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Book Reviews

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Book Reviews

THE BEHAVIOR OF PRICES, by FREDERICK C. MILLS. *National Bureau of Economic Research*, New York. 598 pages.

The Behavior of Prices represents the first results of an investigation of commodity prices, individually and by groups, made under the auspices of the National Bureau of Economic Research. Its title is reminiscent of a popular book and leads one somewhat dazed reader to reflect that a more pertinent title might be "Why do prices behave like the old Nick?" Undoubtedly many business men have asked that question. Is there any solution to it? In other words is it possible to find a formula that will explain the general cycle of prices, its variations, so that the business man may look forward with confidence and adjust his business in accordance with such a formula? Or will the piling up of mass on mass of data finally result in an interesting price system true as concerning commodities as a whole but utterly futile and unreliable as to a single commodity or an individual? In life insurance we have a sound basis in the mortality tables which show, for example, that a man of fifty may expect to live twenty years longer, an expectation based on the average number likely to be alive twenty years hence; but he may absent-mindedly step in front of an automobile tomorrow, and his sorrowing friends will be told gravely that the tables do not take account of accidents. Just so may a drought in Kansas play havoc with a dealer in wheat who has placed faith in a cycle formula. Now, to be sure this formula, if scientifically constructed, will have taken into account the fact that in a long period of time droughts will be encountered, but it will be unable to predict *when* they will occur.

This is not to say that Dr. Mills has not presented a most interesting study of the behavior of prices in the past, but merely to warn the business man, to whom the book is recommended, that he must not expect to find in it a formula that will insure him against all losses. On the other hand, it is quite possible that the ultimate result of these studies may give us such understanding of the price system as a whole that we may have a new form of insurance that will protect the individual person from loss. That this is still in the far-distant future, however, is amply indicated by the author's statement (p. 437) that "the immediate objectives of the present study are the development of a method of analysis and the accumulation of a body of facts which may conduce to an understanding of the price system." In short, it is but the first step in a long and far-reaching investigation. Dr. Mills in an intensive and exhaustive study of a long list of commodity prices has established ". . . two significant facts. One is the existence of wide diversities in the behavior of prices" (which we will agree to, *nem. con.*!) and ". . . second . . . the existence, among the diversity of price movements, of just those uniformities for which the scientist searches in attempting to reduce masses of facts to understandable terms." A second volume to be published will endeavor to marshal and review the evidence in the hope of establishing at least a workable hypothesis of "an orderly universe of prices."

W. H. LAWTON.

Book Reviews

FOREIGN EXCHANGE, by A. E. CUTFORTH, *Gee & Company*, London. 165 pages.

Napoleon is stated to have said that "a man who could think in and speak two languages was worth two men." It is equally certain that an accountant who has handled and figured in two currencies (especially if they fluctuate in relation to each other) is worth two accountants. A perusal of *Foreign Exchange* will help an ordinary accountant to double his capacity.

It has been known for missionaries and others engaged in the study of oriental philosophies to become unbalanced in this extreme effort to occidental mentalities, but there is little that is esoteric or difficult to the student of foreign-exchange accounting who has already mastered the elements of political economy. Such a seeker need make no long and expensive pilgrimage to the East (as do often the tax experts); nor does he have to subscribe to any series of mystery-revealing pamphlets (as do the zealots among the cost-finding brethren). In normal times every newspaper of every city in the world gives accurate exchange rates, and their application requires only the use of arithmetic and the knowledge of common accountancy principles. Little remains to be explained of the subtleties of foreign-exchange accounting.

Curiously enough, however, the capitals wherein exchange rates fluctuate most violently are situated in the countries where insurrections, civil commotions, and/or labor disturbances as well as floods, tempests and/or earthquakes are most prone to occur. In these circumstances, the local newspapers sometimes "fall down" in publishing the daily exchange rates, but the resourceful accountant need not be at all inconvenienced. He can compute his own average exchange rate for a given financial period by dividing the local currency received by the dollars remitted or the local currency remitted by the dollars received. He will apply the rate thus ascertained in converting the revenue and expense accounts from currency into dollars. Furthermore, this procedure is at least as good practice in normal circumstances as that suggested by Mr. Cutforth in *Foreign Exchange* (chapter VII).

The story of accounting concepts has yet to be written. When this task is undertaken, it will be interesting to have related how the various and popular accounting devices came into being, and by whom, when and where, they were invented. The historicity of the introduction of double-entry bookkeeping, for example, is fairly well authenticated, but there is much to be learnt anent the geneses of the control accounts, work sheets, the concertina trial balance, offsets, the imprest fund, accounts of charge and discharge, reconciliations and consolidations. It is believed that the discoverers of the "permutations" and "conversions" methods in foreign-exchange accounting (see chapter XIV) were South American accountants of obscure origins, but at the present time no tablets mark their birthplaces.

