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Book Reviews

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Book Reviews

INDUSTRIAL BALANCE SHEETS, by MYRON M. STRAIN. *Harper & Brothers*, Publishers. 182 pages.

Industrial Balance Sheets discusses the accepted principles of statement analysis and the extent to which their application has proved useful. The first chapters deal in a lucid way with the materials of the balance-sheet, broadly classified as to assets, liabilities and reserves of the usual kind and the customary segregations of the net worth. The remark is made at the outset that "analyzing a balance-sheet that is itself inaccurate is simply so much labor lost. There is only one safe and reasonably certain way to assure a statement's being dependable and that is to have affixed to it the certificate of a public accountant. This certificate should not be regarded in itself as a hall-mark of accuracy—it is simply a statement by a qualified expert of the extent to which a report may be relied upon. . . . That is not to say that there are no incompetent certified public accountants. The profession is afflicted by Providence with the same deficiencies and defects as those under which all the other professions labor and its practitioners are similarly tainted by original sin and human imbecility."

The reviewer permits himself this rather long quotation so as to show in the author's own words his well disposed appraisal of the public accountant's services.

After citing some cases of window dressing such as frequently come to light when applying the ordinary methods of verification and audit, the author deals with the general subject of verifying assets and liabilities, though naturally from the analyst's and credit-man's position.

The need of more uniform terminology and the importance of proper and uniform classification are discussed, and a skeleton balance-sheet is given. It is of interest to note here that prepaid expenses "which diminish the outgo of cash in the immediate future for operating purposes" are included among the current assets. That treatment is further explained in one of the early chapters.

The three first chapters of the book are really an introduction. The remainder deals with the subject of analysis proper. The fourth chapter commences with suggestions concerning the approach to the examination of financial statements—not as a "prosecuting attorney" but as a "judge on the bench," and, after a discussion of the "worst possible view" method, proceeds with a comprehensive presentation of ratio analysis, standard measurements and requirements.

In the succeeding chapters the use of ratios is further explained. Various "internal," "external" and "efficiency" tests are introduced that will serve to shed light on the formal relations between the types of assets and liabilities and on the earning capacity. A note of warning is sounded, however, against placing too great a reliance upon them. An interesting example is given of a concern whose balance-sheet shows most respectable ratios. Certain "informal indicators," however, point to less favorable conditions that call for further investigation. They change the favorable first impression to one of doubt and final distrust.

On the whole a good case is made out for the assumption that general rules do not apply to individual instances. Each balance-sheet has to be judged upon its own merits and the customary ratio analysis does not produce all the information sought by credit man or analyst. By means of interesting examples it is shown why ratios should vary in different classes of business and under different conditions and how they will occasionally show great seasonal variations in the same business. Granting its obvious limitations the author believes that ratio analysis is "genuinely useful in indicating probabilities and suggesting weaknesses, but not in taking the place of good judgment or in displaying certainties." He chooses eight formal ratio relations "that will not deceive us into attaching importance to meaningless figures," viz.:

Four internal relations

1. Current assets to current liabilities .
2. Quick assets to current liabilities .
3. Net worth to debt .
4. Permanent capital to non-current assets .

Two test ratios

1. Sales to receivables .
2. Sales to inventories .

Two efficiency ratios

1. Sales to fixed assets .
2. Sales to total assets .

He also discusses the "informal indicators" to be used in cases where certain definite information is not available, as, for instance, (1) cash position; comparison of (2) accounts and notes receivable, (3) inventories and receivables; (4) fixed assets as credit resource; (5) depreciation reserves; (6) entangling alliances with affiliated corporations; (7) comparison of accounts payable with inventory; (8) comparison of accounts and notes payable; (9) security for notes payable; (10) provision for expenses accrued; and (11) earning capacity as indicated by surplus.

The author expresses his high estimate of accountants' reports and proposes that "pro-forma credit applications and report requests eliminate entirely the more senseless parts of their questionnaires and boldly substitute the condensed profit-and-loss form . . . with the reconciliation of surplus. . . ." He observes that such information will give much better data on the financial position and permit the substitution of the above test and efficiency ratios by the following definitely ascertainable and more relevant facts:

1. Age of receivables .
2. Turnover of inventory .
3. Net profit per cent. of total investment .
4. Net profit per cent. of net worth .

