1932

Examination of November, 1932

Minnesota State Board of Accountancy

MINNESOTA STATE BOARD OF ACCOUNTANCY

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MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Economics and Public Finance

WEDNESDAY, NOVEMBER 16, 1932 — 10:00 A.M. to 12:00 M.

(Answer six questions)

Question 1:

Is the earning power or the market value of stocks or bonds, the better basis for determining their worth as security for a loan? Why?

Question 2:

With the development and extension of the corporate form of ownership there has resulted an increasing separation of ownership and management. Indicate some benefits derived from this separation and disadvantages incurred as a result thereof.

Question 3:

The Shannon Committee, appointed by the House of Representatives, is making a study of "Government in Business." List the various ways in which the government is now engaged in business and indicate which of those in your judgment represent legitimate governmental activities.

Question 4:

David Kinley, former President of the University of Illinois, writing on the "Extent of the Use of Credit Instruments in Business," said, "The transaction of so large a volume of our business by checks is an element of danger in times of stringency and crisis." Explain your views on this statement.

Question 5:

Name, with a short explanation in each case, the causes of the bank failures during the past three years and indicate what in your judgment could be done to prevent a recurrence.

Question 6:

John Stuart Mill, the noted economist, wrote, "Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should also double the purchasing power. Everyone would bring to the market a double demand as well as supply." Theodore E. Burton, former Representative and Senator from Ohio, wrote, "To say that general overproduction is possible is to allege that the human race can create more than it can use, and that men love to toil rather than to enjoy, deductions contradicted by all human experience." Give your views as to the correctness of either of these statements in view of business conditions during the past two years.

Question 7:

If you believe that there has been a change in business conditions since the passage of the Sherman Anti-trust Law which makes it advisable that it be amended, what changes would you suggest should be made? If you do not believe that it should be changed, give your reasons.

MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Practical Accounting

WEDNESDAY, NOVEMBER 16, 1932 — 1:00 P.M. to 5:30 P.M.

Problem 1:

You are called upon to prepare an analysis showing the causes of changes in the 1931 gross profits of the Chanson Specialties Company as compared with those of the prior year. You are furnished with the following statements of profit and loss:

	Year	
Particulars	1930	1931
Sales	$196,748.91	$224,625.16
Cost of sales		
Materials	$ 62,959.65	$ 79,170.55
Labor	64,927.14	82,421.72
Factory overhead	37,382.29	42,402.95
Total cost of sales	$165,269.08	$203,995.22
Gross profit	$ 31,479.83	$ 20,629.94
Selling and administrative expenses	14,407.00	17,375.55
Net profit	$ 17,072.83	$ 3,254.39

Upon investigation you find that only Product A was manufactured and sold in 1930, while in 1931, both Product A and Product B were manufactured and sold. Your inspection of the various accounts reveals that the sales and cost of sales of Product B were: sales, $100,490.00; materials, labor, and overhead in cost of sales: $28,137.20, $23,112.70, and $12,058.80, respectively During 1931 the average selling price of Product A was exactly 10% less per unit than in 1930.

Prepare the desired analysis.

Problem 2:

For several years A Company has owned a 90% interest in the capital stock of B Company, and B Company has owned an 80% interest in the capital stock of C Company. C Company manufactures a product a part of which is purchased by B Company, while A Company uses in its production the entire output of B Company.

At the beginning and end of the last fiscal year of the three companies, the inventories at book cost were as follows:

Company	Opening Inventory	Closing Inventory
A	$345,000.00	$183,000.00
B	230,000.00	350,000.00
C	139,000.00	130,000.00

An analysis of intercompany purchases during the several years of affiliation indicates that in each case companies B and C billed companies A and B, respectively, at cost plus 11 1/9%. One third of A Company's opening and closing inventories consisted of items purchased from B Company, while one half of B Company's opening and closing inventories and cost of sales made to A Company consisted of items purchased from C Company.

In preparing consolidated financial statements you are instructed to eliminate from the profit-and-loss statement covering the above fiscal period *all* the intercompany profit on inventories, and to prepare brief statements showing the effect of the inventory adjustment on the net profit for the fiscal year as divided between majority and minority interests. The allocation to majority and minority interests is to be computed on each of two bases which arise from the following assumptions:

First basis: Minority stockholders are entitled to their full share of whatever profits, from their viewpoint, are earned.

