Students’ Department

H. A. Finney

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Answer: The contract was delivered complete and is therefore subject to the rule laid down in section 15 of the negotiable instrument law which reads: "Where an incomplete instrument has not been delivered it will not, if completed and negotiated, without authority, be a valid contract in the hands of any holder, as against any person whose signature was placed thereon before delivery."

No. 2. Y gave X a cheque for fifteen hundred dollars in payment of a debt. The cheque was drawn on the Union Trust Company. X had the cheque certified by the Union Trust Company. On the following day, when X was about to deposit the cheque in his own bank, X learned that the Union Trust Company had failed at the opening of business that morning. X then claimed that Y must make good for the cheque. Was X correct in this contention?

Answer: X's contention is incorrect and Y is not liable on the cheque. The rule applicable is set out in section 188 of the negotiable instrument law which provides as follows: "Where the holder of a cheque procures it to be accepted or certified, the drawer and all endorsers are discharged from liability thereon." The reason of the rule is that X could have secured payment of the cheque from the drawee bank when he had it certified, the bank being then solvent.

No. 3. Define (a) an inland bill of exchange; (b) a foreign bill of exchange. In what circumstances does the determination as to whether a bill of exchange is inland or foreign become a vital point?

* Answered by John C. Teevan, instructor in business law, Northwestern University school of commerce.

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Answer:

(a) An inland bill of exchange is a bill which is, or on its face purports to be, both drawn and payable within a given state or country.
(b) A bill drawn in one state or country and payable in another is a foreign bill. The distinction is important with regard to the matter of protest. When a foreign bill is dishonored either by non-acceptance or non-payment it must be duly protested. If not, the drawer and endorsers are discharged. Protest is unnecessary in the case of dishonor of an inland bill.

No. 4. Name three kinds of endorsement, give an example of each and explain the effect of each.

Answer:

(1) Blank; (2) special; (3) qualified.
Blank endorsement: John Doe.
Qualified endorsement—blank: Without recourse, John Doe.

The effect as to further negotiation is as follows: An instrument endorsed in blank, whether qualified or unqualified, is payable to bearer and may be negotiated by delivery without further endorsement. In the case of a special endorsement, whether qualified or unqualified, the endorsement of the endorsee is necessary to the further negotiation of the instrument.

As to the effect of these endorsements with reference to the liability of the endorser, the rules are as follows: A qualified endorser, whether blank or special, warrants (1) that the instrument is genuine and in all respects what it purports to be; (2) that he has a good title to it; (3) that all prior parties had capacity to contract; (4) that he has no knowledge of any fact which would impair the validity of the instrument or render it valueless (section 65, negotiable instrument law). An unqualified endorser, whether blank or special, warrants (1) the capacity of all prior parties; (2) the genuineness of the instrument; (3) the genuineness of his title thereto; (4) that the instrument will not be dishonored by non-acceptance or non-payment; and engages that if for any of these reasons, or otherwise, the instrument is unpaid at maturity he will pay the amount thereof to the holder provided the proper steps are taken to charge him.

Contracts

Answer two of the following three questions:

No. 5. Chandler, owner of a chain of grocery stores in Cleveland, Ohio, sold his entire business to Davison. The contract of sale contained an agreement by Chandler not to engage in the grocery business for a period of ten years. Could Davison enforce the agreement mentioned? What would have been the effect if Chandler had agreed not to engage in the grocery business in Cleveland, Ohio, and vicinity for a period of ten years?

Answer:

Under the terms of this contract, Chandler is prevented from again engaging in the grocery business anywhere in the world. This contract is thus in general or unreasonable restraint of trade, and is therefore against public policy. It is therefore void and not binding on Chandler. In the first place, the proscribed
territory is far greater than is reasonably necessary to protect Davison in the purchase of Chandler's business, and in the second place the public at large is deprived of the advantage of Chandler's enterprise, skill and capital. A restriction as to the city of Cleveland and vicinity would be reasonable, according to the above tests and would, therefore, be valid and binding.

No. 6. Under the statute of frauds, what contracts must be in writing?

*Answer:*

The fourth section includes five contracts, containing the following agreements or promises:

1. The promise of an executor or administrator to pay the debts of a decedent out of his own funds;
2. The promise of one person to become liable for the debt or default of another person;
3. An agreement made in consideration of marriage;
4. Contracts for the sale of lands or any interest therein;
5. An agreement which cannot by its terms be performed within one year from the date thereof.

