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Book Reviews

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Book Reviews

INCOME TAX MANAGEMENT FOR INDIVIDUALS under Federal and California Revenue Acts, by NORMAN LOYALL McLAREN and B. J. FEIGENBAUM. *Walkers Manual, Inc.*, San Francisco. 449 pages. 1936.

This is a valuable book, as those of us who knew Norman McLaren was working on such a book expected it would be. I have not been disappointed in it. The purpose of the book is briefly expressed in its foreword. After quoting from the decision in *Gregory v. Helvering*—"Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes," the authors state: "It is our purpose to present various means by which individuals may minimize Federal and California income-tax liability and death duties. This book is not a complete tax guide; it is not concerned with the preparation of tax returns, nor more than incidentally with administrative and appellate procedure. Inasmuch as it has been compiled primarily for the guidance of individual taxpayers, the consideration of corporate tax problems has been confined chiefly to matters affecting the tax liability of corporate shareholders."

The book will be of greatest value to California state taxpayers, but to the taxpayers of any state which has an income tax the book has its particular value in that it deals with the cumulative effect of state and Federal taxation piled one on top of the other, sometimes with similar and sometimes with differing provisions.

There are abundant citations of rulings and decisions bearing on the points discussed. I like the way the authors have not hesitated to point out if in their opinion a decision may be of doubtful validity, and to do this where such decisions may seem favorable to the taxpayer as well as when they may be adverse to him. This is important because instinctively we like to feel that every decision of the courts, of the board of tax appeals, or of the Treasury Department which is favorable to the contentions we wish to make is a right decision, on which we may rely, and that every decision or ruling adverse thereto is in error. When a transaction is completed in reliance on existing rulings and decisions as to its taxable status, the taxpayer may naturally wish to have those decisions held firm and binding; but as he looks ahead, trying frankly to recognize the doubts and uncertainties which may exist, he must recognize the possibility that many decisions of today will not be those which will be considered effective when his tax return is finally settled. Similarly, he must recognize that any change in phraseology of the law may make inapplicable decisions which for years have seemed to express cardinal principles of our income taxation. A change in one provision may alter the implications of other provisions. These points I think the authors well recognize in this book.

The chapter on dividends well brings out the welter of confusion with which the taxpayer is confronted under present law, rulings and decisions.

I like the way in which this book, in accordance with its purpose, tries to take the taxpayer back to the position before transactions are completed and points out many of the uncertainties which may confront him. I

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think the authors have done well in trying to steer their course in the channels marked out by the buoys of existing rulings and decisions, but recognizing that shifting sands may make dangers in the channels. They try to point out how disputes and difficulties may be avoided by following Treasury rulings and decisions; at the same time they try to point out the dangers if such rulings and decisions are overturned.

Of course, no book can hope fully to cover the subject. No one can hope at this time to write with finality on every phase of a new law, framed in many particulars with a definite intention of leaving questions it raises as subjects for later judicial determination. Yet I think the authors, combining the wisdom and experience of a certified public accountant and an attorney-at-law, have done well in the presentation they here make. It is a thoughtful, well-written and intensely practical book, worth while for any one to have before him in considering his own tax problems or in advising others with regard to theirs. It is a valuable addition to any income-tax library.

H. B. FERNALD.

TAXABLE INCOME, by ROSWELL MAGILL. *The Ronald Press Company*, New York. 437 pages, including index. 1936.

Professor Magill has made a distinctive contribution to the study of the development of fundamental legal principles underlying the concept called taxable income. The work is directed to examining questions related to the determination, under Federal income-tax laws, of the time and manner of realization of taxable income. To this end the author analyzes and criticizes judicial decisions and administrative interpretations, reviewing the reasoning underlying the decisive principles. Foreign as well as state and Federal decisions are quoted and reviewed to round out a thoroughgoing treatment.

The chapter on corporate distributions is particularly interesting in view of the imposition of the undistributed-profits tax by the revenue act of 1936. Cash and stock dividends, stock rights and dividends in kind are the subjects of a comprehensive discussion reflecting intensive study and independent thought.

Similar treatment is accorded other subjects related to realization of taxable income. It is not possible in a brief note to refer to all topics dealt with by the author; the scope of the book may be indicated by mention of some headings, such as sales and exchanges, bargain purchases, accrual and cash bases, realization of income through discharge of obligations, assignments of earnings, revocable trusts, insurance and damages, gifts, annuities, gross income and net income.

Professor Magill's approach to his subject is best described by the following quotation from the last page of his book:

"The philosophy of the Supreme Court, even in this single field, can not be epitomized on a single page. There is not really a single philosophy, but the philosophies of the long procession of distinguished individuals who from time to time have constituted the Court. The mosaic one may make of their separate views is not static, but dynamic; it gradually changes as conditions change; as, for example, the science of accounting

becomes better understood by legislatures and courts. Further, one may hazard the conclusion that the scope of the term 'income' is gradually expanding under the impact of legislative fiat. The conclusion of the whole matter is Mr. Justice Holmes' classic sentence: 'A word [and the word he was construing was 'income'] is not a crystal—transparent and unchanged; it is the skin of a living thought and may vary greatly in color and content according to the circumstances and the time in which it is used.'

M. KURTZ.

INVESTIGATIONS FOR FINANCING, 1936 Edition, by DAVID HIMMELBLAU, *The Ronald Press Company*, New York. 328 pages of text and 75 pages of solutions and answers.

