Book Reviews

APPLIED BUSINESS FINANCE, by EDMOND EARLE LINCOLN. *A. W. Shaw Co.*, Chicago. Cloth, 772 pages.

This is a typical text-book for students, written in dogmatic style, with the usual earmarks including the use of italics for emphasis. It teems with statistics on financial data, no less than 78 tables being included covering a wide field of research, and there are also reproductions of 22 financial forms. The subject matter is divided into 25 chapters which are epitomized in a table of contents and there is also an alphabetical index more than seven pages in extent.

The scope of the book is quite amazing and the usual problems met with in financial undertakings are solved so dexterously and the pitfalls so clearly pointed out that one wonders how mistakes could possibly be made by anyone who had the foresight to invest in *Applied Business Finance*. There are rules for buying, selling, expanding, retrenching, economizing and other current activities, rules for acquiring capital and more rules for hanging on to it after you have acquired it, and, for those who have failed to observe the rules, the national bankruptcy act is explained in the final chapter.

Some of the sine-qua-nons of financial success are deliciously terse, e.g., "Begin humbly and cautiously"; "Go slowly and grow slowly"; "Know the facts"; "Don't guess"; "Put service before profits"; "Stay on the job"; "Buy light and for cash." In reference to the latter the author quotes the following (page 760): "There will be no scarcity of wine to him who hath the wherewithal to pay for it." After you have supplied the missing word in the admonition, a favorite indoor sport for students, the quotation becomes relevant.

The chapter which should be of special interest to accountants is the one on financial statements containing a pro-forma balance-sheet with comments on the various items comprised therein, prefaced with the statement that "It is wholly beyond the province of this book to give any detailed discussion of accounting methods and auditing procedure." It would have been better had the author omitted the chapter entirely, as his comments are too pessimistic and leave a bad impression by reason of the prominence given to ambiguities, sharp practice and fraud, e.g., "The item of *patents, trade-marks, goodwill,* and other *intangibles* may mean much or nothing"; "The value of goodwill * * * is subject to serious impairment at all times"; "Sometimes the item (investments) is largely padding"; "Sometimes treasury stock is included in the assets merely to pad the balance-sheet"; "Advances may mean almost anything"; "It is important to know whether so-called 'cash items' have been included for padding purposes"; "This item (notes and bills receivable) is usually anything but liquid"; "The number of opportunities for misrepresentation of its (inventory's) value are practically limitless"; "Frequently statements are dated at a time when the company's condition appears most favorable"; "There is a natural tendency on the part of human beings to minimize their liabilities and magnify their assets." The author might well have referred the student to the code of criminal procedure for enlightenment as to the varying degrees of rascality.

There is an attempt on page 313 to determine the book value of the bonds and stock set forth in the pro-forma balance-sheet and the conclusions are quite startling, e.g., each $1,000 bond is found to have a book value of $11,000 or $10,000 if "questionable items" are deducted; the apparent meaning is that the stated value of the security for the bonds, represented by the fixed assets, is 10 or 11 times the par value of the bonds, depending upon the exclusion or inclusion of intangibles. The author in this same chapter makes the following statements with reference to public accountants:

On page 290.

> "Some audits are real, so that the statements presented indicate closely the actual condition. Other audits are merely pro-forma, and are carried out perfunctorily, or the accountant may merely find what the concern wishes him to find and may permit his name to be used as a rubber stamp for a proper consideration."

On page 326, with reference to statements submitted to bankers "outside of New York City and a few financial centers":

> "The audited statement was a rarity, and it was estimated that as late as 1917 not more than 10% of the statements certified by public accountants were really audited statements. Rather, the accountants were following the practice merely of appending their signatures to the figures furnished by the company itself or of finding for the company the statement of conditions which they wished to disclose."

Statements such as those above quoted, particularly the latter, which is a more direct accusation, can only redound to the discredit of the author and tend to diminish one's faith in his ability to reach unbiased conclusions in accordance with the facts, a rather important attribute to possess in writing a book such as the one under review.

The author is obviously an economist and statistician, but not an accountant, and I am wondering whether the above may not be an unintentional distortion of the following, to be found on page 6 of *"Approved Methods for the Preparation of Balance-sheet Statements,"* which appeared originally in the *Federal Reserve Bulletin* for April, 1917:

> "Under present practice probably more than 90% of the statements certified by public accountants are what are called balance-sheet audits."

To be just, let us assume that I am right in my conjecture and that we have found merely another exemplification of the time-worn adage "Let the shoemaker stick to his last."

EDWARD H. MOERAN.

ENGINEERING ECONOMICS. FIRST PRINCIPLES, by JOHN CHARLES LOUNSBURY FISH. *McGraw-Hill Book Company,* New York. Cloth, 311 pp.

