Students' Department

H. A. Finney

Students' Department

EDITED BY H. A. FINNEY

Solutions of the following problems have been requested:

Part 1 of Problem

A partnership was entered into between A and B on January 1, 1910, with a capital of $45,000, of which A contributed two-thirds and B contributed one-third.

The agreement between the partners provides that in lieu of a salary B as manager of the business shall be entitled to 20 per cent. of the profit arising in the usual course of business; that the partners shall be entitled to interest at the rate of 6 per cent. on their respective capital investments at the first of each year, and that the profits remaining after deducting the aforementioned items shall be divided equally between the partners; but that any profit or loss resulting from the sale of the business as a whole shall be divided in proportion to the capital investments at the time of sale.

The partnership had been in existence for three years, and during that time the accounts were kept by single entry, but fairly accurate records were kept of sales and expenses, so as to arrive at the approximate profits. The profits as determined for each year were as follows:

1910	$ 9,000.00
1911	15,000.00
1912	21,000.00

This data was used to determine the commissions to be allowed B, interest on capitals, and profits of partners; also to arrive at the respective capitals of the partners at the first of each year.

The credits and debits to the partners' accounts as shown by the books were as follows:

		A	B
CREDITS:			
1910	Commissions		$1,800.00
	Interest	$1,800.00	900.00
	Profits	2,250.00	2,250.00
1911	Commissions		3,000.00
	Interest	1,923.00	1,077.00
	Profits	4,500.00	4,500.00
1912	Commissions		4,200.00
	Interest	2,128.00	1,412.00
	Profits	6,630.00	6,630.00
DEBITS:			
1910	Withdrawals	2,000.00	2,000.00
1911	"	3,000.00	3,000.00
1912	"	4,000.00	4,000.00

The partners intend to incorporate, but before doing so they desire a revision of their accounts, as they have doubts regarding the adequacy of their system to give accurate results. After consultation with you, an accurate inventory is taken and a statement is prepared under your direction, setting forth all known assets and liabilities as of December 31, 1912.

The statement so prepared shows:

ASSETS:		
Cash	$ 2,000.00	
Accounts receivable	41,650.00	
Inventories	54,350.00	$98,000.00
LIABILITIES:		
Notes payable	5,000.00	
Accounts payable	14,500.00	
Accrued rents and taxes	1,500.00	21,000.00

Given the preceding data, you are required to show:

(1) The net profits for each year, how obtained, and the distribution of same between the partners.

(2) Adjusting entries to correct the partners' accounts to December 31, 1912.

(3) Revised accounts of partners, showing credits and charges for each year, and capital of each partner at the beginning of the respective years.

(4) Of the $2,000 cash on hand, distribute $1,109.02 to A and $890.98 to B; then show the adjustments of the accounts of A and B after the sale of the business.

(5) Show the amount of the preferred stock of the corporation that the several partners are entitled to receive after making an equal distribution of the common stock owned by the partnership.

Note: As it is deemed impractical to go into a detailed examination of the accounts for the three years past, you are to apportion to the several years any increase or decrease in the aggregate profits for the three years on a percentage basis.

In making the adjustments bear in mind that no change is to be made in the system of accounting of the partnership.

Part 2 of Problem

The corporation A and B was organized for the purpose of taking over the business of A and B. Its charter authorizes the company to issue 1,000 shares of common stock of the par value of $100 per share, and 1,000 shares of 7 per cent. cumulative preferred stock of the par value of $100 per share, interest payable July 1st and January 1st of each year.

The board of directors agreed with A and B to take over their assets, exclusive of the cash on hand, and assume the liabilities of the partnership, and that the property acquired should be valued at $100,000. It was further agreed that the consideration to be given to A and B should consist of 750 shares of the common stock and 250 shares of the preferred stock of the company. The mutual agreement was put into effect as of January 1, 1913.

On April 1, 1913, the company sold 200 shares of its preferred stock at the flat rate of $105 per share, and on June 1, 1913, 100 shares of preferred stock were sold at $103.50 per share and accrued interest.

