

1922

Examination: May, 1922

North Carolina. State Board of Accountancy

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INSTRUCTIONS.—Legibility, neatness and arrangement will be considered in the making of papers. Leave margin for binder at top left hand side, of working sheets, and page sheets at bottom, initialing each.

NORTH CAROLINA STATE BOARD OF ACCOUNTANCY

THEORY AND PRACTICE

EXAMINATION: MAY, 1922

FIRST DAY—MORNING SESSION

QUESTION No. 1:

Give a brief discussion of any peculiar features involved in the accounting for Partnerships; Joint Stock Companies; Corporations.

QUESTION No. 2:

What do you understand by the term Joint Adventure? Give a sketch of the accounting required.

QUESTION No. 3:

A Manufacturer has an arrangement with a firm of Commercial Bankers whereby the bankers purchase his open accounts receivable upon the following terms: 70% of the face value of each invoice is paid to the manufacturer at the time of the sale; collections from customers are made by the manufacturer and forwarded by him to the bankers; upon final settlement of each customer's account, the withheld 30% is paid to the manufacturer; for this service, the manufacturer pays the bankers 1/30 of one per cent of the daily balance of the amounts standing to his debit on the books of the bankers.

Using the data given below, show the Journal Entries and Ledger Accounts necessary to give a full record of these transactions upon the books of the manufacturer:

1/25/22, sold the A. Company \$5,000; 2/25/22, received on account \$2,500; 3/10/22, received on account \$1,500; 4/5/22, received the balance, \$1,000.

1/28/22, sold the B. Company \$7,500; 3/2/22, received \$6,900 in full settlement, less deduction for defective goods.

QUESTION No. 4:

How should the following be shown in the balance sheet?

Capital Stock authorized but unsubscribed.

Treasury Stock.

Common Stock issued as a bonus with Preferred Stock.

Dividends declared but not yet paid.

Depreciation of buildings.

Machinery acquired under a hire-purchase agreement (final payments not yet made).

Accommodation paper.

An insurance policy upon the life of an officer of the corporation.

Payments to creditors for goods in transit.

Real estate and buildings appraised at more than cost.

QUESTION No. 5:

The information given below is secured from a single-entry set of books on behalf of your client, who contemplates purchasing the business. What should he pay for the business, and how much cash working capital will he require?

Customers' Accounts	\$26,900.00	Bank Overdraft	\$ 1,180.00
Inventory	33,275.00	Notes Payable	20,000.00
Furniture and Fixtures.....	1,125.00	Accounts Payable	27,275.00
Trucks	2,500.00		

You have determined the average of the transactions for the past three years to be: purchases, \$95,750; sales, \$125,500; rent, \$3,000; salaries (including proprietor @ \$2,500), \$10,000; interest, \$950; insurance, \$550; taxes (except income and excess profits), \$700; bad debts, \$850; miscellaneous expenses, \$1,200. The inventory at the beginning of the three-year period was \$45,000.

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NORTH CAROLINA STATE BOARD OF ACCOUNTANCY

THEORY AND PRACTICE

EXAMINATION: MAY, 1922

FIRST DAY—AFTERNOON SESSION

QUESTION No. 6:

From the trial balance and supplementary information given below, prepare Balance Sheet and Profit and Loss Account for the Farmers' Tobacco Warehouse Company.

TRIAL BALANCE

Advertising	\$ 163.00	
Accounts Receivable.....	20,561.88	
Buildings	41,603.75	
Bank Commissions on Farmers' Checks.....	452.87	
Cash in Bank.....	238.94	
Capital Stock, Common.....		\$60,000.00
Capital Stock, Preferred.....		40,000.00
Commissions Received		15,587.25
Deficit	20,251.13	
Depreciation		7,493.02
Furniture and Fixtures.....	1,779.29	
Farmers' Checks Outstanding.....		1,138.66
Fertilizer Account		3,181.25
Hogsheads	234.80	
Insurance	776.45	
Interest	875.00	
Labor	1,025.04	
Notes Payable		10,303.20
Office Expenses	387.39	
Real Estate	35,862.77	
Repairs to Buildings.....	476.83	
Salaries	10,256.00	
Taxes	349.65	
Tobacco Account	2,258.51	
Water, Light and Fuel.....	150.08	

Fertilizers: Purchases, \$15,756.50; sales, \$18,937.75; no inventories.

