[Accounting Historians Journal](https://egrove.olemiss.edu/aah_journal)

Volume 8
Issue 1 *Spring 1981*

Article 7

1981

Book reviews [1981, Vol. 8, no. 1]

Dale A. Buckmaster

The Accounting Historians Journal
Vol. 8, No. 1
Spring 1981

BOOK REVIEWS

Dale A. Buckmaster, Editor
UNIVERSITY OF DELAWARE

Alfred D. Chandler, Jr., Editor, *Managerial Innovation at General Motors* (New York: Arno Press, 1979, $14.00).

Reviewed by
Daniel A. Wren
University of Oklahoma

The title would suggest that we will find some managerial innovations by General Motors—yet the editor leaves it to the reader to determine what these might be. The editor offers no explanation of why these eight items (six reprinted articles and two reprinted speeches from the period 1923-1927) were selected, how they might fit a theme, or just what the "innovation" might have been. For those who are familiar with Professor Chandler's writings, the rationale can be found fairly readily—but if Chandler has not been on your reading list, do not start with this collection. Chandler's work has emphasized the growth of enterprise and how managerial responses are made to this growth. In this collection, his selection is the writings of top G.M. executives (all Vice-Presidents with two exceptions) to show how this enterprise responded to growth.

Under William C. Durant, General Motors had been an unwieldly union of motor car and parts producers. As G.M. faced bankruptcy, it was Du Pont money and Pierre S. du Pont as Chief Executive who saved the Durant creation in 1920. The Du Pont Company, under Pierre S. du Pont, had already pioneered some of the organizational and managerial techniques which would be used at G.M. Du Pont's Treasurer, Donaldson Brown (who contributed four of the eight articles in this book) came to G.M., and together with Alfred P. Sloan, Jr., helped create the G.M. organization with centralized policy and control and decentralized administration and operations.

The managerial innovations at G.M. were those steps taken to bring a rational system of policies, plans, structure, and controls to the organization, something it lacked under previous management.

For example, G.M.'s "Consolidated Cash" policy and procedure was instituted to reduce idle working capital (previously held in various division offices throughout the country) by receiving and distributing all funds centrally through the Corporate Treasurer. Forecasts of activities were translated into budgets for both planning and controlling uses. G.M.'s Comptroller was given a major role in analyzing past trends, studying present conditions, and making the forecast as "a combination of business prophet and historian." Other selections on pricing policy, inventory control, and budgets are offered to show the G.M. administrative mechanisms for achieving centralized control. Of particular interest is Albert Bradley's (Brown's Assistant) discussion of how G.M. balanced production, inventory, and sales through a dealer reporting system. Readers who are familiar with Durant's failings will recall that he had trouble balancing production levels and dealers' sales. Under new management, G.M. developed a dealer's report, submitted every ten days, of sales, orders, and inventory on hand; this was compared to the original sales forecast, and production adjustments were made as necessary.

Chandler's theme develops as that of how G.M.'s top management rationalized its organization and management to capitalize on what Billy Durant had built but could not manage. If G.M. had not developed the ideas and techniques we see in these readings, it is highly likely that the outcome of the automobile industry would have been quite different. General Motors did not achieve its successes until after these "managerial innovations" were made.

Alfred D. Chandler, Jr., Editor, *Pioneers in Modern Factory Management* (New York: Arno Press, 1979, $16.00).

Reviewed by
Michael F. Pohlen
University of Delaware

This brief work is a selection of monographs taken from the *Transactions of the American Society of Mechanical Engineers* from the period 1885-1895. While the selections carry such heady titles as "The Engineer as an Economist" and "Gain-Sharing," the six pieces would probably be classified under "cost accounting and cost improvement" in a contemporary book of essays.

The book is another of Alfred D. Chandler's many contributions to the history of management in its broadest context and serves as a useful counter-reminder to those of us who are sometimes taken up with the development and refinement of our professional skills and theories.

The authors whose work Chandler has selected would be included under almost anyone's list of Who's Who in the development of management thought around the turn of the century: Henry R. Towne, Oberlin Smith, Henry Metcalf, Frederick A. Halsey and Frederick W. Taylor (in order of their appearance in the book).

