

2-1933

Book Reviews

Henry Rand Hatfield

W. H. Lawton

A. van Oss

Will-A. Clader

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Hatfield, Henry Rand; Lawton, W. H.; van Oss, A.; and Clader, Will-A. (1933) "Book Reviews," *Journal of Accountancy*. Vol. 55 : Iss. 2 , Article 10.

Available at: <https://egrove.olemiss.edu/jofa/vol55/iss2/10>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Book Reviews

ACCOUNTING IN LAW PRACTICE, by WILLARD J. GRAHAM and WILBER G. KATZ. *Callaghan & Co.*, Chicago. 444 pages.

Turn about is fair play. Recently appeared *Law for Laymen*; the layman obviously being primarily the accountant. Now comes a treatise on accounting designed for lawyers. Some disrepute attaches to works bearing such titles. Lawyers look askance at the layman attempting to comprehend the arcana of their peculiar guild. Accountants, more generously, wish often that lawyers would learn some accounting. But, after all, they say, "for good or ill, accounting is accounting, whether for lawyers, or for less exalted folk."

This title, however, is somewhat misleading. The book contains good substantial accounting doctrine, only the last two sections—accounting for fiduciaries, and the reprint of Mr. Harvey's somewhat unsatisfying paper on "Accounting for law firms"—being particularly adapted to the lawyer's needs.

The authors disclaim consideration of any but the most simple bookkeeping technique. Yet part I, "The accounting process" contains almost all the technique found in conventional texts, some of it difficult for the beginner and superfluous for interpreting the balance-sheet to which it leads.

Objection is made to the opinion, incorrect though often expressed, that discounts on purchases constitute profits, and to the explanation, unsound historically and logically, of why assets are placed on the left-hand side of ledger accounts.

The second section gives the customary entries for partnerships but errs in describing a method for valuing goodwill. A formula is applied to a partnership, where the profit-sharing differs from that of capital contributions, which can only be used where the profits are shared in proportion to capital.

The third section on corporations is conventional but good, with reservations as to the relation between an insurance reserve and surplus and as to the vendor writing in goodwill when he sells all his assets at a profit.

The most significant section is probably the fourth, dealing with valuation and income. This is well documented with references to court decisions. But it is misleading to consider premium on purchased bonds a deferred charge to income instead of an investment to be repaid in small instalments. The relegation of the "scientific" method of amortizing premium to a two-line footnote seems disrespectful to a method required by some statutes and universally used in calculating bond-yields.

In the next section, dealing with financial statements, the "index of financial strength" is unfortunately swallowed whole, as if it really had some scientific significance.

Vigorous, but probably futile, protest is hereby entered against the doctrine that when the price paid for the stock of a subsidiary exceeds the book value thereof, the difference should appear as represented by goodwill. Thus to exalt a common but unsound practice into a categorical imperative is unfortunate, especially when catering to lawyers to whom precedent is sacrosanct.

An inconsistency is found in the authors' showing the unsold portion of the goodwill of a partnership but, in accordance with the regrettably common

Book Reviews

practice, refusing to show, in the consolidated balance-sheet, the share of good-will attributable to minority shareholders.

To sum up! The use of the somewhat misleading title is justified if it succeeds in luring lawyers to study a subject they sorely need. If not materially different from the run of accounting texts, it is a respectable treatise on the subject and will benefit the reader. The imperfections which are to be found, while painful to the accountant, will not materially injure the lawyer. Let him read it, by all means.

HENRY RAND HATFIELD.

FEDERAL TAX HANDBOOK. REVENUE ACT OF 1932, by ROBERT H. MONTGOMERY. *The Ronald Press Co.*, New York. 1035 pp.

The problem of making up correct returns for the federal income tax under the act of 1932 is perplexing a good many accountants and taxpayers now. It is generally known that rates have been increased and some exemptions and credits have been eliminated. If these were all there would be little to worry about. But in its apparent eagerness to "soak the rich" congress has inserted so many seemingly minor but really drastic clauses dealing with capital gains and losses, gifts, etc., that the path of the accountant is by no means clear. Add to this that some of the provisions of the act are sure to be put to the acid test of the supreme court, and above all that no man can foretell what the present or the next congress will do in the effort to balance the budget, and the need for some competent guide is manifest.

