

and which serve or are expected to serve for a number of years, and it will be charged with the amount annually set apart out of earnings for replacements. This account should be kept separate from repair accounts although there is no fundamental difference between the replacement of a broken spoke in a wheel and the replacement of a discarded generator. It is fundamentally immaterial whether the replacement relates to single lengths of pipe, to broken window panes and the like or whether they are large as in the case of the dismantled steamboat. The only difference lies in the classification of the accounts. In either event funds for the replacement must be made available at the proper time. It is in the making of suitable provision for the replacement of the individualized items that expert advice should be sought in order that a proper distinction may be made between the apparent and the real profits of the business. Without a proper analysis, an apparent profit has, too frequently, been found to be in fact a loss.

Application of Accounting Principles to Other Methods.—

Under any method of procedure, other than the Unlimited Life Method, the difficulty is presented of dealing with articles which do not serve throughout their full probable life terms and with articles which remain in service beyond these terms. In the one case the cost of an article may have to be carried for complete amortization long after the article has gone out of use. In the other case an article with many more years of usefulness should be rated as of no value. Accountants have found methods to overcome these difficulties but the book-keeping which is involved becomes complicated.

When a public utility is established and its existence is justified by all attendant circumstances, the owner has reason to assume that the prospective business will prove profitable. There will usually, however, be a certain time during which his operating expenditures will exceed the revenue produced by the property. This time may extend over a period of years. Due consideration must be given to such facts as this as well as to the estimates of the prospective business when the cost of a