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Book Reviews

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THE EVOLUTION OF THE SCIENCE OF BOOKKEEPING, by H. J. ELDRIDGE. *Institute of Bookkeepers, Ltd.*, London, 1931. 82 pages.

An interesting experiment in the mass dissemination of knowledge, rivalling the use of the radio in university extension, has been made by the Institute of Bookkeepers. Acting in its behalf, H. J. Eldridge prepared a lecture, illustrated with lantern slides, on the history of bookkeeping. This lecture was delivered in London by the author, and afterwards the text and slides were sent to various places in England, where some local accountant, selected it is to be hoped on the basis of elocutionary ability, repeated the performance. And now the lecture, with reproductions of unfortunately only seventeen of the forty-four slides, is published in book form.

Several bibliographical lists, printed in eight-point type, presumably were not included in the lecture as delivered. But even with this lessening of the contents, one wonders at the staying powers of English accountants if, in addition to listening to the really interesting portions of the lecture, they could sit through what would seem to many a rather dreary list of dates and titles.

The description of accounting practices in early times, and the analysis of some of the important works on bookkeeping are pleasantly given, and the illustrations are excellent. The book is well worth reading by those who desire a cursory survey of practice and of literature. It doubtless makes no claim to great merit as a piece of bibliographical research. Its unpretentiousness is its best defense, otherwise one would criticize the occasional listing of some later edition of an author's work rather than the first edition and would seriously object to the frequency with which the statement is made that on a certain date a given author published a book, omitting altogether its title. There is also no apparent reason why some well-known works are omitted, while others, no more important, are listed. There is no intimation that the bibliography is restricted to English works, and those in other languages which appeared before 1700 are fairly well represented. But the author's list does not contain a single work in any other language after that date. Unfortunately the text is marred by too many typographical errors, but toward such slips a tolerant spirit is always appropriate.

One real service has been rendered. The other English bibliographies, by Brown and Cosmo Gordon, stop at 1800. Mr. Eldridge brings his list down to 1850. This curiously neglected half century may well repay additional study.

HENRY RAND HATFIELD.

INDUSTRIAL ACCOUNTING FOR EXECUTIVES, by JOHN R. BANGS, *McGraw-Hill Book Company, Inc.*, New York. 449 pages.

Industrial Accounting for Executives is somewhat unusual in its scope. Its immediate purpose was to serve as a text for a course in accounting and costs for the students of the engineering division of Cornell University. In this respect the title might well be "Industrial Accounting for Future Executives," and there is in the book much about the technical processes of accounting and cost accounting with which the man already arrived at executive rank would not wish to be bothered. With the results produced by this technique, however, he should and must wish to be bothered, if he is to be counted among those executives who base their actions upon sound knowledge of their business. As would be expected from its origin, the book has a strong engineering flavor and is insistent on the point of view that modern cost accounting owes much to the scientific management school associated with the names especially of Taylor and Gantt. The book also is a combination of financial accounting and cost accounting. The first twelve chapters (not eleven, as stated in the preface) are devoted to general accounting; chapters 13–21 are described broadly as dealing with industrial and cost accounting, but they include one chapter on each of the following topics: financial mathematics or actuarial science, budgetary control, analysis of financial statements, controversial and debatable accounting subjects and modern mechanical methods of performing the accounting function.

The foregoing remarks will give the book its main character and orientation; but its individual quality is based less upon its general content than upon the wide variety of references and illustrative materials which are freely interspersed in it. It opens with a brief historical review, beginning with the records of the Babylonians under Hammurabi; it contains a great deal of diagrammatic illustration of the various accounting and business concepts; it contains a considerable number of quotations from other business and accounting authorities; and it also gives sections from the accounting manuals or other instruction books of actual manufacturing concerns. In other words, the applications of all principles developed are strongly brought out.

The simple diagram, figure 29 on page 198, will suggest many thoughts to any man of experience in this field. It is true that there is a marked present trend towards simplification; it is not true that all businesses move in unison in this respect. The curve shown in this figure correctly reflects the experience of a majority of companies. What is more, the curve will repeat itself several times during a period of years. That is, the company at its inception will aim at a simple accounting procedure; it will gradually increase the scope of its manufacturing and selling activities, so that the executives will come to feel that they do not have an effective control; a period of explanation of accounting activities will ensue, culminating in perhaps a relatively heavy volume of accounting work. By this time the executives will begin to feel that their purposes have been met, and motives of economy or other reasons will appear and induce a return to simpler methods. None of these changes necessarily reflects adversely upon the accounting itself, nor upon the accounting administration; it would be a more serious reflection if these constant attempts to grapple with the situation were not being made.

