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Book Reviews

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INTEREST AS A COST, by CLINTON H. SCOVELL. *The Ronald Press Co.*, New York. 254 pp.

Mr. Scovell's book contains an attempt, which is not wholly consistent or convincing, to reconcile economic theory and practical cost accounting, as well as a discussion of the general accounting and legal phases of the subject. Commencing with the statement that the "margin between selling price and cost is profit," the author considers different kinds of cost, such as sacrifice cost and consumers' cost, and ultimately decides that the objective of the cost accountant should be "entrepreneur's cost." At this point having perhaps, as we have, referred to two dictionaries and found as the primary definition of "entrepreneur"—"One who gets up a musical entertainment"—he wisely undertakes to define "entrepreneur." His definition is embodied in the following sentence:

> "By 'entrepreneur' is meant the person or persons—whether single proprietor, partners, or body of common stockholders—who own the capital goods and the product, hold control, and undertake the risks of operation." . . .

Clearly there are here included qualifications which may or may not be united in the same individual or group. The defining paragraph, however, ends with the following sentence:

> "An entrepreneur may receive managerial wages or salary as laborer, interest as capitalist and profit as entrepreneur."

Further, in his appendix the author quotes with approval Taylor's statement:

> "In strict economic analysis, however, profits ought to be limited to the third element, the taking of responsibility and the making of final decisions."

This evidence leads to the inference that the term "entrepreneur" is used in the common economic sense of someone standing back of labor, capital and management alike. If so, it may be questioned whether the standpoint of this somewhat shadowy individual is the most useful one from which to consider "cost" for practical purposes. Certainly also from this standpoint the cost of capital includes compensation for risk as well as for use, just as it includes accident insurance as well as wages.

Frequently, however, the author seems to regard profits as including, if not indeed being the compensation to, capital for risk (though not for use), and expresses it in terms of a percentage on the capital employed. As he also quotes and italicizes a reference by Taussig to "earnings of management or business profits," it would seem that he is unwilling to make a definite choice between three materially different concepts of profit and consequently of cost.

The uncertainty thus created is not dissipated by his discussion of specific rates, for he proposes a rate of 5%, 6% or 7%; that is, a rate substantially higher than is necessary as pure compensation for use of capital but substantially less than is required to cover both use and risk.

On the accounting phase the author quotes *Economics for the Accountant* (Simpson) to the following effect:

> "Obviously he (the accountant) is not making his statements for any one other than the common stockholders. On the balance-sheet, for example, the surplus is not described as the common stockholders' surplus, but it so evidently belongs to them that no specific mention is necessary. Every accounting statement is made for the common stockholders, who may or may not be entrepreneur-capitalists but who are always entrepreneurs. . . ."

We are not prepared to accept either of the arguments here advanced without question. The second point lies in the field of economics and may turn on the definition of "entrepreneur." On the accounting point the author is clearly in error; surplus does not necessarily belong to common stockholders. It may, for instance, be used to pay dividends on preferred stock in respect of either a past or a future period.

The review of court decisions does not lead to any very significant conclusions one way or the other, and indeed this is not a question upon which the courts could be expected to furnish guidance.

The author makes a valiant effort on behalf of his favorite theory but it cannot be said that he has succeeded in putting it beyond the reach of controversy.

GEORGE O. MAY.

INDUSTRIAL COST ACCOUNTING FOR EXECUTIVES, by PAUL M. ATKINS. *McGraw-Hill Book Co.*, New York. Cloth, 322 pp.

Mr. Atkins says in his preface that he has written this book "with the hope that it will make clearer to executives some of the many possible uses of cost accounts." If the idea is to "sell" a cost accounting system, I am doubtful of its success. It is not difficult to convince an intelligent executive of the advantages of knowing his costs; he will agree to that unhesitatingly. But the further he is led into the mazes of a very complex subject, the more he is apt to wonder if the expense of it is going to be worth the results. But if the book is of dubious value as far as executives are concerned, it is far otherwise for the accountant. Mr. Atkins has brought the subject of cost accounting for the manufacturing business up to date. He describes in clear and pleasantly readable chapters the standard methods of practice with the principles underlying them in a way the student can readily follow and the skilled practitioner appreciate. The chapter on "burden earned and unearned" covers in a very satisfactory manner a much-vexed problem. And after one has followed through the whole system of interlocking records, one may heartily agree there is absolutely no reason why there should be "an independent set of records as is sometimes advocated" (p. 266). There are practical and useful chapters on mechanical and other aids to cost accounting—forms, reports, graphic charts, etc., with an exhaustive bibliography and good index. The question of interest as an element of cost is fairly and impartially discussed, the author drawing the conclusion that its effect upon the unit cost is so slight as not to be worth the unending quarrel over it. But I cannot quite agree that "it is almost wholly a matter of expediency" in view of the attitude of the federal income-tax bureau. Making up a return which requires the elimination of all interest elements from costs might prove a bit expensive for the client! W. H. LAWTON.