Second basis: Minority stockholders are subject to their proportion of all the profit adjustments occasioned by thëir company's sales standing in the inventory of affiliated companies.

Problem 3:

Theodore Mean met with accidental death on March 31, 1932, and his executor has employed you to investigate certain financial dealings which the decedent had conducted during the three months ending March 31, 1932. You find that his records consist of meager memoranda, among which is a diary disclosing the following transactions:

Jan. 20, 1932	Investments purchased (300 Highgate @ 10) Check No. A-4103	$15,000.00
Feb. 5, 1932	Investments purchased (Highgate @ 8) Check No. A-4127	7,000.00
Mar. 10, 1932	Investments sold (Highgate @ 12) Deposited in First National Bank	20,000.00
Mar. 30, 1932	Investments purchased (Highgate @ 11) Check No. A-4141	6,500.00

The executor who was Mean's personal attorney tells you that his client's only investment transactions during 1932 were a few purchases and sales of Highgate Apartment Hotel Corporation first mortgage bonds.

The bank holds a note dated March 30, 1932, executed for $16,500.00, secured by $300,000.00 of Highgate Apartment Hotel Corporation bonds as collateral. Due to the irregularities of a former employee of the bank a portion of its records has been destroyed so that there is no further tangible evidence available. A bank teller who handled the details of the bond transaction informs you that Mean, during the latter part of January, 1932, borrowed from the bank 50% of the cost of his first purchase of bonds, and that as these bonds had no listed market value, whenever Mean made a purchase or sale his loan was increased or decreased to 50% of the value of the remaining bonds computed on the basis of the price established by the latest purchase or sale.

From the above data, determine what the above transactions signify.

Problem 4:

In making your annual examination of the records of a manufacturer of paints for the calendar year 1931, you learn that during the year 1931 the company opened a retail store in order to liquidate the "private-label" merchandise it had previously sold and was able to recover from an insolvent customer. The merchandise, which was taken in satisfaction of an account receivable of $17,396.50, had cost the manufacturer $6,315.12 to produce, and had been sold to the customer for $8,420.16. Further investigation reveals that shipments of merchandise had been made to the store out of the factory stockroom but that no entries were made on the general books; the shipping records showed that paints costing $2,733.40 had thus been transferred.

Following is an analysis of the account due from the customer:

Date		Ref.	Dr.	Date		Ref.	Cr.
	Subtotal		$159,816.29		Subtotal		$142,419.79
				7-31-31		CR	500.00
				7-31-31		J	*5,396.85
				8-31-31		CR	1,100.00
				9-30-31		CR	1,000.00
				10-31-31		CR	1,500.00
				11-30-31		CR	2,550.00
				12-31-31		CR	1,750.00
					Balance		3,599.65
			$159,816.29				$159,816.29

*Represents 50% of account receivable estimated by you at December 31, 1930, as being uncollectible, and set up in the reserve for bad debts at that date.

No books were kept at the store except duplicate sales invoices, invoices for purchases, and check book. The sales invoices showed that sales totaling

$10,427.36 had been made during 1931; the purchase invoices showed that purchases totaling $598.02 had been made, composed of outside merchandise $563.95 and store supplies $34.07. The check book contained the following information:

Cash received from—		
Cash sales	$8,529.47	
Collections on charge sales	1,708.70	
		$10,238.17
Cash disbursed for—		
Transfers to main office	$8,400.00	
Rent of store	450.00	
Salary of clerk	600.00	
Payment of purchases	598.02	
		10,048.02
Balance in bank, December 31, 1931		$ 190.15

Following is the store inventory at December 31, 1931:

Class of Merchandise	Purchase Price	Manufacturing Cost	Factory Selling Price to Customers	Estimated Retail Value
Recovered from customer		$1,508.96	$2,011.95	$2,148.75
Factory shipments		543.87		796.80
Outside purchases	$44.06			66.09

Prepare an adjusting journal entry to correct the company's books as at December 31, 1931.

MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Practical Accounting

THURSDAY, NOVEMBER 17, 1932 — 8:30 A.M. to 12:00 M.

Problem 1:

You are engaged by Mr. R. E. Dixon to audit the books of the Dixon Furniture Company, of which he is the sole owner, for the year ending June 30, 1932. From the following information revealed by your audit, prepare a balance sheet and statement of profit and loss, including therein the proper provision for Mr. Dixon's Federal income tax for the fiscal year.

