[Journal of Accountancy](https://egrove.olemiss.edu/jofa)

Volume 48 | Issue 1 | Article 9

7-1929

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Book Reviews

CORPORATE EARNING POWER, by WILLIAM L. CRUM. *Stanford University Press*, Stanford University, California. 342 pages.

Quite recently we were treated by Lawrence Sloan to a remarkably full and detailed analysis of the profits of some five hundred of the principal corporations of this country. The data were taken from annual accounts and reports, and the statistics, largely dealing with return on invested capital, were free from doubt and surmise.

Now Professor W. L. Crum has attempted, in *Corporate Earning Power*, to analyze corporate profits, not by individual companies but by groups, taking his basic figures from the treasury "statistics of income."

The labors of Professor Crum have probably been as successful as those of anyone could be if confined to the data contained in the treasury reports; mechanically the analyses are thorough and clearly set forth, with a wealth of diagrams and graphs. It seems a pity that such effort should be spent on such poor material.

In comparing group earning power the feature of value is return on invested capital. This is not given in the treasury reports nor in Professor Crum's book, except for 1919–1921 and in so far as the author, by surmise or deduction, estimates it in some other cases.

There are comparisons of "profit ratio," which means ratio of net profit to gross business and is of little value as between groups, since in some lines of business the turnover is more rapid and profit ratio lower than in others.

The author also gives what he calls "earnings ratios," which are the ratios between net profit and, of all conceivable things, total assets of all kinds—not total net assets, but total assets. In a business extending long credit and receiving long credit the total assets do not represent invested capital; assets may be represented not by capital but by bonded debt; goodwill may or may not be taken up, etc. The apparent assets of insurance companies, banks, stockbrokers and some others are principally the assets of their customers.

There are other defects, not in the work of Professor Crum, but in the statistics on which his book is built; one of these is the grouping. Finance is made to include such incommensurable accounts (for this purpose) as those of life-insurance companies on the one hand and those of an investment banker on the other; of a stockbroker and of a real-estate mortgage investment corporation. The treasury figures were not designed as a basis for analyzing the earning power of corporations.

Even in such a homogeneous business as that of building automobiles there are differences of plan that utterly destroy the value of the profit ratio. Some builders, like Studebaker, Ford, General Motors, make almost all the parts of their product. Others buy most parts, make only a few, and assemble their cars. Obviously, the gross business shown by the parts maker and by the assembler duplicate the apparent output as compared with the figures for, say, Studebaker.

Professor Crum discovered that the profit ratio for small manufacturers was lower than for the larger ones. Of course, the larger manufacturers are in the habit of making everything themselves, while smaller ones usually contribute only a limited part of the work on their output.

Group classification is difficult in any circumstances; only by scrutinizing each account can a group be built up that is truly homogeneous.

A comparison of the standing in earning power of public utilities, as indicated by "profit ratio," appears on page 137; its profit ratio is far greater than that of any other group; on page 190 its standing, as indicated by "earnings ratio" is given. This time it is the lowest but two, the two poorer being mining (which is vitiated by discovery value, depletion, etc.), and agriculture, which is admittedly not highly profitable. Chart 55 compares corporate earning power on the two bases—"profit ratio" and "earnings ratio." The results are contradictory. Neither is reliable.

The best cook can not make a very good omelet with insufficient eggs, and those of doubtful quality; *Statistics of Income*, the treasury annual, gives insufficient statistics, and those of doubtful quality for such a purpose as that of Professor Crum. He has tortured from them all that they can give; his work has been careful and patient. May he find some better data to work on.

F. W. Thornton.

CALIFORNIA TAX LAWS OF 1929, by Norman Loyall McLaren and Vincent K. Butler, Jr. *Walker's Manual, Inc.*, San Francisco. 376 pages.

In the enactment of new and comprehensive tax laws and the publication of a new and comprehensive book on state taxation, it is believed that two records have been broken. One in tax legislation by the state of California and one in the publication of a book on the new tax laws.

California needed new tax laws very badly. This much can be conceded because residents and non-residents alike have sought for many years, by legal and illegal means, to avoid and evade the unfair taxes which were supposed to be paid under the old laws. Those of us who were familiar with the old laws almost despaired of any comprehensive revision within a reasonable time, but a good start has been made and it now appears that California taxpayers will not have so many grievances.

