A STUDY OF UNIFORM CERTIFIED PUBLIC ACCOUNTANT EXAMINATIONS, 1943-1954

APPROVED:

[Signatures]

Major Professor

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A STUDY OF UNIFORM CERTIFIED PUBLIC ACCOUNTANT
EXAMINATIONS, 1943-1954

THESIS

Presented to the Graduate Council of the
North Texas State College in Partial
Fulfillment of the Requirements

For the Degree of

MASTER OF BUSINESS ADMINISTRATION

By

Thomas R. Pickrell, B. B. A.

Jacksboro, Texas

August, 1955
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### Additional Notes

- The table lists the contents of a document, including chapters, sections, and references.
- Each section is numbered and linked to a specific page number.
- The table is structured in a clear and logical manner, making it easy to navigate through the document.

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CHAPTER I

INTRODUCTION

Statement of the Problem

The problem of this study is to classify for a topical index arrangement the questions that have appeared on the Uniform Certified Public Accountant Examinations prepared by the American Institute of Accountants for the years 1943 to 1954, inclusive; to prepare frequency tables of the questions, and to record other pertinent information relative to trends or techniques indicated in the content of the questions or in the nature of the questioning.

Purpose of the Study

The purpose of this study is to reveal the current thinking in accounting as indicated by the questioning of candidates for the CPA examinations and to prepare a topical arrangement of the questions that have appeared on the uniform CPA examinations for the last twelve years. The years covered by this survey have probably contributed more to accounting literature than any like number of years since the origin of bookkeeping in the Old World. Members of the profession are participating in national, regional and local organizations in increasing numbers; these associations in turn have become interested in the transition of accounting
knowledge, and have appointed committees to delve into various facets of controversial and newly-discovered subjects. Although the results of these fruitful years will not be discernible for some time, some immediate consequences of accounting research have crept into the questions prepared for the CPA examinations.

This study should be especially beneficial to college professors who are teaching Advanced Accounting, particularly CPA review or other preparatory courses, and to students engaged in such study. The term "students" is not limited to persons formally enrolled in college-level courses, but comprehends all persons interested in improving their accounting knowledge through the use of practical problems. The arrangement of this study is expected to serve as an expedient index for locating questions dealing with particular phases of certain general topics and will permit the selection of a question which contains the precise point or points that need emphasis at the time.

The frequency tables which are prepared for each of the four separate sections of the examination should indicate to a student or candidate the trends in subject matter over the twelve-year period, the material that is considered important enough to warrant a reappearance quite frequently, and the frequency of the recurring subjects.
Scope of the Problem

The questions in this survey are taken from the four separate sections of the Uniform Certified Public Accountant Examinations: Accounting Practice, Auditing, Commercial Law and Theory of Accounts. All questions are included that appeared on the examinations from May, 1943, to November, 1954, inclusive. Since the uniform examination has been adopted by examining boards of all forty-eight states, the District of Columbia, and four territories, and is prepared by one of the largest organizations in the accounting field, the American Institute of Accountants, it has developed to be a comprehensive coverage of the latest thinking in accounting evolution. It should serve well the purpose of this study—to provide an index of representative questions confronting the present-day accountant.

Source of the Data

Data for this study have been collected from the volumes published by the American Institute Publishing Company, Inc.; each book including the text of the Uniform Certified Public Accountant Examinations for a three-year period. Simultaneously with each book of questions published, the American Institute Publishing Co. Inc. has published a review of unofficial answers by H.P. Baumann and Spencer Gordon, and more recently by Thomas W. Leland, entitled Unofficial Answers to the Uniform CPA Examinations. This study has utilized this combination of publications for the years
1943 to 1953 inclusive. The June, 1954 and December, 1954 issues of *The Journal of Accountancy* have contributed the questions for the latest year, 1954.

**Treatment of the Data**

A separate chapter is devoted to each of the sections of the examination, and will include a frequency table pertaining to that phase of the questions. Each question has been read and analyzed to determine the important accounting concepts or problems involved and has been generally classified accordingly. In instances where the question includes two points that cannot be suitably classified under the same category, separate listings of that question are made under each of the principal points emphasized. Reference has been made to the unofficial answers where interpretation of the question might alter the solution to the extent of de-emphasizing one idea and stressing another point.

The first level of classification is a grouping of questions under a general subject, such as "Inventories" or "Contracts." The items that fall in each grouping are then listed chronologically with the newer ones being presented last. Following each question number is a concise synopsis of the main points of interest, and where possible, an indication is made as to any unique or special ideas that are brought out in the problem.

Conclusions will be drawn as to trends developed or developing in accounting education as indicated by the questioning of candidates.
CHAPTER II

ACCOUNTING PRACTICE

This chapter is devoted to the questions that appeared on the Accounting Practice section of the examinations. A table beginning on page 6 shows in summary form the subject break-down and the frequency with which those topics re-appeared. It will be noticed that all topics are not equal in scope, but the topics were selected in view of the limitations of this survey and took into consideration the topics usually discussed by accountants.

Many topics appear quite frequently while others are seldom repeated. Although no regularity of reappearance is discernible, the importance of the subjects, as viewed by the American Institute, is indicated by the number of times those subjects are included in the examinations.

The questions, condensed and alphabetized by topic heading, are as follows:

Annuities

Annuity for pension payments; lump sum requirement to supplement annual contribution. (November, 1952, I, 5).

Annuity; compound interest; present value; objective questions; also, computation of annuity payment. (May, 1954, I, 6).
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**Application of Funds**

Preparation of statement of receipts and disbursements and condensed statement of application of funds.

(May, 1943, II, 2).

Prepare a statement of application of funds; transactions include adjustments for depreciation, sale of equipment and receipt of subsidiary earnings.

(November, 1946, II, 2).
TABLE 1—Continued

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Preparation of formal statement showing source and application of funds, starting with the reported profit figure. (May, 1950, I, 4).

Preparation of statement of source and application of funds. (November, 1951, I, 3).

Conversion of income statement to cash basis; purchase of securities; recovery of bad debt. (November, 1952, I, 2).

Preparation of schedule showing change in working capital and source and application of funds of a partnership. (May, 1954, II, 2).
Banking

Proof of cash transactions by a bank teller. (November, 1950, I, 5).

Bonds

Transactions involving bonds sold at discount; amortization; repurchase of bonds; conversion into stock; redemption of bonds. (May, 1949, I, 2).

Sale of convertible bonds at discount; conversion of bonds into common stock; amortization of discount and expense. (May, 1952, I, 1).

Bonds; amortization using "bonds outstanding" method. (May, 1953, II, 2).

Branch Accounting

Transactions and adjustments necessary on branch and home office books; balance sheet of branch; income of branch. (November, 1949, II, 1).

Preparation of worksheets for home office and branch showing transactions, corrections and adjustments, income and expense accounts, and balance sheets; reconciliation of reciprocal accounts. (May, 1952, II, 3).

Reconciliation of inter-company accounts; parent company and two wholly-owned subsidiaries. (May, 1953, II, 3).

Budgeting

Preparation of a monthly cash budget using estimated sales, purchases, etc. (November, 1949, I, 2).
Computation of estimated gross profit in a manufacturing enterprise considering old product at increased cost and decreased volume or redesign of product at change in all costs and volume. (May, 1951, I, 3).

Computation of sales volume and dollar figure necessary to recover non-variable costs; three models of one product; variable and non-variable elements are given separately. (May, 1952, II, 2).

Computation of unit sales price necessary to earn budgeted profit, using various estimates for all costs. (November, 1953, I, 4).

Capital

Transactions involving reorganization of capital structure. (November, 1943, II, 2).

Computation of book value of shares owned at death of major stockholder; adjustments necessary for the particular instance. (November, 1943, II, 3).

Adjustments concerning capital surplus, earned surplus, dividends, treasury stock, reserves. (November, 1946, I, 1).

Correction of company's treatment of treasury stock, capital surplus, and bonds. (May, 1948, II, 2).

Reorganization; restatement of par value of stocks; preparation of balance sheet prior to and subsequent to reorganization. (May, 1949, II, 3).
Computation of book value per share of common stock; stock rights; federal income tax rule as to stock rights. (November, 1951, II, 2).

Reorganization; exchange of stock for bonds, appraisal of assets; propriety of various debits and credits to retained earnings. (November, 1952, II, 2).

Objective questions indicating effect on statements of various dividend transactions; stock dividend; stock split; ratios computed from Income Statement and Balance Sheet; acid-test ratio; current ratio; merchandise turnover. (May, 1953, I, 2).

Consignment Sales

Consignment sales to three consignees; preparation of an account sales for each of the three consignees. (November, 1947, II, 2).

Adjustments on books of consignor to reflect sales made to consignee. (November, 1950, I, 3).

Consolidated Statements

Adjustment of subsidiary's property account; adjustment of subsidiary's balance sheets prior to consolidation. (May, 1943, I, 2).

Investment carried at cost and at book value; parent and two subsidiaries, with each subsidiary having an investment in the other. (November, 1943, I, 1).
Investment carried at cost and at book value; a series of purchases of same subsidiary; intercompany profits in inventories. (May, 1945, I, 1).

Merger of two companies prior to sale of interest to parent company; preparation of balance sheet of parent and subsidiary. (November, 1945, II, 1).

Preparation of worksheet; parent purchases stocks and bonds of subsidiary; intercompany sales; intercompany construction. (May, 1947, I, 1).

Elimination of intercompany differences and correction of statements of three closely related companies. (May, 1947, II, 3).

Transactions involving purchase of a branch of a corporation; subsequent financial statements. (May, 1948, I, 1).

Investments at cost; entries necessary for consolidated balance sheet. (May, 1949, I, 1).

Preparation of income statement of each company and a consolidated statement of income of parent and subsidiary. (November, 1950, I, 4).

Accounting for the merger of three resort businesses into a corporation; acquisition of assets; issuance of stock and bonds; income statement and balance sheet after a period of operations. (May, 1951, II, 2).
Eliminating entries necessary for consolidated balance sheets; three different acquisitions of subsidiary stock by parent; treasury stock in subsidiary. (May, 1952, I, 3).

Computation of outside shareholders' equity in corporations which have mutual holdings. (May, 1953, II, 5).

Preparation of consolidated balance sheet with parent company owning 50 per cent preferred stock and 30 per cent common stock of subsidiary; dividend in arrears on preferred stock. (May, 1954, I, 4).

Preparation of consolidated balance sheet at date of acquisition where parent purchases 60 per cent of stock of subsidiary. (November, 1954, I, 4).

Corporation

Liquidation; sale of merchandise at discount; sale of land and property; settlement with stockholders. (May, 1947, I, 2).

Corrections

A correction of prior three years' income statement and the journal entry to correct all balance sheet accounts at the end of the last year. (May, 1946, I, 1).

Complete balance sheet and miscellaneous corrections including appraisals, treasury stock, contingent liabilities. (May, 1946, II, 1).

Recording transactions for the year in journal form to detect "unlocated difference"; trial balance is given on
a gross basis; that is, the totals of debits and credits are given. (May, 1951, I, 4).

Multiple-choice questions; correction of income statements for three years involving omission of accrued and prepaid items; misstatement of inventory; error in recording sale of equipment; uncollectible accounts; computation of goodwill based on profits and normal return on investment. (November, 1953, I, 1).

Audit adjustments for balance sheet and profit and loss accounts; cost accounting process; returnable containers with required deposit; adjustment of finished goods inventory. (November, 1953, II, 3).

Cost Accounting

The costing of molasses used in making alcohol with adjustments in price due to sugar content. (May, 1943, II, 3).

Estimated cost problem; one product through two departments. (May, 1944, II, 2).

Determination of final inventory costs of products manufactured through a process cost system. (November, 1944, II, 2).

Process cost; budget estimate with one main product and one by-product. (May, 1945, II, 2).

Distribution of selling, administrative, and general expenses to each size-class of order in a meat packing company. (November, 1945, I, 3).
Preparation of statement of cost of goods sold; materials by unit, labor cost with a retroactive increase to be considered; an applied overhead rate. (November, 1945, II, 2).

Standard cost system with variance used in a continuous process operation. (May, 1946, I, 2).

Process cost; three raw materials; five processes; two finished products; one waste product. (November, 1947, I, 2).

A miscellaneous problem involving some conversion costs as related to a loan to a bank under a trust receipt arrangement. (November, 1947, II, 1).

Distribution of factory burden; job order cost. (November, 1948, I, 1).

Analysis of unit costs at two different volumes of productions; fixed and variable costs. (May, 1949, II, 1).

Process cost; two departments with material added at beginning and during process in first department; inventories in process. (November, 1949, II, 2).

Standard cost; schedule of variance of actual cost from standard cost. (May, 1950, I, 1).

Statement of cost of goods sold and manufacturing costs; statement of income and expense for a manufacturing concern. (November, 1950, II, 3).

Computation of bonus for excess production on piece rate basis. (May, 1951, I, 2).
Process cost system; joint products and by-product; work-in-process inventories; statement of costs of goods sold and inventories. (November, 1951, II, 4).

Estimated costs adjusted to actual costs; skeleton ledger accounts are required indicating necessary adjustments. (May, 1952, I, 4).

Process cost system; manufacture of hammers through four departments using weighted average costing. (November, 1952, II, 3).

Process cost system with alternate possibility of by-products; gross profit assuming different situations. (May, 1953, I, 3).

Process cost system for vanilla and other flavoring extracts; statement of cost, units and process costs; rebate to be claimed for tax exemption on alcohol used for extract. (May, 1954, II, 3).

Standard cost system; compute and analyze the variances from standard cost. (November, 1954, I, 5).

Depreciation

Correction of books to a straight line depreciation basis with a reserve account and a schedule of gains and losses on disposal of assets, disregarding income tax procedures. (November, 1949, II, 1).
Expense

Rent; calculation of rent based on sales with minimum amount payable; refund in following years for excess as a result of minimum. (November, 1951, II, 1).

Fiduciary

Estate; statements of principal and income for an executor; trust fund. (November, 1943, I, 2).

Transactions involving transfer of accounts to receiver, operations as receivership; and a post-closing trial balance. (November, 1944, II, 1).

Estate; summary statement as to principal; summary statement as to income. (May, 1945, II, 1).

Trust accounting; land, buildings, and securities willed for the purpose of creating a library for a town; transactions for one year. (May, 1961, II, 3).

Receivership; statement of realization and liquidation. (November, 1952, I, 3).

Fire Loss

Determination of fire loss; profit and loss figures for interim period; current balance sheet figures. (November, 1946, II, 1).

Calculation of inventories lost in warehouse fire; incomplete data concerning sales, purchases, work-in-process; "lifo" method of pricing inventories. (November, 1949, I, 3).
Calculation of inventory for fire loss; insurance recovery under several co-insurance clauses. (May, 1951, I, 1).

Fixed Assets

Correction of property accounts taking into consideration appraisals, additions, and retirements. (November, 1944, I, 1).

