1929

Examination of May, 1929

District of Columbia. Board of Accountancy

The

BOARD OF ACCOUNTANCY

OF THE

DISTRICT *of* COLUMBIA

Examination of May, 1929

PRICE, 25c PER COPY

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THEORY AND PRACTICAL ACCOUNTING

FIRST SESSION.

May, 1929, Examination

I.

(Twenty-five Points)

The stockholders of the A, B, C, D, and E Companies have agreed to exchange their stock in those corporations for 6 per cent non-participating preferred and no par value common of a corporation to be organized.

You make an audit and find the following:

	Net Tangible Assets	Average Annual Earnings for 5 year period	Capital and Surplus
A	$1,500,000.00	$300,000.00	$1,000,000.00
B	500,000.00	200,000.00	500,000.00
C	1,000,000.00	150,000.00	500,000.00
D	3,000,000.00	450,000.00	2,000,000.00
E	4,000,000.00	400,000.00	5,000,000.00

You are requested to advise as to the capitalization of the new corporation and how that stock should be distributed.

II.

(Twenty Points)

A Company is organized on January 1st, 1928, with $750,000.00 common capital stock which it sells for cash at par using part of the proceeds to buy $270,000.00 par value of the common capital stock of B Company for $375,000.00 and $250,000.00 par value of the common capital stock of C Company for $325,000.00.

At the date of purchase the audited balance sheets of the B and C companies show the following assets and liabilities:

	B Company	C Company
Assets		
Tangible Assets	$425,000	$400,000
Good will	50,000	....
Total		
LIABILITIES and NET WORTH		
Liabilities	75,000	50,000
Capital Stock (100 par value)		
Preferred	....	....
Common	300,000	250,000
Surplus	100,000	100,000
Total		

From the foregoing prepare a consolidated balance sheet of the three companies immediately after the purchase.

During the year ended December 31, 1928, B and C Companies have made earnings and declared (but not paid) dividends as follows:

	Earnings	Dividends Declared but not Paid
B Company	$60,000	10%
C Company	50,000	8%

Show the items making up the consolidated surplus account at the close of the year.

III.

(Fifteen Points)

During the course of an audit you find accounts as follows:

INVESTMENTS—Stock in A Company $100.00 par per share

DEBITS

Jan. 1st, 1927	Cost of 100 shares	$17,500
Feby. 1st, 1927	50 shares received as a stock dividend	5,000

CREDITS

July 1st, 1927	25 shares of dividend stock sold at 125	3,125

PROFIT and LOSS

CREDITS

Feby. 1st, 1927	Cash dividend on A Company stock	3,125
Feby. 1st, 1927	Stock dividend A Company stock 50%	5,000

What adjustments to these accounts would you make? Give reason.

(Solve this problem by what you consider proper accounting procedure, disregarding any income tax feature.)

IV.

(Ten Points)

You are employed to make an audit of the books of the Archaic Company and certify to its Balance Sheet and its earnings for a period of three years. Upon your arrival at the Company's office you find its books have been kept by single entry. How would you proceed?

V.

(Ten Points)

A corporation you are auditing as of December 31, 1928, has outstanding an issue of Preferred Stock under an agreement that a ratio of current assets to current liabilities of 2 to 1 shall be maintained. You are asked to prepare a statement showing whether or not this agreement has been kept. In preparing this statement which of the following accounts would you include. *Give reasons.*

ASSETS

Accounts Receivable

(a) Due from Customers
(b) Due from Officers and Employees
(c) Due from a company for advances, etc.