You are required to submit journal entries:

1. To record the transaction with A and B.
2. To record the sales of preferred stock.

Solution:

A and B

Profit-and-loss Statement

For the three years ended December 31, 1912

(Single-entry method)

Net worth, December 31, 1912:

Assets:			
Cash	$ 2,000.00		
Accounts receivable	41,650.00		
Inventories	54,350.00	$98,000.00	
Liabilities:			
Notes payable	5,000.00		
Accounts payable	14,500.00		
Accrued rents and taxes	1,500.00	21,000.00	$77,000.00

Deduct net worth, January 1, 1910:					
A's investment				30,000.00	
B's investment				15,000.00	45,000.00
Increase in net worth					32,000.00
Add drawings:					
	A	B	Together		
1910	$ 2,000.00	$ 2,000.00	$ 4,000.00		
1911	3,000.00	3,000.00	6,000.00		
1912	4,000.00	4,000.00	8,000.00		
	$ 9,000.00	$ 9,000.00			18,000.00
Net profit for the three years					$50,000.00

STATEMENT OF ADJUSTED PROFITS BY YEARS

	As originally estimated	Add 1/9	Profits as adjusted
1910	$ 9,000.00	$ 1,000.00	$10,000.00
1911	15,000.00	1,666.67	16,666.67
1912	21,000.00	2,333.33	23,333.33
Total	$45,000.00	$ 5,000.00	$50,000.00

A AND B

STATEMENT OF PARTNERS' ACCOUNTS

For the three years ended December 31, 1912

(Giving effect to distribution of true profits)

	A	B	Together
1910:			
Investments	$30,000.00	$15,000.00	$45,000.00
Commission—20% of $10,000.00		2,000.00	2,000.00
Interest	1,800.00	900.00	2,700.00
Balance of profits	2,650.00	2,650.00	5,300.00
Total	34,450.00	20,550.00	55,000.00
Drawings	2,000.00	2,000.00	4,000.00
Balances, December 31, 1910	32,450.00	18,550.00	51,000.00
1911:			
Commission—20% of $16,666.67		3,333.33	3,333.33
Interest	1,947.00	1,113.00	3,060.00
Balance of profits	5,136.67	5,136.67	10,273.34
Total	39,533.67	28,133.00	67,666.67
Drawings	3,000.00	3,000.00	6,000.00
Balances, December 31, 1911	36,533.67	25,133.00	61,666.67

	A	B	Together
1912:			
Commission—20% of $23,333.33 ...		4,666.67	4,666.67
Interest	2,192.02	1,507.98	3,700.00
Balance of profits	7,483.33	7,483.33	14,966.66
Total	46,209.02	38,790.98	85,000.00
Less drawings	4,000.00	4,000.00	8,000.00
Balances, December 31, 1912........	$42,209.02	$34,790.98	$77,000.00

In order to determine the adjusting entries, it is necessary to ascertain the credit balances in the respective capitals resulting from the distribution of the estimated profits.

A and B
Statement of Partners' Accounts
(As kept)
For the three years ended December 31, 1912

	A	B	Together
1910:			
Investments	$30,000.00	$15,000.00	$45,000.00
Commission		1,800.00	1,800.00
Interest	1,800.00	900.00	2,700.00
Balance of profits	2,250.00	2,250.00	4,500.00
Total	34,050.00	19,950.00	54,000.00
Drawings	2,000.00	2,000.00	4,000.00
Balances, December 31, 1910	32,050.00	17,950.00	50,000.00
1911:			
Commission		3,000.00	3,000.00
Interest	1,923.00	1,077.00	3,000.00
Balance of profits	4,500.00	4,500.00	9,000.00
Total	38,473.00	26,527.00	65,000.00
Drawings	3,000.00	3,000.00	6,000.00
Balances, December 31, 1911	35,473.00	23,527.00	59,000.00
1912:			
Commission		4,200.00	4,200.00
Interest	2,128.00	1,412.00	3,540.00
Balance of profits	6,630.00	6,630.00	13,260.00
Total	44,231.00	35,769.00	80,000.00
Drawings	4,000.00	4,000.00	8,000.00
Balances, December 31, 1912	$40,231.00	$31,769.00	$72,000.00

