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## Book Reviews

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## BOOK REVIEWS

**COST ACCOUNTING** (second edition), by Charles Reittel, revised by C. E. Johnston. *International Textbook Company*, Scranton, Pa. 435 pages. 1937. \$3.50.

The words of approval which greeted the first edition of this book in 1933 are equally applicable to the revised edition.

Although designed with special attention to teachability and, therefore, replete with illustrations of bookkeeping practice, the book wisely continues to emphasize, by arrangement and exposition, the primary importance of cost-accounting principles and the control or service side of cost accounting. As a result, the student or reader is not likely to mistake practices for principles, and is enabled better to understand both the means and the end of the cost-accounting technique in specific cases.

In part I, "Basic Cost Principles," the authors adequately cover the fundamental aim of cost accounting in obtaining and maintaining adequate control over all activities so as to secure the height of efficiency and economy. They also lay the basis for understanding the means used in attaining this aim through the cost accounts, as distinguished from the financial accounts.

Part II, "Control and Costing of Manufacturing Cost Elements," covers the means and the methods used in determining actual costs of material, labor, and manufacturing overhead, with recurring emphasis upon the matter of control over semivariable and variable items. To make way for a more extended treatment of the latest developed phases of cost accounting—standard costs and distribution costs, the earlier discussion of actual costs has been condensed, but all the more important parts have been retained and in some cases amplified.

In connection with the control of inventories the authors discuss two different methods of inventory pricing, i.e., the "first-in, first-out" method, and the moving-average method, but no mention is made of other methods, such as base-stock or "last-in,

first-out." The authorization of the last-mentioned method under the revenue act of 1938 for certain metal industries and tanners illustrates the increasing importance of the less ordinary methods of inventory pricing.

The most outstanding development since the earlier days of cost accounting has been the development of standard-cost systems, under which variances from properly determined standards bring to the attention of executives opportunities for increased efficiency and economy. In part IV, after the discussion of process and job-order cost systems in part III, the authors have presented a creditable exposition of standard-cost practice and flexible budgetary control. To point the lesson, a special chapter is devoted to the detailed illustration of a standard-cost system in operation in a typical plant.

A brief chapter on by-product and joint-product costs has been added. The authors explain the difference between these and the different procedures which must be employed to determine these different costs.

The latest phase of standard-cost practice, of course, relates to distribution costs, and the authors have prepared new chapters to cover methods of determining unit costs of marketing products in different districts by different systems of distribution to different customer groups, and also to cover the control of selling and administrative expenses.

The authors point out that standard-cost technique is applicable to selling and administrative expenses, as well as to manufacturing expenses, that in fact the greatest opportunity for cost accountants today lies in the field of distribution. There is included a comprehensive explanation and description covering budgets for sales, distribution expense, delivery expense, advertising expense, market research expense, selling expense, and administrative expense. The control of these expenses and the analysis of variances is clearly set forth.

One entirely new chapter at the end of part V, "Executive Use of Costs," empha-

sizes the importance of uniform cost accounting in industrial groups. The authors feel that a no-sale-below-cost restriction imposed by governmental fiat is not a cure for destructive competition, but they also aver that the establishment of uniform cost methods for an industry and the determination of composite costs as a basis for measuring the performance of individual companies are invaluable in increasing the productive efficiency of the group and in reducing costs, with resultant benefits as to profits, pay rolls and prices to the consumer. Certainly the industries whose members have overcome their natural reluctance to disclose intimate facts, even to trusted agents, and have displayed real coöperation, have gained materially, and the public has gained as well. The authors are to be commended for bringing forcibly to the attention of their readers this wider relationship of cost accounting to the national economy.

