

PROBLEM 9.

A city borrowed \$100,000 to bonus a new industry to that extent.

The bonds were on a 5% Sinking Fund plan both as to interest and rate of accumulation.

After 10 years the industry failed and under its agreement the City seized the plant, which it sold by auction for \$50,000 cash.

What should be done with the money?

ANSWER:—

At the time of sale there would be in the sinking fund	38038.84
Add the proceeds of the sale	50000.00

88038.84

The amount required at the end of the next ten years being \$100,000, we should find the present value of this sum on a 5% compound accumulation. This is \$61,391.33. Therefore the Sinking Fund should forthwith be paid the difference between the amount to the credit of this By-law, \$38,038.84 and \$61,391.33, or \$23,352.49, leaving \$26,647.51 (\$50,000.00—\$23,352.49) yet to be disposed of.

It is a fundamental of Municipal Finance that moneys received from the sale of Capital Assets shall be earmarked for Capital Expenditure only. The statutes in most Provinces recognize this principle, and there is no doubt that such is the proper disposition of this sum.

It may be timely to mention here that where the rate of accumulation on Sinking Fund Deposits is the same as the interest rate on the bonds themselves, the annual cost of the bonds is exactly the same as for annuity bonds.