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OF
Chartered Accountants
OF ONTARIO

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THE INSTITUTE OF CHARTERED- ACCOUNTANTS OF ONTARIO.

FINAL EXAMINATIONS, MAY, 1894.

PARTNERSHIP AND EXECUTORSHIP ACCOUNTS.

- 1.—What do you consider the best provision to make in articles of partnership to meet the contingency of one of the partners dying before the expiration of the term of partnership? Draft such a clause as you think would best meet the case.
- 2.—A testator bequeaths certain land to his son for life with power of appointment, also with power to let on building leases of not less than twenty-one years. Criticise the action of the Testator and explain what, if any, hardships this form of bequest may entail upon the beneficiary and his family. What discretion has the Court to grant relief in such a case?
- 3.—A and B enter into partnership without any articles or terms of agreement other than those implied by their conduct. A contributes \$2,500 capital and B \$500. At the end of the year they have made a profit of \$500. How must it be divided? The partners shortly afterwards disagree, and the business being sold realizes \$1,800. How should it be dealt with and the rights of the partners as between themselves adjusted? How would you suggest providing for such a contingency as this in articles of partnership?
- 4.—A testator bequeathed by his will legacies amounting to \$6,700. His widow was to be paid \$1,000 within one month after his death, and his household furniture, horses, carriages, plate, linen, wine, books, etc., were specifically bequeathed to her. The cash found in the house was \$73.25, and the amount at the banker's was \$1,842.17. His investments were valued at \$48,460.21 (their nominal value being \$45,000). His leasehold property was valued at \$68,000. Persons were indebted to him for loans without interest for \$450, while his creditors were \$7,274.50. The funeral expenses came to \$96.42, and probate and miscellaneous expenses to \$4,694.71.

Draw a statement showing the corpus to be dealt with by the executors assuming that the investments were debentures bearing interest at 4 per cent. ; that the leasehold property yielded 6 per cent. ; that the former were paid half-yearly and the latter quarterly, and that both interest and rents fell due two months after the testator's death.

- 5.—Robertson starts in business with a capital of \$5,000, and engages a manager who agrees to accept for his services \$20 per week and 10 per cent. of the net profits. Being short of capital, Robertson's traveller, Jones, lends Robertson \$2,000 on condition that he shall have in lieu of interest one-fourth of the profits after the manager has been paid, and that he shall have access to and the oversight of the books of the business. He takes Robertson's promissory note for the amount. Robertson afterwards induces a friend to bring in \$3,000 and agrees to give him interest at 4 per cent. per annum and 10 per cent. of the profits, this arrangement being embodied in an agreement expressed to be under the provisions of Bovill's Act.

What will be the position of the parties on winding up the business—1st, if there be a loss of \$8,000, and 2nd, if the assets do not realize sufficient to pay the ordinary trade debts?

- 6.—The beneficiaries under a will where the estate is about to be closed, instruct you to audit the accounts which have been kept by the executors and trustees from the date of the testator's death. How would you perform this audit?
- 7.—A company is formed to purchase and amalgamate the business of three firms carrying on the same class of business. There are considerable differences between the capitals, the gross sales, the working expenses and the net profits of the three firms. The amount to be allotted to each firm in shares of the company for their capital and good will is agreed to be referred to you. State what points would have to be considered by you before issuing your report?
- 8.—What are the ordinary rights of a partner as against his co-partners?
- 9.—An executor purchases \$10,000 City of Toronto 4 per cent. debentures on 15th April at 95, and re-sells \$5,000 on 31st July, at 97. Assume that the interest on these debentures is payable on the 30th June and 31st December. What profit does he make and how should it be disposed of? Record the above transactions in the executorship books of account.
- 10.—State generally the classes of securities in which trustees may invest trust funds without being held responsible for any losses on realization. To what extent may they be held to account where they employ the funds for their own private use?

FINAL EXAMINATIONS, May, 1894.

AUDITING.

TIME—3 HOURS.

