Journal of Accountancy

Volume 46 | Issue 4 Article 7

10-1928

# Students' Department

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## AMERICAN INSTITUTE EXAMINATIONS

(Note.—The fact that these answers appear in The Journal of Accountancy should not cause the reader to assume that they are the official answers of the board of examiners. They represent merely the opinions of the editors of the *Students' Department.*)

### Examination in Accounting Theory and Practice—Part II (*concluded*)

May 18, 1928, 1 P. M. to 6 P. M.

*The candidate must answer all the following questions:*

No. 2 (22 points):

The balance-sheet of the Tiber Manufacturing Company, Inc., as at December 31, 1926, prepared by the company, was as follows:

*Assets*

| | | |
|---|---|---|
| Current assets: | | |
| Cash | | $17,500 |
| Notes and accounts receivable | | 165,000 |
| Inventories (at lower, cost or market): | | |
| Raw material and supplies | $80,000 | |
| Goods in process | 35,000 | |
| Finished goods | 120,000 | |
| Goods on consignment | 25,000 | 260,000 |
| Total current assets | | $442,500 |
| Prepaid expenses: | | |
| Interest and insurance | | 1,700 |
| Fixed assets: | | |
| Land | $75,000 | |
| Buildings | 325,000 | |
| Machinery and equipment | 550,000 | 950,000 |
| Total | | $1,394,200 |

*Liabilities*

| | | |
|---|---|---|
| Current liabilities: | | |
| Notes payable | | $145,000 |
| Accounts payable | | 230,000 |
| Accrued liabilities—wages and taxes | | 7,000 |
| Total current liabilities | | $382,000 |
| Reserves: | | |
| Depreciation | $220,000 | |
| Bad debts | 3,500 | |
| For general purposes | 50,000 | 273,500 |
| Stockholders' equity | | 738,700 |
| Total | | $1,394,200 |

The authorized capital stock of the company, all of which is outstanding, consists of 3,000 shares of 6 per cent. cumulative preferred stock and 5,000 shares of common, all shares being of the par value of $100 each. The former is preferred both as to capital and dividends and the preferred dividends, payable June 30th and December 31st, have been paid to June 30, 1925.

Advances to officers and employees aggregate $25,000, for which notes were given. Travel advances to salesmen amount to $3,500 and the balances due from customers on open account are expected to realize $133,000. Customers' notes receivable amounting to $20,000 have been discounted.

The stated liability on notes payable includes trade acceptances $25,000 and the balance, consisting of loans from banks, is secured by the hypothecation of finished goods valued in the inventory at $70,000.

The fixed assets are stated at the appraised value of December 31, 1926, when the net book value—$500,000 (cost less depreciation)—was adjusted to the appraisal figures.

Noting these facts, you are asked to comment on the above balance-sheet making such changes in form as you consider desirable.

*Solution:*

The balance-sheet prepared by the company fails to disclose some essential information. Showing the stockholders' equity in one amount is particularly unsatisfactory as it fails to disclose the nature of the outstanding stock and the fact that an operating deficit has been partly offset by unrealized profit from an appraisal. The equity shown in the company balance-sheet is detailed in the revised balance-sheet (see following page) as follows:

| | |
|---|---|
| Preferred stock | $300,000.00 |
| Common stock | 500,000.00 |
| Appreciation of fixed assets | 230,000.00 |
| Total | $1,030,000.00 |
| *Less:* Operating deficit | 291,300.00 |
| Remainder | $738,700.00 |

The notes receivable from officers and employees have not been taken out of the current section as there is nothing in the problem to show that they are not current. They have been separated from customers' receivables, however.

The reserve for bad debts has been brought over to the asset side as a deduction more exactly to state the current assets, and the reserve for depreciation has been brought over to show the net appraised value of the fixed assets.

Advances to traveling men are probably more properly classified as prepaid expenses than as current assets.

The note-payable liability has been divided to show trade obligations and bank loans, and the security to the bank loans has been stated. It does not appear necessary to mention the hypothecation of the merchandise on both the asset and liability sides of the balance-sheet.

It is noted that merchandise is out on consignment, but it is stated to be valued at the lower of cost or market; hence, no correction appears necessary.

The problem asks for comments on the balance-sheet, not on the financial condition of the company.

