

RESERVE FUND

A Reserve is an amount set aside out of profits or other credit balances not representing a liability to creditors.

The Reserve Fund of the company under review is a proper reserve fund in every sense of the word and complies with the strictest interpretation of what a reserve fund should consist because it is represented by cash in the bank.

There is a great deal of difference of opinion in regard to the manner in which amounts set aside as reserve fund should be invested. In Insurance, Trust Companies, Banks, etc., it is invested in securities, but in manufacturing concerns, where the demand for extension of the business, enlargement of the plant, and the carrying of large stocks of raw and finished material, is necessary for the proper conduct of the business, the reserve fund is invested in the general assets of the Company and not specially ear-marked as Reserve. Many companies that invest their reserve or part of it in securities have purchased Victory Bonds, which is not only good business but is also patriotic as well.

The Revenue or Profit and Loss Account was charged on Dec. 31st, 1916, with \$500.00, which increased the Reserve from \$1100.00 to \$1600.00.

BALANCE SHEET

On examining the balance sheet under review the principal items that attract attention are the following:—

(a) That 5% depreciation is deducted from the fixed assets, \$664.68, and is again shown in the Depreciation Reserve account as a liability for the amount of \$639.52.

(b) That no cash on hand or in the bank appears among the Assets.

(c) That there is a profit and Loss balance of \$2204.96 shown among the Assets. This cannot mean anything else but a loss, which is absurd in view of the fact that there is a surplus shown and also reserves.

(d) That there is a surplus of \$1376.08, also depreciation reserve of \$639.52, and reserve fund of \$1600.00.

(e) The manner in which the balance sheet is drawn up distinctly shows that the affairs of the company are not kept by double book-keeping, and the ledger balance when statements are made out.

CRITICISM OF BALANCE SHEET

I Will Now Take Up These Different Points In Order.

(a) The amount of \$664.68 deducted from the fixed assets was charged to Revenue Account and credited to Depreciation Account; part of this was expended, the balance remaining Dec. 31st, 1916, \$639.52 appears in the balance sheet so that the \$664.68 appears twice in the balance sheet. It never should have been deducted from the fixed assets in the balance sheet.

(a) As already stated I am informed that there was actually \$4290.90 of cash on hand or in the bank Dec. 31st, 1916, which should