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Book Reviews

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BASIC STANDARD COSTS, by ERIC A. CAMMAN. *American Institute Publishing Co., Inc.*, New York. 232 pages.

Cost accounting has experienced two distinct stages of development: the first in which emphasis was placed on so-called *job costs* (sometimes termed "actual costs"), and the second in which attention has been concentrated on so-called *standard costs* (sometimes termed "pre-determined" or "estimated costs"). Now comes Mr. Camman with an explanation in book form of what may prove to be a third distinct stage of cost-accounting development—the use of what he calls "basic standard costs," wherein "standards as measures" are substituted for "standards as ideals (or estimates)."

This distinctive method, which the author has expounded in lectures and articles for several years, is almost as different from the earlier forms of standard costs as standard costs in turn were different from job costs. The plan calls, not only for a different type of standards, but for different and additional uses of the cost-accounting information obtained. The book is a comprehensive and explicit description of the method and what the author believes to be its uses and advantages.

Briefly, Mr. Camman's theory is that "standard" costs shall be calculated, not in terms of expected costs, but merely as basic measures for making cost comparisons; that actual costs shall be stated at all times and in all details as ratios to these measures; that expected (or estimated) costs, and other budgetary features, shall also be stated as ratios to the measures; and that results shall be analyzed by determining the sources and amounts of differences between actual and standard, expected and standard, and (thus) actual and expected.

Furthermore, instead of carrying the cost-accounting transfers through the books of account on the basis of pre-determined standard costs (as is commonly done under the earlier type of standard cost procedure) Mr. Camman's plan calls for recording the transactions at "standard" merely in memorandum form, while making the cost transfers on the books at an "actual" figure, determined by calculation from the prevailing ratios of actual to standard.

The effect of the procedure is to concentrate the attention of the analyst and the executive on ratios as indices of variations from standard (and from the expected or budgeted costs) and to express the general accounting results in aggregates developed from ratio analysis, rather than aggregates composed of numerous individual items and transactions taken at specific costs and amounts.

The book is essentially a description of the plan in operation. After two introductory chapters explaining the differences between job costs, "ideal" standard costs, and "basic" standard costs, the author proceeds to the details of accounting under his plan for labor, for factory expense, and for materials; digresses briefly to comment on problems of spoilage, graded products, and joint products; then gives a comprehensive explanation of the analysis of variations in profits under the basic standard cost plan. After this, he submits a recommended account classification and suggests the form of the accounting entries, and in conclusion gives attention to the problems of determining normal capacity and of pricing inter-plant and inter-department transfers.

One need not agree fully with the author's view as to the advantages of his method to profit greatly from reading the book. Many will have doubts as to the possibility of universal application of the method and even of its unqualified superiority in particular cases. It may be objected, for example, that where the job-cost plan dealt with one set of figures, and the "ideal standard" cost plan with two sets, Mr. Camman's method calls for three sets, to say nothing of the apparently unlimited number of ratios which may be developed from them. It will certainly be difficult for an inexperienced cost accountant to keep his head amid the distractions of actual costs, expected costs and standard costs; and it will need be a keen and studious executive who can reason quickly to a correct conclusion from every ratio and variance disclosed, except after a thorough schooling in the significance of the figures. Further, there seems to be danger that unless the accounting work is in the hands of persons of thorough training, superior intellect and discriminating care, mistakes of serious amount may easily find their way into the general accounts without the possibility of prompt and certain detection.

No matter what may be said, however, it will probably be conceded by the most skeptical that the method represents the furthermost point of advance in cost-accounting procedure of the present day. Whether or not it will largely supersede cost accounting of the "ideal standard" type, every accountant should familiarize himself with the fundamentals of the method and its uses. The author's insistent emphasis on the study of variations, and his procedure for isolating the effects of volume variances, price variances, etc., are important enough in themselves to justify a careful reading of the material by every accountant. The ability to interpret and deal with variances and variables is being recognized more and more as an indispensable part of an accountant's technical equipment, because it is an essential feature of all budgeting, planning, and control.

The book is to be studied, not to be read casually. A good working knowledge of job-cost and ordinary standard-cost procedure is important to its full appreciation. For the reader who is willing to apply his mind to a rather complicated problem, the author makes progress as easy as such things can be. He goes directly from point to point, with a wealth of specific explanatory detail forming an integral part of his exposition. The style is clear and forthright, the argument logical and convincing, the arrangement orderly and coherent.

The chapter on the accounting classification and accounting entries seemed to me the least satisfactory portion of the book, made needlessly complicated and not so clear at all points as other sections of the book. Fortunately this material is least essential to an understanding of what the author has attempted to convey. Some enlightenment in the matter of how to calculate "expected" performance in precise ratio to "basic standards" would be a welcome addition to the explanations.

The publishers evidently gave the author a free hand in the matter of illustrations. The text is full of them, and several supplementary charts have been included in an envelope in the inside back cover, so that they may be removed and spread out for reference as the text is studied. The book must have been exceptionally costly to produce, and the publishers are entitled to a vote of thanks for coöperating so well with the author in giving adequate presentation to a difficult subject.

HOWARD C. GREER.

LAW FOR LAYMEN, by HAROLD DUDLEY GREELEY. *American Institute Publishing Co., Inc.*, New York. 347 pages.

If it be possible to justify the reviewing, by a layman, of a work on law it must be on the principle: "The proof of the pudding is in the eating." Not the expert who knows how a pudding should be made, and just what ingredients it should contain, but the one for whom it is prepared is the ultimate judge of its worth. So it may well be that *Law for Laymen* may be tasted by a layman, who may report on its savor and on its digestibility, perhaps on its stimulating and nourishing effect.

