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Book Reviews

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BOOK REVIEWS

SOCIAL SECURITY TAXATION AND RECORDS, by Calvin E. Favinger and Daniel A. Wilcox. *Prentice-Hall, Inc.*, New York, N. Y. 649 pages. 1939. \$7.50.

A clear, comprehensive treatment of a subject of vital current interest to all employers, engineers, and accountants. The manner in which sound payroll accounting principles and systems are economically tied in with proper social-security procedure speaks well for the ability and knowledge of the authors.

The first paragraph of the opening chapter very aptly expresses the objective of the book as follows: "The total cost of social security to an employer is composed of two parts: the amount of the taxes, and the cost of maintaining the necessary records and rendering the necessary reports. Both parts are susceptible to control, within limits, and the objective of this book is to aid in establishing such controls."

The discussion of the legal aspects of the social-security act is confined to basic principles, the various state acts containing varying standards. The discussion of basic principles includes the background of social-security legislation, records required, reports, the merit rating, employers' reserve accounts, benefits, claims procedure, employers and employment, wages, and penalties. The data needed under the fair-labor-standards act is briefly outlined.

The chapters entitled "Principles of Social Security Accounting" and "Systems" are very comprehensive, consideration being given to social-security procedure, ease and economy of operation, and utility for proper management control. A diversified number of representative systems are illustrated and described, beginning with the simplest forms for very small businesses and proceeding from there, step by step, to systems built around the use of tabulating machines.

While a variety of systems is described, it is obviously impossible to include a custom-made system for each kind of business. However, the reader can obtain a good general

idea or cross-sectional view of the means available and the various ways in which employers are meeting social-security requirements.

An excellent source of valuable information for anyone confronted with problems concerning social-security taxation and records.

R. W. E. COLE

CORPORATIONS AND THEIR FINANCING, by Hastings Lyon. *D. C. Heath and Company*, Boston, Mass. 946 pages. 1938. \$4.25.

This book covers the entire field of corporate finance from the organization of a corporation to the trading in its securities on securities exchanges. It comprises eleven sections dealing with (1) the historical and legal background of a corporate enterprise; (2) concept of capital stock; (3) creditor securities; (4) capitalization: expansion; (5) changes in security groups; (6) marketing securities; (7) internal financing and corporate income; (8) reorganization; (9) capital accumulation, promotion, and federal securities act; (10) secondary market of the stock exchange; and (11) federal taxation and regulation.

The subject matter embraces a very large field and, generally, covers the field amazingly well. The prefatory remarks by the author indicate that the book is designed as an introductory course in corporation finance, and that much law background is included for the reason that "through the law we often most clearly perceive the formative ideas."

Due to the careful, exhaustive treatment of troublesome questions and to the author's individualistic style, the book makes a difficult subject an interesting one. While some parts of the book deal at length with rather elementary topics to an accountant of broad experience, nevertheless the reader is sure to derive much benefit from delving into the background of those subjects and will emerge with a much clearer concept of the issues involved.

The sections relating to creditor securities (bonds, mortgages, etc.); marketing securities; internal financing; reorganization; and capital accumulation, promotion, and federal securities act are particularly good. Of especial interest to accountants are the descriptions of the organization, operation, and liquidation of underwriting and sales syndicates contained in the section on marketing securities. The section on the secondary market of the stock exchange makes an exceptionally clear presentation of the relationship between broker and customer and of actual operations in the execution of security transactions.

Any accountant whose practice includes numerous corporations, and who is called upon by his clients to advise and consult with them on financial matters, would do well to master the contents of this work and retain it in his library for future reference. It is the most complete treatise on the subject I have seen, and I feel that the time expended in its reading was most profitably spent.

FRED J. DUNCOMBE

AUDITING THEORY AND PROCEDURE, by J. F. Sherwood and Roy T. Culey. *Southwestern Publishing Company*, Cincinnati, Ohio. 469 pages. 1939. \$3.75.

Theory in auditing is well established and little if anything can be added or subtracted by the most ingenious text writer today. Procedure varies with individual practitioners, but there are certain lines that must be followed by all auditors if they would avoid criticism and possible lawsuits. The student who has a good memory for theory and the analytical ability to apply it has a good foundation but a junior accountant who has observed intelligently the procedure of competent auditors has a much better chance of passing C.P.A. examinations and of subsequent advancement.

