Book Reviews

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PROBLEMS IN ACCOUNTING, by HOSMER, SANDERS AND HANSON, *McGraw-Hill Book Company, Inc.* 463 pages. 1934.

The latest of the "Harvard Problem Books," *Problems in Accounting*, is intended for general use in the study of accountancy, not only by future accountants but also by students in other business courses. It uses the case system as a method of instruction and is primarily a college text-book. It is divided into five parts.

Part I gives an "introduction to accounts, balance-sheets and operating statements." It contains published accounts of certain well known corporations or presents situations, more or less complicated but always plausible and such as may be actually found in many instances. The cases are grouped in chapters, each dealing with principal divisions of the balance-sheet such as current assets and liabilities, prepayments and accruals, fixed assets, etc. Appropriate questions are asked in each chapter concerning the propriety of including certain items under the respective headings and other particulars of treatment. Sometimes the student is asked to state the treatment on books, balance-sheet or operating statement of transactions cited in the text. Some of the chapters specifically or incidentally also deal with analysis and ratios.

Part II briefly deals with bookkeeping, defines its function, gives a brief historical survey of its development, traces items and transactions from journal to ledger and from ledger to balance-sheet and operating statement, deals with journalizing and posting and with the closing of books, also with the relation between statements and books of account, cites cases and gives bookkeeping problems for solution, explains the use of the work-sheet in segregating the trial balance into balance-sheet and profit-and-loss items. In each of the chapters suitable problems are given.

Parts III, IV and V deal with accounting for various items of current assets and liabilities, plant and depreciations, investment, intangibles and their evaluation, funded debt and proprietorship, income and expense. A great variety of problems is given in each chapter, testing the judgment of the student and his understanding not only of principles of bookkeeping and accounting but also of the very essentials of the cases presented.

The book is an interesting addition to the already existing material. It is apparently not intended for self-study, as no answers to the problems are given in the book. As in the case of other volumes in the series dealing with accounting problems, a teacher's guide or manual is available.

A. VAN OSS

PRINCIPLES OF ACCOUNTING, Volume I, Intermediate, by H. A. FINNEY, *Prentice Hall Inc.* 765 pages. 1934.

The name of a well known and admired author causes one to pick up a new volume bearing his name with anticipation of unusual pleasure, or profit, and it was in this spirit that I opened *Principles of Accounting*, for Mr. Finney enjoys a happy reputation as a prolific and able writer, widely and well known throughout our profession.

The volume covers a wide territory in its thirty chapters and 534 pages; to which are added 234 pages containing questions on the text. The opening chapters are devoted to a brief discussion of single and double entry, of working papers and of classification of accounts. Then follow five chapters on Companies to which I shall refer later; a clear and simple treatment of the elements of actuarial science, average date and interest; a discussion of notes receivable, consignments, inventories, instalment sales, depreciation, various assets and liabilities; closing with chapters on reserve funds, correction of statements, analysis of working capital, miscellaneous ratios, analysis of profit-and-loss and two chapters on statement of application of funds.

That field is so large that detailed discussion of it is impossible in a review, but certain qualities are outstanding throughout the work. The illustrative examples are numerous, well chosen and really illuminate; the author desires to place before the reader, as fairly as possible, divergent views which exist on certain controversial matters and, as one would expect, all those details directly associated with mathematics—such as interest, present values, instalments, depreciation, ratios, etc.—are excellently set forth. The book, as a whole, contains a large mass of useful and well arranged information; it will prove useful to the student as a text-book and to the accountant as a work of reference.

The author's two chapters on funds and reserves at once dispel any doubt as to the meanings—and differences—of these two terms. Mr. Finney insists that a fund must, of necessity, always be an asset, while reserves must always have credit balances: in other words, they are not hermaphrodites, although, as Mr. Finney says, there is a tendency to treat them as such in institutional and municipal accounting.

The above remarks apply to such matters as usually fall within the scope of an audit of an active corporation; such work as falls on advanced junior, or on senior, accountants, and is more or less governed by a fixed routine. When we come to those matters which would be handled by a principal, or by a managing clerk—which are sometimes indicated by the rather unhappy expression "higher accountancy"—something more must be said. There I feel obliged to part company with the author, and fear that this feeling will be shared by many members of the profession.