The seventeenth section (which is the fourth section in the uniform sales act) provides that in agreements for the sale of personal property of a certain price or upwards, there must be a writing signed by the party to be charged, unless there is some performance of the contract as payment of part or all of the purchase price or receipt and acceptance by the buyer of part or all of the goods.

No. 7. What is specific performance and when may it be granted?

*Answer:*

Specific performance is the remedy which a court of equity grants to the injured party to a contract, whereby the party violating the contract is required under the decree of court specifically to perform all his obligations thereunder in favor of the injured party. The theory underlying this remedy for breach of contract is that money damages would not be adequate compensation. This remedy is available in all cases of breach of contract where the subject matter is real estate. It applies to contracts involving personal property only in those comparatively few cases where the article has some rare, peculiar or historic value, as a patent right, shares of stock in a close corporation, a painting by an old master, etc.

**Partnership**

*Answer one of the following two questions:*

No. 8. A and B were copartners. They dissolved partnership, A retiring from the business and B continuing it. After the dissolution B continued to use the same offices, on the door of which A's name remained, and also continued to use the firm's stationery, of all of which A had knowledge. Many concerns not knowing of the dissolution sold goods, as they supposed, to the firm. Upon the insolvency of B they sought to hold A liable. Could they?

*Answer:*

In these circumstances A is liable to the same extent as if the partnership had never been dissolved. Where a partner withdraws from a firm those dealing with the firm are entitled to notice of such withdrawal. Furthermore, it is to the interest of the withdrawing partner to see that such notice is given. Otherwise former creditors, not knowing of the withdrawal, are entitled to assume
that the withdrawing partner is still a member of the firm, and to deal with the firm on the strength of his supposed membership therein. The general rule is that actual notice must be brought home to all persons having former dealings with the partnership, and that general notice should be given to the public through the medium of a newspaper of general circulation. As to creditors doing business with B subsequent to the dissolution, they are entitled, in the absence of knowledge of such dissolution, to assume by reason of the use of A's name on the door, stationery, etc., that A and B are copartners. Hence A's failure to give notice and to prevent the use of his name by B renders him liable as above stated.

No. 9. Weeks and Matthews formed a copartnership for a five-year term. Soon after they began business, Matthews found that Weeks was engaging in wild speculations, was almost continually in a drunken state and was generally so conducting himself as to cause the firm to lose its good name and reputation. Had Matthews any remedy?

Answer:

Where one partner is guilty of misconduct of a willful and serious nature, as that of Weeks in the present case, this becomes ground for a decree of dissolution. Matthews has the right to petition a court of equity for a decree of dissolution. The uniform partnership act, in section 32, restates the common law rule in the following language:

"On application by or for a partner the court shall decree the dissolution whenever . . . a partner has been guilty of such conduct as tends to affect prejudicially the carrying on of the business."

Corporations

Answer the following two questions:

No. 10. State generally the principal rights of a stockholder.

Answer:

The individual rights of a stockholder are: (1) to be notified of, participate in and vote at all stockholders' meetings; (2) to share pro rata in the profits; (3) to subscribe pro rata to any increase of capital stock; (4) on dissolution, to share pro rata in the remaining assets; (5) to inspect the corporate books and records; (6) to prevent ultra vires acts on the part of the corporation. His rights in a collective capacity are to participate in any action (1) to amend the charter; (2) to adopt, repeal or amend the by-laws; (3) to elect directors; (4) to sell the entire corporate assets; (5) to effect a dissolution of the corporation.

No. 11. A and B, upon the formation of a corporation, agreed to take certain shares of the corporation's stock. They paid one-fourth of the purchase price, that is, one-fourth of the par value of the stock which it was agreed should be purchased, but failed to make any further payments. The corporation, after conducting business became insolvent, and the creditors, finding that the corporation had no assets, sued A and B for the balance of the purchase price of the stock which they agreed to purchase. Did the creditors recover?

Answer:

Creditors of a corporation are entitled to assume that the capital stock has been paid for in full by the subscribers thereto. Where stock subscriptions are not paid in full, it is considered to be a species of fraud on the corporate credi-
tors. Hence A and B can be held by the creditors for such amount of the unpaid balance of their subscriptions as may be necessary to satisfy their claims. Before holding stockholders on their unpaid subscriptions, corporate creditors are usually required to reduce their claims against the insolvent corporation to a judgment, so as to remove any doubt as to the validity of their claims. In other words, they sue the stockholders in the capacity of judgment creditors of the corporation.

Bankruptcy

Answer the following question:

No. 12. What are the principal duties of a bankrupt under the bankruptcy law?

