1928

Examination [1928]

Virginia State Board of Accountancy

EXAMINATION
VIRGINIA STATE BOARD OF ACCOUNTANCY

RICHMOND, VIRGINIA

November 26, 27 and 28

1928

PRICE 25 CENTS PER COPY

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EXAMINATION VIRGINIA STATE BOARD OF ACCOUNTANCY

AUDITING

NOVEMBER 26, 1928—9 A. M. TO 1 P. M.

Answer all Questions

Do not repeat questions but designate them by numbers and letters

1. The Farmer Corporation was organized in 1910 with three stockholders. It continued operations until December 31, 1920, at which date it was heavily indebted to Stockholder "A" for money advanced by him. In order to protect his interest, Stockholder "A" caused the charter of the corporation to be surrendered at the above mentioned date and he (Stockholder "A") has since operated the business as a proprietorship. Stockholders "B" and "C" have never been able to obtain settlement from Stockholder "A" for their equity due to his contention that the value of the capital stock at December 31, 1920 was unknown. On November 1, 1928, you were engaged by Stockholders "B" and "C" to determine the value of the capital stock as of December 31, 1920. Assuming the following balance sheet to have been taken from the books of the corporation at December 31, 1920, by its bookkeeper, state in detail the procedure you would follow in determining the actual value of the capital stock at that date.

ASSETS

Cash on Hand and in Bank	$ 3,000.00
Accounts Receivable:	
Customers	45,000.00
Officers ("A," "B," and "C")	5,000.00
Notes Receivable	25,000.00
Inventories (Priced at Cost)	62,000.00
Investments	2,500.00
Fixtures	2,000.00
Total Assets	$144,500.00

LIABILITIES

Accounts Payable for Merchandise	$ 9,500.00
Notes Payable:	
Banks and Others	2,500.00
Stockholder "A"	100,000.00
Capital Stock	10,000.00
Surplus:	
Paid In	10,000.00
Earned	12,500.00
Total Liabilities	$144,500.00

2. State in detail the proper method of verifying securities owned which are carried as quick assets. How should they be valued on the Balance Sheet, and how would you determine the valuation?

3. You are engaged to audit the records of A. B. Corporation for the year ended October 31, 1928, and find that the cashbook consists of a loose-leaf record, typewritten in duplicate. The original sheets, comprising the treasurer's records, are given to you for the purpose of the audit. The duplicate of the Receipts sheets go to the accounts receivable department and the duplicate of the Disbursements sheets to the accounts payable department. State, specifically, how you would ascertain in your verifications of cash that the treasurer's cash records were real and correct.

4. The C. D. Land Company buys a tract of land and makes improvements thereon (streets, sidewalks, water and sewer connections, etc.) at a total cost of $50,000.00, its entire capital. To keep the property restricted, it does not sell its lots but disposes of them all in its first year on ninety-nine year leases for flat sums aggregating $100,000.00, and a nominal rental of $10.00 a year per lot to cover water and other service. Current expenses consumed the nominal rentals for the first year. The company declared a dividend of $90,000.00, and its balance sheet at the close of its first year shows:

ASSETS		LIABILITIES	
Land and Improvements	$ 50,000.00	Capital Stock	$ 50,000.00
Cash	10,000.00	Surplus	10,000.00
Total	$ 60,000.00	Total	$ 60,000.00

Is this correct accounting procedure, or not? Give reasons for your answer.

5. You find that your client purchased a plant in a rundown condition and made thereon extensive outlays for repairs and renewals in order to bring the plant up to full efficiency. In auditing the books, how would you treat the expenditures for repairs and outlays?

6. In auditing the records of the partnership of E and F, whose capital investments are $12,000.00 and $8,000.00 and who share in the profits on the basis of two-thirds and one-third respectively, you find that G paid into the business $12,000.00 for a one-third interest in the profits. You find further that the net income from operations of the business amounted to $48,000.00. Assuming that no withdrawals have been made, state the accounts of each of the above at this date.

7. You are engaged to make a complete audit of the accounts of an estate in which your client is one of the beneficiaries. State the points on which you should particularly report.

