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Book Reviews

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Book Reviews

ACCOUNTING PRACTICE AND PROCEDURE. BY ARTHUR LOWES DICKINSON. New York, *The Ronald Press Company*, 1914. \$3.50, half leather, postpaid.

This work consists of a series of discussions dealing with various phases of accounting. It is perhaps all the more interesting because it does not furnish a complete manual of the subject, but deals with particular problems, which the author has encountered in his long practice, many of them not discussed in any other volume on accounting. It contains a somewhat cursory, and perhaps unnecessary, introductory chapter on bookkeeping, an extended discussion of the form and content of the balance sheet, and chapters dealing respectively with repairs and depreciation, some problems of corporation accounting, cost accounting and the duties of the public accountant.

The most considerable part of the work is the four chapters dealing with the balance sheet. In these the author describes the general form and arrangement of the balance sheet, and discusses seriatim the various items appearing therein; following somewhat the form, though not the treatment, adopted by most writers since the first edition of Dicksee's *Auditing*. Mr. Dickinson makes some well founded criticisms of the form of balance sheet prescribed by the interstate commerce commission, and presents an elaborate form, applicable, with due modifications, to any business enterprise. It is to be regretted that he hesitated to take the logical step of recommending that on the credit side of the balance sheet there should first appear the liabilities, the capital and surplus coming later. He recognizes that such an arrangement is theoretically preferable, but retains the conventional form in which the first item on the credit side is capital stock. He claims for the conventional form an advantage in that it brings the capital liabilities directly opposite the fixed assets. But this can equally be secured by taking the logical and easy step of reversing the sequence of items, so that both assets and liabilities begin with the most current items. Montgomery, in his *Auditing*, takes a stand in favor of the improved arrangement. It is regrettable that Mr. Dickinson's adherence to convention, as against what he admits to be theoretically more correct, has prevented an agreement between these two high authorities.

Features of this portion of the book particularly to be commended are: the discussion of the treatment of profits earned by subsidiary companies whose securities are held for purpose of control; the admirable statement of the reasons for taking the lower of cost and market value of current assets, and the interesting discussion of the valuation of seasonal material. Question may, however, be raised in regard to certain minor details. Is it true that a change in the value of an investment of reserve necessarily affects only the reserve? Is a distinction between working and current assets, based on whether

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they form an integral part of the product, a logical one? One cannot well differentiate between the three substances, coal, limestone, and ore, even though only one of the elements comes forth in the ultimate product, steel. Similarly it seems a crudely materialistic view which draws any real distinction between the raw cotton and the coal for fuel, both of which are equally essential to the production of cotton goods. Granting that in some cases the discount on bonds purchased represents a low standard of security, and that the risk thus acknowledged prevents the application of the amortization principle (p. 118), is this any more the case where the bonds are issued at a discount than where they are sold at par, but at a rate higher than the normal one? There is no logical distinction between issuing a six per cent bond at a discount sufficient to make the net rate seven per cent and issuing a seven per cent bond at par. Each may represent the fact that the security is uncertain, and this uncertainty results in a higher interest basis. If a special reserve is required for the discounted bond, there should equally be a reserve covering part of the excessive interest received with each coupon of the seven per cent bond. And, finally, the charging off of discount in proportion to the amount of outstanding bonds happens, in the particular case given by the author, to produce the same results as are obtained by the correct apportionment of the effective interest (p. 140). But this depends on the particular figures used, and is not a general rule. This is easily seen by applying it to a block of bonds, all of which mature at the same time. By the exact method the amount to be written off the first year would be materially less than the amount to be written off in the twentieth year. But writing off in proportion to the amount of outstanding bonds would result in an equal amortization in each of the twenty years. It is probably merely a slip which causes the text to say (p. 115) that the accrued interest does not enter into the present value of an interest bearing note, although it does so enter where the note bears no interest, but has been discounted.

In some respects the chapter on the profit and loss account is the most interesting in the entire book. It is especially gratifying to have the accountant consider the legal problems involved, and the author's attempt to solve the inextricable muddle of the Lee series of cases is particularly valuable. But it may be questioned whether he has not unduly emphasized the doubt thrown on some of the earlier decisions by later cases. Particularly is this so in regard to the question of the exhaustion of mines. It seems somewhat extreme to say, even though the statement agrees with *Baumont Palmer*, that the decision in the case of *Lee v. Neuchatel Asphalt Company* has been discredited. Whatever doubt may be raised by the decision in *Bond v. Barrow Haematite Steel Company*, a decision of the court of appeals in 1912, (*re Crabtree*, 106 L. T. R., 49) apparently recognizes that in mining companies dividends may be declared irrespective of exhaustion of deposits. In the United States the courts of California, New York and New Jersey, coming down so late as 1907, support the same view. Difficult to accept also is the author's statement that

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there is a "consensus that dividends can only be paid out of the surplus profits derived from the use of the capital of the company for those purposes for which the corporation was constituted." Premiums received on the issue of shares are surely not such profits, yet the decision in *Hilder v. Dexter* makes such dividends legal.

