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## Book Reviews

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## Book Reviews

FEDERAL INCOME TAX HANDBOOK 1936-1937, by ROBERT H. MONTGOMERY. *The Ronald Press Company*, New York. 1,207 pages. 1936.

This is the seventeenth of the series of tax handbooks by Mr. Montgomery. The term "handbook" denotes a small guide book or manual, and as a matter of fact if compared with a four-volume tax service perhaps the term is applicable, though it is probably rather as a reference book that it is offered. A fair question is—how good a reference book is it? Almost immediately after the book was placed on my desk a query was presented to be answered in a hurry as to whether a partnership in liquidation, composed of five persons, could sell its securities to the succeeding partnership and take a loss for tax purposes, the succeeding partnership being composed of the same persons with the addition of others. The answer, quoting a board of tax appeals decision, was obtained from the handbook in five minutes, indexed "Partnerships—Sale of property to new partnership," page 399; while an associate searched a "tax service" for half an hour without success.

The book has 78 pages of fine-print double-columned index and it is replete with citations from and references to decisions of the board of tax appeals and the courts. There are many discussions of cases both from the legal and accounting viewpoints. Deviations in the regulations and B.T.A. decisions from well-established accounting principles are pointed out. There are frequent statements of the author's interpretations, criticisms and opinions—examples of which appear on pages 235, 239, 255, 261, 308, 331, 336, 357, 406, 420, 429, 431 and many others. Surtaxes on undistributed profits of corporations are new in the 1936 revenue act and there are regulations thereon but no decisions as yet. The discussion of law sections and regulations in that connection is accompanied by interpretations and suggestions.

The author would probably not claim to be right in every opinion, but the law, regulations and decisions, where there have been any, are cited and referred to so the reader may form his own opinion and reject the author's if he thinks his own is better. Sometimes, of course, the reader may decide that it is less expensive to give way than to defend a difficult position.

Every income-tax practitioner has struggled with cross-references in the law. A section will contain references to another section which in turn contains references to others and so on almost ad infinitum,—and to hang on to the theme and not fall through the cracks somewhere requires methodical concentration and analysis that he sometimes finds exhausting. The author, with his able associates to whom he makes acknowledgment in the preface, has made these analyses and presents the conclusions and explanations in language that accountants, lawyers, corporation executives and other persons of intelligence should be able to understand without

undue strain. And judging from my experience, they will be able to find what they look for.

I should add that the preface contains interesting notes, not the least of which is the comment on the English income-tax law which has been much referred to and eulogized. Quotation is made from a *Bulletin* of the National Tax Association, June, 1936, wherein the English committee says "the actual language in which many provisions are framed is so intricate and obscure as to be frankly unintelligible." In that respect the English are only a jump ahead of us; the next of the series of handbooks may tell that we have caught up.

A. S. FEDDE.

MUNICIPAL ACCOUNTING STATEMENTS, National Committee on Municipal Accounting, Chicago, Ill. 156 pages. 1936.

Previous publications of this committee are here revised and brought together, including—I. *Principles Underlying the Preparation of a Municipal Financial Report*; II. *The Report as Represented by Forms for Financial Statements and Forms for Statistical Tables*; III. *A Discussion of Each Fund and Its Uses*; IV. *Explanation of Accounts*; V. *Municipal Accounting Terminology*. The importance of these publications is in part because of the breadth of accounting thought represented in this committee which issues them. The National Committee on Municipal Accounting consists of the chairmen of advisory committees representing the American Accounting Association, American Institute of Accountants, American Municipal Association, International City Managers' Association, Municipal Finance Officers' Association, National Association of Cost Accountants, National Association of State Auditors, Comptrollers and Treasurers, and National Municipal League. Its executive committee consists of Frank J. Flanagan, chairman, representing the Municipal Finance Officers' Association; Professor Lloyd Morey, representing the American Institute of Accountants; and Professor F. H. Elwell, representing American Accounting Association. Its secretary is Mr. Carl H. Chatters.

This publication is an attempt to state in brief compass the important requirements for municipal accounting statements. It is a publication which should be read and considered by everyone who is concerned with municipal accounting or, for that matter, by everyone who is concerned with any governmental accounting. It presents a definite, positive and quite consistent concept of the principles underlying such accounting and the manner in which such accounts should be presented in financial statements. It expresses the opinion of the committee as to how these accounting matters should be dealt with, even though this involves ignoring municipal accounting conditions and legal requirements which in any particular case may exist.