This volume is a comprehensive presentation of the essentials of the procedure that professional accountants follow when conducting examinations usually undertaken incidental and preliminary to the flotation or sale of securities, either publicly or privately. The work is a revision of *Advanced Auditing* published some years ago and, while intended primarily for students, being the last of a series of seven volumes of the accounting course given at Northwestern University, it is recommended to professional practitioners with the belief that it can be used, in a sense, as a reference work or manual and, thus, on occasions, may prove helpful in practical situations.

The subject-matter is divided into fifteen lectures, each pertaining to a logical aspect, supplemented by almost 100 illustrations, together with solutions and answers to many problems and questions. The scheme of presentation, of dividing each lecture into text, work sheets, problems (which are accompanied by solutions), questions for discussions, and numerous references to text books and other readings, covers the subject in a manner that will guide the student in approaching the important, debatable points from substantially every angle. The text is clear and easily readable; controversial matters are treated in an excellent manner by presenting the several views and leaving the matter open for class-room discussion. The problems are to the point and the work sheets, or "Taylor" assignments, should prove invaluable to the student in enabling him to secure a thorough grasp of the subject.

Passing over the introductory lectures, relating to the scope and purpose of investigations, preliminary analysis, financial condition, etc., we come to lecture 4 on inventories. The different methods for the valuation of inventories, the advantages and disadvantages of each method and their effect on the balance-sheet and the profit-and-loss statements are lucidly set forth in this lecture, while in lecture 5 the normal-stock and the retail methods of valuation are explained. Similarly, lecture 6 on property accounts, especially in regard to depreciation reserves and retirement reserves of public utilities, is clear and concise. Lecture 7 deals with appraisals, depreciation on appreciation and wasting assets. The analysis of financial statements through application of funds, with practical illustrations, is covered in lecture 8.

Of more than passing interest to the professional accountant is lecture 9, which is devoted to the preparation of financial statements for filing with

the Securities and Exchange Commission under the provisions of the securities act of 1933. It is a pity, however, that in this lecture the author has not taken full advantage of the opportunity to present in greater detail the procedure involved, having restricted himself to a review of the bare essentials as they affect public accountants. The very title to this lecture, "Financial statements under form A-2 of securities act," belies its limitations. In view of present-day requirements and the data now available on the subject, this section of the work could have been made more informative by broadening its scope and by describing it as "Registration statements prescribed by the Securities and Exchange Commission," to be followed by the purposes of the various laws passed by Congress, namely, the securities act of 1933 (as amended June 6, 1934), the securities-exchange act of 1934 and the public-utility act of 1935, and describing the functions delegated to the commission in each instance. A list of certain forms issued under the securities act has been furnished, while lists of forms wherein financial statements are required under the securities-exchange act and the public-utility act have been omitted. Moreover, it might not have been amiss to mention that, before securities become legal issues in many states, it is necessary to file certain financial statements, etc., with the securities commissions or other designated authorities of such states pursuant to the requirements of the so-called blue-sky laws.

Lecture 10, covering balance-sheets giving effect to financing, and lecture 11 on earning power, taken in conjunction with lectures 12 and 13, described below, are supported by authorities and representative specimens of certificates and reports graphically illustrating the points brought out in the text. Lecture 12, on auditors' certificates, presents this phase of investigations for financing in an equally clear manner. This lecture comprises four sections dealing, respectively, with (1) general principles, (2) certificates based on annual audits, (3) certificates for registration statements, and (4) certificates with pro-forma statements. Many forms of certificates are presented and commented upon in sections II and III, among them the form of certificate based on annual audits evolved as a result of conferences and correspondence that took place in 1932-1934 between a special committee of the American Institute of Accountants, a committee of the Controllers' Institute of America and the committee on stock list of the New York Stock Exchange. This form of certificate was approved in January, 1934, and the correspondence relative thereto was published at that time by the American Institute of Accountants as a special bulletin entitled *Audits of Corporate Accounts*. The fourth section deals with certificates relating to pro-forma statements, and comparisons are made to facilitate interpretation of the trend in the development of certificates or the change in practice procedure that has occurred during the past ten years or so. It is noted, however, that no reference is made in this lecture to the fact that, as alluded to in the aforesaid bulletin, many representative accountants disapprove the term "auditor's certificate" and advocate in its place the term "accountant's report." Incidentally, a passing reference to the bulletin, *Examination of Financial Statements by Independent Public Accountants*, published by the American Institute of Accountants in January, 1936, would not have been out of place at this

point. This publication, which summarizes the advanced thought of practising accountants, is a revision of the bulletin prepared by the Institute in 1929 and then published by the Federal Reserve Board under the title, *Verification of Financial Statements*.

In lecture 13 we find complete instructions for the preparation of different types of reports. Particularly, the characteristic features of annual audit reports and investigation reports are contrasted in a manner to afford the student a clear concept of the important differences. Lecture 14 is devoted to insurance and trust indentures, and in the concluding lecture there is presented a summary of the more important features of industrial analysis as they relate to the practising accountant.

Within the 400-odd pages of the book, the essentials of investigations for financing have been well covered and the book should be of great value to students as well as to practising accountants and their staffs. When one considers that the one volume intends to cover investigations for financing under present-day conditions, and succeeds in doing so within the limitations indicated herein, the work may be said to be a worthy addition to the literature on accountancy.

HENRY E. MENDES.