Book Reviews

COST ACCOUNTING FOR CONTROL, by THOMAS HENRY SANDERS, *McGraw-Hill Book Co., Inc.*, New York. 2nd edition. Cloth, 518 pages. 1934.

In *Cost Accounting for Control* Dr. Sanders offers as a text-book for students (primarily of Harvard University) of cost accounting a revised edition of his former book entitled *Industrial Accounting*. In the popular mind cost accounting has been regarded as peculiar to industrial enterprises, and the change in title is a recognition of the fact that in the last few years it has been extended to almost every form of business activity. Other changes consist mainly of new material in the way of exercises, quizzes, practice sets and a discussion of new problems presented by the N.R.A. Technical procedure is amply treated in part I, "Control through records," and part II, "The elements of cost." Part III considers typical cases of cost accounting and reports, while part IV treats of some special phases of cost work, such as the use of mechanical aids for records, the influence of trade and professional associations in establishing standards, etc. Examination and review questions and problems, some taken from examination papers of the American Institute, are found at the end of each chapter and are searching and well designed to test the students' understanding of the subjects.

As a whole the book is more than a mere treatise on the bookkeeping for cost accounting, the author throughout laying special stress of the basic point of view "that the meaning and uses of costs for management purposes are more important than matters of technical procedure." (p. v.)

Chapter XXV, "Costs and the governmental control of business," seems somewhat irrelevant in a text-book for students—it may be out of date in another year—but practising accountants will find it exceedingly interesting in its brief but comprehensive statement of the obstacles and pitfalls that await governmental control of business. Dr. Sanders is optimistic in his belief that they are not insurmountable, and that the solution of the many complications involved in administering the N.R.A. will be found in establishing proper and uniform systems of cost finding and report forms for each industry affected. Maybe so, but it will be a long drawn-out experiment and a costly one for business men and taxpayers alike. A pity that a reprint of this chapter could not be put in the hands of every member of the next congress so that he might realize what a burden to business a permanent N.R.A. would become!

In his discussions of depreciation as part of the burden to be included in standard costs Dr. Sanders is in the main in accord with orthodox and standard practice. But in two instances his departure from traditional principles is a bit startling, to say the least. As to the first, there is no principle better established and more firmly held by conservative accountants than that depreciation being steadily continuous must be provided for by a regular periodical allowance. Dr. Sanders says (p. 164): "This question will not be argued here; whether the reserves in the financial accounts are set up by regular annual instalments or by irregular amounts at the discretion of the management, they must be provided for, etc." One may conclude, therefore, that certified public accountants with Harvard training will feel at liberty to accept any depreciation charges approved by the management, however arbitrary and incorrect they may be.

The second instance is more involved and concerns the base value on which depreciation should be calculated, book cost or present replacement value of the plant and equipment. For good and valid reasons connected with equalizing basic conditions with competitors in the same class of industry, Dr. Sanders favors present replacement value as the base, and where it is necessary to "tie in" costs records with financial, he advises that the excess over that figured on book costs be "treated as an additional credit to profit and loss, like any other item of over-absorbed burden." (p. 202.)

This, of course, applies where the replacement value is more than the book cost and may be considered good practice in fixing standard costs and selling prices. Logically one would expect where the converse condition exists, as is so distressingly the case at present, that the excess of depreciation figured on book costs over that on replacement values would be treated as unabsorbed burden in the cost records as explained on pages 182–3. Instead of which Dr. Sanders merely notes that many concerns have written large amounts off their plant accounts for the purpose of showing balance-sheet values in line with current conditions, and also to relieve operating statements of heavy depreciation charges based on former high values; and he very rightly comments: "It must be noted that, though writing down the assets results in a conservative balance-sheet, the effect on the income statements of smaller depreciation charges is the opposite of conservative practice."

W. H. LAWTON

RETAIL ACCOUNTING, by CECIL K. LYANS and NORRIS A. BRISCO. *Prentice-Hall, Inc.*, New York. Cloth, 590 pages. 1934.

To quote from Dr. Lyans' preface, *Retail Accounting* "is the outgrowth of several years' teaching of retail accounting to college classes (i. e. at New York University). Its purpose is to fill the need for a usable text for such classes; and to present a detailed description of good accounting practice as it is found in retail stores, for the use of all those interested in this phase of the technique of retailing."