The decade covered by the six pieces traces the development of certain managerial insights into the recording and use of cost information and, perhaps even more important, the development of a written literature in the field. In the opening article, "The Engineer as an Economist," Henry R. Towne calls for the creation of a new *economic section* within the American Society of Mechanical Engineers, citing the widespread interest in economic issues and the obvious need for a thorough airing of them in the profession. It is interesting to note that a later written discussion of Towne's suggestion raises the danger of isolating those interested in such issues from the mainstream of the organization.

Two articles on cost accounting deal with the problems of valuation of physical equipment and the determination of real labor costs. One gets the distinct impression that the problems are still with us in much the same form, despite almost 100 years of analysis, investigation, and countless hours and words devoted to the subjects.

The three final articles on wage payment provide another note on how far we have yet to go in the management of the labor force. Three positions on how labor productivity can be improved are presented—profit sharing, payment of a premium when productivity exceeds a set rate, and a true piece-rate system.

At first reading, this reviewer questioned whether the lengthy and sometimes tedious discussion by a panel which followed several of the articles was necessary or whether the substitution of one or two more articles would have been better. Any number of names, e.g., Harrington Emerson, come to mind as additional contributors from the era. Upon reflection, however, Chandler's tactic was well chosen. But for slight differences in vocabulary and grammatical style, the discussion might well be taking place in a 1981 meeting of management professionals concerned with costs.

In summary, the book places the reader into a simpler time, a time when managers, engineers and accountants talked to each other—and were often the same people. Perhaps that is Chandler's real message.

Nicholas Dopuch and Lawrence Revsine, Editors, *Accounting Research 1960-1970: A Critical Evaluation* (Urbana, Ill.: Center for International Education and Research in Accounting, 1973, pp. xi, 194, $3.00).

Reviewed by
J. Edward Ketz
University of Connecticut

This publication contains the proceedings of a conference on accounting research held at the University of Illinois at Urbana-Champaign on April 5 and 6, 1971. The purpose of the conference was to provide a forum for a critical discussion of developments in accounting theory up to 1970. The conference had four sessions in which each session had a paper, two critiques of the paper, and short discussions. The sessions were: *a priori* research in financial accounting; *a priori* research in management accounting; behavioral research in accounting; and empirical research in accounting.

Carl Nelson's "*A Priori* Research in Accounting" is restricted to an evaluation of theories on income determination and asset valuation. By examining the works of Canning, Paton and Littleton, MacNeal, Alexander, Sprouse and Moonitz, Edwards and Bell, Chambers, and Sterling, Nelson censures most of the work in current value accounting. His criticism is based on their ignoring the valuation of intangible assets, the difficulty of implementing the proposals, the belief that replacement cost is not value, and the inconsistent treatment of liabilities. Ijiri essentially agrees with him and calls for more work in measurement theory and in studying the contents of financial reports. In his commentary, Larson chastises Nelson for ignoring linkages with other aspects of accounting. While Nelson's paper is an interesting evaluation of current value accounting, I felt that it would have been more promising, given the objectives of the conference, if he had explored the reasons why "we are not significantly advanced from where we were in 1960" (p. 15) and if he had indicated what accounting researchers should have been doing in the 1960's.

In "Some Fruitful Directions for Research in Management Accounting," Robert Anthony attempts to identify research topics in management accounting that have a good chance of eventual practical use. Accordingly, he concludes that there is great disparity between the topics on which researchers concentrate and the topics he feels likely to be most fruitful, and that economic models have rendered a disservice to management accounting because they focus attention on the wrong things. Demski replies that information economics, which was not critiqued by Anthony, is a potent body of knowledge which will provide many insights to accounting. Dyckman's comments are that a greater discussion of behavioral research should have been made and that model-building is an important aspect of accounting theory. Anthony's discussion that accounting research needs to be pragmatic seems appropriate as long as we do not reject a long-term outlook. Let us not forget that Einstein's theory preceded practical payoffs from the theory by decades.

