1930

Examination [1930]

Virginia State Board of Accountancy

EXAMINATION
VIRGINIA STATE BOARD OF ACCOUNTANCY

RICHMOND, VIRGINIA

November 20, 21 and 22

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PRICE, 25 CENTS PER COPY

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Examination Virginia State Board of Accountancy

THEORY OF ACCOUNTS

NOVEMBER 20, 1930—9 A. M. TO 1 P. M.

Answer All Questions

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

1. A corporation authorizes the issuance of a life insurance policy on its Treasurer for $50,000.00, payable at his death to the Corporation.

   (*a*) How should this subject be treated on the books of the Corporation?

   (*b*) How should the premiums be treated on Income Tax Returns?

   (*c*) How should the collection of the proceeds of this policy be treated upon the books?

   (*d*) On the Tax Returns?

2. Corporation "A" proposes to take over all of the assets of Corporation "B", the consideration being $10.00 cash and the assumption of the liabilities of Corporation "B", preparatory to liquidating the latter named Corporation.

   The total assets of Corporation "B" are $400,000.00 and the liabilities $200,000.00.

   All of the stock in both Corporations is owned by the same stockholders.

   (*a*) Give your opinion as to any features of income tax that might be involved in the transaction.

   (*b*) What would be the basis of computing depreciation and determining profit or loss on the subsequent sale of the assets acquired from Corporation "B"?

   (*c*) What other plan, if any, would you recommend be adopted by Corporation "A" for acquiring the assets of Corporation "B"?

3. The Farmers' Protective Association is an organization operating in Minnesota for the purpose of keeping its members informed as to the market for their products. Each member is assessed $15.00 on December 31st of each year as his portion of the maintenance of the Association for the coming year. Following is a condensed trial balance of the Association at December 31, 1929:

Particulars	*Debit*	*Credit*
Cash	$15,463.82	
Dues receivable	22,455.00	
Inventory of supplies	1,214.16	
Furniture and fixtures, less depreciation reserve	7,246.19	
Accounts payable		$ 1,206.08
Accrued expenses		891.16
Dues billed in advance (1930 dues)		37,920.00
Surplus		6,361.93
Totals	$46,379.17	$46,379.17

An analysis of the dues receivable reveals the following:

Particulars	*Amount*
Unpaid 1929 dues, considered collectible	$ 1,545.00
1930 dues	37,920.00
	$39,465.00
1930 dues paid in advance	17,010.00
Balance, as above	$22,455.00

Prepare a balance sheet at December 31, 1929. Set forth therein the above facts in accordance with good accounting practice. Give your reasons for the method you have followed in handling dues.

4. On July 15, 1930, the Oldham Products Company sold its present factory site and building for $1,000,000 cash, realizing a book profit of $400,000, and erected a more modern plant on the outskirts of the city at a cost of $1,300,000. In view of the fact that the capacity of the new plant is no greater than that of the old, the president of the company suggests that the profit be credited to the cost of the new plant, thus reducing future depreciation charges and avoiding income tax.

Write a letter to the president, giving your views on the matter. You are to inform him also whether the balance sheet at the end of the year should contain a disclosure of the transaction, provided your recommendations have in the meantime been followed.

5. A, B, and C were partners in an enterprise for many years. At October 31, 1930, having found a purchaser, they sold their

business and retired. The books show net assets of $400,000.00 exclusive of cash (which was $30,000.00), and for such net assets, excluding cash, the partnership received $460,000.00 in cash. During the period of the partnership, which was exactly twenty years, A drew an annual salary of $10,000.00 a year; B, $12,000.00; and C, $15,000.00. Net profits, after deducting salaries, were to be shared equally. There were no withdrawals other than salaries and no additional capital invested. No interest was to be allowed on capital contributions.

It is A's contention that the proceeds of the sale of the business should be distributed according to the original capital contributions, which were: A, $40,000.00; B and C, $30,000.00 each. B and C believe that the cash should be divided in accordance with the profit-and-loss ratio.

Prepare a statement showing the proper distribution between the partners.

6. Your client, a small manufacturing concern, occupies rented land and has signed a 25-year lease, which does not contain a renewal clause. On the land, he has erected a building having an estimated life of 40 years, at a cost of $15,000.00. On his books a 4% depreciation rate has been employed which fully depreciates the building at the termination of the lease.

   (*a*) Do you believe that the depreciation rate of 4% is correct?