F. RICHMOND FLETCHER

**COST ACCOUNTING**, by John J. W. Neuner. *Business Publications Company*, Chicago, Ill. 703 pages. \$4.

*Cost Accounting* by Dr. John J. W. Neuner develops in a very clear manner the practical application of the theory of cost accounting. In addition to the customary form of presentation, Dr. Neuner has supplemented his discussion with typical book entries which are very helpful in obtaining a clear understanding of the subject matter. Although many books have been published relating to the subject of cost accounting, Dr. Neuner has taken another step forward, and this work is, in my opinion, worthy of consideration for the individual in private work as well as those in the public accounting field.

The book is divided into two principal parts, designated by Dr. Neuner as follows:

Part 1—Mechanics of Cost Accounting

Part 2—Specialized and Advanced Cost Accounting

Part 1 includes an outline of the cost accounts most frequently used and their relation to the general accounting records. The scope of the text also includes a description of the operation of a factory ledger and various auxiliary records. Perpetual-inventory systems and wage systems and their functions in the determination of costs are reviewed. Manufacturing expenses, especially the ever-present problem of distribution of such ex-

penses to job orders in process, are discussed at length. The author lists eight different methods whereby manufacturing expenses may be distributed to job orders in process. One chapter is devoted to departmentalization of factory expenses and another to the cost summaries and statements which should be prepared to analyze the results shown by the cost accounts.

As the title indicates, part 2 covers special cost-accounting problems. The first four chapters of part 2 consider the subject of process costs and the manner in which the determination of such costs differs from the determination of job-order costs. A very interesting chapter explains methods of determining costs of joint products and by-products. In this chapter, the author discusses four methods of treatment of by-products as follows:

1. Considering the sales value thereof as other income,
2. Considering the sales value thereof as a reduction in the cost of the main product,
3. Considering the by-product as having no cost at time of separation from the main product, and,
4. Segregating all costs to the time of separation between the two products.

Considerable space, approximately four chapters, is devoted to standard and estimated costs, but this complex subject is presented in a clear and concise manner. Distribution costs and methods whereby such costs may be apportioned among a variety of different products are considered in another chapter. The book closes with a further discussion of cost-accounting reports and data and a chapter on uniform cost accounting.

In my judgment, the outstanding feature of Dr. Neuner's book is that he emphasizes the book entries which would actually be made in the accounts under the situations he presents and, through this medium, shows the manner in which the results were determined. Another feature is the group of problems appearing at the end of each chapter. The principal problems have been selected from C.P.A. examinations and from nationally known accounting publications, and are well adapted to illustrate cost-accounting principles and procedures.

I might also mention that supplementary references are numerous and appear to be well coördinated with the subject matter.

RAYMOND H. GIESECKE

ECONOMIC CONSEQUENCES OF RECENT AMERICAN TAX POLICY, by Gerhard Colm and Fritz Lehmann. *The New School for Social Research*, New York, N. Y. 100 pages. 1938. \$1.

*The Economic Consequences of Recent American Tax Policy* is a vitally interesting study written by two competent scholars. The authors are among that group of scholars which has enriched the United States by fleeing from Nazi Germany. Some of the most outstanding studies of the American scene and American institutions have been made by foreign scholars such as de Tocqueville and Viscount Bryce. Certainly this little book (100 pages) reveals competent and penetrating scholarship.

It begins by swiftly tracing the new patterns of economic life, showing the "shift in the dynamic forces from private anticipatory investment to governmentally supported or supervised outlays." But the authors point out that private enterprise must go on because "economic progress cannot be carried through without business investments."

A bold estimate is made of capital demand and supply under the influence of a declining rate of population growth, and the conclusion is reached that capital requirements for the next few years will probably be 8 or 9 billion a year, while savings will accumulate at the rate of 11 to 13 billion a year. This foretells contraction of purchasing power and readjustments to lower levels of employment and investment unless compensating influences are put to work. Due attention is given, also, to the cyclical fluctuations in the demand for capital.

