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## Editorial and Correspondence

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# The Journal of Accountancy

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## EDITORIAL

### Some Effects of Gold Depreciation.

Since 1897, the general level of prices in the United States and in other countries which use gold as money has been rising so rapidly as to cause many painful maladjustments in all departments of the economic world. Frequently the manufacturer's raw material, owing possibly to speculation induced by a glut of money in the banks, has risen more rapidly than the price of his finished product. This, of course, has caused him loss. At other times the demand for finished products has been suddenly stimulated and manufacturers have made unexpected profits. Wages and salaries have not kept pace with the increased cost of living, and mighty protests have been made against employers on the one hand and venders of commodities on the other. Railroads have found their expenses of operation increasing much more rapidly than their earnings, and for the first time in their history are beginning to advance passenger rates.

According to the statistics of prices compiled by *Bradstreet's*, the general level of prices is to-day about 60 per cent. higher than it was in 1897. Some articles, like nails and chemicals, are

lower now than in 1897; and metals have changed very little, but cereals and provisions have advanced so much that the average purchasing power of \$1.60 is to-day no more than was that of \$1.00 thirteen years ago. *Bradstreet's* computations are probably not made in so scientific a manner as those of the Department of Commerce and Labor, which are published annually in the *March Bulletin of Labor*, or as those of the *London Economist*, yet the final results are in very close agreement. *Bradstreet's* method apparently exaggerates the rise of prices, and it will probably be found when the government's belated statistics appear that the rise of prices in the last thirteen years has not amounted to more than 50 per cent.

This upward tendency of prices is popularly attributed to some such cause as the trusts, the tariff, national extravagance, shorter hours of labor, the neglect of agriculture and increased costs of production. Accountants need hardly be told that circumstances of this sort can have no effect on the general level of prices. They may produce relative changes, but not an absolute change. A monopoly may hold the price of its product 4 or 5 per cent. above the figure it would sell at under free competition. If it attempts to do more, it simply does not sell its product. Furthermore, if the people are obliged to pay 4 or 5 per cent. more for a monopoly product, they are able to buy less of other commodities, and the prices of others suffer and decline by as much as the price of the monopoly product is advanced. This means that one monopoly or a dozen monopolies cannot raise the general level of prices. That the tariff is not to blame for the general advance of prices is proved by the fact that the advance is a world-wide phenomenon, prices having risen in England, France and Germany in about the same ratio as in the United States.

As for the increased cost of production, it should be borne in mind that there is a vital distinction between *money* costs and *real* costs. Undoubtedly, the costs of most articles have increased in terms of money, for the prices of nearly all materials and the wages of labor have advanced. But the real costs of production, by which is meant the amount of labor time, machine time and raw materials consumed in the production of commodities, have doubtless been declining during the last thirteen years quite as much as they did during the preceding twenty

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years, when the general level of prices was falling. There is only one class of commodities the real cost of producing which has undoubtedly increased during the last thirteen years—namely, farm products. These have risen not merely in price, but also in actual cost, for the reason that our growing population has given rise to a larger demand for foodstuffs and so has compelled the cultivation of poorer and more distant land than was under cultivation in 1897. The price of wheat, for instance, has practically doubled in the last thirteen years. It sold at 64 cents July 1, 1897, and at \$1.28 January 1, 1910. If the higher price of to-day were not paid for wheat, the wheat acreage in Canada and the United States would be correspondingly less, for a farmer will not seed a field unless he is reasonably sure that he will get a price that will yield him costs plus a profit. The rise in the price of farm products, however, is not responsible for the uplift of the general level of prices. If another force had not been at work, the increase in the cost of producing wheat and other foodstuffs would have merely caused a relative change of prices, farm products being higher and manufactured articles correspondingly lower.

The force which has really lifted the general level of prices has been the marvelous increase in the supply of gold dating from 1887, when the mines of South Africa first began to pour their treasure into the world. Then the total output of the world was about \$120,000,000 a year. It has steadily increased until now it is nearly \$500,000,000 a year. This great augmentation of the world's stock of gold has cheapened it and so caused all prices to be higher than they would have been had the production of gold merely kept pace with the production of other commodities. Unconsciously people measure the values of commodities with a golden yardstick and as the yardstick has steadily been growing shorter and shorter, the values of goods have seemed to multiply, whereas the change has been mainly in prices and not in values. The United States dollar to-day, if we assume that *Bradstreet's* statistics are correct, will purchase no more of commodities in general than 62½ cents bought in 1897. In other words, from the point of view of 1897 we now have a 62½ cent dollar. The price of wheat, which is now \$1.28, reduced to terms of the 1897 dollar would be only 80 cents. That is what its price would be to-day if the supply of gold had not outrun the

demand for it. In value, therefore, as distinct from price, wheat has risen only in the ratio of 64 to 80, which is 25 per cent.

This conclusion is doubtless one which many an accountant will be inclined to question. It is nevertheless worth thinking about, and as it involves some nice computations not altogether foreign to their experience, we have little doubt that their thinking will lead them to sound conclusions.

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## Accounts and the Public Service.