   (*b*) If, at the end of the fifteenth year, the lease is canceled and a new one for 35 years is signed, would you at that time recommend any change in the depreciation rate?

   (*c*) What depreciation rate would you have recommended at the outset, if the original lease had contained a clause giving your client the option of renewal for 25 years?

7. Determine the accounting period in which the sales described below should be recorded. In each case, December 31, 1929, marks the close of the accounting period.

   (1) Machinery and machine parts have been made according to customers' specifications, and were ready for delivery December 27, 1929, F. O. B. factory. The customer's shipping instructions indicated that delivery was to be made immediately and the merchandise could have been delivered in 1929 if the manufacturer had so desired: but because of the rush of other orders during the holiday season shipment was delayed until January 3, 1930, and billed on that date.

(2) Would your answer be different if the delay in shipment was due to transportation difficulties beyond the control of the manufacturer?

(3) What would your decision be if the manufacturer had agreed, at the time the order was accepted, to hold the merchandise in his warehouse until shipping instructions were received and if the customer wired instructions on January 5, 1930, to make shipment at once? The shipment was billed January 6, 1930.

(4) Assuming that the shipper was a jobber who sold a bulk product from stock instead of manufacturing to order, would your answer be the same in the three cases mentioned above?

(5) In order to reduce an overstocked inventory, orders were accepted and merchandise delivered in December, 1929, subject to an agreement with customers that bills would be dated January 25, 1930.

8. From the following data extracted from the audited statements of the C B C Company determine the reason for the increase in gross profit and prepare a statement reflecting such changes:

Particulars	*Year ending June 30* *1929*	*1930*
Sales	$329,729.40	$333,067.50
Cost of sales	237,332.70	240,252.69
Gross profit	$ 92,396.70	$ 92,814.81

Units sold in 1929 were 72,468, and in 1930, 74,015.

9. It has been recently urged that if the replacement cost of fixed assets is greatly in excess of their cost, depreciation should be computed on replacement values, so that the reserve for depreciation will be equal to the replacement value when the time arrives for abandoning the old property and acquiring new. It is contended that if this procedure is followed, the company will have sufficient cash to make replacements without impairing the capital. State your opinion in regard to this matter.

10. A owns 10,000 shares of stock in the Hammond Manufacturing Corporation and donates 5,000 shares of said stock to the Corporation.

Would this affect the book value of capital stock?
If so, explain.

PRACTICAL ACCOUNTING

PART I

NOVEMBER 20, 1930—2 P. M. TO 6 P. M.

PROBLEM 1

The Atticus Corporation, under contract, furnishes the Wall Company part of its raw material. This contract at expiration will not be renewed. The Wall Company, unable to purchase this particular material elsewhere, decides to buy an unused plant and to equip it with the necessary machinery with which to produce the required material.

To help finance this purchase and to acquire enough raw material for the new plant, the company borrows from its bankers $25,000 prior to December 31, 1928, and $175,000 during 1929. Of this amount, $45,000 has been repaid in 1929, leaving a balance of $155,000 due the bankers on December 31, 1929. This loan has been in the form of short-term notes which are renewed from time to time.

On December 31, 1929, the bankers suggest to the Wall Company that, inasmuch as the loan was principally invested in the fixed assets of the company, it should be converted into a mortgage bond issue.

The Wall Company, which is a close corporation, feels that, while the loan did help finance the plant purchase, it is now practically financing their current operations, and the company wishes you to use the two accompanying balance sheets and other information derived therefrom to formulate a report which it may present to its bankers in support of its views.

Prepare Application of Funds Statements and draft a letter explaining how such statements support the views of the Wall Company.

WALL COMPANY

Balance Sheet—December 31, 1928 and 1929

ASSETS	*December 31* *1928*	*1929*
Cash	$ 37,000	$ 36,000
Receivables	118,000	152,000
Inventories	231,000	360,000
Machinery and Equipment	82,000	101,000
Buildings	58,700	116,500
Land	45,800	68,500
Deferred Charges	3,850	22,300
	$576,350	$856,300

LIABILITIES

Accounts Payable	$ 1,800	$ 26,000
Accrued Federal Taxes*	4,300	26,800
Notes Payable—Banks	25,000	155,000
Reserve for Depreciation	37,200	42,510
Capital Stock	400,000	400,000
Surplus†	108,050	205,990
	$576,350	$856,300

*Federal taxes were computed and charged against profits before closing the books each year.

