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Canfield problem

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"think right." The man who had the courage to spend two days thinking out the method and plan for a long piece of work was rewarded by having the results stand the acid test of use in litigation and obtain a large judgment for the client.

Good work is the product of careful thought. Nothing is ever in such a hurry that opportunity for thought may not be had. The time required for careful and thoughtful work may be explained—mistakes and stupidity never.

Before you dash off working papers consider the matter of what you are going to do with them.

The "Canfield" Problem

THERE appeared in the April number of THE BULLETIN the following problem: "John Brockton offers to the Canfield Company in consideration of all the capital stock of the latter (\$300,000) his option on the physical property and good-will of a going concern, with a fairly well known trade-name. It is further provided that the property shall be taken subject to a mortgage of \$100,000.

"The offer is accepted. The stock is issued to Brockton. The property is taken subject to the mortgage. Brockton donates the stock to the company to be sold for working capital. The stock is sold at \$25 a share. The directors of the Canfield Company fix the value of the physical property at \$100,000.

"You are asked to open the books for the Canfield Company."

The facts as set forth in the problem were taken from an actual case. They are in some respects unique. The statement in the problem relative to the option is true to the facts in the case, but what really happened

was that Brockton transferred the property which his option gave him the privilege of acquiring. It is somewhat unusual to have the property taken subject to a mortgage and then have the directors fix the value of the property at an amount equal to the amount of the mortgage, whereas the par value of the capital stock issued for the property was considerably in excess of such amount.

Whether or not the Canfield Company was ill-advised legally in transacting business of this importance without duly qualified directors is aside from the question which confronts us as accountants. The facts are as stated, namely, that all the stock was issued for the property, etc. None was, until later, issued to directors to enable them to qualify as such.

The Canfield Company parted with instruments the face value of which was \$400,000. The mortgage of \$100,000 was a distinct liability. The capital stock had a par value of \$300,000. In exchange the company received property, tangible and intangible, which must of necessity be equal in amount to the mortgage and capital stock. If the directors fixed the value of the physical property at \$100,000, the balance of \$300,000 must represent the trade-name and good-will.

The entries covering the transactions as they appear in the problem are as follows:

Plant and property . . .	\$100,000	
Trade-name and good-will	300,000	
Mortgage payable		\$100,000
Capital stock		300,000

To record the purchase of the physical property, good-will and trade-name of the Blank Company acquired by option through John Brockton in

exchange for 3,000 shares (par value of \$100 each) of the capital stock of the Canfield Company and the issue of a mortgage in the amount of \$100,000, the value of the physical property having been fixed by the directors at \$100,000.

Treasury Stock.....	\$300,000	
Surplus from Treasury Stock...		\$300,000
For 3,000 shares (par value \$100 each) of the capital stock of the Canfield Company donated to the company, for the purpose of raising working capital, by John Brockton.		
Cash	\$ 75,000	
Surplus from Treasury Stock.....	225,000	
Treasury Stock...		\$300,000
Proceeds of the sale of 3,000 shares of Treasury Stock, sold at \$25 a share; discount charged against "Surplus from Treasury Stock."		

There is apparently very little to be said concerning the first entry. It seems to be self-explanatory.

The interest attaching to the second entry takes the form of a question as to what that account shall be called, which is credited when treasury stock is charged. It is known by a number of names such as "Working Capital," "Stock Donation Account" and "Capital Surplus." Perhaps the most precise name which may be found for it is "Surplus from Treasury Stock." This title seems properly to describe the account from its inception to its close.

The term "treasury stock" has two mean-

ings. It is sometimes applied to unissued stock. It generally means stock which has once been issued for value and subsequently acquired.

Unlike unissued stock, treasury stock, using the word in the true sense, may be sold below par without any liability attaching for the unpaid portion. Referring to ordinary unissued stock, the Stock Corporation Law (Paragraph 54) makes "a holder of stock * * * personally liable to creditors of the corporation to an amount equal to the amount unpaid on his stock, for debts of the corporation contracted while such stock was held by him."

No such liability follows treasury stock. Hence one frequently hears of the latter being sold at a large discount or even given away as a bonus to influence the sale of other stock.

Treasury stock may be set up in the balance sheet at par or at a nominal value. Mr. Sells recently, in giving an opinion in a case which involved treasury stock, wrote as follows: "I am of the opinion that, all things considered, it would be proper to show the treasury stock on the debit side as an item, expressing the number of shares with a nominal value of, say, \$1.00, which would be credited to profit and loss."

In handling the matter in this way, entries two and three as above would be replaced by the following:

Treasury Stock.....	\$ 1.00	
Profit and Loss....		\$ 1.00
For 3,000 shares donated, etc.		
Cash	\$75,000.00	
Surplus from Treasury Stock.....		\$75,000.00
Proceeds of sale of 3,000 shares, etc.		
Profit and Loss.....	\$ 1.00	
Treasury Stock....		\$ 1.00
To close out nominal accounts for treasury stock.		

The balance sheet would not differ in either case and would appear as below:

THE CANFIELD COMPANY

Balance Sheet—April 30, 1918.

Assets	Liabilities and Capital
Plant and property.....\$100,000.00	Mortgage payable.....\$100,000.00
Trade-name and good-will..... 300,000.00	Capital stock outstanding..... 300,000.00
Cash 75,000.00	Surplus from treasury stock.... 75,000.00
Total Assets\$475,000.00	Total Liabilities and Capital..\$475,000.00

Bonus Computations

We gave in the last number of the Bulletin two formulæ for computing bonuses. The printer in the first formula by using an equality sign instead of a minus sign made the line next to the last look somewhat odd. As it appeared it read—

$$B=5\% \times 6\% \quad B=5\% \quad I - 5\% \times 6\% \quad I.$$

It should have read—

$$B-5\% \times 6\% \quad B=5\% \quad I - 5\% \times 6\% \quad I.$$

We trust no one was annoyed by the error.

In the next issue we hope to publish a formula dealing with a bonus and excess profits taxes.

Mr. Ludlam is serving as chairman of the Accountants' Section of the National War Savings Committee; also the National Security League.

Mr. F. C. Shobe, of the Cleveland staff, sailed recently for France to take up his duties on the staff of General Pershing. Mr. Shobe has been assigned to special accounting work. His appointment came without any influence and is attributable to his

general moral character, qualifications and attention to his duties as a soldier while in training at Camp Sherman, Ohio. The Cleveland office is justly proud of the appointment.

The following members of the staff have severed their connection, or "entered the service" since the publication of the last bulletin:

Barley, Fred, New York—Otrophon Steamship Company.

Buxton, S. H., New York—Army.

Chaplin, W. F., New York—Emergency Fleet Corporation.

Daub, F. W., Cleveland—Army.

Fairlie, H. O., San Francisco—Service of Great Britain.

Hathaway, J. E., New York—J. Aron & Company, Inc.

Hjertberg, H., New York—U. S. Mortgage & Trust Company (Auditor.)

Parker, T. S., New York—U. S. Shipping Board.

Seibel, H. R., New York—Navy.

Shobe, F. C., Cleveland—Army.

Wells, J. F., Detroit—Army.

Wuerz, Robert, New York—Resigned.