David Green paints a pessimistic view in "Behavioral Science and Accounting Research." He enumerates many weaknesses in behavioral accounting research and tentatively concludes that it might be better to research other topics. Bruns and Birnberg counter that the area is a relatively new one and that unrealistic expectations should not be demanded. I agree with Bruns and Birnberg. While many weaknesses exist in the behavioral accounting literature, at least the researchers in the 1960's were asking very important questions.

The best paper in the collection is "Empirical Research in Accounting, 1960-70: An Appraisal," by Nils Hakansson. He collates and reviews the major articles and critiques them in a general fashion. He feels that the problems examined in the 1960's were relevant but that the attention of researchers should be expanded to other areas. Hakansson enumerates a number of research topics that are still fruitful areas for analysis. He also points out that model-building needs to be improved if empirical researchers are to study appropriate hypotheses. Benston and Gonedes point out further criticism of specific papers in empirical accounting research and they emphasize the role of predictions as opposed to realistic assumptions for model testing. The exchanges in these three papers provide an excellent analysis of empirical research in the 1960's.

The conference format for this topic had a few advantages but many disadvantages (see also Gerboth's review in *The Accounting Review,* October 1974, pp. 882-884). The basic advantage is that a number of leading scholars can debate the variety of issues involved so that a more balanced picture emerges. On the negative side, however, the conference format presented several problems. First, there is a lack of unity among the papers. Too many times the authors wrote as if the topics were mutually exclusive. It would have been more promising if a greater integration of the research aspects had been made. Second, the document lacks cohesion. Too many topics fell between the cracks and were not discussed; e.g., a deductive approach to accounting such as Mattesich's *Accounting and Analytical Methods, Measurement and Projection of Income and Wealth on the Micro—and Macro—Economy (1964)*; an inductive approach to accounting such as Schrader's "An Inductive Approach to Accounting Theory," *The Accounting Review* (October, 1962); an ethical approach to accounting such as Arnett's "The Concept of Fairness," *The Accounting Review* (April, 1967); and a macroeconomic approach to accounting such as Mueller's "Accounting Within a Macroeconomic Framework" in his *International Accounting* (1967). Finally, none of the papers provide any clues as to why research in accounting accelerated in the 1960's, what differentiated the 1960's from other periods of time, and why it took the forms it did.

Overall, the book is a good place to begin to obtain a historical perspective of accounting in the U.S. in the 1960's. The lack of integration and the lack of cohesion, however, limit it to only a beginning.

Marshall M. Kirkman, *Railway Expenditures: Their Extent, Object, and Economy,* 2 vols. (Chicago: Railway Age Publishing Company, 1880, Vol. I, pp. 370, xxxiv, Vol. II, pp. 370, xv; Reprint ed. New York: Arno Press, 1979, $60.00).

Reviewed by
James W. Jones
Baltimore, Maryland

Marshall Monroe Kirkman was a productive writer from 1877 through 1906. The *Accountants' Index* of 1920 lists twenty-three articles, including this work, and a seventeen volume *Science of Railways* (undated). In 1877 he published a 499-page book, *Railway Revenue*. This work comprises two volumes; thirty-one chapters and two appendices in the first, and twenty-seven chapters plus Appendix C in the second, which displays the formats of fifty-eight forms for use in developing information for management.

Mr. Kirkman had an admirable command of the English language and obvious familiarity with railroads or railways which he used interchangeably. The two volumes are well-organized; the first, in brief review, pertains to the nature of the business, its objectives and its capitalization. The second volume deals with accounts, procedures, forms, audit and reports. His dissertation on the many areas of activity was quite thorough and many examples could be mentioned.

The author made many salient points, among which were: "There are few, if any, railroads in this country, at least, that have earned a fair return on what they cost" (p. 92). And, "Still other reasons than those we have given might be cited, if necessary, in explanation of the inability of our railroad companies to exhibit the full cost of their property" (p. 94). Also, "We shall find, for instance, if we carefully examine the working of our railway system, that the law of political economy, the law of supply and demand, as explained by those who have studied the subject, apply to our railway companies with surprising accuracy; that the same influences, in fact, that operate in fixing the status and value of manufactured products apply equally to transportation, the manufactured product of railroads" (p. 99).

