C. P. A. Question Department.
Conducted by Leo Greendlinger, M. C. S.

Below are given fifteen questions, with answers, on each of the following subjects: Theory of accounts, auditing, and commercial law. The questions are selected from New York, Pennsylvania, Michigan, Maryland, Illinois, Florida, Washington, California and English papers of 1907 and 1908.

QUESTIONS IN THEORY OF ACCOUNTS.

(1) A corporation has an issue of preferred stock entitled to cumulative dividends of 7% a year. The dividend payments are in arrear. Should the arrears of dividends appear on the balance sheet, and if so, how should they be stated?

(2) How should inventories be treated in closing the ledger at the end of a fiscal year? Is the common practice of adding the inventory of goods on hand to the credit side of a merchandise account theoretically correct? Explain fully.

(3) In case a manufacturing company having purchased a large stock of material during the year at low prices, but at time of annual inventory values had increased. How in your opinion should the inventory be valued, at cost or prevailing market price?

(4) State in the form of journal entries the following transactions:

(a) Installment notes given on purchase of real estate, the face of said notes including interest charges up to maturity of the notes.

(b) Loss by fire of buildings, fixtures, and merchandise; loss sustained by owner over and above the insurance carried and the amounts due and collected from the insurance companies.

(c) Increase in valuation of real estate.

(d) Note of a customer returned with a protest charge from the bank where it had been left for collection.

(5) A merchant who has been in business for twenty years decides to put a valuation on the goodwill of his business and carry same as an asset on his ledger, the entry being to charge goodwill and credit surplus. Another merchant five years later buys the entire business including the goodwill, and after making a careful inventory finds that the actual net resources exclusive of goodwill, amount to $5,000.00 less than the sum he paid for it.

Discuss the subject of goodwill in respect to the above cases, and state the correct manner of dealing with same.

(6) Describe the use and operation of a Clearing House.

(7) What is meant by the term “Hire Agreement”? Is there any difference between a “Hire Agreement” and a “Hire and Purchase Agreement”?

(8) Differentiate between consignments, adventures, and joint accounts. How should consignments received, to be realized for and on behalf of
another, be best treated? How should the manager treat joint transactions in his books?

(9) Into how many classes are the expenses of a manufacturing establishment usually divided? Name 5 sub-classifications of each class of expenditures.

(10) What are the distinguishing features of a
- Mortgage Bond
- Collateral Trust Bond
- Income Bonds

(11) Describe the usual method of procedure in determining the net profit or loss of a business the books being kept by:
(a) Single entry.
(b) Double entry.

(12) What general principles should be observed in differentiating between capital and revenue expenditure?

(13) What differences in books and accounts would exist between a partnership and an incorporated company carrying on a similar business?

(14) Rule a form of cash book suitable for a charitable institution.

(15) What is meant by the term "depreciation"? Give three examples of its application.

ANSWERS:

(1) The arrears of dividends should not appear among the liabilities of the balance sheet. A corporation's liability for dividends on preferred cumulative stock is contingent on their being earned, but not against the assets of the company. It is, however, advisable that the attention be drawn by a foot note in the balance sheet. This procedure is adhered to in order to protect prospective common stock purchasers, who, by a suppression of such facts, may find themselves at a disadvantage.

(2) By opening an account merchandise or merchandise inventory and debiting to this account all goods on hand. Theoretically, this practice is incorrect, for as Professor Sprague states in his "Philosophy of Accounts":

An Account which needs to be made over is one which ought to have been made differently at first.

If we add the inventory to the credit side of what we call "Merchandise Account" we are mixing different elements into one mass, and have to rearrange things to get at the result.

The modern practice is to separate the merchandise account into three: Merchandise (inventory), sales, and purchases.