As no change is to be made in the partnership system of accounts, the single-entry system will be retained, and the adjusting entries will be made in the daybook, as follows:

A capital		(Cr.)	$ 1,978.02
To adjust A's account to	$42,209.02		
from	40,231.00		
Increase	$ 1,978.02		
B capital		(Cr.)	3,021.98
To adjust B's account to	$34,790.98		
from	31,769.00		
Increase	$ 3,021.98		

The distribution of the cash, as indicated, will reduce A's capital to $41,100.00, and will reduce B's capital to $33,900.00, thus bringing the capitals into the ratio of 54.8 and 45.2, in which ratio any profits on the sale of the business to the corporation will be divided.

In order to solve part (5) of the first problem, it is necessary to refer to the second problem for the information as to the payment made by the corporation to the partnership.

STATEMENT OF LIQUIDATION

	A	B	Together
Capitals before sale (as above)	$41,100.00	$33,900.00	$75,000.00
The business is sold for $100,000, thus making a profit of $25,000.00, which is divided as follows:			
A—54.8% of $25,000.00	13,700.00		
B—45.2% of 25,000.00		11,300.00	
Total			25,000.00
Total	54,800.00	45,200.00	100,000.00
Distribution of common stock	37,500.00	37,500.00	75,000.00
Balances, payable in preferred stock	$17,300.00	$ 7,700.00	$25,000.00

There are some rather unusual conditions in this problem. In the first place, the division of the profit on the sale of the business in the ratio of the capitals at the time of the sale is unusual and of doubtful equity. The price received for the goodwill is a realization of an immediate profit presumably based on the earning power of the business. If A and B remained partners, instead of becoming stockholders, they would continue to divide their profits in the partnership profit-and-loss ratio, and the earning power of the business would benefit them in their profit-and-loss ratio. The agreement for the distribution of the profit on the sale of the business in the capital ratio, causes them to benefit from the earning power in the capital ratio.

In the second place, it is preferable to take preferred stock for the assets, other than goodwill, and common stock for the goodwill. By making the preferred stock preferred as to assets, the partners would be safeguarded as to their rights in the assets in the event of liquidation.

Entries on the Corporation's Books

Subscriptions to common stock	$ 75,000.00	
Unsubscribed common stock	25,000.00	
Capital stock common		$100,000.00
To record the authorized issue of common stock, and the portion thereof subscribed for by the partnership.		
Subscriptions to preferred stock	25,000.00	
Unsubscribed preferred stock	75,000.00	
Capital stock preferred		100,000.00
To record the authorized issue of preferred stock, and the portion thereof subscribed for by the partnership.		
Accounts receivable	41,650.00	
Inventories	54,350.00	
Goodwill	25,000.00	
Notes payable		5,000.00
Accounts payable		14,500.00
Accrued rents and taxes		1,500.00
A and B, vendors		100,000.00
To record the purchase of the assets of the partnership of A and B, the assumption of their liabilities, and the liability of the corporation for the net assets acquired, payable in stock.		
A and B, vendors	100,000.00	
Subscriptions to common stock		75,000.00
Subscriptions to preferred stock		25,000.00
To record the offset of our liability to the partnership for net assets, against their liability to us on account of subscriptions.		

The problem states that the preferred stock bears interest. This is a misstatement. Bonds bear interest, but stocks pay dividends. The stock sold on June 1 was sold at $103.50 and accrued dividends, not at $103.50 and accrued interest.