In *Federal Tax Handbook* the author offers an up-to-date summary and commentary on the income-tax laws as they stand to-day, including what he considers as possible and probable in the matter of construing the changes in the 1932 act. Whether he is right or wrong in the latter remains to be seen, but it is significant to note that in the past he has been remarkably accurate in forecasting the attitude of the courts in dealing with doubtful or questionable rulings of the treasury.

W. H. LAWTON.

WIRTSCHAFTSLEHRE DER KAUGMANNISCHEN UNTERNEHMUNG, by A. HOFFMAN. *Hans Buske Verlag*, Leipzig, 1932. 800 pages.

The book covers the scope and purpose of the industrial and commercial enterprise, and the acquisition, use, safeguarding and production of capital in the wider meaning of the term. Full justice can not be done to a book of this sort without devoting considerable time to a study of its contents. A cursory reading leaves no doubt that the subject is covered comprehensively. The chapters present in thorough and methodical fashion the numerous phases of the general subject: the factors that govern choice of location, capital structure, expansion and development, functions, risks, liquidity, budgeting, appraisal, depreciation, reserves, profits, dividends, labor, purchases, sales, advertising, rise and fall of exchanges, etc., etc. The author describes these phases concisely, crowding facts and thoughts into his sentences. The latter, however, are not as lengthy as they might have been and the book compares in lucidity very favorably with other German treatises of this kind.

The subject is treated more or less as one of economics, and accountancy is only occasionally mentioned. The appeal to accountants seems limited, only

those of studious mind, seeking wider knowledge in a sphere where the profession occupies a somewhat subordinate position, will find satisfaction in reading this quite up-to-date and general discourse.

A rather formidable book dealing with a formidable subject in a not too formidable way.

A. VAN OSS.

LOCAL AUTHORITY FINANCE ACCOUNTS AND AUDITING (second edition), by J. H. BURTON. *Gee & Co.*, London. 2 vols. Cloth. 1075 pages.

In *Local Authority Finance Accounts and Auditing* Mr. Burton offers a combined manual and text-book on taxation, accounting and auditing according to the practice of municipalities, counties, parishes, etc., in England. The American reader interested in taxation (and who is not in this year of trouble?) will find much familiar matter, as is natural since, with the exception of Louisiana, English precedence has governed law and custom in our commonwealths and municipalities. He may be somewhat surprised to observe the same trend toward state socialism in both countries. Indeed, staid old England has in some respects far outstripped us in paternalistic government, and ideas in socialistic programs at which we shudder seem to be accepted as a matter of course by our English cousins.

Very much on the same lines as the volumes issued by our tax-service corporations, Mr. Burton's volumes contain a vast amount of detail involving acts of parliament, judicial decisions, official rulings, local laws and customs, etc., to which he has added no end of advice and suggestions as to accounting media, labor-saving devices and what not. As a manual for local treasurers and administrative bodies the manual must be invaluable, but I confess to a feeling of commiseration for students who are required to answer the ninety-odd pages of questions and problems at the close of the book!

In view of recent discussions of American municipal audits, Mr. Burton's remarks regarding professional accountants as auditors versus elected or government-appointed auditors are interesting. He says (Vol. II, pp. 945-6):

"Nearly all town councils . . . employ professional accountants to perform an audit after the style of that which these gentlemen carry out in commercial houses. From the accountant's standpoint this is considered good, but it must be admitted that their knowledge is sadly lacking in the line of matters and accounts municipal. The result is that their audit generally resolves itself into a verification of the arithmetical accuracy of the ledgers, cashbooks and vouchers laid before them, together with a verification of the items shown in the balance-sheet. . . . Unfortunately (or fortunately) they lack the legal knowledge of local government law so necessary throughout municipal accounting which is possessed by district auditors."