The arrangement would be to debit the merchandise (inventory) account for balance of merchandise on hand at the beginning of the period. Purchases made and returns by us would be respectively debited or credited to this section (Purchase Acc't.) Sales made and returns to us would be respectively credited or debited to the Sales Account. The purchase account would then be closed into the merchandise (inventory) account, leaving only two accounts, merchandise (inventory) and sales. By subtracting from the debit side of the merchandise account the

73
The Journal of Accountancy.

inventory on hand we arrive at the cost of goods sold. This merchandise account we then close by journal entry Sales Mdse. The debit side of the sales account contains then the actual net cost of goods sold, while the credit side contains net proceeds of sales, the difference representing the profit made. (Advocated by Prof. Sprague.)

(3) In the first place we must distinguish between valuing an inventory for the purpose of finding its value as an asset, and the valuing of it, for the purpose of showing profits made or loss sustained.

It is wrong in principle to value it at market price as it interferes with the correct showing of the profit and loss account. If we take the inventory for any reason, not for the purpose of rendering a correct profit and loss account, we are at liberty to use either form, cost or market value, but when we take inventory for the purpose of ascertaining the cost of sales, for the purpose of showing a correct profit and loss account, we must figure it at cost price only.

(4)
(a) Real Estate

Interest payable

To Notes Payable

(with proper and sufficient explanation)

(b) Cash

To Buildings

Fixtures

Merchandise (sales)

(with proper and sufficient explanation)

(c) Increase in valuation should not be taken into consideration at all. Sometimes, however, the increase is of a permanent nature, and not desiring to have a secret reserve it is shown. In such case the entry should be:

Real Estate

To Reserve (of some nature)

It is not advisable to credit it to the surplus account.

(d) Notes Receivable Discounted

Customer

To Cash

(with proper explanation)

or

Customer

To Cash

When contingent liabilities are recorded and shown on the books the former method is used with advantage.

(5) The absurdity of the first instance is perhaps well illustrated in the case of Stewart v. Gladstone where the presiding Justice decided that the clause "all particulars that might be susceptible of valuation should be stated in the annual accounts" does not comprise goodwill. This intangible asset has only a value when the business is sold.

With regard to the other case, where the merchant overpaid for the
goodwill, the sum which he overpaid is to be written off. This may be done in one sum or distributed for a period of say, two or three years.

(6) The Clearing House, through its connection with other clearing houses, unites all the banks of the city and of the country into one bank. By means of the clearing houses and the check system the community is enabled to transact the bulk of its business without the risk or annoyance of the handling of actual money to any great extent. If we consider that in New York City alone the daily clearings of checks will approximately average over $150,000,000.00, we can readily perceive the advantages that the Clearing House affords. Formerly each bank was obliged to settle with each other bank, this often required the carrying of large sums of money by messengers. Now the settlements of the debtor banks are made to the Clearing House, and the Clearing House settles the credit balances. These settlements are now made in Clearing House gold certificates, gold coin and United States notes, in all of our large cities. In New York the payments are nearly all made in clearing house gold certificates, representing gold coin on deposit in the Clearing House vaults.

In addition to this convenience the Clearing House fills another very important place. By the frequent bringing together of the officers of the banks important financial questions are discussed to the benefit of all.

By their systems of records of all clearings, by the recording of sworn statements of the various banks, and by their powers to examine any bank which is a member of the association, a very close watch is kept upon the condition of each bank. In various financial crises the clearing houses have proved themselves of inestimable value. The expenses of running the clearing houses are generally paid from a fund raised by an assessment upon the banks which varies in different cities. In New York all members pay an entrance fee in proportion to their capital, the sum ranging from $5,000.00 to $7,500.00. In Philadelphia each bank, upon becoming a member, is obliged to deposit securities with the Clearing House in proportion to its capital, as collateral for its settlements. Each bank is characterized by a number, known as the clearing house number, which number is used on all checks that the bank presents for clearing, as well as on all clearing house blanks.

The books of record, kept by clearing houses in general, are: Ledgers, statement books, and registers. In the ledgers are kept accounts with each bank to which are posted daily all the amounts entered on the proof sheet. Statement books are divided into weekly and quarterly and are made up from the statements of each bank. In the registers is kept a record of the balances paid to or received from the banks in settlement of daily exchanges, and also the kind of money. There are also, of course, record books of the several committees, and the few necessary books of the clearing house. (Based on Barrett’s Modern Banking Methods.)

