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Book Reviews

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THE ECONOMICS OF INSTALMENT SELLING (2 vols.), by EDWIN R. A. SELIGMAN. *Harper & Bros.*, New York. 980 pages.

Professor Seligman's two volumes of *The Economics of Instalment Selling* illustrate in a striking way the new tendency in business to secure a broad basis of fact for business decisions rather than to rely on "hunches" and inspirations. Evidence abounds of the increasing use of basic statistics and special studies in the development of business policies. The tendency, like most other tendencies, is not without its dangers. There is the danger of predicating policies too largely on statistics; there is also the danger of predicating statistics too largely on policies. As Sir Josiah Stamp emphasized in a recent address, statistics are an invaluable aid to intelligence but never a substitute for it.

Nothing is further from our thought than to suggest that Professor Seligman's work illustrates the dangers as well as the tendency. Without regarding it as the last word on the subject and without accepting even Professor Seligman's view that "an entirely new chapter is opening up in both theory and business life" and that "we now stand on the brink of another revolution in economic science and economic life, scarcely inferior to its predecessor," this publication must be recognized as an invaluable contribution to the study of a subject which is of undeniably great social importance.

The first volume discusses the economic aspects of the problem, states the broad results of the studies undertaken and formulates conclusions. The second gives statistics of the volume of instalment selling and retail selling, and also gives five separate studies entitled:

The consumers' study
The merchandise study
The dealer study
The repossession study
The depression study

The reader is thus given the choice of accepting the conclusions or re-examining the problem for himself on the basis of a substantial amount of authentic statistics.

To the layman the discussion of the economic meaning of the terms production and consumption will have little interest. He will, however, readily agree that credit can not be adjudged good or bad merely by labeling it production credit or consumption credit. Consumption is necessary to production since, in order to live, producers must consume, and if what they consume adds more than an equivalent to production such consumption is economically desirable. And if credit is necessary to make it possible, that credit is economically justified.

Probably instalment purchases of automobiles in comparatively few cases come within that most desirable category of short-time credits, the self-liquidating transaction; the automobile will seldom earn currently for its owner enough to pay the deferred instalments. The evidence seems to indicate, however, that the credits arising from such purchases are usually in the class of secured credits.

The question that is uppermost in many minds is how instalment sales of automobiles would be affected by a serious, and particularly a sudden, depression, and therefore many will turn at once to the "Depression study" which deals with business in the anthracite region during the strike period, September, 1925–February, 1926. A study of the data suggests, however, that it does not afford an adequate basis for any very definite conclusions. Apparently the acceptance company whose records were studied only began buying paper in the district in August, 1924, and its purchases suggest that its policy was conservative, perhaps because the strike was in prospect.

The purchases are given for a period of 24 months, of which 13 preceded and 5 followed the strike. The comparative purchases for successive periods are significant, bearing in mind that normally the months from early spring to early summer would be those of heaviest business.

Sep.–Feb.,	1924–5	$114,000
Mar.–Aug.,	1925	244,000
Sep.–Feb.,	1925–6 (strike period)	226,000
Mar.–Jul.,	1926 (five months)	1,029,000

The purchases during six spring and summer months of 1925 were scarcely more than those during an equal period covering fall and winter months and the strike period, and were about equal to one month's purchases in the summer following the strike.

The effect of depression on automobile instalment sales still remains to be measured. It would be interesting to have a more exhaustive study than the volumes contain of the effect of depression on the piano and other classes of instalment business for which longer records and more ample material is available.

The dangers involved in the policy of taking used property in part payment for new are emphasized. This is a point on which accounting can exercise a real and helpful influence. Clearly property taken in trade should not be valued on the basis of the trade-in prices. In the past adoption of this practice even with some reserve has been known to result in used property being valued at higher figures than similar new units which were valued at manufacturing cost. The sound rule is that the used unit when made ready for resale should not stand at a higher percentage of its probable sale price than the new unit. Adoption of such a rule tends to keep the trade-in business on a financially sound basis.