No. 3 (13 points):

A corporation was formed January 1, 1909.

The buildings, taken over from a predecessor company, were set up on the books of the new company at cost to that company, in one amount, and depreciation for federal income-tax purposes was based upon such value.

TIBER MANUFACTURING COMPANY

Balance-sheet—December 31, 1926

*Assets*

| | | | |
|---|---|---|---|
| Current assets: | | | |
| Cash | | $17,500 | |
| Accounts receivable—customers | $136,500 | | |
| *Less:* Reserve for bad debts | 3,500 | | |
| | | 133,000 | |
| Notes receivable— | | | |
| Officers and employees | | 25,000 | |
| Inventories (at lower, cost or market): | | | |
| Raw material and supplies | $80,000 | | |
| Goods in process | 35,000 | | |
| Finished goods: | | | |
| On hand | 120,000 | | |
| On consignment | 25,000 | 260,000 | |
| Total current assets | | | $435,500 |
| Prepaid expenses: | | | |
| Interest and insurance | | $1,700 | |
| Salesmen's traveling expenses | | 3,500 | |
| Total prepaid expenses | | | 5,200 |
| Fixed assets—Appraised values, December 31, 1926: | | | |
| Land | | $75,000 | |
| Buildings | $325,000 | | |
| Machinery and equipment | 550,000 | | |
| Total buildings, machinery and equipment | $875,000 | | |
| *Less:* Reserve for depreciation | 220,000 | 655,000 | |
| Total fixed assets | | | 730,000 |
| | | | $1,170,700 |

*Liabilities*

| | | |
|---|---|---|
| Current liabilities: | | |
| Trade acceptances | $25,000 | |
| Notes payable—bank loans (secured by hypothecation of finished goods valued at $70,000) | 120,000 | |
| Accounts payable | 230,000 | |
| Accrued liabilities—wages and taxes | 7,000 | |
| Total current liabilities | | $382,000 |
| Reserves: | | |
| From revaluation of fixed assets by appraisal | $230,000 | |
| For general purposes | 50,000 | |
| Total reserves | | 280,000 |
| Net worth: | | |
| Preferred—6% cumulative; 3,000 shares | $300,000 | |
| Common—5,000 shares | 500,000 | |
| Total capital stock | $800,000 | |
| *Less:* Operating deficit | 291,300 | |
| Net worth | | 508,700 |
| | | $1,170,700 |

NOTES.—Dividends have been paid on the preferred stock to June 30, 1925.

The company was contingently liable at December 31, 1926, on customers' notes discounted in the amount of $20,000.

As of December 31, 1926, an appraisal was made of the company's plant in detail and new plant values, representing depreciated replacement values, were set up on the books as of January 1, 1927.

As the result of an earthquake in 1927, part of the walls of one of the buildings collapsed and had to be rebuilt, the loss sustained not being covered by insurance.

State how you would proceed to estimate (1) the amount of the book loss to be recorded and (2) the amount of loss to be claimed on the company's federal income-tax return for 1927.

If the loss to be claimed on the tax return is $4,480, and depreciation on buildings has been taken at the rate of 2 per cent. per annum, what was the indicated cost at January 1, 1909, of the walls destroyed?

*Solution:*

The amount of the loss to be claimed on the company's federal income-tax return for 1927 is the cost of the walls which collapsed, less the amount of accrued or accumulated depreciation and the scrap value. The cost of the walls and the building may be obtained from the records of the architect or contractor who constructed the building for the predecessor company. With these amounts at hand, the cost of the walls to the present company may be determined thus:

$$\frac{\text{Cost of building to new company}}{\text{Cost of building to predecessor company}} \times \text{Cost of walls to predecessor company.}$$

If such records of the cost to the predecessor company are not available an estimate from the architect or contractor or both should be obtained and used in conjunction with the accountant's estimate.

As an additional check against the cost obtained as outlined above, the accountant may arrive at an estimate of the cost of the walls by applying the ratio of the appraised value of the walls to the appraised value of the entire building against the cost of the building as shown by the company's records. The amount thus determined, while not accurate, would represent a reasonable estimate, and, used with the architect's or contractor's estimate, should sustain a claim for the loss.

Working backward from the amount of the loss given in the problem, the cost of the walls is found to be $7,000 allowing for no scrap.

