

CHAPTER XII

THE ACCOUNTING SYSTEM

Purpose of the Accounts. — It is not proposed to take up the matter of accounting in connection with public utility enterprises any further than to indicate its purpose and to refer briefly to certain instructions in relation thereto which have been issued by public service commissions.

The accounts should show clearly and in sufficient detail the facts relating to the investment, to operating expenses and to income. The natural division is therefore into two groups, the one relating to the investment, the other to income and operating expenses.

The accounts relating to investment are designed to show the investment in the property which is devoted to public use. These accounts should be kept in such form that the additions and betterments from year to year will be clearly apparent. They will include not alone the actual cost of all physical properties but also any amount paid for franchises or for water-rights and rights of way.

The income accounts are those which are designed to show, for each year, the amount of money earned for services rendered or for commodity delivered and the cost of rendering the service or furnishing the commodity. They will include the returns from outside investments and other sources on the one hand and on the other every expenditure necessary to render the service or to supply the commodity including taxes, insurance, rents and the like. The net balance of the operating and income accounts is profit or loss.

Construction Account, Interstate Commerce Commission. — In the general instructions of the Interstate Commerce Commission relating to the accounting system of railroads, construction