Finally the author recommends comparison of periodical figures and of their analyses, and also of trend analyses as "one of the most useful of analytical devices." Each of the items of a concern's balance-sheet is to be given the index number 100. The assets and liabilities on, say, the next year's statement are divided by the corresponding items on the first, which remain the standard or base. This produces an index which from year to year exhibits

certain trends and tendencies. He believes the periodical accounts of a concern, after they have been condensed or otherwise cast in a suitable form, as well as the ratios and trends, well worth preserving, and considers the comparative analysis record as a valuable addition to each customer's credit file. The text includes illustrative examples and each chapter is followed by apposite questions and problems. The book is primarily intended for the credit-man or the analyst but the student of accountancy and also the practitioner will find in it much that will prove of benefit and interest.

A. VAN OSS.

CONDITIONAL SALES, by ROGER SHERMAN HOAR. *The Ronald Press Co.*, New York. 521 pages.

Conditional Sales should be on the desk of every person who has anything to do, in a practical way, with instalment selling or buying. Perhaps this is as far as a book review need go because what follows is, after all, merely a statement of the grounds upon which the opinion is based. It may be helpful, however, to outline the scope of the book and to point out the author's method of presenting his subject. The widespread extent of instalment selling and the importance of protection to both seller and buyer are obvious. It is equally obvious that such selling in the majority of its instances crosses state lines and involves the law of more than one jurisdiction.

In the first chapter, the nature of conditional sales is explained and the author points out that conditional sales are usually but not necessarily instalment sales. The condition, a breach of which would enable the seller to retake, may be the maintaining of insurance on the property, the keeping of it within a certain county, or any other requirement not directly connected with the payment of the purchase price. The legal requirements for recording chattel mortgages do not apply to conditional sales, but when an instrument, drawn as a lease but used as a conditional sale, is recorded as a chattel mortgage, the seller may lose his goods to attaching creditors of the buyer. The legal status of conditional sales in every one of the states and the District of Columbia is outlined in chapter II. Chapter III discusses the question of how uniform is a uniform act when one state has both a uniform conditional sales act and a uniform sales act which legalizes conditional sales, and when courts even of the same state differ in their interpretations. The former statute is printed and discussed in chapter IV; the latter in chapter V.

The remaining chapters deal, in a thorough but interesting way, with an ample citation of decisions, with the law and practice underlying every step from the drafting of the contract to collection or foreclosure. On the more important steps, the law of each state and the District of Columbia is summarized separately. How the property shall be described, the formalities of executing, filing and recording the contract, the rights of third parties, assignments, resales, removals, auctions, bankruptcy, receiverships, criminal proceedings, usury, taxation, insurance—these are not all of the topics covered. A very useful chapter is the last one, which lists the pitfalls and by cross-reference guides the reader to preceding chapters where each is described in detail. Appendices cite the statutes of each jurisdiction, contain 64 forms of instruments, refer to other books and loose-leaf services and give some very practical suggestions as to how to "run down" a decision.

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The book is intended for both lawyers and laymen. Its keynote may perhaps be found in the author's words, "the best way to get out of trouble is to keep out of it, by complying in the first place with all possible requirements of both local law and practice."

HAROLD DUDLEY GREELEY.

GARAGE ACCOUNTS, by LAWRENCE R. DICKSEE. *Gee & Co., Ltd.*, London. 63 pages.

Webster's dictionary defines a garage as "A place for housing automobiles or an airship or flying machine." Most of us will be inclined to leave the airship or flying machine out of consideration in our popular conception of a garage. The reviewer's notion of a garage, at least in his section of America, is that it is essentially a place for housing or storing automobiles. Other activities may be engaged in, such as repairs or the sale of gasoline and oils, but they are incidental. One learns, however, from reading *Garage Accounts* by Professor Dicksee that the English idea of the term is not at all identical with ours. In fact, accounting for the storage of automobiles is not considered in the book.