Prior to June 30, 1931, the company was engaged in the retail furniture business. Owing to the doubtful prospects for profitable business, Mr. Dixon closed his display rooms on that date, sold his stock in bulk, and during the past year, has devoted his attention to liquidating the receivables.

The trial balance of the proprietorship on June 30, 1932, per books, was as follows:

Account	Dr.	Cr.
Cash in First Trust Bank	$ 22,821.32	
Cash in Merchants State Bank (in receivership)	7,113.11	
Installment contracts receivable	618,322.05	
Notes receivable	183,762.50	
Inventory of reconditioned merchandise	3,851.45	
Investments (at cost)	530,216.27	
Office fixtures	2,132.51	
Automobile	2,832.00	
Residence (including cost of land, $5,000.00)	48,216.25	
Reserve for depreciation—Fixtures		$ 1,695.60
Reserve for depreciation—Automobile		904.22
Reserve for depreciation—Residence		6,381.79
Notes payable		15,000.00
6% First Mortgage on residence		14,500.00
Accounts payable		432.75
Accrued interest		219.62
R. E. Dixon—Investment, June 30, 1931		1,117,058.04
R. E. Dixon—Personal	12,855.30	
Unrealized profits		190,804.56

Profit and loss	4,312.31	
Interest earned		41,302.30
Interest paid	2,575.14	
Dividends received		14,375.50
Profits realized		71,786.15
Sales of repossessed merchandise		9,981.57
Cost of repossessed merchandise sold	12,754.35	
Salaries	23,850.00	
Commissions	175.00	
Entertainment	1,200.00	
Rent—Office	900.00	
Automobile expense—Gas and oil	556.72	
Telephone	233.10	
Supplies and postage	651.14	
Advertising	142.75	
Miscellaneous expenses	4,968.83	
Totals	$1,484,442.10	$1,484,442.10

Installment contracts receivable were analyzed as follows:

Status of Contracts	Contracts On Which Payments Are Not Being Made	Contracts On Which Payments Are Being Made, But Delinquent	Total Balance Due on Contracts
Installments paid to date			$178,591.63
30 days past due	$22,524.81	$179,243.70	201,768.51
60 days past due	5,259.25	51,668.42	56,927.67
90 days past due	17,216.79	62,384.19	79,600.98
Over 3 months past due	6,161.55	8,170.64	14,332.19
Over 6 months past due	23,043.36	64,057.71	87,101.07
Total contracts	$74,205.76	$365,524.66	$618,322.05

Cash collected on accounts receivable during the year amounted to $239,287.17.

In reviewing the various accounts receivable with Mr. Dixon, you estimate that 30% of the $74,205.76 is possibly uncollectible. All accounts known to be bad have been written off, and where possible the furniture has been repossessed.

Mr. Dixon states that with the exception of one series of notes receivable totaling $955.00, all notes receivable will be ultimately honored. You find, however, that notes amounting to $32,481.56 are past due.

A recapitulation of the entries in the reconditioned merchandise account follows:

Particulars	Dr.	Cr.
Accounts receivable balances closed out	$ 9,846.90	
Refinishing and reupholstering expenses	5,161.69	
Cartage on returned merchandise	397.21	

Charges to repossessed merchandise sold..............		$11,554.35
Balance		3,851.45
	$15,405.80	$15,405.80

Investments are composed of marketable securities with the exception of $12,000.00 in first mortgage bonds which are in default, both as to interest and prepayment of principal, and which had been deposited with a bondholders' committee. The market value of the balance of the investments on June 30, 1932, was $326,509.38. Of the $4,202.98 interest received on bonds, $2,500.00 was received from 2 per cent tax-free covenant bonds.

Rates of depreciation that had been used in prior years were:

Residence	5%
Office fixtures	10%
Automobile	20%

No expenditures for capital assets were made during the last fiscal year. Mr. Dixon estimated that fifty per cent of the mileage made by the automobile was for business purposes.

Notes payable consisted of two 6% ninety-day bank loans, one for $10,000.00 due July 25, 1932, and a second for $5,000.00 due August 24, 1932.

The mortgage on Mr. Dixon's home was dated November 27, 1930, and matures on November 27, 1935.

