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Linda H. Kistler

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BOOK REVIEWS

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Richard P. Brief, Editor, *Selections from Encyclopaedia of Accounting 1903* (New York: Arno Press, 1978, irregular pagination, $28.00).

Reviewed by
Edward N. Coffman
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The *Encyclopaedia of Accounting (Encyclopaedia),* edited by George Lisle, consisted of six volumes published in 1903 and 1904 by William Green and Sons of Edinburgh, Scotland. They contain "two hundred principal articles and many more minor notes on a variety of subjects in accounting and related fields of interest" *(Preface).*

Seventeen of the principal articles in the *Encyclopaedia* have been reprinted in *Selections from Encyclopaedia of Accounting 1903,* edited by Richard P. Brief. In addition, the first section of this book consists of reprints of the book reviews of the *Encyclopaedia* that appeared in *The Accountant's Magazine* shortly after each of the six volumes was published. These reviews are helpful in evaluating the *Encyclopaedia,* which Professor Brief refers to as the "first handbook of accounting" *(Preface).*

The second section presents the selected articles, which deal primarily with accounting history, financial accounting, and cost accounting. The content of each is summarized below.

1. "Accountant" by Richard Brown (6 pages) is a history of the growth of the accounting profession in Scotland.
2. "Accountants Abroad" by Th. Limperg, Jr., (3 pages) discusses the development of the accounting profession in The Netherlands.
3. "Accounting in Its Relation to Economics" by Victor V. Branford (27 pages) discusses the relationship of accountancy to economics in regard to value.

4. "Auditing" by Lawrence R. Dicksee (31 pages) discusses the general principles of auditing, the duties and responsibilities of auditors, and the legal position of auditors.
5. "Averages" by Arthur L. Bowley (8 pages) is a quantitative article describing the nature and use of averages.
6. "Balance Sheets" by George Lisle (14 pages) discusses the nature of the balance sheet and the illustrated arrangement of items on the balance sheet.
7. "Book-keeping: History" by Richard Brown (2 pages) summarizes the origin of bookkeeping.
8. "Book-keeping: Literature" by Richard Brown (3 pages) provides a comprehensive list of books on bookkeeping. The list includes the title of every book he could locate written in European languages through the 17th century; thereafter, only books written in English are included.
9. "Book-keeping: Its Adaptability to the Requirements of Every Class of Undertaking" by Lawrence R. Dicksee (6 pages) supports double-entry bookkeeping by explaining how every conceivable class of business transactions can be recorded according to the rules of double-entry bookkeeping.
10. "Cost Records or Factory Accounting" by John Mann, Jr., (40 pages) discusses the advantages of good cost-keeping and the essential characteristics that all systems of cost accounts should include. Examples of various systems and the related forms are presented.
11. "Depreciation" by Edwin Guthrie (20 pages) discusses various aspects of depreciation with emphasis on determining the proper charges for depreciation.
12. "Diagrams" by Arthur L. Bowley (11 pages) explains, with accompanying illustrations, how diagrams can be used to present information effectively.
13. "Factory Organisation and Costing Arrangements" by Cossar Mackenzie (16 pages) deals with designing a system of cost accounts to provide useful information about the enterprise.
14. "Foreign Currencies and Their Treatment in Home Accounts" by George Lisle (9 pages), discusses some of the principles of foreign currency translations.
15. "Oncosts or Expenses" by John Mann, Jr., (27 pages). "Oncosts" are defined as "all the elements in a product which do not fall under productive labour, materials, or profit" (p. 199, irregular). Mann elaborates on how these costs are ascertained, classified, and allocated.

16. "Reserves and Reserve Funds" by Sidney S. Dawson (7 pages) explains the various usages of the term "reserve."
17. "Stocks and Stocktaking" by John A. Walbank (16 pages) discusses various aspects of taking and valuing an inventory.

A list of the authors of the principal articles that appeared in Volumes I-VI of the *Encyclopaedia* comprises the third and last section.

This book provides an insight into accounting in Great Britain around the turn of the century.

F. L. Clarke, *The Tangled Web of Price Variation Accounting* (New York: Garland Publishing, Inc., 1982, pp. xiv, 444, $55.00).

Reviewed by
Robert Bloom
Concordia University

Using a historical framework, this book provides a critical analysis of the international development of concepts on accounting in an inflationary environment. The author argues that the historical development of price-level accounting ideas disregarded "the contexts in which they first arose . . . [and] the specific purposes they were intended to serve" (p. xiii). Clarke contends that the concepts of accounting under inflationary conditions have been haphazardly recycled over time in an unproductive manner.

Specifically, he offers the following criticisms of the drift of ideas about inflation into accounting (pp. 1-2):

- the inconsistencies between accounting concepts and economic theory—e.g., income;
- the emphasis in much of the literature on consideration of *either* general price-level changes *or* specific price changes as a complete solution to the problem of accounting for inflation; and
- the indiscriminate transplantation of ideas on replacement costing from the context of utility-rate setting to financial reporting.