In the introduction, the following are described as some of the activities of garages: "(1) car hire, (2) rents of private cars garaged, (3) charges for washing, polishing and greasing customers' cars, (4) repairs to cars, (5) car sales and exchanges, (6) tuition in driving, (7) sales of motor spirits from pumps, (8) sales of motor spirits from tins, (9) sales of lubricants, (10) sales of accessories, (11) sales of tyres, and (12) insurance agency." From this summary of the activities of an English garage, one concludes that the nearest approach to it in America would be a combination of an automobile agency, repair shop, filling station and garage. At all events, the book deals with the English practice relative to accounting in an establishment engaged in all these activities.

The book is practical and the reader is supposed to have a knowledge of the principles of accounting. It is replete with illustrations, both of appropriate mechanical accounting devices and accounting forms.

SIDNEY S. BOURGEOIS.

FOREIGN SECURITIES—PUBLIC AND MORTGAGE BANK BONDS
—AN ANALYSIS OF THE FINANCIAL, LEGAL AND POLITICAL
FACTORS, by JOHN T. MADDEN and MARCUS NADLER. *The Ronald
Press Co.*, New York.

The authors of *Foreign Securities* state that they "have endeavored to keep in mind the need for an introductory treatise on the fundamentals of international finance which would serve equally well the requirements of bankers, investors and students in our colleges and universities." They have restricted themselves to foreign securities of a public character and omitted all discussion of private corporate securities. Chapters XVII-XX deal with mortgage banks, some of which are private corporations, but they are "included because of the close relations which these institutions have with governments and because mortgage-bank securities are often guaranteed by governments."

The book is divided into four parts. Part I presents the theory of international finance, the flow of short-time and long-time funds and its effects on the borrowing and lending countries, the relations that obtain between security values and price movements and the condition of the money and exchange markets. Part II deals with the analytical factors of foreign securities—the methods of underwriting foreign government loans, the negotiation by the banker, the politico-historical or intangible factors and the statistical or tangible factors that affect national credit, the problem of international transfers and the classification of securities, especially internal and external, productive and unproductive, secured and guaranteed loans. Part III discusses the political and legal factors, such as the methods of internal and external foreign loan control, repudiation of debts, defaults and their results, the gold clause and financial intervention. Part IV has an introductory chapter on the general principles of mortgage banking and special chapters on mortgage banks operated on a coöperative basis, those owned and controlled by governments, and specialized types. The book closes with twelve pages of bibliography arranged to fit the chapters of the book. The text abounds in illustrations drawn as largely as possible from American experiences; the phraseology of statutes, court decisions, bonds, treaties, opinions, regulations, etc., is very frequently quoted but with fullness only sufficient to establish the point. These citations enliven the text and give definiteness to the discussion.

The reviewer feels that part I (on the theory of international credit) is the poorest. The theory is not extensively developed, and transition from topic to topic or thought to thought is too brusque. There is also a propensity to make a bald statement which without qualifications strikes the reader as doubtful. Then, later in the text he notes the qualifications. For illustration take the opening sentence: "Capital . . . flows wherever the rate of return is higher . . ." The reader at once takes an antithetical attitude, for he knows exchange rates have been of high importance at least in the short-time movement of capital and he knows that regardless of rates of interest countries must often borrow in a specific country in order to purchase certain needed foreign goods. Or, again, on page 5, it is stated that the liquidation of foreign bonds does not affect the security or the exchange market of the borrowing country, whereas the reader remembers that foreigners tend to purchase their external obligation whenever they appear attractive in other markets and also that stock-exchange prices in Europe vary with flotations of government securities. Or, on page 41, the reader notes that the flotation of foreign bonds does not affect rates of interest in the lending country, whereas he believes the foreign securities are constantly competing with domestic securities in the mind of the investor and consequently large flotations of foreign securities, at rates of interest substantially above the yield on domestic securities, leads bondholders to sell domestic securities in order to buy foreign ones, increasing the supply of domestic bonds, lowering their price and raising their yield. The statistical table on page 41 does not prove that the flotation of foreign securities in the United States has not kept interest rates higher there than they would otherwise have been. On pages 42–43 the method by which foreign loans floated in the United States may indirectly have supported American money rates by preventing a larger inflow of gold is pronounced a logical assumption, and on pages 204–205 Dr. Schacht is approvingly quoted as

saying that the large German borrowings in the United States did not increase American exports to Germany but were to a considerable extent converted into German currency at the reichsbank.

