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Book Reviews

Authors

F. W. Thornton, Stephen G. Rusk, W. H. Lawton, Harold R. Caffyn, George E. Bennett, and Charles A. Glover

Book Reviews

CORPORATION PROFITS, by LAURENCE H. SLOAN. *Harper & Bros.*, New York. 365 pages.

Corporation Profits is such a book as one might expect, or at least hope for, from the head of a high-class commercial-statistics organization.

The title is inadequate; the author has obtained statistics for 1926 and 1927, covering five hundred and fifty of the largest corporations in this country, and has prepared therefrom composite balance-sheet and profit-and-loss account, tables of comparative figures (for individual corporations) of earnings, of all kind of assets and liabilities, of depreciation provisions, cash position, etc. One can not imagine any instructive comparison to be obtained from published figures that is not in this book. The sensation of the reader is that of wallowing in information.

As a basis for statistical comparisons the author has considered all capital stock and surplus and all funded debt as invested capital; he has considered as "net profit" that which is usually called "net operating profit," or profit before bond interest and amortization of bond discount. This plan has the merit of bringing to an equivalent basis the profits of corporations having varying capital structures, but it should be kept in mind while reading the book or some of the figures will mislead. With each set of figures the author gives explanations and comment, but offers at this point no opinion of a controversial character. The comment is thoughtful and sensible. After completing a section the author does a strange and admirable thing; he offers his perhaps controversial opinion under a bold central heading, "Opinion," carefully separating ascertained facts from his own judgment.

Generally the opinions given are sound; there is evidence that his mind is tintured by the predilections of a statistician; thus he is exercised over the variation in ratio of depreciation provision to property investment, saying that "there is a total lack of consistency in the reporting of depreciation and depletion," and "a corresponding lack of consistency in the amounts which various corporations allow for depreciation." This is exaggerated; and when the author says, on page 54, that "in the majority of cases the corporations which allow *materially* less than 5½ per cent. of property valuation for depreciation" are subject to suspicion, one feels that too little weight has been attached to the variance of conditions as between corporations. The two thirds of one per cent. is a characteristic statistician's touch. So is the weight given to computations of percentage of depreciation to total amount of property valuation where that valuation is net after deducting depreciation to date. Depreciation rates should be computed on original value.

If there has been any benefit to accounting from the federal income-tax laws, it is the improvement of the methods of computing ordinary depreciation; decent corporations are now fairly consistent, although perfection is still a little way off.

To accountants the author has much to say, all worthy of consideration; he jeers at a textile corporation that carried an entry "depreciation on appreciation on machinery and equipment," saying that it first wrote up the asset value and now is engaged in the task of writing it down again, in which jeering I humbly join.

Then the inconsistency of terminology is attacked; the terms in which companies describe the opening item of their published earnings statements are shown to be of much variety. There is too much variety; but a general term for gross income, applicable equally to amusement concerns, shipping companies, telegraph and radio companies, and other commercial enterprises would necessarily be lacking in precision. Some variety is desirable.

After all his excellent analytical work the author is unwise enough to issue a "challenge," in which he says that his objections to insufficient and misleading reports of corporations could be corrected by following the form of an "ideal" financial report which he offers. This ideal form is below par; to give a single instance, reserves for bad debts and for inventory adjustments are to be taken up as current liabilities. A company, with a given amount of accounts receivable, of which half were uncollectable and covered by reserve, that did not owe one cent to anyone, would, under the author's arrangement, have a ratio of current assets to current liabilities of 2 to 1, from which it may be deduced that, as there were no liabilities, there were current assets equal to $0 \times 2 = 0$.

However, there is so much to be grateful for in this book that petty cavil at minor blemishes is in bad taste. The author's desire for bigger and better annual reports of corporations should have the support of accountants.

The printing, arrangement and indexing are good; the proofreading is not quite so good. Item 4 of assets in the balance-sheet, page 341, should be corrected in the next edition.

F. W. THORNTON.

INCOME TAX PROCEDURE, 1929, by ROBERT H. MONTGOMERY. *The Ronald Press Co.*, New York. 738 pages.

Income-tax Procedure, 1929, is a supplement to the author's 1927 book of the same name and brings up to date the procedure for determining net income and tax, the preparation of returns and payment.

The subject matter is divided into four parts, as follows: part I, application and administration; part II, income; part III, deductions; part IV, special classes of taxpayers. The appendix contains the revenue acts of 1928 and 1926 and parallel references showing corresponding sections of 1926 and 1928 acts, as well as corresponding articles of regulations 69 and 75. As is usual with the works of this author, the book is well indexed, making easy the task of finding any desired subject.