Tobacco: Inventory at beginning, \$1,362.02; purchases, \$29,195.60; sales, \$28,299.11; none on hand at close of season.

Taxes due and unpaid, \$1,602.84.

An analysis of Accounts Receivable shows that these are for sales of fertilizer and cash loans. Notes to the amount of \$26,369.91, which have been credited to customers, are under discount at the bank; none of these notes have been paid by the makers, although all are past due. Customers' notes past due, amounting to \$16,842.37, are held in the office; none of these have been credited to customers' accounts, the custom being to credit the proceeds when paid or discounted.

First Mortgage Bonds, amounting to \$40,000, have been issued but not sold, same being hypothecated at the bank as collateral to discounts and notes payable.

Depreciation on buildings and furniture and fixtures to be allowed @ 5%.

QUESTION No. 7:

Prepare Pro Forma statements showing in detail the information which you would submit to the management of one of the following businesses: Iron Foundry, Coal Mine, Hotel, Department Store, Garage, Theater, College, Gas Company, Furniture Factory, or Cotton Mill.

QUESTION No. 8:

A machine shop contains seven machines, different ones being required in the manufacture of different articles of the product. What Labor, Overhead, and Direct Costs would you expect to find, and how should they be distributed?

QUESTION No. 9:

When should inventories be valued at cost? At market? Explain fully.

QUESTION No. 10:

Is spoiled work a cost of manufacture? Why?

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NORTH CAROLINA STATE BOARD OF ACCOUNTANCY

COMMERCIAL LAW AND INCOME TAX LAWS

EXAMINATION: MAY, 1922

SECOND DAY—MORNING SESSION

QUESTION No. 1:

What are the characteristics of Preferred Stock, and what are the rights of the holders thereof as to dividends and guaranteed dividends and preference in the distribution of capital or liquidation?

QUESTION No. 2:

A promissory note is by its terms payable in stated installments, with provision that upon default in payment of any installment or interest the whole shall become due. To what extent is the negotiability of the note affected?

QUESTION No. 3:

In counting the cash in a mill office you find as part of the cash on hand, checks that had been received from customers subsequent to the last bank deposit which was made a week prior to your visit. The checks are drawn on various widely scattered banks, including the mill's bank, that is three miles away on a trolley line.

- (a) What does the law require the holder of checks to do?
- (b) What danger, if any, may this mill incur in the collection of these checks when it makes its next deposit?

QUESTION No. 4:

When a partnership is dissolved and liquidated, what rules must be observed?

- (a) As to payment of losses.
- (b) As to application of assets.
- (c) As to the completion of unfinished contracts.

QUESTION No. 5:

What violations of law would you look for in the examination of the loans and discounts of a National Bank?

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NORTH CAROLINA STATE BOARD OF ACCOUNTANCY

COMMERCIAL LAW AND INCOME TAX LAWS

EXAMINATION: MAY, 1922

SECOND DAY—AFTERNOON SESSION

QUESTION No. 6:

What is the status of a Personal Service Corporation for the year 1922?

- (a) For Federal Tax purposes?
- (b) For North Carolina State Tax purposes?

QUESTION No. 7:

An installment furniture dealer, reporting net income for Federal Tax purpose in accordance with Article 42 of Regulations 62, reported a gross profit of 60% in the year 1921. In the year 1922 installment accounts aggregating \$1,000, representing sales made in the year 1921 upon which no payments had been made, was found to be uncollectible and the furniture was not repossessed.

Prepare the journal entries to bring the books to accord with the tax returns.

QUESTION No. 8:

The following items make up the income and deductions for the year 1922 of a National Bank located in the State of North Carolina:

INCOME

Interest on Loans (Commercial).....	\$75,000.00
Interest on Loans (School Board).....	10,000.00
Interest on Loans (City and County).....	15,000.00
Interest on North Carolina Bonds.....	5,000.00
Interest on Victory 4¾ Bonds.....	2,000.00
Interest on Circulation Bonds.....	2,000.00
Federal Reserve Bank Dividend.....	500.00
Dividends on stocks (N. Y. Corporations).....	620.00
Total Income.....	\$110,120.00

DEDUCTIONS

Interest on Loans.....	\$ 4,000.00
Salaries	32,000.00
Expenses	42,000.00
Reserve for Bad Debts.....	5,000.00
State Income Tax.....	2,000.00
Total deductions.....	85,000.00
Total net income	\$25,120.00

What is the income tax liability of the bank?