Cash on hand and in bank
Cash in hands of Sinking Fund Trustees
Cash Surrender value of Life Insurance
Discount on Bonds Sold

Inventory

(a) Finished Goods
(b) Work in Process
(c) Raw Materials
(d) Miscellaneous Factory Supplies
(e) Printing and Stationery
(f) Machinery and Equipment in Store room
(g) Small Tools in Store room

Investments

(a) Marketable Securities
(b) Stock in A company (25% ownership)
(c) Other Securities
(d) Securities in hands of Sinking Fund Trustees

Organization Expense
Prepaid Advertising
Prepaid Fire Insurance premiums
Treasury Bonds
Treasury Stock

LIABILITIES

Accounts Payable—Merchandise creditors
Accrued County and State taxes
Accrued Wages and Salaries
Accrued Interest on bonds and mortgages
Bonded Debt
Mortgage payable
Notes payable
Reserve for Federal Income tax

VI.

(Seven and one-half Points)

The books of a corporation show

Buildings (at cost)	$300,000.00
Machinery and Equipment (at cost)	500,000.00
Reserve for depreciation on Buildings	60,000.00
Reserve for depreciation on Machinery and Equipment	100,000.00

There is submitted to you an appraisal of the foregoing assets made by a reputable appraisal company which shows the following:

	Buildings	Machinery & Equipment
Cost of reproduction new	$400,000.00	$600,000.00
Sound value	300,000.00	450,000.00

You are asked to adjust the books to this appraisal. What entries would you make? Why?

VII.

(Seven and one-half Points)

A corporation buys land, buildings and machinery for $1,000,000.00, giving in payment therefor $500,000 face value of its 6% 20 year bonds and cash $500,000.

The land upon which the plant is located is worth $250,000.00. The plant and machinery have an estimated life of 20 years.

The bonds provide that a sinking fund shall be set aside each year in cash, which at 4% compounded will be sufficient to retire the bonds at maturity.

What accounts would you set up to take care of the Sinking fund and depreciation? Draft the Journal Entries to be used the first and second year.

(An annual sinking fund installment of $16,800.00 may be used.)

VIII.

(Five Points)

$500,000.00 face value of bonds are sold at 95. $50,000.00 of these bonds are subsequently redeemed at 97.50. What entries should be made covering these two transactions?

PRACTICAL ACCOUNTING.

May, 1929, Examination.

SECOND SESSION

(Ten Points)

1. In setting up the accounts for an executor should the following items be regarded as applicable to corpus or income?

(a) Profit or loss on sale of investment.
(b) Funeral expenses.
(c) Legacies paid in cash.
(d) Cash dividend received on stock purchased by the executor.
(e) Cash dividend received on stock owned by the testator.
(f) Proceeds from sale of stock received as stock dividend during period of administration.
(g) Rent received.
(h) Expenses of executor.
(i) Receipts from partnership in which testator was interested.

State the reasons for your answers.

(Twenty-five Points)

2. You are engaged in preparing amended federal tax returns for a client who has just obtained permission to change from a cash basis to the accrual basis. The years for which amended returns are to be filed are 1923 and 1924. What adjustments are necessary in order to change to the accrual basis in connection with the following insurance account only? Make any other adjustments necessary to correct the books. Your work sheet should indicate clearly the adjusted insurance for each of the years affected. Also give the correcting journal entry or entries to bring the client's

books into agreement with your amended tax returns. No consideration is to be given to transactions prior to the ones stated.

INSURANCE ACCOUNT—DEBITS.

1923			
May	1	Fire Insurance Premium on Building covering period from May 1, 1923, to April 30, 1926......	$5,400.00
July	15	Fire Insurance Premium on stock covering period from July 1, 1923, to June 30, 1924...........	1,500.00
Aug.	1	Employees Fidelity Insurance covering period from August 1, 1923, to July 31, 1925..............	6,000.00
Sept.	1	Fire Insurance Premium on equipment covering period from September 1, 1923, to August 31, 1928*	7,200.00
Oct.	1	Due from Fidelity Insurance Company on Shortage of Bonded Employee	1,000.00
			$21,100.00

(*) Five year policy containing 80% co-insurance clause.

