Journal of Accountancy

Volume 38 | Issue 3 Article 9

9-1924

Book Reviews

Maurice E. Peloubet

C. B. Williams

William M. Lybrand

Book Reviews

HOLDING COMPANIES AND THEIR PUBLISHED ACCOUNTS, by GILBERT GARNSEY. *Gee & Co.*, London.

Sir Gilbert Garnsey has given us a very valuable book. It is an admirable statement of the fundamental principles on which a consolidated balance-sheet rests and a clear and concise guide to their application. With all its condensation and clarity, the tone of the doctrinaire and theorist is conspicuously and refreshingly lacking. The author seems to look quite through any variations in appearance or form and seizes immediately on the vital and significant features of complex situations. The thanks of the profession are due him not only for his work but his example. His own prominence renders him liable to attack and misquotation. That of his professional associates increases the danger. It is probably too much to expect that his disclaimer of any attempt to prescribe for particular cases will save him from the questions of an astute cross-examiner or protect him from his own words twisted and tortured out of their meaning and almost out of recognition to justify the devious courses of dishonest directors. He, however, besides giving largely of the scanty leisure of the professional man, has taken all these risks for no apparent reward other than the increased esteem of his fellow practitioners.

Four methods of presenting the accounts of a holding company are described:

1. The "legal" balance-sheet of the holding company
2. The "legal" balance-sheet of the holding company with balance-sheets of subsidiaries
3. The "legal" balance-sheet of the holding company with summary of assets and liabilities of subsidiaries
4. The consolidated balance-sheet.

Although not absolutely condemning any method the author considers the third method "has advantages over any other" in clearly presenting the final expression of the complex and multitudinous facts and relations which underlie consolidated accounts of any magnitude. From the point of view of the creditor, the financial student or the informed investor there is something to be said for this method. It is true that in consolidated accounts, prepared by the usual American method, the balance-sheet of the holding company itself is not made public and the creditor does not know exactly to what assets he must look for satisfaction of his claims. However, taking into consideration the average shareholder and reader of published accounts who is neither a student nor a creditor and not usually well informed, it would seem that the complexity incident to two statements where one would serve and the necessity, in case the holding company were also an important operating unit, of combining the figures of the "legal" balance-sheet of the holding company with the summary of assets and liabilities of subsidiaries to get a complete view of the situation, would more than offset any advantages. It should, however, be remembered that what is true of this country is not necessarily true of England and that British shareholders certainly take a more lively intelligent interest in the affairs of the companies in which they have invested than do American stockholders.

The author says:

> "Accountants in America tell us that the case for the consolidated balance-sheet is made out and that there is nothing further to argue about it on the question of principle. In any event, there and also in Canada consolidated balance-sheets of holding companies are very common."

If he means by this that the desirability of presenting the accounts of holding companies in consolidated form is generally recognized, the statement is correct; but if he intends to convey the idea that there is substantial agreement in principle as to the treatment of particular situations or items in consolidation, it is more the expression of a pious hope than of a fact.

For instance, Sir Gilbert believes that if effective control is exercised, a holding or parent company may take profits—and if that is done must take up losses—of subsidiaries on its own "legal" balance sheet even before dividends are declared by subsidiaries. On this point there is certainly wide divergence of opinion and reputable authority may be found for and against this practice. The various points involving the rights of minority stockholders and their correct statement also are far from settled.

In general the prevailing tone of the book is soundness in principle and common sense in application. The author never recedes from the position that earned surplus of subsidiaries before acquisition is capital, so far as the consolidated enterprise is concerned, and that what is acquired by the purchase of a subsidiary is nothing more nor less than the excess of its assets over liabilities. These are simple propositions, but every one who has compiled a large consolidated balance-sheet knows the Protean forms which they may assume and the difficulty sometimes experienced in handling them.

Although this book does not pretend to be a treatise on the audit of consolidated accounts there are many shrewd and valuable hints as to where to look for trouble in consolidated accounts and what to guard against in cases where directors desire to put the best face on a bad situation.

There are two appendices, one devoted to an ingenious and carefully worked out hypothetical set of consolidated accounts and the other to reproductions of representative British and American consolidated accounts. It is interesting to note that in twelve British balance-sheets, although the items are for the most part arranged in order of liquidity, in no case are they classified as fixed, current, etc., while of the four American examples they are all classified and the totals of each classification shown.

It is not too much to say that this book is of value to any one charged with the duty of preparing or interpreting a consolidated balance-sheet. The student and the younger accountant may well go to it for instruction, while for the experienced practitioner it will be a source from which his memory may be refreshed and his position on difficult points of principle corrected or sustained. The director or company officer will find stated, in as non-technical form as possible, problems akin to his own and their solution outlined in principle, reinforced by example drawn from practice.

The book at present contains no index. Its usefulness will be increased if one is supplied in a second edition.

MAURICE E. PELOUBET.

TECHNICAL COSTS AND ESTIMATES, by ANDREW MILLER. *Gee & Co.*, London, 1924. 102 pp.