A book on the economic factors of engineering for the engineer, student and practitioner. Although in some respects it is a second edition of Professor Fish's former book of the same title, development of the investment and other factors practically compelled a rewriting to such an extent that it amounts to a new book on a rather fascinating subject. Engineers who are past masters in the technical part of their profession and yet find themselves after years of hard and faithful work occupying a modest and subordinate place in it may sometimes wonder enviously that others with no better technical ability attain world-wide reputation. Perhaps the answer may be found in this book. For study of the careers of these leaders surely proves that it is not alone the ability to plan and build structures that has given them prestige but the power to prove to investors the value of the service to be rendered by such building—in other words, the economics involved.

There are of course economic factors in the technology of engineering itself, such as costs of materials, labor, etc., but what Professor Fish aims at is the explanation of those economic factors which bring the engineer in touch with elements outside of his profession as it is generally conceived and with those which are of equal importance to the success of the enterprise as a whole. Why should an engineer know something about business organizations, finances, accounting? Because "the business unit is practically the only available medium or agency through which the engineer can convert his professional knowledge into public benefit" (p. 4). Why, again, should an engineer be expected to have a firm grasp of the principles of investment? Because "the fundamental problem of engineering economics is the problem of investment and may be stated thus: 'Given two or more opportunities for the employment of capital, to determine which is the most desirable.' * * * The problem of investment is thus one continually presented to the engineer. It is by analyzing this problem that the principles of engineering economics are to be discovered" (p. 5). And it is the development of this thesis that makes the book what I have called fascinating. Despite some pages of equations and formulæ rather formidable to a non-engineering mind like mine the term is not too strong.

The first four chapters give the general principles of investment and what might seem a very elementary explanation of the factors of simple and compound interest. Further chapters deal with practical analysis of first cost and operating expenses, procedure in estimating and like matters related to the technical end of engineering. Then we have a feature which should be all the more valuable to the ambitious engineer in that it is not usually a part of his preliminary training—a description of the types of business units organized to handle engineering propositions. It not infrequently happens that in order to carry through an enterprise successfully, especially if it be a comparatively small one, the engineer must be prepared to act as promotor and financier as well as to build and operate the plant. Two chapters cover the general principles of bookkeeping, rather sketchily to be sure, but enough to enable the engineer to understand the connection between the work and the records thereof. A highly technical chapter on valuation follows, and the volume closes with a few practical hints on how to write an intelligent *and* intelligible report.

The text is illustrated throughout by good graphic charts and figures helpful in visualizing logical procedure; and there are appendices containing formulæ and tables which should be valuable to the practitioner, especially "Table K—Structure Life Tables." For the student there is a compendious bibliography (though the author handsomely says "It is not expected that the student will look into every book in the list—far from it"!), and there is a series of questions and problems based on the chapters of the book.

Accountants will hardly agree with the professor's implication that it is not necessary to scrutinize closely the liabilities shown in the balance-sheet of "John Doe, contractor," because "liabilities at any date are exactly knowable" (p. 133). They may be "knowable"—the real question is whether they are shown in their true character or not. Furthermore, the question of contingent liability looms large in a contracting business.

W. H. Lawton.

COST ACCOUNTING PROCEDURE, by William B. Castenholz, *La Salle Extension University,* Chicago, Ill.

Opposite the title page of *Cost Accounting Procedure* appears a statement that it is one of the texts forming the basic material for an accountancy course. Looked at from that standpoint, the book is on the whole admirably adapted to its purpose. It covers clearly and in most cases concisely the rudiments of cost accounting and it presents a convenient arrangement of material and a clear explanation of the various steps, with most excellent charts. It should be a good basis for study by students and for classroom or correspondence lectures. Useful as the book may be for schools, it does not, in the opinion of the reviewer, contribute anything to the general knowledge of cost accounting, and such would not have been expected of it if it had not been for the first sentence in the author's preface. Practising cost accountants or members of the accounting profession who have made any study of costs will hardly find in the book any new ideas, but they might well recommend it to students and beginners who wish to obtain a knowledge of cost-accounting theory and the operation of such theory under more or less typical conditions.