The second half of the book is devoted to a study of the influence of recent federal tax legislation upon the capital market. The authors point out that tax policy "must provide favorable conditions for investments and it must make a sufficient capital supply possible." Recent tax legislation affected the formation of capital in a number of ways. "The increased surtax rates curtail the individual savings of the wealthier classes, who were the principal individual contributors to the capital supply. The death taxes compel liquidation of assets. . . . Higher inheritance and estate taxes are, therefore, likely to result in a substantial diminution of the capital supply. The undistributed-profits tax curtails the direct savings of corporations, one of the most important items in the total

capital supply." Interesting deductions from statistical data are presented to support these conclusions.

As to social-security taxes the authors conclude "there does not appear much evidence that the capital supply will be substantially affected by any adverse effect of social insurance on private saving or private insurance." What effect will accumulations of social-security funds have on capital formation? "The answer depends on the use the Treasury makes of this portion of the social-security tax revenues." After careful consideration, the surprising conclusion is reached that the net effect of all these taxes on the national supply of capital will not exceed 4 per cent to 7 per cent of the total expected capital supply.

The authors show the impact of these taxes on the "quality" of the capital supply. The investments of those in the lower brackets, mainly deposits and real estate, are not affected much by these progressive taxes. The authors predict that tax-exempt securities will be held predominantly by wealthier people, and corporate securities to an increasing extent by people of more moderate means.

The effects of taxes, particularly the undistributed-profits and capital-gains taxes, on business fluctuations are lucidly described. The authors condemn the governmental tax policy of 1936, which they term "an important depression feature."

The main findings are that there exists an inherent tendency towards "oversaving," which will not be cured by the present tax system alone, and that capital for business equities will be scarce, especially in the late phases of a recovery. The authors point out that "oversaving" may be influenced by a change in the tax system; they recommend lowering the limits of the estate taxes and the rates of payroll taxes under the social-security act. The authors favor public expenditures only as a supplement to private investment incapable of absorbing the total capital supply.

With one conclusion most people will agree. "In a changing world, taxation policy needs to be flexible, resolutely pursuing permanent social aims, but prepared to make necessary short-run conditions. Until the modern world has solved the problem of the economic cycle, there can be no ideal system of tax measures and tax rates. At all times governments should work to develop channels through

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which savings funds may flow into the fields where they are needed, instead of being impounded, as today, in tax-exempt securities and other special fields of assured return. . . ."

The book is chock-full of provocative thought, even if one does not agree with some of the conclusions and predictions. Accountants who want a wider understanding of the financial facts with which they deal must add this little book to their list of "must" books.

HAROLD A. EPPSTON

THE PREPARATION OF REPORTS (revised edition) by Ray Palmer Baker and Almonte Charles Howell. *The Ronald Press Company*, New York, N. Y. 578 pages. 1938. \$4.

While prepared primarily for those engaged otherwise, here is a book that at some time in his career, I feel, should come to the attention of every practising accountant. I only wish it had come to mine some 20 years ago.

This book covers administrative, engineering, business, and scientific report writing. It discusses every phase of their preparation. The methods explained are those developed by individuals and organizations engaged in many fields of industrial and professional activity.

The viewpoint of the book is that reports often form the basis of highly important de-

terminations by individuals who have not personally investigated the details of matters they must decide. A report must therefore be so built as to carry the right view of a matter, perhaps highly technical, to a reader who may have no first-hand knowledge of a subject.

Chapters cover: origins and forms; types; statistics in reports; information reports; examination reports—preliminary considerations, field work, problems, phases; recommendation reports—operation, construction; experimental research reports—preliminaries, limitations, fundamentals; developments; theoretical research and descriptive research reports; preparation of manuscript and revision of proof.

This book does all of this and more. I may be prejudiced in its favor because with me report writing is a fetish, but after reading from preface to index, one is left with the feeling of how much more there is to the subject and how little one knows.

This is no work for the casual reader. To the interested, the preface will indicate the importance of the subject and the book will present a fund of information and instruction such as to deserve its 22 chapters, its 548 pages of narrative, its 14-page index of reports, and its 16-page general index of the work itself.

J. PRYSE GOODWIN