Mr. Dixon's personal account contained the following entries:

Debits		
Cash	$ 4,881.24	
Repairs to automobile.........................	516.50	
Wages—		
Housekeeper	960.00	
Cook	960.00	
Gardener	720.00	
Chauffeur	1,560.00	
Alimony payments to divorced wife..............	10,000.00	
Miscellaneous household and personal bills........	9,462.76	
Maintenance of 17-year old son in French school (in residence since 1929)......................	1,935.48	
Business entertainment expenses................	1,114.26	
Total debits		$32,110.24
Credits—		
Salary—$1,500 per month.......................	$18,000.00	
Business entertainment—$100.00 per month.......	1,200.00	
Business expenses paid in cash by Mr. Dixon......	54.94	
Total credits		19,254.94
Balance		$12,855.30

Profit and loss had been charged with balances of accounts receivable amounting to $7,846.25 which were written off because the debtors had moved and could not be located. The same account had been credited with collections received on accounts previously written off.

Cost of repossessed merchandise sold had been charged with the rental of a workshop, $1,200.00, and with the book costs of merchandise sold.

Miscellaneous expenses were made up of the following items:

Expense	Amount
Life insurance premium	$2,452.99
Taxes on real estate	1,205.41
Packing and crating material	189.24
Salvation Army	500.00
State Association for Cultural Improvement	250.00
Window washing and general cleaning	180.00
Fire insurance on residence	91.19
Policemen's pension fund	100.00
Total	$4,968.83

Mr. Dixon has no taxable income, nor allowable deductions other than those appearing on the proprietorship books.

Following are the Federal income tax rates pertaining to the calendar years 1931 and 1932:

Normal tax rates	Year 1931	Year 1932
First $4,000 above exemptions	1½%	4%
Second $4,000	3	8
Over $8,000	5	8

Surtax rates	1931 Rate	1931 Total	1932 Rate	1932 Total
$ 12,000 to $ 14,000	1%	$ 40	3%	$ 140
14,000 to 16,000	2	80	4	220
16,000 to 18,000	3	140	5	320
18,000 to 20,000	4	220	6	440
20,000 to 22,000	5	320	7	580
22,000 to 24,000	6	440	8	740
90,000 to 92,000	19%	10,140	43%	18,820
92,000 to 94,000	19	10,520	44	19,700
94,000 to 96,000	19	10,900	45	20,600
96,000 to 98,000	19	11,280	46	21,520
98,000 to 100,000	19	11,660	47	22,460
100,000 to 150,000	20	21,660	48	46,460
150,000 to 200,000	20	31,660	49	70,960

Problem 2:

Following is a summary of the investments and net worths of J. R. Bruce Company and Larton Manufacturing Company at December 31, 1931:

	J. R. Bruce Co.	Larton Mfg. Co.
Investments, at cost—		
4,000 shares Larton Mfg. Co.	$ 36,000.00	
1,000 shares J. R. Bruce Mfg. Co.		$10,000.00
	======	=====
Net worth—		
Capital stock—		
5,000 shares issued and outstanding		$50,000.00
10,000 shares issued and outstanding	$100,000.00	
Earned surplus—		
Balance, January 1, 1931	4,963.84	6,487.16
Net loss—Year ending December 31, 1931	2,496.22	8,962.80
	======	=====

If a consolidated balance sheet were prepared, what portion of the consolidated deficit would apply to the minority stockholders of that company? Devise a formula that may be applied to obtain the minority interest in the consolidated surplus or deficit.

MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Accounting Theory

THURSDAY, NOVEMBER 17, 1932 — 1:00 P.M. to 5:00 P.M.

(Answer ten questions)

Question 1:

Jones Manufacturing Company owed Robin Motor Company $43,200.00 at July 1, 1932. At that date Robin Motor Company agreed to accept Jones Manufacturing Company's investment in 1,000 shares of a certain stock listed on the New York Stock Exchange in full payment of the account. Jones Manufacturing Company had originally purchased the stock at 90. How would you advise Robin Motor Company to treat the transaction on its books in view of the following values of the stock at July 1, 1932:

Par value	100
Book value	125
Market value	40

Question 2:

A machine which cost $25,000.00 was purchased with a down-payment of $5,000.00 in July, 1931, the balance of the payments being represented by forty monthly notes of $500.00 each, the first payable August 1, 1931. Title to the machine is not to pass to the purchaser until the final note has been paid. How would these facts appear on a balance sheet prepared at June 30, 1932?

Question 3:

(*a*) How do the provisions of the Revenue Act of 1932 differ from those of the Revenue Act of 1928 with respect to stock market losses?

