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PREPARATION OF TAX FORMS

FINAL EXAMINATION

JUNE 2, 1961

1. Please prepare Form 1040 (with Schedule C) based on the following facts:

During the taxable year 1960, Bill Lyon was married and had two children, ages 15 and 20. He and his wife were both 58 years old.

Bill was owner of a three-flat apartment building which cost him, on July 1, 1950, \$25,025 (not including land). The building has an estimated life of 35 years from the date of purchase. He received rent of \$125.00 per month from each of his three tenants, payable the first day of each month. On March 1, 1960, one of the tenants asked for a three-year lease. Bill gave him the three-year lease but as a condition thereto required that he pay the last year's rent (\$1,500) in advance, which he did. In 1960 Bill made the following cash expenditures in connection with the apartment building: real property taxes, \$510; 3-year fire and extended coverage insurance policy (effective from 9/1/60 to 8/31/63, \$360; plumbing and electrical repairs, \$230; redecorating, \$400; light bill, \$80; heat bill, \$500. The three-year fire and extended coverage insurance policy which expired August 31, 1960, had cost Bill \$405 in September of 1957. (Prorate insurance costs to get the portion applicable to 1960)

During 1960 Bill Lyon was also engaged in his own sole proprietorship business of setting up and servicing accounting systems for various businesses. His fee was a fixed percentage of each such business's gross profit as of the end of its annual accounting period. As of December 31, 1959 his books of account for the business showed fees receivable of \$4,500. As of December 31, 1960 his books showed that he had received cash payments of \$20,025, and that fees receivable as of that date were \$7,425, all for 1960 services. Expenses incurred in the operation of the business during 1960 were \$14,150; \$12,140 of these expenses were paid in 1960. The remainder was paid by January 31, 1961. (Accrual basis receipts - \$20025 - 4500 plus 7425)

Bills other income items during 1960 consisted of \$500 in dividends and \$100 interest from municipal bonds.

During 1960, Bill's wife lost a diamond ring, which had cost \$400 and had a value of \$450 on the date of loss; also, a fur coat which had cost \$800 and was worth \$600 was stolen. No insurance was received on either item.

During the summer of 1960, Bill's oldest son, who was a college student, worked for a department store and earned \$900. When Bill's son returned to college in September he turned the \$900 over to Bill who used it to open a savings account in his son's name. At the end of 1960, \$10 interest was credited to this account by the savings and loan association.

During 1960 Bill Lyon contributed \$1,000 to his church and \$1,500 to the tax-exempt college from which he had graduated. His wife contributed \$500 to the family doctor's tax-exempt hospital. Bill also paid doctor and hospital expenses of \$800 for his wife, plus \$145 for drugs and medicine. His real property taxes on his residence amounted to \$400. His personal property taxes were \$80; consumer's tax, license and gasoline tax on pleasure car totalled \$130; and he paid \$520 interest on the mortgage on his residence.

In November of 1960, a windstorm damaged the roof of his residence so that it took \$500 to repair it. The house had cost \$24,000 two years earlier, and before the storm its value was \$25,000. After the storm the value was \$24,500. He recovered \$300 from insurance because of the casualty.

Bill uses the cash basis and calendar year in accounting for his apartment building and personal income. He uses the accrual basis and calendar year in accounting for his systems business. During 1960 Bill paid installments of estimated tax totalling \$854.

2. Please prepare Form 1065 based on the following facts:

A and B are equal partners in a toy-manufacturing company which files its partnership return on the accrual basis. The partnership books disclose the following information for the calendar year 1960:

SALES	\$225,000
RETURNS AND ALLOWANCES	5,000
OPENING INVENTORY	50,000
PURCHASES	47,000
COST OF LABOR AND SUPPLIES	105,000
CLOSING INVENTORY	61,000
ROYALTIES RECEIVED FOR USE OF A PATENT	1,100
SALARIES OTHER THAN TO PARTNERS	26,000
SALARY PAYMENTS TO PARTNERS (\$8,400 to each)	16,800
RENT PAID	17,000
INTEREST EXPENSE (other than payments to partners)...	550
TAXES	8,400
ADDITION TO BAD DEBT RESERVE	1,000
REPAIRS	3,000
DEPRECIATION	2,470
LIGHT, POSTAGE, STATIONERY, ETC.	1,680
NET LONG-TERM CAPITAL GAIN	600
DIVIDENDS TO WHICH THE DIVIDEND-RECEIVED CREDIT AND EXCLUSION APPLY	200

(Schedules L and M are not required in response to this question)

3. Please prepare Form 1120 based on the following facts:

As tax man for the M Corporation you are provided with a profit and loss statement as shown below. You are also informed that \$23,000 cash dividends were distributed during the tax year, and earned surplus and undivided profits at the close of preceding tax year amounted to \$80,500.

THE M CORPORATION
STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1960

Gross Profit from Sales	\$74,635.00
Deduct General Expenses:	
Office Salaries	\$8,050.00
Real estate taxes	920.00
Old age and unemployment taxes	690.00
Depreciation	1,840.00
 Total General Expenses	 11,500.00
 Net Profit on Operations	 \$63,135.00
Add Other Income:	
Interest on bonds of New York City	\$2,300.00
Interest on U.S. Telephone Corp. bonds	115.00
Long term capital gains	3,450.00
Dividends from taxable domestic corporations ...	5,750.00
 Total other income	 11,615.00
 Net Profit on Operations and Other Income	 \$74,750.00
Deduct Other Expenses:	
Long term capital losses	\$8,050.00
Cost of new factory roof completed 12/31/60 (charged to expense on the books)	5,750.00
Charitable contributions	4,025.00
Addition to reserve for anticipated loss on contract to purchase merchandise	2,875.00
 Total Other Expenses	 20,700.00
 Net income (before Federal income tax)	 \$54,050.00

(Schedule L is not required in answer to this question, but Schedule M is required)

Suggestion in respect to Schedule M: To figure the surplus at the close of the tax year, take the following steps: From the net income (before taxes) as shown on the profit and loss statement (\$54,050) subtract the Federal Income tax computed by you and dividends distributed. Add the resulting figure to the surplus at the close of the preceding tax year.