Answer:

Section 7 of the bankruptcy act sets out in detail the duties of a bankrupt, the most important being as follows:

1. To prepare and file (a) a sworn schedule of his assets, and (b) a sworn schedule of his creditors and amounts due them.
2. To attend the first meeting of creditors, if so directed, and submit to an examination concerning his business, the cause of bankruptcy, his dealings with creditors, the amount, nature and location of his property, etc.
3. To examine the correctness of all claims filed against the estate.
4. To execute and deliver such papers as shall be ordered by the court.
5. To execute to the trustee transfers of all his property in foreign countries.
6. To notify the trustee of any attempt by his creditors or other persons to evade the provisions of the bankruptcy act coming to his knowledge.
7. In case of any person having, to his knowledge, proved a false claim against the estate, to disclose such fact to the trustee.
8. To comply with all lawful orders of the court.

Income Tax

Answer the following question:

No. 13. What credits are allowed a domestic corporation against the corporation's net income before computation of the income tax.

Answer:

(a) The amount received as interest upon obligations of the United States and bonds issued by the War Finance Corporation; (b) a credit of $2000 where the net income is $25,000 or less. It is provided, however, that the total tax is not to be in excess of (1) the tax payable if the $2,000 exemption were allowed plus (2) the net income in excess of $25,000. This latter provision is of advantage only to corporations whose net income in 1923 was no more than $25,250.

Dividend Paid in No-Par-Value Stock

Editor, Students' Department:

Sir: I would greatly appreciate your recommendation on the handling of the following problem:
Students' Department

M Company shows on the balance-sheet at December 31st, the following items:

Assets .................................................. $1,000,000

Liabilities:
7% cumulative preferred capital stock—4,000 shares—
par value $100 ........................................ $ 400,000
Common stock (no par value) 8,000 shares ........ 80,000
Bonds ................................................... 400,000
Current liabilities ........................................ 70,000
Surplus ................................................... 50,000

$1,000,000

There is an agreement with the bond underwriters to pay the first two years' dividends on preferred stock in common stock (no-par-value) in the ratio of one share of common for each share of preferred stock held. Dividend number one on preferred stock was payable December 31st. What entry should be made to record the issuance of 4,000 shares of common stock and the reduction of surplus for the payment of that dividend?

Permission was granted the corporation by the corporation commissioner for the issuance of 4,000 shares of common stock, with the stipulation that surplus should be reduced by an amount equivalent to the cash dividend which would have been paid under normal conditions, i.e., $28,000. Do you consider that requirement justifiable as determining the value of the 4,000 shares of common stock issued? If not, what transfer from surplus to common stock should be made to reflect the actual value thereof?

It would seem that unless surplus were reduced, continuous dividends might be declared on preferred stock, payable in common stock, and that consequently the preferred stock might also participate in cash dividends derived from the same surplus account, to the detriment of the common stockholders. Yours truly

K. L. W.

San Francisco, California.

It would seem that the corporation commissioner is absolutely right in his ruling as to the valuation of the common stock issued as a dividend. Since the preferred stock is cumulative, the preferred stockholders have a right to an annual dividend of $28,000, and if in any year they receive a dividend of a smaller amount they have a right to receive the remainder in a subsequent year. If, therefore, the preferred stockholders accept common stock in satisfaction of their claims, the books should record the payment of a $28,000 dividend. Crediting the no-par-value capital stock account with any smaller amount would make it appear that the preferred stockholders had not received full payment of the dividend for the year and that they had claims payable in future years for dividends in arrears.

On the other hand, the mere fact that the 8,000 shares of common stock heretofore issued appear to have been issued for $10 a share is not an argument in favor of putting the new issue on the books at a $10 valuation. It is a well recognized principle of accounting that no-par-value stock should be placed on the books at the amount received for it, and in the application of this principle no violence is done to sound accounting by recording successive issues of no-par-value stock at different prices. It may perhaps be contended that nothing was received by the corporation for this stock; but acceptance of stock in
payment of a liability would seem to be comparable with the acceptance of stock in payment for assets, as a means of measuring the value of the stock.

**Sinking Fund with Annual Instalments and Quarterly Interest Conversions**

The August, 1923, *Students' Department* contains the following problem and solution, the problem being one of those in the May, 1923, institute examination:

No. 6. (a) What terminable annuity, payable quarterly for ten years, would be required to repay a loan of $32,840, the nominal rate of interest being 4 per cent. per annum?