- 1.—Define the relations in which
 - (a) A depositor,
 - (b) A debenture holder, and,
 - (c) A shareholder,stand to a Loan Company, and the manner in which they might respectively be affected, if it went into liquidation.
- 2.—Is it justifiable to include "Preliminary Expenses of Organization" of a Joint Stock Company or any portion thereof in the Balance Sheet as an Asset? Upon what grounds do you base your reply.
- 3.—(a) If a difference exists between the Bank Balance as shown in the ledger and that in the Bank pass book, does it necessarily follow that an error exists? How would you ascertain this?
(b) If the balance as shown in the pass book agrees with that shown in the ledger, would you consider it necessary to make any further investigation? State the reasons for your reply.
- 4.—State your opinion as to employing Auditors because they are shareholders of a company. Is such a practice advisable, and if not, state reasons?
- 5.—What difference, if any, exists between
Repairs and Renewal Fund,
Bad Debt Reserve,
Reserve Fund?
- 6.—(a) What are the most important things which an Auditor should examine into in a Balance Sheet and in a Profit and Loss Account?
(b) When examining vouchers for cash disbursements, what means would you take to prevent their being again presented as vouchers for payment in subsequent audits?
- 7.—(a) How should a leasehold property be dealt with in the annual Profit and Loss Account and Balance Sheet of a Company?
(b) What is a Sinking Fund? Is it an asset or a liability?
- 8.—Under what circumstances would an Auditor appointed by the shareholders of a company be justified in refusing to certify to a company's accounts, and what would be his right course should such a necessity occur?
In the event of such a refusal either to sign the accounts, or to certify that they are inaccurate, being likely to entail disastrous results to a company, what would be the best plan for an auditor to adopt under such circumstances?

- 9.—A Fire Insurance Company is established to insure principally "Isolated risks," seven-eighths of the policies being three years' risk. Their first year's Revenue Account and Balance Sheet are as follows:—

REVENUE ACCOUNT.

Premiums received.....	\$60,000	Expenses, agents' commission, inspection expenses, etc.	\$20,600
		Losses paid.....	14,400
		Balance, being profit.....	25,000
	<u>\$60,000</u>		<u>\$60,000</u>

BALANCE SHEET.

To capital paid-up, say	\$20,000	By cash Investments, etc....	\$45,000
To balance of profit.....	25,000		
	<u>\$45,000</u>		<u>\$45,000</u>

Do you consider this statement correct, and if not, state reasons.

- 10.—Assuming the following to be the Revenue Account and Balance Sheet of a Loan Company—an intending investor in the Company's stock asks your opinion of the Company. State your opinions and reasons therefor.

REVENUE ACCOUNT.

Interest to depositors	\$20,301 00	Interest due and accrued on mortgages.....	\$85,199 95
Interest on debentures	14,000 00	Rents, etc., on property foreclosed	5,150 00
Office expenses, etc.	21,000 00	Rentals of Company's premises	1,150 00
Balance	36,198 95		
	<u>\$91,499 95</u>		<u>\$91,499 95</u>
Applied to dividend on \$500,000 at 7%	\$35,000 00	By balance	\$36,198 95
Carried to Reserve Fund	1,000 00		
Carried to Contingent Fund.....	198 95		
	<u>\$36,198 95</u>		<u>\$36,198 95</u>

BALANCE SHEET.

To capital.....	\$1,000,000 00	
50%.....		\$500,000 00
To deposits.....		750,600 45
“ debentures.....		350,000 00
“ dividends unpaid.....	17,500 00	
“ debenture interest unpaid.....	7,000 00	
		24,500 00
“ reserve fund.....	6,000 00	
Added	1,000 00	
		7,000 00
“ contingent account.....	1,200 00	
Added	198 95	
		1,398 95
		<u>\$1,633,499 40</u>
By mortgage loans.....	\$1,130,252 47	
“ “ interest overdue and unpaid.....	165,328 53	
“ real estate on foreclosure.....	285,009 45	
“ rents on foreclosure due and in arrears.....	2,520 00	
“ “ of Company's premises due and unpaid.....	525 00	
“ office premises.....	30,000 00	
“ cash on hand and at bank.....	19,863 95	
		<u>\$1,633,499 40</u>

FINAL EXAMINATIONS, MAY 17TH, 18TH AND 19TH, 1894.

JOINT STOCK COMPANIES.

TIME—3 HOURS.

- 1.—State briefly wherein the provisions of “The Companies Act” (Canada) and “The Ontario Joint Stock Companies Letters Patent Act” differ in respect of
 - (a) Matters precedent to obtaining incorporation.
 - (b) Matters of procedure in obtaining incorporation.
 - (c) The powers and liability of Directors.
- 2.—(a) What remedies have shareholders in a company for damages sustained by reason of false statements contained in a prospectus?
 - (b) What mis-statements will invalidate a subscription for shares?
- 3.—What books are required by statute to be kept by a Joint Stock Company?
- 4.—(a) What takes place, if the number of shareholders in a Company falls below the number required to secure incorporation?
 - (b) What takes place if there are not sufficient shareholders in a Company eligible for re-election as Directors?

