

3-1939

## Book Reviews

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### Recommended Citation

Vreeland, Wallace N. Jr. and Springer, Duran W. (1939) "Book Reviews," *Journal of Accountancy*. Vol. 67: Iss. 3, Article 13.

Available at: <https://egrove.olemiss.edu/jofa/vol67/iss3/13>

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## BOOK REVIEWS

**BALANCE SHEET VALUES: THE LIMITATIONS OF INDUSTRIAL ACCOUNTING**, by P. D. Leake. *Gee & Co. (Publishers) Ltd.* London, E. C. 1. 65 pages. 1938. 4/6 net.

An interesting short book has recently been received from England in which the author proceeds to develop the thesis that fixed share capital of joint-stock companies should be represented only by the value of the net tangible assets, and makes suggestions for the amendment of the company law to permit conformity with his views. The propositions to which the author devotes himself are (1) that the capital of an individual enterprise is equal to the sum of the material assets (wasting and nonwasting) and the current and working assets less the liabilities and (2) that the values of the nonmaterial or intangible assets, such as goodwill, trademarks, patents, etc., are not proper subjects for industrial accounting and their values should be excluded from the balance-sheet.

In developing the thesis it is claimed that the capital of a joint-stock company consists of two separate and distinguishable kinds of values which are capable of being kept distinct in the balance-sheet; the first and most important are those material assets generally classified as tangible which should be maintained equal to the irredeemable share capital. The second kind of value is represented by items known generally as commercial goodwill, which, because of their constantly changing value, the author feels should be represented by shares of no par value. His theory of having the equity ownership representing only the intangible, differs widely from the American practice of issuing no-par-value shares indiscriminately for both tangible and intangible assets.

The classifications of assets as nonwasting and wasting material, nonmaterial and floating will evoke no quarrel with most accountants although the author's parenthetical description of such assets as goodwill, trademarks and patents as "not real capital" will

hardly be approved by some individualists to whom such items represent their most valuable asset.

A number of pages are devoted to the basis for valuing wasting assets. Many American accountants will heartily agree with the statement that the term "book values" has no definite meaning. General agreement will also be found with the thought that the best method of valuing industrial plant is the historical cost to the present owner computed by deducting from the cost, less estimated residual value, an equal annual installment of that cost, in respect of each year of the estimated efficient life which has expired. Due to the different usage of terms in this country, the author's use of the foregoing basis of valuation as a definition of "going-concern values" might be confusing. One can imagine the consternation of an American banker if he were presented with a balance-sheet upon which appeared the caption "Fixed Assets at Going Concern Values."

Little space is taken up with valuations to be placed on current assets. The balance-sheet values of receivables as the amount likely to be ultimately realizable conforms to the generally accepted principle. The soundness of the theory of valuing inventory, under all circumstances, at the lower of cost or market is questioned by the author, who advocates that this principle should not be applied to normal stocks of a commodity, the price of which commonly rises and falls in the market. Provided such stocks have not permanently deteriorated and the quantities are more or less normal, he believes that they should be valued at cost.

In connection with goodwill the author takes the generally accepted position that it should have no recorded form unless purchased. Even then he recommends that the purchase price of the goodwill be credited to the vendor's account and debited to the account of the subscribers for shares to be liquidated out of the cash received from the subscribers thus disappearing from the

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balance-sheet of the purchasing company. Recognizing, however, that purchased goodwill may often be recorded on a company's balance-sheet, he advocates writing it off over a period not in excess of twenty years.

In concluding, the author gives three suggestions for amending the company law to provide that (1) consideration passing to vendors of intangibles shall not form part of the fixed capital but may be raised either as a premium on the shares of fixed amount or by the issuing of participating no-par-value shares, (2) all joint-stock companies shall keep a detailed record of the cost and going concern values of all fixed assets, and (3) every balance-sheet shall be in prescribed form and shall contain the words "balance-sheet as a going concern."

Those parts of the book dealing with asset valuations are clear and well written. Too much space has been taken up with the technical economic distinction between annuities and leaseholds. The book will not appeal to a very large section of our practitioners because the problems raised are not particularly pertinent to American problems.

WALLACE N. VREELAND, JR.

THE DUST BIN, by Nathan Boone Williams. *W. F. Roberts Company*, Washington, D. C. 300 pages. \$2.

Here is a volume packed full of information and careful comment on the course and way of government over the years, with particular attention to the growing concentration of power and activities of the Federal Government.

The author is a lawyer of standing, is observant and is familiar with governmental practices and theories, who has been a resident of Washington for more than twenty-five years. He is devoted to our constitutional form of divided governmental power and views the developments of recent years not as something new, but as the logical flowering of our practice and departure from constitutional concepts for more than fifty years.

In telling the story of present dominance of commission form of government, the author points out that from what he calls "these castles of confusion" a multitude of rulings, decrees, and judgments are daily turned out which vitally affect our whole people. Most of these decisions are not subject to the normal review processes of the courts without expensive and deadly delay.

He then turns to past history and flicks the dust from its forgotten pages, showing how, for example, our agricultural policy, loans to small industries, price fixing in coal, "normal" and "charity granaries," "index numbers" and numerous other so-called "new" governmental theories had their counterparts in the laws of ancient peoples.

The current subject of monopoly is treated in a new approach, which would call for exact laws outlawing specific harmful practices, no criminal proceedings, and the abolition of most of the activities of commissions dealing with such subjects, and with different treatment for different kinds of industries, such as natural resources, industries of coal, oil, and other, and different laws for utilities and public-service industries which exercise the right of eminent domain from what is required of those where the consumer has a choice of product or supplier.

Many new suggestions for simplified procedure, reforms in taxation, and other subjects are found in this compact treatise on political science.

The author is a phrase maker, while writing with the exactitude of a lawyer, as witness his designation of those who advocate commission development, and commission government as opposed to our theory of courts and judicial process, as "termites of swift expediency"; of socialism as "a mirage of imaginative iridescence, with colors different to every beholder."

The chapters of the work are: The New Dynasty; Laws, Lawmaking and Lawmakers; Courts and Commissions; Transportation Troubles; Power and Politics; Coal Control; Labor Legislation; Trusts and Trustees; and Frontiers of Freedom.

While no punches are pulled, the work is without rancor, and is that calm and considered discussion expected of one who is informed, studious, and devoted to a high sense of good citizenship, and who has a good opinion of his fellow Americans.

The work is timely, and should prove highly worth-while in developing sound public opinion during the next few years when this country may be hoped to be setting its course for further sound development. Here are the considered views and judgment of a man who has used his opportunities to perfect his information and season his judgment.

DURAND W. SPRINGER