- (a) For Federal Government?
- (b) For State of North Carolina?

QUESTION No. 9:

The "A" Corporation being unable to meet its June 15, 1922, installment of income and profits taxes due for the year 1921, and, under the Revenue Act of 1921, shows to the satisfaction of the Commissioner of Internal Revenue that the payment of this tax would result in an undue hardship. What is the maximum extension of time the Commissioner is empowered to grant under the law, and what may be required of the taxpayer, and at what rate of interest, if any, will be charged?

QUESTION No. 10:

In 1908 "A," an individual, purchased a parcel of land for \$10,000, which had a fair market value at March 1, 1913, of \$15,000. The fair market value at December 31, 1920, was \$17,000. During the month of April, 1922, this land was taken over for public purposes by the municipality in which it was situated against the wishes of "A," who was reimbursed in the sum of \$18,000.

(a) State the amount of profit to be included (1) in gross income; (2) in net income. Under what circumstances may "A" be relieved of the payment of the tax on this profit, and what may be required of him by the Commissioner of Internal Revenue as a condition precedent?

(b) If the remainder of his income for 1922 consisted of \$1,000 interest on Victory 4¾ Notes, \$500 dividends from a Penn. corporation, and \$3,000 in medical fees from his practice within the State of North Carolina, what will be the amount of income tax due the State of North Carolina, assuming he is a resident of that State, is married, and has two dependent children under eighteen years of age on December 31, 1922?

Show computation:

- (a) Articles 261-263, Regulations 62.
- (b) North Carolina Revenue Act.

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NORTH CAROLINA STATE BOARD OF ACCOUNTANCY

AUDITING

EXAMINATION: MAY, 1922

THIRD DAY—MORNING SESSION

QUESTION No. 1:

What method or methods would you suggest to minimize risk of fraud in the handling of the following:

- (a) Pay Roll?
- (b) Accounting of Cash Receipts?
- (c) Purchase Invoices?

QUESTION No. 2:

State under what circumstances a bookkeeper can cover up improper postings and footings during the course of an audit so that ordinarily you would not detect same unless certain precautions are taken; and what these precautions be.

QUESTION No. 3:

State five different methods which you would in an audit ordinarily disclose by which an employee can abstract cash. State two methods which you would ordinarily not disclose.

QUESTION No. 4:

Your audit of the records of a client disclose the following discrepancies:

- Cash: Short \$100.
- Accounts Receivable: Sum total of ledgers \$500 less than the control account.
- Accounts Payable: Sum total of ledgers \$500 less than control account.
- Bank Account: Unable to locate a check charged by bank for \$500, also subsequent deposit credited for same amount.

Draft letter to your client in which these matters would be fully covered.

QUESTION No. 5:

Assuming that you were called upon to handle the consolidation of five competitive manufacturing concerns, which necessitates you making equitable valuations of the good will and assets of the respective companies. What would be your recommendations dealing specifically with:

- (a) Good Will?
- (b) Plant Equipment?
- (c) Inventories: Raw Material; Plant Equipment; Finished Goods?
- (d) Accounts and Notes Receivable?

QUESTION No. 6:

A. and B. engaged in the contracting business agree to dissolve partnership, A. continuing the business. The original partnership agreement contains no provisions governing a dissolution. A. had $\frac{2}{3}$ interest and B. $\frac{1}{3}$ interest. They have several unfinished contracts. In arriving at a settlement between the partners, what accounts would you consider it necessary to deal with, and how would you treat each one? Explain fully and supply your own figures if necessary.

QUESTION No. 7:

Give full outline of your procedure in an audit of one of the following classes of audits:

- Bank (State).
- Wholesale Mercantile House.
- Building and Loan Association.

QUESTION No. 8:

- (a) Of what assistance can items of "checks" listed on deposit be in an audit?
- (b) Under what circumstances will they prove to be of no assistance?

QUESTION No. 9:

What particular points in an audit would you observe as regards verification of following:

- (a) Notes Receivable held as securities?
- (b) Accounts Receivable?

QUESTION No. 10:

- (a) How would you proceed in an audit to ascertain that the income shown by the books represented all that should appear.
- (b) Ordinarily, how far would you go toward proving that all orders shown by the records ultimately appeared as sales.