# Book Reviews

HOW TO READ A PROFIT-AND-LOSS STATEMENT, by HERBERT G. STOCKWELL. *The Ronald Press Co.*, New York. 411 pages.

Measured by the em the balance-sheet statement is predominant; the income statement relatively unimportant. The balance-sheet stands forth in all the pomp and circumstance of place and position; the income statement lags, shriveled and feeble, far behind. Where we might reasonably expect to see the pair traveling as a well matched team we find only an incongruent tandem.

It is of course interesting and essential to know where an enterprise rests at a given moment, but its experiences in getting from one resting point to another are surely most suggestive segments of its history. Arrival is an end; the road traveled is a means and its trend projects the view beyond the momentary position. The game, not the score, tells the story. Stevenson expressed it, "to travel hopefully is a better thing than to arrive, and the true success is to labor."

Is this distinction because accountants have made it their conscious affair or is it due to the difficulty of picturing the income process; the momentary situation being an accomplished fact—a sort of petrifaction—while income is a running series of interlocking occurrences—a thing of life and movement? A motion-picture camera needed for the one; a simple kodak answering for the other.

Accountants should be grateful that one of their guild has given thought to and endeavored to throw a little more light on the neglected half of the two formal business statements as does *How to Read a Profit-and-Loss Statement* —and does in an interesting way. It uses well over a hundred actual cases as texts for short and clear expositions of various perplexing problems, and as each case illustrates a different point it may be assumed that very many, if not most, of the knotty problems which confront the accountant in the income part of his work are here dealt with in some fashion; not always exhaustively, of course, for that is beyond the limits of a single volume, but sufficiently. Moreover, the book is not lacking in suggestion and stimulus to broader and more comprehensive practice.

Just what the non-accountant would draw from this book, or from any book on accounting for that matter, would depend on the extent of his knowledge of accounting, or at least upon his familiarity with its language—a matter of the individual person—but to all accountants it will be of interest.

The feeling with which the book is finished is that the income account in the form at present published is far from a satisfying statement. Purporting to be a record of performance it exhibits neither life nor movement, presents only the *result* of action, solidifies a flow, shows the *end*, not the *course*, of the income operation. That such feeling is tending to become more general is apparent in the growing practice of issuing quarterly statements, but the complete remedy, unfortunately, is not quite so apparent.

LOUIS G. PELOUBET.

OUTLINES OF ACCOUNTING, VOL. II, by WILLIAM S. KREBS. *Henry Holt & Co.*, New York. 1059 pages.

*Outlines of Accounting*, a rather formidable volume, may be viewed from two angles: first, as a textbook for the second course at Washington University, which is its stated purpose; second, as a complete treatise on the theory of accounts for the edification of those who enjoy theorizing to the *n*th power on all sorts of subjects. Considering the first, we are informed by the author that it is the second volume of a series and is to be followed by a third "before the whole of general accounting has been considered." If the first and third volumes are commensurate in size with the one before me I confess I am rather startled at the mass of detail which the student at Washington University is expected to assimilate. But "the proof of the pudding is the eating thereof," and if the three-year course turns out a higher percentage of qualified accountants than the average school, there is no more to be said except that I should regard them with some awe, recalling Goldsmith's lines:

"... and still the wonder grew
That one small head could carry all he knew!"

From the other angle Mr. Krebs' book will be a delight to those who would study the theories underlying the principles of accounting, and it inspires a high respect for the author's indefatigable labor and research in following up every possible by-path in the mazes of accounting theory. The majority of textbook writers are content with stating methods and theories which seem right to them and ignoring more or less all others. Mr. Krebs, on the contrary, takes infinite pains to state impartially every theory applicable to a given method, and endeavors to show the strong and weak points of each. "Sweet reasonableness" may well be considered the key-note of the whole book.