(b) What would be the required amount to set aside annually providing for a sinking fund to repay loan, as above, at the end of ten years instead of repaying it quarterly?

Given 
\[(1.01)^{10} = 1.4889.\]

**Solution:**

(a) $32,840 = present value of an annuity of unknown rents. The amount of 1 for 40 periods at 1\% per period = 1.4889. 

\[1 + 1.4889 = .6716 \text{ the present value of 1 due 40 periods hence.}\]

\[.3284 \div .01 = 32.84 \text{ the present value of an annuity of 1.}\]

\[\$32,840 \div 32.84 = \$1,000.00, \text{ the quarterly instalment to be paid.}\]

(b) \[1.04 \times 1.04 = 1.0816 \text{ amount of 1 at end of 2 years at 4\%.}\]

\[1.0816 \times 1.0816 = 1.169859 \text{ amount of 1 at end of 4 years at 4\%.}\]

\[1.169859 \times 1.0816 = 1.368569 \text{ amount of 1 at end of 8 years at 4\%.}\]

\[1.368569 \times 1.0816 = 1.480244 \text{ amount of 1 at end of 10 years at 4\%.}\]

\[1.480244 \div 1 = .480244 \text{ compound interest on 1 for 10 years.}\]

\[.480244 \div .04 = 12.0061 \text{ amount of annuity of 1 for 10 years.}\]

\[\$32,840.00 \div 12.0061 = \$2,735.28 \text{ sinking-fund contribution to pay off principal.}\]

The total annual payment each year by this method would be:

- Sinking-fund contribution: $2,735.28
- Interest at 4\% on $32,840.00: $1,313.60

**Total** $4,048.88

Exception to the solution to part (b) of this problem is taken by the president of one of the state boards, who maintains that the problem calls for quarterly interest conversions, and that my solution provides for annual interest conversions.

It is quite true that the solution reprinted above provides for annual interest conversions, but it does not seem as certain that the examiners intended the candidates to solve part (b) of the problem on the assumption that the sinking-fund interest would be compounded quarterly although the contributions to the fund were made annually.

Part (a) provides for the payment of the debt in quarterly instalments. This does not mean that a sinking fund is to be established, but that the quarterly payments are to be made directly to the creditor and that the principal of the debt is to be immediately reduced.
Part (b) is based on an entirely different premise. The full principal of the debt is to remain unpaid for ten years, and a sinking fund is to be created by annual instalments. Now it does not seem to follow that, merely because in one case a debt could be paid in quarterly instalments, in another case interest on annual sinking-fund instalments is to be compounded quarterly. Nor does the fact that the problem states the amount of $1 at 1 per cent. per period for 40 periods necessarily mean that the examiners intended both parts of the problem to be worked in such a way that this figure could be used. In fact, I am inclined to believe that the examiners may have wished to see whether the candidate would realize that the change in the facts in part (b) made it impossible to use the stated amount, 1.4889.

However, since it is possible that the examiners had in mind the suggested interpretation of the problem, rather than the interpretation on which the solution in the August issue was based, and also because the solution on the basis of the suggested interpretation furnishes a good illustration of the method to be applied when interest is converted at more frequent intervals than those at which instalments are paid, it seems desirable to publish a solution on the assumption that interest is to be computed quarterly.

While the nominal rate of interest would be 4 per cent. per annum, the effective rate would be 1 per cent. per quarter. It is then necessary to know the compound interest for 40 periods at 1 per cent. which is stated by the problem to be .4889. But it is also necessary to know the effective rate per annum, 4 per cent. being the nominal rate per annum. The effective rate is computed as follows:

\[
1.01 \times 1.01 = 1.0201 \text{ amount of } 1 \text{ at end of 2 periods.}
\]
\[
1.0201 \times 1.0201 = 1.040604 \text{ amount of } 1 \text{ at end of 4 periods.}
\]

Then 1.040604 - 1 = .040604, the effective annual rate.

The problem may then be stated as follows: What contribution at the end of each of ten years, will provide a sinking fund of $32,840.00, if the fund earns interest at the rate of 4.0604% per annum?

\[
.4889 + .040604 = 12.04068 \text{ amount of annuity of 10 payments of } 1 \text{ at 4.0604%}.
\]
\[
$32,840.00 + 12.04068 = $2,727.42.
\]

In addition to making this annual sinking fund instalment, it will also be necessary to pay the annual interest on the loan, or $1,313.60 (or four quarterly payments of interest aggregating this amount), making a total annual payment of $4,041.02.