8. Merchandise has been purchased on credit, subject to the usual cash discount and not paid for at the close of the accounting period.
   (*a*) State how you would value it in the inventory and why.
   (*b*) Would it be permissible, in any event, for income tax purposes to reduce the total value of an inventory by a flat rate of discount?

9. How would you treat cash discounts on capital expenditures?

10. State in detail your procedure in auditing the following:
    (*a*) Bank
    (*b*) Building and Loan Association
    (*c*) Stockbroker

PRACTICAL ACCOUNTING

PART I

NOVEMBER 26, 1928—2:00 P. M. TO 6:00 P. M.

PROBLEM 1

You have been retained by the Wood Working Company to advise it as to the proper accounting procedure and valuations to be used in carrying out the resolutions and agreements concerning the purchase of controlling stock in the Pine Products Company.

An agreement has been drawn between the Wood Working Company and certain Stockholders of the Pine Products Company (who own 693 shares of its capital stock), which provides as follows:

(a) It appears more economical to bring the management of the two companies under a single head, especially in view of the fact that both companies have recently become interested in a third company just started.

(b) The said stockholders of the Pine Products Company agree to exchange their 693 shares of Pine Products Company stock for common stock in the Wood Working Company on a "relative book value" basis.

(c) For the purpose of ascertaining the "relative book value", the plants of both companies are to be appraised. All stocks owned are to be valued on the basis of most recent information. Inventories of the two companies are to be valued on the same basis for the purpose of this transaction.

(d) The books of account of the two companies are not to reflect any of the changes of values, the purpose of the re-valuation being only to arrive at a "relative book value" ratio of the respective stocks for this exchange.

You have audited the books of account of the Wood Working Company, and have verified the Balance Sheet prepared for the Pine Products Company by its accountant. The Balance Sheets thus obtained are as follows:

WOOD WORKING COMPANY

Balance Sheet June 30, 1928.

ASSETS

Cash			$ 50,000.00
Accounts receivable (including $7,500.00 due from the Pine Products Company)			120,000.00
Inventories:			
Finished Products—9,000,000 Pcs. @ $4.00 per M.		$36,000.00	
Materials—3,600,000 lbs. & $2.25 per cwt.		81,000.00	
Supplies—at cost		10,000,00	
			127,000.00
Investments:			
	Par	Cost	
First Mortgage, Pine Products Co.	$20,000.00	$20,000.00	
Stock—Pine Products Co., 120 Shs.	12,000.00	13,200.00	
Stock—Lubro Oil Company, 200 Shs.	20,000.00	10,000.00	
Stock—Textile Company, 750 Shs.	75,000.00	75,000.00	
Stock—Eastern Plug Co., 80 Shs.	8,000.00	8,000.00	
			126,200.00
Fixed Assets:			
Land, Bldgs., Mach'y, etc., at plant		$ 1,380,000.00	
Machinery away from plant—Leased*		20,000.00	
		$ 1,400,000.00	
Less Reserve for Depreciation		225,000.00	
			1,175,000.00
Deferred Charges			32,500.00
			$ 1,630,700.00

*(This machinery is leased to the Eastern Plug Company on a Royalty basis. No depreciation accrued or sustained. It has been billed to that company in memorandum form only, and has not been charged to the company on the books or credited to machinery account.)

LIABILITIES

Accounts Payable			$ 16,120.00
Notes Payable:			
Banks		$ 37,000.00	
Eastern Plug Co. (for stock purchased)		8,000.00	
			45,000.00
Accrued Expenses and Taxes			20,000.00
First Mortgage, 20-yr. Gold Bonds		$800,000.00	
Less Retired		200,000.00	
			600,000.00
Capital Stock:			
	Authorized	Outstanding	
Preferred, 7% Cumulative	$ 800,000.00	$200,000.00	
Common (Par $100 per share)	1,200,000.00	454,500.00	
			654,500.00
Surplus (Preferred Dividends paid to date)			295,080.00
			$ 1,630,700.00

PINE PRODUCTS COMPANY

Balance Sheet June 30, 1928.