1924			
Mar.	1	Premium on Liability Insurance carried on trucks and automobiles June 15, 1923, to June 14, 1924 (a)	$3,600.00
June	1	Additional Fire Insurance on Building covering period from June 1, 1924, to May 31, 1927.....	1,800.00
July	10	Fire Insurance premium on stock covering period from July 1, 1924, to June 30, 1925...........	1,500.00
Nov.	1	Shortage of M. Meyers to be paid by Fidelity Insurance Company	500.00
			$7,400.00

(a) This policy was renewed June 15, 1924, to June 14, 1925, but has not yet been paid. Premium, $3,600.00.

INSURANCE ACCOUNT—CREDITS.

1923			
Sept.	1	Refund due to reduction in rate of employees fidelity insurance	$600.00
Dec.	31	Transferred to profit and loss account...........	20,500.00
			$21,100.00

1924			
Feb.	1	Refund from Fidelity Insurance Co. on 1923 shortage	$1,000.00
Dec.	31	Transferred to profit and loss account...........	6,400.00
			$7,400.00

(Fifteen Points)

3. A, B, and C have decided to liquidate their partnership and request you to act as their accountant to handle such liquidation and prepare a statement at the end of each month showing the amount distributable to each so that checks may be drawn in their favor, if proper. Prepare such work papers and statements as you think advisable from the following information:

TRIAL BALANCE, JANUARY 1, 1928.

Accounts Receivable	$10,000.00	
Inventories	20,000.00	
Furniture and Fixtures	30,000.00	
Goodwill	5,000.00	
Securities (Market Value)	10,000.00	
Prepaid Insurance	1,000.00	
Accounts Payable		$4,000.00
Taxes Payable		2,000.00
A Capital		10,000.00
B Capital		20,000.00
C Capital		20,000.00
Profit and Loss Account (1927)		20,000.00
	$76,000.00	$76,000.00

Transactions for January, 1928:
- Accounts Receivable Collected, $2,500.00.
- Accounts Receivable determined worthless and charged off, $1,000.00
- Depreciation to be charged on furniture and fixtures at the rate of 10% per annum.

Transactions for February:
- Sold Furniture and Fixtures for $10,000.00 cash.
- Collected $5,000.00 on account.
- Sold part of inventories for $1,000.00.

Transactions for March:
- Sold Securities for $12,000.00.

April transactions:
- All other accounts and assets were found to be worthless.

(Fifteen Points)

4. You are requested to prepare a balance sheet for the X Co. from the following trial balance and facts:

Cash	$1,000.00	
Accounts Receivable	2,000.00	
Plant Building	10,000.00	
Plant Site	50,000.00	
Furniture and Fixtures	1,000.00	
Goodwill	6,000.00	
Accounts Payable		$10,000.00
Notes Payable		10,000.00
Capital Stock		40,000.00
Surplus		10,000.00
	$70,000.00	$70,000.00

During the course of your examination you find that the Company has 10,000 no par common stock shares outstanding which were sold as follows:

Jan. 1, 1928	100	shares for cash	$400.00
2	1000	" " "	4,000.00
3	1000	" " Services	....
4	900	" " cash	4,000.00
Feb. 1	1000	" " "	5,000.00
Mar. 1	1000	" " "	6,000.00
Apr. 1	1000	" " "	8,000.00
May 1	1000	" " "	10,600.00
June 1	1000	" " "	12,000.00
July 1	2000	" " "	24,000.00

You find that the bookkeeper credited to the capital stock account $4.00 for each share sold and credited the balance to the surplus account. Prepare the balance sheet in accordance with your views as to the proper manner of handling no par stock and describe other methods which are also correct under certain circumstances.

