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Book Reviews

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Book Reviews

INCOME TAX PROCEDURE, 1924, by ROBERT H. MONTGOMERY.
Ronald Press Company, New York. 1,900 pages.

The 1924 edition follows closely the 1923 volume. Despite an increase of 150 pages, there is a slight decrease in size, accomplished by enlarging the printed space of each page. A significant indication of the growth of the subject is the author's apology in 1918 for the length of a book of less than 800 pages. Two 1923 chapters have been subdivided to produce two new ones, payments, and net losses. One general index replaces three separate indexes.

This book provides a splendid starting point for the solution of any income-tax problem. All important decisions and treasury department rulings seem to have been covered. An examination of the index to treasury department rulings will indicate the last internal revenue bulletin utilized and thus fix the point of beginning for a search for changes. Obviously, no bound book can contain the last word on a subject which is daily in a state of flux. It is a very present help, however, to have the author's comments on each point as a foundation.

Readers who are inclined to skip the preface of a book should not do so in this case. There the author reminds us that we still have to deal with "the same old congress" and that business men while giving three cheers for Secretary Mellon should at the same time seek to make an impression upon individual members of congress. Nor should they fail to claim proper refunds "as long as the treasury persists in sending out illegal assessments," a recommendation supported by the fact that 72 per cent. of the claims filed during the last fiscal year were allowed. The author expresses righteous indignation at the treasury's failure to publish all its decisions, leaving the unpublished ones available only to department employees and their friends. In the author's opinion there is no moral turpitude here, but that is small consolation to a taxpayer who is unable to find out why his claim is rejected.

The book is full of practical suggestions and only a few can be noted. As usual, the author has included a substantial amount of helpful accounting theory, one example being the accounting for stock dividends on stock without par value. About 60 pages are devoted to depreciation rates. It is suggested that in preparing a consolidated return, the return for each corporation be reconciled, and the individual reconciliations combined through elimination of intercompany adjustments. He discusses consolidated returns, with reference to losses of affiliated companies and the possible loss of specific credits. Corporations are advised to purchase their maturing securities just before redemption dates so that the security owners can take advantage of the 12½ per cent. rate on capital gains. The author urges taxpayers to pay under protest when there is the slightest question, so that they may take action in the courts.

Book Reviews

Procedural matters are explained at some length. An organization chart of the income-tax unit is given, another chart shows the course of audits of cases in the bureau of internal revenue, and the procedure before the committee on appeals and review is outlined. A number of forms are given; for example, a specimen appeal and a power-of-attorney. The author might have mentioned the requirement that each of two or more joint executors or administrators must secure a power-of-attorney although that is opposed to all customary practice wherein one joint representative can bind the estate. One misses the forms given in the 1922 edition and it might have been wise to use an additional 50 pages to cover them. The chapter on deductions for expenses is full of practical suggestions and, incidentally, of human interest.

The author's desire to be practical rather than theoretical is illustrated by his handling of the *Supplee-Biddle Hardware Company* case (under the 1918 law). This case held that proceeds of life-insurance policies received by corporation beneficiaries are not taxable. The case may not be sound law but the author confines his comment to a recommendation that claims for refund be filed. Taxpayers are entitled to protection, although the reasoning of the court in giving it may be open to argument.

Two decisions of importance have been rendered since the publication of this book. One of them, *Bankers Trust Company vs. Bowers*, overruled the treasury and the district court which have held that section 226 (c) applies to returns for a decedent and his estate. The commissioner has announced that no appeal will be taken and that the regulation will be amended to conform to the decision in this case. Another case of importance is *Gavit vs. Irwin*, which holds that periodical distributions to beneficiaries of trust estates may be construed as gifts instead of as income. This is even further than the author has gone. In objecting to the treasury's position that these are income even though the beneficiary has no interest in the principal, the author's very logical position has been that the tax should be only on the excess of receipts over the capital value of the annuity at the time of the gift.

There is one instance where it is difficult to agree with the author. Having shown by example on page 197 that the day of decedent's death is not to be included in putting his income on an annual basis under section 226 (c), the author then states on page 200 that it is to be included. The example quoted is from I. T. 1251 (not I. T. 1250 as stated in the text), and I. T. 1578, which is the author's authority for his inclusion of the day of death, specifically states that I. T. 1251 is in part overruled. The author's conclusion that "the entire day of the decedent's death is to be included in the decedent's return for a fractional part of a year" seems too broad to be accurate. It is included solely for the purpose of calculating the fractional part of the year lived. It is not included for the purpose of ascertaining income when decedent reported on a cash basis, for a dead man can receive no income. Here is a case where what is essentially income fails to be taxable income for either the decedent or his estate. Perhaps it might be advisable for persons well along in

years to make their returns on a cash basis. *Weeks v. Sibley* would prevent any effective objection to this, if otherwise proper, on the ground that the taxpayer's motive is to reduce or avoid taxation in the future.

The typography of the book is excellent. At the beginning of each chapter is a table of contents for it, and each page shows the chapter number and carries a headline indicating the general topic. This latter expedient is helpful except when the proofreader slipped a cog and left the heading "Federal Estate Tax" on each page of the chapter concerning the capital-stock tax. This gives one a momentary jolt if he opens at random to this chapter but no one should treat the book so casually. It is one to be studied rather than opened at random.

