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Book Reviews

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ACCOUNTING AND COST FINDING FOR THE CHEMICAL INDUSTRIES, by GEORGE A. PROCHAZKA, Jr. *McGraw-Hill Book Co., Inc.*, New York. 242 pages.

American chemical industries have expanded since the war; but greater than the expansion of the industries themselves has been the extension of the field of the chemist, and particularly the chemical engineer, over industries formerly conducted on an empirical basis.

The history of the American chemical industry is filled with records of processes that have been chemical successes but commercial failures, due largely to lack of preliminary cost finding. In the field of heavy inorganic chemicals, where yield is "quantitative"—that is to say, nearly that indicated by a reaction formula—the difficulties of finding approximate cost in advance are relatively small; but in the production of organic chemicals, solvents and similar products, where the yield of the principal product is uncertain and is accompanied by less valuable isomers and other by-products, the estimation in advance of probable cost needs careful study of cost finding. In the absence of this study hundreds of processes have reached the manufacturing stage, only to be found unprofitable. For example, "The first attempt to produce camphor synthetically in the United States on a manufacturing scale was in 1902 . . . (here follows a description of the theory of the process) . . . but in reality a number of unimportant subsidiary products were formed, the amount of borneol and isborneol being insufficient to assure success of the process, which has since been abandoned." The (chemical) operation was successful, but the patient died. The quotation is from Worden.

With such an enormous field a volume on *Accounting and Cost Finding for the Chemical Industries* must necessarily be restricted either to a limited section of the industry or to general principles, applicable to all such industries. The book by George A. Prochazka, Jr., under the above title has been written on the second basis, probably wisely. So little is said of any specific process or problem that the book might with propriety have been called *Accounting and Cost Finding for Factories*.

In order to make the cost-finding sections of the book clear to those who are not cost accountants, the author gives an excellent summary of the general books to which the cost accounts are auxiliary.

The cost accounts themselves are based on good practice, are free from peculiar notions and show an amount of "horse sense" in avoiding tedious hair-splitting that is highly commendable in a book on cost accounting. Perhaps the fact that the author is a chemical engineer has had some influence in guiding him toward simplicity of accounting; but, strangely enough, there is not to be found in the book any chemical or technical term. If the word "chemicals" or the name of any specific chemical is mentioned in the book, I do not remember it. Biscuits, monel metal, agricultural implements, are used as illustrations of some of the points made, but no chemical manufacture is so used.

Perhaps the outstanding characteristic of chemical cost accounting is the treatment of processes having two or more joint products. On pages 147-150

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will be found some eminently sensible remarks on this point, but even here the illustration given is that of joint baking and enameling of unrelated articles, joint production of several chemical products from a single raw material being referred to only indirectly.

The cost accountant in some chemical industries, if he be an accountant only and not a chemist, can not fulfil his mission without constant help from the chemical engineer; and the chemical engineer can not give the proper help without some knowledge of cost accounting. The chemist, too, can not know what his problem is without the help of cost finding. Laymen generally think that a method of producing synthetic rubber remains to be discovered: that was done ages ago, but the real problem is to produce it at a profit.

The McGraw-Hill Co., through its periodical *Chemical and Metallurgical Engineering* has urged upon chemical engineers the need for an understanding of cost finding. These engineers can not do better than to begin with this book.

This review would be incomplete without a reference to the clarity and impersonal tone of the text. There is nothing radically new in the book; it is rather a judicious selection of tried and approved methods, suitable for use in chemical industries.

F. W. THORNTON.

ANALYSIS OF RAILROAD SECURITIES, by JULES I. BOGEN. *The Ronald Press Co.*, New York. 449 pages.

Railroad securities in these days have become so well seasoned, generally, that it is doubtful if the average investor gives much consideration to the factors which govern the value of such securities as investments. The average investor seldom has the basis, grounded in scientific knowledge and experience, on which to make a scientific analysis. He is far more likely to place his dependence in the management of the company, or in a reputable investment banker, or in certain securities sponsored by reliable investment banking houses, and to be guided accordingly in his investment decisions.

Published reports are furnished by railroad companies, either to all their stockholders or to such of the stockholders as indicate a wish to have such reports. An analysis or study of these published reports by the stockholders usually will give them the vital information as to earnings and financial condition which they desire. Further than this, probably, the investor of average amounts seldom extends his inquiry.

The book entitled *Analysis of Railroad Securities* is divided into three major parts. The first part is mainly introductory and provides a foundation for the remaining two parts. The relation of the law and the railroads, an exposition and description of present-day railroad finance and a survey of railroad economics are included.

The second major part takes up the valuation of an individual railroad. The aims and methods of security analysis are presented. The analysis of territory, physical characteristics, equipment, traffic and operating efficiency and economy are stressed as important considerations.

The final section covers the financial analysis of the railroad securities. As a prerequisite to the analysis of the railroad's financial statements, the author

points out that the statements must be recast into a form more suitable for analysis purposes, and then presents the method of doing this. The results and the probable effect on railroad securities of the official valuation, prepared under the valuation act of 1913, and of the railroad consolidation plan are fully discussed. The last three chapters of the book consider, in turn, railroad bonds as investments, railroad stocks and foreign railway securities.

The author makes frequent reference to particular railroads for purposes of illustration, which adds definiteness and point to his discussion. The descriptive matter also refers largely to specific roads. Statistical data are used plentifully.