Goodwill, Minority Interest and Consolidated Surplus

Editor, Students' Department:

Sir: "A" as a parent company owns 90 per cent of the stock in subsidiary "B." The stock was purchased for $150,000. At the time of purchase, the par value of the capital stock of "B" was $100,000, and the surplus amounted to $20,000. Will you please inform me as to how this would be shown in a consolidated balance-sheet?

Yours very truly,

F. W. A.

Oil City, Pa.

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First, the goodwill. This is the excess of the purchase price of the stock over the book value of the stock acquired. The computation is made as follows:

\[
\begin{align*}
\text{Purchase price} & \quad \text{\$150,000} \\
\text{Less book value of stock acquired:} & \\
90\% \text{ of } $100,000 \text{ capital stock} & \quad \text{\$90,000} \\
90\% \text{ of } 20,000 \text{ surplus} & \quad \text{18,000} \\
\hline \\
\text{Goodwill} & \quad \text{\$42,000}
\end{align*}
\]

As the goodwill is the excess of the purchase price over the book value at acquisition, the goodwill in all subsequent balance-sheets will be the same (assuming that no subsequent stock purchases are made by the holding company), because subsequent transactions can not change either the purchase price or the book value at acquisition.

Second, the minority interest. This is 10 per cent. of the par value of the stock and 10 per cent. of the surplus of the subsidiary. At the date of purchase by the holding company, the minority interest would be:

\[
\begin{align*}
10\% \text{ of stock} & \quad \$10,000 \\
10\% \text{ of surplus} & \quad 2,000 \\
\hline \\
\text{Total} & \quad \$12,000
\end{align*}
\]

The minority interest will change in each successive balance-sheet, because the subsidiary’s surplus will change.

Third, the surplus. This will be the amount of the holding company’s surplus plus 10% of the earnings of the subsidiary after the date of acquisition.

"Accrued Dividends"

Editor, Students' Department:

Sir: A question has arisen on which I would appreciate your opinion. A corporation has three kinds of capital stock, viz., common, first preferred and second preferred, the latter containing a clause whereby dividends are payable quarterly and if not so satisfied they become cumulative. The question at issue is whether or not it is proper from an accounting standpoint to set up as a liability the dividends that have accrued as a result of the cumulative feature but have not yet been declared by the board of directors.

The contention of some accountants upon this matter is that dividends not declared when cumulative should not be set up as a liability, because they have not been officially declared by the board of directors, but should, instead, be mentioned in some part of the auditor’s comments or in a footnote on the balance-sheet.

It is the contention of other accountants that when dividends are not declared they should, nevertheless, be set up as a liability, in view of the fact that the liability will ultimately materialize.

If the last contention is right, what could be done in the case where a corporation with cumulative preferred stock at the end of the dividend period has incurred an operating loss and, in addition, did not have a surplus?

Yours truly,

H. H. M.

Detroit, Michigan.

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The methods which may be used for showing so-called accrued dividends (which are not past due) are the same as those which may be used for showing dividends in arrears (which are past-due). Incidentally, since dividends do not really accrue, it is unfortunate that there is not some more precise word available to indicate that a certain portion of the surplus (or of future profits) will be required for the payment of dividends in accordance with the provisions of the preferred-stock issue.

Neither accrued dividends nor cumulative dividends in arrears are a positive liability until they have been declared. Until that time they are only a contingent liability. If the corporation has a surplus equal to the amount of the dividends in arrears, the liability is contingent upon the declaration of the dividend by the directors. If the corporation has no surplus, the liability is contingent upon the earning of profits as well as on the declaration of the dividend. As long as the liability is merely contingent, it can not properly be shown as a positive liability.

However, the contingent liability should be shown either as a footnote on the balance-sheet or by a division of the surplus, in the following manner:

Surplus:

Required for accrued dividends .................. XX,XXX.XX
Remainder .................. XXX,XXX.XX

This method is of course not available if the company has a deficit, or if its surplus is smaller than the accrued dividends. In that case, the facts may be stated in a footnote.

**Partnership Problem**

*Editor, Students' Department:*

Sir: The following problem is submitted for solution:

On January 1, 1882, T. Herndon, W. Newman and B. P. Dulin engaged in business. Herndon was to furnish $\frac{4}{5}$ of the capital and receive $\frac{4}{7}$ of the gains; Newman and Dulin were each to furnish $\frac{3}{7}$ of the capital, and receive $\frac{3}{7}$ of the gains; interest at 10 per cent per annum was to be allowed on the excess, and charged on the deficiency of each partner's required investment.

