I am afraid that many accountants do not understand the distinction between charging the discount against profits and disposing of it as a disposition of profits. To charge it against undivided profits or surplus is just as wrong as it is to charge it against operating profits. Disposing of it does not affect the net worth any more than does the establishment of a sinking fund reserve.

In an analysis of the revenue and surplus statement the discount disposed of as a disposition (transfer) of undivided profits or surplus would not be picked out as a charge (expense or loss) passed through undivided profits or surplus instead of directly against operating profits.

Assume that a company issues $100,000 of stock at 90. Applying my treatment the balance-sheet would show

Capital stock	$100,000	
Discount on stock	10,000	
		$90,000

If at the end of the first year its net profits were $10,000, the balance-sheet would then show

Capital stock	$100,000	
Discount on stock	10,000	
		$90,000
Undivided profits or surplus		10,000

If it is decided to dispose of $2,000 of the discount by a transfer of undivided profits or surplus the balance-sheet would then show

Capital stock	$100,000	
Discount on stock	8,000	
		$92,000
Undivided profits or surplus		8,000

Applying the theory of considering the discount a deferred charge against profits the revenue and surplus statement would, in the above case, incorrectly show net profits of only $8,000. Applying my theory it would correctly show net profits of $10,000 and a transfer of undivided profits or surplus of $2,000.

Consider this important point: The directors of a corporation alone have control over the undivided profits and the surplus. They (or the stockholders) only have power to increase the original liability upon the capital stock and if they decide to do so it is done by a transfer from undivided profits or surplus. In the face of this, by charging the discount against profits, frequently upon the accountant's advice, the officers are taking unto themselves these important powers.

Yours truly,

JOSEPH ROBINSON.

Frederick G. Colley announces the opening of offices at 43 Exchange Place, New York, for the practice of accounting under the name of Frederick G. Colley & Company.

Frank Wittenberg announces the removal of his office to room 601 A. O. U. W. building, Little Rock, Arkansas.