The numerous diagrammatic treatments have already been mentioned. These and other features of the book will raise pedagogical questions in the minds of other teachers. It is my experience that the most effective use of many of these diagrams is obtained by actually working them out on the blackboard in front of the class, from which the students may easily follow the development of the relationships to be illustrated. The diagram on page 32 is helpful and excellent, but that on page 30, for example, illustrating cost of goods sold, becomes more complex than the thing it attempts to explain. It is also probably true that few students and no executives will read through the lengthy illustration of a complete bookkeeping job, as shown on pages 93–114. Similarly with regard to the problem in partnership dissolution on pages 174–175, it may be questioned whether students will understand this clearly without considerable assistance from the teacher.

On page 245 the author follows what is perhaps the natural bent of an engineer in expressing a general preference for the machine-hour rate as a basis for burden distribution. While this is undoubtedly the best method in many cases, and the fears which many business men entertain of its complexity are exaggerated, the machine rate is not likely to be adopted in all cases to the complete exclusion of other methods. Labor rates of various kinds will still prevail in many instances, partly because of their simplicity, and partly because in some instances they give the same result as a machine-hour rate. Moreover, is the author quite certain of his own statement when he says "Expenses do not naturally associate themselves with material, wages, or time, . . . ?" While the statement is largely true of "material" it would seem to be distinctly untrue of "wages" and of "time." In fact the machine rate which he recommends is itself a machine-hour rate, and therefore based on time.

Very effective use is made of the materials gathered by C. R. Stevenson, and presented by him to a convention of the National Association of Cost Accountants, relating to the normal volume of business, normal costs and the relation of these to selling prices.

The author might wish to have one or two typographical errors pointed out. These errors are important because they affect the meaning. On page 4, line 9, the phrase in quotes should read "capital expenditure *or* charge against revenue." On page 77 would it not be more accurate to say that it is the depreciation reserve which is sometimes referred to as a "hole in assets"? On the same page is it not saying too much to assert that "Accounting practice is well agreed that a reserve-for-depreciation account shall be opened for each asset being depreciated?" It is generally agreed among progressive industrial accountants that the reserve for depreciation should be computed with reference to the individual assets, rather than by a blanket provision; but even this can not be said to be a general practice. As for providing a separate reserve account for each asset, this can be true only if the notations of depreciation entered in the so-called plant ledgers are regarded as accounts. In the general ledger of the cost ledger, there may be one reserve account for each type of asset.

The book contains much interesting material, and in great diversity. The combination of accounting and cost accounting, and the whole from an engineering viewpoint, is very well worked out.

T. H. Sanders.

WAGE METHODS AND SELLING COSTS, by Anne Bezanson and Miriam Hussey. *University of Pennsylvania Press.* 405 pages.

MERCHANDISE CONTROL MANUAL, by Merchandise Managers' Division of the National Retail Dry Goods Association. 324 pages.

The National Retail Dry Goods Association has been instrumental in the addition of two volumes to the list of many publications it has sponsored. The first is a result of a study initiated by its store managers' division and is the work of Anne Bezanson and Miriam Hussey of the industrial research department of the University of Pennsylvania. The second was prepared by the merchandise managers' division of the association.

Wage Methods and Selling Costs gives the results of a study of this subject in a limited number of departments in many department stores in all sections of the country. The principal methods of payment discussed are straight salary, salary plus commission on all net sales, quota-bonus and straight commission. The difficulties in the operation of the respective methods as well as the advantages and disadvantages of each are discussed. In specific departments selling costs under the various methods of payment are compared. It is interesting to note the statement that "an analysis of the basis possibilities of the wage systems in effect in various stores can not help convincing one that there is a chance for the economical operation of any of these systems." The administration of the plan, in other words, is a very important factor.

Merchandise Control Manual is introduced with the statement that "the purpose of merchandise control is to keep stocks balanced according to sales by items" and it describes a perfectly balanced stock as having "the right things in the right quantities at the right time and at the right price with no old or soiled merchandise." The control consists of two parts: first, a proper method of assembling the necessary data; second, their actual use for control purposes. The preliminary steps to be taken before the introduction of unit stock control as well as the general forms which unit stock controls take are discussed. Detailed descriptions are then given of the forms and methods in use in individual departments.

Both books contain a wealth of information for those interested in department-store operation. They form valuable additions to the literature of the retail field.

J. P. FRIEDMAN.

PRACTICAL COST ACCOUNTS, by ANDREW MILLER. *Gee & Co.*, London. 66 pages.

A handy little booklet is Andrew Miller's *Practical Cost Accounts*, apparently intended to recommend to British industries a more general use of intensive cost accounting. Especial stress is laid upon the value of such accounting in the avoidance of waste, and enough description of accounts and methods is given to persuade the reader that the introduction of modern systems need not be regarded as an expensive luxury. As Lord Weir well says in the foreword, ". . . the position of cost accountant is now one of primary importance in every industry."

On account of the differences in terminology the book is hardly suitable for American business men, but American cost accountants will heartily wish for a wide circulation of it in Great Britain for the benefit of their British confreres.