†No dividends were paid in 1929.

PROBLEM 2

The Balance Sheet of the Royal Manufacturing Company, Inc., as at December 31, 1929, prepared by the company, was as follows:

ASSETS

Current Assets:		
Cash		$ 17,500
Notes and Accounts Receivable		165,000
Inventories (at lower, cost or market):		
Raw Material and Supplies	$ 80 000	
Goods in Process	35,000	
Finished Goods	120,000	
Goods on Consignment	25,000	
		260,000
Total Current Assets		$ 442,500
Prepaid Expenses:		
Interest and Insurance		1,700
Fixed Assets:		
Land	$ 75,000	
Buildings	325,000	
Machinery and Equipment	550,000	
		950,000
Total		$1,394,200

LIABILITIES

Current Liabilities:		
Notes Payable		$ 145,000
Accounts Payable		230,000
Accrued Liabilities—Wages and Taxes		7,000
Total Current Liabilities		$ 382,000
Reserves:		
Depreciation	$220,000	
Bad Debts	3,500	
For General Purposes	50,000	
		273,500
Stockholders' Equity		738,700
Total		$1,394,200

The authorized capital stock of the company, all of which is outstanding, consists of 3,000 shares of 6 per cent cumulative preferred stock and 5,000 shares of common, all shares being of the par value of $100 each. The former is preferred both as to capital and dividends, and the preferred dividends, payable June 30 and December 31, have been paid to June 30, 1928.

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

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

The fixed assets are stated at the appraised value of December 31, 1929, when the net book value—$500,000 (cost less depreciation)—was adjusted to the appraisal figures.

You are requested to restate the Balance Sheet so as to reflect the facts in proper form. Also, give required journal entries.

PROBLEM 3

A and B are equal partners. On the night of April 30, 1930, their stock and fixtures were destroyed by fire. They were insured for $12,000.00 under a 90% co-insurance clause.

A trial balance from their books shows:

	Debit	*Credit*
Cash in Bank	$ 1,500.00	$
Accounts and Bills Receivable	11,500.00	
Purchases (since last stock-taking)	25,000.00	
Duty and Freight (since last stock-taking)	4,500.00	
Furniture and Fixtures	1,200.00	
Building and Land	15,000.00	
Sales		33,000.00
Expenses	3,300.00	
Cash Discounts on Purchases		750.00
Cash Discounts Allowed Customers	1,050.00	
Interest Paid	356.00	
Accounts and Bills Payable		13,000.00
A's Capital		15,000.00
B's Capital		12,656.00
Inventory Last Stock-taking	11,000.00	
	$74,406.00	$74,406.00

The salvage on their stock amounts to $5,000.00.

The adjustment of their loss on stock is based on the ratio of gross profit to sales as shown by the previous year's Profit and Loss Account, which is shown below, and depreciation of 30% is allowed on furniture and fixtures.

PROFIT AND LOSS ACCOUNT

For Period Ending December 31, 1929, as Furnished

Previous Inventory	$10,000.00	$
Purchases	50,000.00	
Expenses	8,250.00	
Cash Discounts to Customers	2,625.00	
Interest Paid	700.00	
Duty and Freight	7,850.00	
Sales		80,000.00
Cash Discounts on Purchases		1,875.00
Inventory at Dec. 31		11,000.00
Balance Profits	13,450.00	
	$92,875.00	$92,875.00

Required:

(*a*) Balance Sheet, April 30, 1930.
(*b*) Prepare Profit and Loss Statement for five months ending April 30, 1930.
(*c*) Prepare statement showing amount of insurance recovered, and amount of fire loss.

PRACTICAL ACCOUNTING

PART II

Work Any Two Problems

NOVEMBER 21, 1930—9 A. M. TO 1 P. M.