(*b*) What are the provisions of the Revenue Act of 1932 governing the gain or loss upon disposition of installment obligations—

(1) by sale or exchange,
(2) by distribution, transmission, or disposition, other than sale or exchange, or
(3) by transmission at death?

Question 4:

Answer any two of the following three questions:

(*a*) What is the definition of capital gain, and of capital net gain under the Federal Revenue Act?

(*b*) What are the provisions of the 1932 Act governing capital net gains and losses of—

(1) Corporations,
(2) Partnerships, and
(3) Individuals?

(*c*) What are the exemptions and credits, and what are the rates of normal tax under the Revenue Act of 1932 for—

(1) Individuals and
(2) Corporations?

Question 5:

An enterprise, in business since 1915, manufactures and sells men's suits at a uniform price of $22.50 each, through canvassers paid strictly on a commission basis. Accurate records are maintained of the quantity manufactured and sold, and of the expenses of manufacture, sale, and administration.

As comptroller for the enterprise, what statements, comparisons, ratios, and statistical data would you submit to the Board of Directors, all of whom are actively engaged in the business, in compiling your annual report to them for the year ending June 30, 1932?

Question 6:

Distinguish between the following prefixes to preferred stock issues—

7% cumulative
6% cumulative participating
Redeemable
Convertible.

Question 7:

What should be the attitude of accountants to the practice of charging off to surplus lump sums to reduce the valuation of plant and equipment?

Question 8:

What recognition should be given on the balance sheet to a permanent closing of two out of ten plants operated by a large manufacturing company and a temporary shut-down of five of the remainder?

Question 9:

A corporation employing machinery having a cost of $2,000,000.00 which it has been depreciating at the rate of 8⅓% per annum operated at an average of 10% of capacity for the year ending June 30, 1932. The president of the corporation asks your recommendation as to the correct amount of depreciation to be charged off for the year ending June 30, 1932. Give your reasons. Do not be influenced by the requirements of income tax procedure.

Question 10:

(*a*) A corporation purchases its own bonds on the open market at less than par for the purpose of retiring as much of the issue as possible before maturity. In adjusting the accounts, is it necessary to write off immediately to expense the unamortized bond discount and expense applicable to the bonds prematurely retired?

(*b*) In the above case if the corporation purchased its bonds with the object of making a temporary investment, and at a later date selling them when its cash position requires that they be sold, would your answer be the same?

(*c*) What adjustment is necessary when bonds purchased as in (*b*) are resold at a discount?

Question 11:

Does the earned surplus of the acquired company represent distributable earnings to the purchasing company in the following case: Company A purchases the entire capital stock of Company C, payment therefor being made, par for par, in the capital stock of Company A. The assets and liabilities of Company C are thereupon taken over by Company A, and Company C is dissolved.

Question 12:

A company which sells principally to large organizations with high credit ratings, increases its bad debt reserve annually by crediting thereto a percentage of net sales for the year, the percentage figure being determined by establishing relationship between sales of the preceding five years, and the charges made to the reserve for bad debts less the bad debt recoveries during the same period. Bad debt recoveries are credited to the bad debt expense. Do you approve of the company's methods?

MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Auditing

FRIDAY, NOVEMBER 18, 1932 — 8:30 A.M. to 12:00 M.

(Answer ten including 11 and 12)

Question 1:

The Parget Credit Company makes discount loans to small manufacturers, and takes back non-interest-bearing notes, payable monthly and secured by chattel mortgages. The discount is credited to income when the loan is made. Do you approve? Give reasons.

Question 2:

The president of the Premier State Bank hands you a statement of profit and loss of a borrower, The Craft Arts Corporation, a manufacturer of lamp fixtures, for the ten months ending October 31. He expresses his opinion that although the statement indicates that a profit has been earned, the depression has crippled the company's business severely, and it is doubtful if any real profits have resulted. The company did not submit a balance sheet with the statement of profit and loss. The president communicates with officials of the company and authorizes you to spend a day at the company's plant in order that you may determine whether the statement has been "padded."

How would you proceed, and what sources of inflation would you look for?

Question 3:

Do you believe that a statement of application of funds is of value in the audit report of a manufacturing company? Would you include therein any reference to assets acquired from a stockholder through an issue of stock direct to him? Give reasons.