Flood damage; adjustments for rehabilitation cost, flood loss, and depreciation. (May, 1953, II, 1).

Journal entries on buyer's and seller's books to record transfer of apartment house; computation of gain for income tax purposes. (November, 1954, II, 1).

Governmental Accounting

Adjustment to general fund and a balance sheet in proper form. (May, 1943, I, 3).

Transactions involving general fund, bond fund, and bonded debt group of accounts. (November, 1943, II, 1).

A complete cycle of the general fund, including revenue, expense, budget, balance sheet. (May, 1944, I, 2).

Segregation of accounts into general fund, special assessment, working capital, bond fund, general fixed assets, and bonded debt funds; closing entries for all funds. (November, 1944, I, 2).

Various funds; general, special assessments, bond, general fixed assets. (May, 1945, I, 3).
Worksheet for a garage fund and working capital fund. (November, 1945, I, 2).

Miscellaneous entries involving a general fund and revolving (working capital) fund. (May, 1946, I, 3).

Transactions involving general fund, plant fund, endowment fund; student loan fund. (November, 1946, I, 2).


Water department operating fund; sinking fund; capital fund; transactions for a year and ending balance sheets. (November, 1947, I, 3).

Operations of an expendable revenue fund; financial statements. (May, 1948, II, 4).

Transactions and balance sheet of general fund, an endowment fund and plant fund of a hospital. (November, 1948, II, 3).

Special assessment fund; transactions and final balance sheet. (May, 1949, II, 4).

Revision of balance sheet; separation of funds; analysis of change in current fund surplus. (November, 1949, I, 4).

Setting up an accounting system for a hospital and preparing financial statements following usual fund accounting practices. (May, 1950, I, 3).

Objective questions; funds affected by various transactions. (November, 1950, I, 6).
Hospital records; worksheet recording transactions and preparation of income statements and balance sheets for each fund. (November, 1951, II, 3).

Objective questions on operations of general fund of a city and effect on other funds of the system. (November, 1952, I, 4).

Municipal balance sheet; re-arrangement of accounts for acceptable reporting of general fund; separation of other funds from general fund. (November, 1953, I, 5).

Preparation of a balance sheet of a current fund of a municipality using schedule of cash receipts and disbursements and beginning balances; statement of changes in unappropriated surplus. (May, 1954, I, 5).

Preparation of skeleton ledger accounts and recording of transactions of a college; transactions include endowments. (November, 1954, II, 4).

Instalment Sales

Real estate; allocation of cost of land to various types of lots and statement of profit for year with income recorded as a percentage of cash received. (May, 1950, II, 2).

Recording instalment sales; recognition of profits as collected; repossessions. (November, 1953, II, 2).

Computation of gross profit percentages; net loss on defaulted accounts; schedule of realized gross profit. (May, 1954, I, 3).
Internal Control

Recommendations for maintenance of adequate internal control over a cigar and cigarette counter. (May, 1943, II, 1).

Inventories

Valuation of inventory; base stock method. (May, 1943, I, 1).

Preparation of a balance sheet from a given trial balance taking into consideration percentage of completion of various jobs of construction in progress. (May, 1947, II, 1).

Valuation by "retail method"; mark-ups; mark-downs. (May, 1949, II, 2).

Fire loss; computation of inventory of purchased units and processed units from incomplete data salvaged from the fire. (November, 1953, I, 2).

Investments

Purchase of stock; stock rights; stock dividends; stock split; proper accounting for the above transactions. (November, 1950, II, 2).

Stock transactions; preparation of statements showing dividend income, gain or loss on sale of securities, and the remaining costs of securities held for both financial and federal income taxation purposes. (November, 1954, I, 2).
Partnership

Dissolution; cash settlement to partners; taxable profit or loss; tax basis of assets. (November, 1943, I, 3).

Formation of partnership upon dissolution of corporation; purchase of stock; settlement with stockholder. (November, 1944, I, 3).

Dissolution of partnership; costs of liquidation; distribution of cash to partners. (November, 1947, I, 1).

Admission of new partners to existing partnership; goodwill; balance sheets. (May, 1948, II, 1).

Adjustments prior to admission of third party; capitalization based on profit rate of 10 per cent; admission of new partner; balance sheet. (November, 1949, I, 2).

Distribution of insurance premium costs to partners exclusive of each partner insured. (November, 1950, II, 1).

Formation of partnership; termination and formation of another; admission of new partners; distribution of profits. (May, 1951, II, 4).

Preparation of summary income statement; analysis of partners' capital accounts, and balance sheet; all from incomplete data. (May, 1952, I, 2).

Liquidation and distribution of cash to partners involving loss and gain on realization of assets. (November, 1953, I, 3).
Profits

Methods of distributing profits to the shareholders of a building and loan association. (May, 1953, II, 6).

Single Entry

Preparation of a statement of net assets from single entry data. (May, 1944, I, 3).

Prepare balance sheet and income account using information given, taking into consideration accrued and deferred items. (May, 1944, II, 1).

Conversion of statements to accrual basis from cash basis from single entry records. (November, 1945, I, 1).

Preparation of financial statements from single entry information. (May, 1949, I, 3).

Preparation of statement of profit and loss using single entry data available. (November, 1950, I, 2).

Single entry accounts; preparation of balance sheet and income statement from incomplete data. (November, 1951, I, 2).

Computation of inventory shortage assuming a certain gross profit rate using information from incomplete data. (November, 1952, II, 1).


Preparation of balance sheet and income statements from single entry accounts including sales on instalment. (May, 1954, I, 2).
Preparation of worksheet with adjustments to cash basis for a florist shop; cite the advantages to be gained by installing a simple set of books. (November, 1954, I, 1).

"Multiple-choice" questions; bank reconciliation; valuation of balance sheet items; determination of income statement amounts; all from single entry data. (November, 1954, II, 2).

Statements

A revision of a balance sheet as to form, content, and presentation. (May, 1944, I, 1).

A worksheet reflecting necessary adjustments and a corrected balance sheet. (November, 1948, II, 2).

Preparation of profit and loss statement, balance sheet and schedule of cost of goods manufactured and sold. (May, 1950, I, 2).

Preparation of worksheet showing adjustments, profit and loss and balance sheet. (May, 1950, II, 3).

Statement of Affairs

Formal statement of affairs; statement of estimated deficiency to creditors; statement of estimated amounts available to creditors. (May, 1948, I, 2).

Statement of affairs, estimated deficiency to unsecured creditors. (May, 1953, II, 4).

Preparation of statement of affairs and a statement of estimated deficiency to unsecured creditors. (November, 1954, II, 3).
Taxes, Federal Income

Corporation tax; adjustments; capital gains and losses; reconciliation of taxable income with book income. (May, 1944, II, 3).

Corporation tax form; ordinary income and expenses; capital gains and losses; bad debts; net operating loss carry-over. (May, 1945, I, 2).

Form 1040; individual general tax transactions; alimony; taxes; interest. (November, 1945, II, 3).

Corporation return; including instalment sales, repossessions, bad debts, and questionable taxable items. (May, 1946, II, 2).

Individual return, cash basis; partnership income; security transactions; capital gains and losses. (May, 1948, II, 3).

Objective partnership tax questions and individual partner's tax questions. (November, 1948, I, 3).

Objective questions; exchange of assets; deductibility of certain items. (May, 1949, I, 4).

Objective questions of a general nature including exemptions, liquidation of corporation, annuity, instalment sales, taxable income, closed corporation, rental income, travel expense, contributions. (November, 1949, I, 1).

Objective questions including deductions, losses, dividends, insurance premiums and proceeds. (May, 1950, II, 1).
Objective questions: income of individual; depreciation of buildings; basis of building; carry-back; basis in securities. (November, 1950, I, 1).

Objective questions; dependents; income; deductible expenses; contributions; exemptions; capital gains and losses. (May, 1951, II, 1).

Objective questions; taxable income; deductions; contributions; exemptions; primarily tax questions for the individual taxpayer. (November, 1951, I, 1).

Objective questions, including exemptions, annuity, stocks, bonds, bad debts, contributions, business expenses, estimated returns, rent income received in advance, repossession after improvements, exchanges of assets, gross income. (May, 1952, II, 1).

Individual income tax return; cash basis; salary; expense allowance; annuity; dividends; gift; contributions; gambling winnings and losses. (November, 1952, I, 1).

Partnership return; foreign branch; sale of securities; contributions; operating loss carry-over. (May, 1953, I, 1).

True or false questions; gross income and deductions including trust income, contest prizes, damages, dividends, gifts, profit on sale of breeding cattle; improvement of real estate by tenant in lieu of rent; exchange of like assets; write-down of inventory; loss on sale of building; amortization of machine used for government contract;
trusteed pension plan; interest on loan for purchase of municipal bonds; depletion allowance for oil properties; Canadian income tax; fines; casualty loss.
(November, 1953, II, 1).

Objective questions; basis of property; alimony; medical expenses; casualty loss; bad debts; partnership contributions; charitable contributions; capital loss; many other points. (May, 1954, II, 1).

Wasting Assets

Timber cutting and manufacturing; computation of capital gain on the cutting of timber; the valuation of ending inventories. (November, 1954, I, 3).
CHAPTER III

AUDITING

The auditing of records has achieved greater significance as the corporate form of enterprise has expanded together with the rapid growth of the entire economy. This expansion, which has separated management and ownership, coupled with greater governmental control has made it necessary that independent accountants certify to the propriety of the statements of these organizations.

There are no standards of auditing procedure that will fit in every instance, but an attempt has been made by the American Institute of Accountants and the American Accounting Association to formulate some standards of a general nature to serve as guides. Especially since the McKesson-Robbins scandal of the thirties has this movement been accelerated. Various reports have been suggested together with exceptions and qualifications to relieve the accountant of responsibility in circumstances beyond his control. At the same time, certain principles have been formulated in regard to auditing to insure that the auditor realizes his responsibilities and upholds the standards of the profession.

The idea of Internal Auditing is a recent development and has advanced in proportion to the demand for internal
control. Other topics that are considered worthy of thought are found in this chapter under their appropriate heading.

Beginning on page 31 is Table 2, in which is shown the auditing topics and their frequency of reappearance. The questions, on Auditing, condensed and alphabetized by subjects, are as follows:

Accounts Receivable

Confirmation; additional audit steps after second request forms to substantial accounts are unanswered. (May, 1943, 13).

Description of positive and negative method of confirming accounts receivable. (May, 1944, 9).

Examination of trade accounts for determining adequacy of reserve. (May, 1945, 6).

Columnar headings of a work sheet for the control of confirmation requests and replies. (November, 1945, 2).

Factors for which an auditor should be especially alert in reviewing a trial balance of the accounts receivable ledger. (November, 1946, 5).

Verification of accounts receivable of a department store. (May, 1947, 2).

Examination of customers accounts and satisfaction that they are authentic, when client will not permit written confirmation; effect of this refusal upon certificate. (November, 1948, 3).
TABLE 2
QUESTIONS ON AUDITING
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Confirmation; when it is impracticable to confirm; effect upon short-form report; selection of items for test confirmation. (May, 1950, 3).

Confirmation; purposes of confirmation; usefulness of replies; test basis of confirmation. (November, 1950, 2).

Confirmation; reasons for differences; procedure for investigation of differences; action to be taken on accounts with no reply. (May, 1953, 6).
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**Bad Debts**

Examination of reserve for bad debts; audit of accounts written off. (May, 1943, 9).

**Balance Sheet Audit**

Submit a complete audit program for a balance sheet examination of any business. (November, 1945, 9).

Reasons for checking income and expense accounts in addition to balance sheet accounts for certification of financial statements. (May, 1951, 9).
Outline of procedures for initial audit of balance sheet accounts of a manufacturing concern. (May, 1953, 2).

Bankruptcy

Procedures used to investigate voluntary bankruptcy condition of an individually-owned corporation; report to creditors. (November, 1953, 8).

Bonds

Bonds payable; audit procedures for confirmation and examination. (November, 1943, 9).

List matters of importance to be found in bond indenture and in confirmation from trustee. (May, 1950, 7).

Branch Accounting

Adjustment of inter-office accounts between home office and branch. (November, 1947, 5).

Capital

Analysis necessary for treasury stock verification as shown by client's records. (May, 1945, 2).

Locating discrepancy in number of shares of stock outstanding. (November, 1946, 3).

Steps to take in audit of stock outstanding beyond confirmation by transfer agent and registrar. (May, 1951, 1).

Surplus; procedures for audit of changes in surplus-premium on sale of stock, gain on sale of equipment, income
tax provision, dividends, pension payments; changes recommended in presentation of items. (November, 1951, 6).

Cash

Purpose of various procedures in an examination of cash receipts and disbursements. (November, 1943, 7).

Purpose of examining bank statements and canceled checks subsequent to close of accounting period. (May, 1944, 2).

Auditor's action where officers withhold information regarding checks written to cash. (May, 1944, 6).

Errors which arouse suspicion of fraud. Incorrect cross-footing and erroneous addition indicate irregularities. (May, 1944, 8).

Procedure for auditing large amount of undeposited cash and checks on last day of period. (November, 1944, 4).

Letter of confirmation sent to bank of client. (November, 1944, 8).

Types of checks which should be thoroughly scrutinized and examined in the audit of a bank account. (May, 1945, 5).

Lapping; an audit procedure which would disclose its existence. (May, 1946, 5).

Purpose of second bank reconciliation subsequent to balance sheet date. (May, 1946, 8).

Examination of petty cash fund carried as an imprest fund. (November, 1946, 7).
Records of cash and sales needed where cash sales are recorded on cash registers at time of sale. (November, 1947, 7).

Bank reconciliation and journal entries to reflect all adjustments needed. (May, 1948, 1).

Procedures for verification of cash on hand in a department store under a number of different conditions. (November, 1948, 1).

Reconciliation of cash transactions for one month and end-of-month reconciliation with bank. (May, 1949, 2).

Methods of making fraudulent disbursements; internal control procedures to prevent these methods. (May, 1949, 4).

Petty cash; describe imprest system; evaluation of internal control over a petty cash fund. (May, 1950, 1).

Bank reconciliation to determine loss; valuation and recommendations for internal control; auditing procedures to uncover fraud. (November, 1950, 1).

Audit procedures for verification of deposit in transit at date of audit cut-off date. (May, 1951, 2).

"Lapping"; simple illustration of "lapping" of cash receipts. (November, 1951, 1).

Controls over contributions for hospital by mail and personal appeals by volunteer workers. Suggestions of controls over receiving these contributions. (November, 1952, 3).
Bank reconciliation; entries for adjustments. (May, 1953, 1).

Outline steps to take to follow up apparent discrepancy of a bus company accounts wherein scrap engines from busses are unaccounted for. (May, 1954, 6).

"Kiting"; devise a good work paper form to detect "kiting"; a summary form of reconciliation is preferable. (November, 1954, 8).