ASSETS

Cash		$ 8,000.00
Accounts Receivable (including $5,000.00 due for advances to Eastern Plug Company)		20,000.00
Inventories:		
Finished Products— 1,000,000 Pcs. @ $5.00 per M.	$ 5,000.00	
Materials—2,000,000 lbs. @ $2.35 per cwt.	47,000.00	
Supplies—At cost	5,000.00	
		57,000.00
Investments:		
Stock of Eastern Plug Co. (120 shares)—cost		12,000.00
Fixed Assets:		
Land, Bldgs., Mach'y, etc., Cost	$133,000.00	
Less Reserve for Depreciation	60,000.00	
		73,000.00
Deferred Charges		750.00
		$170,750.00

LIABILITIES

Accounts Payable:		
Wood Working Company	$ 7,500.00	
Other Trade Creditors	2,500.00	
		$ 10,000.00
Notes Payable:		
Banks	$ 3,000.00	
Eastern Plug Co. (For stock purchased)	12,000.00	
		15,000.00
Accrued Expenses and Taxes		1,000.00
First Mortgage on Real Estate		20,000.00
Capital Stock—Common (par value $100.00) 900 Shs.		90,000.00
Surplus		34,750.00
		$170,750.00

You are advised by the interested parties that for the purpose of computing the "relative book value" of the stocks of the two companies, you are to:

1. Value Inventories of both companies as follows:
   Finished Goods @ $4.00 per M.
   Materials @ $2.35 per Cwt.
   Supplies—at cost, as shown.
2. Use sound depreciated values of Fixed Assets as shown by reports of the Regular Appraisal Company as follows :

	Wood Working Co.	Pine Products Co.
Appraised cost to replace, new, as at June 30, 1928	$ 1,872,350.00*	$275,000.00
Depreciation allowed	351,250.00	109,750.00
Sound Depreciated Values	$ 1,521,100.00	$165,250.00

*(Does not cover Leased Machinery away from plant.)

The most recent information available to you in regard to certain stocks owned is as follows:

(a) Stock of the Lubro Oil Co. is agreed by parties to be worth $100,000.00

(b) Stock of the Textile Company is agreed by parties to be worth $50,000.00

(c) Eastern Plug Company has just commenced operations, and its Balance Sheet, at June 30, 1928, as presented to you, shows:

ASSETS

Cash		$ 1,000.00
Inventory—supplies		13,400.00
Notes Receivable (Stock Subscriptions)		20,000.00
Fixed Assets:		
Leased	$ 20,000.00	
Owned	10,000.00	
		30,000.00
Deferred Charges		600.00
		$ 65,000.00

LIABILITIES

Accounts Payable (Pine Products Co.)	$ 5,000.00
Notes Receivable Discounted	20,000.00
Wood Working Company—(Liability for leased Machinery)	20,000.00
Capital Stock (200 shares @ $100.00)	20,000.00
	$ 65,000.00

4. Deferred Charges are to be considered Good Assets.

You are asked to:

I. Ascertain the "relative book value" at June 30, 1928, of the stocks of the Wood Working Company and the Pine Products Company.

II. Show the number of shares of Wood Working Company common stock that must be issued to acquire the 693 shares of Pine Products Company stock.

III. Give Entries necessary to record the issuance of the Wood Working Company shares in exchange for the shares of the Pine Products Company.

IV. Prepare a Consolidated Balance Sheet of the Companies as of June 30, 1928, giving effect to the purchase of the Pine Products Company shares. This Balance Sheet is to be sent to mercantile rating agencies, banks, etc., for trade and credit rating, and you should affix an appropriate certificate.

PART I

PROBLEM 2

The President of the Anderson Manufacturing Company, being unable to explain to his Board of Directors how the funds of the Company were applied during the year, submits the following comparative Balance sheet of the Company with the request that you prepare statements showing in detail what the changes in the various accounts represent.

ANDERSON MANUFACTURING COMPANY
BALANCE SHEETS

ASSETS

	December 31, 1926	December 31, 1927
Cash	$ 8,000.00	$ 12,500.00
Accounts Receivable	62,000.00	68,000.00
Notes Receivable	8,500.00	7,500.00
Inventories	216,000.00	235,500.00
Land	25,000.00	40,000.00
Buildings	140,000.00	315,000.00
Machinery	230,000.00	457,650.00
Patents	20,000.00	18,000.00
Investment Securities	16,000.00	
Discount on Bonds		9,500.00
Unexpired Insurance	650.00	425.00
Good Will	30,000.00	32,000.00
	$756,150.00	$ 1,196,075.00