(7) While the two terms are synonymous there is a distinction with regard to the legal part of the different agreements.

Dicksee makes no distinction whatever between a “Hire” or “Hire
The Journal of Accountancy.

and Purchase Agreement”. In fact throughout all of his books he calls it “Hire and Purchase Agreement” and defines it as follows:

“The general nature of a contract of this description is that, if the ‘tenant’ (the hirer) makes the necessary periodical payments regularly, the manufacturer agrees to hand over the ownership of the articles in question to him, at the end of the prescribed term upon the payment of a further nominal sum.”

As a matter of account this definition is very correct and no further distinction is necessary. From a legal point of view, however, there is quite a difference. Dawson in his “Accountant’s Compendium,” differentiates between the two terms as follows:

“Under a hiring agreement no property in the goods, so hired, passes to the hirer, but under a ‘Hire and Purchase Agreement’ a distinction must be drawn between those which involve an agreement to buy, and those which do not. There is an agreement to buy, if the hirer is bound to pay the whole of the agreed sums for hire, whether he returns the subject-matter before the expiration of the agreed period or not.”

(8) There are two classes of consignments, namely: Inward or outward. Consignments inward may be for the merchant’s own account, or they may be on the account of another. In the former the merchant is the principal in the latter he acts as agent. Consignments outward are chiefly on account of the consignor.

Consignments for a merchant’s own account are more properly termed Adventures. Similarly, transactions in which the merchant is a co-partner with others, are termed Joint Accounts or Ventures.

Consignments received to be realized for and on behalf of another are best treated as follows:

On receipt of the goods no entry is made in the books of account, with the exception of a memorandum. All charges, however, paid on the consignments are entered to the debit of a “General Consignment Account,” to which account would also be charged advances made to the consignor. All sales are to be credited to a “Consignment Sales Account.” When the consignee renders an account sales, the “Consignment Sales Account” is charged for outlay and net proceeds, while the “General Consignment Account” is credited for charges and advances transferred, the net proceeds being credited to the “Consignor’s Account.” Joint transactions are best treated by the manager in one of the two ways:

(a) To open an account under the heading “Joint Adventure to . . . . . . .” and to charge it with total cost, including all incidentals. This account to be credited with the gross amount realized; the balance, if any, to be transferred to “Profit and Loss Account” and the partner’s personal account for the respective shares of loss or gain.

(b) To open an “Adventure Account” for the manager’s share of cost, and for partner’s share of costs, and to divide gross proceeds after realization in the same manner. (Advocated by G. E. Stuart Whatley.)

76
The expenses of a manufacturing establishment are usually divided into three classes, viz.: “Manufacturing Expenses,” “Selling Expenses,” and “General Expenses” or “General and Administrative Expenses.”

Five sub-classifications of manufacturing expenses are:
(a) Maintenance of real estate, or rent of factory.
(b) Power, light, and heat.
(c) Depreciation.
(d) Repairs.
(e) Labor.

Five sub-classifications for selling expenses, are:
(a) Advertising.
(b) Commissions.
(c) Salesmen’s salaries.
(d) Shipping department expenses.
(e) Freight outward.

Five sub-classifications of general and administrative expenses, are:
(a) Officer’s salaries.
(b) Office salaries.
(c) Office supplies.
(d) General postage.
(e) Telephone and telegrams.

A mortgage bond is one the payment of which is secured by a mortgage on part or all of the property of the corporation. This deed of trust usually authorizes the trustees, in case of default in interest or principal of the secured bonds, to take possession of the property and either manage it or sell it, as may be provided, for the benefit of stockholders. It must be under seal and generally contains the following important provisions: Conditions of redemption, the method of transfer and exchange when payable to bearer, also whether or not a sinking fund is required. Mortgage bonds may be first, second, third, etc., depending on the security. If the mortgage bond is one secured on property upon which there is no other similar obligation it is a first mortgage bond, otherwise it is a second or third respectively.

