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A Study in Fund-Flow Analysis

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Financing Total Assets

CHANNELS OF ASSET FLOWS

Confined as it is to the reporting of events which are reflected on the liability side of the balance sheet, the analysis of additions to and reductions in total assets lacks the penetrating power of the cash fund to reveal the causes of a company's contact with the money market. Nevertheless, the analysis is extremely useful in its own right for providing exact reports on the means of company growth and the process of contraction.¹

In classifying the transactions which either add to or diminish a company's total assets, only two main channels of fund flow will be traced: those of operating and of money-market transactions, as reported in Table 4. Since the headings in this case differ from those given for the flow of cash (Table 1), a brief explanation is in order. The whole class of capital budget transactions, which appeared in the cash statement, is omitted from the report of asset flows, since plant expenditures and advances to subsidiaries or others are conversions of, rather than additions to, total assets. Gains or losses, however, on the disposition of noncurrent assets are reflected here as income. In the money-market account only transactions in company obligations are reported, including instalment notes issued for equipment; transactions in marketable securities are omitted on the ground that they, too, involve only a conversion of assets. Among the operating transactions only the net income before taxes is reported, because that is all that is added after the sales have been offset by their costs—a mere conversion of one asset into another, in the same way that plant is converted to cash or receivables by the amount of depreciation charged. Unpaid vendors of materials or services add to the assets. In a

¹ It may be pointed out that the measurement of the expansion or contraction of total assets refers to dollar amounts only. We are not here concerned with the purchasing power of the dollar, nor with the relative productivity of a dollar's worth of new plant put in place.

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TABLE 4

TRANSACTIONS AFFECTING TOTAL ASSETS, ALLIS-CHALMERS MANUFACTURING
COMPANY, 1948 AND 1949
(thousands of dollars)

	1948		1949	
	Dr.	Cr.	Dr.	Cr.
<i>Operations</i>				
Net income before taxes		26,242		33,205
Vendors		8,759	22,091	
Tax payment	3,365		10,934	
Dividend payment	5,193		6,199	
Subtotal	8,558	35,001	39,224	33,205
Subtotal difference		26,443	6,019	
<i>Money-market transactions</i>				
Notes payable, short-term		15,000	(15,000)	453
Notes payable, long-term		10,000		(15,000)
Bonds		0		0
Preferred stock		0		0
Common stock		0		0
Subtotal	0	25,000	0	453
Subtotal difference		25,000		453
<i>Total payments and total receipts</i>	8,558	60,001	39,224	33,658
Effect on total assets		51,443	5,566	

SOURCE: Annual reports of the company. Payments are entered in debit column; receipts, in credit column.

year when the consumption of materials is retarded, vendors will be paid off; and this will diminish assets. Taxes, when paid, constitute a drain on assets; and so do dividend payments.

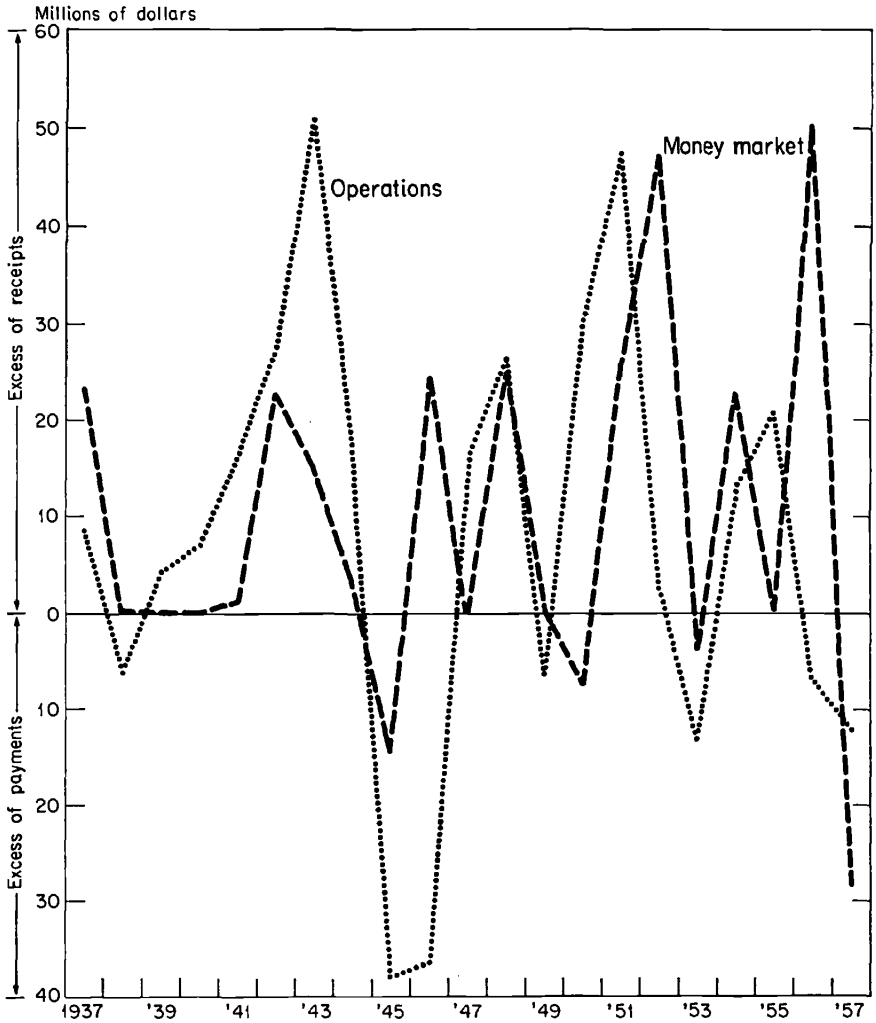
Therefore, in 1948, when vendors and profits added \$35,001,000 and dividends and taxes took away \$8,558,000, operations added \$26,443,000, net, to Allis-Chalmers' total assets. Further, the company borrowed \$25 million in short- and long-term loans. This amount, combined with that derived from operations, accounts for the over-all increase of \$51,443,000.