If Congress grants the administration's request for an appropriation of \$250,000, for the use of the Tariff Commission in the study of comparative costs of production in the United States and foreign countries, the certified public accountants of this country should not let this difficult task be undertaken or performed without an offer of assistance on their part. No one knows better than the accountant how innumerable are the chances for oversight in the solution of any problem involving costs. Men who have not had experience in such work are almost certain to produce results of doubtful value. This is true even when the cost problem is in its simplest form, all the factors entering into cost being definitely known and capable of measurement; but when the problem aims at a comparison of costs the difficulty is intensified. Differences in wages, in business methods, in overhead charges, in selling and delivery expenses, in the charges for storage—unless items like these are reduced to a unit basis, a trustworthy comparison of costs as between different establishments and different countries is impossible. The public accountants are the only men in the United States who are fitted by training and by education for the nice computations necessarily involved in such a study.

We are moved to mention this matter at the present time by the fact that the United States Government in its statutes against various corporations and alleged violators of the Anti-Trust Act seems ignorant of the existence of the certified public accountant. It shows a disposition to rely almost exclusively on expert bookkeepers for the development and presentation of the accounting features of its cases. During the last few months in New York City and elsewhere, the government has been prosecuting cases which have attracted a great deal of attention

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all over the country, all of them involving questions of business method and many of them hinging upon facts developed by accountants. In these cases, we regret to say, the certified public accountant has been conspicuous by his absence.

We are far from believing that any prejudice exists at Washington against the young profession which is seeking to make the letters C. P. A. stand for proficiency in accounting, just as M. D. and LL. B. do in medicine and law. Indeed, we do not know why the certified public accountant has thus far failed to get due recognition in government circles. We wish merely to call the attention of accountants to the fact and to make the suggestion that somebody in their behalf ought to get busy and find out why the abilities of the certified public accountants are not recognized by Federal officials. In this connection, it occurs to us that it is time to revive and discuss President Sterrett's excellent suggestion at the Denver meeting, with regard to the advisability of the American Association's engaging the services of a man who can give all of his time to the promotion of the interests of the profession. The right man, if he can be found, would be worth a good salary; he would have no excuse for idleness during a single day of the year, and he could perform for the profession services which would be of real value to every individual member. The accounting profession, if it maintains high standards of education and ethics, will some day surely be established, but there certainly does seem to be a need at the present time of more continuous and concerted effort in its behalf.

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### **Accounting Terminology.**

It is to be hoped that every member of the American Association of Public Accountants will bear in mind the request made by the Chairman of the Committee on Accounting Terminology, namely, that each one should favor him with as many definitions of accounting terms as appear to the sender to be particularly clear and accurate. It is expected by the association that this committee will be prepared to present a report at the Convention to be held in New York next October, and their labors will be materially lessened, and their work will be of much greater advantage, if they have submitted to their consideration the

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opinions of accountants generally in respect to accounting terms.

It is of great importance that there shall be recognized, uniform, established definitions, which, in the course of time—and in a reasonably short time at that—shall be adopted by all accountants, so that whenever a term shall be used, it shall convey a distinct meaning to the mind of every accountant. In order that accountancy may attain the dignity of a profession, it is essential that there should be a precise terminology, and THE JOURNAL bespeaks for the Committee the active cooperation of all the members of the Association in this labor.

Communications on this subject should be addressed to the Chairman of the Committee, Mr. Seymour Walton, 189 LaSalle Street, Chicago, Illinois.

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The ACCOUNTANCY MAGAZINE includes the following in its comments on the proceedings of the last annual meeting of the American Association:

A continued development along the lines of business education is reported, which is a matter of vital importance to the profession. Perhaps the greatest need from which they suffer to-day in the United States is "the lack of high-grade young men of broad education coming into accountancy."

Increasing activity among the several State Societies is noted, and a compliment is paid to THE JOURNAL OF ACCOUNTANCY, conducted under the auspices of the Association, a compliment in which we can cordially join.

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## Business and the Law

TO THE JOURNAL OF ACCOUNTANCY:

I have noted the editorial in THE JOURNAL for March in regard to the statement made by the President as to the revision of business methods to meet the law, which statement I am glad to see commented upon, as it is one which occurred to me, when I read it, as a most extraordinary assumption of the infallibility of law and law-makers.

I think we have all found in our experience numerous cases wherein the law, as applied to the administration of both public and private business, has, and does now, work unnecessary burdens and wherein provisions of law are entirely contrary to approved methods of accounting and business procedure, and there seems to be no question that an important work could be accomplished by an organized and systematic effort to secure amendments to such laws as above referred to, as may come within our experience. I would like to see further discussion and presentation of ideas on this point.

J. H. KAUFFMAN.

Columbus, Ohio.

## The Advantages of Mathematical Training to an Accountant.

Much interest has been aroused among accountants by the stimulating article of Mr. Leroy L. Perrine in the March JOURNAL, and several readers have sent in arithmetical solutions of the article which Mr. Perrine solved by algebra. Among them are the following:

G. N. Greenwood, M.A. (Oxon.), Uniontown, Pa.

T. Edward Ross, C.P.A., Philadelphia, Pa.

J. H. Kingwill, C.P.A., Denver, Colo.

B. H. Matthews, Clear Lake, Iowa.

Henry A. Herbert, New York City.