The distinguishing features of a collateral trust bond is that it is secured by collateral—usually stocks and bonds of other corporations owned by the issuing corporation. These collateral securities are deposited with a trustee under an agreement setting forth all the conditions of the trust.

An income bond is a lien on the net income, but, unless profits are earned its interest is not an obligation of the company. Income bonds may be either cumulative or non-cumulative as to interest. The principal may be secured or unsecured.

The usual method of procedure in determining the net profit or loss of a business when the books have been kept by single entry is to compare the state of affairs of one period with that of another period.
The Journal of Accountancy.

The different results shown will disclose a loss or a gain. This is known as the Resource and Liability method. Lisle in his "Accounting in Theory and Practice" gives the following rule for determining profit or loss in a set kept by single entry, provided complete capital account have been kept:

"Prepare a statement of affairs as at the close of the period, and so ascertain the capital at the end of the period. Prepare a capital account, or capital accounts, if the business is a partnership, for the period. From the capital brought out by the statement of affairs deduct the capital shown by the capital account or the capital accounts prepared. The difference is the net profit for the period. If the capital shown by the capital accounts is greater than the capital shown by the statement of affairs, the result of the period's transactions is a loss."

Where the books have been kept by double entry the net profit or loss is determined by what is known as the Profit and Loss Account method.

The gross profit or loss is determined first, by the trading account. This account is debited for costs and credited for returns and inventory the difference shows gross profit or gross loss. The balance so ascertained is then transferred to the profit and loss account. This profit and loss account is, in addition to this balance, also charged with all debit balances of the nominal accounts, and is credited with all credit balances of the nominal accounts. Depreciations and reserves are also charged against this account the final balance, if any, will show a loss or a gain; a loss if a debit balance, a gain if a credit balance.

(12) By the term "Capital Expenditure" is meant, expenses incurred for the sake of acquiring, or completing the plant and equipment of an enterprise, with a view of placing it on a revenue-earning basis. Whereas by the term "Revenue Expenditure" is meant all those expenses incurred in connection with the earning of revenue.

In differentiating between capital and revenue expenditure we must bear in mind what the outlay is for. If it is such that will improve the equipment, and thus increase its capacity to earn revenue, it should be charged as capital expenditure, otherwise as revenue.

(13) With regard to the books the following additional ones would be used by a corporation:

(a) Minute book.
(b) Subscription book.
(c) Installment book.
(d) Installment scrip book. (In installment cases)
(e) Stock certificate book.
(f) Stock ledger.
(g) Dividend book.

With regard to accounts the following additional ones are some of the accounts that would appear on the ledger of an incorporated company, which would not be found in a ledger of a partnership firm: Capital stock, subscription, surplus, bond account, treasury stock, etc.
**C. P. A. Question Department.**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Voucher No.</th>
<th>Folio</th>
<th>Ledger Accounts</th>
<th>Administration Expenses</th>
<th>Relief</th>
<th>Sundrys</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>CASH BOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>
The Journal of Accountancy.

(15) By the term "Depreciation" is meant that:

"It is necessary, in addition to charging actual expenditure upon repairs and replacements to revenue, to charge against the revenue account of each year a further sum, with a view to (as far as possible) averaging the expenditure on revenue account over a term of years and that provision which it is so necessary to charge is usually called by the name 'Depreciation'." (Dicksee)

There are several methods of apportioning these charges, viz:

(a) An equal proportion of the cost may be written off each year; that is where we know the life of the asset and provided there is no residual value at the expiration of its life.

(b) By the second method the asset may be written down, from year to year, by deducting depreciation at a fixed rate per cent. upon the balance standing to the debit of the account at the commencement of the year.

(c) By writing off to revenue each year an equal sum sufficient at the expiration of the life of the asset to reduce the asset to zero. This is called the annuity system.

AUDITING.

QUESTIONS:

(1) State the general principles governing the discrimination between what constitutes proper charges against capital and what constitutes proper charges against revenue.