The book consists of four parts. Part 1 provides general background material on the principal issues analyzed in the book. Part 2 deals with the evolutionary development of accounting for changes in the general price level; Part 3 with changes in specific prices;

and Part 4 considers combinations of general and specific price changes.

The historical development of ideas on accounting for inflation is perceptively investigated on the basis of issues rather than using a simple chronological approach. For example, in considering the evolution of accounting thought on general price-level accounting, Clarke provides a comprehensive analysis of Middleditch's work. Contrary to many authors, Clarke emphasizes the fact that Sweeney was not only in favor of general price-level accounting but also specific price accounting. The author observes that before the period from 1963 to 1980, voluntary corporate indexation of accounts to reflect general price-level changes was "undisciplined and uncoordinated," largely the result of income tax considerations.

Particular emphasis is placed in this study on the "accidental" drift of ideas into accounting from other sources without meticulous examination of their suitability. As a case in point, the author maintains that the use of "fair values" in utility rate regulation necessitated the consideration of both factual and speculative data regarding past and future revenues and expenses, whereas the transplantation of this concept to accounting failed to consider its "illusory nature" (p. 31). Clarke asserts that (p. 191):

> Replacement prices and reproduction costs were treated as if they were indicative of the actual monetary worths of ordinary companies' physical assets, even though no similar indications had been implied in the rate cases.

According to Clarke, accounting for general price-level changes emerged as an outgrowth of the international need to stabilize currencies following World War I. Emphasis was placed on general purchasing power losses from holding liquid assets during an inflationary period. Clarke argues that this experience may be the source of the well-entrenched, erroneous idea that holding physical, nonmonetary assets during an inflationary period precludes the incurrence of general purchasing power gains and losses. In his words (p. 68):

> Who gains and who loses general purchasing power during inflation depends not only on the amount of actual money each entity holds or owes, but also on whether the prices for which their vendible physical assets can be sold increase or decrease at a faster or slower rate than the rate of change in the general level of prices.

The author argues that there has been considerable advocacy of current replacement cost accounting as a surrogate model for discounted cash flows—not for its own relevance (p. 242). Also, Clarke asserts that Hicks' definition of income has been largely misused in accounting literature on price-level accounting relying on his *ex ante* rather than his *ex post* concept.

Clarke observes that Bonbright's concept of "value to the owner" stemmed from a judicial opinion on the compensation to be paid those who lost property. Indemnification, says Clarke, does not apply to companies that are not deprived of their assets (p. 258). He also observes that current cost accounting skirts the issue of technological change (p. 292):

> . . . various prescriptions have tried to nullify the effects of changing technology with explanations of replacement, in terms of modern equivalent assets.

From chapter to chapter, Clarke's views are forthright, if not iconoclastic. Contrary to popular belief, he argues that Edwards and Bell provide nothing essentially new. As an example, he asserts that "holding gains," with which Edwards and Bell are often associated, were introduced into the accounting literature well before their 1961 book.

Critical of gearing and monetary working capital adjustments, which are required for disclosure by some pronouncements on accounting for price-level changes, Clarke contends that (p. 410):

> The addition of 'gearing' . . . and 'monetary working capital' . . . adjustments merely accentuates the existing problems with the CCA [current cost accounting] mechanism. The former introduced a notion of capital gearing generally conflicting with that normally used in financial analysis; implied specific financing patterns, for which no empirical support was produced; and implied (and sometimes specified) that the gearing ratio and financing patterns were *constant* over time, contrary to the observable adaptive behavior of corporations.

Finally, Clarke believes that none of the pronouncements on accounting for changing prices which were issued prior to publication of this study furnishes "a serviceable method of incorporating the financial effects of price and price-level variation" (p. 421).

This detailed study, originally the author's Ph.D. thesis at the University of Sydney, is carefully-researched and well-documented.

However, the current U.S. and U.K. pronouncements on accounting for changing prices are inadequately examined and sketchily treated. The Dutch contributions to current replacement cost accounting and Chambers' exit value accounting model are both given short shrift. All in all, the book captures the profound confusion that has long prevailed in this subject area. A critical study, it is provocative and stimulating, shattering many widely held beliefs. Clarke's study provides a fresh perspective, and is highly-recommended reading, on the history of accounting for price changes.

D.A.R. Forrester, Editor, *Frank Sewell Bray,* (Glasgow: Strathclyde Convergencies, 1982, p. 141, £9.00).

Reviewed by
R. S. Waldron
Employment Conditions Abroad, Ltd.

Frank Sewell Bray was a unique blend of practical accountant and academic. To many of the current generation of professionals, his "Design of Accounts," written in collaboration with Basil Sheasby, was a landmark of understanding; and accountants looked with eager anticipation for the books that followed it.