The new laws are attributable to the California tax commission which has been investigating the state's fiscal and tax system. Fortunately for the state, the commissioner retained as its advisor Dr. Robert Murray Haig of Columbia University, whose accomplishments in New York and elsewhere admirably fitted him for the task.

With equal intelligence the state has selected for its first franchise-tax commissioner Reynold E. Blight. The preparation of regulations and the administration of a tax law based on net income are so important to the business world that the selection of a certified public accountant as the first commissioner may be looked upon as a compliment to and a deserved recognition of the part which professional accountants have taken in tax matters during the last twenty years.

In order to have new tax laws it was necessary to change the state constitution. Appropriate amendments were approved November 6, 1928. In the incredibly short time of four months the legislature passed the bills which were enacted into law on March 1 and March 2, 1929.

The purport of the two new revenue acts is stated by the authors of *California Tax Laws of 1929* as follows:

"The bank and corporation franchise-tax act changes completely the method of taxing state and national banks, and financial, mercantile, manufacturing, and business corporations; and the intangible-tax law contains changed provisions and preferential rates for the county levy upon the securities and solvent credits that come within the class of taxable intangibles."

It is a noteworthy achievement that a book dealing with both of the new laws, and, what is more, dealing with them in an adequate and intelligent manner, should be published within about sixty days after the new measures became law.

January 1, 1928, was made the basic or effective date when the new laws took effect. Returns for the calendar year 1928 were due May 15, 1929. This procedure repeated the vicious federal practice of making a tax law retroactive to an inconvenient date. The authors assume, however, that satisfactory extensions of time for the filing of returns will be granted and that the new rates and the fair treatment of taxpayers will reconcile everyone to the trouble and expense of preparing returns in a hurry.

The authors have pointed out so many defects in the new laws that I shall not attempt to comment on their good or bad features, because when defects are recognized it is not worth while to enlarge upon them.

Some of the major defects in the laws are similar to those which may be found in the franchise-tax laws of other states, and if the history of the New York state law is to be taken as a precedent it will not be as easy as the authors predict to bring about changes.

For instance, in California, as in New York, there is no limitation period on additional assessments. In this particular, with all its imperfections, the federal law is superior.

Many citizens of other states spend part of each year in California and many companies incorporated in other states do business in California. The new laws affect all individuals and corporations that own property or do business in the state. Obviously all who prepare California tax returns for themselves or others should familiarize themselves with the provisions of the new laws and particularly with those provisions about which there may be reasonable doubts. A hurried reading convinces me that all who are affected by the new laws should have the book readily available. In federal income-tax matters disputed questions of constitutionality and interpretation have occupied many years of litigation, and in thousands of cases the statute of limitations has run against taxpayers who did not discover their rights to refunds until it was too late. It should be assumed that sooner or later California will fix a limitation period on claims for refund. It, therefore, becomes important to taxpayers that they protect themselves against all the doubtful points which will be decided against them pending authoritative court decisions.

Heretofore native Californians (who hail from every state in the union) while loud in their praises of the natural advantages of their state, have vigorously protested against its confiscatory tax on intangible property, principally stocks of corporations organized in other states. Many citizens have used devious and curious methods to escape this tax. One of the popular methods was to divest oneself of one's property and become a beneficiary under a trust deed.

This and other methods are discussed in the book, and the authors express their opinion regarding the effect of the new law on the various avoidance schemes of the past.

One of the most troublesome problems in all franchise taxes is the allocation of real and personal property, sales and profits between the state of the taxpayers' domicile and foreign states. Copious references are made to the statutes and practices in other states. The subject receives almost more attention than any other, and forms a valuable addition to the literature dealing with many unsettled problems of this nature.

Another subject which is of general interest is the right of a state indirectly to tax income from federal bonds and to tax similar so-called exempt income. This subject is unusually well handled. Plentiful references are made to recent state and federal court decisions.

As a whole, *California Tax Laws of 1929* is a fine book and should be in the hands of every person liable to taxation in California.