Question 4:

The Famous Utility Holding Company, whose stock is held in small units by many investors, during 1931 and 1932 made extensive loans to officers to support their accounts with security brokers. The loans were made on a declining market, and were presumably secured by the deposits of stocks, including the company's own stock owned by officers, which now, at the time of your audit, have market values of only a fraction of their purchase prices. Do you believe it is within your province, as auditor, to make inquiries regarding the personal financial responsibility of the various officers involved in order to arrive at an opinion as to the collectibility of these accounts? How would you include these accounts on the balance sheet in view of the request of the president that they be merged with sundry receivables in order not to arouse unnecessarily the suspicions of stockholders?

Question 5:

In auditing the accounts of a personal loan corporation, what steps would you take to determine the correctness of the discount and the loan?

Question 6:

The Great Produce Company, a dealer in fruits and vegetables, acts both as a commission merchant and principal. After a car of consigned merchandise is over 90% sold, the company frequently purchases the balance of the shipment in order to faciliate the completion of the agreement with the shipper. What would be your procedure for handling the inventory, and the corresponding liability of broken cars of fruit not purchased, at the balance-sheet date?

Question 7:

On the balance sheet of a successor company, how would you handle the stock of a predecessor company not turned in after reorganization, and dividends declared, but not paid on this stock?

Question 8:

You are engaged in the audit of a small railroad company. Because of a surplus of rolling stock—locomotives, freight cars and passenger coaches, the practice has been followed during the past few years of operating the equipment until breakdowns occur. At such times the equipment has been placed on side tracks, and when the equipment is needed, repairs are made. At June 30, 1932, the date of your audit, 458 units—locomotives, cars, and coaches—out of a total of 1,539 are in a disabled and unrepaired condition.

What treatment is required in your audit report and financial statements?

Question 9:

In conducting a balance sheet audit, is there any necessity for analyzing (*a*) legal fees, (*b*) patent expense, (*c*) insurance expense?

Question 10:

How would you verify dividends and interest received by a large estate?

Question 11:

Do you consider it necessary to mention on a certified balance sheet the fact that certain officers of the company have put up collateral as security for the company's obligations to the bank?

Question 12:

Criticize and redraft the following certificate, making any needed assumptions as to scope of audit:

CERTIFICATE

To the Board of Directors:

We hereby certify that we have audited the Books of Account of your company and found things in satisfactory shape. We counted cash or verified it by communication with depositories, verified receivables by correspondence, believe all additions to fixed assets proper, show on our balance sheet all ascertained liabilities at August 31, 1932, and inspected the stock certificate book. Subject to these qualifications, the above balance sheet at August 31, 1932, is believed by us to truly reflect the financial condition of your company at August 31, 1932.

(*Signed*) BAHR AND COMPANY,
Accountants and Auditors.

MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION QUESTIONS

Commercial Law

FRIDAY, NOVEMBER 18, 1932 — 1:00 P.M. to 5:00 P.M.

CONTRACTS

Question 1:

A has two sons, who become of age. X, one of the sons leaves home, goes into business, and becomes well-to-do. He writes home very seldom, takes no interest in his father's affairs, and never helps him in any way. Y, the other son, feels responsibility, stays at home, and works for five years after he becomes of age on his father's farm. The father dies leaving no will. His entire estate consists in the farm, worth about $16,000.00. Y keenly feels the injustice of his brother getting half of the estate, and he puts in a claim against the estate for the reasonable value of his services. Will it be allowed? Why?

Question 2:

O writes A, offering A a certain machine for $1,000.00. His offer ends: "Your acceptance of this offer may reach me any time within the next ten days." A answers within two days that he will give $900.00. O makes no answer. Hearing nothing from O, A fearing loss of the deal writes to O, within the ten days: "Have decided to accept at $1,000.00." Still O does not respond. A sues O. Is there a contract? Explain.

PARTNERSHIP

Question 1:

A and B, equal partners, purchased with partnership funds, a tract of land, taking title in their joint names. There are no other assets of the partnership. A dies intestate, leaving a widow and two children. The claims and debts amount to $10,000.00. In addition, the partnership owes B $5,000.00 loaned by him to the partnership in addition to the capital contribution. The land is sold for $50,000.00. How should the assets of the partnership be distributed?

Question 2:

Name as many differences as you can between partnerships and corporations.

Question 3:

C. D. & E. form a limited partnership. C, the limited partner, within a short time assigned his interest to F, without the knowledge or consent of D. & E. Had he a right to do so? What were the rights of the assignee, if any?