The chapter on depreciation is clear, sound and interesting. Particularly worthy of mention is the section on maintenance expenditures. In the following chapter the explanation of the consolidated balance sheet makes a valuable addition to accounting literature.

The chapter on cost accounting is somewhat less satisfactory, especially where the author wanders from the strict field of accounting to discuss economic theory. The revived form of the subsistence theory of wages, given by the author, neither arrives at an analysis of ultimate costs, nor does it make a consistent exposition of the employer's expenses of production. One may consider either the exertion of the laborer or the expense of the employer as entering into the manufacturing process. The subsistence of the laborer is neither one nor the other.

The author's well-known views in regard to the exclusion of interest and rent from cost accounts may have certain merits in actual cost keeping. But the economic analysis by which he attempts to support his views is unsatisfactory. It is not the contractual feature which determines whether a distributive share is a part of profits; and wages, as well as interest, may be considered a commutation of a share in the product. It is also difficult to reconcile the author's statement that interest cannot enter into cost with his approval of charging to the construction account the interest actually paid out during construction. Perhaps he would frankly admit the inconsistency, but justify it on grounds of practical expediency. In this connection it is interesting to recall a statement made by the author at the St. Louis convention of 1904, that property acquired in exchange for bonds may be presumed to be worth the par value of the bonds. But this implies, where the property is not really worth the par value of the bonds, that the discount has been charged to the construction account. In the present work, the charging of discount to capital is properly condemned.

The most interesting feature of accounting is that there are so many points still open to discussion. It would be unfortunate if the disproportionate reference, in this review, to some such matters, should be construed as questioning the value of the treatise. For every point questioned there are scores which are to be approved for soundness of theory, clearness of expression, and originality of treatment. The subject has been handled with a breadth too often lacking in works on accounting. The book is searching in analysis, rich with material gained in a long professional career, clever in exposition, one which neither student nor practitioner can afford to omit from his library.

HENRY RAND HATFIELD.

The University of California.

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C.P.A. AUDITING QUESTIONS. By H. C. BENTLEY. *The Ronald Press Co.*, New York, 1914. \$2.00, cloth, prepaid.

The book contains, arranged by states, seven hundred and five original questions selected by the author out of a total of 1,353 available questions given by eighteen states in one hundred and twelve examinations on the subject of auditing only. The questions omitted comprise duplications. There are no answers to the questions. These the author intends to give in a volume to be published later.

There is, therefore, nothing to be said about the book except to call attention to some of the conclusions mentioned by the author in his preface. He shows that 48% of the questions are duplications and comes to the conclusion that, from his knowledge, these questions thoroughly cover the entire field of auditing, and shows the fairness of the average examination to the candidates in the following words:

"It would seem that any man who can answer 70 per cent of the questions included in this volume deserves a C.P.A. degree, in so far as his knowledge of auditing is concerned, and examiners who include in their sets of questions 50 per cent or more of those that have been asked heretofore are giving the candidates a fair chance to profit by studying precedents."

It should, however, be considered that this statement is beside the practical result, because any student, by using Mr. Bentley's work, can cram and thus be sure of getting a very high mark on 50% of the questions set by any C.P.A. board of examiners and, as the passing mark is 70, needs but 20% more, or need answer only two out of every five questions not covered by this book. In other words, this cramming has resulted in the gaining of a knowledge by the candidate where he runs a chance of five to one in his favor to pass an examination in auditing. It certainly does show how easy it is nowadays to cram for a C.P.A. examination.

The author points out that the questions which he reproduces cover thirty specific lines of business and that C.P.A. questions should not deal with any but those which will test a knowledge of fundamental principles, ability to reason logically and a knowledge to carry out intelligently the sort of work which a man with practical experience is required to do. Yet in his preface he forgets to support the examiner who, with the possibility of cramming, as set forth above, needs an additional safeguard in the propounding of questions in the auditing of specific lines of business, in order to find out whether the candidate's proficiency is the product of cramming or of general study and experience. The candidate may not be able to set forth the correct answer to these specialized questions, but the examiner will be able to judge properly from the replies the candidate's ability even if the result be inaccurate. Of course Mr. Bentley, having been a teacher for so many years, naturally sponsors the cause of the candidate.

JOHN B. GEIJSBEEK.

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THE SCIENCE AND PRACTICE OF MANAGEMENT. By A. HAMILTON CHURCH. *The Engineering Magazine Company, New York, 1914.*

It is safe to say that business men—particularly manufacturers—have become very weary of the overproduction of literature on so-called *Efficiency* and *Scientific Management*. Dozens of other titles have been given to the expression of the ideas of many men whose most outstanding claim to notice is found, upon examination, to rest upon their own failure ever to have accomplished efficiently anything worth while, or to have “managed” anything in such a way as to warrant them in expounding a “science” worthy of consideration if based on their own experience.

