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Correspondence

"Commission Problems Simplified"

Editor, *The Journal of Accountancy*:

SIR: Have you not erred in entitling Mr. Mahoney's article on commission problems in the April JOURNAL "simplified"? I much doubt if there is any practising accountant worthy of the name who cannot solve the simple algebraic formulæ required for these problems with more ease than he can solve them by Mr. Mahoney's method.

I have indicated the formulæ and solutions for the benefit of those who may have such commissions and taxes to compute. The only estimate called for is the *number* of *whole* thousands of taxable income.

I

Let x = commission
then net income = $10x$
taxable income = $23462.04 - x$
total income and surtax = 9.95% (20000) plus
17% ($23462.04 - x - 20000$) equals $2578.55 - .17x$
 $10x$ plus x plus ($2578.55 - .17x$) = $23,462.04$
 $10.83x = 20,883.49$
 $x = 1,928.30$ = commission
21,533.74 = taxable income
2,250.74 = total income and surtaxes
19,283.00 = net income = ten times commission.

II

Let x = commission then $23462.04 - x$ = taxable income
then $10x$ = increase in net profits
9763.26 plus $10x$ = net profits for current year
income and surtax = 9.95% (20000) plus 17% (2000) plus
18% ($23462.04 - x - 22000$) equals $2593.17 - .18x$
 x plus (9763.26 plus $10x$) plus ($2593.17 - .18x$) = 23462.04
 $10.82x = 11105.61$
 $x = 1026.39$ = commission
22435.65 = taxable income
2408.42 = income and surtaxes
20027.23 = net income current year
9763.26 = net income last year
10263.97 = increase in net income = ten times comm.

III

Let x = net profits
then $.15x$ = commission
19764.80 - $.15x$ = taxable income
excess-profits tax = 20% (6600) plus 40% ($19764.80 - .15x - 16000$) equals $2825.92 - .06x$
normal tax = 10% ($19764.80 - .15x - (2825.92 - .06x) - 2000$) equals $1493.88 - .009x$
 $x + .15x + (2825.92 - .06x) + (1493.88 - .009x) = 19764.80$
 $1.081x = 15445.00$
 $x = 14287.69$ = net profits
2143.15 = commission
17621.65 = taxable income
1968.66 = excess-profits tax
1365.30 = normal income tax.

IV

Let x = net profits
then commission = $15\% (5000) + 10\% (5000) + 5\% (x - 10000) = 750 + .05x$
taxable income = $19764.80 - (750 + .05x)$
excess-profits tax = $20\% (6600) + 40\% [19764.80 - (750 + .05x) - 16000]$ equals $2525.92 - .02x$
normal tax = $10\% [19764.80 - (750 + .05x) - (2525.92 - .02x) - 2000]$ equals $1448.88 - .003x$

$x + (750 + .05x) + (2525.92 - .02x) + (1448.08 - .003x) = 19764.80$
 $1.027x = 15040$

$x = 14644.59$ = net profits
1482.23 = commission
18282.57 = taxable income
2233.03 = excess-profits tax
1404.95 = normal tax.

As said before, these solutions are so rational and so simple, it is doubtful if any accountant will attempt to use Mr. Mahoney's method in practice.

Yours truly,

Paul, Idaho, April 10, 1922.

WARD FUQUA.

Treatment of Obsolescence

Editor, *The Journal of Accountancy*:

SIR: I have read Mr. Adams' communication regarding my article on obsolescence with much interest. It is not my intention to elaborate on the subject here, but to point out what appears to me to be an inconsistency in Mr. Adams' interpretation. In the third paragraph of his letter he says:

"As regards the latter part of the thesis, I believe most of us would agree with Mr. Saliers in principle [that the unreturned cost of obsolete machinery should be amortized by adding it to the cost of new machinery], whether by addition to the new machinery cost or by an amortization account, the latter method being preferred by the writer in most instances . . ."

In the seventh paragraph Mr. Adams says:

"But is it necessary or advisable to wait until new methods and new machinery are on the market before providing for obsolescence? . . . Is it not desirable to make some provision therefor?"

In his last paragraph Mr. Adams says:

". . . in the majority of cases it would seem that the best method of inclusion would be, as it usually is to-day, as a factor in determining a proper depreciation rate."

I submit that Mr. Adams, after recognizing the propriety of capitalizing obsolescence, either by adding it to cost of new machinery or by means of an amortization account, completely reverses his stand when he advocates including an allowance for obsolescence in the depreciation rate.

I believe that there are several reasons why obsolescence should not be covered in the depreciation rate, the most important single reason being that to treat it so makes it impossible to establish scientific depreciation rates based on experience. Obsolescence is too uncertain to be permitted to be confused with depreciation.

Sincerely yours,

EARL A. SALIERS.