Considerable emphasis is laid on the factor of government regulation and the part of the interstate commerce commission. Undoubtedly the rate-making powers of the commission, its enforcement of the recapture clause of the transportation act of 1920, its control exercised over security issues and its position in regard to mergers are of great importance when considering the value of railroad securities as sound investments. The elimination of destructive competition and of much of the unsound financing has helped to stabilize railroad earnings and improve their credit.

The use of the several investment-rating services is recommended as being of value in checking the individual investor's analysis of particular securities. These services seem to be quite well regarded by financial men, and considerable reliance often is placed in such ratings. It is probable that a great many investors use these services to a much greater extent than analyses made entirely by themselves. General opinion seems to be that a change in rating of a security by certain of these investment services may cause no little effect on the market price of that security. This would indicate the reliance placed in such services.

It seems questionable whether the book will have particular technical value to investment bankers, security analysts, or to others in financial circles. These classes, more likely than not, are fully equipped with the information and methods brought out in the book and are skilled in the application of these factors to the analysis of railroad securities. The average investor is not likely to make a scientific analysis as outlined by the author. The book, undoubtedly will be of most value to students who expect to enter the investment field; to those who may have an academic interest in the subject, and to the investor as a reading reference on a specific subject.

PAUL L. WILTON.

TRADE ASSOCIATIONS—THE LEGAL ASPECTS, by BENJAMIN S. KIRSH.
Central Book Co., New York. 271 pages.

To review for an accounting journal a book written by a lawyer, as he says, "to survey the *legal* aspects of the activities of post-war trade associations" is not an easy task. It deals with a subject about which, unfortunately, most accountants have little knowledge. Yet the legal aspects of trade-association work are yearly becoming of much more than passing moment to public accountants, because a broadening legal viewpoint has enabled trade associations of all kinds to undertake activities that would have been frowned on legally not many years ago. For instance, one of the most successful associations has

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three principal activities, of which two are cost accounting and statistics. This association, representing as it does at least 80% of the productive capacity of the industry, undoubtedly wields a powerful influence over the accounting and statistical activities of its members, and thus its work should be of great interest to the public accountants engaged by members of the association.

Mr. Kirsh has written a book of great value not only to trade-association executives, but to all interested in trade-association work. The eleven chapters deal with the following subjects: Trade association law, trade association statistics, uniform cost accounting methods of trade associations, credit bureau functions of trade associations, patent interchange, foreign trade functions of trade associations, uniform basing point systems of trade associations, collective purchasing functions of trade associations, standardization by trade associations, trade relations, restricting channels of distribution.

Each of these subjects has been adequately dealt with and valuable quotations from judicial and administrative decisions are used in tracing the growth of trade-association work. It is a book that needs to be digested and kept for reference, and I prophesy, for one, that it will be referred to constantly.

Many of the leading banks are urging their clients to join their respective trade associations. This fact is of some interest to accountants, because many associations are stressing the importance of the adoption of uniform accounting systems by their members, in order that they may be in a position properly to compare accounting and statistical data of great value to executives. I believe the time has arrived when no annual report prepared by a public accountant for a client will be complete which does not include a careful survey of the client's profit-making ability for the future, based not only on past performance but also on a comparison of the client's figures with those prepared by the trade association or associations of which he is a member, whenever such data are available for such use.

Public accountants are urged to bear in mind the possibility of utilizing trade-association data in increasing the value of their future reports. In conclusion it should be noted that it is important to know something about the "legal limits" for trade associations, because cases have not been unknown where they have overstepped these limits with disastrous results to the associations concerned and unfortunate financial setbacks to their members.

THOMAS J. BURKE.

AUDITING (14th edition), by LAWRENCE R. DICKSEE. *Gee & Co.*, London. 1,108 pages.

While auditing principles are the same, English forms, nomenclature and sometimes procedure differ so much from American that Professor Dicksee's *Auditing* can hardly be recommended to American students unless they intend to enter the British field of accountancy. For that reason, and because frequent editions have made this text quite familiar to the profession, it is not necessary to comment on the body of the work comprised in the first four hundred pages.

Of the remaining seven hundred-odd pages, three hundred contain a reprint of English statutes covering commercial and financial organizations, in appen-

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dix A; appendix B devotes nearly four hundred pages to court decisions, ranging from 1887 to 1926, on the legal responsibilities of auditors; and the rest of the book contains sundry depreciation tables and a curious extract from an old "Treyce off Husbandry," which shows that the duties of auditors have not changed much in seven hundred years. These appendices must be of great help to English practitioners for reference purposes, and American public accountants may well envy them in having a compact body of law and precedents applicable to their whole territory, whereas the American must take into consideration not only federal statutes but the local laws of forty-eight states.

Appendix B will probably be of the most interest to American practitioners since the court decisions will be, as they have been in the past, precedents for our courts. Since the last edition of this book there have been three decisions of importance, viz.: that a company which has written down assets excessively out of profits may subsequently write them up again for dividend purposes; that an accountant has a right of lien on a client's books and papers to recover fees; and that an accountant engaged to make up income-tax returns from the books is not responsible (as in an audit) for the correctness of entries on the books which may later turn out to be fraudulent. The last will be of particular interest to accountants who are called upon at the eleventh hour to make up income-tax returns "from the books."

W. H. LAWTON.