In dealing with municipal affairs, there must necessarily be recognition of the extent to which they are governed by the laws which are applicable thereto. These laws—or the regulations or decisions under the authority of such laws—may define terms, prescribe accounts to be kept and reports to be filed, direct and prescribe financial policies, determine personnel and procedure, etc. Individually, or as accountants, we may believe such

laws are in many particulars ill-advised and in error. We may endeavor to have the laws changed to bring them into conformity with what we may think desirable. Yet so long as the laws stand and official rulings and decisions under them exist, we must recognize their official and binding character. If the law or official decisions require that municipal accounts should be kept in a particular manner, that a particular form of statement should be published, or that a term should be used with a particular meaning, no accountant can lightly advise a municipal official to follow some other method or standard in disregard of the law.

One feature in any audit of municipal accounts is to see that they do reflect compliance with the law. It is true that an auditor may be employed in special work for determination of facts, as in the case of determination of the amount of a defalcation, and may not be then concerned with other aspects of municipal accounting, but those who receive an auditor's report on municipal accounts seem entitled to assume that it does reflect a proper statement of the accounts under the appropriate laws with regard thereto, unless clear statement is made to the contrary. When the municipality employs an auditor to audit its accounts, presumably (in absence of statement to the contrary) it expects him to present a statement in accordance with the applicable law. Therefore, no accountant in auditing municipal accounts or advising with regard to them can make any offhand assumption that what is recommended in the publications of this National Committee on Municipal Accounting is the standard to follow with respect to the accounts of any municipality under the laws as they may exist. Possibly the laws may be broad enough to permit following, to a considerable degree, the recommendations here made, but that is to be determined only by a comparison of the standards which, in any case, the applicable laws may set up and the standards which are presented in this publication.

American accountancy has greatly developed because in handling business accounts the accountant has generally not been hampered by detailed legal requirements. In general, the only legal requirement with respect to business accounts has been that they should fairly and appropriately reflect the facts. This has left the accountants full scope to exercise their best thought and ability toward this end. Whenever government steps in to prescribe accounting forms, methods and procedure, it at once hampers freedom of the individual to make improvement. It tends to paralyze further thought and development. We are seeing something of this today under the Securities and Exchange Commission requirements which we often feel give less satisfactory statements than those which otherwise might be presented. It is notorious that governmental statements generally fall far below the standards set for business accounts. Perhaps this is necessarily so, because matters of government are essentially matters of law. The government official only has such authority and duties as the law may confer upon him. Even though the law may leave discretion to government officials, their decisions, once reached in the proper exercise of their authority, then have the force of law against others. We may argue the unwisdom of laws duly enacted or of rulings or decisions pursuant thereto, but we must recognize them so long as they stand representing the effective law. We may in proper manner contest their validity; we may criti-

cise them as unwise; we may try to have them changed; but we may not safely ignore them. So in the accounting of any governmental unit the applicable law must be recognized and obeyed, regardless of how much this may hamper the free exercise of individual judgment, opinion and action. This applies to an accountant who prepares and states the accounts and to one who audits them.

It is then valuable to have a body such as this committee, ready to set up its standards and recommendations, giving rein to a free and untrammelled thought even though this may lead to forms and methods which, to a greater or less extent, may be inapplicable under the laws of any particular state. Possibly it is only in this way that we can work through the present conglomeration of many and varied state laws which now govern municipal accounting to attain reasonable uniformity and consistency and proper standards of municipal accounting.

The importance of this publication is not minimized by pointing out that it cannot be blindly followed without consideration of what the law in any case may require. To the extent that it can be followed it is an exceedingly valuable guide as to methods to be used and statements to be rendered. To the extent that existing laws may in any case prevent this, then the recommendations of this committee are of great value as indicating the possible changes which might be made to bring the legal requirements into accord with sound accounting thought.

H. B. FERNALD.

THE DEVELOPMENT OF THE BUSINESS CORPORATION IN ENGLAND, 1800-1867, by BISHOP CARLETON HUNT. Harvard Economic Studies, vol. LII, issued by the department of economics, Harvard University. *Harvard University Press*, Cambridge, Mass. 1936.

The history of companies has always been a fascinating subject for some of us, and probably the most instructive period in that history is the nineteenth century when the business corporation, as we know it today, was evolved. It is this period which is covered so excellently in the book now under review.

The purpose of the author is not only to state the legislative action which has been taken from time to time, but to describe the sentiments and public feeling which led thereto. In support of his statements and deductions he relies largely upon the quotations which are skilfully scattered on every page of the book.

The history of the modern corporation falls into three chief periods which are dealt with as follows:

The years of the South Sea Bubble, which culminated in the "Bubble act" of 1720, and the succeeding period are dealt with in chapter one.

