BOOK REVIEWS

THE BANKRUPTCY ACT OF 1938, a comparative analysis by Jacob I. Weinstein. National Association of Credit Men, New York. 497 pages. $5.

Mr. Weinstein, a member of the Philadelphia bar and of the National Bankruptcy Conference and of its drafting committee, is credited with having contributed much to studying, drafting, and perfecting the provisions of the bankruptcy law of 1938 (Chandler act). His comparative analysis of the old and new laws, copyrighted and published by National Association of Credit Men, therefore furnished an authoritative reference book.

In a preface which explains the historical background, the author states that for the first time in forty years Congress enacted a complete revision of the federal bankruptcy law; that during the intervening years several amendments were made, but that these amendments took care of only some of the changing economic and business conditions; and that the pressing need for a complete and thoroughly up-to-date revision of the bankruptcy law was met by the enactment of the Chandler act.

In preparing this comparative analysis Mr. Weinstein has selected a simple and logical general plan: there is a restatement of the act in lay language which follows the act exactly in arrangement and designation. In a parallel column is an analysis which explains the sources of the sections and subsections of the law and compares the old and the new. Then there is the complete text of the act, and finally an index which refers both to the law and to the author's restatement, comment, and comparison.

At the beginning of each section there is a brief general statement on the content of the section. These summaries provide a convenient general view of the law.

Chapters X and XI relating to corporate reorganizations and arrangements will, of course, be those most valuable to the practising accountant. The new rôle of the Securities and Exchange Commission in corporate reorganizations is given proper emphasis in the author's comments.

The accounting profession will probably appreciate and welcome this reference book because of its logical arrangement, accurate paraphrasing, and precise analysis.

KENNETH WHITE

CORPORATION FINANCE, by Kenneth Field. *The Ronald Press Company*, New York. 516 pages. 1938. $4.

Corporation Finance is written primarily for use as a textbook by students. In the opinion of the reviewer, the author has succeeded in his expressed purpose of presenting "the nature of, procedures for, and financial theory underlying corporate financial structures and policies . . . from the composite viewpoint of the businessman, the lawyer, the investment analyst, the underwriter, and the professor." It is well written (ignoring a comparatively few errors evidently overlooked in proofreading), and the subject matter is presented in a manner which should arouse the interest of the student in financial statements and financial facts which they represent. The text includes numerous illustrations of actual cases of recapitalizations, consolidations, holding company financing, and reorganization. Chapter 4 is an interesting discussion of the function and methods of operation of the holding corporation.

The book is particularly interesting because of the discussion of accounting problems involved in corporation finance, in the chapters captioned "Consolidated Statements," "Income and Reserves," "Depreciation," "Dividend Policies," and "Negotiating the Consolidation." The completeness of the author's definition of certain accounting terminology might be questioned by many accountants, but the definitions are generally sufficiently accurate for an understanding of the subject matter. Most accountants will agree with the author that "in spite of the fact that management has ample budgetary and special reports on which to ground its policy, it should publish reasonably detailed statements for its stockholders."

In the chapter on consolidated statements, criticism is made of the practice of eliminating in the consolidated income statement intercompany interest and dividends on preferred stock of subsidiaries, on the basis that elimination understates the strength of the holding-company securities. Although this criticism may have merit in particular instances, it is doubtful whether it will gain general acceptance among practising accountants. Most of the other weaknesses of consolidated statements mentioned have long been recognized and avoided by reputable accountants. The author points out that the Securities and Exchange Commission has power to correct "abuses" in consolidated and other types of statements. It is well to note that the commission has provided for elimination of most of the "abuses" mentioned in its rules for preparation of financial statements within the jurisdiction of that commission.

The book may be recommended to the student of corporation finance as an easily understandable textbook. It should be interesting to accountants because of the author's interpretations and criticisms of published financial statements.

John W. Queenan

TEXTILE COSTING, by Jeremiah Lockwood and A. D. Maxwell. *The Textile Foundation*, Washington, D. C. 282 pages. 1938. $2.

This volume, which is published under the auspices of The Textile Foundation, discusses a field of accounting of which comparatively little has been written. The textile industry is one of the most important in this country and has cost problems peculiar to it which are not to be found in other manufacturing industries; although for all industry manufacturing costs are generally either on a job or a process basis, those of the textile industry are more complex, generally, and there is need for a more thorough understanding of their application to the problems of management.