(Ten Points)

5. On February 1, 1928, the A Co. sold to X an article that cost $500.00. The sales price was $1,000.00

payable \$200.00 down and the balance due in four equal installments payable on the first of February of 1929, 1930, 1931, and 1932 without interest. X refused to make the payment on February 1, 1929, and the A Company repossessed the article. This article has a useful life of 5 years. A Company expects to be able to resell it for about \$500.00. Cost of repossession was \$50.00 paid to an attorney. Prepare journal entries to record all of the above transactions on an installment basis. State briefly whether or not there would be any income or deduction to be entered in the 1928 or 1929 income tax returns of the A Company.

(Twenty-five Points)

6. You have been employed by the A Company to prepare a pro-forma balance sheet as at December 31, 1928. Upon auditing the books and making necessary adjustments to the accounts you have the following trial balance:

Cash	\$10,000.00	
Accounts Receivable	50,000.00	
Inventories	240,000.00	
Furniture and Fixtures	40,000.00	
Deferred Expenses	5,000.00	
Land, Building and Machinery	150,000.00	
Organization Expense	5,000.00	
Accounts Payable		\$50,000.00
Notes Payable		50,000.00
Preferred Stock		300,000.00
Common Stock (10,000 shares issued of authorized 100,000 shares no par)		50,000.00
Surplus		50,000.00
	\$500,000.00	\$500,000.00

The President of the company informs you that his corporation made a contract on December 30, 1928, with some investment bankers in which such bankers have agreed to purchase outright 10,000 shares of the no par common at $10.00 per share and have agreed to sell same to public at not to exceed $12.50 per share. The bankers were given an option to purchase an additional 50,000 shares at $10.00 per share. The money to be received from the bankers is to be used to retire $50,000.00 of the preferred stock at $105.00 per share and the balance to be applied against notes payable. The proceeds from the optioned stock is to retire balance of preferred stock and increase working capital. The Land, Building, and Machinery has been appraised by reputable appraisers at $500,000.00. Prepare balance sheet including your certificate as at December 31, 1928, to be used by the bankers in selling the stock.

PRACTICAL ACCOUNTING.

May, 1929, Examination.

THIRD SESSION.

One of the largest industries in the immediate vicinity of the District of Columbia is that of the manufacture of bricks. There is given hereunder the Trial Balance before closing of the National Capital Brick Company, Inc., as at December 31, 1928.

NATIONAL CAPITAL BRICK COMPANY, INCORPORATED.

Trial Balance, December 31, 1928.

Allowance on Sales	$3,750.00	
Accounts Receivable	57,500.00	
Accounts Payable		$28,400.00
Bonds, 1st Mrtg. 6%		100,000.00
Buildings: Kilns	470,000.00	
Drying Houses	17,500.00	
Mill Houses	15,000.00	
Power House	10,000.00	
Brick Sheds	5,000.00	
Cash	27,500.00	
Capital Stock		450,000.00
Discount on Sales	4,750.00	
Coal Consumed in Heating Kilns	90,000.00	
Coal Consumed in Quarrying	2,700.00	
Coal Consumed in Drying	7,500.00	
Coal Consumed in Power House	9,500.00	
Inventory 1-1-28:		
Burned Bricks in yard 60,000 @ 19.50	1,170.00	
Burned Bricks in kiln 300,000 @ 17.50	5,250.00	
Bricks burning in kiln 100,000 @ 10.50	1,050.00	
Green Bricks in kiln 50,000 @ 8.50	425.00	
Green Bricks in Dryers 50,000 @ 5.00	250.00	
Inventory, Coal on hand 12-31-28	2,500.00	
Inventory, Supplies on hand 12-31-28	2,400.00	
Interest on Bonds	6,000.00	
Insurance	3,150.00	
Insurance Prepaid	1,050.00	
Land	100,000.00	
Labor: Quarrying	18,000.00	
Grinding, mixing, and moulding	54,000.00	
Drying	12,000.00	
Setting in kiln	32,000.00	
Firing kiln	95,000.00	
Unloading from kiln	47,000.00	
Power House	11,500.00	

