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Correspondence: Resources and their ApCoplication

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Correspondence

RESOURCES AND THEIR APPLICATIONS

Editor, The Journal of Accountancy:

SIR: I have read with interest in your May issue, Mr. Esquerré's criticism of the solution to "Resources and their application" problem by the editor of the *Student's Department*.

It seems to me that Mr. Esquerré has gone beyond the intent of the problem in offering his solution, which no doubt is clear and comprehensive. But, after all, a client is interested in how his resources were acquired and how they were employed.

The *Students' Department* sets forth the gradual accumulating of assets by means of profits, by use of credit, and by sale of assets. The next logical step is followed by showing how the acquired resources were used, including also the indirect result of their use reflected in the increase or decrease in working assets.

Mr. Esquerré objects particularly to depreciation of tools and patents used in the profit-and-loss account. He contends that the loss in tools should be applied to cost of goods manufactured, and I believe that most accountants will agree with him. But his like treatment of the writing-off of patents is objected to on the ground that it operates similarly to depreciation of buildings and machinery.

It is true that the patent has lost in the current year some of its value, but so have the building and the machine. In fact, if there is any objection to the stated operating profits, it should be that amount which stands for the depreciation of machinery and is really part of the cost of manufacturing.

However, if we use the *Students' Department's* solution corrected to the extent of Mr. Esquerré's suggestion as to the depreciation of tools, we shall all be satisfied, hoping of course that the client will also be pleased.

Very truly yours,

M. M. HERMAN.

New York, May 12, 1925.