

ACCOUNTANCY

UNIFORM MUNICIPAL ACCOUNTS.

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But the fact that so large a proportion operate at a loss is an additional argument in favor of clearly stated and uniform accounts. It is, in these cases, of additional importance that the accounts should not only show the position clearly, but that they should be comparable with the accounts of other undertakings operating under similar conditions. Without this neither the municipal officials themselves, nor the taxpayers who make up the loss, are in a position to judge whether the best possible is being done, nor to locate any waste or mismanagement; nor are the authorities and the public able to judge whether a given municipality is conducting its affairs in such a way that further loans for the development of public utilities are safe and advisable.

The Ontario Municipal Board Abstracts.

The points, however, which are of much greater importance than whether a municipality is temporarily operating at a profit or loss are, whether their accounts are published in a form which clearly exhibits their financial position, whether the sums stated as profit and loss have been arrived at after making due allowance for sinking fund, depreciation and reserve, and whether all expenditure correctly chargeable against revenue has been so charged instead of being allocated to capital expenditure.

Let us examine the abstracts of electric light and power accounts published by the Railway and Municipal Board of Ontario, and see whether these and similar points are brought out. Admitting that the Board is a new one, with apparently incomplete powers, and that the information furnished to them has been incomplete, the question remains whether the particulars are asked for and exhibited in a manner to be of the greatest service.

What Financial Abstracts should Show.

The particulars necessary to a clear view of the situation should include the following principal items, leaving details of operating costs for future consideration:—

The period of redemption for each loan and for each issue of debentures should be given separately, and also the amount that should be set aside annually for repayment of each loan, and the amount that is and has actually been set aside annually, so that it may be seen whether the sinking fund stands at the proper amount at any given date or whether the payments are falling behind. The mere statement that the sinking fund stands at a certain amount, without particulars from which to deduce what it should stand at, is of little value. Similarly in cases where debentures are redeemed annually an exact statement should be given as to what is done annually, and of the position at the end of each year.

It should be stated for each municipality carrying on a trading undertaking the amount of their borrowing powers and the amount of their borrowings, and it should be clearly shown how this money has been expended on each separate department and the financial result for each department, instead of lumping them together so that the individual results are obscured.

Capital expenditure should be set out in detail, the items showing the original cost in such a way that this can be compared against sinking fund repayments and depreciation written off. The capital account should, by

comparing one year with another, form a complete historical record. Assets consisting of plant, etc., should always be kept distinct from assets consisting of cash receivable, etc.

Real or Paper Profits.

Any statement as to net profit should make it absolutely clear whether the figure given is arrived at after having met all capital charges fully, and after having made due allowance for depreciation.

In this connection it is of interest to quote from the auditor's statement accompanying the annual report of the city of Edmonton for 1908. They state that: "The decision of the council not to charge depreciation to the revenues of the department has had considerable effect upon the result for the financial period just closed. The revenue accounts show surpluses as follows:—

Light—Surplus for 1908.....	\$3,417 39
Water—Net surplus at date.....	2,111 48
Telephone—Net surplus to date....	7,913 68"

"If depreciation had been charged to revenue the result of the year's working would have been a considerable loss in each department, as follows:—

Light	\$4,136 25
Water	13,660 90
Telephone	4,460 19"

Periods of Loans and Life of Plant.

The period for which the loans or debentures are issued is a matter of considerable importance, and it is equally necessary to know on what class of undertaking each loan has been spent. The average life of plant and machinery is so different for various purposes that without this knowledge it cannot be judged whether the life of the plant is equivalent to the length of the loan, or whether it is advisable or necessary to provide an additional fund for renewals, antiquation, etc., in order to avoid the issue of overlapping loans.

For instance, with respect to loans for electrical undertakings, it is not so much a question of the length of time for which the plant could be used as the length of time for which it can be economically used. A small municipality may start with, say, two engines of 50 horsepower each. In two or three years they may have to put in additional engines of 100 or 200 horse-power, and in five or six years further engines of perhaps 500 horsepower. In the meantime the size of the town and the load to be supplied has so increased that it no longer pays to operate the small units at all, because the larger and more efficient engines can be fully loaded, but the original loan has been issued for, say, twenty years, or perhaps considerably more, and the interest and sinking fund must continue to be paid concurrently with that on the new loans, of which a part covers machinery for the same purpose. This process may be repeated owing to the growth of the town or growth of the demand several times over during the period of repayment for the first loans, with the result that capital charges are eventually being paid concurrently on several loans covering to a large extent the same purpose, and the undertaking becomes swamped with the capital charges, which often very considerably exceed the operating costs.

It cannot be too strongly insisted upon that in the case of growing towns the question of antiquation or supercession of the plant is of considerably more vital importance than its life; in such cases plant and machinery seldom has a chance to complete its "life"; it is more often sold at a loss or "scrapped," because it has become inadequate to the requirements while still comparatively new.

(To be continued.)