Colonel Montgomery's works on the subject of income taxes, accounting and finance are so well known not only to the accountancy profession, but to the business world, that the difficulty of adequately describing one of them in the brief limits of a review will be generally appreciated.

In the pursuance of my duties as an accountant, I had occasion, a few years ago, to go to a small town in a remote corner of the country. I had not been in the client's office long before I noticed a bookcase in which were several volumes of Colonel Montgomery's books on accounting, auditing and income taxation. Upon asking the client if the display of accounting books had just recently been placed in the bookcase as a graceful gesture of welcome to me, I was informed that those books were for his own information and guidance. To the question whether he had read any of them from cover to cover or not he replied

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in the negative, but said that he used them to post himself on any problem with which the books dealt that might arise in his business. His reply, it seems, reveals the true reason for the popularity of the works of this author. They are invaluable as commentators and references upon the subjects of which they treat.

Furthermore, the author has no illusions as to the infallibility of interpretations of the law by those who promulgate the regulations and rulings. In this respect his works upon federal taxes have been a spur to the practitioner's own initiative and have, in many instances, prevented acceptance without question of many of the regulations the purport of which were obviously in disagreement with the language of the law itself. Anyone who reads the decisions of the courts, released from week to week, realizes how often one has accepted without objection certain regulations and rulings that later, when put to the test, were found to be erroneous. In the author's former books much was found to give their readers warning of such erroneous rulings and thus put them on guard against a feeling of too great security in the fiats laid down in the commissioner's interpretations. It is cheerfully acknowledged that the task of the commissioner has been very heavy and that one must admire the way in which many abstruse sections of the acts have been clarified in the regulations, but it is believed that no body of men could perform a task of such magnitude without error, and a good tax practitioner has not conscientiously discharged his duty to his client if he permits him to pay a tax not intended by the law.

Commendation of Colonel Montgomery's 1929 volume on federal income-tax procedure can be unreserved. To the student it will be a great aid and to the practitioner a handy and reliable book of reference.

STEPHEN G. RUSK.

FEDERAL INCOME TAXATION, by JOSEPH J. KLEIN. *John Wiley & Sons, Inc.*, New York. 2353 pages.

A young entrant into the accountancy profession recently inquired of THE JOURNAL OF ACCOUNTANCY what books he should acquire for his library to enable him to get a grasp of the subject of federal income taxation. The inquirer admitted that he was not versed in the lore of taxation of this nature, but intended to apply himself with zeal to master the subject. To one who has had more or less constant contact with federal tax problems, which began with the act of 1909, and has acquired through the years since then whatever is known to him of the subject, the task of advising the aspirant seemed particularly arduous. A reply having been attempted which it was hoped would be, at least, helpful, it seemed that he would be a courageous student who would not be daunted by a task of such proportions.

At that time Doctor Klein's book, *Federal Income Taxation*, had not been released and made available to the public. Had this book come to my attention, I should have felt that my responsibility as advisor would have been appreciably lightened, for Doctor Klein has made, in my opinion, a distinctive contribution to the lore upon the subject of which his book treats.

It has always been presumed that a reviewer of a book must have carefully read and thoroughly digested all that it contains. In justice to Doctor Klein it is admitted that it has not been done in this case, but a careful search through

its pages has been made to observe the character of the information it contains, the method in which it is presented and the style of the writer.

Doctor Klein states in his opening paragraphs that "this book deals primarily with the recent series of federal income-tax acts and particularly with the revenue act of 1928." The opening chapter is entitled "History of the income tax" and its paragraphs deal briefly with the numerous income-tax acts from those of 1861 and 1862 to the present act of 1928. The second chapter is entitled "Bird's-eye view of the 1928 act," a reading of which prepares the way for the more serious contemplation of the subject. Subsequent chapters lead one easily to part II which deals with gross income, deductions, credits against income, etc.

Doctor Klein's style of presentation of the subject is, of course, clear and concise, a talent which, it is presumed, was highly developed during the years in which he presented the subject to the students to whom he lectured. This attribute is illustrated by the able manner in which the statutes of limitations are explained. It was thought by this reviewer that the author's treatment of the subject of these limiting statutes would prove a fair test of his clarity of style, and upon reading his presentation no lingering doubt remained of his ability to make plain to students' minds the purpose and effect of the limitations on the assessment and collection of federal income taxes.