The accumulated depreciation from January 1, 1909, to January 1, 1927, (eighteen years) at 2% per annum would be 36% of the cost. The amount of the loss, $4,480, is, therefore, 100%−36%, or 64% of the cost, which is obtained by dividing $4,480 by 64%, or $7,000.

Proof:

| | |
|---|---|
| Cost of walls at January 1, 1909 | $7,000.00 |
| Depreciation—18 years at 2% or 36% | 2,520.00 |
| Loss—(depreciated cost) | $4,480.00 |

An entry should be made on the books of the company to clear the accounts of the cost of the walls destroyed and the depreciation thereon, and to record the loss. The cost of rebuilding the walls should be charged to the building account.

The book loss represented by the appraised value of the walls should be recorded as follows:

| | | |
|---|---|---|
| Reserve for depreciation . . . . . . . . . . . . . . . . . . . . . . . | ? | |
| Surplus . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $4,480.00 | |
| Surplus arising from revaluation of plant . . . . . . . . . . . | ? | |
| Building account . . . . . . . . . . . . . . . . . . . . . . . . . | | ? |
| To clear building account of the appraised value of walls destroyed as the result of an earthquake. | | |

It is assumed in the above solution that the earthquake occurred on or shortly after January 1, 1927.

## Examination in Auditing

May 17, 1928, 9 A. M. to 12:30 P. M.

*The candidate must answer all the following questions:*

No. 1 (8 points):

Prepare an audit programme for a thorough verification of the cash balance of a corporation operating a chain of retail drug stores.

*Answer:*

We shall assume that arrangements are made to count the cash at the close of business on the balance-sheet date, so as to avoid the necessity of verifying cash transactions for a period subsequent to the balance-sheet date, as would be obligatory if the cash were counted at a later date. Enough men should be assigned to the engagement to make simultaneous counts of the cash funds at the head office and at all stores, to avoid any possible substitution of funds. It might be possible to reduce the number of men assigned to the engagement by verifying the funds at the head office after they have been transferred from the stores, but undoubtedly change funds at least would be allowed to remain at the stores, and the verification of these would require visits to the several locations. Verification of all funds at the stores before remittance to the head office or before deposit in bank would reduce the number of in-transit items to be verified. Such transit items as exist should be verified, and any funds counted prior to deposit or transfer should be traced into the bank or to the transferee.

Bank statements and certifications as to balances should be obtained and the bank accounts reconciled. The total amount of cash thus determined to be on hand, in transit and on deposit should be in agreement with the balance called for by the books.

All negotiable securities should be verified simultaneously with the cash, to detect any attempt to conceal a cash shortage by obtaining funds temporarily by the use of the securities.

Having found that the cash on hand, in transit and in bank is in agreement with the balance required by the books, tests should be made to determine whether or not the books have been manipulated to reduce the book balance. This will involve tests of the cashbook footings, vouching of disbursements, and an examination of the records of receipts to determine that all cash received has been properly recorded. Just what routine will be followed in the verification of the receipts will depend upon the system of accounting and internal check. The greater portion of the receipts will be transfers to the head office from the local stores, and the verification thereof will include an examination of the local store reports, and a study of the system of internal check to ascertain its adequacy.

No. 2 (15 points):

In commencing an audit, on January 20, 1928, of the accounts of four brothers for the calendar year 1927, the following conditions are met:

The accounts of each estate are kept in a separate set of books, in order to preserve the privacy of the affairs of each brother. The records of all the personal estates are kept by one confidential secretary and his staff. The books of each estate have been closed as of December 31, 1927, but none of the January, 1928, transactions has been entered. All the personal estates are large and include many marketable securities. The owners of these assets are often away for several months on business or for recreation. During the year under audit, there were frequent purchases and sales of stocks and bonds. Some of the investment securities are kept in the secretary's office safe, others are kept in separate safe-deposit boxes for each estate and the rest are held by brokers. The secretary has access to all safe-deposit boxes.

Outline the procedure to be used in verifying the securities and submit the report which you would make upon this feature of the examination.