It is necessary to bear in mind, however, that the book is written primarily for the student; otherwise the accountant of experience is likely to become bored with the long succession of illustrative journal entries he will encounter. Nevertheless, these entries are frequently illuminating and help to make the author's points clearer, especially to that type of mind which demands the concrete application. The profuse use of such entries is rather a novelty in accounting literature of this class, and it is also curious to find so much space given to account forms which are rarely found in ledgers. For instance, I have never seen an inventory nor a cost-of-sales account actually carried on a ledger. The inventory is customarily a balancing item in the purchase account, while cost of sales appears only in the profit-and-loss statement. Undoubtedly the series of accounts as shown by Mr. Krebs is helpful to the student, but the latter ought to be warned not to expect to find all of them in actual use.

Any attempt to review critically the contents of this volume would fill more pages of THE JOURNAL than would be permitted. Suffice it to say chapters I to IV contain a full and exhaustive description of the purpose and use of the voucher system; chapters V to XXXII cover all the classes of accounts which should appear in the ledger, chapters XXXIII to XXXV are devoted to a suggestive and interesting discussion of the need for several balance-sheets, and the last two chapters deal with the nature and proper apportionment of depreciation.

Probably most active practitioners would take exception to the author's inclination in favor of differing balance-sheets as against a uniform standard one. His argument is that there are four main classes of those interested in balance-sheets—security-holders, short-term creditors, managers and the government—and the same balance-sheet will not satisfy all. That may be so, but I think the majority of practising accountants would prefer a single standard for the balance-sheet, relegating the respective data as to special information to the report or, in the case of the government, to a reconciliation statement.

Chapters XXX to XXXII, a very full and keen analysis of surplus, reserves and sinking funds, I found particularly interesting. No phase of accounting is more difficult to understand and handle properly, and the author's suggestion of a thorough revision of nomenclature is well taken.

The book is well written and arranged though there is considerable repetition, but again we must remember it is primarily a textbook. Format and printing are excellent, and though there are instances here and there that the proof-reader drowsed a bit (maybe it was the subject!) there is nothing tending to mislead the reader.

In conclusion it is not too much to say that in this volume we have a summary to date of all established accounting theory, a notable milestone in accounting literature. If now a moratorium could be declared on the publication of academic theories until practising accountants discover new ones—but perhaps that is too much to expect!

W. H. LAWTON.

---

DESCRIPTIVE ECONOMICS, by R. A. LEHFELDT, Professor of Economics, University of Witwatersrand, Johannesburg. *Oxford University Press*, American Branch, New York. 112 pages.

*Descriptive Economics* is rather an introduction to the study of economics than an attempt to lay down any doctrines favored by the author. It is indeed pleasant to find a book on economics, written by a professor in a far-away country, so entirely free from the note of personal dogmatism; we are unused to such an attitude in our instructors.

As a historical survey of conditions, suitable for study before beginning to attack specific problems, the book is singularly complete and luminous; its 106 pages convey a quantity of information and a breadth of view that could hardly have been expected within such limits.

Although the author does not intend primarily to deal with theory he is forced to give some matter that is unavoidably dependent in part on theory and opinion. In such cases the opinions given are, I think, temperate, sane and often valuable. For instance, after giving figures (for 1923) showing that railways in the U. S. A. paid, on the whole 4½% on bonded debt and 4.53% on capital stock, the book continues:

> "It is certain that if it could have been known beforehand what dividends would be earned private investors would never have put their money into railway construction in the United States except in a few favored localities. . . . In England the situation is the same."

It may be said, of course, that the private investor did not originally build railways; that they were built by speculators who sold the stock to investors at such prices that their investment did not at all reflect the cost of the railways, and that the return on money actually used to construct railways is well over 4.53%. Probably the truth lies between these two extremes; the author, a South African, can hardly be charged with full knowledge of all that American railway promoters did in the distant past, and his statement has a world of truth in it.

The author's chapter on "Government and industry" is good reading for any person. He says,

> ". . . now the world is so used to depending on government to do things that it is difficult to get due weight allowed for the real merits of private initiative."

Would that all our amateur economists would read, mark, learn and inwardly digest this little book!

FRANK W. THORNTON.