Materials and Supplies:		
Quarrying	4,700.00	
Grinding, mixing and moulding	22,000.00	
Drying	2,250.00	
Setting in kiln	2,000.00	
Firing kiln	4,500.00	
Unloading from kiln	6,500.00	
Power House	7,000.00	
Machinery and Equipment:		
Power House	22,500.00	
Grinding, mixing and moulding	74,000.00	
Quarrying machinery	15,000.00	
Office Expense	3,750.00	
Payroll Accrued		3,750.00
Prepaid taxes	2,750.00	
Sales, Good Bricks		646,400.00
Sales, Imperfect Bricks		4,000.00
Salaries, Executives	20,000.00	
Salaries, Office Force	7,500.00	
Selling Expense	6,000.00	
Superintendence of Manufacturing	15,000.00	
Surplus		29,095.00
Taxes, Real Estate	3,750.00	
Reserve for Depreciation		71,000.00
	$1,332,645.00	$1,332,645.00

This company is engaged in the manufacture of one grade of brick only.

There are six processes of manufacturing, as follows:

1. Quarrying. Removing clay from quarries.
2. Grinding, mixing and moulding the wet brick.
3. Drying. Dried by steam.
4. Setting. Placing the bricks in the kilns for firing.
5. Burning. Fired by coal.
6. Unloading. Opening kilns and removing burned bricks.

Depreciation is to be calculated on the buildings and machinery at the following rates:

Kilns	400,000 @	8%
	70,000 @	10%
Drying Houses		8%
Mill Buildings		5%
Power House		5%
Sheds		12½%
Mill Machinery		10%
Power House Machinery		10%
Quarrying Machinery		10%

The kilns are fired by coal which is purchased by the company.

The expense of operating the power house is to be distributed in the following manner:

10% to Quarrying
10% to Burning
80% to Grinding, mixing and moulding

While the company owns considerable land which include clay deposits, for the past two years it has found it more economical to rent its clay deposits and pay for the same at the rate of one-half a mill (.000½) per wet brick.

The following is a record of the production for the year ended December 31, 1928:

Wet Bricks Produced	27,000,000
Good Bricks carried to dryers	26,200,000
Bricks spoiled in drying process	1,000,000
Bricks spoiled in burning process	900,000
Bricks set in kilns	24,250,000
Good Bricks sold	22,660,000

Inventories at the end of the year showed the following number of bricks in process:

Green Bricks in dryers	1,000,000
Green Bricks in kilns	50,000
Bricks Burning in kilns	300,000
Burnt Bricks in kilns	200,000

The inventories taken are priced at cost and the manufacturing overhead is added in immediately after process number five. Bricks that are in the process of burning and drying are considered as having averaged one-half of the complete process.

You are requested to prepare for the company a statement showing the number of good bricks on hand in the company's yard at December 31, 1928; a statement showing the manufacturing cost per thousand for each process; a statement showing the total manufacturing cost; the Profit and Loss statement for the year and the Balance Sheet as at December 31, 1928.

AUDITING.

May, 1929, Examination.

Answer all Questions.

1. What is your conception of the legal duties, responsibilities, and liabilities of public accountants.

2. Does your conception of a public accountant's moral obligation differ from your conception of his legal obligation? If so in what respect?

3. In making an audit of a small city you find that a Water Works has been constructed from the proceeds of a bond issue maturing in 20 years. Annual provisions have been made and are being made sufficient to retire the bonds at maturity. The life of the Water Works is also computed as being 20 years but no provision has been made for depreciation.

Two different views are held by the city officials, some contending that no special provision should be made for depreciation while others contend that a provision for that purpose is necessary.

What is your position on the matter. Discuss.

4. Suggest two methods for covering a cash defalcation through the sales account of a manufacturing concern and state what you would do to prevent the use of these methods.

5. In making an audit you find that a number of corrections to the books are necessary to make them conform to the Balance Sheet as you have prepared it.

The officers of the Company refuse to put these corrections on the books.