The author's idea of a burden charge on material as well as a burden on labor is sound, but the details as explained seem unnecessarily cumbersome. The stores-ledger procedure as outlined with the suggestion that prices be carried to six decimal places hardly seems practical. The whole description of stores accounting, although orthodox, is very detailed and cumbersome, and for actual practice many shortcuts should have been suggested. In the discussion of depreciation the author practically disregards the very important question of obsolescence, for he merely mentions it at the end of the discussion without indicating its importance. In discussing normal machine operation and the causes of operating at less than normal, the author does not mention the very important factor of poor planning of work. In his chart of accounts there are serious questions whether capital stock subscriptions are current assets, whether the reserve accounts are stated in their logical order, and whether surplus reserves should not be included under the heading net worth. Although it may be necessary, in order to make the procedure entirely clear, to classify the factory expense accounts in such great detail, the author should state in the text that in actual practice many of these items can be combined to save clerical work and yet lose no information of value. His use of one-twelfth of the yearly charge as a monthly charge without any comment as to the inaccuracy of such a plan is hardly consistent with his calculation in other places of costs to hundredths of a cent. A comparison of the working days in the months of January, February and March would indicate that the division of the annual total by 12 is only a very rough approximation.

In chapter 13, entitled "Interest on plant investment," the author follows the well-known procedure in argument of setting up a straw man of his own and proceeding to pull him to pieces. The argument is in many places so exaggerated as to defeat its own purpose, and it will fail to carry conviction to anyone who looks at it in an open-minded way. The length to which the author goes in his argument is clearly indicated on page 212, where he speaks of the interest rate being "even a minus quantity." The same author who objects so much to charging interest into cost speaks approvingly of the plan on page 255 of including in production cost a portion of financing expense. Such a suggestion will hardly appeal either to the proponents or the opponents of interest charged to cost. The treatment of wages systems in chapter 16 has little or nothing to do with the subject of cost-accounting procedure. Although it is generally good, it hardly belongs in this book.

Chapter 17, on the whole, is good, but it is marred by some rather loose economic reasoning at the end. For example, the author urges permanent financing through the sale of more capital stock in the case of a company that cannot even earn interest on borrowed money. If it cannot earn interest, how can it be expected to earn a return in the form of dividends on the new capital stock; and, if not, how can it expect to sell the stock? In the last sentence of the chapter the author attributes much of the acute business depression in recent years to the efforts of manufacturers and merchants to recover both unused capacity costs and business losses from the public and the resulting refusal of the public to buy. This idea is partly sound, but the author fails to state that in the long run the cost of unused capacity must be recovered in the selling price of the product over a full business cycle of several years if capital is to have a fair return and necessary new capital is to be attracted to the industry.

The best individual contributions in the whole book are the charts liberally used with the discussion to summarize the text of each chapter, and full credit should be given to Ennes C. Rayson, who is stated to have prepared the charts. On the whole, the book is not one that will advance the science of cost accounting, but it does well serve its purpose as a text.

C. OLIVER WELLINGTON.

PRACTICAL FEDERAL INCOME-TAX PROCEDURE, 1923, by JAMES V. GIBLIN. *Seaver-Howland Press*, Boston.

One is usually wary of publishers' encomiums on their own publications, but for once I can heartily endorse what the publishers say of Mr. Giblin's book in the foreword—

> Giblin's *Practical Federal Income Tax Procedure for 1923* strips the subject of its involved technical phraseology and gives in clear-cut English the necessary instructions as to filling out correctly all important returns.

It does just that. As a manual for the student or for intensive training of juniors it is excellent. The explanations of each item and the illustrations in facsimile of each form, individual, fiduciary, etc., are followed by practice questions for drill. Type and general make-up are a delight to the eye, and though its size, 11 x 9, makes it essentially a desk-book, being but a scant half-inch in thickness, it can easily be carried in a brief-case.

Its chief flaw is in the corporation return chapters which the new 1923 form makes partly obsolete. It is a pity the publication was not delayed a bit longer, though even at that one wonders why it was thought necessary to include the chapters on the excess-profits tax in the 1923 edition.

W. H. LAWTON.

INVESTED CAPITAL ACCOUNTING, by JAMES W. BEERS, *Accountants' Publishing Company,* Washington, D. C. Cloth, 307 pages.

Mr. Beers is instinctively a teacher and, having joined the staff of the income-tax unit of the bureau of internal revenue, he quite naturally found himself, in due course, at the head of the training section. In the course of his work he issued a series of pamphlets on the subject of *Invested Capital and Excess Profits* and the book is a rewritten and enlarged edition.

The writing is in simple, rather breezy style and the points are driven home in clear understandable language. The first six chapters are devoted to corporation tax law; the remainder of the book to a consideration of the provisions of the 1918 income-tax law relating to invested capital. Few difficult problems are presented or explained but the usual difficulties of the layman in understanding the make-up of invested capital are satisfactorily cleared away. In the chapter on tangible and intangible property the author regrets the selection of these terms and suggests "tangible value property" and "intangible value property," citing in support the necessity of treating intangible assets, when acquired for cash, as tangible assets. The chapter on admissible and inadmissible assets constitutes a clear statement of the application of the law, but the author offers no solution for that portion of article 817 of regulations 45 reading:

> "Where all or a part of the interest derived from such assets is in effect included in net income because the interest paid on indebtedness incurred or continued to purchase or carry such assets may not be deducted from gross income . . . the corresponding part of the capital invested in such assets shall be deemed an admissible asset."