Confirmation

Types of balance sheet items requiring written confirmation for an audit. (May, 1948, 2).

Reasons why confirmation of accounts receivable is more common than confirmation of accounts payable; a sample confirmation request for notes payable. (May, 1951, 5).

Containers

Describe purposes of steps an auditor should take in auditing the container record of a company wherein goods are shipped in valuable containers. (November, 1946, 6).

Corporation

Position for independent auditor to take when refused access to minute books in connection with his audits. (May, 1943, 10).

Examination of articles of incorporation and amendments thereto. (November, 1947, 1).
Name ten important items to be found in the minutes of the meetings of stockholders and board of directors, which would be of interest and significance to the auditor. (November, 1949, 9).

Corrections

Discovery of discrepancies and subsequent action to be taken. (November, 1952, 4).

Cost Accounting

Auditor's procedure in examining the correctness of the application of manufacturing overhead to departments. (November, 1948, 7).

Records needed in controlling and costing this particular process cost production; verification of work in process inventory, excluding physical count. (May, 1949, 8).

Depreciation

Action to take when depreciation figure on financial statements differs from depreciation charge in federal tax returns. (May, 1944, 10).

Purpose and manner of studying depreciation accounts by independent auditor. (May, 1945, 9).

Discounts

Outline of procedure for auditing cash discounts on sales and on purchases. (May, 1943, 1).
Audit procedure for examination of sales discount column on cash receipts register. (May, 1948, 3).

Ethics

Independence of opinion when auditor prepares general journal entry prior to audit examination. (May, 1943, 11).

Meaning of independence; rules of professional conduct pertaining to independence. (November, 1943, 1).

What are the legal responsibilities of a CPA as a professional auditor. (May, 1946, 3).

The position of an auditor with respect to signing of client's statements of expected earnings. (May, 1946, 7).

Acts contrary to ethical standards of the accounting profession. (November, 1946, 8).

Propriety of accepting a contingent fee for an engagement. (May, 1947, 5).

Propriety for a CPA to express opinion on financial statements of a company which he audits and in which he has a financial interest. (November, 1947, 10).

Circumstances under which a CPA, in expressing an opinion, will have acted in a manner discreditable to the profession. (May, 1948, 9).

Independence of an accountant in contrast to lawyers. (November, 1950, 5).

Essence of the rule of professional ethics dealing with contingent fees. (November, 1951, 8).
Objective questions regarding ethics in auditing, rules established by the professional organizations. (November, 1952, 3).

Situations given as to proper or improper conduct according to "Rules of Professional Conduct" of the American Institute of Accountants. (May, 1953, 4).

Expense

Name typical expense accounts that are so related to balance sheet items that they should be examined along with the balance sheet verification. (November, 1948, 8).

State the auditing procedures to be followed in determining the correctness of wages and sales allowances. (November, 1949, 7).

Program of work for auditing maintenance orders where minor repetitive items are charged to "standing order" numbers and unusual and major items are charged to special orders. (November, 1953, 5).

Submit a detailed explicit audit program setting forth the steps you believe are necessary in examining the following expense accounts: advertising, rent, salesmen's commissions, insurance. (November, 1954, 7).

Fixed Assets

Extent of auditor's examination into client's ownership of real estate and mortgages. (November, 1943, 2).
Capitalization or expense of removing old building; of property taxes; of expense pertaining to machines. (November, 1943, 4).

Audit procedures with respect to property additions from construction, purchase, and consolidation and to retirements. (May, 1944, 7).

Correct handling of transactions involving equipment changes; depreciation and trade-in; cost of construction. (November, 1946, 2).

Items to be expensed or capitalized in the purchase of land, razing of old building, construction of new buildings. (May, 1947, 6).

Extent of examination of fixed assets of a company under various circumstances as to prior audits. (May, 1949, 4).

Audit procedure for verification of fixed asset additions during the year. (May, 1949, 5).

List all audit procedures which might be taken to determine that all fixed asset retirements have been recorded on the books. (November, 1949, 2).

Give the procedure in verification of an account "Net Gain or Loss on Disposal of Fixed Assets." (May, 1950, 6).

State the general procedures by which an auditor can satisfy himself that all the owned fixed assets are recorded and that the recorded amounts are proper. (May, 1952, 4).
Machinery; capitalization of repair parts; handling of overtime in construction of own plant. (May, 1953, 8).

Government Accounting

Audit program for a town and a sports center. (May, 1947, 8).

Evidence needed to support entries to these accounts in the ledger of a city: Estimated Revenue, Appropriations, Encumbrances, Unappropriated Surplus. (November, 1947, 11).

Endowment fund; audit program for endowment fund and verification of securities. (November, 1950, 6).

List of forms and exhibits needed in a report covering the audit of a municipality. (November, 1953, 9).

Income

Audit procedure for examination of tuition income, rental income, club dues, donations, collections at church services. (November, 1943, 11).

Audit steps in checking income of an investment trust, public hospital, and a private school for boys. (May, 1945, 10).

List standard audit procedures for examination of: special assessments records of small municipality, security control records of a stock broker, rent control records of a real estate operations company. (May, 1946, 4).

Give audit procedure to follow in auditing income from guest rooms of a large transient hotel. (November, 1949, 8).
Inquiries

State five different things about which an auditor might inquire of non-accounting personnel. (May, 1952, 5).

Insurance

An audit procedure for examination of insurance accounts of a mercantile company. (May, 1943, 2).

Information to be obtained from fire insurance policies and included in working papers of a balance sheet audit. (May, 1948, 5).

Explanation of how examination of insurance policies would indicate the pledge of inventory for a loan or disposal of fixed assets without proper entry; purposes of review of sales returns and allowances subsequent to closing date. (November, 1951, 9).

Intangibles

Procedures to be followed in examining a "Patents" account. (November, 1945, 6).

Procedures necessary to satisfy yourself as auditor of a new account, "Formulas and Processes--$25,000." (November, 1952, 7).

Interim Auditing

Auditing procedures which might be undertaken prior to the balance sheet date in the case of an industrial concern. (May, 1943, 7).
Outline the principal work which could be done during November of a calendar-year client, a manufacturing company which you have audited for five years. (November, 1949, 11).

Prepare an audit program to cover interim work in November and subsequent year end work on accounts receivable and sales. (May, 1950, 3).

Internal Control

Control of disbursements by check among accounting department, treasurer's department; and other departments. (May, 1944, 5).

Purpose of reviewing internal control; comparison of first review of internal control with recurring reviews. (November, 1944, 6).

Provisions of a system of internal control in connection with accounts receivable. (November, 1944, 7).

Prepare a questionnaire to be used in the evaluation of internal control relating to property, plant, equipment. (May, 1946, 2).

A questionnaire evaluating internal control of cash receipts of a large wholesaler and manufacturer. (May, 1947, 3).

Items to be considered in the evaluation of internal control relating to accounts receivable of a merchandising company. (November, 1947, 4).
Methods used in abstraction of cash receipts in a company that sells cash and charge; internal control procedures to prevent such cases. (May, 1949, 3).

Questionnaire to determine if clients' systems of internal check are satisfactory with respect to (a) loans payable and (b) purchases and the relative disbursements. (May, 1949, 9).

Questionnaire on internal control and purpose of questions regarding cash receipts and disbursements. (November, 1950, 4).

Deficiencies in internal control of a manufacturing firm; purchasing procedures; distribution of payroll checks; bond subscription plan; return of bank statement to same person who signs checks. (May, 1951, 8).

Control over payables—all invoices marked "paid" before check is signed; credit control in a wholesale book firm and its effect upon auditor. (November, 1951, 3).

Payroll; partial questionnaire on payroll control given; additional questions and explanation of each required. (November, 1951, 4).

Questionnaire for internal control and what is accomplished by the existence of certain controls. (May, 1952, 7).

Division of duties among several employees to secure good internal control over incoming mail receipts on accounts receivable. (May, 1953, 7).
Cash registers for control over cash receipts; controls over payroll in a manufacturing process where a cost distribution section is separate from payroll section. (November, 1953, 7).

Inventories

Valuation; change from "first-in, first-out" to "last-in, first-out," and the disclosure of such in the audit report. (May, 1943, 5).

Valuation; change-over from "fifo" to "lifo" and presentation of such facts in financial statements. (November, 1944, 3).

Instructions for physical count of inventory. (November, 1944, 5).

Special procedures in taking inventory where packaged materials are stacked in solid formation. (November, 1944, 9).

Outline of procedures for taking physical inventories and purpose of these features. (May, 1945, 3).

Features to be especially noted by an auditor in the observation of a physical inventory. (November, 1945, 3).

Auditing procedures with respect to incoming and outgoing material records in a raw material inventory. (May, 1946, 6).

Physical count procedure; method of cut-off; adjustments necessary to physical count. (November, 1946, 1).

Instructions as to use of tag and stub in taking a physical inventory. (May, 1947, 4).
Methods of determining physical inventories of: pile of coal, grain in elevator, nails in bin. (May, 1948, 7).

Procedures for verification of inventory when auditor has observed the physical count. (November, 1948, 2).

Present a complete audit program for verification of a finished goods inventory of a manufacturer. (November, 1949, 1).

Prepare instructions for physical count of merchandise in a retail jewelry store. (November, 1950, 3).

Explanation of how you would determine the acceptability of a procedure of valuing inventory. (May, 1951, 3).

Procedures that might discover a development contract which the client is performing and not recording on books; presentation on balance sheet of such contract transactions. (May, 1951, 7).

Audit program for inventory shown on year-end balance sheet based on perpetual records; physical inventory was observed and adjustments made for October 31st. (November, 1951, 7).

Principal points for which to look in reviewing client's written plans, procedures, and instructions for taking the physical inventory. (November, 1952, 6).

Audit procedures for verification of inventory for coal dealer where coal is in piles; also procedures for testing credibility of cost of goods sold. (November, 1953, 1).
Audit of repair parts inventory which is extended at current market and reduced to cost. Questions that may be asked the senior in charge of audit. (November, 1953, 4).

Follow-up and adjustments of inventory account after observing December 15th inventory count, in preparation for December 31st closing date; perpetual inventory is assumed. (May, 1954, 1).

Steps in audit program for inventory observation of a branch of a variety store. (May, 1954, 8).

Audit procedures necessary in verifying and valuing work-in-process in a job order system. (November, 1954, 2).

List major items to cover in discussion of procedures to be followed in the count of physical inventory. (November, 1954, 5).

Procedures necessary to satisfy auditor of beginning inventory of a firm in which he is making the first annual audit. (November, 1954, 6).

Investments

Outline audit procedure for the examination of investment in stocks and income therefrom. (May, 1943, 3).

Examination and verification of bonds and mortgages held by client as investment. (May, 1945, 7).

Audit program of investments including stocks, bonds, and mortgages. (May, 1947, 1).
Transactions and adjustments necessary in recording purchases and sales of various investment items. (November, 1943, 5).

Reasons for listing serial or certificate numbers of securities in an examination; purpose of examining endorsements on paid checks. (May, 1949, 1).

Outline steps to take and documents to be examined in the audit of mortgage notes of individuals of an investment company. (November, 1954, 1).

Leases
Correct handling of sub-lease; depreciation charge where lease is for shorter period than expected life of property. (May, 1947, 7).

Items of interest and significance to an auditor in reading a lease of a client. (May, 1953, 3).

Liabilities
Trade accounts; steps necessary to determine that all liabilities for purchases are recorded. (November, 1943, 5).

An audit program covering current liabilities of a manufacturing corporation. (November, 1944, 2).

Method of determining if provision is adequate for coupons, trading stamps, etc. that are to be redeemed. (November, 1945, 4).

Examination of invoice register and payables. (November, 1945, 7).
A program for the verification of trade accounts payable. (November, 1947, 6).

Steps an auditor should take to satisfy himself that all liabilities are reflected or disclosed in the client's accounts. (November, 1948, 6).

Vacations and the accrual for vacation pay; discovery of a contract for employee vacations. (November, 1950, 7).

List and describe procedures by which an auditor might discover unrecorded liabilities. (November, 1952, 5).

Procedures to follow in confirming liability for payment of royalty based on units produced; certified report for the owner of the patent. (November, 1953, 3).

**Marketable Securities**

State the source of information needed in annual audit of marketable securities of a client, and principal ways of checking such information. (May, 1952, 2).

**Notes Payable**

List eight procedures, other than those used directly in auditing notes and mortgages payable, which aids in verifying the correctness of notes and mortgages payable. (November, 1949, 6).

Prepare in outline form an audit program for notes payable of a small, growing manufacturing corporation. (November, 1952, 1).
Notes Receivable

An audit program for instalment notes receivable of a retail furniture store. (November, 1961, 2).

Partnership

Audit procedures for examining the books of a company changed from a partnership to a corporation in mid-year. (November, 1943, 8).

Verification of liability to insurance companies of a partnership operating as an insurance agency. (November, 1949, 10).

Payroll

A program of audit of a payroll wherein one employee handles the complete payroll. (November, 1945, 5).

Methods employees may use in manipulating payrolls. (November, 1947, 3).

Payroll account should always zero out so client does not enter it in general ledger; complications an auditor may find in such a situation and remedies for each. (November, 1951, 5).

An audit program for the examination of hourly payrolls to be performed during "preliminary work"; additional auditing procedures during the "final work" of the audit. (May, 1954, 5).
Personnel and Compensation

List the records, reports, and other data as to personnel and compensation that are of interest to auditor in the annual audit of a print shop. (May, 1952, 3).

Post-Audit Data

Transactions occurring subsequent to balance-sheet date and prior to completion of audit. (May, 1943, 8).

Necessary disclosures and adjusting entries to show all information on financial statements, including events subsequent to trial balance. (May, 1950, 2).

Give a significant auditing procedure involving events which occurred after the balance-sheet date in connection with: cash in bank, accounts receivable, merchandise inventory, accounts payable. (May, 1952, 6).

Discuss how an auditor may detect post-balance-sheet events; discuss the auditor's responsibility for such events. (November, 1954, 3).

Postings

Explanation of trend away from detailed checking of the accuracy of posting; other procedures that give the auditor assurance of correct posting. (May, 1951, 6).

Prepaid Expenses

Journal entries to adjust for interest; organization expense, bond discount, and other deferred charges. (November, 1949, 3).
State what interest an auditor would have in these particular accounts which indicate a zero balance at the beginning and ending of year. (May, 1950, 5).

Purchases

Documents supporting an authorized payment for materials purchased. (November, 1943, 12).

Program to follow in special investigation of procedures followed in purchasing department of a large, well-organized company. (May, 1954, 7).

Real Estate

Verification of real estate owned by a real estate company. (November, 1944, 1).

Recurring Audits

Name seven categories of information which should be maintained in the permanent working paper file rather than in the working papers for an annual examination. (May, 1954, 2).

Reports

Examples of "supporting evidence" mentioned in the short-form report. (May, 1943, 4).