LIABILITIES

	1926	1927
Accounts Payable	$ 78,000.00	$ 82,000.00
Notes Payable	90,000.00	60,000.00
Dividends Payable (Paid January 10th)	16,000.00	24,000.00
Reserve for Bad Debts	1,200.00	1,300.00
Reserve for Depreciation, Buildings	57,000.00	65,000.00
Reserve for Depreciation, Machinery	90,000.00	130,000.00
Bonds Payable		200.000.00
Capital Stock	200,000.00	400,000.00
Surplus	223,950.00	233,775.00
	$756,150.00	$ 1,196,075.00

You are also furnished with the following additional information:

(1) A stock dividend of 50 per cent was paid on March 1, 1927.

(2) Capital stock of $100,000 par value was issued for cash at 98 on August 15, 1927, the discount being charged to Good Will.

(3) Bonds were issued January 1, 1927, at 95.

(4) Investment securities were sold during the year at par.

(5) A write-off of $2,000 on Patents was charged to operations.

(6) Machinery which cost $15,000 and against which $4,000 had been reserved for depreciation was sold during the year for $5,000. The loss was charged to Surplus.

(7) As the result of an appraisal made during the year, the following adjustments were made on the books as of December 31, 1927.

(a) Land was written up $15,000.

(b) Buildings were written up $65,000.

(c) Machinery was written up $40,000.

(d) Reserve for Depreciation of Buildings was increased $2,400.

(e) Reserve for Depreciation of Machinery was increased $21,600.

(8) The net profit for the year was $43,825.00.

PRACTICAL ACCOUNTING

PART II

NOVEMBER 27, 1928—9:00 A. M. TO 1:00 P. M.

PROBLEM 3

Following is the balance sheet of the Knowbee Manufacturing Company at October 31, 1928.

ASSETS

Current Assets:			
Cash			$ 625.00
Accounts Receivable		$ 28,400.00	
Less reserve for bad debts		250.00	
			28,150.00
Notes Receivable			6,000.00
Accrued interest on notes receivable			90.00
Inventories:			
Finished goods		$ 12,000.00	
Goods in process		7,500.00	
Raw material		5,000.00	
			24,500.00
Total Current Assets			$ 59,365.00
Investments:			
Stock of Eureka Company (80%)		$ 45,000.00	
Advances to Eureka Company (Unsecured)		15,000.00	
			60,000.00
Fixed Assets:			
Land		$ 8,000.00	
Buildings	$ 30,000.00		
Less reserve for depreciation	6,000.00		
		24,000.00	
Plant and equipment		24,500.00	
			56,500.00
Goodwill			10,000.00
Deferred Charges:			
Manufacturing supplies		$ 165.00	
Prepaid advertising		300.00	
			465.00
Total Assets			$186,330.00

LIABILITIES AND NET WORTH

Current Liabilities:		
Accounts payable	$ 35,000.00	
Accrued wages	700.00	
Accrued taxes	140.00	
Accrued interest on mortgages	150.00	
Accrued interest on notes payable	250.00	
		$ 36,240.00
Notes payable		40,000.00
Total Current Liabilities		$ 76,240.00
Mortgage on Land and Buildings		15,000.00
Net Worth:		
Capital stock	$ 50,000.00	
Surplus	35,090.00	
Reserve for working capital	10,000.00	
		95,090.00
Total Liabilities and Net Worth		$186,330.00

The Eureka Company has gone into the hands of a receiver with prospects of paying its creditors at the rate of thirty cents on the dollar. Knowbee Manufacturing Company is thereby embarrassed financially, and its creditors call for a statement of affairs and a deficiency account, which you are asked to prepare.

ADDITIONAL INFORMATION AS TO ASSET VALUES, ETC.

		Estimated Value
Land		$ 10,000.00
Buildings		17,500.00
Plant and equipment		15,000.00
Finished goods		9,000.00
Goods in process		3,000.00
Raw material		4,500.00
Notes receivable and interest—All good		
Accounts receivable:		
Good	$ 13,000.00	13,000.00
Doubtful	8,000.00	5,000.00
Bad	7,400.00	
Cash		625.00
Deferred charges—No value		

The notes payable account represents four notes as follows:

Note for $3,000.00 with accrued interest of $50.00 secured by notes receivable of $4,000.00 on which $40.00 interest has accrued.

