Mr. Dilip Kumar Sen
Head, Department of Accounting
Magura H.S.S. College
P. O. Magura
Dist. Jessore
Bangladesh

Dear Professor Sen:

I have received and reviewed your letter of June 21 and the materials related to your proposed thesis. I have tried as best I can to review them and will attempt to provide some useful comments.

First of all, in relation to your admission to our DBA program, it does not appear likely to me that we could provide the level of support you would require for study here throughout a DBA program. Given the travel and other related costs you would have, the typical financial arrangement we offer doctoral students would prove inadequate I believe. Of course, we will be glad to consider an application from you (including appropriate GMAT and TOEFL scores and other supporting data) if you decide to pursue that course of action. You should receive the appropriate forms from our Graduate Programs Office in the near future.

Now, in regard to your proposed thesis I am at something of a loss as to how to react. We try to develop a thesis through a very careful working association between the DBA candidate and his faculty advisor(s). It is difficult to try to play this role in evaluating your work without ever having worked with you in any other capacity. Perhaps a couple of comments are in order, however.

The area of depreciation and replacement cost is a very relevant one at this time. It is certainly an area in which additional work is warranted in the U.S., and I would assume the same is true in your country.

A great deal of work in this subject area has been done in this country. I wonder to what extent this research is available to you. Much of your proposed work represents work that has been done here. This does not mean that the same sort of study should not be replicated in another economic setting, such as your country. These are all questions which come to my mind as I review your material and are a cause of my inability to respond in as specific a manner as you would probably prefer.

Sincerely,

[Signature]

Professor

Department of Accounting
Dear Shri Sen,

I am glad to learn about the plan of your work. I have gone through your questionnaires, tables etc. I am sure you will produce a very interesting thesis.

Our views on different queries made by you are as follows:

(1) Since you have used stratified random sampling, none of the standard tests of significance — parametric or non-parametric — is strictly valid. These tests are valid for simple random sampling. This is a well-known weakness of existing statistical theory. You should state it clearly in your thesis here and there. You may apply the appropriate non-parametric tests giving this note of caution in appropriate places. Your results will be broadly indicative but not really definitive.

(2) You should avoid parametric tests like t-test, F-test etc. and should use non-parametric tests, such as, Chi-square test, Fisher's exact probability test, Kruskal-Wallis one-way analysis of variance, Mann-Whitney U-test, test based on Kendall co-efficient of concordance (W statistic), Wilcoxon matched-pairs signed-ranks test, test based on Spearman rank correlation coefficient (r) etc.

(3) Your observations on non-parametric tests vide your letter of 24 September 1961 seem to be alright. But you need not worry too much about continuity. Wheneves the literature mentions ties you may assume that the assumption of continuity has been relaxed.

I hope that in spite of the delay, the above comments would be helpful.

I am returning your questionnaires, tables etc. so that you can follow the comments better.

With best wishes,

Yours sincerely,

N. Bhattacharya

Real Questionnaires and tables.
Dear Mr Sen

As my letter of 11 August 1980 advised you, I was overseas for the latter part of last year. I've not been able to trace any letter from you since until yours of 24 September.

I am enclosing a copy of the booklet which preceded Price Variation and Inflation Accounting. It's a working copy I used for another purpose but it's the only copy available. It deals with CPP (Ch 5), CCA (Ch 6) and CoCoA (Ch 4). It gives the rules for each. You should therefore be able to work up an example for yourself from the same base data. That, in fact, is the only way to grasp what each entails. There is not, of course, a standard set of rules on any one of them; the sources of the rules given in the blue book are stated at the outset.

Depreciation is not a source of funds in the sense that revenue is. The passage from my letter which you quote does not say that. It says "The funds retained by virtue of the depreciation charge..." This simply means that when a non-cash charge (for depreciation) is made in a year against total revenues (funds inflows) to arrive at divisible profit, there is an inflow of funds in excess of the profit, to the extent of the depreciation charge; and that amount may be used for any purpose whatever. I am not of the school of thought that regards accounting as a process of assigning "costs to operations". To me, depreciation is the fall in the money equivalent (or resale price) of an asset from year to year. Such a discovered fall has obvious significance in the financial affairs of a firm; a mere cost-allocation has none.