PROBLEM 4

Following are the trial balances of Company X and its subsidiaries at December 31, 1929:

DEBITS

	Company X	*Company Y*	*Company Z*
Cash	$ 75,000	$ 50,000	$ 60,000
Accounts Receivable	350,000	190,000	420,000
Notes Receivable	200,000	60,000	40,000
Inventory, Raw Material, January 1, 1929	150,000	105,000	160,000
Purchases, Raw Materials	650,000	400,000	510,000
Labor	450,000	320,000	370,000
Manufacturing Expenses	190,000	190,000	205,000
Selling Expenses	85,000	40,000	75,000
Administrative Expenses	45,000	25,000	35,000
Inventory, Goods in Process, January 1, 1929	80,000	70,000	75,000
Inventory, Finished Goods, January 1, 1929	90,000	65,000	80,000
Plant and Equipment	900,000	400,000	750,000
Investment in Stock of Company Y	875,000		
Investment in Stock of Company Z	1,200,000		
	$5,340,000	$1,915,000	$2,780,000

CREDITS

Capital Stock	$3,000,000	$ 500,000	$ 800,000
Notes Payable	110,000	80,000	60,000
Accounts Payable	100,000	65,000	250,000
Bonds Payable	500,000		
Premium on Bonds	5,000		
Reserve for Depreciation	100,000	60,000	112,500
Sales	1,400,000	1,050,000	1,250,000
Surplus	125,000	160,000	307,500
	$5,340,000	$1,915,000	$2,780,000

The inventories at December 31, 1929, were:

	Company X	*Company Y*	*Company Z*
Raw Material	$ 280,000	$ 175,000	$ 210,000
Goods in Process	95,000	80,000	85,000
Finished Goods	135,000	145,000	105,000

Company X purchased the entire stock issues of Company Y and Z at January 1, 1929, at the prices shown in the trial balance. During the year each of the three companies declared and paid a 5 per cent dividend. Company X took up its dividends from Y and Z by credits to surplus. The various entries for the dividends were the only entries affecting the surplus accounts during the year.

At December 31, 1928, Company X's inventory of raw material included goods purchased from Company Y at a price of $60,000, the cost thereof to Company Y being $40,000.

At the same date Company Y's inventory of raw material included goods purchased from Company Z for $75,000 on which Company Z made a profit of $25,000.

During 1929 Company Z sold goods to Company Y at a price of $200,000. These goods cost Company Z $160,000. Company Y still owes $30,000 on these purchases, the indebtedness being included in the accounts payable.

During 1929 Company Y sold goods to Company X at a cost of $300,000 and at a selling price of $375,000. Company X made cash advances totaling $400,000 to Company Y during the year. The sales just mentioned were charged against the advance, the $25,000 balance of which is included in Company Y's accounts payable.

The inventories at December 31, 1929, include intercompany profits as follows:

	Raw Material	*Goods in Process*	*Finished Goods*
Company X	$20,000	$5,000	$4,000
Company Y	30,000	6,000	5,000

Company X's bonds were issued July 1, 1929. They bear 5 per cent interest, payable semi-annually, and mature in five years. No interest has been paid.

Allow depreciation at 5 per cent per annum on the cost of the fixed assets.

Prepare the following consolidated statements:

Cost of Goods Manufactured and Sold.

Profit and Loss Statement.

Surplus Statement (showing as the final balance therein the surplus balance appearing in the Consolidated Balance Sheet).

Balance Sheet.

Problem 5

The Crown Savings Bank and the Liberty County Savings Bank agree to consolidate, with a capital stock of $2,000,000.00. To facilitate the merger, the former agrees to sell and does sell its remaining $100.00 shares of authorized capital of $1,000,000.00 at $320.00, and charges off Furniture and Fixtures. The banking houses of both institutions are reappraised and the value adjusted on the new books at $483,690.00 combined. The Liberty County Bank declares and pays a 20% dividend payable to stockholders of date. The accrued interest and expenses of each institution are not considered, except as they may have been reserved for.

Following is the condition of each, April 30, 1930:

LIBERTY COUNTY SAVINGS BANK

RESOURCES		LIABILITIES	
Loans and Discounts	$ 4,125,487.49	Capital Stock Paid in	$ 1,000,000.00
Bonds, Mortgages and Securities	9,855,885.10	Surplus Fund	1,000,000.00
Banking House	125,000.00	Undivided Profits—Net	541,008.49
U. S. Bonds	1,754,471.00	Savings Deposits (book accounts)	13,308,920.17
Due From Banks in Reserve Cities	30,451.00	Savings Certificates of Deposit	708,144.24
U. S. and Nat'l Bank Currency	339,284.00	Reserve for Taxes, Interest, etc.	29,398.95
Gold Coin	334,600.00		
Silver Coin	5,215.95		
Nickels and Cents	17,072.31		
Checks and Other Cash Items	5.00		
	$16,587,471.85		$16,587,471.85

