Correspondence

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Sinking Fund Accounts.

TO THE JOURNAL OF ACCOUNTANCY:

The article in your October number by Mr. Walton on "Sinking Funds and Reserve Accounts," and your editorial comments on the same are of peculiar interest to the writer, for the reason that he has wasted a great deal of ink and paper in unsuccessful efforts to induce certain eastern professional accountants to accept the theory of the case so clearly expressed by Mr. Walton.

Granting the truth of all that you have stated in your comments on this article, still it does not appear that Mr. Walton's argument is refuted.

It seems a great mistake for accountants to allow this subject to remain in its present obscure, uncertain condition.

It is the belief of the writer that this condition has been brought about by the failure of accountants to properly occupy their own field, which through their lack of self assertion and clear thinking has been usurped by lawyers. Do we not find that the courts defer to physicians in matters of medical practice and do we not find the judiciary just as ready to listen to the accountant when he has any reasonable ground on which to base the faith that is in him?

It would surely puzzle most of us to explain as an expert witness a reason for naming one account "sinking fund" and another "sinking fund account," meaning something entirely different.

Because some lawyer who very likely knows much less of accounts than the average accountant does about law, happens to insert in a trust deed something in the nature of a definition of a "sinking fund" should we therefore adopt his definition, if contrary to accounting principles?

To illustrate, a certain trust deed given to secure the payment of an issue of income bonds provides that interest not exceeding six per cent. shall be paid out of "net earnings." Should we have construed this term in accordance with the custom of accountants, the company would have been forced into the hands of a receiver. But later in the same instrument "net earnings" are described substantially as the sum remaining of the gross incomes and receipts after all expenses, including all obligations incurred for additions and betterments, taxes, sinking funds, interest on funded debt have been paid, as well as the entire floating debt of the company. The company is saved from embarrassment to be sure, but what a definition of "net earnings"?

Should we not construe sinking fund provisions in accordance with their intent, and in working out this intent and putting same into practice, apply accounting principles thereto?

How can a sinking fund be a fund at all and fail to be a sum of money set apart, for some specific purpose to be sure, but still an asset of the company and represented by a debit account?
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Now if the sinking fund provision provides also (and this should not be presumed) that earnings should be reduced by this sum, even though it may seem absurd, let us carry out the agreement embodied in the trust deed and charge an equivalent amount against earnings creating a credit account for which we may be obliged to invent a name, for to call it a reserve seems like a misnomer, and to call it "sinking fund account" would be worse yet.

Yours truly,

C. N. Hamblin.

Jamestown, Cal., Oct. 28, 1908.

The Railroad Cost Accountant's Functions.

To THE JOURNAL OF ACCOUNTANCY:

In Mr. H. C. Adams' paper on Railway Accounts, presented at the convention at Atlantic City last month and published in the October Journal, is a reference to the principles of cost amounting in connection with railway work. Mr. Adams states that "had the construction of a system of railway accounting been handed over to the cost accountant, the operating office would have fared badly indeed. * * *"

In the preceding paragraph he comments on certain requirements of officers and heads of divisions "who desire to use accounts as a measure of efficiency, or as a whip to enforce discipline."

My conception of a proper system of cost accounts is that it should show absolutely every fact of value to the management, whether it be in a transportation company or a private wood-working manufactory. If cost accounts properly coupled up with the financial books do not show the "measure of efficiency" in any business, they are useless.

As to being "a whip to enforce discipline," any information obtainable as to the conduct of employees, whether contained in the accounts or otherwise, can be so used. The costs, if correctly arrived at, certainly reflect the degree of competence, and, if the results are good, the management may strictly draw the conclusion that discipline is being enforced.

My belief, therefore, is that every feature of railway accounting wherein cost accounts are a factor, can be so treated by the competent cost accountant that the management can be supplied with all the facts, and that this need in no wise interfere with the results desired by the commission. And, furthermore, that the commission can, with the aid of men with the necessary accomplishments, introduce uniform cost reports to be taken from the books of the various roads, which will give the desired information without interfering in any way with the requirements of officials and heads of divisions. The operating officer requires details—the commission, totals. There really seems to be no difficulty in supplying both from the same set of accounts.

A. G. Potter, C. P. A.

Flushing, N. Y., Nov. 8, 1908.
C. P. A. Examinations.

To THE JOURNAL OF ACCOUNTANCY:

There have been several articles lately in THE JOURNAL respecting C. P. A. examinations in the different states.

I should like to see a board of examiners appointed from the American Association, at their annual meeting, and the questions for each half yearly examination prepared by said board and printed in sufficient quantities to be sent to each city holding examinations on a given date. Arrangements could be made with the certified public accountants of the respective cities to superintend the examinations, the questions for each day being sent under seal of the board of examiners, to be opened before the candidates, and their papers being sealed before them, and forwarded to the board by the C. P. A. in charge. This would insure a uniform standard throughout the States, and that standard would then be fixed by the authority most qualified to regulate same.

I realize, however, that objections to this arrangement may be made by the State boards of the various States. Many members of our State boards are eminently qualified to hold such office, but it is also probable that others hold such office by political appointment, and are utterly incapable of fulfilling the duties of such a position, and while such men have the power to grant C. P. A. certificates, the profession can not expect to command the confidence of the public which is so necessary for its future advancement.

Yours very truly,

“AUDITOR.”

Louisiana.

Mr. Charles E. Wermuth, who is one of the new State board of accountants, said to-day that the probabilities are the board will not conduct an examination before 1909. The law provides for at least one examination a year, but as the rules and regulations must be framed, it will require time to get into working order.—New Orleans Item, September 30, 1908.

Luttrelle C. Rice, public accountant and auditor, announces the opening of an office at 1012 James Building, Chattanooga, Tennessee.