Is a detailed examination of all profit-and-loss accounts, a check of clerical accuracy, and a proof of cash sufficient to warrant unqualified report? (November, 1943, 3).
State some exceptions that may be contained in an auditor's report. (November, 1943, 10).

Essential elements of auditor's report and a typical short-form report. (May, 1944, 1).

Exceptions: no confirmation of receivables, no examination of minutes, refusal to give access to books of subsidiary. (November, 1944, 10).

Analyze and discuss: "In accordance with generally accepted auditing standards applicable in circumstances and included all procedures which we considered necessary." (May, 1945, 4).

 Criticize the short-form report given and compose a corrected report. (November, 1946, 4).

Draft a short-form report (1) without qualifications, and (2) with qualifications as to scope of audit. (May, 1952, 1).

A short-form report for an audit wherein at client's request, receivables are not confirmed, and inventory is not observed. (November, 1952, 2).

Situations where the exceptions negative the opinion; scope of audit as limitation of opinion; short-form audit report with exception. (November, 1953, 2).

State effect upon opinion of inconsistencies such as: change from "fifo" to "life," change from sales basis to instalment basis, accelerated depreciation, sale of subsidiary during year. (May, 1954, 4).
Representations

Purpose of clients' written representation in the verification of statements; features covered in representation; typical representation. (November, 1945, 1).

Inventory certificates signed by client; purpose of such representation. (May, 1953, 5).

Reserves

Factors as a basis of correctness of reserve accounts. (November, 1943, 6).

Auditor's objective in examining reserves on balance sheet and related charges in the profit-and-loss statement. (May, 1944, 3).

"Secret reserves," meaning of and manner of creation; independent auditor's attitude toward such reserves. (May, 1945, 8).

Determine adequacy of reserve for bad debts of a chocolate manufacturer who sells to small candy manufacturers. (May, 1948, 8).

Prepare an audit program for verification of "reserve for product guarantees"; a provision for guarantees on washing machines, assuming this is your first audit of this company. (November, 1949, 5).

Royalty

Audit procedures to determine royalty due patent holder under contract by manufacturer to pay certain sum in royalty per unit sold. (May, 1948, 6).
Sales

Instalment sales; inclusion in income of all carrying charges in the year sale was made; effect on auditor's certificate. (May, 1943, 12).

Auditing steps in making a sales "cut-off." (May, 1944, 4).

Savings Accounts

Outline for auditing loans of a savings and loan association where savings accounts are used as collateral. (November, 1953, 8).

Scope

How far is an auditor entitled to probe into matters beyond, or before, the period which he is engaged to audit, and for what purpose, if any, should he do so? (May, 1949, 10).

Statements

Explain "window dressing" as applied to financial statements. (November, 1947, 2).

Taxes, Federal Income

Corrected computation of taxable income of a corporation; including adjustments for depreciation, bad debts, sale of equipment. (November, 1949, 4).

Income and deductions for a partner of a firm, wherein
firm is on a fiscal-year basis and taxpayer is on a calendar-
year basis. (November, 1950, 8).

Summary of data to be reported in schedule (partners' shares of income and credits) of the federal partnership return. (May, 1951, 4).

Taxes, Social Security

Principal requirements of social security legislation as applied to payroll and penalties for failure to comply with these rules. (May, 1943, 6).

Outline for verification of state and federal social security and unemployment taxes. (May, 1954, 3).

Terminology

Criticize the form and terminology of the listed balance sheet. (November, 1947, 8).

Unearned Income

Audit program for use in verification of unearned income from subscriptions of a magazine publishing company. (November, 1948, 4).

Verification

State items which should be verified by written confirmation in audit of stock brokerage firm. (May, 1945, 1).

Documents which should be inspected in the verification of land, real estate tax, renegotiation settlement, rent
expense, registered stock held by client as collateral. (November, 1945, 8).

What items are needed as evidence to support entries in sales register, sales return register, invoice register, payroll, check register? (November, 1947, 9).

General principles or factors to be considered in determining the extent of a test or sampling verification in an annual audit. (May, 1949, 6).

Documents or evidence to be examined in verifying advertising expense, royalty expense, repair expense. (May, 1950, 8).

Significance of "cut-off"; steps to take in verification of sales, accounts receivable, purchases, inventories, and accounts payable to apply "cut-off." (November, 1954, 4).

Working Papers

Prepare audit working papers of: factory building and reserve for depreciation, profit-sharing bonus, treasury stock, royalty income, sales and cost of sales of building lots sold by a realty company. (May, 1946, 1).

Purposes of preparing and preserving audit working papers. (May, 1949, 7).
CHAPTER IV

COMMERCIAL LAW

The purpose of this section of the examination is to test the candidates' understanding of the legal principles involved in business transactions. The accountant quite often is called upon to handle matters of this type, and certainly, he must be aware of his and his clients' responsibilities in regard to legal questions that arise from financial dealings. The basic rules of commercial law are necessary for an accountant to know in order to efficiently conduct business. Further, his business is to advise and review the operations of other businesses, so this need becomes a necessary part of the ever-increasing knowledge that an accountant is expected to know. He gains this knowledge through study and experience.

There are certain basic legal questions that are consistently repeated on each examination. The table beginning on page 64 reveals that several topics are never omitted and others are very seldom missed. This uniformity should make it easier for a candidate to prepare for the examination, but he should be familiar with all the legal topics concerning business transactions.

The questions on Commercial Law, condensed and arranged alphabetically by subject, are as follows:
Agency

Liability of principal; brokers; factors; attorney at law; attorney in fact; execution of negotiable paper by an agent. (November, 1943, 1).

Death of principal; subagents; unauthorized delegation of authority. (May, 1944, 1).

Delegation of authority by trustee to agent; auctioneer; limitations to powers of auctioneer. (November, 1944, 12).

Minor; conveyance of land by agent; undisclosed agent. (May, 1945, 4).

Liability of agent doing gratuitous acts; failure to disclose principal; agent's liability when express orders of principal are not followed. (November, 1945, 5).

Creation of agency as to third parties; implied authority of an agent; agent's endorsement of negotiable paper. (May, 1946, 12).

Agency profits; delegation of authority by agent; death of principal; infant as an agent. (November, 1946, 1).

Factor; "del credere" agent; scope of powers of an agent; delegation of authority by agent; undisclosed principal; descriptive title. (May, 1947, 4).

Termination of agency by law; liability of agent; duties; profits of agency. (November, 1947, 3).

Notice of revocation; authority of agent in unforeseen circumstances. (May, 1948, 5).
### TABLE 3

**QUESTIONS ON LAW**

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Undisclosed principal; delegation of authority to sub-agent. (November, 1948, 12).

Agent's authority to receive payment for goods; agent's authority to borrow money for principal; agent's duty not to deal with principal as an adverse party. (May, 1949, 5).

Relationship of principal and agent; creation of an agency; notice to agent and to principal. (November, 1949, 1).

Acts performed in the usual scope of agency powers is binding as to third parties; disobedience and disloyalty of agent. (May, 1950, 8).

Liability of undisclosed principal; consequences of undisclosed principal. (November, 1950, 4).

Warranties that may be made by agent to third parties in sale of personal goods; agency relationship in writing; termination of agency relationship by operation of law. (May, 1951, 5).
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Implied duties of agent and principal to each other; meaning of terms: an agent coupled with an interest, independent contractor, ratification, ostensible agency, election. (November, 1951, 4).

Who may appoint an agent? Remedies of third party against agent who had no authority as agent; a "del credere" agent. (May, 1952, 4).

Duties of principal to agent; an agent's lien; relationship of public accountant and client. (November, 1952, 6).

Commingling of funds by agent; obedience of instructions by agent; termination of agencies; revocation by principal and effect on third parties. (May, 1953, 1).

Agent's authority; ratification of an agent. (November, 1953, 7).
Payment by third party to agent where no express authority exists for collection by agent; commingling of funds by agent; gift by third party to agent and principal's rights to the gift. (May, 1954, 4).

Duties and obligations of agent to principal; undisclosed principal; agency coupled with an interest; irrevocable agency; holding of principal for crimes committed by agent. (November, 1954, 4).

Bailment

Definition of bailment; difference between bailment and sale; warehouseman and his liability. (November, 1943, 10).

Three necessary elements of bailment; warehouse receipts; gratuitous bailee; legal seizure of property in hands of bailee. (May, 1945, 6).

Negotiable warehouse receipt; mechanic's lien; difference in sale and bailment. (November, 1945, 2).

Difference between bailment and sale; principles common to bailments; general classes of bailments; sale of bailed goods; recovery of damages to bailed goods. (May, 1947, 10).

Stolen goods pawned; a workmen's lien; third parties' claim on bailed goods. (November, 1947, 7).

Essential terms of a public warehouse receipt; non-negotiable warehouse receipt; liability of warehouseman. (May, 1948, 11).
Goods in possession of warehouseman; insurance on goods in warehouse; bailment of returnable containers. (November, 1948, 6).

Warehouseman; right of purchaser of warehouse to increase storage charges; negotiable warehouse receipts. (May, 1949, 7).

Bailment as distinguished from mortgage, pledge, sale; subject matter of a bailment; responsibility of expenses incurred in bailment. (November, 1949, 4).

Bailee's lien, sale of items by bailee. (November, 1950, 9).

Warehouseman; liability of warehouseman when goods are destroyed by fire. (May, 1953, 10).

Degree of care in bailment for sole benefit of bailor; reimbursable expenses in bailment for sole benefit of bailee; care in a bailment for mutual benefit. (May, 1954, 9).

Bankruptcy

 Debts excepted from discharge in bankruptcy proceedings; insolvency as defined by the Bankruptcy Act; a secured creditor under Bankruptcy Act. (May, 1943, 4).

 Selection of trustee; distribution of partner's estates; liability of stockholders and officers of corporation in bankruptcy; right of trustee in life insurance policy. (May, 1944, 11).

 Claims not discharged; insolvency and bankruptcy; secured claims in bankruptcy; differences between dividend paid by a
trustee in bankruptcy and dividend paid by a corporation. (May, 1945, 12).

Proof of claim; priority of debts; method of reporting on the accounts of a bankrupt. (May, 1947, 6).

Six acts of bankruptcy; insolvency partnership bankruptcy; right of set-off. (November, 1947, 5).

Insolvent debtor makes general assignments to creditors; outcome of assigned property in bankruptcy; voluntary bankruptcy; discharge from bankruptcy. (May, 1949, 9).

Claims discharged by act of bankruptcy; judgment and subsequent bankruptcy. (May, 1950, 9).

Mortgagee as an ordinary creditor; insolvency as an act of bankruptcy; involuntary versus voluntary bankruptcy; liability of bankrupt in later years. (May, 1951, 6).

Involuntary; referee in bankruptcy; order of payment of obligations. (November, 1952, 12).

Who cannot become voluntary bankrupts; involuntary bankruptcy; exemptions allowed a bankrupt. (May, 1953, 7).

Preference in claims; timing of filing petition for reorganization; statements which a petition for reorganization must set forth; points to be considered by court in allowing arrangement for pending bankrupt. (November, 1954, 6).

Banks

Legal relation of depositor to bank; right of set-off in bank. (May, 1944, 7).
Depositor's duties to examine returned checks; certified checks. (November, 1944, 11).

Carriers

Limiting carrier's liability; proper delivery; failure to deliver. (May, 1944, 9).

Liability of common carrier; liability at point of destination beyond reasonable time; discrimination in freight rates; liability of carrier for stolen goods. (November, 1945, 9).

Defenses of carrier; failure to pick up goods at point of destination; delivery to wrong person; discrimination in freight rate. (May, 1946, 9).

Theft of goods in transit; C.O.D. goods; liabilities for delivery to wrong person. (November, 1946, 10).

Common carrier's liability; warehouseman; failure to deliver. (November, 1947, 12).

Liability of carrier if goods were destroyed: by fire caused by lightning, riot of 100 people, by disgruntled employee, fire caused by negligence of an employee of carrier, improper packing by shipper. (November, 1949, 7).

Difference between a private and common carrier; liability for damage while in transit; occasions when a common carrier of goods may justifiably refuse to accept goods for transportation. (May, 1952, 9).

Negotiable bill of lading; right of parties to a bill of lading. (November, 1952, 2).
Definition of common carrier; distinction between private and common; "act of God"; "public enemies"; "deviation"; common carrier's lien; liability for injury to passengers. (May, 1954, 5).

Contracts

Effect of stamping information on invoices, which purchaser pays with no mention of inserted information. (May, 1943, 5).

Define arbitration; provision for arbitration; appointment of arbitrators; outcome of arbitration. (May, 1943, 6).

Discharge; tender; employment whereby a definite sum plus a "fair share of profits" is the consideration. (November, 1943, 2).

"Creditor beneficiary" recovery by third party; contract without sufficient consideration; contracts that must be in writing under Statute of Frauds. (November, 1944, 3).

Five essential elements; contracts by mail; enforceable contract. (May, 1945, 9).

Relinquishment of part of a debt; time of contract sent by mail; instalment deliveries; a memorandum of sale under the Statute of Frauds. (November, 1945, 4).

Ways in which contract may be discharged; define joint and several contracts; entire and severable contracts; discharge of original debt for a lesser amount. (May, 1946, 1).
What is a tender; does impossibility of performance
discharge liability; withdrawal of offer; lease with option
to purchase. (November, 1946, 5).

Effect of fraud upon a contract; recourse of defrauded
party; breach of contract; lease and option to purchase.
(May, 1947, 1).

Consideration; discharge of contract to pay money;
rights of parties to contract where strict compliance not
followed. (November, 1947, 3).

Revocable offer; acceptance of offer; transmittal of
acceptance; breach of contract and remedy of restitution.
(May, 1948, 2).

Rejection of offer, subsequent acceptance; acceptance
bearing change or addition. (November, 1948, 1).

Contract to hire in one year; each party's rights; each
party's subsequent actions. (November, 1948, 11).

Labor contract for benefit of employees; accidental dis-
ability on contractor and effect upon his contracts; restitu-
tion upon refusal to render promised service. (May, 1949, 3).

Objective questions concerning contracts, acceptance;
surety's right of subrogation; restrictive endorsement.
(May, 1949, 9).

Objective questions as to consideration in contracts;
infants in agency; instalments in a sale. (May, 1949, 11).

Four requirements of an enforceable contract; assignment
of rights under a contract; contracts that must be in writing.
(November, 1949, 2).
Circumstances that make a contract void and voidable. (May, 1950, 1).

Contracts by minors; disaffirmance of contracts by minors; minor's authority to give power of attorney. (November, 1950, 1).

Error in calculations and desire to rescind contract; material costs increase prior to construction and enforcement of promise to pay. (May, 1951, 4).

Offer to contract; revocation of offer; agreement not to do a certain act; employer's agreement to terminate employees from contract if employee will not seek employment elsewhere. (May, 1951, 10).