(2) Is there any reason why the goodwill carried as an asset on the books of a prosperous and growing manufacturing concern should be depreciated, amortized or otherwise written off, and if so what would be the effect of such depreciation, amortization or writing off?

(3) If a company, duly organized, acquires several plants that are found to be in a "run down" condition and to require extensive outlay for repairs and renewals to bring them to the required state of efficiency, should such outlay be charged against capital or against revenue? Give reasons.

(4) What do you understand by the term "Secret or Hidden Reserves"? Mention four (4) bona-fide uses of a secret reserve and state your opinion as to the propriety or otherwise of the creation of such reserves, giving reasons.

(5) In a case where the preferred shares of a company are issued under a provision that the annual dividends to which they shall be entitled shall be "cumulative," would you consider it necessary to show any arrears of dividend as a liability upon the balance sheet, or how would you deal with it?

(6) In the preparation of a manufacturing and trading account and a balance sheet, state on what basis the following assets should be valued:

(a) Raw materials.

(b) Product in process of manufacture.
C. P. A. Question Department.

(c) Manufactured product.
(d) Bills receivable.
(e) Accounts receivable.

Give fully your reasons.

(7) Give a brief description of the books of a corporation that should be examined and inspected by the auditor, and state the reasons why such examination or inspection should be made.

(8) In making an examination for an intending purchaser of a business, what are the principal matters that should be looked into?

(9) State the different kinds of audits, and describe them.

(10) How would you verify bills discounted for customers in auditing the accounts of a bank?

(a) Those in hand at the date of the balance sheet.
(b) Those re-discounted.

(11) What steps would you take to satisfy yourself that the book debts of a trading company were fairly stated in the balance sheet submitted to you for audit?

(12) What do you consider the proper way to handle cash in accounts? What advantages are there, if any, in banking each day the exact receipts of the previous day? How would you verify the correctness of a cash book, and insure the entry of all cash received?

(13) Give at least two (2) examples of contingent liabilities, and state how they should be treated in the books, and on the balance sheet.

(14) What duties and responsibilities has an auditor in connection with inventories of goods on hand?

(15) How should a leasehold be treated in the accounts of a company and how should it be shown on the balance sheet?

ANSWERS:

(1) If the expenditure incurred, has been of such a nature as to improve the earning capacity, in such case the charge should be against capital.

If on the other hand it was of such nature as to merely renew the wasting asset, to bring it back to that condition that it was at the beginning of a given period, it should be charged against revenue.

(2) There is no definite rule by which one can be guided whether to amortize and depreciate goodwill or not. Opinions differ as to the method to pursue. We have, however, an English decision in the case of WILMER v. McNAMARA 1895, where the Court has decided that even where the goodwill has actually declined in value it is not necessary to charge the shrinkage against profits.

The basis of this decision was that goodwill is "Fixed" capital, and there is no doubt that goodwill is the most permanent of all the other assets. The general custom, however, among English as well as American accountants is to write down the goodwill annually, especially so in pros-
The Journal of Accountancy.

perous times. It is quite true that by so doing a secret reserve is created the propriety or impropriety of which is entirely a different subject, and is considered in connection with some other question.

(3) The outlays so incurred should be charged against capital and not against revenue. The price paid for the plants was exactly that at which the assets were valued, the "run down" condition having been taken into consideration. For, if the purchasing price exceeded the actual valuation, it was not for the assets proper, but most likely for the goodwill. This expenditure was for the purpose of improving the plants, and thus increase their earning capacity, therefore it is a proper charge against capital.

(4) By the term "Secret or Hidden Reserves" is meant a reserve created by making excessive charges against revenue which are not justified, and which reserve does not appear on the books of the concern. Such reserve either undervalues the assets or inflates the liabilities. The bona

* uses of "Hidden Reserves" can be divided as follows:
  (a) To equalize apparent profits and dividends.
  (b) To extend the scope of the business.
  (c) To consolidate the undertaking.
  (d) To provide against unforeseen losses.