- 5—(a) What are the voting powers of shareholders holding shares fully paid up and shares not fully paid up respectively?
 (b) To what extent may the statutory provisions be varied relative to the holding of meetings of shareholders and meetings of Directors?
- 6.—What is the liability of a transferor of shares not fully paid up, subsequent to the registration of the transfer upon the books of the company?
- 7.—In what manner may the Directors of a company deal with shares standing in the name of a person who is otherwise indebted to the company in order to obtain payment of the debt?
- 8.—(a) What is the difference between a "Resolution" and a "By-law?" State in general terms the function of each.
 (b) What is the significance of a Corporate Seal and when is its use imperative?
- 9.—What steps are necessary to render valid and operative a By law to effect
 (a) A subdivision of shares.
 (b) A forfeiture of shares.
 (c) An issue of bonds.
 (d) The hypothecation of real estate.
 (e) An issue of preference shares.
- 10.—State clearly the rights of creditors of a company.
 (a) Where shares have been issued at a discount.
 (b) Where the capital stock has been decreased.
 (c) Where shares have been forfeited.

FINAL EXAMINATIONS, MAY, 1894.

BOOK-KEEPING.

TIME—3 HOURS.

- 1.—At the time of closing a merchant's books his accounts stood as follows :
 Merchandise on hand, \$24,000 ; bills payable, \$5,000 ; mortgages payable, \$2,500 ; interest accrued on the same, \$24 ; cash on hand, \$500 ; book debts receivable, \$15,000 ; book debts payable, \$2,500 ; withdrawn on private account, \$3,500 ; capital invested, \$30,000.
 (a) What were the net profits of the business? \$———
 (b) What was the net capital of the merchant at the close of the business? \$———
- 2.—What should be the respective entries of a shipper and of a consignee in the case of an invoice of merchandise of \$4,500 to be sold on account and risk of shipper, and which were afterwards sold for \$5,985 cash,

and an account of sales rendered in which were charged \$25 for freight, \$149.60 for commission and \$10 storage, the net proceeds having been remitted by draft purchased for cash?

- 3.—B, of Toronto, purchased sugar for \$20,000 cash, to be sold by him on joint account of himself and A, of Montreal, each one-half, forwarding invoice to A, who remitted bank draft for his share. He afterwards sold same for \$22,200 cash, charging commission on sales, \$555; storage, \$40; insurance, \$20, and remitted his share net proceeds to A by bank draft purchased for cash. Give Journal entries of A and B in their respective books.
- 4.—(a) If after closing Profit and Loss Account in a commercial business, an omission of a liability for goods purchased appeared, what would be necessary entry without disturbing the Profit and Loss Account?
- (b) How would you arrange your books in order to show at any time your indirect liabilities for bills receivable under discount?
- (c) What is the purpose of a private ledger? What accounts does it usually contain?

- 5.—Brown, who owned a one-third interest in a business, gave Smith, who owned a two-thirds interest, \$100 for his interest in a doubtful account of \$300 against Jones. The book-keeper made the following entry to arrange the transaction in the books:

Brown	\$200
Profit & Loss	100
To Jones	\$300

Was the entry correctly made? If not, how should it be made?

How should returned goods be dealt with in a Merchandise Account?

- 6.—A merchant in closing his books, wishes to include, as assets, accrued interest and also unearned insurance, and as liabilities, accrued rents and an appropriation for bad and doubtful accounts.
- (a) What Journal entries are necessary?
- (b) What disposition of these entries should afterwards be made?
- 7.—(a) Upon receiving, as executor, an estate comprising cash, bank deposit receipts, and unrealized assets of various descriptions, per inventory, how would you deal with it in reference to the entries to be made in the books?
- (b) What two important classifications of the receipts and of the disbursements are to be observed in the arrangement of the accounts?
- (c) How would you deal with payments on account of estate, debts, expenses and legacies?

8.—A has assets, cash, \$400 ; merchandise, \$1,500 ; plant and machinery, \$5,000 ; real estate, \$2,100 ; book debts, \$1,900 ; liabilities, \$4,500 ; capital, \$6,400.

B has assets, cash, \$200 ; book debts \$4,300 ; merchandise, \$5,000 ; bills receivable, \$1,000 ; plant and machinery, \$2,500 ; liabilities, \$6,600 ; capital, \$6,400.

From the above indicate which party is in the most favorable position and give reasons.

9—(a) In what respects does the treatment of the Capital, and Profit and Loss accounts of a joint-stock company differ from that of the like accounts of a commercial business ?

