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Book Reviews

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Book Reviews

MANUFACTURING COSTS AND ACCOUNTS, by A. HAMILTON CHURCH, *McGraw-Hill Book Company*, New York, 1917. \$5.00 net.

This new volume is designed to introduce students gradually to the underlying principles upon which manufacturing accounting of all kinds must rest. The book is divided into three parts. The first consists of a general outline of manufacturing accounts; the second describes the technique of cost accounting; and the third deals with factory reports and returns. Part 1 discusses the fundamental processes of purchasing, producing and marketing, gives a bird's-eye view of the mechanism of general and cost accounting, outlines three fundamental methods of costing (which will be mentioned below) and discusses waste, spoilage, scrap, by-products and other matters incidental to costing. Part 2 discusses the handling of purchases and stores, and then after a presentation of various systems of orders details the methods of cost accounting under the three fundamental schemes. Part 3 outlines reports for foremen, superintendents and executives.

The book presents many forms, some of which contain illustrative entries, but the general purpose of the author, as stated on page 124, is "to present blanks and forms which are typical rather than specific." The forms for reports are unique, and of suggestive value for one who desires to get away from the conventional forms. It is somewhat to be regretted, however, that the author does not devote more space to graphic methods which he himself considers very desirable in certain cases (see page 111). Some of the accounting forms and reports are subject to the criticism that they do not conform to the usual accounting practice. For example, the reports on page 112 and in part 3 would be improved by having them show comparisons with the corresponding periods of the preceding year. In fact, the chief criticism of the book is that it distinguishes too much between cost accounting and other accounting, and makes little attempt to show modern methods in general accounting. Sometimes the author dismisses such subjects by saying, as on page 117, "such matters are purely commercial, and for information respecting them, some authority on commercial accounting should be consulted."

The author reduces all cost methods to three, which he calls A, B and C respectively. On page 315, he says: "Departmentalization is the key to accuracy in costing, and the peculiar merit of method C is that it carries the principle of departmentalization as far as the production centers themselves, that is to say, to the ultimate limit possible. It is this that makes it the most accurate of all systems * * * this ultimate simplicity is already reached for practical purposes when a department contains only machines of practically the same cost, size and call on service. When that is the case, further departmentalization is unnecessary. Method A will give accurate results if wages are uniform throughout the shop, and

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method B will take its place if wages or earnings per hour are not uniform." On page 119, the author summarizes the three methods. He says that they are in fact three degrees of definiteness in the charging of direct labor and expense to product. In method A, both are averaged and reduced to a single charge per period, which may be a whole month but is more commonly an hour. In method B he eliminates the averaging as regards direct labor, but retains it as regards expense. In method C, which is the one that he designates as the most accurate of all systems, the averaging method disappears altogether, and each order is charged with an exact quantity of expense, which analysis shows is its rightful share. This analysis shows that each indirect service to production is really a service rendered to a machine. By calculating the total of all services chargeable to a particular machine, an hourly charge for the use of the machine is obtained. It follows that if a machine is idle part of the time, the case is exactly equivalent to paying a man wages and allowing him to stand idle. Method C, which the author proposes in this and preceding volumes, makes it possible to calculate in dollars this loss due to idleness of machines. He thus secures the cost of manufacturing capacity that has not been used. In some cases this amount can be charged off to profit and loss. In most cases, however, it is better to pro-rate it over the actual machine charges to each order as a supplementary rate.

The book is an exceedingly helpful one, and it seems captious to criticize its printing, but subsequent editions should be more carefully proof-read than the present one.

It is open to question whether the author is wise in attempting to teach or explain the theory of double-entry bookkeeping in a few words, as he does attempt it in chapter 2 of part 1. Incidentally, the scheme of having the chapters run numerically within each part, rather than numerically throughout the book, does not seem to be a good one, since every reference to a chapter number must contain also a reference to the part. Experience has shown that the theory of double-entry bookkeeping cannot be explained in a few words so that one unfamiliar with it can grasp it sufficiently well to follow the intricate transactions of cost accounting. This is particularly true when the author departs from the usual terminology and shows forms of cashbooks and journals which are not met with in practice. The author's distinction between accounting and bookkeeping is not very enlightening, but his distinction between journals and books of original entry is puzzling and certainly must be misleading to a student who is trained to regard the journal as a book of original entry. The whole idea of trying to explain "the mechanism of accounting" is of doubtful value in a book of this character. When on page 151 the author introduces a form of cashbook (which he calls a cash journal), it would seem preferable to conform to modern accounting practice so far as it is at all standardized. This form contains much analysis which should appear in a purchase journal or voucher record, and not in a cashbook. On page 196 the author, while properly considering depreciation as a reduction of fixed assets, would have us credit the asset accounts themselves. This is not

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in accordance with usual accounting practice. Neither is his suggestion on pages 34 and 235 that administration expense be divided between factory and selling departments. These criticisms should not in any way deter one interested in the large problems of cost accounting from reading the book. It is a scholarly and complete treatise, setting forth most of the fundamentals of cost accounting, and describing in detail the author's well known suggestion concerning supplementary rates.

