

It will be seen from the foregoing statements that the Revenue for the year ending Dec. 31st, 1916, was \$2273.77, according to the statements and information placed at my disposal. Depreciation of 5% has been taken into account in arriving at the above figures.

The balance from Dec. 31, 1915, \$1317.19, appears in the Profit and Loss account to which is added the revenue for 1916. The charges to Profit and Loss account will be referred to later under the different heads to which they belong.

CONSTRUCTION ACCOUNT

It is shown that \$138.28 has been disbursed for labor, poles and wire, information furnished on this point is:—"Extension of plant for installing new subscribers, material originally charged to construction account." If that is the case why is there a charge for material which has already been charged Construction Account? Why is \$138.28 not charged to Construction Account instead of Revenue Account? Any expenditures on construction should not be a charge of the operating account for the period but should be an additional expenditure on Capital account and included in the fixed Assets.

DEPRECIATION ACCOUNT

Depreciation is a charge on revenue account. The object of writing off depreciation from the sum at which assets appear in one balance sheet is to make allowance for any diminished value so that these assets may appear in each Balance Sheet at their true value.

The subject of Depreciation is a very broad one, different classes of assets depreciate at different rates. No one rate could be fixed that would apply fairly to all the different materials that enter into the construction of a telephone system. It would not be correct to say that telephones, batteries, poles, wire, etc., all depreciated the same percentage of the cost.

Provision for depreciation is usually made by charging up to Profit and Loss annually an amount as reserve for depreciation and placing the same to the credit of a Depreciation Reserve Account. Renewals and replacements are a proper charge to revenue account in the period when any portion of what has properly been charged to Construction Account is renewed. This would apply except in the case of the reconstruction of capital investments that have become incapable of performing the functions for which originally constructed.

In such exceptional cases of that kind the reserve is called on to place the capital investment in an efficient condition to continue to do what the original investment was expended for.

In the case of the Company under review the depreciation account has not been treated as a Reserve, but more in the nature of an account with appropriations from the Revenue or Profit and Loss account each year, part of which has been used to buy supplies and material as well as pay for labor for replacement of poles and lines which had to be repaired or replaced. The manner in which the depreciation account is treated it might be more properly called Renewal and Replacement Reserve.