This work traces the development of Bray's thinking and writing, not only in his eight books published between 1944 and 1957, but also his contributions to professional journals. R. H. Parker examines his developing views on the relationship of economics and accounting, his approach to inflation accounting, and his place among academics, and tributes from such eminent contributors as Professor Chambers, Ian Hay Davison, James Risk, and Louis Goldberg are included with a very excellent compilation of works by Bray himself. These last cover published writings within the period described above, a number of them from *Accounting Research,* a journal sponsored by the Society of Incorporated Accountants that died on the integration of members of that body into the Institutes of Chartered Accountants. Editorship of this magazine, possibly ahead of its time in the U.K., and being Stamp-Martin Professor at Incorporated Accountants' Hall were challenging and fulfilling tasks, and the profession in England was poorer for their disappearance. Bray himself was bitterly disappointed and many people, both within the profession and without, shared that keen sense of disappointment and disenchantment.

From the description of his life, his practical work as a busy partner in a growing practice, his sincerely-held religious views, his work for the community, and from the representative selection from his writings, the reader begins to see a picture of the man himself. He was criticised by some as guilty of tautology in his style of writing. But he was a catalyst to many whose thoughts were turning to new methods of reporting income, to economic bases of judgment, cash flow significance and the presentation of balance sheets in meaningful terms. He wrote with Basil Sheasby, C. V. Dawe, Richard Stone (in books on a wide variety of subjects) and partnered Leo Little in the editorship of *Accounting Research.* His influence on his profession, in the end, was greater than he perhaps knew himself. There are, indeed, areas where his ideas (e.g., on the overriding importance of National Accounts) have not been received into mainstream philosophy, but even there, one must believe that the theory has not been without some influence in the development of accounting thought.

This book is a fascinating reflection of a man and of a time. As so often in life, they met because they were needed. The pebble dropped in a deep well does spread its ripples over the water even if one cannot see them clearly.

Louis Goldberg, *The Florescent Decade: Accounting Education in Australia 1945-1955* (Sydney, Australia: Accounting Association of Australia and New Zealand, 1982, pp. 58, price unavailable).

Reviewed by
Barrie O'Keeffe
Riverina College of Advanced Education, Australia

Museum curators must find it easier to attract and retain our attention than writers of accounting history. They will please most of us by displaying the remains of some prehistoric animal (preferably from the other side of the world) that has had the good fortune to be preserved in ice or stone for millions of years. Few of us stop to think that the focus of our attention was, in its time, neither unusual nor unique. It just happened to be on the spot when a sudden change in conditions preserved its mortal remains for all time.

Would that the accounting historian were so lucky. In addition to a description of the subject, he needs to help us with an understanding of the events that he is describing. Goldberg does just that. In *The Florescent Decade,* he paints a picture of accounting education in Australia in the years 1945 to 1955. He draws on many sources of original evidence to show the importance of individuals, professional associations, and tertiary institutions in this period.

The development of accounting education in the Australian universities and technical colleges is traced from its beginnings. The importance of the technical colleges is mentioned, but the subjects most closely examined by Goldberg are the influence of the Commonwealth Institute of Accountants (which merged with the Federal Institute of Accountants and the Association of Accountants in Australia to form the Australian Society of Accountants in 1952); the University of Melbourne; and the brothers A. A. and G. E. Fitzgerald.

In the period between the wars there was slow but discernible progress in moving accountancy studies to a level where they would be not only a recognised entree to the profession, but also acceptable as a discipline at university level. Yet until 1945 there were no full-time staff teaching accountancy in Australian universities or technical colleges. The first full-time appointments included Goldberg in 1945, Jean Kerr and Stewart in 1946 (University of Melbourne); Braddock (South Australian School of Mines) and Keown (Melbourne Technical College) in 1946; Chambers (University of Sydney) and Mathews (University of Adelaide) in 1952; Smyth (University of New South Wales) and Nichols (University of Tasmania) in 1955; and Gynther (University of Queensland) in 1959.

These appointments were associated with a substantial increase in enrolments in the accountancy subjects offered in commerce courses. For example, in 1945 there were 139 students enrolled in Accountancy 1 at the University of Melbourne. By 1947 their number had increased to 647.

Many of the students were ex-servicemen who were assisted by the Commonwealth Reconstruction Training Scheme to take up tertiary studies. The scheme made available educational courses to those who had postponed their studies because of the war. More importantly, it provided an opportunity to many who in pre-war conditions would have been unable even to contemplate university or other post-secondary study.

The demand for education could be converted to a need for accountancy education because of the groundwork that had been done in the universities (especially Melbourne, Adelaide, Sydney and Tasmania) and technical colleges (particularly Melbourne Technical College and the South Australian School of Mines) before 1939.

As well as this foundation in the tertiary institutions there was the expectation by the Commonwealth Institute of Accountants that it would vacate the examination field when the universities and colleges were able to demonstrate that graduates from their courses could meet the educational requirements for professional membership. Goldberg documents no less than six references to this long-standing attitude of the Commonwealth Institute. Its descendant, the Australian Society of Accountants, ultimately began to phase out its own examination system in 1967.

