

University of Mississippi

eGrove

Haskins and Sells Publications

Deloitte Collection

1918

Accounting for Liberty Bonds

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Haskins & Sells Bulletin, Vol. 01, no. 01 (1918 March 15), p. 08-12

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Tax Department.

WITH the increasing and exacting demands for advice in tax matters the firm has felt the necessity of taking steps to provide for such service. Accordingly, on November 12, 1917, a tax department was organized. The department will give attention to the question of all taxes, but with special reference to those relating to income and war excess profits.

Mr. George M. Dallas has been appointed manager of the tax department and will be glad at any time to confer with any of the accountants on matters relating to taxes.

In connection with taxes, the following quotation from a letter of Mr. Deputy Commissioner Speer, under date of February 11, 1918, may be of interest:

"You are informed that gifts received by corporations during 1916 or subsequent years are not considered income which must be reported in preparing returns of annual net income under the provisions of the Act of September 8, 1916, or Titles I and II of the Act of October 3, 1917. However, gifts received in years prior to 1916 are considered income to be reported in preparing returns of annual net income under the provisions of the Acts of August 5, 1909, and October 3, 1913, inasmuch as the last-named Acts failed to mention that such gifts were not taxable."

The Accounting for Liberty Bonds.

UNDER date of February 15 the American Institute of Accountants sent out a letter suggesting to members and associates of the Institute a way of showing in a balance sheet the subscriptions to and liabilities in connection with Liberty Bonds. This step was taken by the Institute, presumably, as a conscious attempt at standardization, for which there is ample opportunity. The letter met the fate of most attempts at standardization, namely, to provoke discussion. Suggestions for improvement usually

result in discussion and criticism. It is perhaps one of the most hopeful signs for the future of the accountancy profession that a suggestion of any kind brings forth extensive discussion.

The substance of the material for discussion might be summed up in a statement of facts, as follows:

The Warburton Company subscribed for United States Liberty Bonds in the amount of \$50,000.00. Of this amount, \$20,000.00 was for account of employes, who are to pay therefor by installments. The company borrowed \$10,000.00 from a bank on an open, unsecured note. Employes paid to the company \$10,000.00 as the first installment on their subscription. The Warburton Company paid to the Government, \$30,000.00 on account of the subscription of \$50,000.00.

Suppose you were called upon to set up in a balance sheet the condition resulting from these transactions, how would you show it?

The Institute recommends setting it up net, as follows:

U. S. Liberty Bonds (including \$20,000.00 subscribed by employes).....	\$50,000.00
Deduct—Unpaid installments not due..	20,000.00

\$30,000.00

Deduct—Amount borrowed to invest in bonds	10,000.00
--	-----------

\$20,000.00

Deduct—Payments by employes	10,000.00
--------------------------------------	-----------

\$10,000.00

With this everyone does not agree. The letter of the Institute does not make clear whether the bank loan is, or is not, secured

by the bonds. If the \$10,000.00 borrowed from the bank is secured by the bonds involved in the subscription the above treatment of the matter would be correct; otherwise it would be incorrect. A principle in accounting is violated when a liability is deducted from an asset unless the liability in question is secured by the asset from which it is deducted. The statement of facts has for the sake of argument assumed that the bank is not a preferred creditor.

Discussing now the matter of the subscriptions, there is first the contract between the Government and the company, to express which, the following entry would be in order:

U. S. Liberty Bond	
Subscription	\$50,000.00
U. S. Government	
a/c Liberty Bonds.	\$50,000.00
For subscriptions	
of the Warburton	
Company to \$50,-	
000.00 face value of	
Liberty Bonds.	

There are next the contracts between the company and the individual employes, to express which collectively the following entry would serve:

Employee Subscribers	
to Liberty Bonds..	\$20,000.00
Employes Liberty	
Bond Subscrip-	
tions	\$20,000.00

For subscription contracts of the employes of the Warburton Company whereby the employes agree to pay to the company in cash \$20,000.00; the company to deliver to employes Liberty Bonds in the amount of \$20,000.00.

This entry may be suggestive of somewhat elaborate accounting, but it is necessary to properly express the true financial relations growing out of the contract. It has the added advantage of offering an opportunity for the proper control of subscriptions.

The remaining entries are simple and consist of the following:

Cash	\$30,000.00
Notes Payable	
(bank)	\$10,000.00
Employee Subscribers	
to Liberty Bonds.	10,000.00
Surplus	10,000.00

For funds borrowed from bank; funds paid in by employes on account of subscriptions; and general funds of the company represented by surplus. (Credit made to surplus for purpose, in connection with the illustration, of keeping the accounts on a double entry basis.)

U. S. Government a/c	
Liberty Bonds.....	\$30,000.00
Cash	\$30,000.00

For cash paid by the Warburton Company on account of subscription to Liberty Bonds.

