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American Institute of Accountants. Bureau of Information

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ACCOUNTING QUESTIONS

[The questions and answers which appear in this department have been received from the bureau of information conducted by the American Institute of Accountants. The questions have been asked and answered by members of the Institute who are practising accountants and are published here for general information. The executive committee of the Institute, in authorizing the publication of this matter, distinctly disclaims any responsibility for the views expressed. The answers given by those who reply are purely personal opinions.—EDITOR.]

GOVERNMENT GRANTS FOR BRIDGE BUILDING

Question

We would like to know what is regarded as the best accounting procedure in connection with the building of a new bridge where 45 per cent of the cost is contributed by the Federal Government in the form of a grant.

The bridge will be built and operated by a commission as an agency of the state. That part of the total cost not covered by the federal grant will be obtained through an issue of bonds.

As monies are received from time to time on account of the federal grant we are in doubt as to the best title for an account which can be credited with such receipts and the best location for the account on the balance-sheet of the commission.

The basis for depreciation charges will be the total cost of the bridge which will include

the proceeds of the bond issue plus the federal grant.

Answer No. 1

It seems to us that in the accounts of the commission the funds contributed by the Government should be carried in an account designated substantially as "Construction Grants—United States Government." This account should appear in the balance-sheet in the position it would occupy if the capital it represents were in the form of capital stock.

Answer No. 2

It is our opinion that entries substantially in the following form will properly reflect these transactions, and that the entries are those customarily used by governmental organizations for this purpose:

Upon authorization of project (\$1,000,000 cost assumed)		
1. Construction authorized but not completed	\$1,000,000	
To authorized appropriation		\$1,000,000
2. Due from future bond sales	550,000	
To bonds authorized, but unissued		550,000
3. Due on grant from Federal Government	450,000	
To federal grant authorized		450,000
Upon sale of bonds for state share		
4. Cash	550,000	
To: Due from future bond sales		550,000
Upon issuance of bonds to bankers		
5. Bonds authorized, but unissued	550,000	
To bonds outstanding		550,000
As cash is received on federal grant		
6. Cash	450,000	
To: Due on grant from Federal Government		450,000
When grant cash is all received		
7. Federal grant authorized	450,000	
To capital surplus		450,000

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As construction proceeds and claims or warrants are paid		
8. Authorized appropriations.....	\$1,000,000	
To cash.....		\$1,000,000
When construction is completed		
9. State-owned properties.....	1,000,000	
To construction authorized but not completed.....		1,000,000
As bonds are matured and paid through budget appropriations		
10. Bonds outstanding.....	550,000	
To capital surplus.....		550,000

In the above amounts we have not made allowance for discounts on the bonds, or for small unexpended balances in the authorized

appropriations, which would probably have to be adjusted when the accounts are closed upon completion of the project.

SINKING FUND OF TIMBER COMPANY

Question

I wonder if you would endeavor to find some information that will be of aid to us in the proper statement in the balance-sheet of sinking-fund requirements according to the following problem.

Corporation A has outstanding \$1,000,000 of first mortgage 6 per cent income sinking-fund bonds. The corporation is engaged in the cutting and marketing of timber which it owns. The trust indenture provides that sinking-fund payments, to meet bond requirements, shall be made to the trustee at amounts based on \$4 per thousand feet of timber cut. It also specifies that the amount due the sinking-fund trustee shall be computed each month but payment is not made until the third month following. The indenture also provides that the trustee is to use this sinking-fund money for the purchase and redemption of bonds when it has enough to buy \$10,000 of par value. The purchases will be made in the market at any price the trustee may be able to buy them at not over par.

In the accounting there is always a liability to the trustee for ninety days of cutting. It so happens that it is entirely possible that bonds may be purchased by the sinking fund at considerably less than par. The problem that we want to decide is how to state in the balance-sheet the accrued liability to the sinking-fund trustee.

Answer No. 1

In our opinion the only satisfactory way of caring for the sinking-fund obligation is through the medium of a footnote setting forth all of the facts. If the amount of indebtedness were set up in the body of the statement itself, the effect would be a double liability which, of course, should not be shown.

On the other hand, as the correspondent indicates, it is impossible to segregate the bond liability itself into two divisions. Therefore, as the full amount of liability is already set forth and only the particulars as to the method of payment are not fully shown, adequate information can best be furnished by a footnote.

Answer No. 2

It is my opinion that the amount of the sinking fund is a liability as the timber is cut and that the liability is current. I think it should be shown as a separate item in the current liabilities. The asset should appear under the caption, "Sinking fund assets," and preferably should show as a separate item in addition to the amount shown for other sinking-fund assets, and should carry some proper descriptive title such as "Amount due to sinking fund on account of timber cut." I prefer the separate showing regardless of amount.