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Correspondence: Shortage of Accountants; Cost and Interest

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Correspondence

Shortage of Accountants

Editor, The Journal of Accountancy:

SIR: I send you herewith copy of an article which appeared in an accounting periodical in Glasgow, Scotland. This article may be of interest to the professional accountants on this side, as it demonstrates how essential they are to the country at this particular period.

Yours very truly,
D. HUMPHRIES.

New York.

To the Editor of the Daily Telegraph:

SIR: It is admitted by everyone who knows the circumstances that at the present time there is almost a famine of qualified accountants, and it is needless to labor this fact in the face of the revelations exposed lately in ministry of munitions, and so short is the country of accountants it has been necessary to recall as many as possible from the combatant ranks, and also to obtain help from abroad; while there are also special instructions issued to tribunals with regard to their indispensability and exemption. The consequence is that many young and healthy men of military age have of necessity been kept out of the fighting ranks. I do not for a moment question the wisdom of this step, for if there is to be any proper control of the enormous expenditure now going on it can only be checked by those qualified to deal with it. What I desire to suggest is that the government should take steps to try and remedy this shortage by offering special facilities and opportunities to wounded soldiers and other suitable candidates to acquire this special knowledge by means of training schools under the administration of qualified accountants. I would particularly emphasize the opportunity that would thus be offered to wounded soldiers with an aptitude for figures of acquiring a profession of great value to them after the war. In the training I suggest, frequent examinations should be held, to test the progress of the candidates, and if a candidate is found wanting in the necessary aptitude he should not be retained.

Trained accountants will be required just as much to clear up the aftermath of the war as now, while, with the expansion of trade which is to be expected when the war is over, the opportunities for employment should be much increased. It will be argued by the "trade unions" in the accountancy profession that it is impossible to make a qualified accountant without years of training and experience, but the war has shown the fallacy of most preconceived ideas—gunners and air-men can now be trained in a few months, and even cabinet ministers have risen from obscurity in the course of a year or so. Therefore, why cannot qualified accountants be made within a reasonable time, given the opportunity of training?

Yours faithfully,
G. BETTESWORTH-PIGGOTT,
Deputy-Chairman, Appeal Tribunal, House of Commons.

Interest and Cost

Editor, The Journal of Accountancy:

SIR: In the matter of charging interest as an item of manufacturing cost, it appears to the writer that the proposition is indefensible even for comparative purposes.

In order to have a basis of understanding, we state that we understand cost, in this instance, to be the necessary elements in the proper fixing of the price of an article.

We contend that rent and interest are the result of high prices and not the cause of them.

In considering the three elements of cost, namely: land, labor and capital, it seems manifest that any plurality of ownership of either land or capital should not add to the cost of production. Labor does not seem to enter into the discussion directly at this time.

It may be remembered that one of the speakers at the convention of the American Institute of Accountants, mentioned that a machine represented labor, compressed as it were, in inanimate form, and the writer understood that the idea was that the capital value of the machine must be supported just as a laborer must be.

Leaving the moral status of labor out of the question, is not the capital value duly supported in the upkeep charges and amortization provision? We think the aim of all accounting is to that effect, and that is distinct from interest on the amount invested in the machine.

Will not the segregation of capital into departmental divisions show by means of the return thereon the true condition of the investment better without the intervention of interest than with it?

Will not investment more likely seek its proper level without the interference of arbitrary interest charges, which, when not the result of actual transactions, have little effect on the market? When they are the result of bona fide borrow and lend dealings, the rates then obtaining would not be the same as those in the event of a wider use of borrowed capital, indicated but not actually invested, in the case where interest is added to departmental capital.

The greatest difficulty, however, in the matter of including interest as an element of cost seems to us to be that of the tendency of the practice unduly to increase price, for if interest is added as an element of cost and then overhead ranging according to experience (but say 33 1/3% as another item of cost) it means that interest calculated at 6% would thus figure 8% after such addition was made.

This fallacy seems generally understood in practice, as sales managers in quoting prices including these charges have stated that allowances were made to customers repeatedly, under the plea that additions to price on account of interest charges were consistently waived in the event of question of price, on the assumption that they represented "gravy."

As one of the speakers asked at the annual meeting, if interest were excluded from the balance-sheet statements, might it not properly figure for comparative purposes in the departmental records?