While some accountants might record the issue of the preferred stock in a manner to show the amount of the payment for accrued dividends, it does not seem necessary to do so. It is advisable to have purchasers of preferred stock at dates between dividend days pay for the accrued dividends, so that they will not receive an advantage over other preferred stockholders. But it does not seem necessary to divide the sale price into three parts: par, accrued dividends, and premium. Let us assume that the accrued dividends paid for were credited to some account such as accrued dividends paid for. At the dividend date the entire dividend would have to be charged to surplus and credited to dividends payable. The payment of the dividend would be recorded by a charge to dividends payable, thus closing that account. The accrued dividends paid for account would remain open. It could be closed to surplus or capital surplus. Why not, therefore, credit it to surplus, or capital surplus, or premium on stock in the first place?

Cash		$21,000.00	
Unsubscribed preferred stock			$20,000.00
Capital surplus			1,000.00
To record the sale of 200 shares of preferred stock on April 1, 1913, at 105.			
Cash		10,641.67	
Unsubscribed preferred stock			10,000.00
Capital surplus			641.67
To record the sale of preferred stock for:			
Par	10,000.00		
Premium	350.00		
Accrued dividends—5/12 of $700	291.67		
Total	10,641.67		

Problem:

From the following data prepare a tabulation to show the sources of all funds produced and the distribution thereof:

	Dec. 31, 1920	Dec. 31, 1921
Cash	$ 1,000	$ 800
Accounts receivable	5,000	4,500
Notes receivable	600	500
Inventories	8,000	8,500
Furniture and equipment	400	360
Building	8,000	9,000
Land	2,000	2,500
Prepaid insurance	300	200
Discount on stock		200
	$25,300	$26,560
Accounts payable	$ 1,700	$ 200
Bonds payable	2,000	3,000
Premium on bonds	200	180
Allowance for depreciation—building.	800	1,050
Allowance for doubtful accounts	100	100
Capital stock	15,000	17,000
Surplus	5,500	5,030
	$25,300	$26,560

Depreciation written off against furniture and equipment, $40.

Concrete floor put in part of building and charged to depreciation allowance, $200.

Land written up, $500.

All bonds have a ten-year life. $1,000 sold December, 1921, at face value.

Stock sold for cash, 1921, $1,800. No dividends were declared in 1921.

Note: A mere comparative balance-sheet showing increases and decreases of totals is not sufficient. The cause of all increases and decreases in funds is required.

Solution:

STATEMENT OF APPLICATION OF FUNDS

WORKING PAPERS—YEAR ENDED DECEMBER 31, 1921

	Dec. 31, 1920	Dec. 31, 1921	Year's excess Debits	Year's excess Credits	Adjustments Debit	Adjustments Credit	Working capital Increase	Working capital Decrease	Funds Applied	Funds Provided
Cash	1,000	800		200				200		
Accounts receivable	5,000	4,500		500				500		
Notes receivable	600	500		100				100		
Inventories	8,000	8,500	500				500			
Furniture and equipment	400	360		40	40a					
Building	8,000	9,000	1,000		200b				1,200	
Land	2,000	2,500	500			500c				
Prepaid insurance	300	200		100				100		
Discount on stock		200	200			200f				
	25,300	26,560								
Accounts payable	1,700	200	1,500				1,500			
Bonds payable	2,000	3,000		1,000						1,000
Premium on bonds	200	180	20			20d				
Allowance for depreciation —buildings	800	1,050		250	450e	200b				
Allowance for doubtful accounts	100	100								
Capital stock	15,000	17,000		2,000	200f					1,800
Surplus	5,500	5,030	470		500c	970g				
	25,300	26,560	4,190	4,190						
Net loss from operations					970g					
Premium on bonds					20d					
Depreciation—furniture and equipment						40a			500	
Depreciation—buildings						450e				
					2,380	2,380				
Increase in working capital								1,100	1,100	
							2,000	2,000	2,800	2,800

The foregoing working papers serve as a convenient means of determining the increases and decreases in the accounts, and of making adjustments to eliminate items which had no effect upon the funds. Following is an explanation of the various adjusting entries:

(a) Transfers the depreciation on furniture and equipment from the asset line to the group of items relating to net profit. The decrease of $40 in the furniture and equipment does not represent a provision of funds, and the $40 charge against operations reduced the profits without requiring an expenditure of funds. The adjusting entry eliminates the $40 from both accounts which were affected by the provision of depreciation.

