

5-1922

Correspondence: Provision for Obsolescence; “Causes of Examination Failure”

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Recommended Citation

Adams, Edwin E. and Ober, Harry (1922) "Correspondence: Provision for Obsolescence; “Causes of Examination Failure”," *Journal of Accountancy*. Vol. 33: Iss. 5, Article 8.

Available at: <https://egrove.olemiss.edu/jofa/vol33/iss5/8>

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Correspondence

Provision for Obsolescence

Editor, The Journal of Accountancy:

SIR: In studying the article by Mr. Saliers on the subject of capitalizing obsolescence, published in the January issue of the JOURNAL, certain comments occurred to me as of possible interest to the profession.

The thesis advanced appears to be two-fold: that from an accounting standpoint there is no such thing as obsolescence and that the unreturned cost of obsolete machinery should be amortized by adding it to the cost of the new machinery.

As regards the latter part of the thesis, I believe most of us would agree with Mr. Saliers in principle, whether by addition to the new machinery cost or by an amortization account, the latter method being preferred by the writer in most instances. But as to the first proposition that there is no period of obsolescence—that between the efficient and the obsolete there is no intervening state of *becoming obsolete*, it would seem that serious issue might be taken.

To use the author's own illustration, with the new machine costing \$4,333.33 (p. 16), there would be a brief moment of equilibrium, a period when capitalized costs would balance. Yesterday the machine was efficient, because the capitalized cost of the old was below that of the new; today they are equal; add tomorrow's slight depreciation and the machine is obsolete. It is to such a fine point that the theory leads us. In the case before us the new machine is on the market, giving lower cost of production to the concern's competitors; and yet we deny the obvious, that the equipment is obsolescent, approaching the obsolete (according to the author himself) by the amount of the daily return of the cost of the old machinery.

If we accept this theory, which seems amply proved by Mr. Saliers' series of illustrations, it follows that that concern which makes the most liberal allowance for the return of cost of its obsolescent machinery soonest reaches the point at which the machinery becomes obsolete, and thereby lowers its cost of production to the level of its competitors. An alteration of the unrecovered cost elements in the author's illustrations will demonstrate this point if any demonstration is needed.

It would follow that where a state of obsolescence is known to exist, the progressive concern will hasten the writing off of such equipment to reach a parity on cost with its competitors, rather than await the normal reduction by ordinary depreciation, which on final analysis only throws the burden of decreased profits on future years.

But is it necessary or advisable to wait until new methods and new machinery are on the market before providing for obsolescence? We might even go so far with the author as to admit that no actual obsolescence exists until the discovery of improved equipment to lower production costs. Even so, is it not desirable to make some provision therefor?

The author has likened loss on obsolete machinery to a fire loss. In view of its uncertainty that is perhaps as good a comparison as any. But does Mr. Saliers advocate that no fire insurance be carried, merely because he would amortize a fire loss not covered by insurance? It is possible that Lloyd's would write obsolescence insurance, and a concern might well be justified in carrying it. However, the practice of carrying their own insurance is not a new one with many concerns, and an obsolescence reserve might be justified on the same grounds and by the same arguments.

The writer admits freely that obsolescence is a factor which may be entirely ignored in many classes of property. In some few instances separate reserves might be set up to advantage, but in the majority of cases it would seem that the best method of inclusion would be, as it usually is today, as a factor in determining a proper depreciation rate.

Yours truly,

EDWIN E. ADAMS.

Seattle, Washington, March 16, 1922.

"Causes of Examination Failure"

Editor, The Journal of Accountancy:

SIR: I have read with much interest a succession of articles and letters on the causes of examination failure. May I present my views on the subject as one who took the examination and passed the first time?

First, no doubt there are many candidates who are full of theory but who have not the experience necessary to enable them to solve a problem which is entirely new to them. In addition to these there are many experienced accountants who go up for examination who are hopelessly ignorant of many of the fundamental theories which underlie good accounting, auditing and commercial law. In fact, I might add that I have met several men who hold the degree of C. P. A. who fall in this category.

Of course the remedy to these conditions is more reading and more practice. The Institute has prepared a selected list of books through which any experienced accountant can thoroughly prepare himself to pass the examination.

Second, to a certain degree it is possible to predict what the nature of the leading questions in the examination will be. This is a stunt that is well known to college students, and a thorough perusal of previous examinations will show that the questions move in cycles. Further, a study of personnel on the board of examiners is apt to give one an insight into the particular type of problem that these examiners might present. Lack of insight in these respects is also a cause of examination failure.

Third, the question of nervousness is one that plays a large part in these examinations. I know a successful candidate who went to

Correspondence

the room where the examination was to be given a week before the date of the examination and spent the afternoon there so that he would be accustomed to his surroundings. Concentration in a problem, however, is the best method of avoiding nervousness. No doubt college students and others who have taken many examinations have the advantage over the rest in this respect.

Fourth, it always has seemed to me that many failures are due to the lack of ability on the part of the candidate to convey his ideas in good, coherent English. This is a very important matter but is easily underestimated because most of us believe we express ourselves perfectly. However, I quote a sentence taken from the April, 1922, number of *THE JOURNAL OF ACCOUNTANCY* to prove that this is not always so.

"It seems to me that part of the explanation as to why so many are crowding the so-called accounting schools and colleges is that it has frequently been stated in the public press, through speeches by accountants and statements by others, that the public accounting field is a gold mine with unlimited income, and that there are not enough certified public accountants to take care of the business that is waiting for them every day; and this publicity is capitalized by many schools." By the time one reaches the end of a sentence like the above he is apt to have forgotten the thought at the beginning of it.

Fifth, another important cause of failure is the unwillingness of the candidate to admit that he does not know the answer to a given problem. It is best to remember that the man who is correcting the paper is a human being. If there is a particularly abstruse problem, such as, for example, the question on municipal accounting in the November, 1921, examination, and ninety per cent. of the candidates do not know the answer to this question but proceed laboriously to fill pages of material conveying what they know of municipal accounting in general, the examiner is apt to mark the bluffers rather severely and will certainly welcome a frank confession on the part of the candidate that he does not know the answer.

Yours truly,

HARRY OBER, C.P.A.

Boston, Massachusetts, April 4, 1922.

George V. Whittle & Co. announce the removal of their offices to the L. C. Smith building, Seattle, Washington.

Wm. J. Weinhoff & Co. announce the opening of offices at 536 M. & M. Bank building, Milwaukee, Wisconsin.

Hyman Friedman announces the removal of his office to 32 Union square, New York.