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Commentator

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THE COMMENTATOR

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Dixie Mixed Fixed Asset Situation

A layman might be a little puzzled by the presentation of fixed assets and related reserves on the consolidated balance-sheet of Pennsylvania-Dixie Cement Corporation.The gross figures for land, buildings, machinery, equipment, etc., represent reproduction cost as appraised at June 30, 1926, with subsequent additions at cost and presumably less withdrawals. Two items representing accumulated depletion and depreciation are then deducted and the resultant net figure, though not described, apparently should be considered the net book value.

The first of the two deducted items is said to represent the accrued depreciation as of the appraisal date, together with provision out of earnings since that date. The second item deducted is the total amount transferred from a special reserve since January 1, 1937. That special reserve was created out of capital surplus for the elimination of appreciation included in the appraisals of June 30, 1926, and the balance of the reserve remaining after the transfers just mentioned is deducted on the statement from the figure representing depreciated book value. The resultant net figure, still not described, may be considered cost less depreciation to date.

A note attached to the financial statements explains that depreciation is charged to operations at cost and that if it had been based on book value the charge would have been much greater. The difference was transferred from the special reserve shown on the balance-sheet.

This same statement illustrates once more the impossibility of determining the equities of two classes of stockholders by a casual glance at the balance-sheet. In the case of this company the preferred stock, which is entitled to $100 a share on involuntary liquidation, is carried at a stated value of $25 a share, a total of $3,030,000. The common stock is carried at a stated value of $1.00, or a total of $400,000. A note draws attention to the fact that the dividends in arrears on the preferred stock amounted to $71.75 a share and that the aggregate amount of such arrearages, plus the difference between the involuntary liquidating value and the stated value of such preferred stock, exceeds by $16,000,000 the sum of the stated value of the common stock and surplus of the corporation at December 31, 1939.

Spirits at Rest

The inventories of distillers, like those of other manufacturers, contain products in various stages of completion, but in their case finished goods, when carried in bond, require further expenditure of money before they are available for sale and delivery. The balance-sheet of Schenley Distillers Corporation at December 31, 1939, has a parenthetical explanation of this feature following the description of inventories. The explanation reads: "Under federal law, inventories in bond are subject to payment of federal excise taxes and duties upon withdrawal from bond." As the inventory is by far the largest item on the balance-sheet, the reader is advised of the fact that a very substantial payment will be required before such inventories are available for distribution.

The same report contains a certificate by engineers covering a review of the method of inventory taking and test counts and inspections to test the accuracy of the company's records with respect to quantities, ages, and types. This suggests that accountants have yielded a valuable privilege too easily to their friends, the engineers. Testing the age of liquors, though well within the skill of many engineers, can hardly be considered their peculiar privilege.

The certificates of the engineers and accountants do not evidence collaboration, but it must be assumed that the records which are covered by the engineers' certificate are the same as those on which the accountants have based their certificates.

Informative Reports

Many corporate reports issued in the past year or two have evidenced a strong trend toward satisfying the stockholder's desire for information without compelling him to make an exhaustive study of the financial statement. The president's letter, included in the report of Pet Milk Company for the year 1939, evidences this effort particularly well. The statements show that an amount equivalent to $2.56 a share was earned for the fiscal year, whereas dividend payments were limited to $1.00 a share. The president, forestalling inquiries or complaints, remarks that it would be reasonable for stockholders to inquire why the dividends were limited to $1.00 a share and then proceeds to show how the earnings were used, i. e., for the retirement of debt and for improvement and expansion of plants. He states the amount in each case and then adds that more than $40,000 went to increase working capital. He goes further to preclude complaints as to dividends by asserting that the net current assets at the end of the year were less by $300,000 than three years before and adds "that is to say, in the three year period from the end of 1936 to the end of 1939, our distribution as dividends and our expenditures for plant expansion to meet the demands of expanding business have exceeded our earnings during the period by some $300,000." Such an explanation should clear the mind of any stockholder, but the president closes his statement as to dividends with these words: "We are hoarding no idle money."

The report of the Snider Packing Corporation is an instance of predigesting the income statement for the use of the less robust stockholders. In that report, the sales dollar is so divided as to show the number of cents applicable to five elements of cost and expense. The residual amount of 1.9 cents with miscellaneous income of .4 cent, a total of 2.3 cents, is stated to have been used for capital additions, debt retirement, and reinvestment in the business.

The report of the Simmons Company contains an exposition of a different sort for its stockholders. The president's letter contains this statement: "War of itself always imposes conditions which in the end will bring about a loss of some unpredictable part of what, in the meantime, looks like profits." His philosophizing is carried further in these words: "The nineteen-twenties have been well labeled as 'the era of illusion.' The past ten years might well be called 'the bewildering thirties.' Ten years from now what will they call the forties? Let us all hope that this decade can then be called 'the era of straight thinking.'"