Under the circumstances would you render a report? If so what would you say in the certificate accompanying the Balance Sheet.

6. In auditing a concern manufacturing automobile tires which closed its year December 31st, you find that on January 5th a price reduction of 10 per cent went into effect. This applied not only to future sales but also all unsold merchandise in the hands of the company's dealers on that date.

Would you make any adjustment in your Balance Sheet of December 31st to cover this? Discuss fully.

7. In your audit of a corporation you find that it has a number of branches and also owns stock in various other corporations varying in amount from 30 per cent to 100 per cent of their outstanding capital.

The branches carry considerable amounts in inventories and accounts receivable and there is a considerable volume of transactions with the other corporations including substantial loans.

Under these circumstances outline the scope of your audit.

8. How would you verify the "Work in Process and Finished Goods" inventory of a manufacturing concern if no cost system has been installed.

9. Describe in detail how you would verify the Accounts Receivable and determine the sufficiency of the Reserve for Bad Debts.

10. In making an audit would you examine the Corporate Minute Book and Stock records? If so for what purpose.

COMMERCIAL LAW.

May, 1929, Examination.

Answer all ten questions.

1. What is the rule in confusion of property? Discuss fully.

2. May a trustee give a valid mortgage on a trust estate?

3. An intestate leaves real estate that had been left him by his maternal grandfather. He leaves no children, but father, mother, brother, and children of a deceased sister are living. To whom would the property go? If the real estate had been purchased, to whom would it go?

4. What is the rule as to paying a decedent's debts? If the beneficiary dies before the testator, what happens to the legacy? How may this be avoided?

5. As between the executors and the heirs, which is entitled to:

(a) Real estate of a partnership of which deceased was a member?
(b) A lease for twenty-one years?
(c) A right of way?
(d) Fixtures attached to decedent's real estate and used for trade purposes?

Give reason or reasons for your answers.

6. An accountant agreed with a corporation through its president to examine the books. After beginning work he became uneasy and asked the president to guarantee payment personally. This the president did in writing. When the work was finished the corporation was insolvent. Was the president legally liable? If he then found that the president was also insolvent could he hold the vice-president who had promised in

the presence of the president that he would make good should the corporation and the president both fail to pay? Give reasons for your answer.

7. A trader in insolvent circumstances sold his stock in trade and deposited the purchase money to the credit of his account in bank. At the time an overdue note of his was held by the bank and he gave the bank a check to cover the note. Three months later he was bankrupt. Is such payment a preference and therefore to be set aside? Discuss fully.

8. If a man named J. P. Morgan could be found in New York, would he be allowed to start a banking house by the name of J. P. Morgan & Co. in New York? In Chicago? Or anywhere in the United States? Could anyone open another theatre in Washington and call it the Palace? Give reasons for your answers.

9. X being in financial difficulties makes an agreement with his creditors, with the exception of Y, to settle for 50 cents on the dollar. In order to satisfy Y, X agrees to pay him 60 cents on the dollar. What rights has Y against X? What is the effect of the latter agreement sofar as the contract of X with creditors other than Y? Discuss briefly.

10. (a) A owns a vessel plying regularly between two ports with passengers and freight. The ship is destroyed by fire at sea. Is A liable for value of freight lost? Discuss briefly.

NOTE: In answering these questions, when the law is not general, give name of state in which your answer applies.

INCOME TAX

May, 1929, Examination.

Answer all Questions.

1. A—Husband
   B—First Wife
   C—Second Wife

A and B married January 1, to April 30, 1928.
A single May 1 to October 31, 1928.
A and C married November 1, to December 31, 1928.
C single January 1, to October 31, 1928.
No Dependents.

Both A and C are taxpayers and make separate returns for the calendar year 1928.

What is the amount of personal exemption each may deduct?

2. A bought 30 shares of stock in 1922 for $90.00 per share. In January, 1928, he received for each share held the right to subscribe to one share of stock at $100.00.