The reviewer feels that the authors were at their best in the chapters on internal and external foreign loan control, the gold clause, repudiation, defaults and financial intervention.

The book is a very commendable product, presenting in clear terms the contemporary factors that influence the present international market, the foreign securities floated in it, and the machinery for handling public security issues. It is not a complete book on international finance for it omits all short-term commercial and banking operations and all foreign private corporate securities.

RAY B. WESTERFIELD.

WAGE INCENTIVE METHODS, by CHARLES WALTER LYTLE. *Ronald Press Company*, New York.

Wage Incentive Methods is a comprehensive review of a great number of plans in present use, or that have been used, as incentives to greater and more effective effort on the part of wage earners. That the subject is not a new one is shown by a quotation the author makes from Xenophon: "But as for men, they may be well persuaded and brought to obedience if a man will show them how it shall be for their profit." The importance of applying this principle is widely recognized. Charles M. Schwab is quoted, "How to measure and relate output and wages on some fair basis has become an important function of management." The possibilities of increased production and decreased cost is shown by the author in his statement that "one of the most astounding facts in economics is that the United States, with the highest wage level in the world, ships rice to China where the wage level is one of the lowest in the world." Some of the benefits of a carefully planned system are revealed by a manager of a large plant who is quoted as stating, "We have increased earnings, we have reduced costs . . . there has been no single case of undue fatigue . . . time wasted is just as tiring, just as fatiguing as time usefully employed." To show the extent of the adoption of such plans, the author gives figures showing that 40% of the industrial workers of the United States are paid on the basis of output instead of on the basis of time.

It must not be thought, however, that any half-considered plan can be hastily installed with any hope of success. The author makes this quite clear in his chapter on the installation of incentive plans. Leaders of the employees must first be won over to a plan and convinced of its advantage to the workers. Wesley C. Mitchell is quoted as follows: "Belief in the economy of high wages has become prevalent among the abler business executives, much as belief in increasing productivity has become prevalent among the abler trade-union leaders." While it is generally supposed that wage incentive methods apply to manual workers or those tending machines, the author shows that it has been successfully applied to the work of the office staff also.

Those contemplating installation of a method having the object of increased productivity in mind would do well to study what Mr. Lytle has to say in favor of and against the many systems which have been tried.

CHARLES E. MATHER.

INDUSTRIAL STOREKEEPING ACCOUNTING AND PERPETUAL INVENTORY, by C. HANNEFORD SMITH, *Gee & Co., Ltd.*, London.

Industrial Storekeeping Accounting and Perpetual Inventory is a very large name for a small volume, consisting of approximately 150 pages. Its purpose is to set forth economies to be effected through the medium of a sound stores-keeping system and inventory control, to the end that losses due to material shortages, pilferage and inventory deficits may be reduced to the minimum.

The book deals with the general adaptability of the stores for quick and easy way of handling; procedure and routine involved in the purchasing; stores routine, accounting and the duties and responsibility of the storekeeper; pricing; perpetual inventory control; and labor-saving devices.

Running through the volume are suggested forms for purchase requisitions, purchase orders, bin cards, stores requisitions, stock-record cards and so forth. The book is written from the British point of view. Fundamentally, however, the methods advocated and the reasons therefor correspond with practice in our own country. The author shows a thorough grasp of his subject and this book is a worth-while addition to accounting literature as a reference book for the public or private accountant.

W. A. MUSGRAVE.

THE BANK AND ITS DIRECTORS, by CRAIG B. HAZLEWOOD. *The Ronald Press Co.*, New York.

The author of *The Bank and Its Directors* is an ex-president of the American Bankers Association, a director of the First National Bank of Chicago, etc., and is not only thoroughly conversant with banks and banking but realizes the difficulties that beset the bank director who, having had no previous connection with the management of a bank, joins the board. He has written a book which is not a textbook but a guide full of information, knowledge, and suggestion.