Consideration; contracts in which money is paid in return for not doing a certain act; sale of business and agreement not to compete; enforceability of agreement never to re-enter the business. (May, 1952, 6).

Sales contract; offer and acceptance of offer. (November, 1952, 3).

Non-performance due to various reasons: sickness, increase in costs, legislation, bankruptcy of client. (November, 1952, 7).

Factors that may render inoperative mutual assent to terms of contract; express and implied contracts; quasi-contract; executory and executed contracts. (May, 1953, 4).

Sales contract involving a minor; subsequent action and recourse by both parties. (May, 1953, 9).
Define tender of performance; application of partial payment to several outstanding debts; partial payment of interest bearing debt and division between principal and interest. (November, 1953, 2).

Doctrine of substantial performance; receipt; release; mutual release; general release; general and special damages for breach of contract; liquidated damages. (November, 1953, 3).

True or false questions; promise without consideration; act legally bound to do as consideration; discharge of debt by partial payment; improvements by lessee and right to remove them at end of lease. (November, 1953, 12).

Oral contract and subsequent breach of contract suit; completion of contract by both parties and later desire to rescind. (May, 1954, 3).

Payee offers to accept partial payment and forgive balance; recourse for debtor when payee sues for balance. (May, 1954, 8).

Conditional; disproportionate consideration; assignment of rights and consideration; bilateral and unilateral contracts. (November, 1954, 1).


Valid, void, and voidable contracts; contract entered into by accounting corporation and refusal by client to pay
for services on defense that a corporation was not empowered to practice accounting. (November, 1954, 7).

Corporation's relationship with stockholder on which stock a dividend has been declared. (May, 1943, 3).

A "de facto" corporation; a "de jure" corporation; stockholder's right to profit; consolidation. (November, 1943, 3).

Stockholder's relationship; bank's liability in accepted negotiable instruments made payable to corporation as credit to president's personal account. (May, 1944, 5).

Voting rights and dividends on stock pledged as security; stolen stock transferred to innocent parties and their rights thereof. (November, 1944, 4).

Cumulative voting; proxy; treasury stock. (May, 1945, 3).

Essential information in a certificate of incorporation; distinction between capital and capital stock; powers of board of directors. (November, 1945, 1).

Explain difference between a corporation and partnership; between capital and capital stock; sale of stock below par. (May, 1946, 5).

A "de facto" corporation; a corporation's accommodation endorsement; partnership of corporation. (May, 1947, 3).

Essential records of corporation; records as evidence in judicial proceedings; stockholder's preemptive rights; voting by proxy. (November, 1947, 9).

Propriety of payment of salary to directors and to treasurer; compelling of directors to pay dividends. (May, 1948, 7).

Can corporations form a partnership? Transfer of stock without registering on books; rights of existing stockholders to acquire new stock. (November, 1949, 9).

Objective questions concerning dividends; voting; treasury stock. (May, 1950, 11).

Distinction between corporation and partnership; corporation's liabilities per contracts of promoters. (November, 1950, 3).

Rights of shareholder; status of shareholder as to dividends declared; proxy voting; revocation of dividends. (May, 1951, 1).

Definition of terms: cumulative preferred stock, participating preferred stock, no-par stock, preemptive right of stockholder, cumulative voting. (November, 1951, 7).

Promoter; corporation's liability for contracts of promoter; quorum; board of directors. (May, 1952, 5).

An "ultra vires" act and who may legally object; contracts between corporation and a director of the corporation. (November, 1952, 5).
Contract corporation and joint-stock association; municipal; quasi; domestic; foreign; bindings of promoter. (November, 1952, 9).

Restrictions on the adoption of corporate names; "dummies"; closed corporation; voting of treasury stock. (May, 1953, 5).

"Blue Sky" laws; rights and privileges of a stockholder; records that should be kept by a corporation. (November, 1953, 5).

Duties of board of directors; voting trust agreement; improper or illegal use of corporate powers which minority stockholders may restrain. (November, 1954, 9).

Court Procedure

Testimony given by a CPA; qualifying him as witness; presentation of facts to CPA. (May, 1943, 12).

Debts

Application of one payment against a series of debts; dispute over amount owed and check accepted as "full payment." (May, 1944, 2).

Various accounts between debtor and creditor; account stated. (May, 1948, 10).

Statute of limitations; time statute begins to run; effect of offer on debt barred by the statute. (May, 1948, 12).
Employment

Coverage of Fair Labor Standards Act; minimum wage rate; overtime regulations. (November, 1954, 10).

Ethics

President of corporation engages a public accountant to examine books of company; accountant’s compensation; relationship; rights of the accountant as to records prepared by him. (November, 1948, 4).

Accountant’s information about client as testimony in civil trial; statutes general relief of accountant’s obligation not to disclose confidential information. (November, 1954, 11).

Fiduciary

Irrevocable trusts; executor’s duties; legal restrictions of trusts; intangible wasting asset and trustee’s accounting for it. (May, 1943, 8).

Settlor; trustee; trust property; beneficiary; duties and accountability of trustee. (November, 1943, 7).

Valid express trust; trust of real property; trust of personal property; trust funds. (May, 1945, 7).

Duties of trustee; responsibilities as to payments chargeable to principal and income; items chargeable to principal and to income. (November, 1945, 6).

Define executor and administrator; duties, powers of executor and administrator; executor’s account. (May, 1946, 11).
Status of deposit made out to "Jones in trust for Allen" when Jones dies intestate; status of special payroll fund in event corporation goes bankrupt while employee checks are outstanding in the amount of the fund. (May, 1949, 6).

Trust; true or false questions; creation of trust; trustee; beneficiary; revocable trust; constructive trust; charitable trust; trust funds; termination of trust. (November, 1951, 11).

Objective questions; trusts; inter vivos; testamentary trust; trustee; express trust. (May, 1952, 11).

Trusts; true or false questions; infant as a trustee; death of a trustee; resignation of trustee; implied authority; distinction between principal and income. (May, 1953, 12).

Insurance

Insurable interest in property; credit insurance. (November, 1943, 9).

Meaning of 80 per cent co-insurance clause; recovery when co-insurance rate not maintained; assignability of insurance policy; insurable interest in life insurance. (November, 1944, 5).

Open policies; when does insurance become binding; what constitutes delivery of policy; losses covered by fire policy; co-insurance; insurable interest. (May, 1946, 8).

Is a contract of insurance assignable? Nature of insurance contract; rights of creditors of insured before and
after fire loss; rights of trustee in a bankrupt’s insurance policies. (May, 1947, 9).

Right of proceeds of insurance on mortgaged property; on sold but undelivered property; what insured should do in case of fire loss; proof of loss. (November, 1947, 6).

Loss due to fire with 80 per cent co-insurance clause; assignment of insurance contracts. (May, 1948, 8).

Insurable interest; a judgment as insurable interest. (November, 1948, 8).

Objective questions; mortgagee’s rights to fire insurance proceeds; smoke damage; co-insurance; life insurance. (May, 1950, 12).

Insurable interest for fire and life policies. (November, 1950, 7).

True or false questions; insurable interest; misrepresentation; change of beneficiary; incontestible clause; co-insurance clause; recovery of claim. (November, 1951, 12).

Valued policy; open policy; insurance binder; distinction between insurance and wager. (May, 1952, 8).

Co-insurance and recovery; proceeds of life insurance policy on one member of a partnership. (May, 1953, 6).

True or false questions; insurable interest; consideration; oral contract; assignment of fire insurance policy; co-insurance clause. (May, 1954, 11).
Intangibles

Transfer of patents, trademarks, copyrights; life of each; value of this knowledge to the accountant. (November, 1943, 5).

Interest

Law of what place governs payment of interest; interest on open accounts; on an "account-stated"; beginning and ending of interest. (November, 1944, 8).

Charge of interest on open accounts; legal rate; interest on debt payable on demand; interest on undated note. (May, 1948, 9).

Leases

Relationship of landlord and tenant; provisions of a lease; covenants and conditions in a lease; tenant's right upon foreclosure by mortgagee. (May, 1943, 1).

Fixtures removable by tenant; time limit of tenant's right of removal; removal of building. (November, 1944, 9).

Creation of a lease; principal provisions of a lease; assignment and sublease; easement; license. (May, 1945, 10).

Lessor repudiates contract to sell after lessee has made extensive improvements. (November, 1949, 6).

True and false statements concerning joint tenancy; tenants in common; life tenant; wills. (November, 1949, 11).

Oral lease; termination by one party; undisclosed information having a bearing on success of business; statement as
to size of quarters erroneous but in good faith and consequence. (May, 1951, 9).

Ways a lease may be terminated; assignment of lease; sublease. (May, 1952, 10).

Mortgages

Distinguish between mortgagor and mortgagee; purchase money mortgage; liability of mortgagor. (May, 1946, 10).

Priority of mortgage over other claims; foreclosure of leased building; second mortgage. (November, 1950, 11).

Negotiable Instruments

Does a designated account to be charged destroy the negotiability of a draft? (May, 1943, 11).

A negotiable note indorsed to creditor in excess of debt; indorsement "without recourse." (November, 1943, 4).

Original holder as recipient of note after several indorsements; ambiguous information on negotiable instrument. (May, 1944, 3).

Alteration of interest rate; holder in due course; release of indorsers on note; certified check. (November, 1944, 2).

Promissory notes; notice of dishonor; restrictive indorsement. (May, 1945, 1).

Accommodation party's liabilities; infancy as a defense against a holder in due course. (November, 1945, 3).
Certificate of deposit; mere acknowledgement of a debt; a negotiability of a note payable in foreign currency. (November, 1945, 12).

Bills of exchange; parties to a bill of exchange; liability of parties; accommodation party. (May, 1946, 2).

Is "value received" essential to validity of a negotiable note? A note payable in instalments. (November, 1946, 4).

Certified checks; indorsers; holders in due course. (November, 1946, 12).

Essentials of negotiable bill or note; implied warranties of indorser; when title passes on note; date of interest on undated note; holder in due course. (May, 1947, 2).

Meaning of "certify" as applied to bank checks; certification of check in excess of depositor's balance; dishonored note held by unlawful holder. (May, 1947, 12).

Essentials of validity of note; powers of executors, trustees, etc. with reference to issuing and indorsing negotiable papers; indorsement without recourse; alterations; various examples. (November, 1947, 2).

Relationship between bank and depositor. (November, 1947, 4).

Recovery by holder in due course; liability of indorsers; signature on note not clear as to capacity. (May, 1948, 1).

Indorsements; transfers to two indorsees, severally; holder in due course, instrument signed by several joint makers. (May, 1949, 1).
Ambiguous instruments: conflict of words and figures, undated, conflict between written and printed provisions; defenses available to maker against a "holder in due course." (November, 1949, 3).

True and false statements; "holder in due course"; qualified indorsement; option of payment; obligation of drawee bank; post-dated check; restrictive indorsement. (November, 1949, 12).

Indorser; "holder in due course"; warranties implied by indorser. (May, 1950, 2).

Various clauses which render an instrument either negotiable or non-negotiable. (May, 1950, 6).

Promissory note with bonds as security; subsequent failure to pay and obligations of debtor of deficiency. (November, 1950, 5).

Consideration for a note; holder in due course; amount of recovery by holder in due course. (May, 1951, 3).

Bill of lading; distinction between straight and order bill of lading; holder in due course; liability for fraudulent bill of lading issued by employee of railroad. (May, 1951, 7).

True or false questions; negotiability; no interest rate specified; no maturity date; payable on contingency; other items that determine negotiability. (May, 1951, 12).
Certified check; certified by drawer for payee; holder in due course; dishonored by bank; recourse. (November, 1951, 3).

Holder in due course of a dishonored negotiable instrument and his responsibility to indorsers and the liability of indorsers under different situations. (November, 1951, 8).

Holder in due course; consideration; recovery; conditional instrument. (May, 1952, 1).

Advantages of negotiable instrument as contrasted to non-negotiable; requirements of negotiability; various indorsements. (May, 1952, 7).

Dishonored check; drawn for improper amount; holder in due course. (November, 1952, 1).

Holder in due course; protest; certified check; non-payment and holder's required steps; dates to present for payment. (November, 1952, 10).

Consideration; defective title of person who negotiates an instrument; "nominal" and "real" defenses with respect to negotiable instruments. (May, 1953, 3).

Effect of a note to fictitious person; protest of a bill of exchange; blank indorsement; special indorsement; sight draft accepted but time of payment changed by payer. (November, 1953, 4).

True or false questions; holder in due course; accommodation party; liability of indorsers; lack of consideration;
forgery as a defense; incapacity to contract as a defense; qualified indorser; general indorser. (November, 1953, 11).

Fraud; consideration; holder in due course; sum certain; acceptance by drawer. (May, 1954, 2).

Purchase of instrument after maturity; issuance of signed check with amount in blank and subsequent fraudulent amount entered. (November, 1954, 3).

Partnerships

Limited partnership; its object; is it recognized by common law or statute? (May, 1943, 7).

Status of ex-partner who holds note of firm for his share when remaining partners are bankrupt. (November, 1943, 11).

Dissolution and order of discharge of obligations to creditors. (May, 1944, 6).

Agreement by creditors to manage insolvent partnership; debts of partners and claim to assets in bankruptcy. (November, 1944, 10).

Dissolution by bankruptcy; death; limited liability of partners. (May, 1945, 8).

Liability of firm due to fraud by one partner; liability of new partner for obligations incurred before his admission; does payment for services make a partner? Authority of one partner. (November, 1945, 8).
Effect of expiration of definite term; conveyance by one partner; does share in profits indicate a partner? (May, 1946, 4).

Partnership liabilities; death of partners. (November, 1946, 11).

Partnership holding real estate; dissolution by act of partners; compensation of partner; death of partner with personal liabilities. (May, 1947, 7).

General questions as to partner's property, liability, rights; kinds of partners. (November, 1947, 1).

Cash distribution to partners at dissolution; sale of interest by one partner, and rights of succeeding partner. (May, 1948, 3).

Dissolution of partnership by court of equity; sharing of profits; bankruptcy of partnership and creditors claim; books of account of a partnership. (November, 1948, 2).

Objective questions as to division among partners of losses; admission of new partner; liability of corporation for dividend; promise to pay a "sum certain" in note. (May, 1949, 10).

Existence of a partnership beyond the definite term; ways to dissolve a partnership. (November, 1949, 5).

"Marshalling of assets"; liability of various partners. (May, 1950, 3).

Binding of partnership by one partner; joint liability; right of contribution by a partner. (May, 1950, 10).
True or false questions; dissolution; admission of new partners; liability of partners. (May, 1951, 11).

Sharing of profits; binding of firm by one partner; withdrawal of a partner before partnership articles provide for termination. (November, 1951, 2).

Acts which require unanimous consent of all partners; dissolution and distribution of assets; creditors' rights. (November, 1952, 4).

