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## Accounting and statistical requirements of the Interstate Commerce Commission: Address before the Thirty-fifth Meeting of the Railway Accounting Officers Association, Richmond, Virginia, June 13-15, 1923

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Railway Accounting Officers Association

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THE ACCOUNTING AND STATISTICAL  
REQUIREMENTS OF THE INTERSTATE  
COMMERCE COMMISSION

By  
WM. J. CUNNINGHAM  
*Professor of Transportation*  
Harvard University

ADDRESS  
Before the Thirty-fifth Annual Meeting  
of the Railway Accounting Officers  
Association, Richmond, Virginia,  
June 13-15, 1923

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# THE ACCOUNTING AND STATISTICAL REQUIREMENTS OF THE INTERSTATE COMMERCE COMMISSION

**Wm. J. Cunningham**

Professor of Transportation

*Harvard University*

PRESIDENT L. G. SCOTT: It is the policy of our Association to invite two men of national reputation; men with ideas and broad vision, to deliver addresses at each of our annual meetings. The Association does not select the subjects of such addresses and we do not make any suggestions whatever regarding the points to be discussed. This is observing the practice of the Association in welcoming suggestions and ideas from every authoritative source. Today, it is our good fortune to have an address from a man whose experience, ability and other qualifications command respect; a man whose words and ideas carry weight and receive consideration throughout the length and breadth of this country—Professor William J. Cunningham, Professor of Transportation at Harvard University.

PROFESSOR CUNNINGHAM: When your President invited me to address your Association at its thirty-fifth annual meeting he gave me wide latitude in subject. I accepted the invitation with the thought that I might be able to say something of interest in connection with a recent statement by a prominent railroad publicist that the Interstate Commerce Commission could save the railroads more than \$100,000,000 per year by limiting its calls to reasonable statistics. That statement was given wide publicity and was used by a few railroad executives to support a request that the Commission should substantially reduce its requirements.

On receipt of the Agenda for this meeting I find there is no need for me to assume the self-appointed task of pointing out the errors in fact and in the interpretation of the figures which were made the basis of that criticism, nor to show that the Commission's requirements are not unreasonable. Your Committee on General Accounts has accomplished that task better than I could have accomplished it. It has clearly set forth both the inaccuracies in the basic data and the errors in deduction, and has concluded that no substantial curtailment in requirements is justified. There are, however, certain related factors which are not mentioned specifically in the report, and I shall embrace this opportunity to present three supplementary suggestions.

The first suggestion is that the Interstate Commerce Commission requires no information which any well supervised railroad would not have for its own managerial guidance. Except in unimportant particulars, the information now reported to the Commission would

be continued by the progressive roads even were the Commission's requirements waived.

The second suggestion is that many railroads, while recognizing the value of the information required by the Commission and by their own officers, do not make fully effective use of that data and other local reports in keeping close check on their operating efficiency.

The third suggestion is that the railroads as a whole do not take sufficient pains to educate their operating and traffic officials in matters of accounting, nor their accounting officials in the technique of operation and traffic.

#### INTERSTATE COMMERCE COMMISSION STATISTICS AS AIDS TO MANAGERIAL CONTROL

The present accounting and statistical requirements of the Interstate Commerce Commission are the results of evolution. From the beginning of its control over accounting and its work in establishing uniformity, the Commission has been guided largely by the advice and assistance of a committee of your Association. In very few cases indeed has the Commission disregarded the final recommendations of your Association. It has always shown a willingness to accept the judgment of railroad accounting experts as to what would be reasonable and practicable for the Commission to prescribe in discharging its responsibilities under Section 20 of the Act to Regulate Commerce. On the other hand there has been an equal spirit of cooperation on the part of the railroad accountants in meeting the spirit of the Act. The result is that the present structure of accounting classifications, reports, and statistics is virtually railroad-made, and the credit for the accomplishment should be accorded to your Association as much as to the Commission.

While the accounting requirements may in the aggregate appear to be burdensome, it is a fact that all of the information called for is of interest and the greater part of it is vital to the intelligent administration of a railroad. No progressive and well-organized railroad could afford to be without the information contained in the annual and monthly reports to the Commission. To discontinue any substantial part would be a step backward. In fact, nearly all railroads require for their own use statistics which are much more elaborate than those called for by the Commission.