*Answer:*

Since the question states that the books of the estates have been closed as of December 31, 1927, but that no entries have been made for the January transactions, it must be assumed that the verification is being made after December 31, 1927. The books should be written up to the date of the visit, say January 31st, so as to show what securities should be on hand at that date. Pending the completion of this work and the preparation of security lists, a control should be established over the securities in the safe-deposit boxes and the office safe by sealing. When the lists have been completed, the securities in the safe-deposit boxes and in the safe should be checked against the lists. The securities of all estates should be verified simultaneously, as the confidential secretary has access to them all and might substitute securities if the securities of all the estates were not kept under control and checked at one time.

The brokers should be asked for confirmations of the securities in their possession at the cut-off date, say January 31st, and for statements of their accounts since December 31st.

The transactions for January should be applied to the January 31st balances as shown by the verified lists to ascertain the securities owned at December 31st, but this would be a verification only as to the total securities. There would be no way to prove that the securities which should have been in the safe-deposit boxes and the safe were actually there on December 31st.

While it would be impossible to make physical verification as of December 31st of the securities not with brokers, the brokers' statements would show the securities held long by them on that date or such long securities could be ascertained by working back from the January 31st balances. The securities thus held by the brokers should be ascertained and shown in the report as security to the brokers' accounts.

Having thus verified the securities held at December 31st in total, the transactions during the year should be verified against brokers' statements to determine that no errors or misstatements have been made in the accounts to understate the balances as of the close of the year.

Just as the simultaneous verification of securities was essential to the verification of cash, as mentioned in the answer to question 1, so the simultaneous verification of cash would be essential to the verification of securities.

The report might contain a schedule of securities owned at December 31st and a comment as follows:

> "We verified the securities owned by inspection of those held in safe-deposit vaults and in the office safe on January 31, 1928, by certifications received from brokers as to securities held by them on that date, and by application of recorded and verified transactions between December 31, 1927, and January 31, 1928. The securities thus indicated to have been owned at December 31, 1927, are detailed in schedule ——."

No. 3 (7 points):

Mention five important points of personal conduct to which an auditor or accountant should give particular attention on an engagement.

*Answer:*

(1) Promptness.

(2) Consideration of the convenience of the office force, so far as the demands for records, etc., are concerned.

(3) Care in returning books and other documents.

(4) A careful balance between insistence upon adequate evidence and arrogance or an attitude of suspicion.

(5) Avoidance of needless conversation with members of the client's organization, especially concerning any matters coming to the auditor's attention during the course of the audit.

No. 4 (10 points):

For several years, including 1925, a public accountant had prepared statements and tax returns for the F corporation. In August, 1926, he was approached by M who, according to the newspapers, had purchased the F corporation's business. M asked him for copies of his statements previously made for the corporation, his stated intention being to use them for comparative purposes. M asserted that he had the financial records from the inception of the F corporation.

Explain fully how you would act if confronted by such a situation and tell why.

*Answer:*

The auditor should take the position that he could not furnish any information, either orally or in the form of previously rendered reports, except with the consent of the parties who were his clients at the time the work was done. He should explain his reason for this position, namely that he stood in a confidential relationship to his clients and had no right to give out information without their consent.

No. 5 (15 points):

A manufacturing company submits an inventory based on actual count or inspection. Outline a suitable programme for the verification of such an inventory.

*Answer:*

As some time would have been required to complete the inventory, physical quantities could not be verified by merely inspecting the merchandise and making independent quantitative tests. In addition it would be necessary to work back, by the use of stock cards, purchase and sale records or otherwise, to the quantities on hand at the inventory date.

Having thus verified physical quantities on hand, consideration should be given to matters of obsolete or unsalable goods, merchandise included in the inventory but held on consignment or not taken up on the books by charge to purchases, merchandise out on consignment and not included in the inventory, and merchandise on hand at inventory date but not inventoried because the purchase had not been recorded.

The prices applied to the inventory should then be checked, either against recent invoices or against cost records, to determine whether cost, lower of cost or market, or some other basis was used.

Tests should then be made of extensions and footings.

