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Add one more complication

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to what service was performed. Thus, it is to be hoped we may avoid the opprobrium of being characterized as "honest but dumb."

Add One More Complication

CAPITAL stock without par value no longer can be said to be a novelty. Since the State of New York first authorized its issuance in 1912, well-nigh countless corporations have availed themselves of the non-par stock laws existing in various states, now numbering over thirty. The principle has been applied to all kinds of corporations and all classes of stocks. In current stock offerings the assignment of par value seems to be the unusual procedure rather than otherwise.

And yet withal, the entire gamut of non-par stock problems apparently has not been run. This seemingly simplest of devices, when applied to the complexities of modern financing, continues to create unanticipated situations, and to furnish abundant material for rumination. The following case, involving both common and preferred stock without par value—a frequent cause for confusion—is an interesting example.

An individual was an original subscriber to the capital stock of a corporation recently formed to acquire the assets and purchase the good-will of a well-known large industrial concern.

The authorized capital stock of the company in question consisted of preferred stock, without par value, entitled to cumulative dividends at the rate of seven dollars per share annually, redeemable in case of liquidation, or prior thereto at the company's option, at one hundred five dollars per share; and common stock, also without par value.

The preferred stock was issued for one hundred dollars per share, and each share carried "as a bonus" one share of common stock. The entire capital stock was issued almost wholly against the company's earning capacity, as represented by its good-will, since bonds were sold practically to the limit of the equity in its net tangible assets.

The individual mentioned thus acquired an equal number of preferred and common shares on the basis described. Several months later he disposed of his common stock at a price of approximately thirty-six dollars per share. And now, in attempting to ascertain, for income tax purposes, the gain or loss resulting from the transaction, he finds himself confronted with a perplexing question: how much did his common stock cost him?

The terms of the original offering, as stated, were a price of one hundred dollars per share of preferred stock, the purchaser of each preferred share receiving "as a bonus" one share of common stock. Under the circumstances, however, it manifestly is unfair to preserve this fiction, and to maintain that the subscriber's preferred stock cost him one hundred dollars per share, and that his common stock cost him nothing. The transaction should be regarded in its entirety. The subscriber paid one hundred dollars, and received therefor two shares of stock, one preferred and one common, without par value. The problem then is to apportion the purchase price between the two.

Reference to the company's published balance sheet at the commencement of business proves unenlightening. As has been stated, the capital stock was issued almost entirely against earning capacity, as represented by good-will. In the balance sheet, however, apparently because of conservatism, good-will is shown at the nominal amount of one dollar. Correspondingly, preferred stock outstanding is stated nominally at one dollar per share, and common stock outstanding at ten cents per share. There remains a small capital surplus, after eliminating from the proceeds of capital stock sales all but one dollar of the good-will, and after setting up the shares outstanding at the nominal amounts stated. Obviously, therefore, it is impossible to determine the actual value of the common stock at the commencement of business by reference to the company's balance sheet.

It appears that market dealings in the common stock immediately after its issuance would furnish an index as to its generally accepted value at that time, which could be used as approximating its cost to the original subscriber. Reference to stock market quotations shows that the preferred and common stock were sold on the exchange on a "when issued" basis in units consisting of a share of each, for a period of approximately a month after the offering was made. The price circled around one hundred. When the warrants appeared, the preferred and common shares were listed separately. The former opened at seventy-four and a fraction, and the latter at twenty-five.

The indication, therefore, is that general opinion considered a share of preferred stock worth approximately seventy-five dollars, and a share of common stock approximately twenty-five dollars at the time of issuance. It seems fair to divide in this ratio the hundred dollars representing the cost of the two shares to the original subscriber. On this basis, there would be, in the case at hand, a profit of eleven points per share resulting from the sale of the common stock.

The moral to be derived from this incident is that the removal of par value from a share of stock may involve more complications than at first appear. At any rate, capital stock without par value demands clear and lucid treatment in the balance sheet of a corporation, in order that the pertinent facts concerning the net equity readily may be ascertained.

Book Review

Pacioli, Lucas. *A Treatise on Double-entry Bookkeeping*. Translated by Pietro Crivelli, F.C.R.A. (Harper & Brothers, New York, 1925. 125 p.)

Harper & Brothers have performed an educational and meritorious service in bringing to this country an English reproduction of Pacioli's Double-entry Bookkeeping. Pacioli, usually credited with having invented double-entry bookkeeping, whether or not entitled to that credit, is the first one known to have written about the subject, having brought out his book at Venice, Italy, in 1494. The book was translated into English from Italian, by Pietro Crivelli, for the Institute of Bookkeepers, Limited, London, and has been reproduced by Harper & Brothers.

The book is of interest to the accountancy profession, notwithstanding its didactic character, because it shows the origin of some of the theory on which modern bookkeeping methods are based. It is a book with which to sit down and spend an hour or two of enjoyment, as well as one from which profit may be derived.

Pacioli's style is quaint but clear, and there is a note of drollery here and there which is somewhat fascinating. For example:

"If you should desire you may include with these household expenses all extraordinary expenses, which you do not usually take notice of, that is, when you spend money in playing various kinds of games, or money or things which you might lose, or may be stolen from you, or lost at sea or through fires, etc., for all are intended to be extraordinary expenses, which, if you desire you may keep separately, as many persons do, in order to know clearly at the end of the year how much they have spent as extraordinary expenses, and in which should also be included gifts and presents that you may make to anyone for any reason."

Without presumption, it may be said that the book should find a place in the personal library of every accountant.