This book is divided into three parts. Part I, covering thirty-one pages, is devoted to the general theory of and need for cost accounting and gives a condensed summary of the problem in its widest application. Part II, covering sixty-two pages, is divided into four chapters, the first three of which deal individually with each of the three components of manufacture, while the fourth is an explanation of the assembly of process-cost-accounting data. The first of these four chapters goes somewhat further than is usual in a treatise on cost accounting by elaborating with considerable detail the operations of purchasing and storing raw material, and kindred matters of rather secondary importance. These points are no doubt important to students, but they will probably be of less interest to the textile executive; there are probably very few mills in which the raw-material position is not well known at all times. The last of these four chapters, on process costs, presents with clarity an able exposition of the character and composition of the data for these costs and provides illustrative examples showing how they are to be assembled and understood.

The third part of the book applies itself to the problems peculiar to the textile industry: It covers 180 pages divided into thirteen chapters, four on spinning-mill costs, four on weaving costs, two on finishing costs, and one on purchasing and control of materials and supplies. The remaining two deal with marketing costs and the general financial statements of a manufacturing enterprise. The first ten chapters mentioned contain the real gist of the problem and are excellent. The application of the spindle method in the distribution of indirect labor and manufacturing expense as contrasted with the "single percentage of direct labor" method, is admirably brought out. The treatment of the problem of waste as applied to lost material, labor, and burden is to be commended. Also worthy of notice are the chapters devoted to predetermining production and total costs. The textile industry lends itself quite readily to standard costs, which the authors, quite rightly, state should be based on the results of careful studies of expenditure and production, etc. But the development of the data for standard costs calls for close coöperation between the planning, production, and accounting departments; otherwise the results may prove disastrous. In each chapter numerous illustrations are given of accounting records and forms, and questions and problems are presented and explained in a readable manner.

In such an excellent book it is to be regretted that the authors did not carry their work one step further and set up ledger accounts to show the movement of material through the process of manufacture from the raw state to work-in-process and thence to finished goods and cost of sales: this would have shown the connection between cost accounts and general-ledger records. But the book is one which will be of service not only to the professional practitioner interested in textile accounting, but also to the mill executive and to students interested in this industry. The authors are to be congratulated on this fine contribution to accounting literature.

WALTER ALEXANDER MUSGRAVE

ESSENTIALS OF ACCOUNTING, by W. A. Paton. *The Macmillan Company*, New York, N. Y. 830 pages. 1938. $5.

This is an age characterized by a great increase in the standard of necessities. The reader needs no specific reminders of the tendency; the reader of texts on accounting will find an excellent example in the latest exposition of the *Essentials of Accounting* by W. A. Paton. A comparison of this fat volume, 830 pages of rather fine print, with the single section devoted to the subject in Paciolo's *Summa de Arithmetica* gives a vivid picture of the increasingly detailed knowledge required of the college student. Not all of the change can be attributed to increasingly complex demands on the accountant by business. Recent research has shown that many modern accounting practices were in use among businessmen a century before the date of Paciolo's book. Yet on the basis of a selective interpretation of essentials, what he wrote is adequate.

Mr. Paton, in his preface, pleads for his interpretation, which is both more extensive and more intensive, that by such a response to the complex demands of this growing profession, the "mediocre student at the worst suffers no additional handicap when he encounters a full treatment of a particular point, and the superior student is decidedly advantaged if given something substantial on which to chew." (Pref. vi.) After a year of teaching experience with the material in lithoprint form, the reviewer disagrees with the author. There is the matter of the appetites of the mediocre student to be considered which may suffer from the over-plenitude of detail, and the digestive power of the superior student. The difficulty may be overcome by the use of selection by the instructor. But the burden has been definitely placed on his shoulders.

To the reviewer, this comprehensive treatment is not all bad. A working distinction may be drawn between a detailed treatment of particular business procedure and of basic presentations of accountable information. Thus there are 45 pages (chapters 7 and 8) with a complete illustrative problem, on the simple journal and ledger, followed by about 30 pages each on special journals and ledgers (chapters 9, 10, 11, 12). The details described are valuable but not necessary. A similar criticism may be made of much of the material in chapter 13, "Receipts and Disbursements," chapters 14 and 15, "Costs and Payables," chapters 16 and 17, "Revenues and Receivables," chapter 21, "Valuation and Audit of Receivables," chapter 22, "Notes Receivable and Payable," as well as in individual sections of other chapters. The criticism itself must be selectively applied. The reviewer refrains from congratulating Mr. Paton on his treatment of purchase and sales discounts and the revenue reduction for bad accounts, for example. The material is not new, but these are matters on which the thinking of accountants has too long been confused by the fact of debit and credit balances. Correct procedure is still so little accepted that a failure to restate it would be a significant omission. On the other hand, the detailed material on time card and pay-roll procedure, except for the new problems of pay-roll taxes, could be heavily cut.