The work of Mr. Frederick W. Taylor on *Shop Management* issued in 1903, and the later expressions of Mr. Harrington Emerson in emphasizing the human element in the efficiency problem led to an avalanche of volumes and essays by amateurs, which actually converted a portion of the business world for a time to the idea that some wonderful, new and potent instrument for reaching absolute perfection had been discovered. As a matter of fact, no absolutely new developments worthy of note have been produced in the past ten years. In the enthusiasm of the patent medicine consumer, the manufacturer's rush to apply the nostrum of amateurs' disconnected ideas has caused him to overlook the necessity of constructing the conditions insuring successful application.

Nevertheless, the literature on scientific management offers some noteworthy and excellent works, in spite of this criticism—works which have led to at least some modification of ideals in men whose point of view is of vast importance in making possible a greater human productive efficiency in thousands who may be subject to their management.

Secretary Redfield, in his *New Industrial Day* (The Century Company, New York, 1913) devotes a chapter to “Scientific spirit in management.” He says: “There has not yet been established a science of management. And yet, if a science were ever needed, meaning definite principles based on exact knowledge of facts, it is in this very matter of management.”

The author of the work under review, Mr. A. Hamilton Church, is well known as a writer on subjects of great interest to public accountants. His *Production Factors in Works Management and Cost Accounting* and *The Proper Distribution of Expense Burden* have been read and appreciated by every public accountant who tries to keep up with the progress, development and expansion of the profession. Mr. Church by training and experience is eminently well fitted to contribute to the establishment of that science of management, *i. e.*, definite principles based on exact knowledge of facts—the lack of which Mr. Redfield deploras.

Mr. Church was born near London, England, of American parentage. He entered the service of the National Telephone Company after a liberal education, and later became technical expert and works manager in an electrical manufacturing business. For seven years he was Euro-

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pean manager of the Engineering Magazine Company, and was associated with the pioneer work of the late J. Slater Lewis, author of *The Commercial Organization of Factories*. Mr. Church has made a special and applied practical study of factory organization and manufacturing efficiency for the past fifteen years.

His present work, *The Science and Practice of Management* is a distinct step forward in the expression and elucidation of those definite principles based on exact knowledge of facts upon which the science must rest.

The book is divided into three main parts:

1. The science of management.
2. Practical organization of the organic functions.
3. Appendices dealing with the labor question, expense burden in relation to piece work, premiums and bonus plans, etc., axioms of management, etc., etc.

The problem of management is broadly stated to consist in the practical application of two great intellectual processes—analysis and synthesis. In proportion as analysis is keen and correct and synthesis is sure and unerring, so will be the resulting efficiency. In a manufacturing industry the objective, production, is realized by the syntheses of five organic functions—design, equipment, control, comparison and operation.

The regulative principles of the organic functions are exhaustively treated and summarized in the "Laws of effort," thus:

1. Experience must be systematically accumulated, standardized and applied.
2. Effort must be economically regulated:
 - 2a. It must be divided.
 - 2b. It must be co-ordinated.
 - 2c. It must be conserved.
 - 2d. It must be remunerated.
3. Personal effectiveness must be promoted:
 - 3a. Good physical conditions and environment must be maintained.
 - 3b. The vocation, task or duty should be analyzed to determine the special human faculty concerned.
 - 3c. Tests should be applied to determine in what degree candidates possess special faculty.
 - 3d. Habit should be formed on standardized bases, old or new.
 - 3e. *Esprit de corps* must be fostered.
 - 3f. Incentive must be proportioned to effort expected.

Efficiency in production is said to be dependent on successful synthesis of functional activity. "Laws of effort" point out what has to be done as regards each function, but these laws do not apply themselves. They are only successfully applied by the "synthetic influence of a strong personality." In these days of machine-made rules and systems advocated and expounded by hungry amateurs, it is refreshing to find a man with Mr. Church's knowledge and experience seeking his final reliance for efficiency in the "influence of a strong personality." "Above all, leader-

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ship is necessary to efficiency," he says. The "science of management" cannot produce managers any more than military science can produce generals. The great leader is, after all, born, not made.

In part II of the book an illustration is given in considerable detail of the practical organizing of the organic functions in machine manufacture, as an example, representing what is probably one of the most complex of industries.

Executive success is said to depend on three elements:

1. Recognition of what facts are truly significant.
2. Accurate record and convenient presentation of these facts.
3. Judicious action based on a study of the facts.

Executive success is therefore largely dependent on the function of comparison.

The appendices on the labor question deal with the present tendencies in the determination of what is a fair share of profits by capital and labor and the various methods adopted to adjudicate this by sliding scales of wages, profit-sharing schemes, etc.

The axioms of administration are briefly summarized thus:

1. Skill can be transferred to, and embodied or stored in appliances.
2. Interchangeability of parts is frequently desirable.
3. Lower unit cost normally implies increased capacity for output.
4. The amount of direct labor and of burden in unit cost, and not the ratio or percentage, is alone the test of efficiency.
5. Capital is a factor in cost.

Each of these is dealt with in a manner which will be found instructive to the reader who is interested in the development of the science of management and particularly in its relation to the science of accounting. The book is a pronounced step forward along the trail blazed by Taylor and Emerson, and the work is one which will be widely read and approved.

F. G. COLLEY, C. P. A.