Though Professor Seligman began his study with an open mind, he was fully convinced of the economic value of instalment selling before it ended. His discussion may at times seem to suggest the advocate rather than the judge, but it is clearly the expression of honest conviction, not special pleading. In general his conclusions seem well founded. A large amount of desirable buying is facilitated by instalment selling. In desirable buying is included not only buying for directly productive uses, but buying which lightens the burden of heavy toil, shortens unduly long hours of labor, or in other ways adds to the efficiency or the just contentment of the purchaser.

There is good and bad instalment selling of automobiles; good and bad buying. The nature of the buying is less susceptible of analysis, but in general the selling seems to be as economically sound as most selling. Down payments are substantial; the periods over which instalments are spread are reasonably short. The method is still on trial and the rapidity of its development can not fail to cause some concern, but the study seems to show that at least the worst fears are ill founded. Certainly all interested in the subject owe a debt to Professor Seligman for his thorough and able analysis of the problem.

GEORGE O. MAY.

AUDITING THEORY AND PRACTICE (fourth edition), by ROBERT H. MONTGOMERY. *The Ronald Press Co.*, New York. 859 pages.

The appearance of the fourth edition of *Auditing Theory and Practice* emphasizes a trend—I had almost said a culmination but for the author's significant remark, "I see few limits to his (an auditor's) possibilities"—in public accounting and auditing that induces thoughtful consideration by the profession at large. When Professor Montgomery published in 1905 his edition of Dicksee's *Auditing* adapted to American conditions he prefaced it with the remark:

> "It can not be expected that any hard and fast rules will ever prevail, nor is it desirable that the personal element in an audit should be superseded by instruction prepared in advance. . . ."

How prophetic and far-seeing this was is easily demonstrated by perusal of the successive editions of his own work which followed in 1912, 1915 and 1921, and now this one. It is illustrated not only by the actual increase in the size of the books from the 250 odd pages of Dicksee to the present 1300 odd (for the second volume of the third edition dealing with special audits must be included as an essential part of the fourth) but by the steady development of the emphasis on the "personal element" as contrasted with traditional iron-clad rules of the old days. Consider, for example, the matter of inventories. In 1905 the term itself was apparently unknown, and under the old name of "stock in trade" it is covered by A. Lowes Dickinson in a little over two pages, in which we are told that cost or market, whichever is lower, is the only basis for valuation, and that a certificate signed by some responsible officer or partner is a satisfactory verification. Professor Montgomery devotes some 57 pages to the discussion of inventories in general, to say nothing of many others covering specific classes of enterprises, and we learn that good practice allows of many bases according to conditions and circumstances, that there are many ways of verifying the inventory, and, most important of all, that auditors are realizing more and more their duty to certify to the accuracy of the inventory as much as to the bank balance. "Good practice," by the way, does not mean that the author poses as Sir Oracle; he makes it clear that his book is not merely a text for students but is a broad survey, review and commentary on auditing practice in the United States. It is not too much to say that the earlier writers on auditing stretched business accounting upon a Procrustean bed of rigid procedure (and it must be admitted that some present-day teachers still try to maintain this idea), while the modern attitude as exemplified in this book is to accept the multifarious conditions presented in different classes of enterprises and to endeavor to apply sound principles in elucidating and valuing them. The old criterion was apt to be, "Does the balance-sheet conform to traditional rules?"

The new is, "Does it show the facts?" To my mind this is the most striking impression conveyed in comparing the Dicksee of 1905 with the Montgomery of 1927. It marks the gradual development of the professional auditor from a mere checker of items, postings, additions, etc., to the competent analyzer, valuer and advisor of the present day. Professor Montgomery lays particular stress upon the last service, that of making constructive suggestions to the client, saying, "I believe that the most valuable service which professional auditors can render is in reports which are not for general publication."