Goldberg draws attention to three threads that ran through the development of accounting education in Australia. There was the role played by the University of Melbourne with its long-established commerce course and its pioneering role in the teaching of accountancy in Australian universities. Second was the influence of the Commonwealth Institute of Accountants, numerically the largest of the professional accounting bodies (with its headquarters in Melbourne), which clearly recognised that the profession would be best served if the teaching and examining of potential members was left to the universities and colleges. The third, and in many ways the most significant influence was that of A. A. and G. E. Fitzgerald. Both were deeply involved with the activities of the Commonwealth Institute of Accountants and the teaching of accounting at the University of Melbourne.

Goldberg makes it clear that the pattern of Australian accounting education would have been very much different, and its progress not nearly so rapid nor successful, but for the influence of the Fitzgeralds and these two organisations into which much of their professional endeavour was channelled. The importance of the Fitzgeralds has been documented elsewhere.[1] It would be hard to overstate their importance to the development of accounting and accounting education in Australia.

Professor Emeritus Goldberg has given us a book that will interest all accounting educators. It is prescribed reading for any accounting educator visiting Australia. Those whose formative years were spent in Australia will also find much in it that will provide them with a better understanding of the current Australian accounting education scene.

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[1]For example, Chambers, R. J., Mathews, R. L., Goldberg, L., eds., *Accounting Frontier*, Melbourne, Cheshire, 1965; *and* Syme, B. T., 'The Fitzgerald Editorials', *Accounting History Newsletter*, No. 6, Winter 1983, 12-24.

Edgar Jones, *Accountancy and the British Economy: The Evolution of Ernst & Whinney 1840-1980* (London: B. T. Batsford Limited, 1981, p. 288, £10.00).

Reviewed by
M. J. Mepham
Heriot Watt University, Edinburgh

This well written study of the development of the British side of Ernst and Whinney is an unconventional house history in that it deals with its subject matter within the context of the evolution of the UK accountancy profession. This approach means that the book begins long before Frederick Whinney joined the London firm of Harding and Pullein in 1849 or the opening of Ernst and Ernst's office in New York in 1918.

Chapter One briefly notes the 14th century origins of the double entry system and its initial emphasis on the prevention of dishonesty and negligence rather than on the measurement of profitability and the provision of economic advice. The slow progress of the system over the ensuing 500 years is mentioned, but the author moves rapidly to the development of the UK accountancy profession. Jones considers that this development is inextricably linked with the history of the Industrial Revolution and he identifies the 1840's as the critical decade.

The Bankruptcy Act of 1831, the 1844 Companies Act, the subsequent growth in the formation of companies, the development of the railways, the gradual recognition of the need for accounting controls when business drew its capital from the general public, all created a demand for the services of accountants. The 1840s saw the establishment of accountancy practices whose names are prominent in a roll call of the large firms; and five of Ernst and Whinney's predecessor firms were also founded in this period.

Whinney, Smith and Whinney developed from one of these practices (Harding and Pullein), and the book provides some interesting insights into the sources of this firm's fee income over the last half of the 19th century. Insolvency work provided 73% of the income in 1848, this rose to 94% in 1865 but slumped to 20% by 1900. In contrast, auditing provided a meager 2.4% in 1860, but this had swollen to 53% by 1900. The claim that British accountants prospered in times of adversity because of their insolvency work was not so true by the end of the Victorian period as it had been at the beginning. The author points out that auditing did not feature in the lists of an accountant's duties contained in the Edinburgh and Glasgow petitions for Royal Charters in the 1850's but that it was clearly included, some 25 years later, in the English Institute's charter.

The Edwardian period saw the formation of more of the founder firms of the future Ernst and Whinney, and also the beginnings of taxation as a new area of work for the profession. Pitt had switched from customs and excise to income tax as the main source of the national revenue; but in the 1840s, the income tax rate was a very low 2.9% and the collection procedures were simple. By 1900 the state had begun to recognise the need to redress some obvious social injustices, and because more revenue was needed, the income tax rate correspondingly increased. The Boer War caused another jump and the standard rate rose steadily throughout the 1914-18 World War. The inter-war period saw the accountant becoming more heavily involved with tax work, but it was not until World War II that this work began to generate a substantial fee income. Whinney Murray's tax department is the oldest and largest of the firm's specialist departments.

A fairly recent addition to the range of specialist services offered by professional firms is that of "management services." Cost and management accounting were late starters in the UK. Costing had lagged far behind the engineering and financial accounting developments of the Industrial Revolution and it was the 1914-18 war that first brought the subject into prominence when a number of senior accountants were drafted into government work. World War II brought further advances. The author's concentration on the history and contribution of professional firms leads to some incompleteness in his coverage of recent progress. There are, for example, only two brief references to the Institute of Cost and Management Accountants although this organisation must be recognised as an important factor in the development of management accounting in the UK.

