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Book Reviews

Carl H. Nau

W. H. Lawton

W. B. Franke

THE ETIQUETTE OF THE ACCOUNTANCY PROFESSION. *Gee & Co.*, London. 85 pages.

The Etiquette of the Accountancy Profession, a little book of 85 pages, is a reprint of articles from *The Accountant*. The author is anonymous. The articles are said to have been read and revised by the late Sir Arthur Whinney and the present volume contains a foreword by Sir William Plender. The author, himself, in a short introduction, recognizes "that professional ethics and professional etiquette are neither of them fixed and unalterable" and states his purpose to be "to guide the practitioner, and particularly the young practitioner, in doubtful cases" and whenever practicable to "distinguish between what must be done by those who wish to avoid the pains and penalties of unprofessional conduct, and what in our judgment should guide those who aim at something higher. It will, we hope, be recognized that it is not always practicable to draw the line quite clearly between these two somewhat different standards of professional conduct."

The last quotation furnishes a clue to the point of view assumed by the author in dealing with the questions and problems which are discussed in a high minded, but in a very reasonable, undogmatic and altogether admirable manner.

Much of the book is devoted to points which arise in English practice but substantially never arise in American practice, so that this review must be limited to a few quotations (and comments thereon) from chapters which deal with matters of interest to American practitioners. Discussions which deal with questions arising from accountants' service as trustees or receivers in bankruptcy, as liquidators, as arbitrators or umpires, as estate agents, from their practice as auctioneers or stockbrokers, or the operation of trade protective associations, etc., and discussions which deal with the English custom of election of auditors by stockholders have no applicability to American practice. These functions are not performed by American accountants (at least not as accountants) and stockholders seldom, if ever, have anything to say about who is employed to make an audit.

A thing which interested the reviewer was the implied distinction between professional etiquette and professional ethics, although the author also implies, in several instances, that these distinctions shade into each other so that no clear line of demarcation can be drawn between the two subjects.

The following quotation from the foreword is especially apt:

> "Correctness in professional conduct can not be derived only from the study of books; it is rather a matter of conscience than of codification. Professional ethics and professional etiquette are not from their nature immutable; and quite apart from the fact that every case has to be judged on its own merits, which involves, or is thought to involve, infringement of professional etiquette, there remains the fact that in a great number of instances more than one view can legitimately be held."

During the years in which this reviewer was officially charged with the duty of interpreting and administering the American Institute's rules of professional conduct, he often said that placing the emphasis upon the letter of the precept or rule rather than upon its spirit was not the proper mental attitude to take toward one's profession nor was it a course which would tend to advance its dignity. If a line of conduct offends either an intelligent conscience or the canons of good taste, it is very apt to be an infraction of an ethical precept regardless of the fact that it may not, literally and specifically, be defined in the rule. Indeed, it is possible for an act to be a literal violation of some rule and be not at all unethical or in bad taste.

Of course, the person who is deficient in conscience or who is lacking in good taste or who from unworthy motives is inclined to violate conscience and good taste must be restrained by the letter of the law. The others do not need a law; they regulate themselves. I am reminded of a discussion I heard in my youth. At a dinner, the candidacy of a United States senator was being discussed. An editor of what was then deemed to be a radical paper (today it would be considered as ultra-conservative, if not reactionary) said that the candidate in question had no conscience. To this a lawyer friend of the candidate replied, "You are wrong—entirely wrong," but after some hesitation he added, "Yes, he has all sorts of conscience but he keeps it under blank good control." It is these kinds of people for whom rules must be made and laws enforced.

The following quotations are illustrative of the English point of view which is also the American point of view.

From the chapter on advertising:

> "No doubt it (the rule) is based upon the general practice of all professional bodies, and is regarded as a necessary rule to uphold the proper dignity of these professions. Incidentally, it may be pointed out that, if advertising were permitted, the tendency would be for accountancy business to go to those accountants who advertised most effectively, and whatever might be said about this from the point of view of the clients' interest, the custom would add greatly to the current working expenses of the practising accountant."
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> "That which is paid for is, prima facie, an advertisement, whereas that which is not paid for is, prima facie, not an advertisement."
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> "This brings into prominence the fact that the 'free lance' has an advantage in the matter of advertising that is not possessed by the legitimate practitioner, but we submit that the client in the long run gains no advantage by employing one who is not under the discipline of a well conducted profession."

From the chapter on giving estimates as to profits:

> "In the ordinary course chartered accountants must confine their reports to the facts, as disclosed by the books and supporting documents they are called upon to examine and report upon, and must leave it to others to draw deductions."

From the chapter on "What is legitimate accountancy":

> "From our point of view, it is 'legitimate accountancy' for the professional accountant to promote the interests of his clients in any legitimate way connected not merely with account keeping but also with business management, organization, or finance. When, therefore, we are asked to discuss the propriety of professional accountants advising clients financially on matters which come 'outside' a professional accountant's work, we are a little at a loss to understand what is really intended."

