Journal of Accountancy

Volume 39 | Issue 5 Article 9

5-1925

Book Reviews

Henry Rand Hatfield

Edward H. Moeran

Book Reviews

MANAGERIAL ACCOUNTING, by JAMES OSCAR MCKINSEY, *University of Chicago Press*, Chicago, Ill.

Progress, it was wisely said, is neither a straight line nor a treadmill circle returning ever and again to the very point whence it proceeded. It is rather a spiral, moving apparently in the direction whence it came, but on a little higher plane and sweeping perhaps with an ever-widening radius.

Whether this was a universal truth or no, it seems to apply to the field of accounting. The earliest of all writers and the preponderant number of later works on accounting combined theory with much information and advice which dealt with business procedure rather than with accounting. One recalls how, even in the beginning, Paciolo was not content with giving minute directions as to how to make entries in journal and ledger, but described how an office should be run, how correspondence should be filed, how letters should be written and dated, and how the merchant might use his unlearned wife to tend his shop. And through the dreary and interminable list of subsequent text-books, one was ever being instructed in the form of drafts, the making of deposits, the drawing of leases, and the multitudinous detail of business practice.

But the present generation started a new line of texts. Accounting treatises, beginning with Pixley and Dicksee, taught accounting. They dealt with its theory and really wrestled with the unsettled problems of valuation, of the apportionment of depreciation, of how to tell an asset from an expense and, ever and above all, the determination of profits. If fewer of the books were called "science of accounts," they were, as never before, rigidly and boldly scientific, at least in the sense that they attempted the formulation of a definite body of knowledge dealing with a specific limited sphere.

But the spiral swings around its axis. The present work, learned, indeed, and scientific, transcends the limitations which writers of this century have generally felt, and once again accounting is more than accounting.

Managerial Accounting is not content to tell how to record transactions to meet the needs of the manager; it tells what ought to be done, and how it should be done, to make it worthy of record in the books of account. It tells how responsibilities should be divided before telling how to keep accounts which will measure responsibility. It even reverts to type and gives the details of a filing system. It first describes the nature of operations and then tells how to record these operations. It is a reversal of the pedagogy of Dotheboys Hall, where the boys were first taught how to spell "winder" and then sent out to wash one.

With this general statement of the new accounting as exhibited in this work, acquaintance with the detail may be left to the reader. But attention may be called to the comprehensiveness of the book. It begins with the organization necessary to secure satisfactory records and describes not merely the formal journal and ledger but other reports necessary for effective administration. The latter part of the book, more than half its contents, discusses the various systems of control, of sales, of purchases, of traffic and of production.

From this it is not to be understood that the book is a work on business management or salesmanship rather than accounting. It is properly named *Managerial Accounting*, but it deals with accounting as related to business life, not merely as something enclosed between the covers of a ponderous ledger.

There are matters of detail open to criticism, statements of theories which might well be discussed, occasionally even slips which involve a palpable error. But a work on accounting covering nearly seven hundred pages which did not contain such would give small promise of containing anything of interest or importance.

One may question whether the objection to a fluctuating allowance for depreciation is that it is obviously incorrect rather than that there are practical difficulties in estimating future profits. It may indeed be true that taxes and insurance should not be grouped with non-operating expense, and yet one may question the sweeping statement that the inconsistency of so doing is too evident to require comment, since so many accountants have and do favor such treatment. It is difficult to see distinction between amortization of war facilities and ordinary depreciation sufficiently marked to make one an operating, the other a non-operating expense. The life of a plant may be determined as well by the duration of a war as by the durability of its boilers, and the necessarily irrecoverable capital outlay is in either case a cost of operation. And finally there is perhaps a picayunish but real regret that a work bearing the imprint of one of our greatest centers of culture should fall for the phrase "this data."

Out of all proportion is the reference to questionable statements, for the bulk of the work is sound, interesting, illuminative and original.

HENRY RAND HATFIELD.

University of California.

VALUATION OF INDUSTRIAL SECURITIES, by RALPH EASTMAN BADGER, *Prentice-Hall, Inc.*, New York. Cloth, 188 pp.

The following excerpts from the preface epitomize the story of this book:

> "This volume is essentially an elaboration of several reports prepared by the writer on the valuation of securities in closely owned corporations for inheritance tax purposes."
>
> "An attempt has been made, however, to generalize the material in such a manner as to give the every-day investor certain principles to help him in arriving at his independent judgment regarding the values of industrial securities, whether actively traded in or not."
>
> "The writer realizes that he is entering a somewhat new field and that his position on certain points . . . may not coincide with the views of the reader. Furthermore, the infinite variety of conditions which surrounds security valuation makes it difficult to lay down rules susceptible of universal application."
>
> "The main thesis adopted is that the exchange value of all capital goods arises out of earning capacity, and that the value of securities, representing in various ways property rights to capital goods, likewise reflects earning power. In other words, security values arise from capitalized earnings."

In the opening chapter various concepts of value are explained and the following chapters are devoted to methods of public-utility valuation, preferred and common stocks, bonds, risk factors, book value *vs.* market value, and goodwill.

The book closes with appendices, in statistical form, based upon the author's study of the published accounts of "selected corporations" and "representative companies."

The chapter on public-utility valuation (18 pp.) is, of course, but a very brief review of the subject; nevertheless, a peep into the mysteries of rate-making is afforded the uninformed reader and he will learn something of the theories underlying fair value, going value, capitalization of early deficits, undistributed overheads, fair return and reproduction-cost-new, the latter being merely original cost measured in terms of the present purchasing power of money.

In various parts of the book the author explains the conclusions to be reached by a detailed study of a company's financial position, and proper ratios are suggested for accounts receivable to sales, owners' interest to creditors' interest, current assets to current liabilities and other equations.

In the chapter "Common stock earnings defined," too much stress is laid upon the accuracy of determining a company's current earnings by comparing the surplus at beginning and end of a period and making due allowance for dividends paid. In these days of additional tax assessments and tax refunds, to say nothing of other surplus adjustments applicable to the operations of prior years, the results obtained, by the method suggested, might create unwarranted hilarity or melancholia in the minds of security holders, if complete data were not available to them.

In the chapter "Book value *vs.* market value of common stocks," the author is a bit harsh in stating that "the book value of assets is *utterly worthless* to serve *in any way* as a basis for security valuation"; and his statement, in the same chapter, that "conservative accounting practice demands that (fixed) assets be carried at cost of acquisition, less depreciation, or market value, whichever is lower" confirms the conclusion, previously reached, that no cognizance has been taken of companies operating wasting assets, to which the first quotation above would better apply.

In reading the book one may be disappointed in finding that but little space is devoted to the varying degrees of insolvency as affecting security valuations, and that no further light is shed upon the controversial points incident to the capitalization of no-par-value stock. The impression probably will also be gained that too much weight is suggested to be given to past performances and too little consideration to future prospects. The subject matter, however, is a difficult and far-reaching one and the reader will be better versed therein after reflecting on the theories expounded.

EDWARD H. MOERAN.