An idea of the inclusiveness of the information revealed in this work may be gained from the following list of topics: part I, preliminary topics; part II, factors in the determination of the tax; part III, classes of taxpayers; part IV, procedure in determination of tax; part V, assessment, payment and collection; part VI, penalties and penal provisions; part VII, general topics. The magnitude of the task performed by Doctor Klein and those associated with him can be appreciated to some extent by regarding the seventeen hundred and fifty-two pages of the book, and the appendices, indexes and citations contained in some six hundred additional pages. The volume is not large nor unwieldy, and it is worthy of note that so many pages can be compressed into a volume of ordinary size.

STEPHEN G. RUSK.

AUDITORS' REPORTS AND WORKING PAPERS, by DEWITT CARL EGGLESTON. *John Wiley & Sons, Inc.*, New York. 305 pages.

Auditors' Reports and Working Papers is a companion volume to Professor Eggleston's *Auditing Theory and Practice* and illustrates by means of concrete cases the various theories and methods set forth in the latter. Part 1 contains full working papers and reports in five sets covering book publishers, cotton-goods converters, investors, stock brokers and manufacturers. Each set is prefaced by a few comments explaining the special features in auditing that particular kind of business, and is followed by the requisite working papers, audit programme, statements, income-tax return, etc. The author follows generally accepted standards.

Part 2 contains illustrative reports without working papers. These deal with department stores, mining companies, manufacturing company, public utilities and public-service company (railroad). The main idea in this part is to impress on the student's mind the important points that should be emphasized in a report. Review questions follow each report.

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Two problems without answers are given at the close of each part for the purpose of testing the student's grasp of the subject. A good index closes the book.

An excellent manual for the student, it is also a handy guide for the young practitioner to consult as his practice widens. The field of auditing is pretty well covered, though perhaps it may be regretted that the author did not include the automotive and moving-picture industries. There are peculiar features in the selling end of these which need attention and standardizing.

W. H. LAWTON.

MARGINS, EXPENSES AND PROFITS IN RETAIL HARDWARE STORES, by HORACE SECRIST and J. A. FOLSE. *A. W. Shaw Co.*, Chicago. 174 pages.

The authors of *Margins, Expenses and Profits in Retail Hardware Stores* have undertaken a task of considerable magnitude and have dealt with it in a manner which might be put down as a model of organized thought and mathematical reasoning. Their object was to "define as accurately as possible, with the data available, the effects of variable volumes of business and differences in location upon the conditions and results of retail-hardware-store operation." In order to do this they made a study of the margins, expenses and profits of 437 nationally distributed stores for the three years 1923, 1924 and 1925, both individually and collectively, and it is the result of this study which is summarized in the volume under discussion.

The whole book is admirably planned. It is subdivided into two sections. Part I summarizes and classifies the data obtained in order to show the manner in which (a) city size, and (b) volume of sales, treated independently, affect margins, expenses and profits. Part II then proceeds to utilize the original data obtained and the further information developed in part I in establishing definite relations between profits (as representing the difference between margins and expenses) and volume of sales and city size considered simultaneously.

As an academic study the subject has been perfectly handled and there is evidence of meticulous care and attention to detail throughout. One is compelled to wonder, however, whether any considerable market can be found for a volume of this type outside scholastic spheres. The results obtained and the conclusions are undoubtedly of great value, but do not occupy more than a small section of the book, the greater part of which is devoted to a description of the mathematical and analytical technique through the exercise of which they have been achieved.

This book should be of value to public accountants specializing in retail-store work or to accountants employed by stores of this type, but it could hardly be recommended as one that should find its way into the library of every public accountant.

HAROLD R. CAFFYN.

ACCOUNTING AND FINANCE, by LEON E. BROWNELL. *John Wiley & Sons, Inc.*, New York. 244 pages.

In the face of an almost overwhelming avalanche of books on the subject of accounting principles, *Accounting and Finance*, the latest addition to the Wiley Accounting Series, H. T. Scovill, editor, is welcome. With present

emphasis apparently being laid on everything except practice, it is indeed encouraging to be permitted to review a book containing the earmarks of having been written by one who not only knows what is common-sense practice (the author is an officer of the Savage Arms Corporation), but has the courage of his convictions. Of course, no book ever written has been free from some criticism, even of a deserved type, yet the reviewer is certain that, with its possible few shortcomings, this book will stand the acid test of use.

