

5-1940

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H. O. Boord

Eric A. Camman

Andrew Stewart

Carl H. Chatters

William D. Cranstoun

See next page for additional authors

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Recommended Citation

Boord, H. O.; Camman, Eric A.; Stewart, Andrew; Chatters, Carl H.; Cranstoun, William D.; Jones, Ralph C.; and Andrews, T. Coleman (1940) "Book Reviews," *Journal of Accountancy*. Vol. 69: Iss. 5, Article 15. Available at: <https://egrove.olemiss.edu/jofa/vol69/iss5/15>

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Book Reviews

Authors

H. O. Boord, Eric A. Camman, Andrew Stewart, Carl H. Chatters, William D. Cranstoun, Ralph C. Jones, and T. Coleman Andrews

BOOK REVIEWS

BUDGET PRINCIPLES AND PROCEDURE, by John R. Bartizal. *Prentice-Hall, Inc.*, New York, N. Y. 214 pages. 1940. \$3.65.

This is a one-semester textbook on the subject, and seems to be the first book published for this purpose. The text is developed around a well coördinated hypothetical illustration of budget procedure, supplemented by a similar practice set and problems. The hypothetical illustration is logical, clean-cut, and easy to follow, although of necessity quite elementary.

It will be helpful to young accountants who have only a slight knowledge of the subject, and the thorough way in which the various schedules are prepared and coördinated will make the book easy for them to follow. Its simplicity and the consequent lack of reality to the complicated situations which nearly always confront a practising accountant will make it of little immediate value to experienced accountants.

It is hoped, however, that it may be of some interest to older members of the profession who are concerned about the long-run development of the profession, not so much by the content of the book, but due to the fact that it is the first text on a related accounting subject which tends to deflate the general nonprofessional belief that accounting when properly done is a positive measurement of business activities suitable for all needs. This viewpoint is probably the result of a superficial study of the subject through a one-year accounting course or the outside reading of a general book on the subject. A conscientious study of the central theme of budgeting — the comparison of standards and actuals — cannot help but emphasize the part that judgment plays in accounting and some of the limitations of its use.

For purposes of drilling undergraduate students, it may seem best to use the extended illustration in the text and then to restate in the practice set. This ought to make doubly sure that the pupils will be able

to work out the practice set properly, but the text would probably have been greatly strengthened if it had dealt more widely in principles and had left most of the illustrations to the practice set alone. Those who employ college men instead of teach them sometimes wish they were taught less "how to do" and more "how to apply."

In any event, the illustration takes up so much space in the text that the following important points in budgeting are only mentioned or not touched upon at all:

1. The limitations of budget application and the difficulties that one may expect to encounter in installation and use are not considered.
2. The importance of fitting the budget procedure into the particular type of organization with the least amount of confusion is passed over.
3. Alternate methods to the one used in the illustration are omitted.
4. Throughout, the system is based upon past experience or records and the importance that time-study standards should be given in such a situation is not mentioned.
5. The variable budget as widely used today is not given attention, although one paragraph is devoted to variable expenses.
6. The proper coördination of the budget data with the other fact-finding systems within the organization is neglected.
7. Less than one page is devoted to the major problem of controlling expenditures.

H. O. BOORD

PROFIT SHARING AND PENSION PLANS, by Winslow and Clark. *Commerce Clearing House, Inc.*, New York, N. Y. 192 pages. 1939. \$2.

The book is divided into two halves approximately equal in text. The first half is devoted to a discussion of pension and profit-sharing plans, to an outline of what might be contained in a "deferred distribution" profit-sharing (i.e., pension) program and to reviews of some plans actually in operation. The second half gives extensive citation, discus-

sion, and comments upon federal tax laws affecting pension and profit-sharing plans.