A sold the 30 rights for $30.00 each.

What amount should he include in Gross Income as a result of this transaction?

What is the basis of the 30 shares after the issuance of these rights?

Has the taxpayer any option in the way he must report the income from this transaction?

3. What depreciation, if any, may be or could have been taken annually for depreciation in the following cases? Compute the deduction in each case.

(a) A purchased a piece of land in 1920 for $40,000. The fair market value on March 1, 1913, was $50,000. The value on January 1, 1928, was $35,000.

(b) B erected a building in 1917 which cost $50,000 with an estimated life of 50 years; no salvage.

(c) C installs machinery costing $50,000 with an estimated life of 10 years, salvage value of $1,000. Five years later he makes repairs and replacements costing $10,000 which extend the life of the machinery 5 years without increasing the salvage value.

(d) D in 1928 bought a patent for $100,000 which was issued in 1923.

(e) E in 1912 installed certain machinery at a cost of $100,000.00. The life of the machinery was estimated at 20 years. On March 1, 1913, the fair market value was $98,000.

(f) F bought a piece of land with a building on it for $150,000 (of which $120,000 represented the cost of the building) in 1912. The building was built in 1908 and had an estimated life of 40 years and no salvage value. On March 1, 1913, the value of the land was $40,000 and the building $120,000.

(g) G, a maufacturer of ladies leather hand bags bought certain stocks of leather in 1912 which owing to changed conditions (styles, etc.) and shop wear were not made up into bags. It is estimated that the goods will be practically valueless at the end of 1928.

(h) H erected a building in 1915 at a cost of $70,000.00. Its estimated life was 50 years; no salvage value. In 1920 half the building burned down, but the other half, duly repaired, remained in use. The value of the building was reduced one-half as a result of the fire.

4. A receives income from the following sources:

Salary	$18,000.00
Dividends from stocks of domestic corporations	10,600.00
Dividends from stocks of foreign corporations doing no business in the U. S.	400.00
Interest from debenture bonds	500.00
Interest on Municipal bonds	200.00
Rentals	1,000.00
Profit on sale of stocks	1,200.00

His disbursements were as follows:

Interest paid	$600.00
Taxes on real estate	200.00
Contributions to charitable institutions	4,550.00
Loss on sale of bonds	400.00

What is the amount of A's net income subject to Surtax?

What amount of A's net income is subject to the normal tax disregarding his personal exemption or possible deductions for dependents?

5. The C company bought certain land in fee on January 1, 1916, for $15,000.00. The land had no surface value but was thought to contain silver ore. On December 31, 1921, ore was discovered and the mine was valued on January 1, 1922, at $4,000,000.00. There were estimated to be 1,000,000 tons of ore in the mine. In 1928, 200,000 tons of ore were removed and sold. The gross income from the property in 1928 was $2,400,000, and the net income before deducting depletion was $1,300,000.00. What amount should the C Company deduct for depletion in 1928?

ECONOMICS AND FINANCE.

May, 1929, Examination

Give an Answer to all Questions.

I.

Business failures in 1927 numbered, according to Bradstreet's, 20,267, the second largest total in the history of the country. These failures involved liabilities amounting to $653,130,925.00, the fourth largest liability total in American annals. Such a record of business catastrophes deserves some attention. To know the causes of such a formidable list of failures is to be forewarned as to future happenings.

What, in your opinion, were some of the contributing causes of these failures?

II.

Modern business enterprise has found it convenient to combine into large corporations because of the resultant advantages.

The tendency toward combination has taken place along two lines designated as extensive and vertical combinations.

What is your understanding of the makeup of these two forms of combination and what are the advantages under each.

III.

What is meant by "working capital" of a business organization and what are the sources from which working capital may be derived?

IV.

As one of the incorporators of a new enterprise what features would you consider in estimating the amount of capital necessary to properly establish the industry?