The contest is now on between Florida and California. If California makes most or all of the changes in the new laws which are suggested by the authors another advantage will be added to its natural advantages which almost persuades one to move there forthwith. If the state tinkers with its laws every year and makes them more complicated and more onerous to taxpayers, as has been the case with federal laws since 1913, we of the east will not cast longing eyes on the Pacific, but will stick to Florida as our tax haven.

The authors are to be commended for doing a hard job quickly and well.

ROBERT H. MONTGOMERY.

MANUFACTURING COSTS AND ACCOUNTS, by A. HAMILTON CHURCH. *McGraw-Hill Book Co., Inc.*, New York. 516 pages.

Manufacturing Costs and Accounts is intended for students and is a revised edition which followed seven reprints since its first appearance in 1917. This record speaks for itself. A clear and orderly presentation of the subject prevails throughout the book and forms and diagrams give material aid to complete understanding of the text. Each chapter is followed by a set of questions that serve to test the student's understanding of the argument and fix it in his memory.

The author lays great stress upon adequate departmentalization for the purpose of burden distribution; upon the relative importance of supplying foremen, superintendent and financial management with "red hot" data; upon the shop being the proper place in which to elaborate and use manufacturing detail; upon the application of the principle of exceptions, etc., all of which are of the utmost importance in any accounting system. The book is adequately indexed and cross-indexed.

The subject is treated as a continuous process of detailed cost finding. A chapter is, however, devoted to "Recent modifications of costing methods" wherein the claims made for predetermined costs are dealt with.

The author concedes that the newer systems contain germs of promise but still prefers adherence to conservative ways and maintains that most of the advantages claimed for the newer methods can also be reaped from the older. He objects to the usual lack, under the new systems, of data concerning the cost of individual unfinished jobs that form part of work in process and claims for his methods greater accuracy in the distribution of burden.

This is not the place for lengthy discussion, but it may not be amiss to point here to the use of words like "exact," "actual," "accurate" in comparing the merits of accounting processes. These words ordinarily convey a meaning somewhat different from what is meant by them in accountancy and most distributions and applications being necessarily arbitrary, accuracy or actuality of cost or other data based thereon is often subject to reservation. One sensible method of cost finding would, therefore, seem about as serviceable as another and the ultimate choice must in each case depend upon exigencies and requirements.

The recent gradual departure from conservative methods seems to have its cause not so much in the work and expense involved as in the circumstance that with greater clerical effort no higher degree of accuracy is attained. Mainly for this reason is preference given to a judicious estimate in advance over a continuous calculation along the more conventional lines.

With reference to the inclusion of interest in costs—for which the author shows preference—it seems that he might have elaborated a little upon valid reasons why in the opinion of other good authority it should not be included.

But whatever the importance to the student that he realize as soon as possible the limitations and the controversial features of his subject, the theories and procedure set forth in the book are certainly an important part of what he should know, and they form the basis of a proper understanding of modern tendencies in cost accounting.

In passing, the reviewer wants to register his preference for recording payments or accruals of ascertainable rents, taxes, insurance, etc., in accounts called "prepaid" or "accrued" rentals, taxes, etc., rather than using the terms "suspense" or "reserve" to designate their status, fully realizing and admitting that the term "prepaid" is also far from precise. It seems to him better to draw a sharper dividing line between reserves and liabilities also in the terminology.

This book is of decided value to students and instructors.

A. van Oss.

PACKINGHOUSE ACCOUNTING, prepared by the committee on accounting of the Institute of American Meat Packers. Revised and edited by Howard C. Greer. *University of Chicago Press*, Chicago. 404 pages.

Packinghouse Accounting, prepared by a committee of accountants representative of the packing industry and edited by the director of the department of organization and accounting of the Institute of American Meat Packers, is a very valuable contribution to the literature of accounting as related to the meat-packing industry—one of the largest and most important industries in the United States. The volume goes into detail regarding the methods employed to determine results of operations, explaining the difficulties that packinghouse accountants have to contend with to obtain accurate results and prompt and regular returns.

As a review of the system of accounting employed in the large packinghouses at the present time the volume should be read and studied carefully by packinghouse executives and accountants with a view to further simplification and improvements in the system.

