

PROBLEM 10.

A City discovers that owing to mistakes by its auditing staff, depreciation of Capital Assets has been provided to the extent of the amount of the annual sinking fund deposits, ignoring the accumulations. How is the revenue of the City affected, and what remedial action is necessary.

ANSWER. The revenue of the City is not affected at all. It has made its deposits to the credit of the Sinking Fund presumably, and this is the only item affecting revenue.

Accumulations of the Sinking Fund do not affect the general revenue of the City at all. The only reflection of these accumulations to be found in the City Balance Sheet should be in the reduction of the Debenture Liability.

It is true, that according to accounting practice, the amount of depreciation written off capital asset should be on a parity with the amount of the Sinking Funds. Surplus earnings of the Sinking Fund do not affect the amount of depreciation.

If the accumulations of the Sinking Fund do not affect the Revenue account of the City, what do they affect? Primarily the Debenture liability, and the Depreciation Reserve.

Assuming the Sinking Fund to be in the hand of Trustees, what entries are annually necessary in the general books of the City to enable the City to write up its Depreciation so as to be in accord with the Sinking Fund Books.

Taking as an example at the end of 1919, the Sinking Fund Trustees report displayed the following standing:

Assets	240,000.00	
By-Law Requirements		220,000.00
Surplus earnings		20,000.00
	240,000.00	240,000.00

The 1920 deposit was \$25,000.00 and the accumulation \$8,800.00.