Note for $25,000.00 with accrued interest of $200.00. The holder of this note also holds the Eureka stock as collateral.

Note for $8,000.00 secured by notes receivable of $1,000.00 on which $30.00 interest has accrued, and by warehouse receipts for raw material having a book value of $4,000.00 and an estimated realizable value of $3,800.00.

Note for $4,000.00 unsecured.

PART II

PROBLEM 4

The following is a Balance Sheet of the "X" Company, as of January 1, 1927.

ASSETS

Cash	$ 17,500.00
Accounts Receivable	98,750.00
Inventory	112,600.00
Securities (Par $15,000—Mature 4/30/27) cost	12,525.00
Land—cost	5,000.00
Building—cost	78,675.00
Building Fixtures	22,240.00
	$347,290.00

LIABILITIES

Accounts Payable	$ 26,285.00
Notes Payable	47,500.00
Reserve for Depreciation—Building	22,500.00
Reserve for Depreciation—Fixtures	10,000.00
Capital Stock Common	100,000.00
Surplus (Subject to Federal Income Taxes $12,225.00)	141,005.00
	$347,290.00

Additional information supplied showed:

1. Depreciation Reserves have been accumulated by annual rates of 3% on Building and 5% on Building Fixtures, which rates are those agreed to by the Underwriters of Insurance and the Company.

2. Building and Fixtures have been appraised by insurance underwriters to have had insurable values of $72,000. and $18,000., respectively, at January 1, 1926, the date of their appraisal. (No increases in Building and Fixtures since 1/1/26.)

3. Fire Insurance, General Form Coverage, each policy containing a 90% Co-insurance Clause, as at January 1, 1927, was according to the following schedule:

Building	$ 60,000.00
Building Fixtures	12,000.00
Stock of Merchandise	108,000.00
Total	$180,000.00

This total was made up of several policies of the different companies, and each policy covered the separate items in the ratio each bears to the whole of Insurance Schedule.

At 3 o' clock, P. M., Saturday, June 29, 1927, fire damaged the Building, Fixtures and Inventory, which damage, as agreed between underwriters and the company, was to the following extent:

Stock of Merchandise	100%
Building	40%
Fixtures	80%

You were retained by the "X" Company to ascertain the amount of loss by the fire and the amount of insurance recoverable from the Insurance Companies, and you find the following facts.

I. Fire Insurance policies had expired in the period as follows:

March 15, 1927—at 12 o'clock, Noon, $20,000.00—notation on policy "Inventory getting lower, do not renew".

June 29, 1927—at 12 o'clock, Noon, $25,000.00—policy carrying a pencil notation—"Call agent to renew, Sure!" Agent says he never received the message and renewal policy was not written, nor was any binder placed by the agent.

Both pencil notations were made in handwriting of the Treasurer.

II. After the books had been posted by you, the following Trial Balance as of June 30, 1927, was made:

	Dr.	Cr.
Cash (Overdraft)		$ 1,190.00
Accounts Receivable	$117,850.00	
Inventory 1/1/27	112,600.00	
Purchases	*122,510.00	
Sales		152,030.00
Land	5,000.00	
Building	78,675.00	
Building Fixtures	22,240.00	
Accounts Payable		50,400.00
Notes Payable		53,500.00
Reserve for Depreciation—Bldg.		22,500.00
Reserve for Depreciation—Fixtures		10,000.00
Capital Stock		100,000.00
Surplus		141,005.00
Federal Income Taxes a/c 1926 Profits (Pd. 3/15/27)	12,225.00	
Dividends Paid (5/15/27—25%)	25,000.00	
Securities (Matured)		2,475.00
Administrative Expenses	27,850.00	
Selling Expenses	7,625.00	
Interest Paid	1,525 00	
	$533,100.00	$533,100.00

*Of the purchases, $5,250.00 represented in-transit shipments, same being received July 3, 1927.

III. Purchases and sales for the past three years were found to be as follows:

	1924	1925	1926
Inventory at beginning of year	$106,750.00	$118,640.00	$104,750.00
Purchases	305,000.00	340,600.00	325,650.00
Inventory at end of year	118,640.00	104,750.00	112,600.00
Sales	418,728.00	499,281.00	461,034.00

The business is not seasonal, but is highly competitive.