CROWN SAVINGS BANK

RESOURCES		LIABILITIES	
Loans and Discounts:		Capital Stock Paid in	$ 996,400.00
Commercial Dept.	$ 3,255,014.52	Surplus Fund	996,400.00
Savings Dept.	2,938,090.06	Undivided Profits—Net	103,931.53
Bonds, Mortgages and Securities	4,986,142.82	Commercial Deposits Subject to Check	2,225,028.46
Overdrafts	131.03	Commercial Certificates of Deposit	36,898.95
Banking Houses	356,657.00	Certified Checks	19,916.17
Furniture and Fixtures	10,320.96	Cashier's Checks Outstanding	22,252.97
Other Real Estate	1,834.56	Due to Banks and Bankers	79,766.48
Items in Transit	10,841.21	Savings Deposits (book accounts)	9,113,276.86
Commercial:		Savings Certificates of Deposit	246,467.81
Due From Banks in Reserve Cities	486,627.29		
Exchanges for Clearing House	128,015.02		
U. S. and Nat'l Bank Currency	212,730.00		
Silver Coin	17,643.00		
Nickels and Cents	163.16		
Savings:			
Due From Banks in Reserve Cities	956,623.79		
U. S. and Nat'l Bank Currency	278,868.00		
Gold Coin	200,020.00		
Checks and Other Cash Items	616.81		
	$13,840,339.23		$13,840,339.23

Required:

(*a*) Journal entries to effect the closing of the books of the Crown Savings Bank and the Liberty County Savings Bank, and the opening entries of the New Bank.

(*b*) Balance Sheet of the New Bank.

(*c*) The resultant book value of the shares of the combination.

PROBLEM 6

The financial statement of the Virginia Manufacturing Company on July 1, 1929, was as follows:

Cash	$ 2,000	
Accounts Receivable	6,000	
Materials	70,000	
Work in Progress	15,000	
Finished Goods	80,000	
Unabsorbed Burden	1,500	
Prepaid Items	1,500	
Equipment, etc.	150,000	
Total Assets		$326,000
Notes Payable	$ 10,000	
Accounts Payable	15,000	
Total Liabilities		25,000
Capital Stock	$250,000	
Surplus	51,000	
Total Proprietary Interest		$301,000

The company retains you to install a cost accounting system, and you decide upon the controlling account type—a self-balancing cost ledger separate from General Ledger.

The system is duly installed. At the end of the first six months' period you are called in to make the closing entries upon the books and to compile the usual operating statement.

You find the following items, among others, that are to be given your consideration:

Materials purchased	$250,000
Materials requisitioned by departments	300,000
Labor:	
Productive	130,000
Nonproductive	20,000
Heat, light and power	15,000
Rent	12,000
Insurance	3,000
Taxes	6,000
Depreciation	5,000
Repairs	2,500
Sundry factory expense	11,500
Selling expenses	80,000
Administrative expenses	30,000
Work in process completed	520,000
Cost of goods sold	500,000
Sales	600,000

The administrative expenses are to be divided equally between the factory and the sales department. Burden is distributed on the basis of productive hours, and the rate given the factory superintendent was 20 cents per hour. The productive hours for the period total 445,000.

The physical inventories, taken to verify the cost records, revealed the following amounts on hand December 31, 1929:

Material	$45,000
Work in process	16,000
Finished goods	99,000

You are asked (a) to make the entries necessary to open the cost ledger on the basis named, (b) to record the proper facts in the cost ledger, (c) to close the cost ledger after making necessary adjustments, and (d) to prepare the operating statement for the six months' period.

AUDITING

NOVEMBER 21, 1930—2 P. M. TO 6 P. M.

Answer Any Ten Questions

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

1. The following situation was disclosed in the audit of The National Manufacturing Company for the year ending June 30, 1930:

   The sum of $50,000.00 was borrowed from the president of the company on January 8, 1930, and was repaid on January 28, 1930. At the end of June, however, this check was still outstanding and upon inquiry the auditor learned that the president was holding the check until the company was in a better financial position. The books reveal that there is an overdraft of $36,182.12 in the bank account.

   (*a*) How should this transaction be handled on the financial statements prepared by the auditor?

   (*b*) Would your procedure be different if the bank account per books showed a balance of $8,629.31 instead of an overdraft?

2. The fiscal year of an investment trust ends September 30, 1930. Because of depressed financial conditions on that date, the market values of all its investments are below cost. The management, while willing that you should state on the balance sheet that securities are valued at cost, asks you to withhold all comment regarding market prices. What attitude would you take as auditor?