The inter-war period saw a wave of business mergers, the growth of the holding company, and the beginning of consolidated accounts. The 1960s and 70s was another period of intense merger activity, with a decline (by almost 50%) in the number of UK public companies between 1948 and 1978. There was a corresponding increase in the average number of plants operated by the largest companies and in the extent of diversification and divisionalisation. This trend was accompanied by a significant migration of accountants into business, and also led to a number of major accountancy amalgamations.

In the last decade, a significant percentage of medium sized UK practices has been absorbed by the large firms so that the practising side of the profession is now polarised, with a large number of small practices and a very few very large firms. The largest of these have become as international as their larger clients. Jones describes these and other developments down to 1980 in his concluding chapter.

The book is an interesting and readable socio-economic history of the UK profession and of the UK side of Ernst and Whinney, but its unusual format does mean that some branches of accounting (notably management accounting and public sector accounting) and some important professional bodies are inadequately covered. Apart from this, the book is highly recommended. Economic historians have tended to regard the growth of financial services (including accounting) as relatively unimportant, in comparison with production, in that such services are not considered to create wealth. Edgar Jones has sought to remove some of these misconceptions and to show the nature and importance of the growth of accountancy to the British economy.

Kenneth S. Most, *Accounting Theory,* Second Edition (Columbus, Ohio: Grid Publishing, Inc., 1982, p. xv, 568, $19.95).

Reviewed by
Dale L. Flesher
University of Mississippi

There may be some question in readers' minds as to why an accounting theory textbook is being reviewed in a history journal. Actually, the answer is quite simple; this particular theory book has substantial historical content. As with many accounting theory books, history is a major part of chapter 1 as the author included discussions of such factors as the industrial revolution, the nineteenth century railroads, the growth of the accounting profession, the early role of income tax laws and the impact of World Wars I and II. Managerial accounting is not neglected as the development of that field of study is also highlighted in the opening chapter.

Chapter 2 is even more historically oriented than the first, as the early history of accounting is explored. In addition to the contributions of Pacioli, other topics covered include the early Byzantine and Babylonian periods, the role of the English Companies Acts and the theories of Sombart. Early contributions of various European accounting theorists are also highlighted. Indeed, the author's penchant for international accounting shows through in his selection of accounting history topics.

Unlike most accounting theory textbooks, this book does not limit the inclusion of accounting history to only the opening chapters. In fact, virtually every chapter includes a historical discussion of the particular topic being covered. For instance, inflation accounting is discussed from the perspective of Henry Sweeney, the balance sheet chapter begins with the contributions of Charles Sprague, and the funds statement material starts in the 1860's.

The author obviously believes that the key to understanding accounting theory is based on an ability to understand why changes in accounting occur. Accounting students who only understand the status quo with respect to accounting theory will be limited when current theory changes. However, the person who can understand why theory developed in the past will be able to extrapolate that understanding to cover future changes. Most's text gives students the historical why behind various aspects of accounting theory.

This reviewer has not attempted to evaluate all of the advantages and disadvantages of *Accounting Theory* (second edition). Instead, the use of accounting history to teach theory has been emphasized. The Most book fulfills the desire of many historians who want accounting history to be included in an accounting theory textbook.

Harry Norris, *Accounting Theory* (London: I. Pitnam and Sons, Ltd.. 1946. Reprint Edition, New York; Arno Press, 1980, pp. vii, 128, $12.00).

Reviewed by
William G. Mister
Texas A&M University

Accounting Theory by Harry Norris is an Arno Press reprint of the 1946 edition, with a new preface by the author. The new preface serves as a good self review of the original work published over thirty years ago. In it, the author notes that an issue of current interest—accounting for rising prices—was "skated over" in the book. It would have been interesting to know the author's current views on this issue. In the book he firmly rejects the concept of a balance sheet as a collection of valuation accounts. Consistent with his earlier work, Norris would probably favor a constant dollar approach over a current value approach.

The book was intended to develop a needed, but non-existent theoretical structure of accounting. The practice of accounting grew in a haphazard, piecemeal manner. As practical problems arose they were resolved in a pragmatic fashion by consensus and compromise. The author felt, and still feels, that without the benefit of solid, received principles, accounting practice will continue to suffer. He notes in the new preface that in the thirty years since publication "not much has changed—certainly not enough!"

Norris takes a normative approach to developing accounting theory. He declares, "It is possible to derive 'first principles' by a process of reasoning more or less abstractly, and then to compare existing usage in accountancy with a theoretical ideal."

The main theme of the book, similar to Paton and Littleton's monograph, is the necessity of matching costs with revenues. Norris begins by developing a "theory of profits." The rules for ascertaining profit are: (1) profit arises when a sale is made; and (2) profit is to be computed by apportioning cost to related revenue. These rules are indicative of the conservative approach taken throughout the book.