IV. Engineers have privately informed the company that the Building and Fixtures can be remodeled at approximate costs of $30,000.00 and $15,000.00, respectively, stating that building materials have advanced since January 1, 1926.

V. The conduct of the business for the past six months has been under the direct and sole charge of the Treasurer, who is a close relative of the largest single stockholder. His employment dates from October 1, 1926.

You are asked to:

First: Calculate the amount of Fire Damage, amount of Insurance Recoverable, and Book Loss, if any, to the Company, and present your calculations in intelligible form.

Second: Your determination of Fire Loss and Recoverable Insurance (as calculated above) being accepted by the Company and the Underwriters, payment was made in full by the insurance companies shortly after July 1, 1927. You are requested by the management to prepare (a) Balance Sheet—as at June 30, 1927, giving effect to insurance adjustments.

(b) Income and Profit & Loss Statement for six months then ended.

Note: Submit work sheet.

Third: Prepare suitable comments bearing on the Financial Position of the Company and the conduct of its affairs for the past six months. These comments will be read before the Board of Directors at a special meeting called to consider its plans for the future.

COMMERCIAL LAW

NOVEMBER 27, 1928—2:00 P. M. TO 6:00 P. M.

Designate questions by numbers

Answer Any Ten Questions

(Conclusions without legal reasons are valueless)

Q. 1. A orally made B an offer, which expressly provided that B should have 24 hours to consider it, and that in the meantime it should be irrevocable. Within the 24 hours, however, A sent a letter of revocation by messenger, which was received by B within 24 hours from the time when the offer was made. B had, however, a few minutes previously mailed a letter accepting the offer. The acceptance was received after the 24 hours had expired. Is there a contract?

(a) Would a contract be made if the letter of acceptance was lost in the mails?

Q. 2. B was engaged in the illegal sale of liquor. He employed A as a salesman and C as a collector. Both received money from customers and both refused to settle their accounts with B. Has B any legal standing against either of them?

Q. 3. E had money on deposit in a savings bank. He delivered a box containing his bank book to P, stating that he was about to go to the hospital for a serious operation, and, if he did not return, he gave P the box and its contents. E underwent a successful operation, but he died suddenly of a disease other than that for which the operation was performed. Is P entitled to the deposit in the savings bank?

Q. 4. A has acquired all the stock of the B corporation. He made a contract with C in the name of the corporation. Now C seeks to hold him personally liable upon the contract. Can he do so?

(a) Could X, a creditor of A, levy on the assets of the B company?

(b) Suppose A made a contract in his own name by which he purported to transfer certain stock and bonds owned by the corporation to C, and to appoint C agent of the corporation to transfer other corporate property to D. Would the corporation be bound by A's acts?

Q. 5. *(a)* A was the owner of 100 shares of stock in the X Company. His confidential clerk, having access to his vault, stole his certificate, forged A's name on the back, and sold the shares to B, to whom a transfer was made by the company on its stock register. B then sold to C, to whom a transfer was also made by the company. What are the respective rights of A, C, and the X Company?

(*b*) X purchased 100 shares of stock from Y, who, in turn, had purchased it from Z, who had stolen the certificate indorsed in blank from A, the real owner. The corporation had transferred the stock to Y, who appeared on its stock register as the owner at the time of X's purchase. What are the respective rights of X, Y, and the corporation?

Q. 6. What is the Statute of Limitations in Virginia on the following:
(*a*) Negotiable Note.
(*b*) Sealed instrument.
(*c*) An open account.

Q. 7.
(*a*) Is the following note negotiable?
I owe P one hundred dollars. (signed) M.
(*b*) Is the following instrument negotiable?
The First National Bank.
Chicago, Illinois, Jan. 10, 1925.

This is to certify that P has deposited with this bank one thousand dollars ($1,000.00), payable six months from date, with interest at three per cent per annum upon return of this certificate properly indorsed.

M. Cashier.

Q. 8. M drew his check on the D bank, payable to P or bearer, and delivered the same to P, who lost it. A found it, forged P's indorsement, and transferred the check to B, an innocent purchaser. P notified M of the loss, and M stopped payment. On dishonor by D, B sued M. May he recover?