Space does not permit the publication of all of these solutions, and as they depend upon essentially the same principle, one or two will suffice.

Editor of THE JOURNAL OF ACCOUNTANCY,

SIR: In an article in the March number, on The Advantages of Mathematical Training to an Accountant, the author gives an example with the remark, "It is possible that this problem may be solved by means of arithmetic, without the aid of algebra. The writer will not go so far as to say that there is no arithmetical solution, but if there is one he does not know of it. At any rate, it is believed that any arithmetical solution would be much more lengthy than the algebraical solution here shown."

In accordance with the author's wise suggestion that we define terms at the beginning of any discussion, it should be stated that the term "arithmetic" to an advanced mathematician has quite a wide application; limiting it, however, to the scope comprised by current high school arithmetics, it may be interesting to notice that a solution is possible by a method called "false assumption," a method also dating back, in all probability, to the times of Aristotle. It appears simpler even than the solution given by the author of the article named. The problem is as follows:

"On January 1, 1911, William Smith will enter upon a contract whereby he will receive \$100,000.00 net income semi-annually above all expenses of whatever nature for 10 years thereafter, up to and including December 31, 1920, the income being receivable on June 30 and December 31 of each year.

"The Jones Manufacturing Company contemplates the purchase of Smith's equity in this contract. It is evident that whatever value this equity may have on January 1, 1911, it will be worth nothing on December 31, 1920, as the contract will expire on that date. Consequently the Jones Manufacturing Company must set aside a sinking fund to provide for the depreciation of the asset acquired. The company proposes to pay 6% annual dividends on the amount of its investment in the equity referred to, payable semi-annually on June 30 and December 31. These dividends are to be paid out of the \$100,000 income to be received semi-annually, and the balance to be set aside as a sinking fund and invested at 3% interest, compounded semi-annually, in order that the accumulation of this sinking fund at December 31, 1920, may equal the amount of the original investment. The problem is to determine the amounts of the semi-annual sinking fund and of the original investment."

Assume that the annual sinking fund is \$10,000. These twenty amounts, which amount to the original investment, form a geometrical series whose sum, according to a rule in arithmetic, is

$$\frac{10,000 (1.015^{20} - 1)}{.015} = \frac{10,000 \times .346855007}{.015} = \$231,236.671.$$



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(In applying logarithms, the author either overlooked or ignored the error introduced by multiplying by 20. The result, given to seven decimal places, is correct only to five places.)

Now the amount received by the Jones Manufacturing Company in this assumed case must be 3% of the original investment plus the sinking fund, or \$16,937.10.

Now the amount received semi-annually by the Jones Manufacturing Company, in the assumed case, \$16,397.10, and the amount invested, \$231,236.671, form, with the amount received in the case stated, \$100,000.00, three terms of a proportion from which we find that the amount invested should be \$1,365,267.20, with a possible error of five cents one way or the other, on account of not carrying the calculation far enough.

G. W. GREENWOOD, M.A. (Oxon.),  
Auditor, United Fire Brick Co.,  
Uniontown, Pa.

PHILADELPHIA, 22d March, 1910.

Editor of THE JOURNAL OF ACCOUNTANCY.

SIR: In the valuable article, "The Advantages of Mathematical Training to an Accountant," which appeared in the March number of THE JOURNAL OF ACCOUNTANCY, the writer says in reference to the problem which is used as an illustration that he knows of no arithmetical solution for it, and thinks that if there is one the algebraic solution is much shorter. There is an arithmetical solution, and with the use of tables the problem can be solved in a few minutes.

Briefly stated the problem is as follows: A company contemplates the purchase of the equity in a contract which will yield a net income of \$100,000.00 semi-annually for a period of ten years. From the income received the company desires to pay 3 per cent semi-annually on its investment, and to set aside the balance in a sinking fund, which, invested at 3 per cent per annum compounded semi-annually, will produce the amount of the original investment. What are the amounts of the semi-annual sinking fund and of the original investment?

### *Solution.*

By referring to tables we find that \$1.00 invested at the end of each six months at 3 per cent per annum, compounded semi-annually, will amount at the end of ten years to \$23.1236671. For each \$1.00 placed in the sinking fund the semi-annual dividend would require 3 per cent of \$23.1236671, or \$.69371. The amount to be placed semi-annually in the sinking fund would be 100,000 of \$100,000.00, or \$59,041.99. The price

169,371

to be paid in purchase of the contract would be  $23.1236671 \times 59,041.99$ , or \$1,365,267.32 +.

Very truly yours,

T. EDWARD ROSS.

## School of Accounts in Milwaukee.

It is announced that Marquette University will open a school of Commerce, Accounts and Finance in Milwaukee next October. Dr. William C. Webster, formerly Professor of Commerce in New York University School of Commerce, Accounts and Finance, has been elected Dean of the new school. Both day and evening courses will be given and the degree of Bachelor of Commercial Science will be conferred upon graduates.