

ACCOUNTANCY

UNIFORM MUNICIPAL ACCOUNTS.

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I.

The subject of municipal accounts in relation to public utilities, especially to those which may be classed as reproductive undertakings, is one of widespread interest, affecting as it does every ratepayer and every investor in municipal securities. It affects the ratepayer, since any loss in working or any deficiency in provision for sinking, depreciation, or reserve funds must eventually be met by additional taxation. And it affects the investor as showing whether the security for his investment is being maintained at its original value or is being allowed to diminish.

The importance of the subject may be judged from the facts that the total indebtedness of Canadian municipalities now stands at a very large amount, and that during 1908 alone the new issues amounted to \$47,500,000.

It is essential that the accounts of each municipality should be set forth in a form which shows clearly the financial position as a whole, and the financial position and trading results of each separate department of that municipality. Beyond that, it is most desirable that the accounts of all municipalities in any one country should be kept on the same principles and set forth as far as possible in the same form, so that results can be compared and accurate statistics prepared.

Which Offer the Soundest Security?

This gives to ratepayers some basis on which to consider whether their own undertaking is being so managed as to secure the best possible results. It is of considerable advantage to investors, as it enables them to judge which municipalities offer the soundest security.

The possibility of comparing results promotes healthy competition and stimulates the interest of officials in securing economical management. It gives direct benefit to well-managed municipalities, since their bonds are in consequence able to command a readier sale at a more favorable price. A system which enables the easy comparison of the financial position and trading results of all municipalities tends to put the small town on an equality with the large town in respect to raising loans. For instance, the security offered by a small and growing town with well-managed finances may be superior to that of a much larger town, which, having passed through its period of rapid growth, may have already borrowed to nearly the limit of the security it has to offer, and may yet possess public utilities so mismanaged and unprofitable that it finds difficulty in meeting its obligations as to payment of interest and repayment of capital.

Should Be Able to Compare Results.

Without a suitable and uniform system of keeping accounts it is not only difficult to judge of the position of an individual municipality, but it becomes difficult and sometimes impossible to judge how the results compare with those secured by other municipalities under similar conditions, and whether such results are the best that can be obtained under the circumstances.

For instance, accounts may be kept on the principle of "Cash Receipts and Cash Payments"; i.e., including only cash actually received or paid during a given period. Or they may be kept on the principle of "Income and Expenditure," and include all incomings and outgoings

due during a given period, irrespective of whether these have been actually received and paid.

"Cash receipts and payments" is not in any case a very definite system, since it is differently interpreted, and applied with varying degrees of strictness by different accountants. Furthermore, it is indefinite, because large sums incurred during a given period may not be included in the accounts of that period because they have not actually been received or paid, and in some cases the payment is actually deferred and does not appear in the accounts for the express purpose of making a favorable showing for a given year. This system may be applicable to, and suitable for, accounts relating to the collection and disbursement of taxes and for other purposes. It is obvious that it offers no safe indication of the results of the working of a trading undertaking by a municipality during a given year.

Definite versus Indefinite Systems.

Taken over a series of years, accounts kept on the basis of "Cash receipts and payments" will show what has happened, but they will not necessarily show even approximately the real results for a given year, or the financial position at the end of that year.

The system of "Income and Expenditure," on the other hand, is a definite one. No great differences of opinion appear to obtain amongst accountants as to its application. It introduces the necessity of estimating certain items which cannot be exactly ascertained before closing the books. Except in the first year or two of operation of any undertaking, this can usually be done within a small percentage. Properly carried out, this system undoubtedly gives a closer approximation than the other, and provides for a fair presentment of the financial position and trading results.

It will be seen that the results over a given period may appear very different for the same undertaking according to whether the accounts have been kept on the "Cash Receipts and Payments" or "Income and Expenditure" system. If kept on the first system, the accounts for one year cannot be compared with, say, the accounts for the previous year, without a very close and detailed knowledge of all the circumstances of that particular undertaking. In no case can the accounts of a municipality kept on the one system be compared with the accounts of another municipality kept under the other system.

Absolute Uniformity is Impossible.

Probably no system could be devised which would secure absolute uniformity in the presentment of accounts for public utilities. Any system capable of general application must be sufficiently flexible to meet widely different local conditions and circumstances. Systems can be, and have been, devised and successfully applied which bring out in clear and comparable form all essential financial particulars and the principal and total items of operating expenses. Such methods do not necessarily tend to increase the work or multiply the books. On the contrary, they help to simplify and reduce the work when put into working order by introducing method and organization, and they provide ready means for locating waste or mismanagement by giving facilities for comparing the results for corresponding periods for the same undertaking or for comparing two undertakings operating under similar conditions.

Furthermore, the introduction of a uniform principle and system tends to simplify and reduce the work of auditing, since the requirements of municipal authorities then become defined along well-known lines.

Considerable attention has already been given to this subject in countries where the provision of public utilities