The following century of commercial expansion with its booms and depressions—especially those of the early years of the nineteenth century—leading to the joint-stock-companies-registration-and-regulation act of 1844, is covered by chapters two, three and four. There follows a chapter on the great railway boom of the forties.

A description of the fight for limited liability and the right to have transferable shares; the passage of the companies acts of 1855 and 1862 and of

the act of 1867 "To amend the company act of 1862," which marked "the beginning of statutory definition of the contents of the prospectus," occupies the remaining pages. In addition there are included the provisions of table "A" of the act of 1862 relating to the audit of companies, together with a bibliography, a table of cases, a table of statutes and an index.

There are four methods by any one of which a company may be authorized to act in England. There may be obtained a prerogative charter from the Crown, as in the case of the East India Company; or a charter granted under special statutory authority, of which the Bank of England is the outstanding example; or by a special act of Parliament, a course still frequently followed by public-utility companies; or, finally, by the registration of an association of persons under general enabling acts.

The first three of these may be passed over quickly, for they have but a slight bearing upon the commercial corporation of the present day.

It is a curious fact that England, notwithstanding the position she held in the world of commerce, had no law providing for the general incorporation of companies until the middle of the nineteenth century. She had suffered the depression following the bursting of the South Sea Bubble; she had passed through times of remarkable expansion due to the improvement of transportation facilities—first canals and then railways—while the developments in the textile industries had revolutionized business. It was not until 1844 that Mr. Peel's administration, strongly influenced by Mr. Gladstone, passed the joint-stock-companies-registration-and-regulation act. Not until 1855 did limited liability become the general right of all companies. It required another seven years to secure the passage of the companies act of 1862 which has been called the magna carta of English company law.

In the century prior to 1844, many companies had been organized and had conducted business. For instance, in 1834 there was formed the London & Westminster Bank, which was described as being "the largest common-law partnership which ever existed in England." In the eyes of the law, however, these companies were partnerships and not corporations. This condition was due to continuous opposition against any and all corporations. The first of the objections was based on the fact that, as a rule, the granting of a royal charter to a corporation had so frequently created also a monopoly. This had led the business world to think that "corporation" and "monopoly" were interchangeable terms.

The two other main objections, urged by the laity and by many of the judges on the bench, were the dangers alleged to inhere in limited liability and the evils thought to arise from free transference of stock. There was also present a fear, not unknown today, based on what was termed "the paternal theory," concerning which one lawyer went so far as to say, "Do not let men walk the streets, lest they should be run over."

It is the detailed history of this fight, lasting through a hundred years and more, which forms the larger and the most interesting portion of the book. The facts are clearly recited, the statements are supported by innumerable quotations, all of which are well documented and many of which are expressed in the racy and expressive language of the time. The

well-told history of any well-fought fight usually forms interesting reading and the present instance is no exception to the rule.

To accountants it is interesting to see the changes in opinion which have occurred regarding their work. About 1836 it was stated in discussion of the company law that balance-sheets were "worse than useless, being eminently calculated to deceive and mislead." The failure of many companies, however, led to a change in opinion, and the act of 1844 required that "a full and fair balance-sheet" be prepared and approved by the directors before submission to the auditors, whose appointment was a prerequisite to provisional registration, and that the balance-sheet and auditors' report be filed with the registrar of companies.

In 1849 the question of auditing came before the public and there was defeated an attempt of a parliamentary committee to have "public accountants" (that is, government accountants) examine the accounts of railways. A remarkable tract of the day, ascribed to Lord Overstone, was a trenchant brief in favor of auditors' having no financial interest in a company, being chosen for professional competence and being appointed by, and reporting only to, the shareholders. The opponents of the government were successful, and in England (except in the case of some special institutions) auditing has never been committed to the government but has been left to accountants in private practice.

During this period of uncertainty and dispute the professional accountant obtained wider recognition and formed some of those associations throughout Great Britain which have done so much to advance the profession. As a result, "today the most important characteristic of English company law and practice is undoubtedly the position of the auditor. With relation both to shareholders and directors he occupies an independent status."

To one who is satisfied to accept current statements without question as to when, or why, or how, events came about the book will be of little use and have but little charm. To "those who seek out wisdom and the reason of things" the book will be a delight, for the subject is enlightened by the author's clarity of vision, orderly arrangement, clearness of expression, and sense of humor. To me its reading afforded a pleasure unusual in both quantity and quality and far greater than that usually following the reading of a technical treatise.

WALTER MUCKLOW.