The fifty-eight forms exhibited in Appendix C of Volume II are printed on forty-one different sizes of paper, some varying by only one-quarter of an inch. There seemed to be no reason for these differences; but, one can speculate that the dimension was determined after providing sufficient columns for the information sought, or, further, that the varying sizes distinguished the forms, perhaps for filing, although each was clearly headed.

When discussing the comparison of various figures, the author refers to the various factors bearing on operating results and concludes with this sentence: "All of these things must be considered, and their influence accurately ascertained, before we can judge intelligently of the management of a property." He was a proponent of dual cognizance of transactions.

Eight pages are devoted to a discussion of inventories and it is interesting to note that they were to be priced at "cash value at the time the inventory is taken." Such a practice could easily lead to appreciation or depreciation and questionable accounts.

There are many interesting items; one of which is the preparation and forwarding of payrolls. Kirkman requires that they not be folded and to be forwarded in tin tubes (p. 17). Could this be the origin of payroll, inasmuch as the word was not found in three dictionaries consulted?

Kirkman identified in numerous places many types of accountants by titles: accountant(s), accountant in charge, division accountant, general accounting officer, fuel accountant, local accountant(s), road accountants, subordinate accountants, voucher accountant, accounting officer(s), railway accountants. In Appendix A—"Officers and Operatives"—the number is limited to three, augmented by chief clerk for two of these; and six auditors by title, plus a general bookkeeper and a comptroller. On page 32 of Volume II, he expressed at some length a low opinion of embryo accountants.

Space does not permit a more extensive review which would disclose how far accounting procedures had advanced a century ago. This book will be interesting to present practitioners and historians for its perspective of accounting at that time.

J. Kitchen and R. H. Parker. *Accounting Thought and Education: Six English Pioneers* (London: The Institute of Chartered Accountants in England and Wales, 1980, pp. vii, 120, £5.95).

Reviewed by
Peter Boys
University of Kent at Canterbury

It is appropriate that The Institute of Chartered Accountants in England and Wales (ICAEW) should publish this historical work by Professors Kitchen and Parker, two distinguished academic accountants, in its centenary year. There is a foreword by Douglas Morpeth, former president of the ICAEW and vice-chairman of the Accounting Standards Committee. He acknowledges the contribution made by individual members of the profession and "that we owe much to men whom we have perhaps lost sight of and whose contributions we have forgotten" (p. iii). Mr. Morpeth particularly points out the contribution some of these early pioneers made towards the development of accounting standards.

The book contains seven chapters, an introductory chapter and a chapter each on the six pioneers:

Edwin Guthrie	1841-1904
Francis William Pixley	1852-1933
John Manger Fells	1858-1925
Lawrence Robert Dicksee	1864-1932
Arthur Edwin Cutforth	1881-1958
Frederic Rudolph Mackley de Paula	1882-1954

The Introduction briefly covers the general history of the period of the pioneers, in particular the growth of the accounting profession in England, the importance of auditing (four of the pioneers wrote standard textbooks on auditing) and the presentation of company accounts. Each of the chapters on the individual pioneers begins with a thumbnail sketch of their immediate family background and concludes with an assessment of the contribution they made to accounting. The major part of each chapter deals with the thoughts and writings of each pioneer. There are many quotations from their published works, in particular from the magazine, *The Accountant*.

A review of the subjects, in which each of the pioneers was interested and concerned, highlights the important issues that faced the profession between the 1880's and 1950's in England. For example, Guthrie was concerned with uniformity of accounting practice, depreciation and the payment of interest out of capital; Pixley and Dicksee were mainly interested in auditing; Fells in cost accounting; Cutforth in amalgamations; and de Paula in consolidated accounts and disclosure of accounting information. All the pioneers were, in one way or another, interested in the education of the profession.