A typical instance, showing the grounds for such fears, is found in the treatment of treasury stock and net worth. While the latter term does not appear in the index it is frequently used and, probably, all will agree that it is always the difference between the assets on one side and the liabilities and reserve accounts on the other. Therefore, the purchase of any treasury stock, whether at par, at a premium, or at a discount, consumes some asset and reduces the net worth; similarly, the sale of treasury stock must inevitably lead to an increase in net worth. Yet Mr. Finney writes on page 89 as follows: "Treasury stock is acquired at a premium of, say, 10 points. The entry for the purchase of the stock should be:

Treasury stock.....................	$100.00	
Surplus...........................	10.00	
Cash.........................		$110.00

"Surplus should be charged immediately with the premium, because the net worth was reduced at the time of purchase. If the stock is resold: (a) at a discount, the net *worth is still further reduced,* and the transaction should be recorded as follows:

Cash	$97.00	
Surplus	3.00	
Treasury stock		$100.00"

The italics are mine and it is possible that Mr. Finney intended to say that, in the above example, the amount of the *discount* reduces the net worth—but I can not resist the impression that a student would be both confused and misled.

Five chapters are devoted to corporations, which are dealt with in considerable detail, a large part of the last of these being devoted to the treatment of surplus. Here, again, I fear that the majority of accountants will find difficulty in subscribing to the opinion expressed on page 110, where after deploring the lack of a generally accepted definition and a generally observed practice, Mr. Finney writes, "No great benefit will accrue from the use of a capital surplus account until a standardization of practice gives its balance a definite significance."

It is true that opinions differ as to what should be included in a surplus account; it is true that the committees on terminology and on earned surplus have had difficulty in drawing definitions acceptable to all; it may be true that —as our author says—"a capital surplus balance in a balance-sheet has no universal and definite significance," and it is true that while it may be lawful to pay dividends out of capital surplus in one place, it becomes illegal directly one crosses an imaginary line and enters an adjoining state.

It is the existence of these very conditions that has led the profession to divide "surplus" in many parts—so many, perhaps, that there is foundation for the statement that the word "surplus" should never be used without a qualifying adjective.

This is not the opinion of any one person but of the great majority of leading accountants in the United States.

Opportunities seldom occur for a joint expression of opinion by acknowledged leading authorities, but all will admit that the committee which prepared *Verification of Financial Statements* was composed of men of eminence, brought up in different schools, and often holding divergent opinions; yet in regard to this matter of surplus they speak freely and positively when they direct that, when occasion requires, there shall be several surplus accounts, and they name as examples,

"(a) Capital or paid-in surplus
(b) Surplus arising from revaluation of capital assets
(c) Earned surplus (or deficit)"

Similar division of surplus is called for in the federal income-tax returns and, of still more importance to accountants—in the registration form prepared by the federal trade commission in administration of the national securities act.

The examples given by Mr. Finney, of a balance-sheet and a comparative balance-sheet show only one surplus account and, although a detailed analysis of this is provided for, no reader can form from the balance-sheet any idea as to the source, or sources, of the amount shown against surplus.

Frequent recent articles in THE JOURNAL OF ACCOUNTANCY seem to confirm my views and to warrant the statement that the unmistakable trend of our leaders today is to maintain a number of surplus accounts, among them one in the nature of earned surplus, which should include all earnings from regular operations and should exclude all others. For example, would any of our leading firms today include profit on the sale of treasury stock, from unrealized increased appraisals, and from earnings from current and regular operations, all in one account. Surely, the answer must be in the negative.

The opinions expressed in the book lend emphasis to the demand for generally accepted definitions of the various surplus accounts and for a standard of practice. These things we in this country must work out for ourselves, for—curious as it may seem—the term "surplus account" is not to be found in the encyclopædic dictionaries of Pixley of Lisle, or Dawson, or of that other friend of our youth, Professor Dicksee: the use of the term appears to be especially favored by American accountants.

The volume contains so much that is useful—and this is ably set forth, but I fear that the views expressed in some statements, on some of the most important subjects, differ widely from those held by the vast majority of leading accountants. There is danger that a student-reader, finding so much that is excellent, will accept the book as a whole. In that case he may, in later years, find himself in difficulties.

Finally, the publishers are to be complimented on the form of the book, on its printing and, especially, on the use of paper and binding which allow the pages to lie flat wherever the volume may be opened.

WALTER MUCKLOW