A good part of section I is devoted to the tax aspects and resulting advantages in plans of profit sharing providing for deferred distribution, that is, pensions and benefits to accrue to participants upon retirement, over profit-sharing plans providing for immediate rather than future distribution of benefits. The tax savings to the employer and to the employee are enumerated at length and constitute an argument in favor of the pension over the bonus. Without gainsaying the validity of the argument, one feels that it is rather one-sided in that other features of profit sharing as phases of management and of social relationship which frequently must be considered are not given adequate treatment.

For instance, one of the objects of profit-sharing plans is to furnish incentives, but the nature of the incentive may not effectively be uniform for all employees from the bottom to the top. This is particularly true of larger corporations in the ranks of the employees of which there will exist at least three identifiable groups, namely, (1) the administrative group, comprising executives upon whose ability and experience in the determination of policy profits will greatly depend, (2) the management group including executives, assistants and key men, upon whose efficiency in carrying on operations profits also depend, and (3) the largest group of the remaining employees, whose contributions are cooperative rather than initiative. Without getting too deeply involved, the point is that there are many other things to be considered than taxes alone, and the scope of this work does not attempt to embrace them. In this respect, its title is too broad.

The remaining part of section I gives material on the provisions which should go into a pension plan and gives brief outlines of the provisions which are found in thirteen existing plans of various kinds. These citations are helpful and it is to be regretted that the authors did not include more of them.

Section II, as stated, deals with a legal presentation of tax laws. The authors in the foreword express the belief that this is the first complete analysis and summary of all authoritative material dealing with the effect of federal tax laws upon pension plans.

The book will be useful as an addition to the library of anyone who has occasion to deal with the complicated problems arising in con-

nection with the subject, upon which the published material available is quite limited.

ERIC A. CAMMAN

THE ANALYSIS AND CONTROL OF DISTRIBUTION COSTS, by J. Brooks Heckert. *The Ronald Press Company*, New York, N. Y. 1940. \$5.

Distribution costs, as this book points out, amount to over half of the total national cost of producing and distributing commodities. Nevertheless, although the passage of the Robinson-Patman act on June 19, 1936, gave a great deal of impetus to the study of the problems involved in the analysis and control of distribution costs, even today only a few companies give distribution costs more than a small fraction of the consideration accorded to production costs.

The purpose of this book, according to the preface, is "to aid accountants and marketing executives in the difficult task of the analysis, direction, and control of marketing effort." The first part of the work points out the advantages to be derived from analyses of distribution costs and covers the subject of distribution cost analyses in considerable detail. It contains chapters on analyses by territories, by commodities, by channels of distribution and methods of sale, by customers, by size of order, and by organization and operating divisions, and suggests bases for the allocation of each item of distribution cost in each type of analysis. It does not pretend to lay down hard-and-fast rules or to devise a formula which would fit every situation for "the selection of proper bases requires an intimate knowledge of local conditions, internal organization, and methods of operation," but instead points the way to an intelligent consideration of the problems involved in a specific situation.

A study of this book will repay anyone interested in distribution cost accounting, but will be particularly valuable to sales executives who feel that they need more information in regard to their costs but who are not at all certain as to just what type of information they want or just how to go about obtaining it.

The second part of the book takes up the subject of developing distribution cost standards for the purpose of controlling these costs and of providing reliable information to be used in preparing a distribution cost budget.

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It is very complete and lists numerous cost standards for judging the efficiency of the performance of practically all distributive functions. It will no doubt occur to many that this section may be so complete that business executives may gain the impression, on first reading, that the time and expense necessary to establish and use these cost standards would outweigh their usefulness. However, Professor Heckert points out that "it is not intended to suggest that all such standards will be useful in every concern, but rather that from many such possible measurements certain ones can be selected which will serve in the control of the costs."

The book concludes with a discussion of federal and state regulations and their relation to distribution costs.

ANDREW STEWART

MUNICIPAL ADMINISTRATION, by John M. Pffifner. *The Ronald Press Company*, New York, N. Y. 582 pages. 1940. \$4.

Accountants who read Dr. Pffifner's book will be better citizens as a result of their study. No mass of highly technical detail makes this text difficult reading. The book deals with every phase of municipal administration from organization matters to recent housing, welfare, and cultural activities. An understanding of municipal responsibilities, difficulties, and services will come from the reading of this text.