Norris was an early advocate of direct costing. He argues that expenditures for the formation of future services to be rendered to customers should be carried forward as unexpired values of "some kind." Expenditures incurred which do not vary with the amount produced during the accounting period should not be attached to the physical stock of products. He maintains that "such a method of computation is correct only for expenses like 'raw materials' and 'productive labour' which vary directly with physical production."

Norris's concept of a balance sheet is one of residual balances. The balance sheet is not a classification of valuations, rather, it is a classification of "expenditures" according to the benefits accruing to the next or later accounting periods. The example of a balance sheet has four asset classifications, (1) capital expenditures (capacity expenditures); (2) production expenditures (inventories at prime cost); (3) expenditures on accruing rights (e.g., insurance); and (4) publicity expenditure. While this idea of a balance sheet does not agree with the current movement toward more valuation, the classification scheme is interesting. Leases, for instance, which do not fit well in present balance sheet classifications, would be either a "capital expenditure" or an "expenditure accruing rights" depending on the nature of the lease.

In rejecting the concept of goodwill the author gives a rare glimpse at his ability to write in an interesting style. "If X is a live pedigree dog and Y a dead one, then perhaps X — Y = Z. But Z means nothing in itself. The label "goodwill" in business accounts closely resembles Z: its use is as sensible as trying to find what makes the dog tick by dissecting it."

I found the intertwining of the author's proposed "theory" with his description and analysis of then existing practice to be, at times confusing. To distinguish between what was being advocated and what were rationalizations of practice required careful reading.

Norris provokes much thought in *Accounting Theory.* The book documents an early plea for a solid foundation of theory upon which the practice of accounting can be built. These plans, though often repeated, as yet are unanswered. In my opinion, the reprinting of this book was a worthwhile undertaking.

Donald A. Ritchie, *James M. Landis: Dean of the Regulators* (Cambridge, MA: Harvard University Press, 1980, p. ix, 267, $17.50).

Reviewed by
Stephen E. Loeb
University of Maryland

This book is a scholarly analysis of the life of an individual—James M. Landis—who seems to have had a remarkable effect on the regulatory process of the United States federal government. As a biography, it was carefully researched, documented, and written in clear and lively fashion.

In the first chapter "A Demand for Excellence" the author carefully describes the early life of Mr. Landis and emphasizes his family's demands for excellence. In the second chapter the author describes Landis' law school experience and his exposure to Professor (later Justice) Frankfurter. Upon graduation from Harvard Law School, Landis did graduate work under Frankfurter and then became a law clerk to Justice Brandeis. The author points out that it was through Landis' work with Brandeis that Landis developed an interest in federal regulation.

In Chapter 3 the author discusses Landis' experience as a professor at Harvard Law School. This chapter has some interesting comments on the development of legal education in the United States, and especially at Harvard, during the 1920s. On page 33 there are some comments relating to academic independence and academic freedom.

In Chapter 4 the author covers Landis' influence on the drafting of Federal Securities Acts and the writing and enactment of these laws. Included is a fascinating glimpse of the politics of their drafting and passage. The chapter also mentions Landis' appointments to the Federal Trade Commission and to the Securities and Exchange Commission (SEC).

Chapter 5 contains an excellent discussion of the beginnings of the SEC and Landis' association with Joseph P. Kennedy. In 1935 Landis became SEC Chairman and the chapter deals with his work as Chairman, and his personal life in Washington. Eventually, Landis resigned to return to Harvard as Law School Dean. Chapter 6 contains a fascinating description of the events that led to Landis' appointment as Dean. The chapter also discusses some of Landis' theories of what a regulator should do.

Chapter 7 discusses Landis as a "trouble shooter" for the Roosevelt administration. Chapter 8 outlines Landis' activities during World War II and provides an interesting picture of official Washington at the time. Landis was Director of the Office of Civilian Defense, and later became an administrator on economic affairs for matters relating to the Middle East—a post that took him to that part of the world. Chapter 9 describes his experiences in this assignment.

Chapter 10 details his departure from government service in 1945 to assume again the Deanship at Harvard. It was a time of personal problems for Landis. He resigned from Harvard in 1946 to become chairman of the Civil Aeronautics Board (CAB). Chapter 11 describes his Chairmanship of the CAB, which he later left to work for Joseph Kennedy, and Chapter 12 continues with this period of his life, in which he also worked in private law practice. The chapter contains a detailed description of Landis' work as an advisor to John F. Kennedy. Chapter 13 notes that when Kennedy became President he asked Landis to make a study of the regulatory commissions, and to serve him as a special assistant. This chapter and the next mention Landis' personal and legal problems.

The book contains a fascinating and detailed biography of a remarkable individual who apparently had a marked effect on the federal regulatory processes in the United States.

Clinton H. Scovell, *Cost Accounting and Burden Application* (New York: D. Appleton and Company, 1916. Reprint Edition, New York: Arno Press, 1980, pp. xiv, 328, $29.00).