Chapter 23, on the discounting of commercial paper, deserves specially favorable mention. As was to be expected, the author has not allowed difficulties of computation to cloud the essentials of accurate accounting.

Vitally important material is presented with laudable detail in chapters 33–37, inclusive, dealing with accounting for corporate investment and securities. This is the author's field, if such a comment can be made of a widely informed accountant. And this material has the triple advantage of timeliness, critical analysis, and authority.

The chapter on financial statements is included in this group because of the greater significance of problems involved in corporate statements. The detailed rules and models for the balance-sheet and income sheet are a pertinent addition to the recent literature on "accepted principles of accounting." Consolidated statements, however, are passed over too lightly. Roughly a page of descriptive exposition is devoted to this subject, aside from the illustrative material given in the balance-sheet examples. Except in a very simplified form, it is certainly beyond the powers of the first year student. It is submitted that such simplified practical contact is of great importance to any student who is not continuing his accounting study, probably of greater importance than details of time cards.

With respect to its general material the text is suited for various introductory and even advanced courses. By a choice of material, the course can be directed toward a detailed study, of general or even specialized procedure in particular fields of enterprise or a specialized study of corporate accounting or a survey of general accounting problems from which detailed study is eliminated in the main. For the student it will provide an excellent reference volume for advanced accounting courses or for the analysis and solution of those problems encountered in business life not specifically covered by college study.

Certain theoretical developments are to be specifically noted. After the first discussion of assets and equities, income and expenses, Mr. Paton has adopted a new organization of the accounts in his presentation. Costs, for expenses or assets, are related to payables, and revenues to receivables. These two groups are supplemented by a chapter on receipts and disbursements dealing with the control of cash. The organization, used in this instance for the development of procedural details, is of interest to a student of German accounting theory where something similar supplants the orthodox classification into assets, liabilities, and proprietor's equity as the basis of two theories.

Attention is directed to the model income sheet and the classification of income, expense, and revenue accounts. The two latter categories are carefully defined in chapters 5 and 6. The tautology in the above statement is allowed to remain for emphasis. It is believed that these definitions are sufficiently flexible to be applicable to the classification of all sorts of business situations except those two which prove so universally difficult to classify, taxes by governmental bodies and the sort of charitable contributions which are so compulsory as to be akin to taxes. Circumlocutions are necessary to fit these two into any expense category which is narrowly enough defined to be of practical value.

No specific definition of income has been found in a search which extended beyond the information found in an otherwise satisfactory index. If there is such a definition, the reviewer feels it fair to state that it must be rather well hidden. Expense and revenue are complementary categories, and the balance of these two groups, labeled "Total operating net revenue" in the model income sheet (page 758) and including the results of both principal and "ancillary" operations, seems by implication to be the first evidence of net income. (Cf. also the discussion of the location of interest charges, page 103.) Income seems to be that balance in the progression of revenue presentation from which expenses are no longer deductible. The deductions are losses (defined on pages 105–6) and distributions of income, which include for Mr. Paton interest on corporate bonds as well as returns to proprietors. The additions are net items in themselves, that is, the credit recognition of asset increases for which there has been no correlative asset decrease. The alignment of interest charges with dividend distributions is in accord with Mr. Paton's earlier theory, but it is noteworthy that the basis for this alignment is more narrowly and less didactically drawn. (Cf. *Accounting Theory*, page 267, and *Essentials of Accounting*, page 102.) The emphasis is laid on the value to the management of comparable figures for the operating net revenue.

The statement of funds which Mr. Paton presents is an important contribution of the text to the development of accounting forms. By a series of running balances, a statement is presented which will seem to the accountant something more than a concession to the businessman's desire to link together successful operation and improved cash position.

The book closes with a short discussion of a problem new to American accountants, that of accounting for the effect on capital and income of changes in the price level. The discussion is sound as far as it goes and is a recognition of material that must be studied by all accountants who are willing to move forward with the profession.

The general appearance is excellent and the standard of accuracy seems to be high.

CATHARINE DEMOTTE GREENE