Q. 9. The firm of A & B, being insolvent, dissolved; A taking over the firm property and assuming payment of debts. After a few months A assigned for the bennefit of creditors, under terms preferring certain of his separate creditors over the partnership creditors. Is the assignment fraudulent?

Q. 10. A leaves all his property by will to his son, B, and includes in the will the following clause: "I request B to make such provision as is possible for the wants of my sister, C, either out of the income of the farm, or from the dividends on my stocks". B accepts the gift, but fails to pay anything to or for C. Can C enforce a trust?

Q. 11. Buck negotiated with Scott for the purchase of a horse. On November 1, he wrote Scott, offering to buy the horse for $1500.00 and added: "If I hear no more about him, I shall consider the horse is mine at $1500.00". Scott sent no reply, but on December 2, told Vest, an auctioneer, employed by Scott, that the horse had been sold. Later Vest, by mistake sold the horse to Ruth. Was a contract concluded by Scott's mental assent or acquiescence in Buck's offer?

THEORY OF ACCOUNTS

NOVEMBER 28, 1928—9 A .M. TO 1 P. M.

Answer All Questions

Do not repeat questions, but designate them by numbers and letters

1. Define:
   - *(a)* Working Capital
   - *(b)* Suspense Account
   - *(c)* Controlling Accounts
   - *(d)* Trading Account
   - *(e)* Secret Reserve
   - *(f)* Bonus Stock
   - *(g)* Donated Capital Stock

2. Define Treasury Stock and explain how it should be handled in a Balance Sheet when purchased *(a)* at par, *(b)* above par, *(c)* below par.

3. In the preparation of a Balance Sheet, how would you treat the following assets which have been pledged as security for borrowed money:
   - *(a)* Accounts and Notes Receivable
   - *(b)* Inventories

4. Describe the following securities, explain the general characteristics of each, and state in what order the holders thereof rank in case of liquidation:
   - *(a)* Common Stock
   - *(b)* Cumulative and Non-Cumulative Preferred Stock
   - *(c)* Mortgage Bonds
   - *(d)* Debenture Bonds

5. A Corporation secured lease on certain business property for a period of five years at an annual rental of $15,000.00, plus taxes and fire insurance of $3,000.00 paid annually on the property, with option of renewal for an additional five years at an annual rental of $20,000.00, plus taxes and insurance paid of $4,000.00 annually. The lessee immediately made substantial improvements to the property at the cost of $12,000.00. At the end of the fourth year, lessee exercised its option of renewal of the lease for the additional five years.
   - *(a)* How should the cost of the improvements be treated on the Corporation's books?
   - *(b)* Show the annual rental equivalent of the Corporation, by years, for all years covered by the lease and the renewal thereof.

6. Is it sound business policy under any conditions for a corporation to declare a dividend out of current earnings while its capital is impaired? Is it ever justifiable to pay dividends with borrowed money?

7. How would you treat dividends unpaid on cumulative preferred stock in a balance sheet?

8. On January 1, 1928, a concern dealing in a single commodity had an inventory of merchandise which cost $20,000.00. The goods were marked to sell at 125% of cost and all subsequent purchases during the three months ending March 31, 1928, were marked at the same rate. The selling price of the inventory at March 31, 1928 was $33,250.00. Purchases and sales by months were:

	Purchases (Cost)	Sales (Selling Price)
January	$ 8,000.00	$ 9,000.00
February	9,000.00	9,500.00
March	14,000.00	12,000.00

Compute estimated inventories at cost price at the end of each of the three months.

Compute the rates of turnover for the three months period.

9. How would you handle on the books of a company the following premiums or discounts, in the first or subsequent years:
   - *(a)* An issue of preferred shares at a premium?
   - *(b)* An issue of bonds at a discount redeemable at par?
   - *(c)* An issue of bonds at a discount redeemable at a premium at a fixed date or by purchase in the open market prior to that date? If there were a saving by purchasing in the open market, how should this be treated?

10. Define the following and explain how each is created:
    - *(a)* Earned Surplus
    - *(b)* Capital Surplus
    - *(c)* Donated Surplus