W. H. LAWTON.

A SOLUTION TO THE APPRECIATION PROBLEM, with supplement, THIS THING CALLED DEPRECIATION, by WILLIAM B. CASTENHOLZ, *LaSalle Extension University*. 95 pages.

The problem to which a solution is offered seems to be that of adjusting cost accounts to conditions where plant used has been purchased at prices below (or above) current prices, so that there is "less deception in competition between similarly circumstanced businesses" (meaning similarly circumstanced except as to price levels at which depreciable fixed assets were acquired).

This author would charge each year against operations an amount for depreciation based not upon actual cost of fixed assets but upon replacement values at the beginning of the year. At the same time he would set up in the depreciation reserve only an amount based on original cost of the fixed assets, holding the difference in suspense until the end of the year when it would be transferred to surplus. In this way the total accretions to surplus would be unchanged, but part would come from the profit-and-loss (operating) account and part would be directly transferred to surplus without passing through the profit-and-loss account.

The balance-sheet would be unaffected; it is not proposed to take up any appreciation except that corresponding to the portion of fixed asset values absorbed in the operations for the single year. For this purpose the author admits the necessity of an appraisal every year, not in order to set up appraised values but in order to compute the depreciation for the year on the basis of current price levels. This, he says, may reconcile all conflicting views. So far as regards the operating account, the plan, if workable, would go far toward equalizing costs now distorted by depreciation charges based on costs of assets acquired at widely differing price levels.

There is the question of appraisals; they are uncertain at best, and for this purpose they must, as the author says, take into consideration (1) depreciation from actual use, (2) depreciation by reason of natural decay, (3) inadequacy, (4) probable obsolescence. When an appraiser has to consider probable future obsolescence his lot is not enviable. He can only guess; and, while in cases where there is a wide spread between cost and present reproduction prices the depreciation charge for a year might be adjusted in the manner proposed with gain in correctness of operating costs, a general adoption of the plan is hardly to be looked for because of its complexity and the uncertainty of appraisals.

Large assets such as ships might be treated in the manner proposed without great difficulty; small machinery, hand tools, furniture and fixtures, are assets that would not readily lend themselves to such methods.

The varying views of theorists will not be reconciled to any large extent; we have the theorist who holds that at the end of the life of an asset the depreciation reserve should be big enough to replace it; the theorist who would take up at once all the appreciation he could find; the theorist who discards depreciation altogether and substitutes maintenance, etc. Each of these has strong arguments for the application of his ideas in certain circumstances; each theory is unsuited to some other circumstances. Probably we shall have to consider each case on its merits, but Mr. Castenholz has at least given us another resource in dealing with the question.

The supplementary section on depreciation is not so good. Too much weight is attached to fanciful "concepts," too little to the substance of the matter. Thus the author is led to the astonishing statement that if a machine costing $20,000 and having originally 20,000 hours of effective service be used for 2,000 of those hours, the $20,000 of value has not shrunken to $18,000—"no values have shrunken." Then he explains that the residual value is

$18,000, but that this $18,000 represents an amount of undepreciated use that remains and that $2,000 of potential use has been consumed.

Such hairsplitting may be of interest to economists and other dreamers but its effect upon the business man is to breed distrust of the accountant; and it is so unnecessary. There will be no reform until the business man is converted.

Criticism of the treatment of appreciation by the United States in its tax laws appears in this section of the book. It is wide of the mark. United States tax laws are not intended either to do exact justice or to teach accounting, but are devised for the purpose of collecting the utmost in taxes with the least opportunity for contested assessments. A tax law exempting from tax apparent profit due to appreciation consequent upon a changed general level of values would afford such a field for argument that enforcement would be impossible.

The case was well put by one of the greatest of the world's accountants, who, when the present income-tax laws were under consideration said: "A man had a shirt for which he paid a dollar, intending to sell it for a dollar and ten cents; but the war came and raised prices, so he sold it for a dollar fifty, and became a war profiteer. And the government collected 35 cents profits tax; and he then put in stock another shirt exactly like the first, but it cost him a dollar thirty. He had a shirt; now he has another one just like it, but he is fifteen cents out of pocket. Of course, tax was paid on appreciation as well as on profit."

The unjust taxes collected by the government on apparent profit due to "appreciation"—or more correctly due to depreciation of the dollar—are now being returned in part, since present taxable profits are reduced below true profits owing to the contrary trend of gold values. Nobody seems to have noted that the apparent low profits of 1930–31 are in part only a reflection of changed dollar value.

Mr. Castenholz is to be congratulated upon his assault on an evil that has, in many cases, totally obscured the results of operations. I know of a specific case of two steamship companies, one operating vessels acquired at war prices and one with similar vessels acquired about 1909–1912, both in the same trade, operating in exactly the same manner, one showing profits, the other apparently "going bust." Castenholz can save them; but if they don't hurry up it will be too late for Castenholz.

F. W. Thornton.