It is assumed that the market at which the authors were aiming, particularly as it was published by the ICAEW, was the practicing professional accountant. It is hoped that it will appeal to professional accountants, and by reading the book they should soon appreciate that "What accountants do today is still, whether they know it or not, conditioned by the reactions of the pioneers such as Pixley to the circumstances in which they found themselves and by the type of men they were" (p. 23). In addition, they should appreciate the importance of research into accounting and that they need "the support of thinkers and writers in the education of new entrants and in the development of new ideas" (p. 1).

The book is well-written and researched, although perhaps rather short given its subject matter. It will clearly be of interest to accounting historians and teachers of accounting history courses. The book should also be of value to accounting teachers in general since it is a rich source of useful examples and explanations of the development of many accounting principles and auditing practices.

It was surprising and disappointing that a book written by such eminent academic authors should not contain an index. Equally disappointing was the fact that there were few references (other than to the pioneers' works) and no bibliography. However these omissions should not deter one from reading this interesting historical work.

Gary John Previts and Barbara Dubis Merino, *A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting* (Somerset, N. J.: Ronald Press, 1979, pp. xii, 378, $17.95).

Reviewed by
Arthur R. Wyatt
Arthur Andersen & Co.

Gary Previts and Barbara Merino have written a noteworthy book that will prove to be a permanent enrichment of the accounting literature in their *A History of Accounting in America*. The task they set for themselves was a formidable one—to consider the social, political, economic, and personal elements of eight significant eras in the evolution of accounting, from the time that Columbus first planted the seed of European culture in America to the present. A reader who expects to find only a scholarly recitation of facts will be surprised and delighted with the manner in which the authors have woven together a story of accounting in America in a fashion that is both scholarly in nature and a delight to read.

The authors have achieved a successful balance in each of the eight chapters, each covering a reasonably well-defined era in the evolution of accounting. Rather than concentrating on one or two facets of the accounting scene, the authors have dealt in a comprehensive way with the various institutional aspects of accounting, the evolution of accounting and auditing standards, the changing role of the educator in accounting, and the increasingly important contributions of accounting to our economic society.

Many will find the last chapter to be the most interesting, dealing as it does with "the age of political accountancy: accounting faces an identity crisis." Unquestionably the most difficult area to deal with because of the inability to place the fast moving developments in perspective, the authors have succeeded both in capturing the turmoil of the period and in providing clues to the challenges that the profession will need to face in the coming era.

Others will find other chapters to be of prime interest depending upon their individual backgrounds and areas of principal interest. For example, Chapter 5 concerns "The Formation of an Accounting Profession (1897-1918)." We find in this chapter a major section on accounting and auditing theory, a section that contains a fascinating discussion of the controversies of the period, controversies that in many cases remain either unresolved or under reconsideration more than sixty years later. After reflecting on the discussions and controversies of that earlier time on such matters as whether market appreciation should properly be recognized in an income statement, whether the balance sheet or the income statement should have relatively greater significance, and whether accounting should view the accounting unit from the perspective of the proprietors or from the perspective of the entity, one has to question seriously whether the evolution of accounting theory over the last sixty years has kept pace with the enormous increase in demands made upon the accounting mechanism to deal adequately with an increasingly complex political and economic society. In many respects the progress of accounting has kept remarkable pace with the demands made upon it. In other respects, those responsible for the establishment of accounting standards have to question seriously whether performance in the intervening period has been adequate to meet the expectations of those who use the results of accounting activity.

The History of Accounting in America will be particularly valuable to teachers and graduate students who are interested in placing the frustrating issues of the day in a suitable perspective. The book should also be required reading for standard setters in accounting and auditing including those in the larger accounting firms most responsible for technical policy formation. Other practitioners who have the time and inclination to gain insight into their profession will find the book to be refreshing and enlightening. Those of us in practice today as well as those who will join the profession in years to come will benefit greatly from the perspective of the profession provided by the authors.

M. C. Wells, *Accounting for Common Costs* (Urbana, Ill.: Center for International Education and Research in Accounting, 1978, pp. x, 179, $8.00).