(b) The laying of the concrete floor required an expenditure of funds; the charge to the reserve is transferred to the building account, thus producing a total increase of $1,200 in the building account, which represents the sum of the two expenditures made on the buildings, one of which was charged to the building account, and the other of which was charged to the reserve account.

(c) The $500 write-up of the land account increased that account and the surplus account without having any effect on the funds. Therefore the entry is reversed.

(d) The $20 written off from the premium-on-bonds account, reduced the book loss, but it had no effect upon the funds. Hence that entry also is reversed.

(e) The allowance-for-depreciation-of-buildings account shows a net increase of $250 after having charged the account with the $200 expenditure for the concrete floor. Hence the account must have been credited with depreciation of $450. As this affected the profits without affecting the funds, the amount is transferred from the depreciation line to the profits section.

(f) The $2,000 of capital stock was sold at a discount of $200. To determine the net amount of funds provided by the sale of stock, the $200 discount is transferred from the discount line to the stock line.

(g) The surplus account shows a decrease of $470 for the year, but this is after having credited the account with $500 in writing up the land. Hence the operating loss must have been $970, and this amount is transferred from the surplus line to the profits section.

NAME OF COMPANY

STATEMENT OF APPLICATION OF FUNDS

For the year ended December 31, 1921

FUNDS PROVIDED:

By an additional issue of bonds, at par	$1,000.00
By an additional issue of $2,000 par value of stock at 90	1,800.00
Total	2,800.00

Less funds lost in operations:			
Net loss per books		$970.00	
Less net adjustment for items affecting the profits without affecting the funds:			
Depreciation of furniture and equipment	$ 40.00		
Depreciation of buildings	450.00		
Total	490.00		
Less bond premium credited to income	20.00	470.00	500.00
Net funds provided during the year			$2,300.00

FUNDS APPLIED:	
To additions and improvements to building	$1,200.00
To increase in working capital and deferred charges (per schedule)	1,100.00
Total funds applied	$2,300.00

NAME OF COMPANY

SCHEDULE OF WORKING CAPITAL AND DEFERRED CHARGES

December 31, 1920 and 1921

	Dec. 31, 1920	Dec. 31, 1921	Working capital Decrease	Increase
Current Assets:				
Cash	$ 1,000	$ 800	$ 200	
Accounts receivable—less reserve	4,900	4,400	500	
Notes receivable	600	500	100	
Inventories	8,000	8,500		$ 500
Total current assets	$14,500	$14,200		
Current Liabilities:				
Accounts payable	$ 1,700	$ 200		1,500
Working capital	$12,800	$14,000		
Increase in working capital			1,200	
			$ 2,000	$ 2,000

Deferred Charges:	
Prepaid insurance, December 31, 1920	$ 300
Prepaid insurance, December 31, 1921	200
Decrease	$ 100

Summary

Increase in working capital	$ 1,200
Decrease in deferred charges	100
Net increase in working capital and deferred charges	$ 1,100

HOLDING-COMPANY ACCOUNTING

Editor, Students' Department:

SIR: I would greatly appreciate your opinion on the following questions: H Company, with a stock of no par value, acquires through exchange of its stock the entire $100,000 capital stock of O Company. At the time of the acquisition, the O Company had an earned surplus of $100,000, and has since earned another $100,000. It then declares a cash dividend of $200,000.

(1) What account should the holding company credit this dividend to? Is all of this dividend available as free surplus to the holding company to be used for disbursement as earned dividends to its stockholders if it so desires?

(2) Can dividends be declared out of paid-in or capital surplus when such surplus shall originate from paying in property or cash in excess of the par value of the stock issued therefor?