In view of the speed with which it was printed there are amazingly few misprints. Not at all by way of criticism but rather as a sort of voucher that the reviewer at least scanned the book, it will be noted that page 1881 shows I. T. 1823 as 1923. On page 22 "require" becomes "acquire." Section 216 (a) (1) of the act is slightly misprinted, and footnotes on pages 231, 291, and 1513 fail to show the correct citations (which, however, can easily be ascertained by reference to the table of cases). Speaking of citations, why not avoid abbreviations which are neither explained nor obvious to a layman? When names of litigants appear and the citation is such as 278 Fed. 363, it may be assumed that an intelligent reader will understand it, but most laymen and perhaps a few lawyers will fail to recognize R. C. L. as used in footnotes on pages 40 and 254.

HAROLD DUDLEY GREELEY.

FINANCIAL AND OPERATING RATIOS IN MANAGEMENT, by
JAMES H. BLISS. *Ronald Press Company*, New York. 396 pages.

The cover of this book states that the purpose of this volume is to show "how to derive the characteristic ratios of an industry and use them as comparative standards of managerial efficiency."

The contents themselves prove that this purpose is fully achieved.

Although the author is himself a certified public accountant, the position he assumes is not that usually occupied by writers on accountancy. As a rule the necessities of the case require such authors to regard accounts from the outside; in this instance the writer addresses his readers from the inside. In other words, while writing with the knowledge of a trained accountant, he writes as an experienced manager and tells what he, as such manager, requires and what he learns from the facts submitted, while the accountant is shown what to prepare and how to prepare it.

This condition not only gives the book a high value but to members of the profession lends a certain charm which is unusual and adds greatly to the pleasure of reading.

The book consists of 387 pages, with four pages of preface and eight pages of index. The volume is divided into two parts, the first of which contains 28 chapters of discussion and description, while the second part

contains a valuable set of statistics arranged to illustrate the text; there being two chapters describing the method of the survey and the use to be made of it, together with ten chapters each containing exhibits illustrating the various chapters in part I. The book might truthfully be described as containing instructions in the construction and use of measures to gauge the efficiency of business.

Throughout the book there appear sentences, while frequently truisms, will impress themselves upon any practising accountant. For example: "A business realizes full value out of its accounting and statistical costs only as the information produced by them is reliable, promptly available and is useful to *and used* by the management." And again, "Accounting and statistics should be thought of not merely as a record of past transactions." The larger purpose is to point out to business men those things in their affairs requiring their attention.

The first five chapters cover a general discussion on business conditions and statistics which constitute a measure by which changes in those conditions may be gauged.

The sixth chapter gives a list of the principle of such measures, viz.:

MEASURES OF EARNINGS:

- The relation of surplus net profits to net worth.
- The relation of surplus net profits to volume of business.
- The earnings on common stockholders' investments.
- The relation of operating profits to total capital used.
- The relation of operating profits to volume of business.
- The relation of gross earnings to volume of business.

MEASURES OF COSTS AND EXPENSES:

- The relation of costs and expenses to volume of business.
- The relation of property expenses to investment and sales.
- The cost of borrowed capital.
- The cost of total capital employed.

TURNOVERS:

- The turnover of total capital employed.
- The turnover of inventories.
- The turnover of accounts receivable.
- The turnover of fixed property investment.

FINANCIAL RELATIONSHIPS:

- The working capital ratio.
- The manner in which capital is invested.
- The sources from which capital is secured.
- The proportion of earnings left in the business.

In addition to the foregoing, there are other important measures of efficiency, applicable to most industrial businesses, among which should be mentioned:

- Measures of labor efficiency, such as the output per man per hour.
- Measures of machine or operation efficiency.
- The relationship of non-operating income and expenses.
- The income earned on non-operating investments, both gross and net.

The income received from investments and securities in relation to the amount of capital tied up,

and a chapter is devoted to each of these eighteen measures.

The next four chapters are devoted to the preparation, reading and analysis of financial statements and the preparation of statistics for business executives.

Part II consists of over 150 pages of statistics relating to actual businesses which illustrate the principles outlined in part I.

We are confident that all accountants will share our belief that the matters dealt with are of the first importance and when we say that each subject is well worked out and clearly stated, the high value of the work becomes evident.

While it might be too much to say that the author has taken a new line, it is well within the mark to say that he describes a field to which too little attention has often been paid in the past.

The mere preparation of a balance-sheet and profit-and-loss account is but one of the useful purposes to which a well-designed, properly-maintained set of accounts may be put, but it is comparatively seldom that the proprietors extract all the assistance which is at their service. On the other hand, accountants do not always show in their reports all the information which they have or could have acquired in the conduct of the examination.

"Financial and operating ratios" shows what information should be given; it shows the accountant how to prepare it and the proprietor how to use it.

It is without doubt the most comprehensive study of "turnovers" and "ratios" which has appeared. Increasing competition is forcing a close attention to these subjects and anyone having to deal with them is depriving himself of valuable assistance if he does not keep this volume by him for ready reference.

WALTER MUCKLOW.

STUDIES IN COMMERCE—VOL. II. THE SHIP AND HER WORK, by SIR WESTCOTT ABELL, K. B. E. *Gee & Co., Ltd.*, London. 114 pages.

The title well describes the book, which deals with the work which the ship is designed to do; the risks involved in its operation (illustrated by charts); the regulations governing its operation; its construction and its mechanical equipment. The author is of the opinion that oil-burning equipment will supersede coal-burning equipment, when a sufficient number of oiling stations has been established. The book is the substance of a series of lectures on shipping questions delivered to students studying for the degree of bachelor of commerce in the University of London during the summer of 1922.

D. D. F. MACKENZIE.

Tipperman & Fleissig announce the opening of offices at 30 East 42nd street, New York.