One of the chief arguments against the creation of "Secret Reserves" is that they rob the present generation of stockholders at the expense of posterity. A more powerful argument is that they open a loophole for fraud.

It is very difficult to give an exact opinion as to the propriety or otherwise of "Hidden Reserves". Considering the many abuses to which such a reserve is liable, and to which it is usually subject, one would think it improper, because unless the utmost confidence can be placed in the managers, there is great risk.

Dicksee well states: This most debatable subject is approached with considerable difficulty. Very much can be (and has been) said on both sides of the question, making it a most difficult thing to say what is really the correct course to adopt in any particular case; and, if the question be complicated, even where a particular case is judged upon its own merits, how much more difficult is it to lay down any general rules of universal application."

(5) Arrears in dividends in the case of cumulative preferred stock need not be shown among the liabilities of a balance sheet. Such arrears are only claims against profits earned, but not against the assets of a corporation. It is, however, advisable to append a foot note, stating this fact so that prospective purchasers of common stock should not be misled.

(6)
  (a) Cost price, provided market value is not lower than the cost price; otherwise market price.
  (b) At cost of production.
  (c) Cost price; if market value is lower, prevailing market value.

The reason is that as these values are for the purpose of showing cor-
C. P. A. Question Department.

rectly the profit or loss for the period cost value, or market value, if the latter is lower should be figured.

(d and e) They should be divided into good, doubtful and bad, so that each asset is carried only at that figure which it will reasonably realize.

(7) In addition to examining and verifying the ordinary books the auditor is to examine and inspect the following record books:

(a) The minute book. In this book he will find the by-laws by which the corporation is governed and also all resolutions adopted and whether they have been properly carried out.

(b) The subscription book, which will disclose how much stock was subscribed for and by whom.

(c and d) The stock ledger and transfer book. They will show the holding of each stockholder, or any of his transfers, and subsequent holders. By this means he will be in a position to verify whether the stock issued has been paid for, and in what cash or property, and furthermore whether it was in accordance with the wishes of the directors and stockholders.

(8) To see whether the assets or profits have not been fraudulently overstated, making the accounts unduly favorable.

To see whether the liabilities or losses have not been undervalued, which would also result that the accounts would appear unduly favorable.

In general to see whether the business of the vendor is worth purchasing, and if it is worth the price they ask for it.

(9) The principal kinds of audits are as follows:

(a) The Periodical Audit. This kind of audit covers a statistical period and that is why it is called "Periodical." Continuous Audits are the same as periodical ones, but they are taken up at shorter intervals.

(b) Completed Audits. By this is meant an audit begun after the trial balance has been completed.

There are, of course, investigations such as:

For the benefit of a prospective purchaser, endeavoring to find the exact value of the concern.

For the benefit of a retiring or incoming partner.

(10)

(a) By actual inspection.

(b) By tracing the transaction through, and becoming satisfied that the bank has received credit in respect of the bills re-discounted. It is also necessary to see that provision is made for contingent liabilities in respect of bills discounted and which are outstanding.

(11) Compare the list of book accounts with the corresponding ledger balances, noting any irregularities of payment that may suggest disputes.

Consult the managers of the concern with regard to accounts in doubt. In some cases it is advisable to select a few accounts, or take them at
random and make up a statement, which is to be forwarded to the customer asking him to O. K. the same and return to the auditor.

(12) The proper way to handle cash accounts is to have all cash receipts, of whatever nature, deposited in the bank and make all payments by check only. Petty cash expenditures to be handled by the "Imprest" system. The advantages derived from banking each day are:

(a) That it facilitates a speedy audit, and
(b) Enables to trace receipts with the deposits.

To verify the correctness of a cash book, and insure the entry of all cash received, one should check the entries of the cash book with the most independent source that the auditor can find available—say, counterfoils of receipt books, bank pass books, etc.

(13) Two examples of contingent liabilities are:

(a) Notes receivable discounted.
(b) Accommodation instruments.