(b) Under what circumstances would Expense be an asset ?

10.—On January 2nd, 1893, A became indebted to B in the sum of \$1,000, for which amount he gave his Promissory Note, payable three months after date at the Dominion Bank, Toronto.

On February 2nd, 1893, B obtained a discount of this note.

On March 2nd, 1893, B endorsed an accommodation note made by A in favor of C for \$1,000, payable three months after date at Canadian Bank of Commerce, Toronto. Neither of these notes are provided for by the makers, consequently B has to pay both of them at maturity.

On June 2nd, 1863, A paid B \$500, and on the same date C paid B \$600 on the joint account of A and C.

A new note was given on June 2nd, 1893, by A and C, jointly and severally for \$900, and accumulated interest on previous notes. This note is payable on demand.

Candidate is not required to calculate the interest, but may state nominal amounts in all cases. This example being for the definition of methods only.

The candidate is to show the entries to be made on the Journal and Cash Book of B, so that the proper records may be kept by B without confounding these transactions with B's own bills payable.

Clearness of record without undue verbosity is the desideratum.

FINAL EXAMINATIONS, MAY, 1894.

MERCANTILE LAW AND ARBITRATION.

TIME—3 HOURS.

- 1.—State shortly the difference between a Bill of Exchange, a Cheque and a Promissory Note, with a special reference to the steps necessary for enforcing payment of each, respectively.
- 2.—What is the principle of law known as the appropriation of payments ? In what cases is this principle not applicable ?

- 3.—What classes of Contract are by law required to be in writing?
- 4.—To what extent is a Surety's liability affected by dealings between the creditor and the principal debtor? What rights does a Surety acquire by paying off the debt?
- 5.—What is meant by acceptance supra protest for honor, and what is its effect?
- 6.—(a) If the drawer of a cheque die before it is presented at the Bank for payment, is the validity of the cheque affected thereby in any way?
(b) What is the duty of the holder of a cheque, as payee, or otherwise, as regards its presentation, in order to have recourse upon the party from whom it was received?
- 7.—(a) What are the legal requirements for the enforcement of a promise, under the Common Law?
(b) What instruments are to a certain extent exceptions to these requirements?
- 8.—(a) What are the essentials to negotiability in a Bill of Exchange?
(b) What principles of law apply to the transfer of overdue and dishonored bills?
- 9.—In a reference as to a claim under an insurance policy as between insurer and insured, what is a necessary requisite to make the amount due under the award binding on both parties?
- 10.—If an Arbitrator is bound by the submission to make a final determination on all matters referred to him, what would be the effect of his award, if he excepts one matter out of his decision?

FINAL EXAMINATIONS.

INSOLVENCY.

TIME—3 HOURS.

Companies.

- 1.—Distinguish between the winding up Acts of Canada and Ontario, with special reference to the authority for the several stages of procedure in the liquidation of a company?
- 2.—What is the legal effect of the settlement of a shareholder's name upon a list of contributories by the Court?
- 3.—(a) To what extent may persons affected by the voluntary winding up of a company seek the assistance of the Court?
(b) Is a voluntary winding up of a company a bar to the right of any person affected to have the company wound up by the Court?

- 4.—What are the rights and limitations of the rights of landlords in event of a winding up order being made under the Ontario Act?
- 5.—What special obligations are imposed upon the Liquidator of a Joint Stock Company, other than, and subsequent to, the distribution of the assets among the creditors of a Company, and what steps are necessary to be taken by a Liquidator to free himself from such obligations?

Traders.

- 6.—If a bankrupt trader refuses to make an assignment of his estate for the benefit of his creditors, what steps should be taken by the representative of the creditors to insure the equitable distribution of his assets among the said creditors?
- 7.—A partnership business is assigned to you in trust for the benefit of creditors, also the private estates of each of the partners. State clearly manner and the order in which you would proceed to execute the trust.
- 8.—(a) What would be the effect, as regards the debtor and the creditors, of an assignment of a portion only of the debtor's estate?
 (b) Is such an assignment permissible under the existing statute relating to the distribution of estates? Whether permissible or not, give reasons for your opinion.
- 9.—What are the duties of an assignee-in-trust with respect to monies coming into his hands and payments out of such monies?
- 10.—An assignee, after distributing the assets of an insolvent estate, finds that he is a loser by over payments in connection therewith. How may he reimburse himself?
 (a) If the unsecured creditors have received a dividend?
 (b) If the estate has been insufficient to pay preference and secured claims in full?