The basic principles of retail accounting are simple enough, but no accountant can wander about the great department stores without a feeling of wonder and admiration for the smooth running system that keeps correct records of the thousands of transactions taking place day by day. In this book of Drs. Lyans and Brisco the multitudinous details of such systems are described with a meticulous exactness that fairly makes the reviewer's head swim. How much of it remains in the heads of the students at the end of two semesters may be questioned, but at all events as a manual for active workers in our retail stores the book could hardly be bettered. It is practical rather than theoretical, as evidence of which the closing remark in Dr. Lyans' preface of his indebtedness to comments by students actively engaged in store accounting work is significant.

W. H. LAWTON

PRACTICAL BUSINESS STATISTICS, by FREDERICK E. CROXTON and DUDLEY J. COWDEN. *Prentice-Hall, Inc.* New York. 529 pages. 1934.

Upon perusal of the preface, the reader is at once favorably impressed by the modesty of the claims advanced in behalf of *Practical Business Statistics*.

The authors frankly admit that "little or nothing in this book is new in the way of method" and that "for the most part the conventional outlines are followed." They "have made no pretense to mathematical completeness" for their emphasis has been on application rather than theory.

The purpose of the volume is "to present to students who expect to enter business, the more elementary statistical procedures that may prove useful to them." It contains ample material for a one-year introductory course and may also be read with profit by the average accountant and business man.

The method of approach is logical and practical. Common pitfalls and misinterpretation of statistical data are illustrated in detail. A review of the principal business ratios contains at least one item to which accountants ought to give more attention. "Net profit on net worth" is mentioned in few accounting textbooks, although it is a more significant ratio than "earnings per share."

All of the twenty-one chapters are profusely illustrated by recent data obtained from a number of well-known business concerns, but it is regrettable that the table of contents does not include a list of the 136 charts and 93 tables presented. Among the topics discussed, index numbers appear to have received less than their due share of attention. Although the average length of a chapter is twenty-three pages, the construction of index numbers is dismissed in twelve. Some of Irving Fisher's contributions to the subject, especially the time and factor reversal tests, might have been briefly mentioned. On the other hand, seventeen pages are devoted to curvilinear and multiple curvilinear correlation, which is hardly an elementary topic nor one of great practical interest to laymen. Appendices covering forty-two pages consist mainly of aids to calculation, such as tables of logarithms, etc. A thirteen-page index closes the volume.

Practical Business Statistics may be recommended as one of many good books on elementary principles. It is readable and instructive to beginners.

GABRIEL A. D. PREINREICH

SECURITY ANALYSIS, by B. GRAHAM and D. L. DODD. *McGraw-Hill Book Co.* New York. 725 pages. 1934.

Had this book been written in 1928 it would have been a monument to the perspicacity of the authors, almost entitling them to a degree in clairvoyance; as it is, it is evidence of the authors' superior powers of observation. The lesson of the big "flop" in security values has been thoroughly studied by them, and their conclusions, which seem to me to be well founded and certainly are clearly and interestingly expressed, form the substance of this book.

That their vision of matters other than those made plain by past happenings has been limited is indicated by their failure to note the enormous transfer of values from bonds and preferred stocks to common stocks, which must eventually result from the debasement of our currency. It is true that up to this time the debasement has to only a limited extent been manifest in the price level within this country. We have almost lost our foreign trade, and dollar values among ourselves have not yet recognized fully the abstraction of nearly half of the base of the value of the currency. Such a realization must come, sooner if we again have to deal largely with other nations, but eventually, even if we do not regain our foreign trade. Americans living abroad feel it and bring back to this country, on their return, a more just estimate of the intrinsic value of a clipped dollar.

Apart from that omission the text is a complete guide to the investigation of security values, very well arranged. The impracticability of enforcing many of the provisions of indentures and agreements that purport to protect investors is well brought out; by investors it is not sufficiently considered. Generally, the authors have looked behind superficial appearances of security and give weighty reasons for qualifying severely assurances of safety that such agreements and indentures seem to offer.

In a book of this character the mental attitude of the writers is important. In this case it is indicated to some extent by the statement that for many years some investment houses "were able to combine successfully the somewhat discordant functions of protecting their clients' interests and making money for themselves." Academic writers too often assume that bankers are unscrupulous folk and that they propose to make money in the wild-cat manner, as and when they have a chance. That is hardly a fair attitude, for most bankers expect to make profits by establishing a satisfied clientele. Satisfying the client is not a discordant function but is the base of the bankers' prosperity. But perhaps a suspicious disposition is not a fault in a writer who would warn the common investor of his dangers.

Every investor will find something of value to him in this book; while it is largely hindsight, there are few of us gifted with the ability of these authors to read the lessons of the past.

F. W. Thornton