Reviewed by
Lamont F. Steedle
James Madison University

Cost Accounting and Burden Application by Clinton H. Scovell is an appropriate choice for the Arno Press collection, *Dimensions of Accounting Theory and Practice.* Scovell's work is a description of the principles and techniques of cost accounting, vintage 1916. Viewing his thoughts and insights from a modern cost accounting perspective shows him to have been well ahead of his time.

Scovell was a Harvard-educated CPA who lectured at Boston University and also had a private consulting practice. His discussions and recommendations are liberally sprinkled with examples, giving the reader not only evidence of his varied experience but also details of specific industrial products and processes of his time.

Scovell opens by recounting the history of the need for sound cost accounting methods. The birth of scientific management and organization of labor led to the need for unit cost data, because managers were involved in price competition and in cost reduction programs without full knowledge of product costs. Scovell's stated purpose was to examine the elements of cost, define the principles of cost accounting and describe the methods of procedure in developing a cost accounting practice. His emphasis, by design, was on the determination and application of overhead charges. He justified the need for these methods, reasoning that as industry became more complex, more sophisticated methods were required to minimize the manager's risk of loss.

The work covers in great detail the development of a sound cost accounting system. Separate chapters are devoted to defining the elements of cost, examining materials costs in depth, and reviewing job-order accounting for labor costs. Nine chapters deal with overhead costs, with much attention devoted to discussing the individual elements of overhead. Four later chapters apply many of these specific methods to unique problems in the foundry, textile, candy, and paper manufacturing industries.

In developing the section on overhead, Scovell appears to focus on capital intensive businesses. A discussion of overhead rates favors machine rates for overhead application in preference to other approaches. When considering the determination, analysis, and assignment of specific overhead items to production centers, he devotes more attention to expense items closely related to equipment and its maintenance and operation.

Included in this section of the work is a provocative chapter on the capitalization of interest. Scovell argues for its inclusion in overhead, citing many practical examples for its utility. He also includes an appendix with numerous economic references that support its theoretical soundness. This material, which also covers selection of capitalization rates and the bookkeeping procedures for charging interest to cost, could be read independently of the remainder of the work.

After reviewing the assignment of overhead costs to production centers, Scovell discusses the determination and use of standard running time, or activity, and the computation, use and interpretation of unearned burden, today's volume variance. Because Scovell recommends using practically attainable capacity for activity, his variance measures unused capacity. He then provides a very convincing argument for the separation of unearned burden from all other overhead charges, including any variance between budgeted and actual overhead, and for its treatment as a period expense. His point is that every manufacturing plant incurs overhead to maintain a certain production capacity and that these overhead charges must be distributed over that same production capacity. He further argues that only with the use of this approach will the influence of varying production on costs be removed, so that costs will change with manufacturing efficiency rather than with changes in production volume.

The remainder of the work discusses the budgeting system, the preparation of financial statements, and the relationship between cost accounting and general accounting records. Scovell stresses the importance of cost behavior in preparing budgets, the timely preparation of reports, and the integration of cost accounting data into the general accounting records to facilitate pricing and production decisions.

Current cost accounting procedures have become more sophisticated, the body of knowledge has expanded through the influence of other related areas and almost seventy years have passed. Still, much of what Clinton Scovell wrote has considerable relevance today.

Izume Watanabe, *Son-Eki Keisanshi Ron (A History of Profit and Loss Accounting)* (Toyko, Japan: Moriyama Publishing Co., Ltd., 1983, pp. 255, ¥ 3500.)

Reviewed by
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In Japan, where double-entry bookkeeping is only a century old, it is natural that studies in accounting history focus on other countries, primarily European. As long as they are concerned only with discovery of new facts, however, they do not deserve to be called scientific, though they may be a prelude to scientific research.

The volume under review is a challenging book that describes the logic, or theoretical schema, underlying the development of profit and loss accounting (hereinafter called "income accounting") in the eighteenth century English-language accounting literature. The first part, consisting of six chapters, is entitled "Growth of periodic income accounting" and is devoted to theory; the second part, entitled "Development of modern bookkeeping methods in Great Britain" traces the evolution of income accounting by analyzing typical textbooks, in an attempt to verify the theory. The first part is therefore more appealing to us.

The first chapter, "Historical schemata of development of income accounting," fascinates by revealing the author's original thinking. He reexamines the popular idea that regular, or periodic, income accounting developed from profit measurements for individual merchandise or venture accounts. According to Watanabe, the latter developed into control, or "general merchandise" accounts, quite separate from the total (lifetime) income which sums all calculated incomes from the firm's cradle to its grave, as it were. Moreover, total income includes all regular and special closings, and regular closings can be further subdivided into annual closings and those of other periods.

Until the fifteenth century, the basis for calculating income was the "balance," based on an inventory in the case of small, family businesses; partnerships could be liquidated at the end of the contract period of two to five years. A balance was more reliable because the complicated weights and measures of the time produced inaccuracies in the accounts. The books were closed in order to transfer the accounts to new books, or to liquidate after the merchant's death.