Reviewed by
Daniel L. Jensen
The Ohio State University

This important scholarly work is an interpretative history of cost accounting with particular attention to the treatment of overhead costs in cost accounting systems. The work rests on an exhaustive examination of writings on cost accounting by engineers and economists as well as accountants. The complete bibliography, which is published separately under the title *A Bibliography of Cost Ac-*

counting: Its Origins and Development to 1914, fills two volumes and contains 1,875 entries accompanied by copious annotations. In addition, *Accounting for Common Costs* contains a bibliography of 150 items published after 1914 which are cited in its pages.

The purpose of the work, succinctly stated, is "(1) to argue that unit cost accounting, particularly insofar as it involves the allocation of overhead costs, is wrong in principle; and (2) to demonstrate that the error occurred when costing systems were first being developed and described" (p. 145). Accordingly the reader must evaluate Professor Wells' work both as a work of history and as an argument in principle.

Confusion in Textbooks

A survey of current cost accounting textbooks leads Professor Wells to conclude that their arguments in support of overhead allocations to units of production are "confused and inconclusive." "For, while nearly all of the authors point to the irrelevance of allocated indirect costs for planning, control, and decision making, they also advocate and describe the calculation of average unit product costs which include some allocated indirect costs. Similarly with respect to inventory valuation, the authors either accept practices supported by professional accounting bodies or make explicit appeal to the 'principles' of objectivity and matching costs with revenue. Yet they advocate methods of valuing inventories which are almost entirely subjective and which will match the costs and revenues of goods produced only by coincidence" (p. 19).

Wells attributes this rhetorical confusion to errors of authorship in the revision of textbooks and to a more fundamental misconception of the proposition that different costs are required for different purposes. Decision making, control and financial reporting require different costs, but discussion of the differences frequently obscures fundamental similarities among the costs and displaces more fruitful discussion of "an integrated accounting system capable of producing information which is necessary for each of the three functions it is said to serve" (p. 23).

Other Historians

Professor Wells begins his historical analysis with a critical review of "studies by accountants of the origins and development of cost accounting" with particular attention to studies by R. S. Edwards, David Solomons, S. Paul Garner, R. H. Parker and Sidney

Pollard. Professor Wells concludes that "Edwards, Solomons and Garner all emphasize techniques" and are "too restricted in their coverage to enable any evaluation to be made of the relative roles played by various professional groups in the development of cost accounting" (pp. 28-29). Parker, he believes, is somewhat broader but is also "deficient because it is isolated from other events of the time." A separate chapter reviews the work of Sidney Pollard to establish that departmental accounts and periodic reporting were inherited by industrialists from earlier times and were in fairly widespread use by the beginning of the 19th century.

Professor Wells views history as the interaction of various groups, each with a distinctive perspective, that must be interpreted in the context of its time. His history does more than chronicle the development of specific accounting techniques. His objective is to explain technical developments as products of an institutional context—a context peopled by engineers and economists as well as accountants.

Origins of Overhead Costing

Professor Wells agrees with most historical analysts that overhead costing emerged after 1870 when "investment in fixed facilities had brought about a significant increase in the amount of fixed costs" (p. 69). However, he disputes "the common view that competition provided the stimulus for the introduction of costing systems" (p. 66). Rather, he argues that the "real impetus to the emergence of an interest in cost accounting arose out of the unique environment enjoyed by American mechanical engineers"—an environment characterized by excess productive capacity and the associated problems of price determination and efficiency improvement (p. 70). "Only after the engineers had discussed the introduction of cost records did professional accounting bodies (and their associated publications) break down the long-standing tradition of secrecy in industrial works and take an interest in cost accounts" (p. 70).

Influence of Engineers

From about 1895 onward, intensifying competition stimulated heightened interest among engineers in methods of estimating future prices (p. 76). Most engineers accepted the proposition that estimates of product cost for pricing purposes should make provision for indirect costs as well as direct costs. Moreover, by 1910, "engineers generally appear to have respected the role of accountants, and in doing so accepted as automatic that the cost accounts and financial accounts should be linked. They accepted the necessity of allocating overhead, and of determining different rates for different departments, machines, and workmen. They accepted the notion that production time spent was the most important element in any allocation method" (p. 92). In this way, overhead allocations arising in price estimation procedures were introduced into the financial accounts. Professor Wells observes that the "appeal of a cost theory of value to engineers familiar with identifiable physical relationships is . . . understandable, but that does not make the theory any less incorrect" (p. 88).