W. H. LAWTON.

FINANCIAL POLICIES OF PUBLIC-UTILITY HOLDING COMPANIES, by MERWIN H. WATERMAN. *University of Michigan*, Ann Arbor. 186 pages.

Under the somewhat unwieldy title *Financial Policies of Public-Utility Holding Companies*, another interesting and useful book has appeared in a series of "Michigan business studies." It is a "holding company study" with

Book Reviews

the object "to determine, as definitely as possible, the requisites of a well-managed public-utility holding company." Professor Waterman, the author, has written an interesting account of a vehicle used for a great speculative mania that gripped the American people. The study covers a wide range, including such subjects as operating policies, parent company versus subsidiary company financing, trading on the equity, methods of effecting acquisitions, security contracts and security distributions, and administration of income, each followed with illuminating conclusions of the author.

The study covers five large and important public-utility holding companies whose chief holdings are in gas and electric operating companies. The book was published August 1, 1932, and includes references to occurrences of recent date. "It is apparent that errors in financial management have been made and that optimism has overbalanced judgment in many instances,"—a charitable comment by the author on the practices disclosed, although there is truth in his statement that "there is some good in the worst of them and some bad in the best of them."

The book describes the unbridled licence of certain holding companies. This flood of light upon corporate management recalls Professor Ripley's writings in which he drew attention to the temptation a holding company affords to "prestidigitation, double-shuffling, honeyfugling, hornswoggling, and skull-duggery."

The public utility industry has more at stake in the prevention of unsound practices than anybody else. Its good repute is in danger. I know many fine men in the industry and I have faith that they will clean house and remove those responsible for manipulation, man-made statements, suppression of information to the security holders, misrepresentation and other reprehensible practices. After all, the security holders are the real owners of the companies.

There are probably more soundly organized holding companies than there are mismanaged ones. More men are needed in the holding companies who lose neither their heads nor their sense of trusteeship. This is greater than publicity and regulation. Professor Waterman says, "It is believed that mismanagement has been more responsible for the faults with holding companies than has the form of organization per se."

Records of one of the companies analyzed show that the managers of local companies can decide only matters of small policy, that outside of petty cash certain operating subsidiaries do not even have any funds in their own name. It is also alleged that superimposed management has made dummies of the local utilities. A well-known authority said, "The late unprecedented creation of hierarchies of corporations . . . is utterly opposed to sound public policy . . . the local companies . . . have been sucked dry by the taking over at staff headquarters of basic matters of management which determined both cost and service."

It is disappointing that Professor Waterman has said nothing about the questionable practice of presenting all the capital stocks without par value in aggregate, without showing the consideration received for each class.

A discussion of the financial policies of the companies is incomplete without any reference to the new philosophy of accounting adopted by some holding companies, such as, for example, the policy of charging in the books a provision for depreciation much less than the amount deducted in the federal income-

tax returns. "The well-known practice of charging depreciation 'with due regard for the amount of earnings available for this purpose each year,'" sanctioned by a public-service commission, should receive the condemnation of all public accountants with a resolve to refuse to sign the accounts in such circumstances. The author passes this with a footnote in small type.

The author capably sums up the situation in the following words: "It is concluded that the very large public-utility holding-company systems must, in the near future, be managed under modified policies which recognize the economic limitations of holding-company control and which provide financial direction that is reasonably adapted to the characteristics of the industry and to the financial needs of this form of organization."

There are few references to the accounting treatment of financial transactions as influenced by the financial policies so ably outlined. There appears to be a studied effort to avoid criticism, although the author is "inclined to question" certain practices.

Dry statistics, percentages and prosaic figures are given in a style that makes for easy and interesting reading. Although there is not much with respect to accounting in the book of general interest to accountants, I think that it should be read by public accountants who have not had much experience with such companies so as to appreciate their escape from headaches, and by those accountants whose services are engaged by public utility holding companies in order to get a new perspective of practices that have not received the criticism deserved.

WILL-A. CLADER.