---

AUDITS, by A. E. CUTFORTH. *Gee & Co. Ltd.*, London. 281 pages.

The seventh edition of the very estimable but prosaic work, ***Audits***, has appeared, whose twofold purpose continues to be:

(1) To outline the main principles of auditing and to set out in summarized form the practice of auditors; and

(2) To present the information in a manner suited to the requirements of students for examinations.

The only difference between this edition and the preceding one is that the author has enlarged the new edition by the addition of chapters on the procedure of auditing, the concern of the auditor with the question of asset values, and depreciation of wasting assets.

This book will make interesting reading for the accountant in this country, if only because of the possibility of comparing our methods with those used by English accountants. The differences in procedure are in some cases quite striking. For example, as the answer to an examination question asking that a list of instructions be prepared for the guidance of the bookkeeper showing the work which should be done before the audit commences, the author gives the following:

> "Before the auditor is asked to attend, the bookkeeper should have completed the preparation of the balance-sheet and profit-and-loss account, with schedules showing how each of the composite items in these statements of accounts is composed.
>
> "The above involves, or should involve, the balancing of the books; the ruling off of ledger accounts and the bringing down of the balances thereon in ink; the putting through of all closing and adjusting entries at the end of the year (e. g., in regard to reserves for outstanding expenses, provisions for depreciation, writing off of bad debts, provision for doubtful debts); submission of a trial balance which the auditor could check with the balances on the books and then subsequently with the figures on the schedules to the balance-sheet and profit-and-loss account. The bookkeeper should also have reconciled the balances on the banker's passbook with the balances shown in the cashbook and prepared a reconciliation statement. He should also have all cash and other vouchers arranged in the order of the entries of the books, and data, such as creditors' statements, arranged in the same order as the list of creditors."

The discussion with respect to depreciation is particularly interesting. The author states that the law in England makes a clear distinction between depreciation of floating assets and depreciation of fixed assets. Depreciation of floating assets must be provided before profits available for dividends can be determined; but depreciation of fixed assets need not be so provided. The point is stressed, however, that this distinction is made not from the economic but from the legal viewpoint. The author goes on to say that "although, in the case of a limited company, dividends can only be paid out of profits, it has been decided in the courts that there is no legal compulsion to charge, in arriving at such profits, anything in respect of the depreciation of wasting assets, as, for example, buildings, plant, machinery, etc."

The question of depreciation in the case of parliamentary companies (such as railways, gas, water and electric-light companies) is also interesting. In the case of these companies depreciation is credited to a renewals fund. When an asset is to be replaced, the cost of the replacement is charged to the renewals fund, leaving the cost of the original asset still in the capital account. Theoretically, therefore, the balance to the credit of the renewals fund should always represent the accrued depreciation to date on all assets for which the fund was created. In practice, however, this does not work out, for, as a matter of fact, the author tells us that some companies meet their renewals out of revenue when the expenditures are incurred, and do not provide for such renewals in advance. It will be readily understood that complications may arise in the renewal funds when it is considered that the additions to these funds are made up of depreciation set aside on assets, most of which were purchased prior to the war. When these assets are renewed, the renewal cost is so much greater than the pre-war cost that unless some provision is made to capitalize the excess, the renewals fund will soon have a debit instead of a credit balance. In the case of parliamentary companies the author attempts to justify their not being required to accrue depreciation on wasting assets. He uses for example a railway company, and points out that it would not be in a position to "exhibit a credit balance on its net revenue account, on which it could pay a dividend, for quite a number of years," if "from the time it first opened its system to traffic in a yet undeveloped country, it had to charge against its revenue account provision for the renewal, at varying scales, of its rails, sleepers, stations, telegraphs, rolling stock, etc., according to the expected life of such assets." He suggests that "from this point of view there is much to be said for the method of accounting whereunder all necessary charges for maintenance are debited against revenue as and when incurred; but whereas, as regards the depreciation charge (such charge) is, in whole or in part, deferred until a time when presumably the assets in question are much more fully revenue-earning."

W. B. FRANKE.