Thus, the author proposes a new concept that could be called "pioneer income accounting," a transitional form that connects the individual merchandise or venture accounts to period or annual income accounting. It implies that (1) merchants were concerned more with total profits than with the profit on each individual article of trade, (2) this was not calculated periodically, and (3) income was determined on the withdrawal of a partner, or on liquidation, but the balance of the profit and loss account was not posted to the capital, or equity, account. In short, Watanabe's schema is: non-period income accounting a periodic income accounting period income accounting.

In the second chapter, "Early form of periodic income accounting," this viewpoint is verified by examining the works of Pacioli and Ympyn, and Italian conventions in respect of closings. Ympyn showed how to post the balance of the profit and loss account to the capital account, and may have initiated this practice. Chapter three, "Establishment of periodic income accounting" is discussed against the background of the shifting of international markets from Antwerp to Amsterdam. Trading was done through the medium of the "going concern" as corporations appeared on the scene. But worksheets were used for accuracy in closing the books, and annual income accounting was not practiced generally.

The fourth chapter, "Formation of general merchandise accounts," shows the introduction of a "sundry merchandise" account for a variety of individually insignificant articles, and then the emergence of a "general merchandise" account to simplify record-keeping. The trial balance appears to have originated in the latter part of the eighteenth century, according to the fifth chapter, "Appearance of the trial balance." During that century, medieval bookkeeping was transformed into modern bookkeeping. Work sheets evolved to find period income and prove the correctness of closing accounts, discussed in the sixth chapter, "Germination of work sheets."

The second part of the book describes the texts by Malcolm, Mair, Weston, and Hamilton. The author emphasizes the Scottish contribution to the industrial revolution and many other fields, including bookkeeping. A bibliography of books from Hugh Oldcastle (1543) to Henry Tuck (1843) is appended, providing valuable information for students.

This reviewer believes that the favorable comments that this volume has received in Japan attest to its excellence. Both he and Inoue regard Watanabe's work as important, because it systematizes the evolution of both work sheets and the trial balance. Kimizuka and Moteki expect that Watanabe's ideas will one day be verified by analysis of actual records.

T. A. Wise, *Peat, Marwick, Mitchell & Co. 85 Years,* (New York: Peat, Marwick, Mitchell & Co., 1982, 107 pp.).

Reviewed by
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This is really two histories—one which deals with Peat's first 75 years—ending 1972—and the most recent decade, ending 1982. The work should have been produced perhaps for a 75th anniversary, but given the stormy events of the 1970's, it may have been difficult for the leadership of the firm at that time to release any document which might further raise sensitive issues—as good historical research does.

The credentials of T. A. Wise, a respected business journalist, to undertake a serious investigation into one of the major accounting firms must be acknowledged. He is thorough in detail and candid in discussing the politics of the firm's leadership selection process. There is a valuable insight provided into firm "politics" and the author seems to have had full access to the facts, and treats the issues fully; however no major practice deficiency is ever assigned to the firm. Wise does seem more an "advocate" than an objective historian.

Thus one is less convinced as to the issues relating to the firm's experience with the SEC and governmental panels during the turbulent period between 1970 and 1980. Each episode detailed provides a balanced pro and con but there is never an overall historical judgement. Was PMM so growth oriented during this period that the quality level of work led to so many criticisms? Or were these events just a series of unfortunate "bad" judgments which could indeed happen to any major firm? The reader may get the impression that it is the latter; the reviewer must ask if the author was remiss in not evaluating the issue from the former point of view.

Little is mentioned as to the process by which the firm responded to changing social concerns for women and other minorities.

PMM's development is treated in 12 chapters detailing the significant influence of the ups and downs of the relationship with the Peat firm in the U.K. One is drawn close to both co-founders of the U.S. firm, Marwick and Mitchell and one is also provided the opportunity to learn about them as persons, not merely historical characters.

The treatment of contemporary practice (Chapter 11) appears to be almost an afterthought necessitated by the addressing of the current international posture of the firm. This is not a history of the international firm but a history of the U.S. firm (which has as of 1984 1,284 partners in 100 U.S. offices). Dealing with both a U.S. firm and an international firm is difficult and was not what the reader expected; thus, there is some lack of direction in the last chapters.

The bottom line of any review should weigh the pluses and minuses of the historical effort. The major deficiency of this work is that it is somewhat disjointed as between the 75th and 85th years—and that it does tend to reflect a less than critical view of the episodes of the 1970s. However, professors and historians will find this a handy guide to the firm's current leadership and organization structures. [The appendices are useful directories of key personnel and periods].

While Wise's qualifications are as a journalist, he has also proven to be an apt chronicler of events and has used his talent to bring important historical persons and events into an interpretational focus which helps the reader.

The firm is to be applauded for this valuable, thorough, if guarded, adventure into the arena of public self-review. Many firms have been unwilling to consider such an exercise—and as a result the profession's major firms continue to recede into the background—a position which they appear to welcome after the spotlight and center stage of the 1970s.