HAROLD DUDLEY GREELEY.

VALUATION, DEPRECIATION AND THE RATE-BASE; by CARL EWALD GRUNSKY, Eng. D. *John Wiley & Sons*, New York. 387 pp. \$4.00 net.

The general theory of rate-making for public utilities is simple enough. A fair and just rate for both consumer and owner is one that includes (1) the operating expense, (2) taxes, (3) a provision to provide funds for replacing plant and equipment as they wear out and (4) a fair return on the fair value of the property devoted to public service. The first three elements are unquestionably requisite and readily ascertainable. The fourth is equally needful if private capital is to be interested; but the questions of what constitutes a fair return and of how the fair value of the property is to be ascertained have engrossed the attention of courts and commissions for many years; and many periodical articles and books have been written in the effort to find some general method of solution which shall be fair to all concerned. The latest of these books is by Dr. Grunsky, who writes from the experience of a private engineer and public officer (he was at one time civil engineer of San Francisco). It deals very comprehensively with the fundamentals of valuation and rate-making for public utilities. How valuations are made (based on historical cost, reproduction cost, etc.), the proper treatment of accrued depreciation, methods of providing for future depreciation, the correct bases for fixing rates are explained and discussed. The author has his own pet theories to advocate—most writers have—which seem to be somewhat in the nature of a compromise and will command the thoughtful interest of students of the subject. It would be unfair to author and reader to attempt a condensation of the most important of these theories, but the reader will find the unlimited life method as affecting both valuation and depreciation well worth discussing, whether he agrees with the author or not.

In the chapter on *The Accounting System* the author claims that the unlimited life method greatly simplifies bookkeeping in respect to depreciation for the reason that as the plant and property accounts will always be kept at original investment figures (additions and withdrawals duly accounted for) the replacement account will take care of all entries on account of depreciation. (Dr. Grunsky has inadvertently reversed the order of procedure for handling this account, and we know it better by

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its true name of "reserve for depreciation"). But this is rather academic, because all utilities are obliged to follow the rules for accounting as laid down by the commissions, rules which Dr. Grunsky quotes in extenso. And while theoretically it does seem wasteful of time and ink to take a unit from a given account only to restore it by another entry, in practice it is not a bad thing to keep the utility accountant on the alert watching his property accounts. It is in the neglected or ignored property accounts that items sometimes get hopelessly lost. A chapter by C. E. Grunsky, Jr., E.M., on the valuation of mines and oil properties, deals with the added complication caused by "wasting assets" peculiar to that class and serves as a complement to the general work. It is not possible within the limits of a chapter for Mr. Grunsky to give more than a general survey, but a good bibliography will guide the student who wishes to go deeper into the subject.

Primarily intended for the engineering profession, the book will nevertheless be useful and instructive to accountants interested in public utilities, if only for the excellent tables showing rates of depreciation prevailing in public utilities, annuities for amortizing depreciation, remaining values, etc.

W. H. L.

UNIFIED ACCOUNTING METHODS FOR INDUSTRIALS, by
CLINTON E. WOODS. The Ronald Press Co., New York. \$5.00.

One of the minor results of the world-war will be a wide and far-reaching extension of the principles and practice of cost-accounting for industrials. Not only will industrials undertaking government contracts be forced under the limited-profits clause to ascertain and show their exact costs per unit, but the excess-profits tax will compel all to adopt methods which will enable them to prove to the federal tax assessors just what their real profits may be. Unconsciously those accountants who have of late years been devoting study to cost-accounting have been preparing themselves to perform important duties to country and clients. Those who have not are very much in the position of thousands of patriotic young men who aspire to serve their country as officers—they must now bestir themselves to learn the duties of officers or else be content to accept humbler places in the ranks.