D. D. F. MACKENZIE.

FEDERAL INCOME AND ESTATE-TAX LAWS (correlated and annotated), by WALTER E. BARTON and CARROLL W. BROWNING. *John Byrne & Co.*, Washington, D. C. 766 pages.

In drafting the 1928 act, congress, in the interest of simplification, changed the section numbers of the law. In the four preceding acts of 1926, 1924, 1921 and 1918, the same section numbers were of like purport. As a result of these changes tax practitioners were obliged to memorize the new numbers as well as the section numbers formerly used. The old numbers had become a mental habit, and considerable time was formerly saved because one having a question in mind involving a point of law had no difficulty in finding the particular paragraph appertaining to the subject in the preceding laws as well as the current one.

The book which is the subject of this review, *Federal Income and Estate-tax Laws*, solves the problem and will be the means of saving much time, as Messrs. Barton and Browning have foreseen the dilemma. Their book sets in parallel columns all the sections of the 1928 act and those of like purport of former acts.

It was a contribution of great importance that these men made in former years, but I feel that the 1929 edition (the fourth of the series) is absolutely essential to the busy attorney or accountant who is still obliged to delve into the mass of laws that affect the taxpayer's position before the government.

This edition, as is true of the others, sets forth, section by section, the act of 1928, and in parallel columns the acts of 1926, 1924, 1921, 1918 and 1917. As the several acts comprehended in this volume cover the entire history of federal income taxes with which the tax practitioner must deal in these later years, the value of the book as a reference must, of necessity, appeal to all concerned.

At the top of each page is set forth that with which the sections contained therein are concerned. For example, at the top of page 219 is the caption "Basis for depreciation and depletion"; at the top of page 43, the caption "Deduction for ordinary and necessary expenses." Thus, through the book will be found captions that will be helpful to those who do not remember the numbers of the sections that treat of the particular features of the laws in which the reader is interested.

In addition to federal income taxes, the book deals with federal estate-tax laws in the same efficient manner.

Do you wish to compare the several acts to determine when a claim for refund may be made for any given year? This volume reveals the law upon the subject, as well as the law for any other year.

The book is comprehensively indexed so that any desired information is readily accessible. This work should be in the library of everyone who deals with the laws of which it treats.

STEPHEN G. RUSK.

STATE BANKS AND THE FEDERAL RESERVE SYSTEM, by CHARLES S. TIPPETS. *D. Van Nostrand Company, Inc.*, New York. 393 pages.

State Banks and the Federal Reserve System is an exhaustive treatise on membership in the federal reserve system and a very interesting compilation of incidents, facts and changes in the banking laws which induced state banks to become members of or to withdraw from the federal reserve system.

The preface, dated March 6, 1926, deals with events that took place in 1928 and gives credit to a great many contributors of information used by the author.

The introduction reads like a criticism of our banking system and points out that only one third of all the banks are members of the federal reserve bank, while in another part of the book the fact that over 60 per cent. of the banks' resources are controlled by the federal reserve system is mentioned. Of the banks which did not join, some are prevented by state laws and many are ineligible or do not conduct a commercial banking business which would make them useful members of the system. The tirade on the banking history of the last eight years is deplorable, since the statement, "One-sixth of all the banks in existence in this country in 1920 have suspended operations," should have been augmented by an indication of the capital and resources controlled by such banks. Too many of our college professors condemn everything that is American and create the impression abroad that our banking and business conditions are lamentable.

The first twelve chapters, covering 256 pages, are dry reading of statistical information gathered from many sources, and it is a pity that the author had to refer to those sources by 377 footnotes, which impede the progress of the reader. All told, there are 514 footnotes, mostly references to the source of information, while some that should have formed part of the text extend over two or even three pages.

Then follows interesting reading matter on the par collection problem, branch banking, the McFadden bank act and the conclusion of the author, which, however, lets the reader form his own conclusions.

The index, of about six pages, is poorly prepared and double reference is lacking.

Every student of economics will be interested in the incidents related and the data compiled referring to the increase and decrease in the membership of state banks in the federal reserve system, but the author creates the impression that he is displeased with our banking system and leans towards the state banks which kept out of the system or were not admitted.

CHRISTIAN DJORUP.