3. What method of establishing inventory values would you follow in the first audit of a wholesale dry goods house which maintains perpetual inventory records that are said to have been verified with a physical inventory only at the beginning of the year under audit? No inventory was taken at the end of the year.

4. In your audit of the Rex Importing Company you find three bank accounts as follows:

Cash in Austin State Bank	$5,318.27
Cash in West Town State Bank	816.38
Overdraft—Bank of America	1,837.26

   (*a*) How would you set up the cash in bank on your balance sheet, assuming the figures to be correct?

   (*b*) Would your procedure be different provided the cash in Austin State Bank was $5,000.00 less?

5. In preparing the balance sheet of the A. B. Electric Company, as of June 30, 1930, you are confronted with the question of billings on jobs in progress. On regular electrical installations, billings are made on a basis of 85% of costs incurred, including overhead. One large contract with the Y Company received early in 1930, stipulates that billings are to be made at certain points of completion. Due to this contract, the billings on jobs in progress exceed the costs incurred, as shown in the following schedule:

Contracts	*Total billings on contracts in process*	*Uncollected billings at 6—30—'30*	*Total costs to date, including overhead*
Regular contracts	$389,250.00	$252,000.00	$458,000.00
Y Company contract	536,000.00	265,000.00	462,500.00
Totals	$925,250.00	$517,000.00	$920,500.00

Explain how you would present these items on the balance sheet.

6. During the audit of the A Company you discover an invoice, covering merchandise purchased from the B Company, extended as $132.15, whereas the correct amount should have been $1,321.50. You adjust purchases and credit B Company $1,189.35 and subsequently give the entry to the bookkeeper.

   It happens that B Company is also your client and is unaware that an error has been made. What action would you take in connection with this invoice when, at a later date, you are auditing B Company's books and discover that the A Company, in the meantime, has paid $132.15 in full settlement of the invoice? Your audit engagement with the B Company does not include an inspection of sales invoices.

7. A real-estate broker underwrites mortgages and mortgage bonds, and sells them to his customers at par.

   (*a*) Commission charged the borrower (ranging from 2% to 10%) is deducted from the face of the loan and credited to income. In the case of bonds the issue may not be completely disposed of to the public for a year or more. Should the commission be regarded as earned when the deal is closed or when the loan is paid out to the borrower, or should the commission be spread over the sales of bonds or taken up as income over the life of the issue?

   (*b*) An oral understanding with customers exists whereby bonds sold to them will be repurchased at any time at 1% less than par. Does a contingent liability exist, requiring a qualification of the balance sheet of the broker, for all or any part of outstanding issues?

(c) When bonds are repurchased, the bond account is charged with par and income is credited for the discount of 1%. Frequently repurchased bonds are held to maturity; others are sold again at par. Is this procedure correct?

8. An argument has arisen between an accountant and a banker regarding the position of disclosures and qualifications pertaining to a certified balance sheet. The accountant has prepared a balance sheet which is very long and on which numerous items have been qualified. At the bottom of the balance sheet a brief certificate appears. The banker believes that the balance sheet is too bulky; he admits the necessity for the qualifications, but prefers to see them in the certificate, even though the latter attains a length of several pages. The result, he says, is a more easily read balance sheet.

What is your opinion?

9. In March, 1930, you are making a first audit of the Y Company's books as at December 31, 1929. You find that the company's officers have been in the habit of making withdrawals from company funds without notice to the bookkeeper. The bookkeeper states that until the canceled checks are returned he has no way of determining the amount of these withdrawals, inasmuch as any officer may sign checks and the checks used by them are not the regular checks imprinted with the company's name. You find also that the bookkeeper has never attempted to reconcile the bank account during the five-year period of his employment by the company, and that he has separated the canceled checks from the statements upon their return from the bank and filed them numerically.

Outline a plan of procedure for verifying cash in bank.

10. Appearing on the books of the CD Company at December 31, 1929, are advances to salesmen in excess of commissions due, amounting to $25,652.10. Of this amount, $20,562.19 represents advances made to salesmen who have left the company. The management of the company, while admitting that the accounts are uncollectible, insists that they not be charged off at December 31, 1929, but written off monthly during 1930, due to the fact that these salesmen secured orders for future delivery. What attitude would you take in this matter?