AGENCY

Question 1:

Distinguish between the general agent and special agent. How is the authority of each derived? Distinguish between trustee and agent.

Question 2:

A real estate broker was authorized in writing by F to secure within four months a purchaser for his property at $10,000.00. The broker secured the purchaser, but F refused to pay the commission because the property belonged to his wife, and he could not bind himself to sell the property, and hence was not bound to pay the commission. The broker brings suit, can he recover?

CORPORATIONS

Question 1:

A owns 20 shares of stock in the X corporation. He sells the stock to B, and delivers to B the certificate properly indorsed for transfer, but B does not see that the transfer is recorded on the company's books. A dies, and C is appointed his executor. He attends a meeting of the company, produces a certified copy of the letters testamentary, and is allowed to vote. The company issues a stock dividend and delivers it to C; and also pays cash dividends to C. C is ignorant of the sale to B, and supposing the stock to have been lost, applies to the corporation for another certificate, which the company issues.

(1) Did the company run any risk in allowing C to vote without producing the certificate?

(2) Did the company run any risk in paying the stock dividend and cash dividend to C without his production of the certificate?

(3) Did the company run any risk in issuing a new certificate without production of the old?

Question 2:

A corporation is organized with common stock only. The corporation is not successful, and at the end of the first year shows a deficit, but the directors, in order to make a showing, declare and pay 5% dividend. The corporation goes into bankruptcy a few months later. The stockholders at the time receiving the dividend were uninformed as to its financial condition and presumed dividends were paid out of surplus. Can the trustee in bankruptcy recover so much of these dividends as may be necessary to pay the claims?

Question 3:

In the absence of any statutory provision, or any provision in the charter or stock certificate or other express or specific provision, is preferred stock:

(*a*) Participating in the earnings with the common above the percentage stated, i.e., if it is 7% preferred, does it participate with common in dividends above that amount?

(*b*) Voting? (*c*) Cumulative? (*d*) Preferred in the division of assets upon liquidation? (*e*) Redeemable at the option of the board of directors.

Question 4:

The A company, a N. J. corporation, had a claim of $10,000.00 against X, who was solvent. In consequence of action by the Board of Directors approving the acceptance of $8,000.00 in settlement of the claim, B, a stockholder, brought action on behalf of the corporation to compel D, a director who voted for the settlement, to satisfy the loss to the corporation. Will he succeed?

BILLS AND NOTES

Question 1:

The X Corporation is the accommodation endorser on the note of Y, which A, a holder in due course, now owns. What are the rights of A against the X Corporation?

Question 2:

A owed B $500.00 for goods sold and delivered. Some time afterward A gave B a note for the debt payable five months after date. It was not paid when due. B thereupon sued A on the contract and not upon the note. A claimed that the giving of the note extinguished the debt and that action should be brought on the note. Was he correct?

Question 3:

Is the following instrument a negotiable promissory note: "Trenton, N. J., May 24th, 1932. I promise to pay to John Smith or order $100.00 on the day of his 30th birthday. Signed, William Jones"?

BANKRUPTCY

Question 1:

Give the order of priority in bankruptcy of the following claims:

a. Income taxes due to the United States Government.

b. Real property taxes due the municipality on property in which the estate has no equity.

c. Wages due to the following workmen:

1. John Doe for four months' salary at $75.00 per month.
2. Richard Roe for two months' salary at $500.00 per month.

d. State Franchise taxes.

Question 2:
Define provable debts.

Question 3:
What is the effect of a discharge in Bankruptcy?

INCOME TAX

Question 1:
A has a salary from business of $5,000.00 and a loss on the sale of securities, being an active trader, of $7,000.00, resulting in a net loss for the year 1932 of $2,000.00. What, if any, deduction from the 1933 income can A take?

Question 2:
A, a married man with two children has the following income:

1. Salary	$10,000.00
2. Income from business	5,000.00
3. Loss on X Corporation Stock, Bankrupt	3,000.00
4. Loss on Sale of Y Corporation Stock........	2,000.00

Calculate the tax liability of A for the year 1932.

Question 3:
The X Corporation has a profit from operations for the year of $10,000.00, a profit on the repurchase of its own bonds of $20,000.00, and a loss on stock transactions (not capital assets) of $20,000.00. What is the taxable income of the corporation?