Book Reviews

Henry Rand Hatfield

Book Reviews

INTRODUCTION TO PRINCIPLES OF ACCOUNTING, by H. A. FINNEY. *Prentice-Hall, Inc.*, New York. 649 pages.

ADVANCED ACCOUNTING, by FRANK HATCH STREIGHTOFF. *Harper & Bros.*, New York. 656 pages.

Two of the most recent additions to the shelves groaning with textbooks on accounting suggest three comments, which bear on the general subject of accounting literature.

One is that, as yet, there seems uncertainty as to what should be included in the first, what in the second, year of a course in accounting—as to where introduction ends and where advanced work begins. Both of these works give closely similar discussions of the aging of receivables, of consignments, of cash receipts, of manufacturing costs, of issue of capital stock, of admission and retirement of partners. Both go into the details of preparing an inventory showing both cost and market value; both give an illustration of a twelve-column work sheet, and not very dissimilar statements of income and expense. Is there no agreement among instructors as to where these topics belong? It would be an interesting bit of research, for some zealous educationalist, to ascertain whether first and second year texts in German, in algebra, or in chemistry show more or less clearly marked delimitations than do similar works in accounting.

The second comment is that, even after these centuries of accounting literature, accountants apparently do not yet know what is what. Of these two distinguished writers, one places the loss from bad debts among general, not under financial, expenses; the other exactly reverses this. One shows discounts on purchases and sales as financial income and expense; the other treats them as deductions from purchases and sales. One includes accounts receivable among intangible assets; the other excludes them from that category. One seems to regard net income as the final residue of profits; the other shows net profit as the remainder after certain subtractions from income.

Now, bad debts, discounts on purchases, discounts on sales, intangibles, income and profits are all terms which fall readily from the lips of every accountant. All are technical terms. It is truly disconcerting to find two outstanding accountants, professors both in universities of highest rank, writing not as pioneers in the field but as "heirs of all the ages" of bookkeeping lore, using these technical terms in technical treatises, with no agreement as to their content. These particular professorial authors are not to be especially blamed—it is rather that accountancy, which claims the qualities of a science, is still lamentably inchoate.

A third comment is that accountants are still weak on theory. This is illustrated more by *Advanced Accounting* than by *Introduction*, because the latter generally eschews theoretical considerations, being content with a categorical statement as to how books are kept, rather than why they should or should not be thus kept.

Inconsistency is found particularly in regard to valuation, the theoretical question to which most attention is paid. The author states that appreciation should not be shown, yet in regard to accounts payable abroad in foreign currency, he gives rules which imply a showing of appreciation, rules which inconsistently differ for receivables and payables. The crude and trite justification of valuation at cost or market, whichever is lower, is accepted without noticing its irrelevancy or that it is inconsistent with other rules.

There is confusion in the idea that the value of an asset on the books of the vendor or donor has any significance whatever as to its valuation on the books of its new owner. There is the conventional inconsistency in assuming that a price paid for stock of a subsidiary in excess of the book value of its assets represents the cost of goodwill, when the price paid for the goodwill may easily be much less or much more than that excess. There is the inconsistency, so beloved by many accountants, of showing only part of the goodwill, in the case of a consolidation of either firms or corporations, although there is no suggestion of showing only a similar proportion of the value of real estate. As to whether the books should show discounts taken or those neglected, it is inconsistent to say, "There is little choice, both being logical." It is difficult to see how, in the case of unsold purchases, a neglected discount can with equal logic be regarded as a financial loss or as an element of increased value of the inventory. One or the other may be right, perhaps either procedure may be regarded as expedientially legitimate; both can not be logically sound.

But why cavil at inconsistencies? Has accounting ever attempted to be consistent? It is to be hoped not, for otherwise the profession shows gross incompetence in carrying out its purposes, and incompetence is more disastrous than inconsistency. "With consistency," says Emerson, "a great soul has nothing to do." This should console accountants.

It is no serious criticism of the author that he is not free from conventional error. He has done better than many of his contemporaries. Particularly in regard to depreciation he has avoided the crass misconceptions so frequently found in current literature, and for this excellence praise is due.

This review resembles, except in ability, the old time reviews in the *Quarterly*, where books are taken as a text for a general discussion, rather than for careful appraisal. Perhaps an attempt should be made to summarize. Finney's *Introduction*, so far as an elementary text can be judged at all before trying it out on a class, seems clear, concise, and well provided with laboratory material. Streightoff's *Advanced Accounting* seems respectable but not epoch making.

HENRY RAND HATFIELD.