In 1949, assets were diminished on operating account alone. An increase

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CHART 6

Effect of Operations and of Money-Market Transactions on Total Assets,
Allis-Chalmers Manufacturing Company, 1937-57



SOURCE: Table 5.

Financing Total Assets

of dividends, the payment of the large income tax bill for 1948, and the shift of vendors to the debit (payment) side as materials were being consumed at a lower rate, all combined to outbalance the profits figure.

ONE COMPANY'S EXPERIENCE, 1937-57

In Chart 6 (based on the figures in Table 5, shown at the end of this chapter) net flow via the two main channels by which the assets of Allis-Chalmers were augmented or diminished is shown for 1937-57. Since it is not our purpose here to study in any great detail the movement of total assets in relation to the business cycle, observation of the processes by which the company's resources grew or diminished will be directed only to this twenty-one-year period.

In the expansion of 1937, as the chart makes plain, both operations and the money market provided the means. The contraction of 1938 and the expansions in 1939 and 1940 were effected through operations alone. From then on through 1944, both operations and the money market contributed to the company's expansion. The liquidation of war production at the end of 1945 brought a sharp contraction of assets via the reduction of current trade and tax liabilities and the repayment of debt. In 1946, income losses and the continuing reduction of current liabilities again pulled assets down, notwithstanding a tax credit and the net sale of common stock. However, the postwar expansion was under way even in this year; but it did not become manifest in year-end figures until 1947-48. In 1947, operations, mainly through the expansion of current trade liabilities, accounted for all of the growth; in 1948, operations and the money market contributed approximately equal amounts. Despite a higher income in 1949 than in the previous year, the reduction in the rate of purchases from suppliers brought a huge reduction in current liabilities. This and the payment of the high 1948 tax bill accounted, in the main, for the diminution of assets during 1949.

In the twenty-one years from January 1937 through December 1957, operations contributed 45 per cent of the company's expansion and the money market 55 per cent. In the latter, debt and equity shared almost equally.

Financing Total Assets

TABLE 5
PAYMENTS AND RECEIPTS OF TOTAL ASSETS, ALLIS-CHALMERS MANUFACTURING COMPANY, 1937-57
(thousands of dollars)

	1937		1938		1939		1940	
	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>
<i>Operations</i>								
Net income before taxes		10,847		3,534		5,929		8,678
Vendors		5,516	4,131			1,806		2,334
Tax payment	1,840		2,836		933		1,268	
Dividend payment	6,203		2,663		2,220		2,664	
Subtotals	8,043	16,363	9,630	3,534	3,153	7,735	3,932	11,012
Subtotal difference		8,320	6,096			4,582		7,080
<i>Money-market transactions</i>								
Notes payable, short-term	2,100							
Notes payable, long-term		25,325						
Bonds								
Preferred stock		145		11				
Common stock								
Subtotals	2,100	25,470	0	11	0	0	0	0
Subtotal difference		23,370		11				
<i>Total payments and total receipts</i>	10,143	41,833	9,630	3,545	3,153	7,735	3,932	11,012
Effect on total assets		31,690	6,085			4,582		7,080