If it be excluded from the balance-sheet as a matter of principle, can it without a violation of principle be included in departmental records?

Of course where interest is actually paid it must show as a deduction from capital share earnings, but on this point we all seem agreed.

Interest seems unquestionably a charge for the use of capital and given the same directive force, in our opinion, it makes no difference so far as its operating force goes whether A or B or A and B or A, B, C, etc., own the capital invested in the oueration.

To sum up: land, labor and capital enter into the production of commodities and it would seem to us that what is taken from each one by use, together with the expense of restoring the portion taken, must be paid by the product.

Labor by special agreement, which should be entirely free and of moral worth, may waive some future for an immediate benefit and take a set wage for its share and may thus be eliminated, leaving the other portion of the product to be divided, let us say, among the owners of the capital represented by the improvements in the land as well as any other investments involved in the production.

As the return or profit is not determinable until the disposition of the production is made, the distribution usually accompanies such disposition unless the investors agree, just as laborers may do, to a different order based on mutual considerations.

It would seem to us, however, that if the manufacture of the product itself is departmentalized and the capital invested in each division duly segregated, the rate of return would be reflected by the income from the product and be absolute. If the capital involved be figured at an arbitrary interest charge surely it would seem to be entitled to the same as income—and the two would "wash."

In conclusion it might not be inappropriate to quote from Clarence Bertrand Thompson's *Scientific Management,* Harvard University Press, 1914, (*Harvard Business Studies*), page 481:

"You may have noticed that interest is not included in this analysis of costs. Raising this question will throw any convention of accountants into debate in a minute. I feel, however, that there is no more reason for including interest in cost than for including profits.

"If you put your money into business instead of loaning it out, your interest becomes profit. If you have to borrow part of the money to carry on your business, the interest that you pay the other fellow is part of the profits that you lose to him. Interest, like profits or dividends on capital stock, is merely a share of the net surplus after all bills are paid. This reasoning applies as well to a factory as it does to a store."

We also quote Garcke and Fells in *Factory Accounts,* published by Crosby Lockwood & Son, London, in 1889, who say *inter alia* on page 74:

"Interest on capital should not, however, in any case form part of the cost of production."

And on page 14 of the same work, speaking of prime cost it is stated:

"In no case should it comprise interest on capital or profit."

(This as we understand it identifies interest immediately with profit.)

It would therefore seem that man and the other forces of nature co-operate in the matter of production, and the charges for the accomplishment of the changes in form necessary to obtain the sought-for production determine the cost of the process of transformation. For the purposes of accounting it seems that terminology defines cost as everything but the return of income on the capital, which is interest or profit if positive, or deficit or loss if negative. The business takes the chance of success or failure. Thus to include interest as cost seems to subvert the whole theory of interest.

Yours truly,
HENRY C. MAGEE.

Olaf A. Mann

We announce with regret the death of Olaf A. Mann, whose article, *Working Capital for Rate-making Purposes,* appears elsewhere in this magazine. Mr. Mann had been a contributor to THE JOURNAL OF ACCOUNTANCY for several years. He had occupied many positions of an accounting nature in the services of large corporations. Mr. Mann wrote many articles on accountancy, and was a lecturer on public utility accounting at the New York university.

Society of Louisiana Certified Public Accountants

At a meeting of the Society of Louisiana Certified Public Accountants, the following officers were elected to serve for the ensuing year:

Geo. A. Treadwell, president; H. J. Jumonville, vice-president; A. J. Derbes, secretary; J. K. Byrne, treasurer.

Elkin Moses was elected as the fifth member of the executive committee.

Geo. A. Savage & Co. and Baker, Birnie & Co. announce that they have formed a partnership under the name of Savage, Baker, Birnie & Co., and will continue the practice of their profession at suite 90-91-92 Commercial Union building, Montreal, Canada.

The partnership heretofore existing between Deloitte, Plender, Griffiths & Co. and James P. McGregor in Chicago was dissolved by effluxion of time September 30, 1918. Mr. McGregor announces that he has been admitted a partner in the firm of Arthur Young & Co.

J. D. Cloud & Co. announce the removal of their offices from First National Bank building to 805 Traction building, Cincinnati, Ohio.