PROBLEM 8.

A city, owing to non-collection of taxes in subdivisions, found its deposits to the Sinking Fund $500,000 in arrears. Special legislation was secured enabling the city to capitalize these arrears by the issue of 6% bonds spread over twenty years on an annuity plan. The bonds were disposed of to the trustees of the Fund to the amount of $200,000 at par, and $300,000 were sold on that market on a 6½% basis. How should these matters be treated.

a. in the books of the city

b. in the books of the Sinking Fund Trustees.

ANSWER. The purchase of the $200,000 at par presents no difficulty. In the books of the City the Liability to the Trustees is reduced by this amount and a debenture liability therefor is set up. In the books of the Trustees converse entries are required. The City debenture register will record the items of repayment, and the investment register of the trustees will perform them the same service.

The remaining $300,000 does, however, present some difficulty in that it fell short of the object for which the issue was authorized to the extent of the discount, amounting to $27,545.00.

The great question will be to finance this discount, and under the circumstances there is little doubt but that this will have to be done from current revenue, as otherwise the City will still owe the Sinking Fund $27,545, for which it is unthinkable that it should issue still more debentures. Prompt action is necessary, as this sum must carry interest.

The Sinking Fund will be paid $272,455 in cash, and its books will show the liability of the City to have been reduced by that sum. They must also take cognisance of the fact that the annual deposit from the City must be increased by $15,121.29 which is the amount required to produce $500,000 by means of an annual deposit accumulating at 5%.

The books of the City will be entered up conversely to