Journal of Accountancy

Volume 64 | Issue 4 Article 10

10-1937

Book Reviews

Earl A. Saliers

Gabriel A. D. Preinreich

Emanuel Saxe

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PRINCIPLES OF ACCOUNTING, by ARNOLD W. JOHNSON. *Farrar & Rinehart, Inc.*, New York. 690 pages. 1937. $4.

Professor Johnson adds another to the long list of first-year accounting textbooks. He approaches the subject from the balance-sheet point of view and carefully leads the student into a comprehension of the principles of debit and credit. Perhaps the most notable feature of the book is the factual plan upon which it is based. There is not much theory and not much philosophy in the book. The author's plan is to explain briefly what he intends to do and then illustrate how to do it. The text of each chapter contains much illustrative matter. In addition, there is an abundance of questions and problems at the end of each chapter. This is sufficient to give the student enough practice to enable him to become competent in the ordinary accounting and bookkeeping procedures.

In its general structure the book does not differ widely from several books already in use. The author follows orthodox theory and adheres rather strictly to the generally recognized methods of accounting procedure. Although explanations are as a rule adequate, there are some exceptions. For example, on page 311 the author might well have amplified Marshall's definition of a corporation. Also, in the following paragraph, which consists of two sentences explaining why corporations were formed, greater detail would have been desirable. Certain other points in the book should also have been discussed more fully. The author introduces a great many footnotes, both for the purpose of referring to authorities and for the purpose of amplifying the text. The first of these is quite the proper procedure but it is doubtful whether, in an elementary text, lengthy discussions of sufficient importance to appear in the book should be found in footnotes.

The two methods of handling accruals are explained in detail in chapters which are not consecutive. It would appear that the two methods of handling a given subject should be described together. The discussion of partners' salaries is excellent. Another illustration of extreme brevity is found in the author's description of the method of handling treasury stock on the balance-sheet, at page 331. A question might be raised as to the correctness of the statement, on page 352, as follows:

"The law regards the legal capital of a corporation as a trust fund for the benefit of creditors, or as a 'representation' of capital relied upon by creditors, and operating as a fraud upon them if the representation is false."

Although the author refers to certain court decisions upholding this statement, it is believed that careful investigation will show that the trust-fund theory is no longer looked upon as being truly explanatory of the nature of capital stock.

These minor criticisms are not intended to detract from the general good character of the book. The thoroughgoing manner in which it has been prepared should make it a first-rate text for beginning students in accounting. The more advanced student will find the book suitable for reference. The professional accountant will be interested in the author's statements relative to such topics as the voucher system and corporation accounting procedure.

EARL A. SALIERS

GOODWILL AS A BUSINESS ASSET, by H. E. SEED. *Gee & Company, Ltd.*, London. 472 pages. 1937. 14s.

In a foreword to *Goodwill as a Business Asset*, Sir Albert W. Wyon commends the "proposals made" and the "principles enunciated" by Mr. Seed. This should not lead the reader to believe that the book contains some new ideas; it is merely a readable restatement of what has been said before. Moreover, certain passages in the preface convey the author's impression that the accountants of our day know no better than to appraise goodwill as from one to five years' purchase of the average annual net profits. In fairness, it must be pointed out that Francis More, writing in 1891 (*Accountant*, April 11, pp. 282–7), was already fully aware that goodwill depends upon excess profits rather than net profits, and the same subject has been discussed in detail by a great many writers since then. Objections to estimating risk in terms of years are also unfounded, since rates and years are reciprocals.

The principles "adumbrated" (p. 101) in the book are confined to chapters six to nine and eleven; 140 pages in all. An introductory survey of psychology, economics and law and a reprint of English statutes fill the remaining 332 pages.

Mr. Seed appears to have great faith in the significance of balance-sheets, but it is not quite clear which of two alternative conceptions he has adopted. From the preface (p. ix) we learn that "the primary purpose of a balance-sheet is to exhibit a *true and correct* [italics his] view of the state of affairs; to tell the truth, not to conceal it." On page 175, on the other hand, it is made clear that "a balance-sheet is not a statement of affairs and does not purport to show all the assets at their current realizable values." The latter, evidently, is the familiar advance concept, according to which the figures represent, not present worth, but merely amounts advanced to and not yet repaid by the business.

Since purchased goodwill cannot be liquidated after the company is dead, repayment must evidently be made out of profits, while there are any.

This reasoning is refuted by citing a court decision to prove that goodwill is not "employed" in the business and hence cannot be used up. The hoary paradox answered already by More is also quoted against writing off goodwill. But the paradox—"if you can write it off, you needn't; if you can't, you must!"—is clearly concerned with the worth of goodwill. Its endorsement, therefore, means that the balance-sheet is a statement of affairs after all. If so, it cannot be "true and correct," unless it states goodwill at its current realizable value. That, in turn, is denounced as unsound and retention at cost is recommended. Cost, of course, is once more an advance concept. From here, back the pendulum swings again to the contention that to write down goodwill would create a secret reserve by understating the true worth, etc.

As I had the privilege of showing in the July issue of The Journal, all these things (and many others, which I must now omit) have been said on this side of the Atlantic often enough. I don't think, therefore, that the book would be of great interest to American accountants.

Gabriel A. D. Preinreich

BASIC ACCOUNTING PRINCIPLES, by Earl A. Saliers and Arthur W. Holmes. *Business Publications, Inc.*, Chicago, Ill. 656 pages. 1937. $4.

Basic Accounting Principles is a revision, by Professors Saliers and Holmes, of the former's earlier work, *Fundamentals of Accounting* (1935). It is intended as an elementary text for use in a basic course in accountancy. The authors offer it to meet the needs of those who intend to practice the profession of accountancy, as well as those whose interest in this field is general rather than professional.

For both groups the book provides two well planned units of instruction, each comprising the work of one semester, covering the philosophy of accounts, the fundamental principles of bookkeeping and the basic principles of accountancy.

Additional chapters have been provided, presumably to enable students of the latter group, who will study no further in this field, to survey briefly certain subjects of general interest which ordinarily are considered only at length in the more advanced accountancy courses. These chapters consider some aspects of cost accounting, accounting systems, consolidated statements, financial statement analysis, etc. Since these topics are, of necessity, treated in very elementary fashion, the authors have been careful to note at the outset their limited scope.

The subject matter of the book is accurately written and skilfully developed in the usual sequence of topics. There are, however, certain items in the text with the treatment of which this reviewer is not in accord. These are: the failure to differentiate the terms "prepaid expense" and "deferred charge" (p. 28); the inclusion of the valuation accounts on the right side of the account form of balance-sheet (pp. 35, 37); the method of ruling up a creditor's account (p. 80); the categorical statement that a note is not eligible for rediscount at a Federal Reserve Bank (p. 307); and the failure to employ the 60-day method of computing interest at 6 per cent. (p. 312) and at other rates (p. 313).

Mention must also be made of two typographical errors which obscure the meaning of the passages in which they occur: Both lines of entry (b) on page 315 should read "Accounts Payable" instead of "Accounts Receivable." The capital ratio (p. 361) should read "90:76" instead of "80:66," in accordance with the data on form 105.

The craftsmanship of the book is good; likewise, the index. Adequate practice material is afforded by the inclusion of a wealth of questions and problems and two complete practice sets. In conclusion, it may be said that the book fully accomplishes its stated purpose of leading the student to an appreciation and understanding of the basic principles of accountancy.

EMANUEL SAXE