

**THE ANATOMY OF
A
RAILROAD REPORT**

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The Anatomy of a Railroad Report by Thomas F. Woodlock

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PREFACE.

Few investors in railroad securities take the trouble to make themselves acquainted with the actual condition of their property. Railroad reports are repellent to the vast majority of people by reason of their seeming complexity and technicality, and this is the principal reason why their study is left to experts.

Just at present every investor in railroad securities should exert himself to the utmost to obtain a clear idea of the state of his investment, for great and important changes in railroad conditions are in progress. With the object of enabling every one to obtain a fair idea of the real meaning of railroad reports the following pages are offered. An effort has been made to show, in a popular and non-technical manner, the process by which a report is built up, the information that is necessary to investors, the bearing of each portion of the report on the others, and, finally, certain rough principles upon which analysis of a report may successfully be based.

It is hoped that this book, representing as it does conclusions largely drawn from practical experience in the study of railroad reports, will serve as a rough key to unlock the secrets contained in the official reports fur-

nished to investors by the managers of our great railroad corporations.

Thanks are due to Mr. James Marwick, C.A., of this city, a gentleman of much experience in railroad and commercial accounting, for suggestions and emendations which have gone far to supply that technical knowledge and experience, which would otherwise have been wanting in this study.

October, 1896.

THE ANATOMY OF A RAILROAD REPORT.

INTRODUCTORY.

It would be well if people generally understood the true meaning of a railroad report. To most it is a meaningless mass of unintelligible figures which are undecipherable and generally confusing. In order to assist the general reader to a proper understanding of the matter the following pages are offered in explanation of the manner in which a railroad report is built up. An effort to exhibit in a skeletonized form the anatomy of a railroad report will be made, and a method of procedure adapted to analysis of reports will be suggested.

The object of a railroad report should be to convey to proprietors an accurate idea of the position of their property, both physical and financial, so that they may know pretty well all the principal circumstances affecting its welfare. Obviously, it should disclose these points:

1. *Its earning power.*
2. *Its financial position.*
3. *Its main physical characteristics and conditions*, for when these are accurately known, the value of the property is known.

Thus a railroad report naturally divides itself into three parts.

1. *Income or revenue account*, showing income and expenditure.

2. *Financial statement or Balance sheet.*

3. *Physical statistics.*

Of these three probably the second is the most important of all, but the first is extremely important, as is, indeed, the third. No report is satisfactorily complete which omits any of them.

These three main divisions naturally divide themselves into several minor subdivisions as follows:

1.—INCOME OR REVENUE ACCOUNT should contain:

- a. *Gross earnings;*
- b. *Operating expenses;*
- c. *Net income from all sources;*
- d. *Charges for interest, etc., and all charges before dividends;*
- e. *Dividends and surplus.*

2.—THE FINANCIAL STATEMENT or BALANCE SHEET should contain:

- a. *Statement of capital liabilities;*
- b. *Statement of capital assets;*
- c. *Statement of current liabilities;*
- d. *Statement of current assets.*

3.—THE PHYSICAL STATISTICS should show:

- a. *Length and characteristics of road;*
- b. *Number and description of equipment;*
- c. *Volume and character of business done.*

When these things are shown in sufficient detail it may be said that the report is complete. If any are wanting the report is imperfect. Of course, most railroad reports ordinarily give other information besides this. One expects, for example, an explanation from the president and general manager of any remarkable changes during the year in their respective departments.

It would be possible to extract an explanation from the figures themselves, if they are presented in sufficient detail, but it is well to have an official statement as well.

In these pages an effort will also be made to show in detail what enters into each account, and the bearing of each account on the whole. It must be remembered that the object is not so much to propound an abstract theory, as to show, in a practical way, with an example or two, the general lines on which reports are laid down.

It may be said at the outset that very few railroads publish a thoroughly complete and satisfactory report. The following roads are perhaps the best in this respect: New York Central, Lake Shore, Illinois Central, Chicago and Alton, Pennsylvania, Missouri Pacific (since 1893), Texas Pacific, Wabash, St. Paul, Northwest, Omaha, Louisville, Ontario and Western, Rock Island, Union Pacific, Southern Pacific, Chesapeake and Ohio.

Some roads which do not give sufficient information are: Burlington and Quincy, Lackawanna, Reading, Delaware and Hudson, Jersey Central, Baltimore and Ohio, Erie, Lehigh Valley (which for years published no balance sheet), Manhattan, Great Northern.

Roads in the first class have their failings, and roads in the second class have their merits, but, in a general way, the classification is fair. Perhaps New York Central and Chicago and Alton make the best reports of any road for comfort and ease of examination, whereas Manhattan and Lackawanna are very incomplete.

It is greatly to be regretted that there is not more uniformity in the reports of railroads in this country. In Great Britain all railroads report in precisely the same manner, so as to allow of very ready comparison.