Widespread concern with the efficiency of operations in the early years of the 20th century gave "impetus . . . to the adoption of costing systems" but the spread of scientific management was also associated with distortion of the "connection between economic efficiency and cost accounting" (p. 94). Advocates of scientific management failed to restrict the relationship between cost accounting and scientific management "to those aspects of scientific management which were relevant to cost accounting—identification of responsibility, comparison of achieved with expected performance, the exception principle" (p. 102). Professor Wells identifies two unfortunate consequences: "Support for overhead allocation was claimed from a source which could lend no support; and standard costs took on a prominence which was incompatible with their nature" (p. 102).

Influence of Economists

Although an examination of the literature leads Professor Wells to conclude that "economic thought and doctrine did not directly influence the development of cost accounting," he finds "some grounds for suggesting a pervasive *indirect* influence stemming from the classical economists of the eighteenth and nineteenth centuries" (pp. 105-106). The idea that costs attach to goods during production is in substance the cost theory of value advanced by Adam Smith and modified by Carey, Ricardo and other economists (p. 106). Despite this indirect influence, Wells concludes that "the direct influence which leads to the adoption of the notion that costs attach came from the mechanical engineers and their experience with the build up of physical goods" (p. 107). With few exceptions, economists "paid no attention to business problems as such" (p. 108) until the "adoption of marginalist principles by economic theorists" which directed the attention of economists to decision making and particularly the relationship between costs and prices (p. 110).

"By 1914, the economists appear to have been in substantial agreement about at least two matters—(1) that while an unattainable long-run normal price may be determined in part by costs, short-run prices are not, and (2) the cost of an article (or service) is indeterminate if the production of that article (service) involves joint or common costs" (p. 119). Yet, owing in part to the failure of economists "to make their work intelligible or relevant to accountants and businessmen," accounting writers continued to assert the necessity of costs as a basis for prices.

Concluding Comment

The evidence compiled by Professor Wells reveals a century of devotion to a rhetoric in support of integrated data-gathering and estimation systems, which has produced confusion in textbooks and elsewhere. Moreover, the record reveals a preponderance of support for the use of cost allocations in such systems. Professor Wells argues that this is all a mistake—a failure of communication between economists and accountants and an unfortunate artifact of the engineering roots of cost accounting. This reviewer is uneasy with such an interpretation. However one may feel about cost allocations as a matter of principle, casting them among the mistakes of history offers no explanation for their persistence or pervasiveness. Yet Professor Wells' prodigious and careful scholarship in describing the events and writings associated with the rise of cost accounting is a major contribution to accounting history. His work is no mere chronicle of events and writings, but makes a concerted effort to explain technical developments in terms of the larger historical context in which they occur. *Accounting for Common Costs* is an important work that deserves not merely to be read but to be carefully studied by all students of cost accounting history.

Stephen A. Zeff, *Forging Accounting Principles in New Zealand* (Wellington, N.Z.: Victoria University Press, 1979, pp. 88, $5.00).

Reviewed by
Herbert L. Jensen
University of Houston

The stated objectives of this monograph are ". . . to discover and trace the origins and evolution of the process by which accounting principles are established in New Zealand" (preface). Nonetheless what is presented is a narrative tracking of changes in the structure of standard setting elements within the organization of the New Zealand Society of Accountants (NZSA). The major theme of this discourse is the assertion that NZSA needs a full-time research officer.

This study would have been much improved had the author concentrated on why particular mechanisms for overseeing the profession of accountancy in New Zealand arose rather than on why modes of operations, that the author prefers, have not been implemented. "Traditions and axioms, sometimes without explicit recognition, reflect the nature of the environment within which they emerge."[1] One of the roles of history is to provide explicit recognition to formerly ill-understood links of social causality.

