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Book Reviews

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BOOK REVIEWS

FINANCIAL STATEMENTS, by M. B. Daniels. *American Accounting Association*, Chicago, Ill. 215 pages. 1939. $1.

This work, according to the author, "is primarily an attempt to present an analysis of financial statement presentation in terms of underlying principles. As such it presupposes an acquaintance on the part of the reader with the fundamentals of accounting without, however, requiring much familiarity with accounting technique." In the language of the foreword, "It will be evident . . . that the author has not found himself bound by the orthodox rules of balance-sheet presentation and in certain cases has given expression to personal viewpoints and convictions which depart from the customary practice." If that were all, the book could be read as a stimulating presentation and analysis of the problems of financial statements.

That, however, is not all. The book contains a great deal of matter dealing with accounting principles, such as valuation problems, principles of consolidation and others which are still very much the subject of earnest study and development by the accounting profession as a whole. Secondly, the book is issued by the American Accounting Association as one of a series of monographs which "is directed toward and will, it is hoped, aid in the formulation of (accounting) principles." Its publication was approved by the executive committee of such association, and the advertising of the book over the name of the Association contains the statement, "The entire field of statement presentation is covered critically and authoritatively."

The accounting profession has been indebted to the American Accounting Association for its many contributions, and the Association with its announced objectives has and can fill a unique and extremely necessary position in the development of accounting. Its "A Tentative Statement of Accounting Principles Underlying Corporate Financial Reports" and "Some Tentative Propositions Underlying Consolidated Reports" are in point. Both were frankly tentative and were intended to provoke discussion and to help clarify thinking. This book, however, is different. It is not written in a tentative vein. Rather, its language is dogmatic and conclusive. The propositions of the "A Tentative Statement of Accounting Principles" apparently are accepted as being no longer tentative, but final. This, it seems to me, is the chief criticism of the book—that it makes little distinction between the points on which there is a general preference within the profession and those points on which the author is expressing personal preferences not yet accepted by the profession. There would be no propriety in such a criticism except for the official or at least semiofficial sponsorship of the book, and this criticism would disappear, largely, if the tentative philosophy of earlier publications had been emphasized by the Association, and the text been a little less positive.

Looked at as tentative and personal, rather than authoritative, the book becomes stimulating and interesting. Its positiveness on many points of principle and its certainty on many matters of presentation will undoubtedly compel many readers to mark up various passages either because the ideas expressed run parallel to or violently contrary to the preferences of the reader. There are other passages where some readers will pause with an envious thought that anyone can be so positive on perplexing points. A review is not the place to list all of such passages, but some will be apparent from the more general discussion.

The first phase of the book deals with the content and arrangement of the balance-sheet and income statement. In each case a form of statement is recommended, with related discussion of the individual items. The balance-sheet is notable for containing only two general asset classifications, current and fixed, and a division of the equity side as between liabilities and stockholders' equity, with all reserves treated as allowances, as liabilities, or as surplus. It accepts completely the policy of deducting bond discount from the face of the bonds, discount on preferred stock from the amount outstanding, and unearned discount from the face of the receivables. The income statement recommended is one which combines the income report and the surplus account, it eliminates any showing of gross profit, suggests that capital gains and losses, prior years items, etc., be treated in the income section but after a determination of net income, and is an interesting contribution to the research now going on into the best way of reporting income. The principles of accounting expounded in both presentations, however, should not be accepted as final.

The discussion of supplementary financial statements includes a section on "Stabilized Comparative Statements," a subject so little understood that it might properly have been expanded, or eliminated. The section on consolidated financial statements attempts to deal with most of the principles of consolidated statements as well as the form of the statement. The subject is too broad to be included as one chapter of a book of this kind, and many points are dismissed without sufficient discussion.

Probably the most debatable section in the book will be found to be that on valuation problems. Valuation seems to be the wrong word for the author disclaims any meaning of appraisal or realizable value, and places the emphasis on the determination of amounts for the proper showing of income. Because of this, the cost or market basis for inventories is not approved, the base stock method is stated to be artificial and perhaps misleading, the "last-in, first-out" basis is "in the nature of a statistical 'smoothing' device rather than a proper accounting tool" and "the most logical and altogether preferable basis for valuation of inventories is cost." (Incidentally, many will not agree with the definition of "cost or market.") However, realizable worth of salable inventory is recommended for parenthetical disclosure. Inventory is cited here in some detail as it is illustrative of the scientific approach to the determination of income by the unrecovered cost theory which runs through the entire chapter. The point is also emphasized by the discussion on revaluations of plant, either upwards or downwards, which are roundly condemned, as interfering with determination of a scientific income based on recovery of cost. It may well be that the trend in accounting is toward this scientific basis, but it must be admitted that the cost or market theory for inventories does have some justification and that all plant revaluations are not wholly indefensible. Then, too, the accounting profession has recently been severely criticized for not undertaking the determination of fair values for all assets (MacNeal: *Truth in Accounting*) and for permitting scientific accounting costs to dominate the presentation of financial statements. Nevertheless, as a presentation of one theory of asset "valuation" the chapter has much logic and considerable "value."

To this reviewer, the book is provocative and stimulating, but it does not appear to be sufficiently exhaustive to be authoritative. It is to be hoped that future printings will carry an imprinted notation on the front cover to the effect that the Association believes the book to be worthy of wide circulation, but that the Association does not offer it as being either exhaustive or authoritative.

George D. Bailey

DEPRECIATION PRINCIPLES AND APPLICATIONS, by E. A. Saliers. Third Edition. *The Ronald Press Company*, New York. 482, xi pages. 1939. $5.

It may be recalled that in 1915 Professor Saliers published his first volume on depreciation, entitled *Principles of Depreciation*. In 1922 a revision of the earlier volume appeared under the title, *Depreciation Principles and Applications*. This third edition, appearing in the early part of 1939, is a complete revision of the 1922 edition. The present volume has been reduced from 590 to 482 pages, with a somewhat complete rearrangement of the chapters and the pertinent subject matter.

The 1922 volume contained twenty-two chapters and five appendices, whereas the 1939 edition contains twenty-three chapters and also has five appendices. However, this does not even begin to tell the story of the complete revision which the book has undergone. In the 1922 volume, for example, a short chapter of six pages preceded two chapters on the "General Theory of Depreciation," whereas in the 1939 edition three chapters, aggregating 34 pages of material, precede these two chapters entitled "The Theory of Depreciation." The chapter on "Logarithms and Their Use" (chapter IX) and that on "Government Control of Industry" (chapter XVI) have disappeared entirely from the 1939 edition, whereas chapters on the "Relation of Depreciation to Working Capital" (No. 7), "Maintenance" (No. 8), "Adjustments" (No. 9), "Depreciation in Financial Statements" (No. 11), "Inadequate Depreciation Methods" (No. 13), and "Treasury Decision 4422" (No. 14) have appeared in their place. Other materials in the 1922 volume have been condensed and combined in the 1939 edition. Still other materials have been completely rearranged in the new edition—for example, the chapter entitled "What is Income?" was No. X in the 1922 volume, but has become No. 16 in the 1939 edition.

The first three of the appendices are, with possibly very slight changes, the same in the two volumes. These include "Depreciation of Oil and Gas Equipment" (Appendix A), "Depreciation and Interstate Commerce Commission Railroad Valuation" (Appendix B), and "Mine Valuation" (Appendix C). Appendix D covers the same material in the two editions, "Internal Revenue Bureau Bulletin 'F'," but the material contained in the 1922 volume is the bulletin issued August 31, 1920, whereas the material included in the 1939 edition is the bulletin issued by the Bureau of Internal Revenue in January, 1931. Appendix E is entirely different in the two editions of the book; in the 1922 volume this appendix consists of 79 pages of depreciation rates of specific assets, whereas in the 1939 edition this final appendix is the preliminary report issued in January, 1931, by the Bureau of Internal Revenue, entitled *Depreciation Studies.*

In the opinion of the reviewer, Professor Saliers has done his usual careful and scholarly job in this 1939 edition of his book. He has organized his material well, and has presented it clearly and comprehensively. He has followed modern trends in accounting matters, by giving more attention to the management and interpretative phases of the subject. He is not dogmatic, but rather presents every recognized approach to the depreciation problem. His treatment of both the accounting and the legal aspects of the subject are unusually good. Obviously depreciation will continue to have its controversial points, and probably no reader will agree with the author in all his statements; nevertheless, Professor Saliers has done a constructive piece of work which will materially stimulate our thinking on the depreciation problem. The book should be in every accounting library.

J. HUGH JACKSON

PROBLEMS IN ACCOUNTING, by W. A. Hosmer. *McGraw-Hill Book Company, Inc.*, New York, N. Y. 689 pages. 1938. $5.

A similar book written by Hosmer, Sanders, and Hanson as a college text, and published by the McGraw-Hill Book Company in 1934, was reviewed in the December, 1934, issue of THE JOURNAL OF ACCOUNTANCY. That review mainly consisted of a general description of the contents, and in substance the same description covers the contents of this new edition. As before, the method of instruction is the so-called "case system," but new cases and new material are used. Accordingly, it is not a revised edition of the former book, but a new volume which deserves the same favorable mention and reception as its predecessor.

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