No. 6 (10 points):

You are engaged to audit the books of account of the X corporation for the year ended December 31, 1927, its condensed balance-sheet, as of that date, being as follows:

| *Assets* | | | *Liabilities* | | |
|---|---|---|---|---|---|
| Current assets | | $70,000 | Current liabilities | | $30,000 |
| Fixed assets | $75,000 | | Capital stock | $80,000 | |
| *Less:* Depreciation reserve | 15,000 | | *Less:* In treasury | 20,000 | |
| | | | | | 60,000 |
| | | 60,000 | Surplus | | 40,000 |
| | | $130,000 | | | $130,000 |

A statement of the surplus account is as follows:

| 1927 | | | | |
|---|---|---|---|---|
| Jan. | 1 | Balance forward | | $22,500 |
| Mar. | 15 | Income tax, 1926 | $2,500 | |
| | 16 | Cash dividend (25 per cent.) | 20,000 | |
| Dec. | 31 | Net profit for year 1927 | | 40,000 |
| | | Balance down | 40,000 | |
| | | | $62,500 | $62,500 |

Your investigation of the item of treasury stock reveals that the company, by proper corporate action, acquired 200 shares of its own capital stock in March, 1927, immediately after declaration of dividend, paying $20,000 cash therefor, as evidenced by the entry on the books:

| | | |
|---|---|---|
| Treasury stock, Dr. | $20,000 | |
| Cash, Cr. | | $20,000 |

The laws of your state provide:

> "Every corporation shall have the power to purchase, hold, sell and transfer shares of its own capital stock; provided that no such corporation shall purchase its own shares except from the surplus of its assets over its liabilities, including capital."

Being authorized by the board of directors to make any entry you deem necessary to bring the treasury stock purchase within the requirements of the law, state what entry, if any, you would make.

NOTE:—No income tax for 1927 is to be given consideration.

*Answer:*

The quoted statement of law appears to mean clearly that the payment made in the acquisition of treasury stock can not exceed the surplus existing at the time of the purchase. If this is the case the purchase of treasury stock appears to have been illegal, and it does not seem that any entry can be made which will change an illegal action into a legal one.

As the twenty-five per cent. dividend was presumably not paid on the treasury stock, the charge to surplus in respect of this dividend would be reduced $5,000, and it is possible that $15,000 of profit may have been earned between December 31, 1926, and the date of the purchase of the stock. This would be sufficient to make the purchase of treasury stock legal. The entry with respect to the excess dividend would be a debit to dividends payable and a credit to surplus, in the amount of $5,000. The entry to take into surplus the portion of profit earned at the date of the purchase of the treasury stock can not be given without more information as to whether or not the books are closed monthly.

No. 7 (10 points):

You are retained to audit the accounts of a fruit-packing plant for the year ended December 31, 1926. The packing season is from May 15th to September 15th.

As you are required to certify to the profits for the year 1926, as well as to the closing balance-sheet, you will have to examine the inventories at the beginning and end of the period.

You find that the company did not maintain any accurate stock records and that the costs were very largely a matter of estimate.

In this particular company, large stocks are carried over at the end of each year.

Outline your procedure in verifying the opening inventory.

*Answer:*

Starting with the quantities shown by the closing inventory, it might be possible to work back to the opening inventory quantities by the application of quantities shown by production and sales records. As the question states that no accurate stock records were kept, the production and sales records appear to be the only recourse.

After checking in this manner the quantities shown by the opening inventory, it might be possible to determine production costs during the year 1925 and apply them against the quantities.

The determination of quantities and costs would be somewhat less difficult in a fruit-packing plant with a production season closing on September 15th than it would be in a manufacturing plant where work would be in progress at the end of the year.

Something might be accomplished by comparing production costs of the two years, and selling prices of the two years, to obtain information as to probable uniformity or probable differences in gross-profit rates, and then applying the gross-profit test to the opening inventory.

No. 8 (10 points):

In 1925 the T corporation purchased heavy motors, costing $30,000, and charged them to "equipment" account. As an "electrical equipment" account was also carried on the books, the auditor questioned the distribution and was told that "electrical equipment" included only unitemized plant charges, such as wiring. The charge was allowed to stand.

Depreciation rates in effect were 15 per cent. the first year—on machinery, 10 per cent. on remaining balances thereafter; on equipment and electrical equipment 40 per cent. on remaining balances.

Under long-standing bonus contracts with managers 65 per cent. of the profits were divided among them.

Late in 1926, it was discovered that heavy motors had, prior to 1920, been charged to machinery account and the auditor was so informed.

What action should he take or recommend?