The following quotation on this subject is a fair sample of his commonsense attitude:

> "Further, the writer does not believe you will ever have occasion to make use of this portion of the law. At any rate, you will have no need to until such time as some corporation is found that is honest enough to tell us that it borrowed certain money with which to purchase an inadmissible. We know of no other way of finding out that there was 'interest incurred or continued to purchase or carry' an inadmissible. You can't 'tag' a dollar."

The author states that the book is published for the exclusive use of the employes of the income-tax unit. Coming from a member of the unit, the chapter on memorandum 106 is somewhat of a surprise as it is a complete and intelligent defense of the commissioner's attitude in restricting the action of the examining officers in reducing surplus by mathematical depreciation for past years unless it can be shown by affirmative evidence that insufficient depreciation has, in fact, been deducted. "To put it in a nut-shell, surplus as revealed by the books of account must be assumed to be correct in so far as depreciation or depletion is concerned unless the party, be it a taxpayer or the government, can show by 'affirmative evidence' that it is not correct. No arbitrary or dogmatic assertion that it is not correct, by either party, is to be accepted." Recent experience in the unit leaves the impression that Mr. Beers's sound conclusions on this question have not yet been wholly accepted in the unit and it is to be hoped that the book may be available not only to the employes of the unit but to the field officers who (at least in the past) seem to take a fiendish delight in causing the taxpayer an unconscionable amount of trouble in regard to this question of accrued depreciation.

Mr. Beers announces that the book is published without profit, one thousand copies having been subscribed for at cost by government employes before publication, and we have his word for it that this fact marks the publication as "a remarkable event in the world of books."

Donald Arthur.

SUCCESS THROUGH VOCATIONAL GUIDANCE, by James McKinney and A. M. Simons, American Technical Society, Chicago. 274 pages.

Success through Vocational Guidance forms part of a so-called vocational service. As the title implies, it is an attempt at occupation analysis.

Seventeen chapters and a rather long introduction comprise the material of the book. In the introduction the authors endeavor to show the need of carefully choosing one's life work and to emphasize that intelligence and planning are essential. Typical kinds of jobs are discussed and analyzed to point out that in every industry there are some functions to be performed by unskilled or manual workers, others require semi-skilled and clerical workers, where wages are higher and conditions of labor better, still others require the services of skilled craftsmen, and highest up is the employment requiring managerial or professional skill. It is the last function alone which, in the opinion of the authors, necessitates special effort and study in addition to what one may learn by experience on the job. Interesting charts are given to show the earning capacity and education of our people. Only 33 out of every 100 students who enter the grade schools of the United States complete the eighth grade and only three out of every 1,000 are graduated from college. The per capita earnings are equally startling.

The authors next discuss the personal assets of the individual and their relation to probable success. The need for leadership is emphasized, and in so far as the volume will tend to produce thoughtful consideration along these lines it has a mission. The remaining fifteen chapters take up the so-called learned professions of law, medicine and dentistry, engineering, commerce, accounting, advertising, manufacturing, banking, transportation, the building trades, hotel and restaurant keeping, mining, forestry, civil service, social service and agriculture. A formidable array, to be sure! But we very much doubt the ability of the authors to give advice on all these callings. We feel unqualified to pass judgment on many of them and shall comment only on the profession of accounting. Several statements interest us. For example, "Bookkeeping is the lowest semi-skilled profession in a line of promotion, the top step of which is certified public accountant. Bookkeepers follow precedent, work according to prescribed rules, do the same things over and over, and have therefore become the classical illustration of hopeless stagnation." We have known a goodly number of bookkeepers, and very few of them do we consider "hopelessly stagnated"—perhaps we have not a true appreciation of the hopelessness of these co-workers! Again, "While there is no sharp distinction between the two positions, the name auditor is usually applied to a person who possesses less than the skill required for a full-fledged accountant." Further, "The training for an accountant cannot be obtained in an ordinary lifetime on the job"—only by a "thorough study of accountancy" may one attain unto it! These statements and others in chapter VI on accounting lead one to believe that the authors know little about the real science of accountancy—they have no conception of the work which private and public accountants throughout America are performing every day or of the relation of these men to the industry of the nation.

Perhaps they know something about other professions—let us hope so, at any rate.

J. Hugh Jackson.