Book Reviews

COST ACCOUNTING PROCEDURE, by the Higher Accountancy Instruction, Research, Advisory, and Educational Staffs of LaSalle Extension. *LaSalle Extension,* Chicago, Ill. 359 pages. 1938 $3.50.

Cost Accounting Procedure is the current revision of the cost text in "A Coördinated series of higher accountancy texts" published by the LaSalle Extension university, a correspondence Institution. The indicated authorship is "the higher accountancy instruction, research, advisory, and education staffs of LaSalle Extension," although there are numerous references to "the author" (see, for instance, pages 4 and 212), whose identity is not revealed. The book is a well written and readable presentation of "the principles and practical applications of modern cost account procedure," covering production costs, as well as distribution and general administration costs. The various procedures discussed are illustrated in detail by a series of charts. It seems to be well adapted to the somewhat specialized purposes of the publisher, although its efficacy as a text cannot be fully determined without a consideration of the problem material to be used in connection with the book.

The subject matter is approached from the standpoint of the three basic elements of production cost, i.e., material, labor, and overhead, which are dealt with in the first nine chapters. From that point on, the arrangement seems to be somewhat haphazard. Consideration is given, in the order named, to account classification, the general ledger accounts, further problems in "burden" distribution, the question of interest as a cost element, process and departmental costs, cost accounting in the foundry, wage systems, selling and administrative costs, the value of cost accounting to the management, the operation of the cost department, uniform cost accounting systems, certain special considerations and the installation of a cost system. A final chapter is devoted to standard costs.

The basic criticisms of the text seem to be four in number. First, there is the question of arrangement or order of presentation. While this is a controversial matter, it is difficult to see the logic of the arrangement, particularly in view of the fact that there is no showing as to the ultimate reflection of the cost results in the financial statements, i.e., inventories in the balance-sheet and the cost of sales item in the profitand-loss statement. Second, the treatment of cost accounting for distribution and administrative costs is over-simplified. At page 246 it is stated that the accounting for these elements "is a fairly simple task" once the factory cost is known. As a matter of fact, the cost accounting for these elements is in some respects more complex than the accounting for production cost. Third, the accounting for standard costs leaves something to be desired in that the specific standard-cost procedures are not shown in their relationships to the accounts in their entirety. Finally, the book, in spite of references to modern developments such as the Robinson-Patman act, standard costs, distribution costs, etc., clings in the main to the old emphasis on production costs and such old-time terminology as "overhead," "burden," "producing" (the inference being that some departments are not so), and "unearned burden."

The book may be recommended as a fairly elementary and easily understandable presentation of cost-accounting procedures.

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ACCOUNTING MANUAL FOR COLLEGES, by GAIL A. MILLS. *Financial Advisory Service, American Council on Education. Princeton University Press,* Princeton, N. J. 165 pages. 1937. $2.

The first duty of a candid critic is that of asking to whom and for whom the work is written. The answer is found in the foreword of the manual where the reader is advised that it sets forth a complete accounting system based on the recommendations of the National Committee on Standard Reports for Institutions of Higher Education. The manual is designed, then, primarily as a working tool for use by college accounting staffs in revising their accounting systems to insure the proper application of the principles of accounting and plan of reporting recommended by the National Committee. It answers the purpose admirably. The arrangement of the subject matter is logical, its exposition clear and concise. Also the reader is brought face to face with the problem and the suggested solution without preliminary flourish and with almost no extraneous reading matter to divert his attention from the mechanics of the plan he is advised to follow.

The book outlines a simple system for a small college, a complete system for a small or large college, and a chart of accounts; it contains chapters dealing with the interpretation of accounts and the preparation of financial statements. Illustrations of suggested forms are interspersed throughout the volume. Two appendices covering the use of accounting machines and the designing of forms are also included.

No doubt every public accountant will agree with the author's statement on page 3 that endowment cash should never be spent for operating purposes, that the income from its investment alone should be used, and that endowment cash should be carried in a separate bank account. To this might have been added that, if the instrument creating the endowment does not so provide, it is a wise precaution to have such funds expended only upon the authority of the trustees or other legal custodians. Ordinarily the beneficial interest in the endowment property is not in the college itself, but rather is dedicated to the particular purpose for which the trust was created. Therefore, this reviewer cannot agree with the author's statement on page 36 that while a separate bank account *may* be opened for endowment and other restricted funds *if desired*, this will *not* be necessary if proper supervision is given to the accounting and financial affairs of the college. This also appears to be inconsistent with the recommendation on page 78 that one bank account be used explicitly for endowment cash, another for building funds, and that the bank account which is used for the operating transactions should contain only cash which is available for current expenses.

It is unsound policy to entrust the handling and supervision of trust-fund cash to those already burdened with the day-by-day financial problems incident to the current operation of the institution. The exigencies of an existing situation may seem sufficient excuse for an otherwise conscientious official to use restricted funds "temporarily" for current purposes. It is a safe hypothesis that it is difficult for the mind to follow the separate and distinct nature of and title to trust-fund cash commingled with that being used for current purposes. Therefore, such commingling is immoral per se.

The simple system for a small college outlined in chapter II is justified upon the premise that it is recommended only where there is insufficient personnel to administer a more complete system. As a matter of fact, it is doubtful if there is economy in saving on personnel at the expense of record keeping adequate to inform the management, as apparently the author recognizes when in chapter III he provides for a complete system for a small as well as a large college.

This reviewer cannot agree with the statement of the author made at the beginning of chapter III that a system for a college has to be more complicated than one used in an ordinary commercial concern, because of the necessity for accounting separately for individual funds, etc. It is not unusual to find restricted items, for example, such as sinking funds and others of similar nature, upon commercial balance-sheets. The many balancing accounts on a college set of books present no more complications than do innumerable control accounts for accounts receivable and accounting for income earned as it is collected in the case of instalment selling, accounting for departmental sales and expenses, etc., or differentiation in the character and class of capital stock or surplus. While it is true that the distinction necessary in recording beneficial equities between endowment and other funds and the current assets of the college creates a multiplicity of balancing accounts, yet how this makes for intricacy in devising a system is not clear.

This is said because any unintended exaggeration of the complications incident to college accounting might defeat the author's purpose in preparing the manual. It may increase the doubt of those who in the past have not understood that sound accounting principles, with obvious modifications, are as readily applicable to recording and interpreting transactions in a college as in a business institution.

In the opinion of this reviewer, the marked difference between commercial and college accounting is that the former places emphasis upon the refinements of profits computation, while the latter more generally is concerned with the proper expenditure of funds in accordance with the intention of donors and with the control of current expenditures to keep them within the income provided so that, as the author himself states, it serves the educational objectives of the institution to which it relates.

From this reviewer's experience, the accounting systems in use in most colleges are sadly inadequate, and this manual does offer a methodical plan for recording accurately and intelligently the transactions of a college to the end that informative annual reports (a typical form of which is outlined at the end of the manual) can be prepared for the use of administrative officers, trustees, and others.

The work merits the careful consideration of college officials, bursars, accounting staffs, as well as of those public accountants who may desire knowledge of a plan for a system designed to meet the requirements of the National Committee on Standard Reports for Institutions of Higher Education.

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