The characteristics of the book are the clarity of its style, the logical arrangement of material, the nontechnical treatment of the subject matter, the chapter-by-chapter bibliography, and the freshness of the presentation.

Accountants will be especially interested in Dr. Pffifner's statement that persons now engaged in governmental research come predominantly from the engineering profession, accounting, and the public administration side of political science. Most accountants, too, will agree with the statement that "competitive bidding (for audits) should be avoided, for this is a professional service which should be engaged on a standard professional-fee basis. Otherwise shyster bidders may slight the audit to come within costs, a practice which in the long run might very well cost many times the amount of professional fees."

Eight sections break the subject matter into the broad areas of organization, staff and

housekeeping functions, protective functions, public welfare, physical planning, public works, public utilities, and cultural activities. Selected readings from books, monographs, and periodicals are cited as supplementary reading for each chapter. The readings, the footnotes, and the text itself, all demonstrate that Dr. Pffifner is thoroughly acquainted with the literature, the theory, and the practice of municipal administration.

Municipal and governmental accounting have become more important. The accountants who are interested in this rapidly expanding field will profit greatly from a study of the book. Accountants whose practice is not specialized may wish to read the book in order that a better knowledge of Government may help their profession to make a greater contribution to public affairs.

CARL H. CHATTERS

AMONG THE BALANCE SHEETS, by the editor of "Finance and Commerce" in *The Accountant*. Gee & Co. Ltd., London. 155 pages. 1940. 18s.

Among the Balance Sheets consists principally of the reproduction of financial statements of thirty-three British public companies with comments by the editor. The object of their presentation as gleaned from the foreword is to show to what extent the movement for more informative accounts, fostered by the proprietors of *The Accountant*, has succeeded. The writer draws on the pages of that publication in saying that if every member of the profession became imbued with the consciousness that he was rendering service to shareholders who compose a company and not just to an impersonal company, the movement toward more informative accounts would go far towards success.

The financial statements included in this book do not all show equal progress toward that ideal. The author has grouped them into chapters which bear titles calculated to stimulate the interest of the reader. One title especially effective in this respect, "Pretty Balance Sheets," heads a chapter devoted to the accounts of The Imperial Tobacco Company, those of J. Lyons & Company, Ltd., and two other companies. These statements apparently do not all deserve or receive the writer's approval. A pretty balance-sheet seems to mean one which by artifice withholds from the reader knowledge of unpleasant things, or at least things which he ought to know. He

quotes the chairman of the board of one of the companies whose statements are submitted, who told his stockholders rather cynically that two balance-sheets could be prepared for the same company "both coming within an auditor's statutory certificate, in which practically the only recognizable items would be the name and the capital authorized and issued." The chairman added that the ordinary shareholder is lucky if he can read from the figures of a balance-sheet more than an idea of the general trend forward or backward. This same chairman informed his stockholders that the whole of the profits are not brought into the company's profit-and-loss account, but only just as much as are required to pay the dividends which are recommended. The writer gives no approval to the words of this chairman and remarks that the practice of adjusting figures to make a "pretty balance-sheet" can destroy confidence in company accounts and in the auditors who certify such accounts.

The chapter headed "Shareholders Difficulties" comments on the difficulties facing a shareholder at a company meeting, surprised as he must be by the coldness of the atmosphere at one of those gatherings. He adds that shareholders might be represented by someone trained in company administration and law, except for the fact that "some things are simply not done."

The writer finds, notwithstanding noteworthy exceptions, much to commend in improved presentation of company affairs and in particular refers to the practice adopted by companies who include in their balance-sheets provision for the dividends "recommended" by the directors, in spite of the orthodox view that a dividend does not become a legal liability unless and until it is declared and cannot be included in a balance-sheet prior to the annual meeting. He speaks approvingly, too, of the trend toward significant grouping of balance-sheet items, in place of the two straight, unbroken, and unrelieved columns in the old-fashioned way.