Another feature which will arrest the attention of the thoughtful reader is the numerous quotations from decisions of the board of tax appeals covering accounting questions and procedure. The significance of these is apparent to anyone who makes a practice of reading them and notes that the great majority of them is based more on accounting principles than on law. In effect the B. T. A. by its decisions is rapidly converting principles which are accepted by more or less common consent into laws that must be observed. This has its dangers as well as its advantages, to be sure, but it nevertheless marks the present trend to which Professor Montgomery gives ample attention.

So much for the general aspects of the book. As a practitioner of rather limited experience it may seem presumptuous for me to make any criticisms, but as one who has made some study of educational methods in the field of auditing I make bold to offer a few comments.

This book is one of the standards upon which candidates for C. P. A. certificates are examined. It is absurd to assume that the average successful candidate is really qualified to conduct an independent audit, but at least his answers to auditing questions should show some solid grasp of fundamental principles. Now I submit with all deference that while Professor Montgomery's broad discussion of inventory valuation is based on undeniable facts and conditions, the student is apt to have only a vague and hazy idea of how he should reply to the question, often asked, "How would you verify an inventory?" What is worse, as the student rarely has the ability, even if he had the time in an examination, to make a lucid reply based on the book, the examiner must frequently be sorely puzzled to find out whether or not the candidate has made a satisfactory answer. Not for worlds would I ask for the omission of a single page of this valuable discussion in future editions, but I do think it would be a boon to candidates and examiners alike if we could have a students' condensed edition of *Auditing*, dealing with general principles and ordinary practice only. There will be time enough later for the active practitioner to consider and study the exceptional cases.

On pages 354 and 356 I fail to see the advantage of the super-refinement in classification, nor do I see any in the implied changes in titles. Surely the present "Other income," and "Deductions" are sufficient; why confuse the student with new names?

But these are minor matters, and the last I should not mention at all but for the author's admirable insistence upon uniform nomenclature and classification!

More serious seems to me the somewhat vague treatment of deferred charges and of extraordinary items of prior years. A stricter classification might be adopted as to deferred charges and prepaid expenses (p. 140) with benefit to readers of balance-sheets. Let it be understood that a deferred charge is never a real asset while a prepaid expense always has some asset value, and let them be segregated under these classifications on the balance-sheet, preferably between current and fixed assets. While the argument that a prepaid expense is a current asset is sound enough technically, nevertheless it does not conform to the definition of a current asset (p. 83), and moreover it is not so regarded as a rule by bankers or creditors.

It is the author's advice that

> "Extraordinary items arising from the operations of prior years should generally be set up in the current income account as special and separate transactions occurring within the current year, rather than as direct debits or credits to surplus account" (p. 333).

And also

> "No charges should appear in the surplus account except charges for dividends and deficits, and no credits should appear except credits for net income" (p. 363).

This is a departure from customary practice, and although it has the sanction of the *Federal Reserve Bulletin*, 1917, it has never seemed to me correct or advisable. It distorts the current year's net income, and where large amounts are involved it is likely to convey utterly erroneous ideas to readers of published statements, especially where the latter are condensed. Frankly, to set up items of prior years "as special and separate transactions occurring within the current year" seems to come pretty close to a misstatement. The transaction does not occur within the present year though the recording of it does. A "flash" on the news ticker that the statement of the X Co. shows a deficit for the current year might cause serious losses to frightened stockholders, and it would be no comfort to a "sold out" investor to learn later that the X Co. really had a net income for the current year but the adjustment of a prior year's loss turned it into a deficit. It seems to me the old rule of adjusting items of prior years through the surplus account is the better one.

Appendices contain a reprint of the *Federal Reserve Bulletin*, 1917, a form for preferred-stock agreement (a valuable reference in these days of increasing use of preferred stock in capitalizing), and a number of approved forms for balance-sheets. The indexing is detailed and comprehensive, facilitating quick references.

The format, paper and printing are of high standard, and the proofreading must have been of extra quality as I have found only one error—the word "personality" being used for "personalty" (p. 670).

