

MUNICIPAL BUDGETS AND ACCOUNTING

Modern Accountants Liken Municipalities to Business Corporations and Demand Accurate and Systematic Accounting

Appropriation and fund accounts constitute the distinguishing feature of municipal accounting, suggested Dr. H. L. Brittain, of the bureau of municipal research, Toronto, in a recent address. A few years ago, he said, there were not more than six cities in America that kept their accounts on a revenue-expense basis. The flow of cash in and out was and still is, in most cases, the basis for municipal accounting. Accounts so kept can give no true account of operating cost, and can therefore be of no value to the administrator in planning his work. Until recently, unit costs were unheard of in municipal accounting. Few municipalities knew how much they owed, how much they owned, how much it cost them to operate the city for the year, and how much service was rendered in return.

The two elements in a fund balance sheet are fund credits or "authorizations to officials to incur liabilities," and to draw on the treasury and fund debits, or "net resources by means of which authorizations to draw may be made." Each administrative head and the general public should know:— (1) The amount of encumbrances on contracts and orders yet unfilled, and the unencumbered balance of appropriations; (2) the amount which has actually been spent or vouchered and unexpected balance of appropriations.

Opposed to these commitments would be shown:—(1) The unapplied cash balance, that is, the balance of current fund cash over immediate demands for the same; (2) the available balance, which would be the outstanding accounts receivable; (3) the unrealized balance of estimated receipts from miscellaneous revenues.

Preparation for the Statement.

A fund balance sheet should be based on a group of fund accounts, the summary fund accounts shown on the fund balance sheet being carried in a general ledger. The details would be carried in subsidiary records, such as appropriation ledgers.

Cost accounts should be kept in the accounting divisions of the various city departments, for the following reasons:— (1) The people keeping the accounts would be near to the work; (2) the people using the facts supplied by the accounts would be near to the facts.

The budget is not merely a program of expenditure, it is the whole city program for the year. The essential part of a budget is the work program, as expenditure is not an end in itself, but merely a means toward the end of getting necessary work done.

Contents of Civic Budget.

The following is Dr. Cleveland's statement of what a budget should contain, and he is one of the leading exponents on municipal accounting on this continent:—

"1. A budget should contain a summary statement, in the simplest possible terms, setting forth a proposed plan for financing next year's requirements; and this statement should balance prospective resources against estimates and requests for expenditures.

"2. A budget should be an instrument of accountability—a statement prepared by a responsive executive or administrative officer showing present financial conditions and past results.

"3. As an instrument of accountability and financial planning, a budget should contain (a) statements showing actual and estimated revenues and expenditures; (b) statements showing actual and estimated financial condition, surplus or deficit.

"4. Budget statements showing actual estimated revenues and expenditures should provide all the information needed for considering and determining executive recommendations, as well as legislative action, relative to money-raising policy; and executive recommendations, as well as legislative action, relative to money-spending policy.

"5. The budget information pertaining to estimated expenditures should be such as to support and explain items in the appropriation bill, if one is presented with the budget, or, if not, to enable the proper authorities to draw such a bill.

"6. Since the amount of money to be voted for payrolls, supplies, etc., must be governed by work to be done, the bud-

get should contain a well-defined 'work program'—a statement setting forth what it is that the administration proposes to do with the supplies requested.

"7. The 'work program' set forth in a budget should be in two parts—one which shows the necessary or proposed costs of rendering public service, and one which shows the proposed costs of making public improvements or betterments—i.e., current expenses and charges should be clearly distinguished from capital outlays.

"8. A budget should be transmitted as a part of a speech or message or letter from the responsible officer who prepared the plan or program interpreting the significance of the statement and estimates to the legislative body, which is asked to pass on it."

COMMERCIAL LOAN AND TRUST COMPANY

On paid-up capital stock of \$207,453, the Commercial Loan and Trust Company, of Winnipeg, made net profits last year of \$21,650. With a small balance of \$862 brought forward from the previous year there was a sum of \$22,512 for distribution. A dividend of 8 per cent. absorbed the greater part of this amount, calling as it did for \$16,532. To the reserve fund was transferred \$5,000, and that account now stands at \$40,000. A balance of \$980 was carried forward.

The company has guaranteed trust funds for investment amounting to \$45,000. The trust deposits totalled \$55,096, and the estates trust and agency accounts, \$87,624. Among the company's assets are loans on real estate amounting to \$386,445, and loans on stock \$32,708. Cash in bank totals \$20,284. The total assets are \$449,210. The company has now been operating for a little over ten years.

A feature of the company's business, which they state is gaining favor with the public, is its plan for receiving for investment sums of \$500 and upwards for stated periods of from three to five years, guaranteeing repayment of the principal at the expiration of the period agreed upon, together with interest in the meantime at five per cent. per annum, payable half-yearly.

SAWYER-MASSEY'S RETURNS

A deficit of \$206,802, which was increased by bond interest, etc., to \$333,023, reducing the profit and loss balance to \$39,244, against \$372,268 the previous year, is shown in the Sawyer-Massey Company's annual report.

The deficit on operations is explained as the result in part of a revaluation of assets, consisting of farmers' notes and accounts for machinery purchased in previous years. The president's report states that as a result of the depression and drought in the west, business fell off 50 per cent. The balance sheet compares as follows:—

	1914.	1913.
Real estate, plant, etc.	\$2,103,613	\$2,090,522
Manufactured goods, raw materials ..	1,139,176	1,342,259
Bills and accounts receivable.....	2,591,808	2,838,558
Farm lands	42,987	
Cash on hand		10,837
Deferred charges	54,305	
Total assets	\$5,931,887	\$6,291,226
Stock outstanding	3,000,000	3,000,000
Bonds issued	291,200	687,750
Accrued interest	8,628	
Accounts payable	2,128,150	2,166,532
Reserve for depreciation	64,655	64,655
Profit and loss balance	39,244	372,269

"While the Canadian government is to be commended on its recognition of the necessity for meeting deficit out of revenue, we are strongly of opinion that this addition of 7½ per cent. to the cost of living, in a new country where prices are already very high, will cause much hardship and discontent," says the London Economist. "Many of these taxes are protective, so that the revenue secured will be much less than the burden imposed on the consumers. But in Canada the manufacturing interests are powerful enough to extract advantage even from the embarrassments and difficulties of the nation."