On January 1, 1882, Herndon invested.................. $8,000
On July 3, 1882, " withdrew.................. 3,000
On August 12, 1882, " invested.................. 6,000

On January 1, 1882, Newman invested.................. $5,000
On July 3, 1882, " withdrew.................. 800

On January 1, 1882, Dulin invested .................. $5,000
On March 15, 1882, " withdrew.................. 2,000
On May 1, 1882, " withdrew.................. 1,200
On June 18, 1882, " invested.................. 1,500
On September 1, 1882, " withdrew.................. 800
On " invested.................. 500

The net gain during the year was $5,300. What was each partner's interest in the firm on January 1, 1883?

Yours truly,

I. L. B.

Macon, Georgia.
Solution:
In order to determine the amount of the excess or deficiency of each partner’s capital, it is apparently necessary to reduce the partners’ accounts to a common basis by computing the average capitals, which is done as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Debits</th>
<th>Credits</th>
<th>Balances</th>
<th>Time</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Herndon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>$8,000</td>
<td>$8,000</td>
<td>183 days</td>
<td>$1,464,000</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>$3,000</td>
<td>5,000</td>
<td>40 &quot;</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>6,000</td>
<td>11,000</td>
<td>142 &quot;</td>
<td>1,562,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>365 &quot;</td>
<td>$3,226,000</td>
<td></td>
</tr>
</tbody>
</table>

Average investment for the year = $3,226,000 + 365 = $8,838.35.

<table>
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<tr>
<th>Date</th>
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<th>Balances</th>
<th>Time</th>
<th>Products</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newman</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>$5,000</td>
<td>$5,000</td>
<td>183 days</td>
<td>$915,000</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>$800</td>
<td>4,200</td>
<td>182 &quot;</td>
<td>764,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>365 &quot;</td>
<td>$1,679,400</td>
<td></td>
</tr>
</tbody>
</table>

Average investment for the year = $1,679,400 + 365 = $4,601.10.

<table>
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<td></td>
</tr>
<tr>
<td>Dulin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>$5,000</td>
<td>$5,000</td>
<td>73 days</td>
<td>$365,000</td>
<td></td>
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<tr>
<td>March</td>
<td>2,000</td>
<td>7,000</td>
<td>47 &quot;</td>
<td>329,000</td>
<td></td>
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<tr>
<td>May</td>
<td>$1,200</td>
<td>5,800</td>
<td>48 &quot;</td>
<td>278,400</td>
<td></td>
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<tr>
<td>June</td>
<td>1,500</td>
<td>7,300</td>
<td>75 &quot;</td>
<td>547,500</td>
<td></td>
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<tr>
<td>September</td>
<td>800</td>
<td>8,100</td>
<td>8 &quot;</td>
<td>64,800</td>
<td></td>
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<tr>
<td>September</td>
<td>500</td>
<td>7,600</td>
<td>114 &quot;</td>
<td>866,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>365 &quot;</td>
<td>$2,451,100</td>
<td></td>
</tr>
</tbody>
</table>

Average investment for the year = $2,451,100 + 365 = $6,715.34.

The next step is to compute the excess or deficiency of each partner’s capital over the agreed fraction and to compute the interest to be credited or charged to his account.

<table>
<thead>
<tr>
<th>Average Agreed Investment</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>investment</td>
</tr>
<tr>
<td>Herndon</td>
<td>$8,838.35</td>
</tr>
<tr>
<td>Newman</td>
<td>4,601.10</td>
</tr>
<tr>
<td>Dulin</td>
<td>6,715.34</td>
</tr>
<tr>
<td>$20,154.79</td>
<td>7/7</td>
</tr>
</tbody>
</table>

STATEMENT OF CAPITALS

<table>
<thead>
<tr>
<th>Herndon</th>
<th>Newman</th>
<th>Dulin</th>
<th>Together</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitals, December 31, 1882, before closing</td>
<td>$11,000.00</td>
<td>$4,200.00</td>
<td>$7,600.00</td>
</tr>
<tr>
<td>Interest—debit* or credit</td>
<td>20.06</td>
<td>115.74*</td>
<td>95.68</td>
</tr>
<tr>
<td>Net gain for the year</td>
<td>2,271.43</td>
<td>1,514.29</td>
<td>1,514.28</td>
</tr>
</tbody>
</table>

Capitals, December 31, 1882, after closing | $13,291.49 | $5,598.55 | $9,209.96 | $28,100.00 |

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