W. H. Lawton.

THE BUILDING AND LOAN ASSOCIATION, by Robert Riegel and J. Russell Doubman. *The Macmillan Co.*, New York. 320 pages.

In these days of increasing interest in building and loan associations and their increasing influence on the financial affairs of the community, the appearance of a really comprehensive manual covering the subject in a thorough yet readable way and kept to a reasonable size is an event of some importance. Of what importance is well illustrated by the totals of a statistical table included in *The Building and Loan Association*, which shows that there were over twelve thousand associations, with nearly ten million members and over five and one half billion dollars of assets in the United States at the close of the year 1925. That this is only a beginning is shown by the curious geographical distribution of assets.

New Jersey, for instance, a small state, is second in number of associations and third in total assets, while New York state is a rather poor sixth and Connecticut, fairly comparable with New Jersey, is thirty-first in total assets. This illustrates the need for a wider dissemination of building-and-loan knowledge among both the public generally and legislative and financial bodies which may be greatly helped by the widespread distribution of such books as this.

The subject is attacked systematically and in detail, the first three chapters being devoted to organization and the next six to the internal operation of the association, which are followed by chapters on auditing, regulation by the state, taxation, description of some special features and a bibliography and appendices.

The chapters on organization might well be read by every director of an association who wished to understand his responsibilities and duties, as well as by the officers.

The third chapter contains some very practical hints on the ever interesting subject of selling shares, with samples and suggestions for advertising. It is interesting to note that some of the advertising illustrated features the use of the services of a certified public accountant.

The chapters on the detailed procedure of the association indicate clearly, in detail and with illustrations of forms, the duties of officers and directors and the necessary records. Alternative methods and forms are frequently given and special features peculiar to particular states are explained in footnotes. Especially noteworthy is the full discussion of the merits of the various plans for distributing earnings. This section, chapter nine, can be read with profit by any association secretary or auditor.

The next chapter gives a good, practical working programme of audit and stresses the necessity for competent professional examinations. Whether or not this is a counsel of perfection in the smaller associations is an open question. For many reasons building-and-loan auditing is not a particularly attractive type of practice. A possible solution might lie in the public-spirited acceptance of service on at least one building-and-loan auditing committee by every certified public accountant. Certainly the accounting profession should do all it can to encourage the movement in states where it is weak and the continuance of the efforts in the stronger states.

It is not too much to say that almost every director, officer or auditor of an association can learn something from this book and should have it available for reference. It is thoroughly up-to-date both in a legal way and in practical matters and might very well serve as a moderator in heated discussions at board meetings as to policy on fines, pay-as-you-please plan as opposed to serial payments, how to get new members and the hundred and one other points constantly arising in the conduct of a live and growing association.

M. E. Peloubet.

INTRODUCTION TO THE MATHEMATICS OF STATISTICS, by ROBERT WILBUR BURGESS. *Houghton Mifflin Co.*, Boston. 304 pages.

The tale is told that a lecturer, not particularly friendly to the eighteenth amendment, pointed out that the reputed benefits of total abstinence were not borne out by the facts. He proved his point by citing the death rate in our army in the Philippines in the years 1908 to 1913. During that time the death rate among total abstainers was 50 per cent. as against approximately 6 per cent., on an average, for the army as a whole. He failed to state, however, that at the beginning of the period there were just two total abstainers, one of whom died. The tale may or may not be true, but it illustrates the care with which statistics must be compiled and particularly the care with which conclusions must be drawn therefrom.