Financing Total Assets

	1941		1942		1943		1944	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Operations</i>								
Net income before taxes		15,689		28,595		45,256		54,853
Vendors		5,848		9,031		25,248		1,861
Tax payment	2,275		8,093		17,693		35,168	
Dividend payment	2,664		1,776		2,220		3,697	
Subtotals	4,939	21,537	9,869	37,626	19,913	70,504	38,865	56,714
Subtotal difference		16,598		27,757		50,591		17,849
<i>Money-market transactions</i>								
Notes payable, short-term		3,000	3,000			15,000		10,000
Notes payable, long-term		9,250		25,750				15,627
Bonds	10,908							
Preferred stock								28,993
Common stock								
Subtotals	10,908	12,250	3,000	25,750	0	15,000	25,627	28,993
Subtotal difference		1,342		22,750		15,000		3,366
<i>Total payments and total receipts</i>								
Effect on total assets	15,847	33,787	12,869	63,376	19,913	85,504	64,492	85,707
		17,940		50,507		65,591		21,215

Financing Total Assets

TABLE 5 (Continued)

	1945		1946		1947		1948	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<i>Operations</i>								
Net income before taxes		23,199	25,804			9,072	26,242	
Vendors	11,894		16,480			12,628	8,759	
Tax payment	44,875			10,134 ^a			3,365	
Dividend payment	4,340		4,316		5,192		5,193	
Subtotals	61,109	23,199	46,600	10,134	5,192	21,700	8,558	35,001
Subtotal difference	37,910		36,466			16,508		26,443
<i>Money-market transactions</i>								
Notes payable, short-term								15,000
Notes payable, long-term	14,428		25,572					10,000
Bonds								
Preferred stock	13							
Common stock								
Subtotals	14,441	0	25,572	49,969	0	0	0	25,000
Subtotal difference	14,441			24,397				25,000
<i>Total payments and total receipts</i>								
Effect on total assets	75,550	23,199	72,172	60,103	5,192	21,700	8,558	60,001
	52,351		12,069			16,508		51,443

Financing Total Assets

	1949		1950		1951		1952	
	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>
<i>Operations</i>								
Net income before taxes		33,205		47,020		69,917		65,983
Vendors	22,091			6,610		10,542		3,132
Tax payment	10,934		13,889		23,182		48,022	
Dividend payment	6,199		9,345		10,050		12,060	
Subtotals	39,224	33,205	23,234	53,630	33,232	80,459	63,214	65,983
Subtotal difference	6,019			30,396		47,227		2,769
<i>Money-market transactions</i>								
Notes payable, short-term	(15,000)	453	453			26,000		5,000
Notes payable, long-term		(15,000)	7,000					42,000
Bonds								
Preferred stock								
Common stock				33		235		222
Subtotals	0	453	7,453	33	0	26,235	0	47,222
Subtotal difference		453	7,420			26,235		47,222
<i>Total payments and total receipts</i>								
Effect on total assets	39,224	33,658	30,687	53,663	33,232	106,694	63,214	113,205
	5,566			22,976		73,462		49,991

Financing Total Assets

TABLE 5 (Concluded)

	1953		1954		1955		1956		1957	
	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>
<i>Operations</i>										
Net income before taxes		43,448		50,012		50,341		42,805		35,144
Vendors	2,454		913		18,520		4,649		7,080	
Tax payment	41,150		21,416		31,189		28,254		23,560	
Dividend payment	12,855		14,526		16,468		16,680		16,840	
Subtotals	56,459	43,448	36,855	50,012	47,657	68,861	49,583	42,805	47,480	35,144
Subtotal difference	13,011			13,157		21,204	6,733		12,336	
<i>Money-market transactions</i>										
Notes payable, short-term	3,750		18,000		250		250		28,000	
Notes payable, long-term				5,750				50,000		250
Bonds										
Preferred stock										
Common stock		104		34,885		282		467		277
				243						
Subtotals	3,750	104	18,000	40,878	250	282	250	50,467	28,250	277
Subtotal difference	3,646			22,878		32		50,217	27,973	
<i>Total payments and total receipts</i>										
Effect on total assets	60,209	43,552	54,855	90,890	47,907	69,143	49,883	93,272	75,730	35,421
	16,657			36,035		21,236		43,439	40,309	

^a Tax recovery claim in excess of tax payments.

Source: Annual reports of the company. Payments are entered in debit column; receipts, in credit column.