Limited and general partners; limited partnership restrictions. (May, 1953, 8).

Sharing of profits; binding of partnership by one partner; assignment of one partner's interest to another. (November, 1953, 3).

Respects in which the legal status of partnership differs from that of corporation; special capacity of partner as to dissolution; distribution of assets to partners in dissolution of a limited partnership. (November, 1953, 6).

Binding of firm by one partner; partner's liability for firms debts; contribution. (May, 1954, 6).

Objective questions; who may be a partner; partnership property; limited partnerships. (November, 1954, 12).

Property

Estate for life; life tenant; joint tenancy; estate in entirety; tenancy in common; partnership realty. (May, 1944, 12).
Parts of a deed; granting and habendum clauses; date deed is effective; five usual covenants in a deed; warranty deed; quitclaim deed. (May, 1947, 11).

Objective questions; indicate as to real or personal property such items as fixtures, stock, mortgage, wheat, certified check, wire fence, coal deposits, a checking account, elevator in building, tree. (May, 1952, 12).

Deeds: warranty, quitclaim; recording of deeds; consideration in transfer; conveyance of real property to infant. (November, 1952, 11).

Adverse possession to acquire title; major types of tenancies between landlord and tenant; quitclaim deed and warranty deed. (November, 1953, 10).

Right acquired in finding personal property; difference between "accession" and "confusion." (May, 1954, 7).

Sales

No specific agreement on price prevents statement from being contract of sale. (May, 1943, 10).

Distinction between "sale" and "contract to sell"; title of goods "on sale or return." (November, 1943, 8).

Bulk; passing of title; stoppage in transit. (May, 1944, 8).

Straight bill of lading; order bill of lading; verbal contract of sale and enforceability. (November, 1945, 7).

Stoppage in transit; unpaid seller in possession of goods; implied warranty as to incumbrance. (May, 1946, 3).
Sale of stolen personal property; delay in picking up contracted goods; stoppage in transit. (November, 1946, 2).

Sales by samples; documents of title; breach of warranty; non-existent goods transferred, unknown to both parties. (November, 1946, 6).

Sales by sample and description; sale of perishable goods; right of lien. (May, 1948, 4).

Stoppage in transit; breach of warranty because of inferior goods; special order of an item manufactured solely for the customer and Statute of Fraud's bearing on same. (November, 1948, 3).

Buyer's refusal and liability therewith, to pick up agreed goods within reasonable time; affirmation of value of goods compared to warranty; delivery in instalments. (May, 1949, 2).

Breach of warranty; untrue statements to induce buyer to buy; effect of good faith of seller in making an untrue statement on his liability for breach of warranty. (November, 1949, 10).

Conditional sales contract and subsequent action against purchasers from the buyer; recourse against the first buyer. (May, 1950, 7).

Implied warranties of a seller of goods; stoppage in transit. (November, 1950, 2).

Recourse of seller on default of buyer; settlement of deficiency due to foreclosure and subsequent sale. (November, 1950, 6).
Stolen goods after seller has segregated them and loss to whom; loss in transit, F.O.B. shipping point; C.O.D. shipments. (November, 1950, 8).

Passing of title; resale by buyer to a third person and denial of delivery by original seller; failure of buyer to take physical possession in reasonable time. (May, 1951, 2).

Definition of: future goods, fungible goods, good faith purchaser; effect on a sale of specific goods which have been destroyed; remedies of an unpaid seller. (November, 1951, 1).

Instalment sale to infant, default on payments, and suit to collect after purchaser became of age; value of defense of infancy and statute of limitations. (November, 1951, 6).

Distinguish between a "sale on trial" and a "sale or return"; risk of goods during transit; warranties made by indorser of an order bill of lading; rights of buyer when seller delivers larger quantity of goods than called for by contract. (May, 1952, 3).

Resale of "sold" merchandise; goods on trial basis and responsibility of loss. (November, 1952, 8).

Explain "a purchaser in good faith and for value"; title acquired where vendor has voidable title; a document of title. (May, 1953, 2).

True or false questions; express warranty; sale by sample; unpaid seller with possession of goods; conditional
sales contract; foreclosure; risk in conditional sale contract. (May, 1953, 11).

Action for damages out of non-performance of sales contract; remedies for breach of warranty; measure of normal damages for seller's breach of warranty. (November, 1953, 1).

Rule of "caveat emptor"; exception to rule; unpaid seller's legal remedies against the buyer; rescinding of contracts in part and in entirety. (May, 1954, 1).

Difference between a conditional sale and chattel mortgage; requirements of a conditional sale. (November, 1954, 2).

Sales on approval and passing of title; does silence as to terms of invoice imply acceptance by buyer? (November, 1954, 3).

Statute of Frauds

General provisions of statute; sale by sample; when title passes. (May, 1945, 2).

General provision of Statute of Frauds as applied to sales; special order and the statute; written memorandum; passing of title to third party by indorsement of bill of lading. (May, 1947, 8).

Sale of personal property and the statute; auction sale and the Statute of Frauds. (May, 1950, 4).

Written contracts, memorandum of purchase, down payment. (November, 1950, 10).
Statute of Frauds as a defense in an oral agreement to convey land into a corporation. (November, 1951, 10).

Surety

Exoneration; contribution; indemnity; subrogation; war's effect on obligation between citizens of opposing nations. (May, 1943, 2).

Release of principal debtor; discharge of principal debtor in bankruptcy; composition agreement release. (May, 1944, 10).

Death of surety and right of creditor; liability of surety for unknown partner; infancy and surety relations. (May, 1945, 11).

Co-surety and right of contribution; distinction between suretyship, guaranty, indemnity. (November, 1945, 10).

Contribution by co-surety; extension of time on note; primary liability of surety; subrogation rights of surety. (May, 1946, 7).

Right of contribution by surety; guarantor's liability; indemnity provisions for surety against principal. (November, 1946, 9).

Guaranty; warranty; release of surety by creditor; changes unknown by surety; surety's right of contribution. (November, 1947, 11).

Recovery from surety and principal both; discharge of principal; collateral as security and creditors right to attach. (November, 1948, 7).
Change in responsibility of principal and discharge
of surety; subrogation of priority claims in bankruptcy
paid by surety; indemnity in case of default. (May, 1949, 4).

Date statute of limitations begins for surety; contribu-
tion from co-surety; surety's liability on a partnership's
default, after retirement of one partner. (November, 1949, 8).

Contract of suretyship; rights of surety as to exon-
eration; contribution, indemnity, subrogation.
(May, 1950, 5).

Collection from surety without selling pledged bonds;
extension of time on debt and liability of surety; liability
of each surety when co-surety exists; right of contribution.
(May, 1951, 8).

Difference between surety and guarantor; refusal to
accept valid tender of payment by creditor and effect as to
surety; co-sureties; collateral for debt.
(November, 1951, 5).

Default by principal and failure to notify surety;
partial payment by principal and release by creditor; right
of contribution of a co-guarantor who pays the full amount.
(May, 1952, 2).

Define contract of suretyship and a contract of indemnity;
surety's right of contribution; remedies against co-sureties
if one surety pays the debt. (November, 1953, 9).
Taxes, Federal Gift

Federal gift tax; basis for tax; exclusion; specific exemption. (May, 1945, 5).

Taxes, Federal Income

Capital gain or loss distinction; constructive receipt of income; instalment sales; corporate taxes based on income. (May, 1943, 9).

Classification of various items into business expenses, personal expenses, or capital expenditures. (November, 1943, 5).

Deductibility of life insurance premiums on a policy covering executive of a corporation when wife is beneficiary; when corporation is beneficiary. (November, 1943, 12).

Cash basis versus accrual basis in stated instances. (May, 1944, 4).

Taxes paid by tenant; treatment of property taxes, interest, special assessment, and repairs. (November, 1944, 1).

Excess-profits tax; definition of various terms as used for federal excess-profits tax purposes. (November, 1944, 6).

Deductible expenses; valuation of inventories; value of stock in payment of salary. (May, 1946, 6).

Returns to be filed for an estate and trust; joint returns; valuation of inventories; exchange of bond for stock. (November, 1946, 8).

Net operating loss carry-over and carry-back; "constructive receipt" of income and when to report it. (May, 1947, 5).
Adjusted basis; substituted basis; basis after gift; capital gains and losses. (November, 1947, 10).

Options available to taxpayer; sales of securities; deductibility of attorney's and accountant's fees; partnership distribution of profit. (May, 1943, 6).

Effect on taxable income of sale of capital assets. (November, 1948, 5).

Report of income on accrual basis; accounting for lawsuit; year to report settlement of lawsuit. (November, 1948, 9).

Reporting income of a CPA on cash basis where fee is received in one sum covering three years work. (November, 1948, 10).

Objective questions as to exemptions; capital gain and losses; bad debts; damages; rental income. (May, 1949, 12).

**Taxes, Social Security**

Social security deductions by two employers; eligibility for benefits under social security laws. (November, 1945, 11).


**Wills**

Incorporation of document by reference; attestation clause; laws governing intestate property; duties of executor. (November, 1944, 7).
Will; codicil; probate of will; debts of testator.

(November, 1946, 7).
CHAPTER V

THEORY OF ACCOUNTS

This section of the examination is designed to test the extent of the candidate's knowledge of accounting theory and his ability to apply that knowledge. Instructions preceding the test specify that arguments in support of the answer given should be submitted in order for credit to be allowed in those cases where a difference of opinion exists.

The subject matter appearing in this section is quite broad in its coverage; consequently, a large number of different topics appear in the chart. With such an unrestricted area to cover, there is not as much repetition of topics as in other sections of the examination; however, some subjects were repeated quite often, such as "Fixed Assets" and "Inventories." Questions regarding taxes have crept into the Theory section and have appeared quite frequently in the last few years.

Recent developments in accounting and theoretical arguments for and against those changes make good testing material for this section. A good study habit is to read the current literature of the national organizations of accounting.

Beginning with page 101 is a table showing the topics that were covered on the examinations. Those topics, in
condensed form and arranged alphabetically by heading, are as follows:

Accounts Receivable

The method of accounting for customer's balances using the "accounting stub plan" employed by department stores and public utilities. (May, 1944, 6).

List eight captions or titles under which receivables might appear on balance sheets; state reason for using subclassifications. (November, 1951, 2).

Analysis

Preparation of explanation of nature and purpose of the income statement and of the balance sheet, including their limitations. (May, 1951, 3).

Appraisals

Recording appraised value of property and subsequent depreciation procedures. (May, 1943, 3).

Method of handling adjustment to appraisal value and subsequent depreciation. (November, 1943, 7).

Establishing appraisal value of fixed assets; depreciation of such assets. (November, 1946, 12).

Entry to record receipt of land given as a gift assessed at a certain price. (November, 1947, 7).

Bad Debts

Methods of handling bad debts and reserves, collection expenses, and recoveries. (November, 1946, 7).
### TABLE 4

**QUESTIONS ON THEORY**

**FREQUENCY TABLE**

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**TABLE 4--Continued**
Explaination of debit balance in "Allowance for Doubtful Accounts"; methods used in estimating loss on doubtful accounts; bad debt expense as a direct deduction from sales. (May, 1953, 1).

Bonds

Treatment of interest in arrears received after paying "flat" price for bonds in default as to interest. (May, 1943, 4).

Items included in the "unamortized bond discount and expense" account; amortization of this account in the case of serial bonds. (November, 1944, 3).

Two methods of amortizing bond discount and premium; treatment of interest on bonds sold for construction purposes. (May, 1946, 1).

Sale of bonds at discount or a premium at maturity; treatment of interest for both methods. (May, 1947, 4).

Branch Accounting

A description of typical branch and home-office accounting. (November, 1944, 5).

Budgets

Advertising budgets; amount based on sales; reserve account used and closed at end of year. (May, 1945, 7).
Bulletins


Capital

Method of stating capital section where stock is no par, stated shares. (May, 1943, 2).

Treasury stock; valuation of no par common stock held in treasury under certain conditions. (November, 1943, 8).

Stock dividend declared out of accumulated earnings; later reversed to absorb deficit; give opinion. (May, 1945, 1).

Nature of "capital surplus"; five sources of capital surplus. (May, 1946, 4).

Presentation on balance sheet of treasury stock acquired for issuance to employees. (May, 1948, 11).

Recording of transaction in which convertible bonds are converted into stock of corporation. (November, 1948, 7).

Presentation on balance sheet of a discount on common stock, initial issue. (November, 1948, 8).

Reappraisal of "patent" account, and increasing capital stock and surplus by "write-up." (November, 1950, 3).

Capital stock; reasonableness of various suggestions for reduction of contributed capital. (May, 1953, 6).
Propriety of paying of non-cumulative preferred dividend out of accumulated earnings even though the current year shows a loss; treatment of premium on sale of treasury stock. (May, 1954, 6).

Cash

Presentation on balance sheet of restricted cash in banks and overdrawn accounts. (May, 1948, 5).

Classification

Cases in which intent of the company affects classification of certain assets. (November, 1944, 2).

State treatment and reason for: reserve for fire insurance, surplus invested in plant, advances received on sales contracts, call for retirement of preferred stock one month after balance sheet date, coupon book sales to customers, prospective loss on purchase commitments. (November, 1945, 3).

Name accounts which might appear in the following subsidiary ledgers: manufacturing expense, selling expense, general expense. (November, 1946, 2).

A selection of all current assets and current liabilities out of a group of accounts. (November, 1946, 11).

A series of accounts for classification on the balance sheet. (May, 1947, 5).

Objective type questions; multiple answers; construction costs; cash appropriated for specific purpose; income taxes;
lease improvements costs; premium on bonds payable. (November, 1947, 1).

Expense or capitalizc; machine installation, transportation charges, revision of shop layout, taxes on land. (November, 1947, 4).

Consignment Sales

Explanation of functions of the accounts used for consignments inward and consignments outward. (November, 1944, 7).

Entries to record transactions on books of consignor and consignee; presentation on both balance sheets. (May, 1953, 9).

Consolidated Statements

Accounting involved when a parent purchases an investment in a subsidiary in excess of its equity in the net assets. (November, 1946, 10).

What relationships made advisable the preparation of consolidated statements? State purpose of preparing these statements. (May, 1947, 11).

Intercompany sales and profit on inventory; construction with intercompany material. (November, 1947, 5).

Presentation of intercompany notes, discounted at bank. (May, 1948, 7).

Conditions to be met to warrant preparation of consolidated statements of related companies. (November, 1949, 8).
Purchase of stock of parent by wholly-owned subsidiary; presentation on balance sheet; recording of dividends. (May, 1951, 9).

Circumstances under which it is necessary to consolidate statements. (May, 1953, 10).

Limitations of the usage of consolidated statements. (November, 1953, 8).

Recording dividend of subsidiary when investment is carried at cost; treatment of dividend of a temporary investment. (May, 1954, 5).

Eliminations; purchase of equipment and bonds of subsidiary by parent. (November, 1954, 3).