*Answer:*

The question appears to be subject to two interpretations:

First: Motors should be charged to machinery account and depreciated at the machinery rate. The charges prior to 1920 were correct, and the 1925 charge was wrong. On this assumption the only correction necessary is a transfer from equipment to machinery of the cost of motors purchased in 1925. As only one year's depreciation has been provided on these motors, and as the equipment and machinery rates for the first year of use are the same, no adjustment of depreciation is necessary and consequently there will be no adjustment of managers' bonuses.

The question does not state whether any purchases were made between 1920 and 1925. If any purchases were made during this period and charged to equipment when they should have been charged to machinery, the cost should be transferred from the equipment to the machinery account, and adjustments made with respect to the overstatement of depreciation resulting from depreciating them at the 40 per cent. rate instead of at the 10 per cent. rate.

Second: Motors should be charged to equipment account and all charges for purchases prior to 1920 were incorrect. Since the motors purchased prior to 1920 have been depreciated at a 10 per cent. rate instead of a 40 per cent. rate, the depreciation charges should be corrected by charge to surplus.

Whether the adjustment of depreciation should also result in an adjustment of the managers' bonuses for prior years, or an adjustment of the bonuses of 1926 to compensate for the errors of prior years, or no bonus adjustment, will depend upon the contract with the managers.

No. 9 (9 points):

A corporation finds that if it charges the usual amount of depreciation, the net profits for 1927 will not equal the dividend requirements. It decides to make no charge for depreciation in that year, as an appraisal has shown a large appreciation in fixed assets over book value and a depreciation considerably less than the reserve on the books.

The declaration of a dividend is delayed pending your advice.

What advice will you give?

*Answer:*

The general rule has been that dividends can be paid only from surplus and that surplus is overstated unless provision has been made for the depreciation of fixed assets. Under this rule the accountant should advise the company to pay no dividend until after making a provision for depreciation, but this advice would be subject to certain qualifications.

In the first place, the question states that the appraisal discloses an overstatement in the reserve. Presumably according to the appraisal the reserve is based on replacement cost and is therefore in excess of a proper reserve based on cost. Assuming that the company is not permitted to pay dividends from surplus resulting from an appraisal, it follows that it can determine the surplus available for dividends on the basis of the establishment of an adequate reserve on a cost basis rather than on an appraisal basis. Therefore it would appear permissible to ascertain the estimated life by appraisal and to recompute the depreciation of prior years on the basis of the ratio of the expired life to the total life estimated by the appraiser, applied to cost. The resulting reduction in the reserve could be credited to surplus, and the reserve could be raised to the total shown by the appraisal by charge to the capital surplus resulting from adjusting the property accounts from cost to replacement cost.

The laws with respect to the payment of dividends have been modified materially in some states since the introduction of the no-par-value form of stock. For instance, in some states it is permissible to pay dividends if the net assets exceed the stated value of the stock, and appraised values may be used in determining the value of the net assets. The laws of the state of incorporation of the company in question should be studied to determine the exact legal requirements applying to the company.

No. 10 (6 points):

(a) Outline a method of handling dues for a club which has two classes of members.

Bills for dues are rendered semi-annually. A statement of income and expense and a balance-sheet are prepared monthly.

(b) Indicate the accounts which might appear on the balance-sheet relating to dues and state in what balance-sheet group each should appear.

*Answer:*

The question does not state the nature of the two classes of memberships, and we shall assume that they are life memberships and annual memberships.

Amounts received by the club on sales of memberships may be credited to a membership account, the balance of which will appear in the capital section of the balance-sheet. Amounts received as initiation and transfer fees will find their way into surplus, either directly or through the current-income account.

Semi-annual dues of annual members will be charged, as billed, to accounts receivable—members, and credited to dues billed in advance. Monthly transfers will be made from dues billed in advance to dues income. The accounts receivable will appear in the current-asset section of the balance-sheet, and the dues billed in advance will appear on the liability side as a deferred credit.

Both the life members and the annual members will be billed for the excise tax, the entry being a charge to the members and a credit to dues taxes payable. Unpaid balances of taxes will appear in the balance-sheet as a current liability.

### ONE REASON FOR FAILURES

As editor of this department and in various other capacities I have been privileged, during the past fifteen years, to come in contact with several hundred candidates in the Institute and state examinations and to form some opinion of their capabilities and limitations. I have also talked with members of examining boards. Certain things have impressed themselves upon me as causes of candidates' failures.