Some of the interesting chapters, which in each case include statements of one or more companies, are headed "Subsidiaries; and Overseas Reflections," "The Large Scale Holding Company," and "Auditors and Depreciation."

The book abounds with interest to American accountants, not only because it embraces a generous cross section of British

accounting practice but for the reason that it provides an interesting comparison with the progress of the movement for more informative company statements in our own country.

WILLIAM D. CRANSTOUN

ECONOMIC PROBLEMS IN A CHANGING WORLD, edited by Willard L. Thorp. *Farrar & Rinehart, Inc.*, New York, N. Y. 820 pages. 1939. \$3.75.

This book is essentially an introductory text in economics, and an unusually interesting and provocative one. Much of the material, especially the portions devoted to numerous New Deal agencies, will seem very elementary to an experienced accountant, but the institutional approach and the emphasis upon some of the most vital problems of the day should be stimulating to the beginner. Less attention than usual is given to formal or theoretical economics, but carefully selected bibliographies on the principal topics invite the reader to pursue further any subject in which he is interested.

The authors are the editor, who has written an introductory and a concluding chapter, and nine other university and government economists who have contributed sections or chapters in their special fields. These sections deal in order with consumer problems, price problems, especially controlled prices and price balance, problems of business management, labor, and capital, problems of government regulation and planning, and finally some problems of conflict. The several sections, although there was no direct collaboration, are integrated according to a plan which makes the book more than a collection of essays.

The discussion of consumer problems seems especially interesting and pertinent, partly, no doubt, because the subject has been so long underemphasized. The chapters on labor are well balanced and comprehensive. To the reviewer, however, the sit-down strike under either a system of private enterprise or some form of collectivism is more of a revolutionary technique than the author seems to imply. The section on prices presents a fair and rather vivid picture of imperfect competition and the factors which actually control prices. The subject, however, is so broad in scope and so filled with innumerable complexities that an adequate treatment within the limits of an elementary text is hardly possible. Certainly the discussion of

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price theory does little more than introduce the subject.

The remaining sections seem more or less descriptive and routine, although the discussion of propaganda and the strategy and tactics of conflict is interesting and timely. The mature reader, notwithstanding the elementary character of portions of the book, can hardly fail to gain from it a better perspective and a keener appreciation of the factors and forces back of the broad social and economic problems which the present generation is compelled to face.

RALPH C. JONES

MUNICIPAL AND GOVERNMENTAL ACCOUNTING, by Chatters and Tenner. *Prentice-Hall, Inc.*, New York, N. Y. 794 pages. 1940. \$6.

It was only a few years ago that one seeking objective explanation of municipal accounting had little to choose from in the way of authoritative literature.

But thanks to the imagination, high purpose, persistence, and ability to get things done of the first named of the authors of *Municipal and Governmental Accounting*, a voluminous and an imposing bibliography on the subject is now available.

For more than a decade, in his official capacities of executive director of the Municipal Finance Officers' Association of the United States and Canada and secretary of the National Committee on Municipal Accounting, Mr. Chatters has been in the forefront of the movement that has wrought the great improvement that has been made in municipal accounting and financial administration. For several years past his coauthor has labored tirelessly with him as technical assistant.

Innumerable discussions of problems of accounting and finance with municipal officials from near and far, analysis of a great volume and variety of financial and other reports, and many meetings with committees set up to deal with one phase or another of municipal accounting and finance combined to give these authors a rich background for their volume.

It is apparent upon merely scanning the table of contents that this background has been faithfully cataloged. Thus the authors have produced the most comprehensive, and perhaps the most valuable, work on municipal accounting which so far has been published, a

work that capstones the bibliography already mentioned.