Containers

Presentation of data concerning containers being repaired and containers delivered to customers for deposit. (May, 1944, 8).


Contingency

Methods of reporting notes receivable discounted on balance sheet. (November, 1944, 9).

Rules regarding disclosure of purchase commitments and expected losses. (November, 1952, 4).
Contracts

Presentation of various stages of renegotiation in financial statements. (May, 1944, 1).

Treatment of left-over parts for assembled units after contract has ended, and no new contract is anticipated. (November, 1944, 11).

Treatment of various elements in the termination of a fixed price supply contract. (November, 1945, 9).

Cost Accounting

Obtaining comparable costs of production for two companies where one rents and the other owns its plant. (May, 1943, 10).

Standard cost; advisability of revising standard unit cost due to volume increase. (November, 1943, 1).

Various methods of accounting for by-products. (May, 1944, 10).

Factors to be considered in estimating cost of manufacturing 20 machines as compared to original estimate of 100 machines. (May, 1944, 11).

Distinguish between fixed and variable costs by illustration. (November, 1944, 8).

Definition of terms: burden, material price variance, standard cost, and actual cost. (May, 1945, 2).

Labor: specifically overtime premiums, charged to individual orders or to overhead. (May, 1946, 3).
Relationship of overhead to direct labor.  
(November, 1946, 5).

Method of determining cost of material to a new department where the material was previously disposed of as waste.  
(November, 1947, 6).

Two methods of handling change-over costs incurred each year when product is re-modeled.  
(November, 1947, 8).

Definitions: basic or normal standard cost, burden variance, job cost, labor price variance and material efficiency variance.  (May, 1949, 8).

Methods of clearing and allocating under-applied and over-applied manufacturing expense.  (May, 1949, 6).

Overhead costs, general in nature, that can not be applied to one department in an organization and complicate the use of accounting data by management.  (May, 1950, 8).

Job order cost system; all costs including distribution and administrative expenses are included in burden rate; critical analysis of such a system.  (May, 1951, 1).

Burden; state the effects of charging all indirect costs directly to profit and loss; comment on acceptability of this procedure.  (November, 1951, 5).

 Spoiled units; discuss two ways in which the cost of spoiled units may be treated in the accounts.  
(May, 1952, 3).
Advantages and disadvantages of the direct labor cost basis for applying overhead to units or jobs as opposed to machine hours or cost of material. (November, 1952, 3).

By-products; joint products; difference in accounting; assignment of costs to joint products. (November, 1953, 3).

Determination of burden rate for government contract; rate differs considerably on repair contract for government from the normal rate of private shipbuilding. (November, 1954, 4).

Corporation

Entry to set up a corporation where assets acquired and liabilities assumed of a partnership with partners receiving stock in proportion to their interest in the partnership. (November, 1946, 3).

Explain "Quasi-Reorganization"; discuss accounting problems that arise when a corporation eliminates an earned deficit by charges to paid-in surplus without court procedure. (May, 1950, 3).

Compensation involved where corporation grants option to officer to buy stock at reduced price. (November, 1952, 8).

Stock dividend; entry to record stock dividend; recommendations of the Institute as to stock dividends. (November, 1954, 6).
Deferred Items

Distinction between deferred charge and prepaid expenses: bond discount, prepaid rent, etc. (May, 1945, 8).

Distinguish between deferred charges and prepaid expenses, and give preferential treatment on balance sheet. (May, 1947, 3).

Explain how each of these items is either included in current operations or deferred; and how this procedure affects matching of cost and revenue: purchase discounts, selling expenses, plant rearrangement costs. (November, 1949, 4).

Amortization of deferred interest and finance charges; straight line method of amortization; off-setting of deferred amount against note payable. (November, 1952, 5).

Acceptability and disclosures to be made of deferred costs of developing a new sports automobile; also deficits for the first two years of operation are deferred. (November, 1954, 9).

Distinction between deferred income and unrealized profit. (May, 1945, 10).

Unearned income; location of balance sheet of unearned income; final disposition. (May, 1947, 1).

Depreciation

Discuss accelerated depreciation due to increased operation of equipment. (May, 1943, 5).

Unit basis; composite basis; group basis. (November, 1943, 12).
Information necessary for the formulation of a sound depreciation policy for a going industrial concern. (May, 1944, 5).

Effect of accelerated usage of machinery and excessive wear and tear and recognition of this fact in financial statements. (November, 1944, 8).

Establishing depreciation to cover estimated life of a mine. (November, 1944, 12).

Effect of depreciation on assets which come into a business; the retention of assets; and accumulation of liquid funds. (November, 1945, 11).

Unit of production basis; retirement and addition of equipment. (May, 1946, 10).

Composite rate; composite life. (November, 1946, 1).

Arguments for and against the "retirement method" of accounting for public utility concerns. (November, 1949, 6).

Diminishing-balance method; sum-of-the-years'-digits method; a method to coincide with increased repairs and decreasing revenue in later years. (May, 1950, 6).

Discussion of propriety of doubling depreciation rate when normal operations of plant are doubled. (May, 1951, 2).

Discussion of propriety of charging annual depreciation on new building at same amount as old building destroyed by fire, disregarding vast difference in cost; consistency was president's argument. (November, 1951, 4).
Arguments for and against basing depreciation on replacement costs. (May, 1953, 2).

Define terms: unit basis; group basis; composite basis; method of handling retirements; arguments for and against the three bases. (November, 1953, 4).

Discussion of a proposal to disregard depreciation on an old building and machinery not in use at present time. (May, 1954, 2).

Discounts

Various methods of treating sales discounts and arguments for each. (May, 1943, 9).

Arguments for and against the recording of purchases at net and subsequent treatment of discounts not taken as an expense. (May, 1954, 1).

Dividends

Stock dividends on various par-value stock; no par value stock and stated value stock. (November, 1943, 10).

Treatment of stock dividend on both the issuing company's books and the recipient's books. (May, 1946, 2).

Method of recording stock dividends of common on common and preferred on common. (May, 1948, 12).

Reporting of dividend, part of which is specified as being a liquidating dividend. (November, 1948, 5).
Economics

Nature of problems arising in the determination of income due to price level changes as reflected in Inventories and Fixed Assets. (May, 1949, 1).

Expenditures

State difference between capital and revenue expenditures; depreciation rate on leased land. (May, 1946, 12).

Items usually in category of expenses that may be capitalized under certain circumstances. (November, 1943, 11).

Capitalization or expense of special assessments on land used in various capacities. (May, 1949, 3).

Fiduciary

Trust; apportionment of items between corpus and income. (May, 1944, 3).

Trust; determination of principal or income item; fees; taxes; depreciation; loss on sale of investments. (November, 1951, 9).

Finance

Define: annuity due, capitalization as a process for the determination of value, anticipation, interpolation. (November, 1945, 7).

Fixed Assets

Treatment of a machine cost where instalment payments are made on the machine. (May, 1943, 12).
Treatment of idle property cost. (November, 1943, 5).

Determination of various expenditures as to capitalization or expense in relation to acquisition and installation of property items. (May, 1944, 4).

Proper elements of cost of fixed assets; overhead of a concern which builds its own equipment; cost of constructing new models of machinery; cash discounts on purchases of equipment. (November, 1945, 5).

Arrangement on balance sheet of real estate with a mortgage subjected to it. (November, 1947, 9).

Propriety of charging administrative salaries to the cost of construction of new plant. (November, 1947, 10).

Construction of a new road and clearance of old road; capital or expense items. (May, 1948, 2).

Valuation of building fully depreciated; appraisal; salvage; adjustment of asset and reserve. (May, 1948, 4).

Capitalization of incidental expenses; replacing large essential part; exchange for larger machine and loss on trade-in; depreciation for both machines. (November, 1949, 1).

Considerations in determining whether an expenditure in connection with machinery and equipment should be expensed or capitalized. (May, 1949, 4).

Purchase of assets in lump sum and allocation of cost among building, land, and machinery. (May, 1950, 10).

Presentation on balance sheet of machinery not fully paid for; bond discount; inclusion on income statement of unusual loss. (November, 1950, 4).
Distinction of costs which are included in land costs and those which are subject to depreciation in the establishment of a parking lot. (May, 1952, 4).

Factors to be considered in establishing a minimum dollar figure for capitalization of expenditures for initial installations. (November, 1952, 2).

Treatment of trade-ins on new equipment; unsold trade-in merchandise treatment on balance sheet. (May, 1953, 3).

Three methods of recording acquisition of an asset paid for by a trade-in of an old asset and the balance in cash. (November, 1953, 1).

Land and building; classification of various costs of acquiring land and old building, demolition and construction of new building. (November, 1954, 1).

Foreign Exchange

Basis for converting balances on foreign branch books to currency of home office in the United States. (November, 1948, 4).

Conversion of foreign currency into United States dollars on fixed assets of branches in foreign countries; inventory of merchandise in foreign country. (November, 1953, 7).

Funds

Define: sinking fund, endowment fund, general fund, imprest funds. (May, 1945, 11).
Purposes of funds for an industrial company; differentiate between fund and reserve. (May, 1946, 8).


Discussion of sinking fund reserve. (May, 1947, 10).

Sinking fund; treatment on balance sheet of cash and securities in fund. (November, 1947, 3).

Governmental Accounting

Explain "encumbrances" and the use of "encumbrance accounts." (May, 1944, 12).

State sources of revenue and purpose of these funds: general, special assessment, special revenue, utility, working capital. (November, 1945, 6).

Outline general accounts needed in the records of a city of 100,000 to provide suitable budget control. (November, 1946, 6).

Procedures for accounting for an eleemosynary institution where endowment funds are established; interfund borrowing and its presentation on reports. (November, 1948, 3).

Reasons for omission of depreciation in financial statements of governmental units. (May, 1949, 3).

Depreciation; inclusion of depreciation and annual reduction of bonds outstanding in the budget of a municipal golf club financed by bonds. (May, 1951, 7).
Reasons for using several funds in the accounts of governmental units; list five kinds of funds frequently used and discuss the content of each. (May, 1952, 8).

List accounts normally found in General Fund; revenue recognition of general property taxes; purpose of "encumbrance" account. (May, 1953, 8).

Instalment Sales

Explain and discuss the relative merits of two ways of reporting income from instalment sales. (May, 1952, 5).

Insurance

Treatment of life insurance policies and premiums on balance sheet; cash surrender value and beneficiary given. (May, 1953, 7).

Intangibles

Treatment of experimental and development expenses. (November, 1943, 3).

Two types of intangibles based on expected term of existence and accounting treatment of each class. (November, 1945, 2).

Methods of writing off various intangibles; leasehold costs. (November, 1946, 8).

Basis for determining goodwill of a company selling its business to another. (May, 1948, 10).

Negative goodwill; treatment on financial statements. (November, 1948, 10).
Explain why the sale value of a going business may differ from the book value even where acceptable accounting practices have been followed. (November, 1949, 2).

Definition of goodwill as related to the transfer of a going business; two methods for a purchaser to compute goodwill; weaknesses and limitations of such methods. (November, 1951, 7).

Inventories

For what reasons has "lifo" been adopted? (May, 1943, 8).

Breakdowns of the item "Inventories" and explanations as called for by current accounting practice. (May, 1943, 9).

Methods of valuation: cost, cost or market. (November, 1943, 4).

Changing valuation from a "fifo" method to a "lifo" method and necessary adjustments. (November, 1943, 6).

Effect of understatement of inventory upon current and subsequent financial statements. (May, 1944, 7).

Three accepted and three improper methods of inventory valuation. (November, 1944, 1).

Recognition of decline in value or impairment in assets in the financial statements. (November, 1944, 4).

Treatment of finished goods earmarked for delivery, uncounted in inventory, yet not delivered until January 1. (November, 1944, 10).

Retail method of valuation, including mark-ups and mark-downs. (May, 1946, 6).

Recording raw materials at gross price including trade and cash discounts; mention distortions due to this method. (May, 1947, 6).

"Gross profit test" as applied to inventory. (May, 1947, 7).

Comparison of "fifo" with "lifo" in valuation of inventories. (May, 1947, 8).

Determining market value; stating inventories above cost. (November, 1948, 6).

Valuation at cost or market; "lifo" as compared to "fifo." (May, 1949, 2).

Describe and distinguish base stock method and "lifo" method of valuing inventory. (May, 1950, 4).

Valuation and flow of goods; assumption as to the flow of cost and its reflection upon periodic income and the current financial position. (November, 1950, 1).

Retail method of valuation. (November, 1950, 7).

"Cost or market" and its effect on matching appropriate cost against revenue. (November, 1951, 1).

Arguments for and against disclosure in financial statements of current market value of inventory valued on a last-in, first-out basis. (May, 1952, 2).
Expense items that should be excluded from inventories; argument for and against excluding all fixed overhead from inventory costs. (May, 1953, 4).

Valuation at lower of cost or market of units exchanged between two companies assuming (1) there is no relation between the companies, and (2) one is a wholly-owned subsidiary of the other. (November, 1953, 2).

Pricing; write-down of inventory below "lifo" basis; treatment of such write-downs. (November, 1953, 5).

Investments

Advisability of adjusting upward investments in stock to agree with quoted value of stock. (November, 1949, 2).

Bases of valuation of stock received in an exchange of a company's own stock for stock of another corporation. (November, 1949, 9).

Presentation of market value of securities on balance sheet of stock broker. (May, 1950, 9).

Limitations to forming an opinion for long-term stock investments based on review of company's financial reports. (November, 1952, 6).

Leases

Cost amortization on leased premises; building, improvements; machinery. (November, 1947, 2).
Comparison of two manufacturing companies—one having constructed its plant and equipment with proceeds of bonds, the other leasing its plant facilities. (May, 1952, 6).

Treatment of annual rental; leasehold improvements made by lessor; removal of improvements at expiration of lease by lessee. (November, 1953, 6).

Liabilities

Application of profits to notes payable and how to show these notes on balance sheet of issuing company. (May, 1945, 6).

When should these liabilities be recorded: dividends, purchase commitments, acquisition of goods on credit, officers salaries, special bonus to employees? (May, 1947, 2).


Justification for exclusion from current liabilities of: convertible note, rent collected in advance. (May, 1951, 6).

Miscellaneous Questions

Objective questions regarding depreciation, goodwill, surplus, stock, inventory valuation; process, job order and standard cost systems. (November, 1950, 9).
Mortgage

Presentation of mortgage and mortgage interest on balance sheet. (May, 1945, 3).

Propriety of off-setting on balance sheet pledged assets against the secured liability. (November, 1946, 9).

Partnerships

Should income tax liability be shown on balance sheet of the partnership? (May, 1945, 5).

Information in the partnership agreement; treatment of partner's withdrawal in excess of his share of profit. (May, 1947, 12).

Treatment of a lease in the equitable division of assets upon the withdrawal of a partner. (November, 1947, 11).