A study of *Introduction to the Mathematics of Statistics* should certainly be helpful in approaching statistics intelligently. The common errors in the use of percentages and ratios are stressed. The many different methods of graphic representation are dealt with at length and useful illustrations are given as to the best method in each particular case. There is a great deal in the book which is elementary in character. It is useful, however, to have even such matter systematically compiled and a review of it is very helpful in clarifying one's ideas. There is also much information not ordinarily considered except by specialists in the compilation of statistics, and the mathematical and theoretical side is fully developed. The chapter on index numbers and their compilation is exceedingly interesting and timely. Other interesting chapters are "Averages and their use," "Regression or trend lines," "Three and four variable correlation" and others. The book is intended primarily for college students of statistics, mathematics and economics and for teachers of mathematics, and its greatest use no doubt will lie in this direction. But, as indicated above, there is much of interest in the book to practising business statisticians and accountants who have only occasional need to enter the field of statistics.

F. C. BELSER.

INTRODUCTION TO GOVERNMENTAL ACCOUNTING, by LLOYD MOREY. *John Wiley & Sons, Inc.*, New York. 285 pages.

An eminent lawyer was engaged, many years ago, by one of his most valued clients to read and digest a then new work on political economy, and to report to his client wherein the theory propounded by the author was specious and fallacious.

The lawyer, upon his first reading, blithely underscored passages in the book that seemed to violate reason and fact, and upon completing his first reading he had the theory pretty well riddled and the text well marked up with his pencil notations.

Being one who was thorough in all his work, he did not venture then to report to his client and claim his fee, but reread the book several times. Upon such rereading, he was impelled to erase the underscoring of objectionable lines, one at a time, and when he was at last ready to deliver his opinion, almost all his initial objections had disappeared, the book was comparatively free from the pencil underscoring and marginal notes, and his report was favorable to the author's theory.

Upon a casual reading of *Introduction to Governmental Accounting* the average accountant will find himself obsessed by the thought that governmental accounting practice seems to be based on the theory that the longest and most tortuous road is the one to travel in preference to the shorter way to reach the goal. As he then ponders the things that seemed susceptible of improvement, it begins to dawn on him that there is much sound logic underlying the system Professor Morey teaches in his book, and that it would be difficult, if not impossible, to find a method that one would substitute for that which is proposed.

As pointed out by Professor Morey, there is little similarity in governmental accounting to commercial accounting. The objectives of the former are far removed from those of commercial accounting. As an example of this dissimilarity in purpose, we submit this question: What does it really matter to the owners of public works that their assets may have an appraised value exceeding the cost many times?

This would be important in commercial accounting. At one time in the past in the city of Cleveland, an ambitious and enthusiastic auditor for the city prepared a balance-sheet of the city's assets and substituted for their cost that which would be the tax appraisal of the property, as it would have appeared were the assets owned by an individual citizen. This balance-sheet showed enormous values and indicated a large surplus. It was meaningless, however, for it did not reveal to its owners (the citizens) what it was of first importance for them to know. What did it matter if the land in the public square had a tax appraisal value greatly in excess of its cost, or that its then market value exceeded the tax value? It would be impossible to sell it and hence the increase of value was forever unrealizable.

Governmental accounting functions upon a basis quite apart from that upon which commercial accounting functions, and one must not be startled when he finds listed among assets that which is to be at some future but not remote date, but, at the date of the balance-sheet, is not.

Professor Morey's book is for the student and the text has been articulated in chapters upon such subjects as expendable funds, bond funds, assessment funds, trust funds, working-capital funds, sinking funds, budgets, appropriations, etc. After clearly indicating the distinguishing features of the various funds and indicating the peculiarities of revenues in governmental accounting; after logically presenting the fundamentals underlying the ramifications of this accounting, he sets forth the bookkeeping entries to give effect to the transactions involved. Then there are forms of ledgers and balance-sheets and on the latter are gathered and displayed the results of the hypothetical transactions. Finally, there are fifty pages of problems given, the answers to which can be extracted from the preceding text.

From my experience, I believe that an accountant will not often find governmental accounting so systematically set forth in actual practice, but a study of Professor Morey's book will be an aid in getting a grasp of the subject. With this enlightened comprehension, the system used, no matter how chaotic (and some municipal accounting systems are chaotic), will be better understood and the untangling of the web will be facilitated.

STEPHEN G. RUSK.