My own opinion is that the Commission might quite properly go much further in requiring additional data to enable it to meet its responsibility, under the Transportation Act of 1920, to pass upon the efficiency of operation. That the Commission has not imposed further tasks is evidence of its conservatism and unwillingness to add to accounting burdens until the need is definitely recognized and the practicable method determined after mature consideration and joint conference. I believe that it would be a step in the right direction if the proposal to subdivide the primary expense accounts

so as to show the labor element separately should be adopted when the classification of operating expenses is revised. I should go further and enlarge rather than reduce the number of primary accounts so that they would lend themselves more readily to the needs of statistics of cost and performance. As the classification now stands, the primary accounts in many cases do not fit in well with the demands of cost accounting. On the side of revenue and service accounting I believe that the railroads should be obliged currently to know more about the relative remunerativeness of the several classes of traffic and of the several groups of commodities. To that end an additional requirement that freight revenue and ton-miles be reported separately by groups of commodities would be justified. Likewise it would be worth more than the additional cost to know currently the revenue, tons, and ton-miles of local freight separately from interline freight. This subdivision is of importance in determining the reasonableness of divisions and will be of increasing importance as the proposed consolidations take place. A few roads compile such data for their own information and find that its value justifies the cost.

It is not my purpose here to advocate that the volume of required reports be increased. I am referring to the possibilities of advantageously expanding the requirements merely to emphasize the previous statement that the Commission has not been unreasonable in its orders. Conceivably it may properly ask for much more and thereby force the backward roads to know more about their own affairs. All that the Commission requires is of as much value to railroad officers in the administration of their individual properties as it is of value to the Commission in exercising its public supervisory functions under the law. Unfortunately it is too often true that the value of the information reported to the Commission is not appreciated by the officers of the reporting carriers and it is too often carelessly and unintelligently compiled.

#### RESPONSIBILITY FOR ANALYSIS OF REPORTS

The foregoing comment leads naturally to the second suggestion that steps should be taken by the executive officers to insure the effective utilization of all required accounts and statistics, not only of those required by public regulating authorities, but as well those required locally for the information of heads of departments and their subordinate officers. If, as is often the case, the statistical information compiled in response to the Commission's requirements is not utilized and therefore would not be missed if discontinued, that is not an argument for the discontinuance of the reports. It is rather a reflection upon the intelligence of the management of the road. Unfortunately there are too many instances in which data conscientiously compiled by the accounting department are not analyzed nor used as aids to judgment in managerial control. How many reports, compiled at substantial effort and expense, are received in the general or divisional offices and are checked off for

the file with but perfunctory or even with no attention by chief clerks who too often have the conception that it is their duty to keep papers off the chief's desk? I fear that there are too many cases of the kind. Nearly every road has the tradition that such and such reports, compiled for years, were experimentally omitted without authority and as no question was raised, were discontinued and were not missed.

Not long ago an accounting officer, who had had transportation experience, confided to me that he felt very much discouraged because the operating officers, both general and divisional, took little or no interest in current reports of operating performance, compiled by the accounting department. He had taken pride in developing certain forms which reflected the comparative efficiency of the important elements in maintenance and operation and transportation service, and had the figures shown separately by operating divisions. In addition, he personally had appended a memorandum each month in which the results were analyzed and attention called to important features. Although the general manager approved the form of the exhibit when it was being prepared, so far as the accounting officer could ascertain, these statements were never studied nor acted upon by the responsible operating officials and were never passed on to the division superintendents for comment. In that case the general manager and the general superintendents were content to rely upon their powers of personal observation and upon incomplete and inadequate reports inherited from a former generation. Obviously, the comprehensive summary of operating results should have been used as a check on the effectiveness of supervision and as the text for discussion with superintendents and others. Instead they were passed to the file clerk. As a result, in this case and in many other similar cases, information of a character vital to intelligent management lies dormant in the files, and both the effort of compiling it and its potential value as an aid to managerial control are lost.

There is a need of a definite policy supported by the chief executive of each railroad which (1) will insure complete and current statistical information for officers of all ranks, and (2) will hold these officers both of high and of low rank responsible for studying and acting upon the significant figures.