It is upon this principle that the authors of *Auditing Theory and Procedure* have written a somewhat unique and very practical textbook. After the usual preliminary explanations and descriptions of types of auditing, working papers, etc., the student is invited, as it were, to watch the procedure of a staff of accountants making an audit of the accounts of the "Blank Manufacturing Co." He is

shown how the firm of "Stevenson & Bennett, C.P.A.'s" enter into a formal engagement, assign by name the senior and juniors, and the first steps taken by the senior in charge as they start the work. Each of chapters 3 to 15 is devoted to a particular topic or phase of the audit, the underlying theory being first briefly stated with clarifying discussions where necessary. Then follows the practical application of the theory as shown by the procedure of the auditing staff, each man's actions being clearly described and his working papers illustrated in detail. If carefully followed, the student gets the same practical training as would a junior accountant under a competent—and obliging—senior; more so perhaps as the usual pressure in an audit does not allow much time for gratuitous teaching!

To test the student's grasp of each step in the imagined audit each chapter closes with a practice problem without solution, sample pertinent questions taken from C.P.A. examinations and a general quiz. After the audit is completed there are further chapters on special topics, such as organizations, peculiar types of audits, etc. The book winds up with a complete set of working papers from which the student prepares adjusting entries, exhibits, and final report.

One finds little to criticize, though perhaps more stress might have been laid on the matter of verifying the employees' old-age taxes when checking the payrolls. The surest way is to compare with the quarterly reports made to the Social Security Board, a simple matter provided individual records of the employees are kept as required by law. Many small concerns think the law is sufficiently observed by running an extra column on the payrolls for the taxes withheld, but it is rather doubtful if the board would so consider. (See article 412, regulations 91, for the amount of detail required.)

In any event it means for the auditor an exasperating abstracting and checking from *every* payroll in order to be sure that the total taxes for each employee for the quarter agrees with the report to the board. Another minor point is that using the term "income taxes imposed upon the employee . . ." (p. 273) while correct legally, is apt to be confusing to the student. "Employee's OAB tax" would be more definite with the note that the employer is liable for it "whether or not he deducts it from their wages."

Book Reviews

An excellent bit of work which reflects credit upon the authors.

W. H. LAWTON

LEGISLATIVE HISTORY OF FEDERAL INCOME TAX LAWS 1938-1861, by J. S. Seidman. *Prentice Hall, Inc.*, New York, N. Y. 1166 pages. 1938. \$10.

Frequently, in tax practice, it is helpful to know the legislative intent of the various provisions of the revenue law. Further, litigation in many cases could be avoided if the legislative intent of the law involved in the controversy was determined by reference to the legislative history of the particular provision. After a bill has been drafted by the House Ways and Means Committee there are many changes and amendments before it becomes a law. To determine the intent of the legislators of a particular provision of the law, it is necessary to have access to committee reports and to the *Congressional Record* to ascertain what was said in regard thereto.

Previously, there was no publication or tax service that undertook to give this information in any compact or concise form. Such information was, therefore, not available without considerable research work. The author of this book has made such a compilation and is to be commended upon the useful research material set forth therein, his faithful reproduction of the various income-tax provisions of the revenue acts having a legislative history and the pertinent material from the *Congressional Record* and the various legislative committee and subcommittee reports. The material contained in the book, except for the preface and explanatory remarks, is presented without comment or discussion and will undoubtedly prove to be quite helpful to experienced practitioners in determining the legislative background of certain provisions of the statutes.

Many times the language employed in the legislative committee reports is ambiguous and can only be properly understood by reference to interpretive court decisions on collateral or related points and other pertinent material. Therefore, while "recourse to legislative history" is often "necessary to determine the intent of Congress," such

intent may not in some instances be apparent because of the indefiniteness of the language used.

The publication is manifestly not intended to convey the views of the author as to the technical or legal construction of the statutes and must be judged solely upon the basis of its effective coordination of the research material available.

The index to the material presented is somewhat unique and will appeal to many practitioners principally by reason of the elimination of cross references. The section and key number indexes lend simplicity in locating the corresponding or related sections of the various acts.

The chapter entitled "Guides to the Use of This Book" is comprehensive and outlines the scope and character of the information contained in the volume, appropriately indicating the exceptions and omissions. The elimination of mere parliamentary formalities and other irrelevancies and repetition of the contents of committee reports is refreshing in a work of this character.

CLARENCE L. TURNER

ACCOUNTING FOR PUBLIC PROPERTY, by Municipal Finance Officers' Association. *Municipal Finance Officers' Association of the United States and Canada*, Chicago, Ill. 42 pages. 1939. 50 cents.

A bulletin entitled *Accounting for Public Property*, suggesting means of establishing accounting control over publicly owned real estate and movable property has been issued by the Municipal Finance Officers' Association as Accounting Publication No. 5. The bulletin describes in separate sections the various classes of public property, the methods of valuation, the procedures in establishing records of real and personal property, the details of inventorying and marking public property, the establishment of centralized control, and the establishment of general ledger control accounts. A summary of these procedures follows the detailed descriptions. The bulletin concludes with a brief discussion of property statements and of the special problems involved in tax title property.

C. M. S.