It moves with logical sequence from statements of the "Nature of State and Local Governments" and the "Essential Principles of Governmental Accounting and Financial Administration," in part I, to explanations of the origins and operations of the various classes of funds, with illustrative transactions and entries for recording same, trial balances, closing entries, and statements, in part II; to specification and explanation of the various classes of municipal revenues and expenditures, with comprehensive outlines of budget preparation and administration and budgetary accounting, and of the application of cost accounting to municipal activities, in part III; to specification and explanation of municipal assets and liabilities and the steps necessary to proper recording of same, in part IV; ending the municipal portion with a presentation of the highly important subject of reporting in part V.

In addition, an outline of the Federal Government's accounting system is presented in part VI, followed by three appendices consisting, in the order of their presentation, of definitions of governmental accounting terms, a complete bibliography of publications cited, and a very comprehensive series of questions and problems covering each chapter.

Here at last is a work that presents municipal accounting not as a vaguely mysterious problem solvable only by the application of complicated bookkeeping and reporting techniques and high-sounding terminology, but as just another field of accounting, calling for specialized training and experience on the part of those who would embrace the practice of it, to be sure, but nevertheless susceptible to the application of the same basic principles of account-keeping as any other field of accounting. That it will be understood, therefore, by those for whom it was written is beyond question.

It is a work of such general excellence that this reviewer hesitates to criticize or comment upon particular parts of it; but it is impossible to resist some reference to the parts dealing with working capital funds and utility funds.

What improvements could be wrought in the administration of municipal affairs if municipalities generally would avail them-

selves of the full benefits derivable from the institution of auxiliary activities such as those that usually are covered by working capital funds! The authors have presented their explanation of the institution and operation of working-capital funds in such fine manner as to leave an indelible impression upon the reader of the possibilities for fiscal economy that lie in this direction. Every municipal official should read at least this part of the book.

No less impressive is that part of the volume which deals with the institution and operation of utility funds. When will municipalities free themselves of the ancient unsound idea that the gross receipts of utilities must be included in the general budget estimates of receipts and that general appropriations should include appropriations for utility operations? The authors do not attempt to answer this question, but they point out clearly the sound procedure, that is, that a separate fund should be created for the operation of utilities and that nothing should be included in the general budget, as far as utilities are concerned, except the net receipts expected therefrom or the amount which the city must put up in the event such enterprises are not self-sustaining. But, then the authors do another very helpful thing. They show how utility budget accounts may be kept in the event there is insistence upon following the conventional idea that utility receipts and expenditures should be made a part of the general receipts and expenditures.

There are several features which deserve special mention, but space does not permit further comment. We will, however, make one observation, and that is that this work reveals very clearly the extent to which the methods of private business can be applied to the administration of public business. This is nowhere more clearly indicated than in the parts of the volume which deal with the subjects of cost and inventory accounting, which undoubtedly are due for greater and

greater application to municipal activities. Public business can be run like private business. The trouble is that business people don't take enough interest in public affairs.

If this reviewer had any criticism at all it would be in the form of a question as to why the section dealing with the accounting system of the Federal Government was included in this work. This section deals with a system that is, whereas all the rest of the book deals not with systems that are but with systems as they should be.

This reviewer can see a real reason why the section dealing with the accounting system of the Federal Government should not have been included. That reason is that even the most ardent advocates of the present system admit that it is unsatisfactorily organized and very greatly in need of modernization.

To this reviewer, therefore, part VI seems to be of value only to those who want to know how the Federal Government's books are presently kept. We cannot see that it adds anything to the value of the book as a presentation of what are considered to be proper standards of municipal accounting and financial administration.

The need for such a volume as *Municipal and Governmental Accounting* has developed and grown as the findings of the National Committee on Municipal Accounting, the Municipal Finance Officers' Association, and other groups interested in improvement of municipal accounting and financial administration have accumulated. The authors have brought together in this volume all the important findings of these groups concerning accounting and financial administration, and, by adding to them the richness of their own experiences and positive ingenuity for arrangement, have produced an outstanding work and an authoritative one, one which should be not just in the library but on the desk of every person requiring a handbook on the subject covered by it.

T. COLEMAN ANDREWS