectible and are to be charged off.

No cost system was used by the Company.

Prepare the required statement and submit your working papers.

AUDITING

OCTOBER 23, 1924—9 A. M. TO 1 P. M.

Answer all questions

Do not repeat questions but designate them by numbers and letters

1. A Bank is constructing a 20 story office building, the first floor of which it will occupy. The construction is financed by the sale of \$800,000.00 Common Stock, \$600,000.00 Preferred Stock and a First Mortgage of \$600,000.00. During the period of construction the Building Corporation pays dividends on the Preferred Stock of \$36 000.00; interest of \$16,000.00 on Money Borrowed, and State and City Taxes of \$9,000.00. How would you treat the items of dividends, interest and taxes on the books of the Building Corporation?
2. A Corporation obtained its charter in 1892 and until 1918 all improvements and additions to plant were charged against income. The annual financial statements showed only Current Assets and Current Liabilities. You are engaged to restore the capital, on cost basis, and audit the books for 1917. A well known appraisal company has made an appraisal of the buildings, machinery and all other equipment. The replacement values at December 31, 1917, less depreciation, reflect a sound value of \$350,000.00, which is \$150,000.00 in excess of cost value. The cost values are acceptable to the Treasury Department for invested capital purposes and as the Corporation contemplates floating a \$200,000.00 bond issue, it is necessary to adjust the books to show actual conditions.
 - (a) Make the proper journal entries.
 - (b) Discuss the effect of both valuations as to—
Depreciation, Federal Income Tax, Federal Capital Stock, State Franchise Tax, Surplus and Dividends.
3. How would you verify the following:
 - (a) Accounts Receivable, (b) Notes Receivable, (c) Plant Assets,
 - (d) Inventory, (e) Prepaid Insurance, (f) Treasury Bonds, (g) Unpaid Federal Income Taxes, (h) Notes Payable, (i) Commitments, (j) Cash, (k) Surplus, (l) Unissued Capital Stock.
4. What is the purpose of the Balance Sheet Analysis? Assuming the "ratio method" to be the correct one, name several ratios that are commonly used in analyzing a Balance Sheet. In the event you consider the "element of sales" a factor in making a proper analysis, name several ratios that are commonly used. Construct a Balance Sheet, using figures, and draft a short report to your client as a result of an analysis made at his request.
5. You are selected to make an audit of a city with a population of 100,000. An investigation, before proceeding with the engagement, shows that practically all of the records kept with the exception

of the minutes are the tax books and receipts and disbursements. You are advised by the officials, however, that they desire statements prepared in the most improved style to be used as a basis for the installation of an accounting system. State in detail how you would proceed to complete the engagement.

6. An audit of a Corporation is under consideration.
 - (a) How would you show discount on capital stock in the balance sheet? Under what circumstances, if any, would you consider it proper to deduct it from the capital stock on the liability side?
 - (b) Would you consider the capital stock impaired as long as it carried discount on capital stock in excess of surplus?
 - (c) Can dividends be declared by the Company if it sold its capital stock at a discount until the discount is extinguished?
 - (d) What is the fundamental difference between discount on bonds and discount on capital stock?
 - (e) Do you know of any circumstances that would justify or warrant premiums on capital stock being distributed as dividends?
7. What is Goodwill? Name the several ways in which it is usually established on the books of account. Under what conditions would you consider it proper to write it off? A full discussion is desired.
8. What are the usual Sinking Fund Provisions to be found in a Trust Deed securing an issue of bonds of a corporation? Sketch in journal entry form, with proper descriptions, the entries you would expect to find in the accounts of a company relative thereto.
9.
 - (a) What is meant by Factory Burden? Name five methods of distributing Factory Burden and illustrate your answers with the use of figures.
 - (b) Devise an efficient system of internal check on wages where the employees are paid on (1) A time basis, (2) A piece-work basis.
10. As a matter of policy, what are the duties of an auditor where a difference of opinion exists between himself and his client as to the principles of accounting; also as to the preparation of Federal Tax Returns?

EXTRACTS FROM LAW AND REGULATIONS

Advertisement of Examinations

All examinations herein provided for shall be conducted by the State Board of Accountancy, or by a majority thereof. The time and place of holding examinations shall be duly advertised for not less than three consecutive days in at least one daily newspaper published in Richmond, one published in Norfolk and one published in Lynchburg, not less than thirty days prior to the date of each examination.

Rules and Regulations

The Board may make all needful rules and regulations regarding the conduct and scope of the examination, the method and time of filing applications for examination and all other rules and regulations necessary to carry into effect the purpose of this Act.

Notice of Examinations

Due notice will be given to each applicant of the time and place selected for holding the examination, and each one must be present and prepared for it promptly at the time appointed. Failure to be prompt will be sufficient cause for exclusion from any session of the examination after it has begun.

Experience Required

No person shall be permitted to take such examination unless he shall have been practicing on his own account as a public accountant for at least one year; or shall have been employed in the office of a public accountant, as an assistant, for at least two years; or shall have been employed as a bookkeeper for at least three years.