The preface states that "while this work has not been written solely for the beginner, its principal claim for a place among the many splendid texts already published is its presentation of working methods and technique." The reviewer, however, can not classify this text exactly as a beginner's book, even though much in the first eleven chapters reflects the approach of a basic text. Probably it will be found most useful by those who, having a fair understanding of practical bookkeeping mechanics, desire more light rather than a course in argumentation.

Mr. Brownell's style, crisp and terse, is highly acceptable, except that undoubtedly the addition of, say, fifty pages more of text matter (there are only 192 pages of text matter) to hold a little more explanation and elaboration would be exceedingly desirable to the average interested person—who is not trained in the psycho-analytic process of presenting facts of a financial nature. Nevertheless, such brevity may be excused on the ground that it is the error of one who knows and who daily is required to meet situations, rather than that of one who through argument attempts to gain support for a view plausible but impracticable. Good judgment was evident on the part of the publishers in taking such a book for publication instead of first requiring that it be re-wamped to contain at least a minimum of 100,000 words.

Of the nineteen chapters, undoubtedly the most interesting are those concerned with corporations—from chapter twelve to the end of the book. Many useful ideas seldom seen are therein included. There are fifty pages of problems sprinkled through the book at the end of the various chapters—128 problems in all. The index, however, is subject to severe criticism, being only two pages in length; yet, since most book indices are practically useless except as space fillers, this index is no worse than the usual run.

The text matter starts out with the usual statement approach, passes to an explanation of assets and liabilities, and then to the double-entry recording, adjusting and closing procedures, this being followed by about two chapters on statements. Following this, special matters receive comment in relation to partnerships and corporations, approximately one hundred pages being devoted to corporations alone. The reviewer believes that chapter seven should be brought in ahead of chapter six—that a discussion of the work sheet should precede the discussion on closing.

The illustrative entries submitted carry no explanations nor any indication that explanations should be utilized; this is to be regretted if for no other reason than that it is apt to lead to a false notion that explanations are unnecessary. It seems to the reviewer that carefully framed explanations are indicative of a good accountant.

Not in excess of a half-dozen errors in spelling and punctuation were noticed.

Every book offers occasion for a difference of opinion on matters of theory. Yet since this is a review, not an article on the theory of accounts; since ac-

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counting science just now seems to need plenty of support from those with a sane and practical viewpoint, and since the points to which personal objection is made are not of major import (real estate, for example, is used in the balance-sheets for land and buildings), it is perhaps best not to mention them.

Although there is nothing radically new in this book, it is a good little volume, deserving of favorable, rather than unfavorable, comment.

GEORGE E. BENNETT.

ELEMENTARY ACCOUNTING, by FRANK HATCH STREIGHTOFF. *Harper & Bros.*, New York. 501 pages.

Elementary Accounting is a textbook, unique in that neither author nor publisher suggests that it would serve admirably also as a business reference book. A book such as this is a delight to a reviewer. He need have no thought of condemning by scant praise on the one hand, or fear of exaggerating by extravagant commendation on the other.

Accounting is presented here as a part of the dynamics of business life. The author fascinates by going from the known to the unknown as smoothly as Alice in Wonderland. The unknown here consists of the vast fund of information on the way business is done which is given with the discussion on accounting, but it is so well written that the reader is not conscious of any deviation from the straight accounting presentation. The book is not cluttered up with extraneous materials, neither are any chapters inserted for padding, yet chapters are well outlined and summarized, greatly to the aid of the learner. It is a complete course in the fundamentals of accounting (as the author sees the scope of these fundamentals) with abundant exercises, review questions and a practice set—and it is nothing more. The style is bell-like—sharp, clear and simple. The reader should not be troubled with the presentation.

The author approaches the subject through the trading statement. Trading is promptly and clearly connected with the balance-sheet and with the statement of profit and loss. No attempt is made to exhaust all the subjects presented. In discussing partnership, for example, no mention is made of sale of an interest and admission of a new partner, or of serial distribution of assets on liquidation. The discussion on depreciation, however, is remarkably clear and complete for an elementary text. Among the chapters which serve to give a full rounded picture of the subject to the learner who does not intend to continue accounting study are those on the factory ledger, bonds, the sinking fund, investments, interpreting financial statements, mechanical aids and designing sets of books.

It is evident that the author has focused attention for a long period of time on the development of a text which shall impart a maximum of accounting knowledge with a minimum of well directed effort—and that he has succeeded. The publishers are to be congratulated on the excellent way the book is printed and bound. After working with some recent books in the field the reviewer can not refrain from expressing appreciation of the excellent book-making of this text.

CHARLES A. GLOVER.