C. S. BRISON.

CORPORATION PROCEDURE, by THOMAS CONYNGTON and R. J. BENNETT, revised by HUGH R. CONYNGTON. *Ronald Press Co.*, New York. 1,479 pages.

The value to an accountant of the books in his library arises from a number of sources: for some he has an affection on account of the charm or clarity or elegance of the style in which they are written; for some he has respect because

of the knowledge which is displayed on their pages; for some he has use because of the amount of information which they present in a compact and convenient form.

The chief value of *Corporation Procedure* is based on the last-named foundation; it includes not only the revised contents of separate volumes already published by each of the authors, but enlarges upon them, while the statements contained are supported by thousands of citations and illustrated by many forms and examples.

Manifestly, it is impossible to describe in detail the contents of a volume which contains over a thousand pages, is divided into 165 chapters and is illustrated by 341 forms. These figures themselves give some idea of the detailed treatment which each branch of the subject receives.

The work is divided into eight parts, the first of which describes the corporate structure, including the features and powers of corporations, and particulars regarding charters and by-laws.

Part II deals with corporate control, the status and rights of stockholders, the board of directors and other officers and corporate meetings.

Part III is devoted to capital stock, its varieties and methods of transfer and recording.

Part IV confines itself to corporate bonds and notes, and Part V to corporate organization, including the treatment of goodwill, of promoters' interests, and the methods to be followed when incorporating under various conditions and for various purposes.

Part VI is headed "The corporation finances and accounts." It deals with such matters as subscriptions, stock rights, underwriting, surplus, dividends, consolidated and other financial statements and various reports.

Part VII deals with "Combination, reorganization and dissolution" and includes a discussion on holding companies, reorganizations and receiverships.

Part VIII contains 293 pages and is devoted entirely to forms of apparently every document required by, or for, a corporation from its birth by charter throughout its existence.

The book is admirably arranged, well printed and fully indexed.

One of its chief purposes is described in the preface as being to "assist the board of directors and the executive officers in the safe and proper discharge of their duties." This purpose is fulfilled. Perhaps an accountant may feel a twinge of jealousy when he reads the caution as to securing counsel learned in the law but does not find any similar advice as to the engagement of accountants versed in corporate procedure. From the nature of things, general principles are dealt with and due warning is given that modifications may be necessary to secure compliance with the local requirements of different states.

It is a good book and a valuable one.

WALTER MUCKLOW.

PUBLISHED BALANCE-SHEETS AND WINDOW DRESSING, by
LAWRENCE R. DICKSEE, *Gee & Co., Ltd.*, London. 62 pages.

Published Balance-sheets and Window Dressing is a small book, based upon a series of articles that have appeared in *The Accountants' Journal*. It is stated by the author to have as its object a two-fold purpose: To suggest as seriously as may be to company auditors that a balance-sheet which is deliberately

intended to withhold from shareholders information concerning the position of a company's affairs can not in any reasonable sense be said to exhibit a true and correct view of the state of the company's affairs and to explain to the shareholder, as far as possible in a non-technical way, the kind of information that he may reasonably expect to demand from a balance-sheet, and the uses that he may make of such information if and when he is able to obtain it.

The whole of this book is devoted to a comparison of the prescribed form of balance-sheet under the assurance companies act of 1909 with the old table A balance-sheet of the now repealed companies act of 1862, and a discussion of the individual captions appearing in these balance-sheets.

To the stockholder who is ignorant of the meaning of a balance-sheet and does not understand the information which may be obtained by the study thereof, this booklet will be instructive. It does not, however, make particularly interesting reading for the public accountant, for the reason that all the statements in it have been made many times before.

In the chapter called "Secret reserves" the author refers to the court's decision in the case of *Newton v. Birmingham Small Arms Co., Ltd.* In this case it was the opinion of the court that when the articles of association of a company provide that the published balance-sheet shall not disclose an internal reserve fund, there must be omitted "on the assets side of the balance-sheet the assets which make up the amount standing to the credit of that fund, and the contra item, viz., the credit balance of the fund, upon the liabilities side. The result will be to show the financial position of the company to be not as good as in fact it is. If the balance-sheet be so worded as to show there is an undisclosed asset, the existence of which makes the financial position better than shown, such a balance-sheet would not in my judgment necessarily be inconsistent with the act of parliament. Assets are often by reason of prudence estimated, and stated to be estimated, at less than their probably real value. The purpose of the balance-sheet is primarily to show that the financial position of the company is at least as good as there stated, not to show that it is not or may not be better." The court went on to say that where there was anything upon the face of the published balance-sheet to suggest that the true position was believed to be better than the position disclosed, it might very well become the duty of the auditor to draw attention, at least, to the bare fact in general terms. It seems almost inconceivable that by law a corporation would be authorized to omit from a published balance-sheet any portion of its assets, liabilities, or surplus. Certainly if such omissions were made it would seem the duty of auditing firms to do far more than draw attention to the bare fact in general terms.

W. B. FRANKE.