From the chapter on professional secrecy and cases of suspected fraud:

> "It would seem that, if an accountant should discover that his employer has made improper returns for the purpose, say, of income-tax assessment, he would not be justified in disclosing the fact (voluntarily) but should treat it with the same secrecy as other matters coming to his knowledge in connection with his employer's affairs. One point, however, is perfectly

> clear—he should in any case under such circumstances decline to go on with the work, and should wash his hands of the whole matter, even if this involves losing the fee to which he would have been entitled on the completion of his task; but need he go further?"

Readers of the book will find it to be interesting and well worth while. It was especially interesting to this reviewer in its historical side lights and in the discussions on points in which English practice differs from American practice. It is noteworthy to observe that in all matters in which English practice is analogous to American practice, rules of professional conduct have been adopted by the Institute of Chartered Accountants in England and Wales similar to those which have been promulgated by the American Institute of Accountants.

I unhesitatingly commend the book.

Carl H. Nau.

THE DAWES PLAN AND THE NEW ECONOMICS, by George P. Auld, *Doubleday, Page & Co.*, New York. 327 pages.

In Mr. Auld's informative and perhaps timely book, *The Dawes Plan and the New Economics*, we have a vivid description of the financial chaos in Europe in 1922–24, caused by the deadlock on the reparations question between the Allies and Germany; an account of the formation, personnel and work of the Dawes Committee; a clear exposition of the Dawes plan which was accepted by all parties to the controversy; and a lively polemic against Professor Keynes and his followers who attempted, and still are trying, to discredit the plan. For the benefit of the layman there is a preliminary chapter explaining in simple language the "mystery" of foreign exchange. The final chapter is rather a curious non sequitur. After having logically refuted the arguments advanced by the Keynes school of "new economics" in favor of canceling the reparations debt, Mr. Auld advocates the cancellation of that and of all other international war debts. This surprising anti-climax seems utterly to destroy the value of the book as a polemic. However, there is meat enough in the rest of the book to make it worth while to readers wishing for a concise bird's-eye view of the Dawes plan and how it is working out. Mr. Auld was formerly accountant general of the reparations commission and therefore speaks with the authority of one who knows the facts.

We live fast in these days and probably ninety-nine per cent. of the American people have forgotten, if they ever realized, the chaotic state of affairs in Europe in 1922–24. On May 1, 1921, the reparations commission had fixed the German debt at the astronomical figure of 31 billion dollars. Up to December, 1922, Germany had paid 1,200 million dollars, about half of which had gone toward the costs of the armies of occupation. Then Germany asked for a moratorium of three or four years, in which England joined with the additional proposal that 18 billions of the total debt be canceled. France rejected the proposals and occupied the Ruhr (as the commission declared Germany in voluntary default). Germany's chief industries were paralyzed and the mark began its flight to the bottomless abyss. After two years of hopeless confusion President Coolidge proffered the services of American experts to try to solve the problem. The appointment of the Dawes committee followed in due course. What the committee was authorized to do and what it actually did form a striking parallel to the course followed by the convention which gave us our own constitution. The committee was authorized (1) to consider means to balance the German budget and stabilize the currency; and (2) to consider means of estimating the amount of exported capital and of bringing it back to Germany. Not a word about reparations, be it observed! What it did was to accomplish the above objects, and in addition to fix the annual charge for reparations, and, in Mr. Auld's opinion, to fix the total amount of reparations. As a matter of fact the Dawes report carefully avoided fixing any limit whatever, probably because the committee itself was known to be divided on the question. Unable to agree on that point the committee wisely left it for future consideration. The main thing was to get Germany back on her feet financially, start the flow of trade and production, and give France some relief from her burden of taxation.

So far Germany has met the requirements for reparations, viz:

For 1924–25	250 million dollars
" 1925–26	305 " "
" 1926–27	375 " "
" 1927–28	437½ " "

With the year beginning September 1, 1928, she is required to pay the standard annuity of 625 millions until 1940, and an additional annuity on railway bonds of 240 millions until 1964. These payments represent 5% interest and 1% for sinking fund, and assuming that there will be no extension of these annuities Mr. Auld estimates, on a 4% basis, that the capital sum of reparations is about 9 billion dollars. The plan also provides for additional increases after 1929 based on a so-called "index of prosperity" in certain kinds of trade, but, as these are purely problematical and speculative, Mr. Auld ignores them.