I hope this may clarify some matters that concern you.

Sincerely

Enel:

K J Chambers

Encl:
Dear Mr. Sen:

Permit me to restate my opinion regarding depreciation accounting and fund accounting for the benefit of your doctoral research.

No direct relationship exists between depreciation charged on the books and cash flow. Depreciation does not create a fund. Cash flows out of business when an asset is purchased; cash flows into a business from customer redemptions based on sales and services.

A bookkeeping entry for depreciation expense should not be identified with cash flow; depreciation is not a source of funds. The subject of depreciation has brought forth a great deal of discussion in accounting.

The charging of depreciation is to recognize the fact that a portion of the capitalized asset has to be recovered through the revenue stream. A complexity arises regarding the assumption that must be made as to the period of time over which an asset will be used. A second controversy deals with the allocation of the total cost of the asset over the estimated life.

Finally, one phase of depreciation affects cash flows of a company: the determination of taxable income. The amount charged for depreciation expense results in a change in cash outflow for taxes. It must be understood that the depreciation charges must be reported in conformity with tax law and regulations, not on the basis of a company's depreciation policies and methods.

The above remarks should assist you in the preparation of your research study. Best of luck in your endeavours.

May 20, 1982

Adolph Matz, Ph.D.
Emeritus Professor of Accounting
The Wharton School
University of Pennsylvania
USA
In my opinion depreciation is not a source of funds as it is the provision for the loss of value of an asset for whatever reason, based on subjective judgment. No movement in funds is involved. However, it should be noted that the deduction of depreciation from income does not involve an expenditure of funds, so funds received in connection with sales and other revenue will to this extent be retained in the business.
Dilip Kumar Sen  
(Research Scholar)  
Panjab University Campus  
Hostel No. 5; Block No. 4  
Room No. 21  
Chandigarh 160014  
India  

Dear Sir,  

In reply to your letter of March 5, 1982 transmitted to me by the President of our Institute, I would like to inform you of the following:  

With reference to your questions Nos. 1 and 2, I enclose the relevant International Accounting Standard.  

Question No. 3 is not entirely clear to me as I cannot understand what you mean by COCQor CCE. Unfortunately, I cannot give any information on the methods CCA (current cost accounting) and CPP (current purchasing power) as they are not used in Greece.  

On your question No. 4, the answer is yes but on certain conditions. For more information you may refer to the enclosed photocopied pages of the book "Accounting under Inflationary Conditions" by Patrick R.A. Kirkman (ed. 1974).  

Lastly, as concerns question No. 5, no depreciation is allowed in Greece by the Tax Authority if no depreciation charge is recorded in the books of accounts.  

Always at your disposal for any further explanation you may require,  

Yours sincerely,  

H. Varvatsoulis, CPAG.
Mr. Dilip Kumar Sen,
(Research Scholar),
Hostel No.5, Block-4, Room 21,
Punjab University Campus,
CHANDIGARH -160014 (INDIA)

Dear Sir,

I am in receipt of your letter dated 18th October, 1982. The serial number 2 of Vol VI (page 7-10) of the Pakistan Accountant contained the article of Mr. M.A. Mondal.

Regarding your query about Depreciation, the new Income Tax Ordinance 1979 requires assesses to charge depreciation in books before the claim can be allowed. The relevant provisions are contained in the third schedule to this Ordinance. The latest publication, amended up to date, is issued by Pakistan Publishing House, Victoria Chambers, Abdullah Haroon Road, Karachi-2

The provisions regarding Tax Holiday are also contained in this Ordinance in the second schedule to this Ordinance at clauses (119), (120), (121), (122), (123), (124) and (125). The same book will also give these particulars.

This Institute has also issued a directive regarding the responsibilities of auditors with regard to the treatment of depreciation in the accounts of the companies enjoying tax holidays. A copy of the directive is also enclosed which may be of use to you.

Yours faithfully,

(A. Rashid Chaudhry)
Acting Secretary

Encl: a.a.