(3) Must a holding company confine itself to declaring cash dividends out of surplus originated from earnings of subsidiaries earned since consolidation and received as cash or stock dividends from such subsidiaries?

Yours truly,

New York. J. J. L.

The consensus of opinion seems to be that no par value capital stock should be put on the books at the amount received for it. In this case it would seem that the book value of the net assets of the subsidiary, as shown by its capital stock and surplus accounts, would be the best measure of the value of the property acquired for the no-par-value stock. As the subsidiary had a capital stock account of $100,000 and a surplus of $100,000 at the date of the acquisition of its stock by the holding company, the stock appears to have been worth $200,000, and the entry recording the purchase would be:

Investment in O Company stock		$200,000	
Capital stock			$200,000
To record the acquisition of the O Company stock at book value, represented on the O Company's books by their			
Capital stock account	$100,000		
Surplus account	100,000		
Total	$200,000		

The subsidiary's earnings after the date of acquisition would be taken up on the holding company's books by the following entry:

Investment in O Company stock	$100,000	
Surplus		$100,000
To take up our earnings from the ownership of the O Company stock.		

The declaration and payment of the dividend by the subsidiary does not constitute an earning to the holding company, but merely a conversion of a portion of its permanent investment into cash. The value of the investment in stock is decreased exactly as much as the cash is increased.

Hence there is no profit to the holding company, and the entry on the holding company's books when the cash is received should be:

Cash	$200,000	
Investment in O Company stock		$200,000

To record the receipt of a dividend from the subsidiary.

(1) It is my opinion that a holding company can consider as surplus only the earnings made by the subsidiary after the date of the acquisition of its stock by the holding company. Hence, in this case, the holding company could pay a dividend of only $100,000. This statement is subject to the qualification, however, that some accountants believe that a company issuing no-par-value stock for more than the minimum price fixed by the statute are permitted to pay back to the stockholders as dividends the entire excess of the capital over the amount of the statutory minimum capital.

The fact that a holding company should compute its earnings on the basis of the profits of the subsidiary, earned after the date of the acquisition of the stock, and not on the basis of the dividends received from the subsidiary, may be shown by assuming that at the very date when the holding company acquired the subsidiary stock the subsidiary paid a dividend of $100,000 from the surplus on its books at that date, all of which was, of course, earned by the subsidiary prior to the date of the holding company's purchase. The holding company certainly would not be justified in considering such a dividend as income from which it could pay dividends, and I do not see that the holding company could consider as income the dividends paid from previously acquired surplus even though the subsidiary waits for some time before paying the dividends. In other words, the holding company's income consists of the earnings of the subsidiary after the date of acquisition, and does not consist of the dividends which the subsidiary chooses to pay.

(2) If the paid-in surplus is valid (that is, if the asset values are not inflated), the weight of opinion seems to be that there is no legal restriction against paying dividends therefrom. For instance, if $125,000 was received in cash for stock of a par value of $100,000, the premium of $25,000 would be available for dividends. And the same rule would apply if assets other than cash were paid in, provided that the assets were valued fairly. As stated above, some accountants believe that no-par-value stock can be given an arbitrary par of the amount fixed by the statute as a minimum payment per share, and that all assets received for the stock in excess of this minimum may be returned as dividends. So far as I know, there are no court decisions indicating either the correctness or error of this view.

(3) This question was answered in (1) above.

Long-end Interest

Editor, Students' Department:

Sir: Kindly explain the meaning of the term "long-end interest."

Yours truly,

Hartford, Conn. A. St. G.

Let us assume that I borrow $500 from you, agreeing to pay $25 per month, with long-end interest at 6 per cent. The interest is to be deducted from the $25 payment, and the balance is to be applied on the principal. The debt would be reduced as follows:

Original principal		$500.00
First payment	$25.00	
Less one month's interest on $500	2.50	22.50
Unpaid balance of principal		477.50
Second payment	25.00	
Less one month's interest on $477.50	2.39	22.61
Unpaid balance of principal		454.89

On the other hand, suppose that I agree to pay $25 per month, plus interest on the $25 being paid. Then the principal would be reduced $25 each month, and the total monthly payments would be:

First month—$25.00 plus one month's interest on $25.00, or $.13, or a total of $25.13.