The first chapter of this treatise relates how the four accounting bodies in New Zealand merged into one. This is done by giving their names and dates of existence. There is also a capsule summary of NZSA's current organizational structure.

Chapter V gives cursory descriptions of the New Zealand financial press, Financial Executives Institute, stock exchange, sharebrokers, Registrar of Companies, and debenture trust deeds. This chapter, however, fails to delineate how these forces have impinged on the way NZSA has comported itself.

The three chapters interposed between I and V contain the book's main line of argument. They describe how NZSA slowly came to form an Accounting Practice and Procedure Committee which in its ten-year life produced no original accounting work (p. 25). This committee was superseded in 1960 by a Board of Research and Publications that was unable to get any of its promulgations accepted as mandatory until 1973. These chapters constantly emphasize the fact that NZSA has been and still is demonstrably unwilling to hire a full-time research officer.

The last chapter is an extended recommendation that NZSA develop an organizational element powerful enough to impose uniformity of practice as has become the mode in the United States. This is an unwarranted stance considering the relatively small size of NZSA, its tradition of sponsoring research competitions and university chairs, and the oft expressed opposition of NZSA members to any infringement on their professional autonomy. The author's recommendation also seems contradictory because he has observed elsewhere that "Instead of providing 'an underlying framework' for the promulgation of 'sound' financial reporting practices by standard setting boards, accounting theory has proven a useful 'tactic' to buttress one's preconceived notions."[2]

Many of the faults of this work result from the choice of the author's own research methodology[3] and the neglect of others that have worked well. For example, the delightful prose and insightful highlighting of personalities that makes the historical narratives of John L. Carey great literature (e.g. Carey, 1969) is missing. Edward Stamp is described as ". . . an apostle of North American practice . . . [who] left an indelible mark in New Zealand" (p. 87), yet neither the man nor his influence is described. Particularly nettling are the author's suppositions on why Stamp took the position he did on deferred tax accounting.

Most of the space in this work is occupied by people's names, the dates that they joined or left some committee, and place of various committees within NZSA's organizational structure. Line and block charts could have greatly clarified these changing situations. Such charts were used with devastating effect in the Metcalf report to display the power structure within the AICPA.[4]

What can be inferred from the study here reviewed is that there has never been sufficient government pressure in New Zealand to invoke a search for accounting principles. As a result the cost of cosmetic research to provide politically acceptable justification for nonexistent externally imposed demands for homogeneity of accounting practice has been viewed in New Zealand as prohibitive and unacceptable (p. 6).

FOOTNOTES

[1]McCracken, p. 4.

[2]Zeff, "Comments on 'Accounting Principles—How They Are Developed,'" p. 177.

[3]See Zeff, *Forging Accounting Principles in Five Countries* and Zeff, *Forging Accounting Principles in Australia*.

[4]Subcommittee on Reports, Accounting, and Management, pp. 3, 72, and 137.

BIBLIOGRAPHY

Carey, John L. *The Rise of the Accounting Profession.* New York: American Institute of Certified Public Accountants, 1969.

McCracken, Paul W. "Inflation, Profits, and the American Economy," in Paul A. Griffin, ed. *Financial Reporting and Changing Prices: The Conference.* Stamford, Conn.: Financial Accounting Standards Board, 1979, pp. 3-14.

Subcommittee on Reports, Accounting, and Management. *The Accounting Establishment.* Sen. Doc. No. 95-34, 95th Cong., 1st Sess., March 31, 1977.

Zeff, Stephen A. "Comments on 'Accounting Principles—How They Are Developed,'" in Robert R. Sterling, ed. *Institutional Issues in Public Accounting.* Lawrence, Kan.: Scholars Book Co., 1974, pp. 172-178.

________________________. *Forging Accounting Principles in Australia.* Melbourne, Australia: Australian Society of Accountants, 1973.

________________________. *Forging Accounting Principles in Five Countries: A History and an Analysis of Trends.* Champaign, Ill.: Stipes Publishing Co., 1972.