The book here reviewed is intended to set forth cost accounting methods in some medium-sized industries of England. The American reader will probably come to one of two conclusions: (1) That the author has not had a very wide experience with up-to-date cost accounting methods; (2) that cost accounting is now being practised in the industries of England about as it was in American industries some ten or fifteen years ago. Believing that the real purpose of a book review is that of advising readers of the review as to whether or not the book in question will be worth their study, I shall not attempt to give direct advice, but shall point out certain things about the book which may enable one to come to a correct conclusion.

Under the heading of "ascertaining labor cost," the author seems to be in favor of allowing the workmen and foremen to keep their own records of time spent on the different jobs in much their own way. He says: "If no written records are kept by the worker or foreman and no job lines are issued, the labor cost clerk has to record daily in his labor record book, form 17, the time or output of each worker at the various jobs. This is usually done by the clerk visiting the actual place of work once or twice daily. The labor record book is a convenient size for entering the details during these visits."

This was common practice in this country a good many years ago, and in some few cases this method is still being used, but the application of mechanical devices for recording time has resulted in very great improvements over the suggested method. No mention is made of such mechanical devices nor of the improved methods which they have made possible. As justification for inferring that the author would apply the suggested method to almost any kind of industry, on the very next page the following classes of workers are mentioned: "pattern makers, joiners, turners, borers, drillers, planers, slotters, machine-shop laborers, fitters, finishers," and a number of others who are commonly found in a very wide range of industry.

In speaking of labor costs, the author also seems to favor the application of average hourly rates in arriving at his costs rather than the exact rates paid to the individual workmen. His contention is that this makes for less clerical work; but in the method most commonly used in medium-sized plants in this country the payroll can be made from the individual job cards, and where this is done these job cards must of course be figured at the individual labor rates.

Under the heading "job or order prime costs," we find this statement: "When considering methods of cost accounting it is necessary to remember that generally the real object is to obtain reliable data for estimating purposes, and not, as many suppose, to determine the gain or loss on the work to the manufacturer." It is hardly necessary to say that cost accountants of this country today are placing the most emphasis on the importance of cost accounting data for purposes of manufacturing control and economies.

Under this same heading, referring to cost books, we find this statement: "In the method described here bound books or loose-leaf books can be used; if necessary separate cost books may be arranged for different manufactures." Probably most of us have long ago given up bound books as a practical method of keeping costs where separate costs are required on a large number of jobs or orders.

Under the heading "defective manufactures," the author says: "Material or labor cost of replacing defective manufactures during work in progress, caused either by unsuitable material or bad workmanship, should be charged to prime cost of the job for which incurred." There is at least room for argument as to whether such costs should be absorbed as prime cost of the job on which they are incurred or whether they should become in some way or other a general factory charge.

In speaking of "sales oncost" the author says: "Where production is entirely for contracts or job orders, the selling organization may only consist of an estimating or quotations department, including a publicity section for catalogues and press advertising, etc. This total expense will probably be a small fraction of the production cost of the total output and can quite satisfactorily be included with general manufacturing oncost." We might be in accord with this statement except for the reason that it includes such items as catalogues and press advertising in the inventory valuations.

The chapter dealing with cost and financial accounts and with "interlocking" of the accounts in the cost and financial ledgers does not convey a very clear idea of what the author is trying to say, but it does give one the impression that the methods he advocates are inclined to be cumbersome.

The entire book is written in the most general terms. It is almost entirely lacking in specific recommendations or even specific illustrations.

C. B. Williams.

THE NATURAL BUSINESS YEAR AND THIRTEEN OTHER THEMES, by Elijah Watt Sells. *A. W. Shaw Co.*, New York, 1924. 276 pp.

A real service has been done to the accounting profession in the publication of this series of articles written by the late Mr. Sells, from time to time, as an expression of his judgment on the subjects to which they refer. Not only should they interest the accountant, but men of affairs and business executives should find in them much that will be helpful and informing.

The diversity of the topics to which the author's attention has been devoted indicates his wide range of thought. The first one, "The Natural Business Year for Inventories and Fiscal Closing," is especially timely, because the tendency seems to be to use, more and more, the calendar year as the fiscal period, regardless, in many instances, of its fitness for the line of business to which it may be applied. Professional accountants, it may safely be said, do not need to be converted to the proposition that the proper time for making the annual statement is at the completion of the "natural business year." They are well aware of the advantages to their client in the saving of expenses and in the enhancement of the accuracy of the statements, and to themselves, in spreading their work over the year.

It is to the business executives and financiers that the arguments should be directed by accountants. It has become the habit to look for annual reports at the end of the calendar year, and the desire to be included in the flock of statements which appear at that time induces, in many instances, those in financial control to insist upon the books' being closed then, instead of at a time which would be more advantageous in every other way.

Whether or not the article referred to was selected by the editors as the first one to be presented in the book because of its importance is not known. It was a happy selection, but having digested it, the reader should not fail to proceed to the other papers, written on a variety of topics. The education and training of accountants and the status of the profession are dealt with in several articles. Corporate management and publicity of corporate affairs are among others of the themes to which the author has directed his attention, and in these cases, as in all the other articles, there will be found much that is informing and thought-provoking.

All the friends of Mr. Sells—and they were many—will welcome the publication of this book. It is a tribute to one who had an honored career and who endeared himself to all by those admirable qualities—modesty, tolerance, generosity and friendliness—without which any life, however brilliant, must in the end seem wofully incomplete.

William M. Lybrand.