Properly they should appear in the books of accounts and also on the balance sheet. In some cases they are omitted from the books of account, but included in the balance sheet by a foot note.

(14) He has to get a certificate from some one in authority as to the correctness of the inventory and on what basis it was valued. To see that the same is cost value, or where the market value is lower, it is the market value.

(15) A leasehold may be regarded as the purchase money paid for an annuity terminable at some definite time. It is then advisable, especially in short-term leases, to charge a proportionate part of the term against revenue each year. Leases for a long term of years should be treated under sinking fund plan. In the balance sheet the original cost, less the depreciation, should be shown.

**COMMERCIAL LAW.**

**QUESTIONS:**

(1) What is the liability of the parties to a certified check? Give reasons for your answer.

(a) What is the effect of an alteration of a negotiable instrument?

(2) What is the object of passing bankrupt laws?

(a) At the first meeting of creditors in the bankruptcy of Smith, all of the creditors, who had proved their claims, voted for Jones, as trustee. To this the bankrupt Smith objected, on the ground that Jones was not competent, and furthermore being his personal enemy, would act maliciously towards him. The referee, thereupon, disapproved of Jones and appointed another Trustee. Can a motion be made to set aside this appointment? On what grounds? Explain fully.

(3) State the essential feature of a partnership. Must each partner have an interest in both profits and losses?
C. P. A. Question Department.

(4) Define a negotiable promissory note.
(5) What is the liability of a general endorser on a promissory note?
(6) Define a corporation and name the different kinds.
(7) Define a contract and state what contracts must be in writing?
(8) A owes B $500.00 and offers his note for the amount for four months. B demands security and C, at his request, signs the following paper:
   "I agree to become responsible as surety for the payment of A's note for Five Hundred Dollars ($500.00) dated this day.
   When the note becomes due, A pays $100.00 on account and gives B a new note for $400.00 at four months. This last note is not paid, and B sues C on the above contract. Can C make any defense, and if so, what?

(8) Is the following instrument a negotiable promissory note?
   Chicago, April 8, 1908.
   Thirty days after William H. Taft is elected President of the United States, I promise to pay to the order of William J. Byran Five Hundred Dollars, at the First National Bank of Chicago, for value received.
   (Signed) Joseph G. Cannon.

Give reasons for your answer.
(9) Must the stock of an Illinois corporation be paid in wholly or in part before certificate of complete organization is issued, and, if so, in what may such payment be made?
(10) What is the statute of limitations and on what policy is it founded? Explain fully and mention three ways that will prevent the statute from running against an ordinary debt.
(11) State the procedure necessary in New York State for dissolving a corporation.
(12) Goods are delivered to a buyer "on approval" or "on sale or return". When does the property in such goods pass to the buyer?
(13) Give a brief account and show the connection between:
   Law merchant, common law, statute law.
(14) What is usury?
   Give the legal rates of interest in Florida, and state the result of an agreement to pay more than the legal rate.
(15) Define partnership. How many kinds of partnership are there, and wherein do they differ from one another?

ANSWERS:

(1) If the holder secures the certification the drawer is discharged from any liability, the bank becomes then the principal and only debtor. The check becomes the check of the bank and is good as long as the bank is solvent. This, however, is not the result if the drawer himself procures the certification before the delivery of the check. In such case he, the drawer, is not released from further liability.
The Journal of Accountancy.

An alteration in a negotiable instrument without authority after it had been signed, destroys its validity. That is true, however, only in case of a material alteration.

(a) The object of passing bankruptcy laws is to protect creditors, and also to help legitimate bankrupt firms to begin business anew, if they prove that the failure was not caused fraudulently.

A motion can be made to set aside such appointment. Creditors are the only individuals who have a right and vote in the selection of a trustee. Only if they fail to elect one, the referee can exercise the right to appointment. A trustee may be hostile to the bankrupt, yet this does not disqualify him.

(3) The essential feature of a partnership is the sharing of profits. Of course, the intention of the parties at the formation is to be taken into consideration. Not necessarily, but generally this is the case.