#### COOPERATION BETWEEN ACCOUNTING AND OTHER DEPARTMENTS

The effectiveness of accounting and statistics as aids to control of expenditures and performance is greatest when there is a sympathetic understanding and mutual cooperation between the accounting and the operating departments. Unfortunately such cooperation is often lacking because of the failure of each to understand the other's viewpoint. Too many superintendents and others of higher rank have little confidence in figures compiled by the accounting department. They do not understand how they are compiled and they are suspicious of all delayed charges or accounting adjustments which distort the accounts for a particular period. When a super-

intendent is criticised for an apparently unwarranted increase in his expenses for the month and he finds that a delayed bill for joint facilities, an inventory adjustment, or a charge for back-pay, has burdened the accounts for that month, he often thinks that the accounting department is in a conspiracy to discredit him. On the other hand, the accounting department frequently has cause for complaint because its instructions are not observed. Ordinarily the grievances are trivial and could be smoothed out if sympathetic, mutual understanding prevailed, but where cooperation is lacking these differences lead to friction and react unfavorably upon both departments.

I believe that beneficial results would flow from a more general adoption of the policy inaugurated many years ago by James J. Hill. A few months before his death in 1916, it was my privilege to spend nearly three months on the Great Northern as Mr. Hill's guest and I conversed with him frequently. His advice to me, then, when we discussed the teaching of transportation, was to emphasize the importance of accounting and statistics. His often repeated statements were: "Intelligent management of railroads must be based upon a complete knowledge of facts. There are too few who know; there are too many who guess. When anyone on the Great Northern begins to guess, he guesses himself out of a job."

Mr. Hill's conception of knowing the facts was to have a high-grade accounting department, concentrate within that department all statistics as well as accounts, support it by executive backing, insure effective cooperation between the accounting and other departments, furnish all concerned with adequate cost and performance statistics, and hold each superintendent and higher officer responsible for results. He set the example himself by always having a complete and uncanny knowledge of detail. The officer who could not keep up with Mr. Hill in his knowledge of facts, and who could not control his ton-mile cost, was unfortunate indeed.

This is not the place to dwell upon the ramifications of Mr. Hill's policies of controlling expenditures so as to insure steadily decreasing unit costs. Suffice it to say that he regarded accounting as the chief aid to administration. It is of interest, however, to note how he brought about a mutual understanding and cooperation so that the accounting department was considered by superintendents as a friend at court rather than a prosecuting attorney.

It had then been the practice for many years (and I understand the practice has been continued) that the understudies for positions as superintendent should spend at least six months as student-workers in the accounting department in St. Paul. These men were taken in squads of six and were put through a systematic course of training which included the actual performance of work at each of the many desks in the disbursement, capital expenditures, equipment service, and other branches of the accounting department. Besides, they were called upon to study the classifications and to attend evening lectures and examinations by Mr. Martin, then

comptroller, now executive vice-president. I remember observing one big-fisted trainmaster hard at work during the day making the distribution of charges on vouchers covering additions and betterments, and the same evening reciting his understanding of the account "Stock discount extinguished through income." It was hard work for one accustomed only to outdoor work and acquainted only with the language of the transportation department, but he gained a knowledge which was extremely valuable to him later when he became superintendent and as such had local jurisdiction over the division accountant in his office. He had a clearer conception of the whole field of accounting and could orient the detail figures in his own divisional statement with those of other divisions and with the road as a whole. There was then no mystery about the technique of the operating statements and therefore no alibis. Under the Great Northern plan the divisional accounting was decentralized and the divisional accountant, although under control of the accounting department as to accounting procedure, was a member of the superintendent's staff. The experience in the accounting department made it very much easier for the superintendent to supervise the accounting work of his division. His own results, with certain minor exceptions, were compiled in his own office and were known to him before he received the final statement for the road as a whole. There was no evasion of responsibility since the superintendent had primary jurisdiction over the compilation of the data.

As already stated, it is my opinion that much good would come from the general adoption of the Great Northern plan. It would break down prejudices, prevent misunderstandings, and give the accounts and statistics, both for the divisions and districts, and for the road as a whole, a more vital and compelling force.

In conclusion, then, may I repeat:

(1) Fault should not be found with the accounting requirements of the Interstate Commerce Commission. The Commission requires nothing that the railroads should not have for their own information. In view of its large powers, particularly those recently vested in it by the Transportation Act, the Commission has been moderate and reasonable in its demands. It might properly go further than it has gone and aid the backward railroads by forcing them to know more about their own affairs.

(2) The chief executives of the railroads should adopt and enforce a policy under which all necessary statistical data should be furnished by the accounting department and all concerned should be held responsible for noting and acting upon significant items.

(3) To insure a better understanding between the operating and the accounting departments it would be well to bring about a more general adoption of the Great Northern plan of having prospective superintendents undergo a course of training in the central offices of the accounting department.