Such is the Dawes plan in brief, and so far it has worked smoothly, despite the dismal predictions of Germany and the Keynes school every year that "next year" it would fail. We now come to the crucial year of 1928 when the standard annuity of 625 millions will be required. The usual prediction has been made, and is somewhat enhanced by the weighty authority of Dr. Schacht, the president of the reichsbank, who has suddenly become a convert to the new economic theory regarding the transfer of funds across the frontier. Since Germany is required only to pay in marks to the agent general and it is the affair of the allied governments to get them transferred, Dr. Schacht seems needlessly worried! However, as it is plainly only another move in the great game of cancellation his motive is quite discernible. What is important to America, since it vitally affects her future in foreign trade, is this new economic theory by which Professor Keynes and his school of economists attempt to prove the impossibility that reparations, or any other large international debts, will ever be paid at all.

In brief the theory is this:

(a) International debts must be paid either in money (foreign exchange) or in goods (export surplus);

(b) They can not be paid in money without disrupting foreign exchange generally and causing world-wide disaster;

(c) They can not be paid in goods without ruining similar industries of the creditor country, so goods will not be accepted in payment;

(d) Therefore, large international debts can not be paid at all. Q. E. D.

To these propositions Mr. Auld replies that the flow of natural trade always has and probably always will produce ample foreign exchange. In temporary cases of excessive demand it will be met by new borrowings of capital as heretofore. The great fallacy of the new economic theory is its assumption that the huge capital sums involved must be met at any one time when all history of funded debts, corporate or governmental, shows that payments of interest and principal are made in a continuous flow of funding and re-funding. As well might the holders of the bonds of our railroads be affrighted by pointing to the stupendous total of them with the alarming warning that there is not enough "money" in the world to pay them!

His chief argument is the actual experience of Europe in the years before the war in collecting interest on foreign debts of 50 billion dollars.

I have said that Mr. Auld's book is "perhaps" timely. A powerful party in Germany has protested regularly every year against paying reparations at all, and it may be that Dr. Schacht's prediction of failure of the Dawes plan this year is merely a habit, and Mr. Auld may be needlessly alarmed. Nevertheless, it is well to note some rather important events of 1927 which lend color to the suspicion that Germany, aided and abetted by the Keynes school of economists, is about to launch a strong drive for cancellation. First, there is the ominous, steadily growing deficit in the German budget to which the agent general calls attention in his report for 1927—a deficit entirely due to swelling governmental expenditures. Here is prima-facie ground for the claim that Germany can not pay reparations. Second, there are the recently published reports of Scandinavian pro-German savants declaring Germany guiltless of provoking the world war, and manifestly the whole theory of reparations is based on Germany's guilt. Third, there is the rather disturbing suggestion of the agent general himself, if he is correctly reported, that the amount of the reparations debt should be finally assessed, the Dawes plan abandoned so far as control over German finances is concerned, and Germany be left to her own devices as to time and manner of payment. Considering these things it is quite possible that there will be a battle over the Dawes plan this year, involving, of course, a revival of the whole war-debt controversy. In that case America's interest in the fate of the Dawes plan is so great that Mr. Auld's book is most timely. Americans are prone to pay great respect to expert opinions uttered by economists of such high standing as Professor Keynes, and it would be well for us to know there is another side to the story. Mr. Auld tells it and tells it most convincingly.

But why did he add that last chapter?

W. H. Lawton.

MECHANISM OF STANDARD COST ACCOUNTING, by Thomas Downie, Jr. *Gee & Co., Ltd.*, London. 117 pages.

This little book, called *Mechanism of Standard Cost Accounting*, is interesting particularly because of the amount of information which has been packed into its few pages. One familiar with cost accounting of any sort would naturally assume that in a book of this size very little practical information could be given. The author, however, has wasted no time on non-essentials, but has devoted almost the whole of the book to practical discussion and supporting statements and forms. At the outset, he qualifies the information given by stating that the methods described are "applicable only to factories engaged on repetition or mass production work." This qualification of the subject, of course, enables him to condense the information presented.

After a discussion of the theoretical basis of cost accounting and the introduction of cost formulæ, the author defines three common types of standard cost accounting systems as follows:

(1) A system whereunder factory costs, stocks and cost of sales are carried in the books at standard or predetermined values, the variance between standard and actual values being segregated in "Variance accounts."

(2) A system whereunder all figures are recorded in the general books at actual cost but both standard and actual values are carried in the factory books. Under this system the ratios of actual to standard costs are developed by the work-in-progress accounts, these ratios being used to convert from standard to actual cost finished goods put into stores or shipped.

(3) A system which differs from the second system outlined principally in the methods of recording net good production and efficiency data.

Following this general outline, the author describes in detail systems (1) and (2), supporting his descriptions with charts and forms setting forth the methods by which costs are determined, and including pro forma journal entries, balance-sheets, and profit-and-loss accounts.

To the practising accountant who does not specialize in the installation of cost systems, but is occasionally asked to work up new standards for standard cost accounting systems, or would like to own a practical reference book on standard costs, this volume is recommended.

W. B. FRANKE.