Tasting the book the layman finds it has a pleasant savor—and that is indeed a recommendation for pudding or for book. Its introductions, with which most of the chapters begin, are interesting and stimulate further interest in the subject; the substance of the chapters is concisely set forth and is not so highly seasoned with bits of legalistic erudition as to offend the uninformed. The scope of the book is comprehensive; its arrangement orderly. And the publishers have presented it in attractive form, garnished with pleasing typography.

The book takes up in sequence various phases of commercial law: contracts, agency, sales, negotiable instruments, and so on, all in the orderliness of rather strict conventionality. In this respect it seems nourishing rather than stimulating.

While the book is apparently intended primarily for accountants, the author is in no sense acting as a mere coach for the examinations in commercial law given by the Institute. A considerable proportion of the questions thus asked require information not contained in this book. To state this limitation is to commend the author, not to condemn him.

Acting on the author's request for suggestions as to possible improvements, attention is called to three matters of especial significance to accountants. The statement (§912) that salaries paid to partners under agreement, "of course, are merely drawings against profits" seems incorrect. It does not cover an agreed on salary paid when there are no profits. This can not be a distribution of profits, but effects a reapportionment of capital.

In the same paragraph the author, doubtless through inadvertence, states that in dissolution, after loans made by the individual partners to the firm have been paid, "the amount of the capital contributed by each partner is repaid to him." Not the amount contributed, but the amount remaining after apportioning losses (if such have occurred) is to be paid each partner. And in some cases, despite the phraseology of the law, even a partner's loan would not be paid offhand, by a prudent trustee, where the situation, because of losses, was such that payment of the loan might imperil the claims of the other partners.

The statement, though often found in textbooks, that "a dividend is a portion of the corporate profits distributed to a stockholder," is objectionable in two respects. If a dividend is a portion of profits, there can be no such thing as a dividend paid from other sources, and the prohibition of "dividends out of capital" is a crass solecism. Furthermore the statement is too sweeping. Dividends have not only been paid out of paid-in surplus, but such payments have been sanctioned by high authority.

With some hesitation, but relying on "advice of counsel" even a layman may question the statements that a tenant's refusal to pay rent constitutes "adverse possession" (§602) and that the person asking the appointment of a receiver must have some "valid title" to the property (§1404).

In the suggested revision the author is urged to be more generous in giving formal definitions of legal terms, and more careful in their use. A corporation is defined as "a group of individual persons . . . ," and there are listed as instances of corporations "light, heat and power plants" (§1001). It taxes the intellectual agility of the layman to conceive of a steam boiler and an electric generator as "a group of individual persons."

For thus responding to the request for suggestions for improvement, this layman expects the author's gratitude. Especially so, as, amid many merits, it is a laborious task to pick out a few flaws. And the finding of an occasional plum-pit does not prove that the pudding is not a meritorious concoction.

Henry Rand Hatfield.

PETROLEUM DISTRIBUTION ACCOUNTS, by Joseph Johnson. *Gee & Company, Ltd.*, London, England.

Here is a book from England that those of us in America who are interested in the subject of distribution of petroleum products—or the distribution of any other commodity—from bulk stations or warehouses to retailers may read with profit. It furnishes an excellent example of bookkeeping and accounting control. We find that the leading distributing companies in the United Kingdom are members of a "combine." They sell only to reputable dealers and commercial consumers under certain association agreements. The dealers own the service stations.

In discussing the subject from the American viewpoint, it might be well first to outline the organization of a large American oil company. It may consist of ten departments, namely: (1) production, (2) natural gasoline, (3) pipe line, (4) storage, (5) refinery, (6) tank car, (7) marine, (8) marketing, (8a) plant sales, (8b) bulk station or warehouse sales, (8c) service station sales, (9) other operating departments, (10) administrative. The British transactions dealt with in Mr. Johnson's book may be compared, in the main, with our American (8b) bulk station or warehouse sales.

Although the area of Great Britain is little over one-third that of Texas, it is thickly populated, and, doubtless, for that reason the marketing territory is split up into divisions. The book under consideration is a word picture of a division office at work. Matters of policy, system, standardization of methods, sales promotion, etc., are directed by the head office. This leaves the division manager and his assistants free to attend to sales in conjunction with the depot staffs, the accountant directing all clerical work at the division office.

Each division consists of a number of depots whence drivers, after filling up their tank wagons, go their respective routes to replenish dealers' stocks. Drivers' cash tickets are different from credit tickets, which makes for ready sorting at the division office. At the close of the day each driver delivers to the depot office his collections together with sales tickets and a recapitulation of sales on a driver's return. A depot cash report together with drivers' returns and tickets are sent daily to the division office. The division office sends the head office daily a cash summary and a list of sales gallonage by depots. At the close of the month the trading accounts and cash remittance accounts are closed into "head office current account," a condensed analysis of which with supporting schedules of essential information is sent to head office.

The book, amply indexed, consists of 120 pages, the first 66 being devoted to explanatory text and the remainder to forms and illustrations, the final page giving two alternative methods in graphic form showing the flow of information from the drivers' tickets through the various records to the division general ledger. Mechanical methods, in view of the fixed handicap of carrying accounts in sterling, are ingeniously utilized, and each step in the office work is planned for speed, accuracy and control until the day's work is analyzed as called for by the system.

The author addresses himself to a particular branch of the industry and while explaining the accounting procedure he does not overlook the opportunity to give us some interesting sidelights on marketing conditions, taxes, "pirates" and other things.

If it be true that clear and well instructed records admit of ready audit, the traveling inspector from the head office seems to have an easy job checking this division and its depots. The author of *Petroleum Distribution Accounts* has made a valuable contribution to the lean library on the accounts of operations within the oil industry.

H. G. HUMPHREYS