(4) A negotiable promissory note is an unconditional written promise made by one or more persons to pay to another person or to his order or bearer a sum certain in money at a specified time.

(b) His liability is that he will honor the instrument if the maker does not, provided it is duly presented for payment and upon refusal is duly protested.

(5) A corporation is an association of natural persons, or of artificial persons, or of both together, authorized by law to act as a unit under a corporate name, for the accomplishment of certain definite and prescribed purposes.

In general there are two kinds of corporations, viz.:

(a) Public, and

(b) Private.

There are, however, a good many subdivisions such as: Transportation corporations, stock and non-stock corporations, moneyed corporations, etc.

(6) A contract is an agreement between two or more persons, competent to act, founded on a sufficient and legal consideration, to do or not to do a certain thing.

The following contracts must be in writing:

(a) If the contract by its terms is not to be performed within one year from the making thereof.

(b) Contracts to answer for the debt of another person.

(c) Contracts containing a promise in consideration of marriage.

(d) Contracts promising the payment of a debt already discharged in bankruptcy.

(7) His defence would be a change in the contract of guaranty, without his knowledge or authorization.

(8) No; it is not. The most important element of a negotiable instrument is that the time is determinable. In this case the time is uncertain as William H. Taft may never be elected.

(9) One-half must actually be paid in. If in property the same shall
be appraised by the commissioners, who have to report the fair cash value thereof.

(10) By the term "Statute of Limitations" is meant that the law will refuse to enforce any action, not merged in a judgment or discharged by consent within a given time, by reason of the lapse of a certain time, which varies in the different states. Like the statute of frauds it has for its object the discouraging of litigation and the suppression of perjury.

The following acts may prevent the statute from running against an ordinary debt:

(a) A new agreement, which in some of the states must be in writing.
(b) By a payment on account of principal.
(c) By paying interest.

(11) A special meeting of the board of directors must be called on three days' notice, and a majority of the whole board must adopt a resolution recommending dissolution. The directors then call a meeting of the stockholders which must be not less than 30 nor more than 60 days after their meeting. Notice of this meeting must also be published at least once a week for three weeks successively next preceding the time appointed for holding the meeting. In order to secure dissolution an approving vote of two-thirds of the outstanding stock must be secured. After this vote is obtained certain forms of dissolution must be prepared and filed with the Secretary of State.

When these papers are accepted by the Secretary of State he issues, in duplicate, a certificate of their filing, one copy of which must be published once a week for two weeks, in one or more newspapers. The dissolution of the corporation is then complete. The directors act as trustees for winding up the business.

(12)

(a) When the buyer signifies his approval or acceptance to the seller, or does any act adopting the transaction.
(b) If he neither signifies his approval nor acceptance to the seller, but retains the goods without giving notice of rejection, then if a time has been fixed for the return of the goods, on the expiration of the time so fixed, or, if no time has been fixed, then on the expiration of a reasonable time.

(13) The common law is the oldest form of our law. It was derived primarily from the English law, and established here by the early settlers. It is made up of the rules and customs which were in use from time immemorial and came to be recognized as laws. Most of the common law is now embodied in court decisions.

Laws enacted by Congress or the Legislature are known as statute laws. In some instances these statutes change and modify the common law. This is often the case when the condition of the nation or the progress of the community requires it.

The law merchant, known also as commercial law is a branch of the civil law, and includes the law regulating the rights and relations of
persons engaged in trade or commerce, as the law of contracts or agency. It is a more modern outgrow.

(14) The taking of a higher rate of interest than that allowed by the statute of a particular state is called usury. The legal rate of interest in the State of Florida is 8%, the maximum rate is 10% (The penalty for usury is forfeiture of all interest.)

(15) A partnership is an association of two or more persons who have agreed to combine their labor, property, or skill, for the purpose of engaging in business and sharing profits and losses between them.

General and limited.

A limited partnership differs from a general partnership in that the liability of some of the partners is limited.

The following is a list of the successful applicants for the C. P. A. certificates of the State of Colorado, November 16, 1907: