

2-1940

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Leo Mattersdorf

Maurice E. Peloubet

W. H. Lawton

Frederick B. Andrews

Hermann C. Miller

See next page for additional authors

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Recommended Citation

Mattersdorf, Leo; Peloubet, Maurice E.; Lawton, W. H.; Andrews, Frederick B.; Miller, Hermann C.; and Welcker, William H. (1940) "Book Reviews," *Journal of Accountancy*. Vol. 69: Iss. 2, Article 13.
Available at: <https://egrove.olemiss.edu/jofa/vol69/iss2/13>

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Book Reviews

Authors

Leo Mattersdorf, Maurice E. Peloubet, W. H. Lawton, Frederick B. Andrews, Hermann C. Miller, and William H. Welcker

BOOK REVIEWS

THE TAXATION OF SMALL INCOMES—SOCIAL, REVENUE, AND ADMINISTRATIVE ASPECTS, by Paul J. Strayer. *The Ronald Press Company*, New York, N. Y. 205 pages. 1939. \$3.

For the past several years there has been much agitation in and out of Congress to lower the personal exemptions and credit for dependents for federal income-tax purposes. The purpose ostensibly was at least twofold, namely, the increase of revenues and the attempt to make taxpayers more tax conscious, to the end that the expenditures of Government would be reduced or at least more critically examined by a greater number of citizens.

In this book the author has done an admirable piece of work in examining the question from various angles, including the two mentioned above. He has given consideration to the additional tax administration involved and to the experience of various states and countries which have relatively low exemptions and credit for dependents. As he points out, if the exemptions were made low enough, the cost of administration would be so high that the additional revenues involved would hardly be worth the effort in attempting to collect them. Further, unless the exemptions were almost entirely eliminated, far less than half the voters of the United States would be subject to income tax and, therefore, made tax conscious.

The value of tax consciousness thus obtained is also explored and, from experiences in other countries, it is doubtful whether the tax consciousness sought for by proponents of lower exemptions would actually result. Experience has shown that in many instances the opposite effect is obtained. In fact those in lower brackets who are dependent on government bounties, probably would seek to have these increased, thus nullifying any resultant increased revenues, as well as tax consciousness.

Other features of the subject explored are "Revenue Aspects," "The Theory of Per-

sonal Exemption," and "The Exemption Level and the Distribution of the Tax Burden." The book is replete with footnotes giving data as to source material and shows diligent and careful research work on the part of the author. He states very frankly that he has "arrived at conclusions and treated materials in a manner which is to be explained, in part, as the result of his own biases and convictions," yet a careful reading of the book leads one to believe that he has succeeded in casting his personal prejudices aside.

This book is one that should be read by every student of taxation and especially those who are interested in this question of the broadening of the tax base. It reflects the necessity of considering the burden of sales and excise taxes on the persons in lower income brackets when an attempt is made to impose the additional burden which the broadening of the income-tax base might place on such people. It further illustrates the necessity of carefully exploring all the problems which may arise in even so simple a question as lowering the exemptions for income-tax purposes.

LEO MATTERS DORF

ACCOUNTANCY AS A CAREER, by Lawrence W. Scudder. *Funk & Wagnalls*, New York, N. Y. 161 pages. 1939. \$1.50.

This excellent little book gives about as clear a picture of conditions in the profession of accountancy as anyone wishing to enter the profession could hope for. Most of the popular misconceptions are neatly disposed of and the real place of the public accountant in modern business is not only described but illustrated with graphic and interesting examples. This book is not only a guide to a choice of a career but could very well be read by almost anyone in the profession.

For the young man making his way it gives probably a better idea of the field before him than he will get from his daily work. It will give the experienced practitioner a view

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of his profession which, if not perhaps new to him, will remind him of many things he has forgotten or only knew imperfectly. The style is simple, clear, and easy throughout. In fact, it gives the impression of being perhaps a little oversimplified and over-emphatic, but if this is a fault it is a good one. The general viewpoint is one of not very restricted optimism. While it is far from being a selling talk for the profession it does at the same time emphasize the favorable factors pretty strongly and has a tendency to pass over the unfavorable ones rather lightly. It is true, as the author points out, that there are many opportunities both in public accountancy and in corporate and government work for the man with a thorough accounting training. On the other hand, the mere fact that the opportunities are there and the remuneration comparatively high proves that these chances are only for the exceptional man.

In discussing accountancy education no distinction is made between schools of commerce where all sorts of business subjects are taught and where only a small percentage of the students intend to enter the profession, and genuine professional schools where most of the students intend to take up public accountancy. It is true that there are very few of the latter, but this seems such an important development that it is unfortunate that a book which will have such a wide circulation as this one deserves, should have neglected to make such an important distinction. While everyone will agree that correspondence schools have done good work, it is doubtful whether there would be any very general agreement with the extremely generous attitude which the author takes toward them.

One more comparatively minor objection: In describing the way a tax expert prepares himself, the author suggests that service as a revenue agent is a good start. He says, "They go around auditing taxpayers' books and trying to find additional taxes which should be paid. In this way they learn the tricks to which the highly paid experts employed by the taxpayers resort to avoid paying taxes." The general idea behind this is, of course, quite correct. The expression of it seems most unfortunate. Making certain that a client or an employer pays the smallest legal tax may call for great knowledge and alertness but it is hardly a "trick."

Regardless of these few criticisms this is, without doubt, the best book to be placed in the hands of anyone considering accountancy as a life work. I am sure that if many of the older generation of accountants had had such a guide in their early studies and practice much time, useless effort, and mental turmoil would have been avoided.

MAURICE E. PELOUBET

ELEMENTARY ACCOUNTING, by George Hillis Newlove, Leo Cecil Haynes, and John Arch White. *D. C. Heath & Co.*, New York, N. Y. 1938. 684 pages. \$4.

INTERMEDIATE ACCOUNTING, by George Hillis Newlove, C. Aubrey Smith, and John Arch White. *D. C. Heath & Co.*, New York, N. Y. 1939. 838 pages. \$4.50.

The authors of these two textbooks present the subject of accounting as taught in the University of Texas, where it appears to be a popular course judging from the large number of candidates taking the C.P.A. examinations yearly. Mastery of the two volumes should certainly go far to qualify them in theory and practice.

Elementary Accounting, as its title implies, deals with the art of bookkeeping in the main although there is some adventure into more recondite subjects, e.g., history of accounting, accounting equations, and the like. Step by step the student is shown how to use the ledger, journals, and other records, the supporting forms, to draw up financial statements, etc. Theory is exhaustively explained in the text, and amply illustrated in diagrammatic and practical ways. Believing that "solution of problems is the best way to develop a knowledge of accounting" (p. iv) the authors provide some 125 pages of practice problems together with a rather bulky set of ruled forms for the student's guidance. It seems odd that the subject of single-entry bookkeeping is omitted, being reserved for the opening chapter of *Intermediate Accounting*. Now a student who has been trained in double entry and goes no further is well qualified to be a bookkeeper but he might have his troubles if confronted with a set of single entry books and told to keep them that way.

Intermediate Accounting not only takes the student into the realms of higher accounting but is also a valuable book of reference for practising accountants. Only an iron-clad memory and long experience can relieve the latter of the need for such aid in the highly

complicated accounting of today. To the reviewer the most engrossing chapters are those on inventories, sinking funds, income, and reserves. The discussions in the latter two are most scholarly and withal impartial. Whether they may be useful from a pedagogical point of view is perhaps a fair question. One may doubt the ability of an average college student to assimilate in the course of a semester or year all the significant, and often debatable, points developed by the authors.

Some two hundred pages of this volume are devoted to practice problems, many of them taken from C.P.A. examination papers.

Format and print are excellent, and the indices comprehensive and easy to consult—which is not always the case.

Coming at a time when the American Institute is seriously considering a proposal to follow the example of our English confreres and split the C.P.A. examinations into two or more parts, these volumes are quite apropos. An examination, for instance, based on *Elementary Accounting* (with the addition of a chapter on auditing theory) would serve admirably as a preliminary to be followed by a final C.P.A. examination on the subjects treated in *Intermediate Accounting*.

W. H. LAWTON

TAX EXEMPTIONS, a Symposium. *Tax Policy League, Inc.*, New York, N. Y. 237 pages. 1939. \$3.

"For years," says one of the writers in this collection, "the statute draftsmen and the . . . tax dodgers have been running a neck-and-neck race." All accountants who have had recurrent contact with the application of the income-tax laws—a goodly percentage, surely—will readily recognize the truth stated. As they have observed the race, however, the tax dodgers (opprobrious term—one wonders why some people must call pork "dead hog") have appeared to be generally, if by differing lengths, in the lead. Inept draftsmanship has been hard put to meet the requirements laid on it, and the exemptions of which advantage has been taken have been—or have appeared to be—unintentional and inadvertent.

The reader with such a background may therefore experience some surprise at finding in this book no exposé of the successive murders of the spirit by the letter of various revenue measures, but a series of discussions of numerous types of exemption from nu-

merous types of impost, all granted deliberately for purposes either of social import or of administrative facility.

The fifteen contributors are drawn from widely differing strata—tax administrators, professors of economics and political science, even an investment banker. It is therefore perhaps the more remarkable to find a thread of unity of thought running through their several discourses on tax exemption. As a well known but taciturn public official is said to have remarked of his pastor's attitude toward sin, they are "ag'in it." One says, "We know that the primary reason for the existence of many . . . tax exemptions has been the political pressure of groups demanding the tax subsidy." The writers in this volume, almost without exception, deplore the hidden subsidy which the tax exemption, other than for administrative facility, represents.

Part I of the book is a scholarly discussion of the general theory of tax exemption. It is followed by more detailed scrutiny of subsidy exemptions (exemptions to educational, philanthropic, and religious organizations, and exemptions to lure industry), inter-governmental exemptions, subsistence exemptions (exemptions of the lower levels of incomes and property values), and exemptions to stimulate improvements.

The book does not pretend to give definitive answers to the questions explored but does contain well reasoned expressions of views thereon, and should prove helpful to all those interested in, or charged with the duty of, finding such definitive answers. And it is encouraging to the layman to find so much of this quality of thought brought to bear on the problem.

FREDERICK B. ANDREWS

FEDERAL INCOME TAX ACCOUNTING, by Stewart Yarwood McMullen. *The Ronald Press Company*, New York, N. Y. 315 pages. 1939. \$5.

This is an elementary text for students who have had no previous knowledge or experience with the federal income tax. The approach is via the route of specimen tax returns for individuals, forms 1040 A and 1040. The introductory chapters develop a complicated and perplexing subject in a series of direct, simple, and understandable steps designed to acquaint the student with basic concepts of such terms as gross income,

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allowable deductions, net income, credits against net income, credits against the tax, basis, capital gains and losses, tax-free exchanges, etc.

There follows a similar treatment in connection with the corporate income and excess-profits tax basing the development of the subject on a specimen tax return, form 1120 A. Losses, bad debts, depreciation, and inventories are briefly and simply explained.

Returns for partnerships, estates, and trusts are illustrated and discussed quite briefly. A chapter is devoted to the consideration of tax implications in the various business entities: sole proprietorship, partnership, and corporation. The final chapter treats the subject of examinations, appeals, and returns.

Throughout this tax course are found simple but adequate problem and question materials for applying and testing the students' progress through the elementary phases of the subject.

Here is a distinctive contribution toward the teaching of an undergraduate course in federal income tax. Quite apparently, the work has been done by one who is familiar not only with income-tax practice but also with teaching technique in accounting courses. Simplicity and directness of presentation are the remarkable and laudable qualities of this tax course.

Practitioners may well recommend it to the younger staff members who may seek introductory income-tax study materials.

HERMANN C. MILLER

BUDGETING FOR CALIFORNIA MUNICIPALITIES, by Uniform Accounting Committee, League of California Municipalities, Los Angeles. 107 pages. 1939. \$2.50.

This work represents the results of a study by the members of a committee of accountants and municipal officials, the purpose of which is to achieve uniformity of reporting, budgetary and accounting procedure, with particular reference to the municipalities of California.

The preface states that the work has followed the principles of the National Committee on Municipal Accounting. It is quite apparent to the writer, as a member of that advisory body, that the League committee has fulfilled that purpose.

The introduction contains a very interest-

ing, if brief, account of the development of municipal budgets from the first attempts at budgeting, down to recent years, pointing out that all states now have some sort of budget law. The word "budget," with reference to municipalities, is defined as "a fiscal plan for municipal operations for a definite period." In directing attention to the essentials of the budget, it is stated that not only must a balance be established between income and expenditure, but the available funds must be distributed wisely among the various public services, thus introducing the idea of planning and requiring an intelligent understanding of many phases of activity and a definite program in view.

The many types of charters in the various cities of California contain general provisions for budgetary procedure and it is proposed to overcome obstacles to budgeting which may be presented by the variation of such charter provisions. These variations arise because the preparation and execution of the budget may depend upon the form of city government. The point is well taken by the report that regardless of the plan of government, the principles of budget procedure, planning, authorization, and execution would remain the same.

In connection with the preparation and adoption of the budget, the book emphasizes the importance of adhering to a budget calendar and the use of extreme care in the preparation of departmental estimates. It is suggested that comparative figures of the preceding year constitute an important part of the estimates and that the requests of the departments should be submitted by fund, function, activity, character, and object, in accordance with the expenditure classification recommended. Full investigation of the estimates should be made by the budget officer and hearings should be permitted prior to the preparation of the tentative budget.

Attention is called to the fact that the budget officer would be required to take other steps to ascertain the amount to be raised by taxation after considering the resources available to meet the proposed expenditures.

Under the heading of "Execution and Control of the Budget," the report definitely recommends the accrual basis for municipal accounting as opposed to a cash-receipt-and-disbursement basis or a combination of these two systems. Cities which have been formerly

on the cash basis are told that such basis does not provide an adequate accounting control over the important essentials to modern budget making. The general ledger is indispensable, although there have been cases where adequate control of the budget has been possible without it.

As an essential to practical budget procedure, the report advocates centralization of authority with work programs by monthly periods and the authorization of allotments from time to time, and the adjustment of appropriations to conform with the collections of estimable revenue and receipts. On the question of effective internal control of the budget accounting, the centralization of buying authority is emphasized. The consolidation of departmental needs enables the purchase of supplies in quantities, thereby effecting considerable savings from the budget standpoint.

After the consideration of standard specifications and the issuance of requisitions by the responsible official, the accounting records recommended are such as to keep the expenditure under control at all times, with particular reference as to whether funds are available and how fast they are being expended. Other important steps in the incurring of expenditures involves the checking of goods and services supplied, to ascertain if they are in accord with what has been requisitioned. It is now becoming customary for a preaudit to enter at this time, prior to the payment of the voucher, since most municipalities have such legal restrictions thrown around the actual payment of money.

Vouchers and pay-rolls and, in fact, all types of expenditure records should be scrutinized before the money is paid, in order that there may be no question of illegality or fraud.

As an objective to be accomplished, the committee recommends that the final budget document consist of three sections, the first section to include (a) letter of transmittal and budget message; (b) the general budget summary; (c) schedules supporting figures contained in the budget summary. Section 2 will contain the detail of figures contained in the general budget summary and its supporting schedules. Section 3 will contain the necessary revenue acts, ordinances, or resolutions to give definite legislative authorization to the budget.

It is most interesting to find that under budgetary accounting, the report contains a definite warning against the separation of proprietary and budgetary accounts. The Metz or Dual System of Accounting is not advocated because of the duplication of accounts and it is stated that "it is possible and practicable to carry all accounts in a single group with one entry for each transaction."

The recommendations are logical and practical and could be followed with tremendous benefit by all American cities, since they are based on the principles advocated by the National Committee.

In the supplement, the report contains illustrations of all essential budget forms and directions as to the procedure to be followed.

WILLIAM H. WELCKER