One pathetic cause of many failures—pathetic because it is apparently so unnecessary—is the attitude which seems to be taken toward the answering of questions as distinguished from the solution of problems. Many candidates appear to have adopted unconsciously the attitude that the problems are relatively hard and important, and the questions relatively easy and unimportant. Consequently, candidates often fail to give the questions the consideration necessary to an adequate answer.

One of the ways in which this, let us say, indifference manifests itself is in answers which are not responsive to the questions. To illustrate from an oft-repeated experience:

> *Question:* A corporation purchases 10 shares of its own stock at $90 per share and records the transaction by debiting treasury stock and crediting cash $900. Discuss the propriety of this entry and if you regard it as incorrect give the correcting entry.
>
> *Answer:* The entry was wrong; it should have been, debit treasury stock $1,000, and credit cash $900 and surplus $100.

Now this answer, in my opinion, entitled the candidate to a credit of exactly zero. It contains no discussion of the propriety of the entry; it merely contains the statement that the entry was wrong. And instead of giving the correcting entry (that is, the entry now necessary to correct the books), it gives the correct entry as it should have been made in the first place. Now, as I said, this is pathetic because it is unnecessary. The candidate undoubtedly knew why the entry was wrong and could have given an adequate discussion of the matter. He could just as well have given the correcting entry as the correct entry. Only he didn't think.

How often have I heard the complaint that the examiners are intent on keeping men from passing the examination and the remark, "I know my answers were all right, and the examiners had no justification for failing me." I can hear the man, who wrote the answer quoted above, saying it.

Perhaps I am a little severe in holding that the answer entitled the candidate to a credit of zero. The answer certainly indicates that the candidate knows something about accounting for treasury stock. Should not the examiner give the candidate credit for what he apparently knows? I believe the examiners are justified in taking the position that a professional man should be able to perform an engagement in accordance with the stipulations of his client, always assuming that these stipulations are not at variance with the proprieties of the profession. If the candidate can not follow the instructions of the examiner, has the examiner any right to turn him loose upon the public with an official recognition which will give prospective clients assurance that he can and will render desired and stipulated professional services? I do not think so.

There is an old saw about taking a Dutchman for what he means and not for what he says. Consideration should be given to any one trying to express himself in an inadequately mastered language. But there seems to be no obligation to overlook the incapacity of a professional man to express himself correctly in the language of his profession.

> *Question:* What would you do if your client should demand delivery of your report before a confirmation had been received from a bank in a distant city with respect to the bank balance and notes payable?
>
> *Answer* (and an actual one, believe it or not): If my confirmation to the bank for verification of the aforementioned facts had not been received by me at the date of the client's request, I would complete the report and render it but I would qualify the report on the bank.

Now it is perfectly obvious that the candidate had the right idea, and his answer is perfect, with a few exceptions. "My confirmation" must mean the accountant's confirmation. But the accountant does not confirm. He requests a confirmation, but the confirmation, when received, will be the bank's. "The aforementioned facts"—how can they be known to be facts until they have been confirmed? "At the date of the client's request"—of course the date of rendition of the report is meant, and this may be different from the date of the client's request as time may be required for completion of the report. If, in the meantime, the confirmation is received, no qualification will be necessary. "Qualify the report on the bank"—the accountant is not rendering a report on the bank; he is rendering a report on an audit of the accounts of some client who keeps an account at the bank.

It may be possible for a man to be a good accountant although unable to spell, punctuate or write with grammatical correctness. But if you were an examiner, what impression of the professional qualifications of a candidate would you obtain by reading the following answer?

> *Question:* Write a short comment for a report which will indicate the extent of work which, in your opinion, would be an adequate verification of an inventory.
>
> *Answer:* The footings, extentions, and prices of the invetory was checked. We also obtained certificates from certain company officials who regarded the invetory to be correct.

Ignoring the question of whether the work done, as stated by the comment, constitutes an adequate verification of the inventory, there remain for consideration:

A compound subject and a singular predicate;

The misspelling of two frequently used words in an accountant's technical vocabulary;

An incorrect locution after "regarded";

The omission of a comma after "officials," with the result that the comment may be reasonably interpreted as meaning that the accountant requested certificates from officials who held a favorable attitude toward the inventory but refrained from requesting certificates of officials whose attitude might have been less favorable.