The skeleton ledger accounts posted from the above entries would show the following:

U. S. LIBERTY BOND SUBSCRIPTION		U. S. GOVERNMENT A/C LIBERTY BONDS	
\$50,000.00		\$30,000.00	\$50,000.00
EMPLOYE SUBSCRIBERS TO LIBERTY BONDS		EMPLOYEES LIBERTY BOND SUBSCRIPTION	
\$20,000.00	\$10,000.00		\$20,000.00
CASH		NOTES PAYABLE	
\$30,000.00	\$30,000.00		\$10,000.00
		SURPLUS	
			\$10,000.00

The condition resulting from the transactions set forth in the statement of facts might be shown by the following balance sheet of the Warburton Company, which is

intended to set forth only the relations growing out of the Liberty Bond transactions:

THE WARBURTON COMPANY
BALANCE SHEET—DECEMBER 31, 19—

ASSETS	LIABILITIES AND CAPITAL
U. S. Liberty Bond Subscription. \$50,000.00	Notes Payable.....\$10,000.00
	U. S. Government-installments
	unpaid 20,000.00
	Emploees Liberty
	Bond Subscriptions.\$20,000.00
	Less - Unmatured in-
	stallments 10,000.00 10,000.00
	Equity in bond subscription.... 10,000.00
Total Assets.....\$50,000.00	Total Liabilities and Capital..\$50,000.00

It should be pointed out that the employes have a preference right in the subscription, and the bonds when received, against any general creditors which the company might have. In case of receivership, assuming the company had completed

the payment of its subscription and had received the bonds, employes would have the right to demand delivery of their share of the bonds upon payment of the balance standing against them in the "Employee Subscribers" account, the receiver holding

the bonds in the meantime as security for the unpaid balance.

The amount shown in the balance sheet (\$10,000.00) standing to the net credit of employes on account of subscriptions should not be included under current liabilities. There was no intention on the part of the company, presumably, when the subscription contracts with employes were made to provide that any and all contracts should be revocable at the will of employes. Precedent growing out of the company's regard for fair dealing or fear of criticism may have made it possible for any employe leaving to have his subscription assumed by the company and receive the money paid in on account thereof. Such action would be the result of a subsequent agreement between the company and certain employes and should not be made the basis for the accounting reflecting the relations between the company and the majority of the employe subscribers. The liability (to deliver bonds) together with the offset (unmatured installments) should be set out on the liability side of the balance sheet, following the group of current liabilities as a special liability.

The entries showing the completion of the Liberty Bond transactions and the delivery of the bonds may be of interest, viz.:

Cash	\$20,000.00	
Employe Subscribers to Liberty Bonds.		\$10,000.00
Surplus		10,000.00
Balance from employes and amount necessary to complete payment to Government.		

U. S. Government a/c		
Liberty Bonds....	\$20,000.00	
Cash		\$20,000.00
Balance due Government on ac-		

count of subscription after payment of which bonds are received by the Warburton Company. (Account "U. S. Liberty Bond Subscriptions" becomes "U. S. Liberty Bonds.")

Employes Liberty Bond Subscriptions.	\$20,000.00	
U. S. Liberty Bonds		\$20,000.00
For employes' share of bonds now delivered to them.		

One paragraph of the letter of the American Institute has left doubt in the minds of many who have read the letter. The paragraph referred to is that which reads as follows:

"It was decided that inasmuch as it was felt that it was the intention of the Government that the liability on Liberty Bonds should not work to the detriment of a subscriber to the bonds, there could not be any objection to setting up the subscription as an asset on the balance sheet, and deducting therefrom the unpaid installments not due and the amount of money actually borrowed for the purpose of paying for the bonds so subscribed."

Presumably the executive committee of the institute was under the impression that the excess profits tax of firms and corporations will be effected by the manner in which this item is handled in the balance sheet. While it is admitted no one knows exactly what interpretation may not be made of the term, "invested capital," it is difficult to see how the setting up of Liberty Bonds will have any effect upon the excess profits tax

unless the Treasury Department should rule that the "invested capital" is that capital which is represented by all the assets used in the operation of the business, regardless of whether or not there are liabilities.

Helping The Red Cross.

WHEN the American National Red Cross asked for help in putting its accounts in shape to be audited by the War Department, the firm offered its service gratis as a contribution to the cause.

Mr. Simson left for Washington on January 22, where he has since been engaged upon the work.

Under Mr. Simson's direction the records for the six months ended December 31, 1917, showing receipts of \$40,151,629.26 and disbursements of \$35,452,546.06, are being re-written in order to make possible an audit by the War Department. This, it is hoped, will give the Red Cross a clean bill necessary to its successful continuance as an institution supported by the public.

Alien Property Engagement.

THE members of the staff will no doubt be interested to learn that we have been retained by Hon. A. Mitchell Palmer, Custodian, to direct and supervise, through one of the partners, the operation of the Bureau of Audits of his office and to perform such field services as may be assigned to us from time to time "for the audit or examination of, and report upon, the accounts of reporters, enemy or ally of enemy, liquidators, depositaries, etc., etc."

Mr. Dunn will represent the firm in this engagement, and during the course of the engagement will spend most of his time in Washington.

The Alien Property Custodian was appointed by the President under the "Trading With the Enemy" Act of October 6, 1917. The purpose of the Act is "to prevent aid or comfort to the enemy or allies of the enemy, to make available for war financing any funds in this country belonging to the enemies for such disposition as Congress may deem advisable after the war is over."

The function of the Alien Property Custodian is to act as the common law trustee for all property which comes into his hands for administration. The Act, as regards the Custodian, requires further "that all moneys (including checks and drafts payable on demand) paid to, or received by the Alien Property Custodian shall be deposited forthwith with the Treasurer of the United States, and may be invested or re-invested by the Secretary of the Treasury in United States bonds, or United States certificates of indebtedness."

Copies of the circular of information relating to the organization and operation of the work of the Alien Property Custodian, together with copies of the forms on which reports of enemy property are required to be made to the Custodian, will be found in our library.

Suggestion Box.

THERE has been placed in the library at the New York office a box for the purpose of receiving suggestions. It is hoped that you will avail yourself of the opportunity to make any suggestions which may occur to you. They may relate to yourself, your work, the work of the firm, conditions, relations, methods, or anything you may desire to communicate. They will receive consideration; if possible, adoption. Communications from offices other than the New York may be addressed, "Haskins & Sells, 30 Broad Street, New York, Suggestion Box."