Education Required.

Applicants not presenting proper credentials showing that they have received a general education equivalent to a public high school course of recognized standing, may be required, in the discretion of the Board, to pass a preliminary examination in the subjects embraced in such high school curriculum.

Applications and Fees

Applications must be made only on blanks which will be furnished by this Board, on written request by the applicant. Applications must be accompanied by certified check for the fee of \$25.00 fixed by law. In

case of failure to pass requirements or examinations, the fee will not be returned, and for re-examination a new application and additional fee of \$10.00 will be required; provided however that in the event of an applicant who has met all requirements of this Board, and has passed an examination to the satisfaction of this Board, in three subjects, but has failed to pass in the fourth subject, then such applicant may, in the discretion of this Board, be re-examined in said fourth subject without payment of a further fee.

Subjects for
Examination

All examinations shall be in writing and shall include questions in (1) Theory of Accounts; (2) Practical Accounting; (3) Auditing, and (4) Commercial Law as Affecting Accountancy. Time required, approximately two (2) days. Markings, maximum 100 points on each subject, of which 75 points shall be based on correctness of answer and 25 points on form, expression and apparent knowledge of the principles involved. Required to pass, an average of 75 points in each subject. Each member of the Board shall be entitled to independently examine and mark the examination papers of each applicant and the candidate's average mark on each answer shall be determined by dividing the aggregate of the examiners' markings by the number of examiners so marking them. Any member of the Board may waive his right to examine the papers of any applicant, and any member failing to attend the examination or to examine and mark papers sent to him and return them to the Secretary of the Board within ten (10) days after he has received them will be considered to have waived his right; but each applicant's papers must be examined and marked by at least three (3) members of the Board.

Conduct of
Examinations

Answers in all examinations must be made on blanks furnished by the Board and must be completed in the time allotted for each subject, which will be stated on the papers. Each applicant for examination shall be given a number and this number only shall be used on all papers for identification. If any applicant shall sign his name or write his initials upon his examination papers, the same shall be considered a misconduct and shall be sufficient cause for rejecting his papers.

The writing must be in ink and legible. This Board will not be responsible for misconstruing any writing which may be difficult to decipher.

Examination papers must be written in accordance with such instructions as may be given at the time of the examination. These will be on printed forms. The papers shall remain the property of this Board, and cannot be taken away.

The bringing into the examination room by any applicant of any books, printed or written matter, of any character whatever, tending to assist the applicant, or the exchange of any assistance between the applicants, will be considered as misconduct. All supplies necessary to the examination will be furnished by this Board, and, after use, shall remain the property of the Board.

Use of Title
C. P. A., Etc.

Any citizen of the United States (or person who has duly declared his intention of becoming such citizen), being over the age of twenty-one years and of good moral character, residing or having an office in the State of Virginia, who shall, as hereinafter provided, receive from the Virginia State Board of Accountancy a certificate of his qualifications to practice as an expert public accountant, shall be known and styled as a Certified Public Accountant; but no other person, nor any corporation, nor any partnership, all the members of which have not received such certificate, shall assume such title, or the title of "Certified Accountant" or "Chartered Accountant," or the abbreviations "C. P. A.," or "C. A." or any other words, letters or abbreviations tending to indicate that the person, firm or corporation so using the same is a certified public accountant.

If any person, or corporation, represent himself, or itself, to the public as having received the certificate provided for in this Act, or if he shall advertise himself as a Certified Public Accountant, or Certified Accountant or Chartered Accountant, or use the initials C. P. A., or C. A., or otherwise falsely hold himself out as having qualified under this Act, without having actually received a certificate from the State Board of Accountancy, or if, having received such certificate, he shall continue to practice as a Certified Public Accountant after said certificate has been revoked, or if any person shall otherwise violate any of the provisions of this Act, he shall be deemed guilty of a misdemeanor, and upon conviction thereof, shall be fined not less than one hundred dollars (\$100.00), nor more than five hundred dollars (\$500.00), or imprisoned for not less than one month nor more than six months, or both, in the discretion of the court.

Nothing herein contained shall be construed so as to prevent any person from being employed as a public accountant within this State.

Ruling of Attorney
on Use of Title
"C. P. A."

"Section 2, of Chapter 158, of the Acts of Assembly of Virginia of 1910, creating a State Board of Accountancy in Virginia, provides that no person who has not received a certificate of his qualifications to practice as an expert Public Accountant from the Virginia State

Board of Public Accountancy shall, in this State, assume such title, words, letters or abbreviation tending to indicate that he is a Certified Public Accountant.

In other words, the law of Virginia forbids any person from holding himself out as a certified public accountant unless he has received a certificate as such from the Virginia State Board of Public Accountancy; and this is true regardless of whether he has received a certificate from any other State, or any other organization."

Secretary

All correspondence shall be addressed to the Secretary.

The Secretary is:

A. M. PULLEN,
P. O. Box 305
RICHMOND, VA.