To those desiring to make this eleventh-hour preparation comes a very timely book by Clinton E. Woods. While Mr. Nicholson's work is universally accepted as standard by the profession, Mr. Woods' book is by no means to be regarded as superfluous. Probably a good two-thirds of the book may be said to have been written for the industrial or efficiency engineer, but one does not have to read very far to discover that the accountant must play a great part in order to make the system a success. Indeed, the latter is so indispensable at every step that it would be easier for an intelligent accountant, given the requisite authority, patience and tact, to instal a cost-finding system by his own efforts than for an in-

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dustrial engineer to do without the aid of the accountant. The ideal method, of course, is for the two to work hand in hand, and in the case of large industrial plants such course is preferable. But with this book as a guide it should not be difficult for a skilled accountant of a small plant to instal a good working system.

Books of this type are so familiar to the profession in these days that it is hardly necessary to describe its contents more than to say it begins at the bottom with the purchase of raw materials and carries the reader through to the finished product ready for sale, giving much detail of practical methods and records throughout the processes of manufacturing. Four chapters deal competently with general accounting, and a specimen set of directions for taking an inventory is a valuable feature. A full fifth of the volume is given to a very complete set of forms including a classified list of stores arranged on the Dewey decimal system.

Chapter II is particularly interesting for its analysis of a specimen balance-sheet from the differing standpoints of the financier, the executive and the manufacturer. Few men know how to read a balance-sheet telligently—that is, to deduce correctly from the figures the current history, the present standing and the probable tendency of a business. While the application of such ability is not restricted to cost accounting, it is valuable in establishing the preliminary general facts, the causes of which may then be sought in the cost statistics. This is a truism, to be sure, but we are much mistaken if the perusal of this chapter by many a manufacturer would not promptly convert him to the advantages of a good cost-accounting system.

As intimated above this is an unusually opportune time for accountants to specialize in cost accounting, and this book is well worth a place on the shelf by the side of Mr. Nicholson's standard work. In many ways the two will be found to complement each other.

W. H. L.

RUBBER COMPANIES' ACCOUNTS; by R. S. STEWART and F. C. EBBELS. *Gee & Co.*, London.

A first and important attempt to establish a standard and uniform system of accounts for a great industry which is conducted far from home, this book is recommended to the profession as a good example of "how to do it." The first thing that strikes the reader's favorable attention is that the book is a joint production of the accountant and the manager. He feels that he is not dealing with theory alone nor even with a book written from a single point of view. A man looking through a pair of binoculars with one eye closed observes that the distant object does not appear quite the same as when he uses both eyes. Just so the professional accountant views a system of accounts from a slightly

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different angle from that of the manager. When the two can join forces and produce an harmonious picture the result is bound to command the confidence of directors and stockholders. The reviewer feels he is not competent to pick flaws in methods advocated, even though the authors modestly disclaim infallibility and put forth the book merely as an attempt to blaze the trail toward a standard uniform system; but he may at least confess entire satisfaction with the idea of a production made jointly by the man who directs and the man who records.

In the future American capital is likely to be invested largely in similar enterprises in the Philippines and the West Indies, and the ambitious young accountant who looks forward to employment or practice on large plantations will do well to give this book serious study.

W. H. L.

Ohio State Board of Accountancy

As a result of the November, 1916, examination for the degree of certified public accountant, the following men have received certificates authorizing them to practice as certified public accountants in Ohio:

F. A. Hamilton, Cincinnati, Ohio; C. B. Adams, St. Louis, Missouri; Geo. D. Bailey, Detroit, Michigan; J. J. Miller, Cleveland, Ohio; H. C. Royal, Cleveland, Ohio; R. F. Marburger, Pittsburgh, Pa.; W. D. Wall, Columbus, Ohio; R. F. Bishop, Columbus, Ohio; W. J. Semple, Cleveland, Ohio; L. D. Burnell, Detroit, Michigan.

It is announced that Robert H. Eaton, C.P.A., and Charles W. Saussy, C.P.A., have taken over the business of the Eaton-Saussy-Baldwin Co., Inc., and will practise accountancy under the firm name of Eaton & Saussy, certified public accountants, with offices in the National Bank building, Savannah, Georgia.

George L. Vannais, C. P. A., announces that he has opened an office at 252 Asylum street, Hartford, Connecticut, for the practice of public accounting.

Searle and Nicholson, certified public accountants, 52 Broadway, New York, announce the admission to partnership of Thomas R. Lill, C.P.A., (N. J.)

J. E. Graef & Co. announce the removal of their office to the National Bank of Commerce building, Nassau and Cedar streets, New York.

The offices of Theodore Wachtell, C.P.A., have been removed from 170 Broadway, New York, to 309 Broadway, New York.

Charles H. Wright, C.P.A., of Boston, has removed his office from 89 State street, to room 607, 53 State street.