11. The Rosy Apple Company, engaged in the fruit commission business, has an arrangement with the bank whereby drafts drawn on customers for carloads of fruit shipped to them are immediately credited to the company's bank account. Any drafts upon

which payment is refused are charged back to the company when notice is received from the correspondent bank. In making an audit of the company at December 31, 1929, what disposition would you make of any drafts unpaid at that date?

12. The XY Company is engaged in the importation of merchandise for sale in this country. The individual items of the various purchases are entered upon perpetual inventory cards at the time of the purchase. One large shipment, containing a great number of individual items, was received in December, 1929, and upon payment a month later, but before the date of the audit, due to the fluctuation of the exchange rate, the cash paid in settlement of the account was $10,500.00 less than the amount of the liability set up at date of purchase.

How should this item be handled upon the company's balance sheet and statement of profit and loss?

COMMERCIAL LAW

NOVEMBER 22, 1930—9 A. M. TO 1 P. M.

Give Reasons for All Answers

Designate Questions by Numbers

Answer Any Ten Questions

(1) B is the maker of a $500.00 note, payable to the order of C, who endorses it to D. Before its maturity B purchases said note from D, assigns it to K, and then becomes insolvent. Can K recover against the endorsers, and reason?

(2) Nesbit offers to sell Chichester his horse for $2,000.00. Chichester replies that he will give him $1,800.00. Nesbit refuses this, and thereupon Chichester says that he will accept $2,000.00, the offer. Nesbit then refuses to sell. Is he bound?

(3) A land owner gives a real estate agent authority to lease on a 3% commission, no date being fixed as to the duration of such agency. The agent leases the property for a term of years and collects the rents, deducting commissions. Before the lease expires, the owner sells the property. Can the agent claim commissions on rents accruing after the sale?

(4) The Charter of the Loudoun Land Company of Leesburg, Va., limits the amount of land which the company may hold to 300 acres. The company already owns 300 acres of land, but in order to collect a debt due to it by A takes a conveyance from A of 100 acres of land in Loudoun County. A short time afterwards the company sells fifty acres of this land purchased from A to B and makes him a deed to the same. Does B get a good title to the land?

(5) On January 1, 1929, while "A" is the owner of stock in the Acme Corporation, a dividend is declared and ordered to be paid February 1. On January 15 "A" sells and transfers his stock to "B", nothing being said between them about the dividend. "B" has the stock immediately transferred on the book of the company, and then claims the dividend, when it is paid. In contest between "A" and "B" for the dividend, which prevails?

(6) William Jackson takes from Henry Brown in part payment for a lot of wheat, guaranteed to be of A No. 1 quality, a note which reads as follows:

"Six months after date I promise to pay to William Jackson at the Loudoun National Bank of Leesburg, Va., the sum of ONE THOUSAND DOLLARS ($1,000.00).
(Signed) "HENRY BROWN."

Jackson then endorses and assigns this note for value to the Old Dominion Trust Company. The note is not paid at maturity and suit is brought thereon by the Old Dominion Trust Co. Brown pleads as a defense a breach of the warranty as to the quality of the wheat. Is the defense available, and reason?

(7) C retired from the firm of A, B & C; A and B assumed outstanding debts of the firm and paid C the value of his interest. D was then admitted to partnership with A and B, and the business was continued. Creditors of the former firm not being paid, what are their remedies?

(8) M had borrowed $1,000.00 from E, and gave his promissory note, payable on a certain date, for the amount, together with a mortgage on Awlington, a farm, securing it. When the note came due, by agreement with E, the original note was destroyed, and M gave E a demand note for the same amount. E later demanded payment, and on default seeks to enforce the mortgage. May he do so?

(9) What is the Statute of Limitations in Virginia on the following:
- (*a*) An open account?
- (*b*) Negotiable note?
- (*c*) A sealed instrument?

(10) Draw an ordinary negotiable promissory note.

(11) D, while insolvent, pays L in full of his claim. Subsequently D goes into bankruptcy. Under what circumstances, if any, can the trustee in bankruptcy have the payment to L set aside?

(12) A corporation secured a charter from the State Corporation Commission of Virginia with an authorized minimum capital stock of $25,000.00 and a maximum of $100,000.00, the par value of the stock being $100.00 per share.
It is proposed to sell 500 shares of stock for cash, at par.
- (*a*) State the procedure necessary to carry the above into effect and issue the stock.
- (*b*) What procedure would be necessary in the event the Corporation subsequently purchased $25,000.00 of its stock (par value) for the purpose of retiring same?