Second month—$25.00 plus two months' interest on $25.00, or $.25, or a total of $25.25.

This is short-end interest.

Preferred Stock Sinking Fund

Editor, Students' Department:

Sir: One of the provisions of the articles of incorporation of the company with which I am connected, calls for:

"A sinking fund to be created to redeem preferred stock, and an account 'preferred stock-sinking fund' credited.........with a sum equal to 3 per cent. of the aggregate of all preferred stock issued, if sufficient surplus profits remain after providing for accrued dividends on preferred......... The funds in preferred stock-sinking fund are to be applied to acquisition of preferred stock, etc., etc."

Is there not some confusion here, regarding the purpose of a sinking fund? It seems to me that the account to be created is a reserve for redemption of preferred stock, as a sinking fund would naturally be a debit entry.

By what entries could the funds in a preferred stock-sinking fund (a credit balance) be applied to the acquisition of preferred stock?

Yours very truly,

New York. X. Y. Z.

Your letter furnishes an excellent illustration of the frequent confusion of funds and reserves, and the resulting incorrect use of terms.

The preferred stock-sinking-fund account should be created by setting aside cash in the fund, debiting the sinking-fund account and crediting cash. When stock is purchased and canceled, debit the capital-stock account and credit the sinking-fund account.

The provision requiring the creation of a so-called sinking-fund account out of profits indicates the intention of requiring a reduction of the surplus available for dividends. But a fund account should not be used to show an appropriation of surplus, because fund accounts should have debit balances. Surplus appears in an account with a credit balance, and it must appear in an account with a credit balance even after it has been appropriated and made unavailable for dividends. The title, surplus reserved for retirement of preferred stock, would be more suitable. This account would be credited with 3 per cent. of the stock issued, assuming the adequacy of the profits, and it would not be debited when the stock is retired. Hence this account will eventually have a credit balance equal to the par value of the preferred stock issued and retired, but it will amount to that figure only when all of the stock has been retired, or at least only when provision has been made for its retirement.

The question of what to do with the account after the stock has been retired, is one to be answered by the directors. As long as there is any preferred stock outstanding, its holders have the right to insist that the reserve account shall be kept intact and not charged with any dividends, as the payment of such dividends might so impair the company's financial position as to reduce its earnings and render it unable to pay off the remaining preferred stock. But as soon as the last preferred stock has been retired, the former holders have no right to say what the company shall do with its surplus. Hence the directors may return the appropriated surplus to the regular surplus account, using it for dividends if they wish to do so. They probably would not wish to do so, because the purpose of issuing the preferred stock with the sinking-fund provision was to obtain the capital from outsiders, while retaining the right to pay off these outsiders as equivalent amounts of capital could be retained from profits. If the directors, after the retirement of the preferred stock, were to pay a dividend equal to the retained profits, the company would undo all the work of financing.

Lybrand, Ross Bros. & Montgomery announce the consolidation of the practice heretofore conducted by Klink, Bean & Co. in San Francisco and Los Angeles with their own. Offices will be continued in these cities and Klink, Bean & Black will continue their association with the practice of accounting at both offices. George R. Keast, formerly resident partner of Lybrand, Ross Bros. & Montgomery, Pittsburgh, will act as resident partner in California.

W. T. Woodbridge & Co., San Juan, Porto Rico, announce the consolidation of their practice with that of their New York associates, Robert G. Sparrow & Co., New York. Offices will continue to be maintained in New York and San Juan under the firm name of Robert G. Sparrow & Co.

J. B. Scholefield announces the formation of a partnership with Seymour Wells, practising under the firm name of Scholefield, Wells, & Co., with offices at 922-3 Kearns building, Salt Lake City, Utah.

Philip J. Mayer announces the opening of an office at 20 Vesey street, New York.