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Chicago

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RETURN TO
R. W. L.

March 6th, 1920

Martin Varnish Co. Surplus

With a view to definitely disposing of the figures for last year for the Martin Varnish Co., I have had a final analysis made which reveals the following result.-

It has been explained by our auditors that surpluses are overcharges but not on any gallonage or unit basis as a surplus is earned on raw material, department burden, general burden and package additions, and for this reason it is a dollars and cents surplus and should be considered on the basis of value. According to this, you will understand that on a cheap varnish the surplus might be only 4 or 5¢ per gallon, whereas on an expensive varnish it would be 10 or 12¢ per gallon, from which you will again see that the surplus could not be divided according to gallons or units but must be according to dollars and cents and value of output.

By way of explanation, the final figures do not show a certain number of gallons or units as surplus but a value represented by dollars and cents. This surplus was earned through errors in charging raw materials into formulas, also as the result of billing to the paint factory quantities in excess of deliveries. It was also earned from a surplus under department burden, general burden and package additions.

The grand total surplus under all of these captions amounted to $33,993.50. This surplus accrued on the basis of value and means that on a varnish which cost $2 per gallon the surplus earned was exactly twice as much as on a varnish where the cost was $1. per gallon, from which it is easy to understand that the distribution of surplus cannot be made on any gallonage or unit basis, but on the basis of value of surplus, according to the proportionate value of output.

The total value of output was $294,996.19. Deliveries to The Martin-Senour Co., Chicago, were $131,563.84, or 44.59% of the output. This same percentage of the surplus is $15,157.48, which is the proportion of the surplus earned by the Martin-Senour Co., Chicago.

The deliveries to The Martin-Senour Co., Lincoln, were $16,021.16, or 5.43% of the total output. This percentage of the surplus is $1,846.81, which is the proportion of surplus earned by Lincoln.

The deliveries to The Sherwin-Williams Co. at Kensington amounted to $11,080.58, which was 3.87% of the output. This percentage of the surplus amounts to $1,315.53, which is due The S-W Co.

The total surplus of $33,993.50 was earned as the result of overcharge in costs for raw material, department burden, general bur-

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den and package additions, and to correct this it is necessary to distribute this surplus or overcharge in cost against deliveries according to their percentage of the total output. The result is that The Martin-Senour Co., Chicago, is entitled to a credit of $15,157.48; The Martin-Senour Co., Lincoln, $1845.81; The Sherwin-Williams Co., $1,315.53 - a total of $18,318.82.

Taking into consideration the total surplus of $33,993.50 and subtracting the $18,318.82 as overcharge on deliveries to the Martin-Senour Co., Chicago and Lincoln, and to The S-W Co., leaves a balance of $15,674.68,- the surplus or overcharge in cost on deliveries to The Martin Varnish Co., which was absorbed in their Profit and Trading Statements.

Referring to the Before-Closing Balance Sheet, it will be noted that The Martin-Senour Co., Chicago, received credit for $9, 538.92, which means they still have due them $5,618.56, and this, with the credit due Lincoln of $1,845.81 and The S-W Co. of $1,315.53, makes a total of $8,779.90 still due to be credited to these accounts.

This is in accordance with report that has been made to me by our Auditors as the result of an analysis of all the figures, also the audits that were made by your factory office accountant, and am sure you will find that these final figures are correct.

If there is anything in connection with these figures that is not entirely clear or that you would like to go over with me further, will be pleased to discuss the same with you when I see you personally on my next trip to Chicago.

I will also appreciate it if, when you are entirely satisfied, you will pass these figures on to Mr. Watts so that he can arrange for the final credits, which should now dispose of this matter to the satisfaction of all concerned.

With my very kindest regards, I remain

Yours very truly,

Vice President.

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