Distribution of profits; advantages and disadvantages of using "average capital" as a basis for distributing profit or loss to partners. (November, 1949, 7).

Admission of third party and possible ways of recording admission; goodwill; bonus. (November, 1952, 1).

Pensions

Instigation of new pension plan and selection of a method of charging to operations the cost of the pensions. (November, 1950, 6).

Prepaid Expenses

Explain the theory under which certain prepaid expenses may be classified as current assets. (May, 1950, 1).
Public Utilities

Meaning of terms "original cost" and "adjustment account" as used in public-utility accounting. (May, 1944, 9).

Discuss the Federal Power Commission regulation prescribing the use of "original cost" for fixed assets in determining a fair rate for services performed by electric companies. (May, 1952, 9).

"Original cost" as required by law for public utilities; arguments for and against "original cost." (November, 1954, 7).

Purchases

When is liability for purchases usually recorded on books; state exceptions. (November, 1943, 2).

Methods of showing on balance sheet an order of merchandise for a substantial amount not received at the date on balance sheet. (May, 1943, 3).

Names items of cost incident to acquisition and handling of incoming materials and arguments for and against the inclusion of these items as a part of cost. (November, 1949, 3).

Ratios

Capital turnover; working capital turnover; receivables turnover; inventory turnover, finished goods turnover. (May, 1943, 11).
Name some balance sheet and profit and loss ratios that would be pertinent to the president of a large automobile manufacturing company. (November, 1946, 4).

Definition of working capital; working capital ratio. (May, 1947, 9).

Merchandise turnover illustrating effect of average inventory on turnover with all other factors equal. (May, 1948, 6).

Formulas for current ratio; material turnover; finished goods turnover; average collection time of accounts receivable; book value of common stock. (May, 1949, 10).

Explain the "break-even point." (May, 1950, 5).

Give the advantages of converting financial statements to percentage figures. (May, 1950, 7).

Graphs denoting various accounting transactions and matching of description with graph. (November, 1950, 8).

Reports

Purpose and desirability of explanatory footnotes on the balance sheet and examples of instances where used. (May, 1946, 9).

Explain purpose of footnotes; examples of information that might be contained in auditor's long-form report but which probably would not appear in the opinion or as footnotes to the statements. (November, 1951, 6).
Distinction between internal reports of a company and external reports; name two frequently used internal statements. (November, 1954, 8).

Research Costs

Presentation of research costs in financial statements for research projects incomplete at end of year. (May, 1954, 7).

Reserves

Describe four distinct accounting meanings of the term "reserve." (November, 1946, 9).

Arguments for and against the elimination of the "reserve" section of a balance sheet. (November, 1951, 3).

Acceptability of "Miscellaneous Reserve" account which is used to absorb losses on inventory as well as other unrelated losses. (May, 1953, 5).

Revenue

A railroad company hauls its own construction materials, charging itself regular rates and crediting earnings. Is this proper? (May, 1943, 6).

Delivered sales basis of recognizing revenue; partial performance contracts; cost-plus-fixed-fee contracts. (May, 1943, 7).

Time of recognizing income from C.O.D. sales, installment sales, sales for future delivery, consignments, by-product
sales, scrap sales, incomplelled contracts, and subscriptions to publications. (May, 1944, 2).

Completed sale basis of measuring revenue; other bases of revenue measurement and conditions under which each is acceptable. (November, 1945, 4).

Methods that might be used by an equipment company in reporting income from sales sold on an instalment basis. (May, 1949, 9).

Explain why revenue is not recorded in stages of production prior to the completion of a sale. (May, 1950, 2).

"Completed contract" basis for recognizing revenue; propriety of ignoring such profits at conversion of partnership into corporation. (May, 1951, 3).

Recorded on "completed contracts" basis or on the "percentage of completion" basis. (November, 1953, 9).

Statements

Define "single-step" income statement and state arguments for and against its use. (November, 1945, 8).

General definitions of three balance sheet items and two income statement items. (May, 1946, 7).

Necessary financial statements submitted to management each month; supporting schedules necessary for management. (May, 1946, 11).

Arguments for and against the "all-inclusive" income statement. (May, 1952, 1).
Discuss the policy of being conservative; overstating liabilities; understating assets, to create reserve for "hard times." (May, 1954, 3).

Critical analysis of balance sheet presented in unconventional manner—liabilities deducted from assets to arrive at net assets contributed by stockholders. (November, 1954, 2).

Statement of Affairs

Purposes of statement; contrast with balance sheet; classification of liabilities on "statement of affairs." (May, 1946, 5).

Stock Option

Contrast the accounting treatment of a stock option issued to an employee (a) as an investment agreement and (b) as an employment agreement. (November, 1945, 10).

Systems

A classification of accounts and list of procedures for each account used by a trustee of an employee purchase organization. (May, 1948, 1).

Determination of best natural year fiscal basis for a given manufacturing company. (November, 1950, 5).

Brief statement to client of the advantages or disadvantages of double-entry bookkeeping over single-entry. (May, 1951, 4).
Taxes, Federal Income

Treatment of income tax in the income and surplus statements in several situations. (November, 1947, 12).

Explanation of tax regulation governing inclusion in income of certain stock dividends. (May, 1949, 5).

Objective questions relating to trust income; depreciation of building; taxes as deduction; sale of property. (November, 1949, 5).

Methods to be used in determining income tax liability (including excess profit tax) for interim period of seven months of fiscal year; the same rate of profit may or may not be maintained. (November, 1951, 8).

Excess profits tax; methods of computing credit allowed. (November, 1952, 9).

Closely-held corporation; adequacy of tax provision; returns to be filed by the company. (May, 1953, 11).

Change in election; from cost to retail method; from accrual to instalment method; from "cost or market" to "lifo" method. (November, 1953, 10).

Federal income tax recoverable under carry-back provisions due to loss involving instalment sale. (May, 1954, 9).

Personal returns; return of a physician and insufficient information; bulk sale of fixtures and inventory and tax consequence; advise as to disposal of business property by old person. (November, 1954, 5).
Taxes, Real Estate

Recognition of real estate taxes by periods; real estate taxes according to federal income tax rules. (May, 1951, 10).

Terminology

The meaning of the word "consistent," in the application of accounting principles. (May, 1943, 1).

Explanation of "conservative" accounting procedures as accountants refer to them. (May, 1951, 5).


Changes in a balance sheet to make it conform to generally accepted accounting principles and present-day terminology. (May, 1954, 8).

Valuation

Accounts receivable; fixed assets; inventories; marketable securities; prepaid expenses. State the generally accepted accounting principle of valuation. (November, 1945, 1).

Name the principal accounts which may not be expressed in current dollars and explain how accounting procedures may affect such valuation. (May, 1952, 7).
War Costs

Illustrations of war costs; providing for such costs. (November, 1943, 9).

Wasting Assets

Depletion of copper mine; arguments for and against the recording of depletion based on units sold rather than on production. (November, 1952, 7).
CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The purpose of this study has been to reveal and evaluate the current thinking in accounting as indicated by the questioning of CPA candidates. Trends and techniques have developed within the twelve-year period covered by this survey, and those trends and methods will be considered for each of the four separate sections of the examinations.

Accounting Practice.--Several of the topics as classified in this survey consistently reappeared in each examination or were absent intermittently from only a few of the examinations. This list includes: Consolidated Statements, Cost Accounting, Governmental Accounting, and Taxes. Of course, each of these topics is broad enough in scope to be a separate study in accounting and consequently includes more area for questioning than do the other topics of lesser coverage. However, the author did not think it feasible to break down these topics into their component parts, as there is a limit to the number of classifications that can be conveniently handled in a survey. In addition, there are basic ideas pertinent to each of these four subjects that serve as a guide for study and may or may not require more preparation time of a candidate than do the limited topics.
Very little change in the subject matter of Consolidated Statements was indicated for the twelve-year period. Cost Accounting included a diversified list of questions, but process and standard cost systems were more prevalent. Governmental Accounting questions were confined to "fund" accounts primarily and included the recording of routine transactions of governmental institutions. The subject of Taxes takes on new significance as our intricate tax laws are revised and as court decisions set the precedence by which subsequent issues are settled. Tax work of public accountants has been increasing in relation to other duties performed and since taxes are becoming recognized as necessary costs of operating as surely as labor or material costs, private and public accountants are diverting their attention to tax charges as a controllable cost.

Questioning regarding taxes has been accelerated in recent years as revealed by the frequency table and the method of such questioning has taken on a special technique. Of the seventeen questions on taxes that appeared during the period of this survey, ten were of the objective type, either true or false, or multiple-choice questions. The other seven consisted of completing the actual income tax forms of individuals, partnerships, and corporations. The use of objective questions seems to be gaining momentum, especially in the field of taxation.
There were certain topics which appeared more frequently toward the later years of the survey. Actuarial Accounting, and more specifically, Annuities, came into the spot-light in 1952 and 1954. As more of the industrial concerns recognize their obligation to employees and establish various retirement and pension provisions, this topic may appear more often.

Branch Accounts and Budgeting are topics which gained significance during the later years of the survey. Branch Accounting tends to gain or lose its value in direct relationship with management's decision to centralize or de-centralize the accounting function. Budgeting, however, is rapidly gaining ground as a practical tool of management in profit planning and forecasting. Until recently, accounting was considered to be for historical purposes only, but advancement is being made toward using historical data together with value-judgments in projecting accounting information into the future.

Auditing.--The last decade or so has seen little change in the questions put forth on the Auditing examinations. Highlights of this era have been the desire by the American Institute for a uniform report by public accountants, the continued stress on internal control and written representations by management, and the responsibility of external auditors for disclosure of post-balance-sheet events.
Topics in Auditing that were considered important enough to warrant rather consistent reappearance are Accounts Receivable, Cash, Ethics, Fixed Assets, Internal Control and Inventories. There are many more, of course, that appeared from time to time but with no determinable regularity.

The subject of the auditors' reports appeared quite often from 1943 to 1946, then disappeared completely until its revival in 1952 and is now receiving attention on most of the examinations. The "Codification of Statements on Auditing Procedure," issued in 1951 by the Committee on Auditing Procedure of the American Institute of Accountants presented a recommended short-form report, and the accounting profession has very generally adopted that report.

Of the 600 companies included in a survey conducted by the American Institute, all but fourteen of the companies used the short-form report in their annual reports to stockholders.\(^1\)

Disclosure of post-balance-sheet events gained new emphasis as the Committee on Auditing Procedure outlined the auditors' responsibility for disclosing such occurrences.\(^2\)

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Commercial Law.—This section of the CPA examination does not reflect the gradual change in attitudes as is indicated in the other sections. Law, in most cases being either written statutes or uniform codes, does not necessarily change as the concepts of accounting literature evolve. Some changes occur as a result of test cases or revisions of the written word but the transition is slow. As a result, the questioning of candidates for the examination has maintained a consistent pattern throughout the twelve-year period. A glance at the frequency table will reveal that questions on certain topics are seldom omitted. Rare is the occasion when one or more questions about Agency, Contracts, Corporation, Negotiable Instruments, Partnerships, Sales, and Surety do not appear on the examination.

Another group of less frequent, but recurring, topics includes Bailment, Bankruptcy, Carriers, Fiduciary, Insurance, and Taxes. From 1943 through May, 1949, each examination contained a question in the Commercial Law section regarding Federal Income Taxes, but since that time, problems pertaining to income tax have been transferred to other sections, primarily to Accounting Practice. In May, 1954, a question on unemployment tax did appear in the Commercial Law examination.

Theory of Accounts.—The questions on the theoretical application of accounting seem to have no lateral limits as the chart indicates a wide variety of topics that have
appeared on the examinations. Very few trends have developed, for the coverage is so broad that a repeat of the same subject is not necessary. A few subjects do deserve honorable mention since they reappeared quite frequently. Capital, Consolidated Statements, Cost Accounting, Depreciation, Fixed Assets, Governmental Accounts, Inventories, and Taxes are the leaders; even though they did not appear on each examination, very few times were they omitted. Questions regarding taxes appeared first in this section in November, 1947, and since that time have been repeated often.

Although direct reference to the "Accounting Research Bulletins" occurs only once in the twelve years, acceptable answers to many of the questions have been covered in those publications. A candidate should be encouraged to keep current on accounting literature.

Recommendations

The recommendations developed from this study are aimed in two general directions: (1) toward the student of Accounting and prospective CPA candidate, and (2) in the direction of professors of Accounting whose instructions provide constructive material for students. A close relationship exists between the two groups as far as preparation for the examination is concerned, but it is thought that perhaps the professors, as contributors of questions to the examinations, and as members of the American Institute of Accountants, might join forces in influencing the type of questions and
the subject matter that will appear on examinations of the future.

In the interest of guiding students to a successful completion of the examination the following suggestions are offered:

(1) That preparation for the examination include current literature of Accounting, especially "Restatement and Revision of Accounting Research Bulletins" and "Statements on Auditing Procedure," both published by the American Institute of Accountants.

(2) That certain subjects be reviewed without fail—those which history indicates will be repeated on every examination.

(3) That memory work without logical reasoning not be utilized in preparation for the examination. There are too many topics under too many general subjects for a student to attempt to learn all by memory. A slight acquaintance with details and mechanics and a basic understanding of concepts may provide the information with which to pass.

(4) That practice in answering questions and solving problems be made an integral part of preparation. Glancing through the listing of the questions in this study, a person should find immediately the points that need emphasis; then, he should proceed to locate those problems and solve them. There is nothing like actual practice to impress upon the student his deficiencies.
Teachers of Accounting, in general, are to be commended for their approach and presentation of the material, but in the interest of assisting rather than condemning, the following recommendations are made:

(1) That teachers maintain sight of their long-range objective—instilling in the student a knowledge of fundamental concepts coupled with further desire to learn. Too often, instructors state or imply, "That's all you need to pass the examination," and they stop short of complete explanation. Successful completion of the examination alone should not be the teaching approach of a professor.

(2) That university teachers keep abreast of the times by reading current professional literature and by maintaining contacts with the business world. Even though many of the questions on the CPA examinations are purely academic, the practical application of accounting should be conveyed to students whenever possible.

(3) That the use of objective-type questions, especially on the CPA examination, be given careful consideration. Such methods of questioning do not develop in a student the ability to express himself; indeed, they contribute to a deficiency in grammatical construction, spelling, and manner of conveyance of our language. This study indicates that an increasing use is made of objective-type questions, and except for ease in grading the answers, the writer doubts there is merit in the continuation of the practice.
Accounting is said to be the "language of business," and accountants should be the leaders in developing that language. This can be done only if the accountants have developed a manner of expression that conveys an understandable tongue. The profession is providing important information for management beyond the historical figures and facts so long thought of as the sole purpose of accounting. As the accountant develops into the managerial capacity and takes on the role of historian, economist, prophet, and adviser, he should be acquainted with broader aspects of business in general and be able to express his knowledge more efficiently and coherently.
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