The first chapter makes the neophyte director aware of his responsibilities and duties and of the type of information that should be before the board. The later chapters deal with the policies that should guide the bank in the management of its funds, loans, etc., and call attention to the evils and risks of one-man managements and also to the inadvisability of going after business in the form of new customers whose accounts do not pay instead of giving all possible service to those customers who are profitable to the bank. The volume closes with a chapter by Thomas B. Paton, general counsel of the American Bankers Association, on the legal duties and responsibilities of bank directors.

The need for such a volume as this may be demonstrated by the fact that in six states over a period of nine years the percentage of bank failures varied from 22% to 45%; in five other states the percentage varied from 0 to 4%. A questionnaire sent to a large number of bankers disclosed the widest variation of views and methods; e.g. the amount of the cash reserves considered advisable varied from 5% to 72% of the bank funds; the interest at 4% on a given savings account varied from \$8.75 to \$37.15, etc.

The book is ably and clearly written and should undoubtedly be in the hands of all bank directors and managers. It will be found to be of interest and value to the public accountant as is any book written by a man who understands business in general and his own business in particular. GEORGE K. HYSLOP.

ACCOUNTING FOR EXECUTIVE CONTROL, by MONARD V. HAYES.
Harper and Brothers, New York. 495 pages.

One can not read *Accounting for Executive Control* without recognizing the thorough grasp Mr. Hayes has of both the theoretical and practical aspects of his subject and appreciating the deep research and orderly thought which his enthusiasm has caused him to devote to this work. Despite all these, however, and despite the natural interest which the subject attracts, the author has somehow failed to produce the outstanding work his equipment would lead us to expect. The outstanding causes for this failure are obviously on the psychological rather than on the scientific side, and are concerned almost entirely with the mode of presentation.

The first mistake was undoubtedly the choice of a title. It is presumed that the author, in writing a book of this type, is to some extent interested in volume of sales. Notwithstanding this, and in spite of all the theoretical advertising knowledge he displays in his chapter on "Accounting as an aid to the publicity manager," in which he has such captions as "Extent and location of the market" and "The habits and traits of consumers," he calls his book *Accounting for Executive Control* and devotes the whole of an early chapter to explaining how he has obviously used the term "accounting" in a far broader and more comprehensive sense than the majority of his potential consumers will. One might almost say, in fact, that the keynote of the whole book is the inadequacy of accounting as generally accepted (referred to as post-mortem accounting), and the need for a broader concept of accounting to include forecasts and standards.

While on the subject of a concept of accounting it is interesting to note one of the views expressed. In quoting it is stated that "The public accountant is not a prophet and he has many limitations that need not hamper the private accountant. The public accountant prefers to deal with accomplished facts and leave the interpretation of these facts to someone else." It hardly seems that those public accountants who are now doing so much advisory work for their clients, and have so altered the type of their work and raised the standard of their profession in this country during the last few years, will allow this statement to go unchallenged. It is not the public accountant, however, with whom Mr. Hayes wishes to deal, for he states that "this treatise will confine itself to some phases of the function of private accounting."

The book's objects are stated to be:

1. To set forth a concept of accounting which may serve management as a basis for "control."
2. To discuss ways and means of setting up certain standards in business by which performance may be directed and appraised, and control of a business may be secured.
3. To discuss ways and means of keeping account of certain business accomplishments in terms of standards.
4. To discuss ways and means for accomplishing the following:
 - (a) To determine causes for variation between standards and actual accomplishment
 - (b) To analyze the causes of variation and interpret them so as to place effectively, responsibility and authority for performance
 - (c) To show how efficiency may be effectively determined for management use
5. To discuss certain organization methods and procedure for the business enterprise, and to show how authority and responsibility may be effectively placed for purposes of control,

The arrangement of the book is indicative of the author's logical mind. In part I the problem is stated under two headings: "The management" and "Concepts of accounting." Following this are part II and part III dealing with "Top organization and control" and "Standards and records control," respectively, and parts III, IV and V dealing with the three broad functions "Marketing control," "Procurement control" and "Labor control." These chapters absorb over three hundred pages of the volume and are typical of the lack of imagination in arrangement. They consist almost entirely of a mass of logical and theoretical discussion in the midst of which are occasional examples and technical illustrations which demonstrate well the author's practical skill. By far the most valuable part of the volume occupies the last hundred pages and consists of a carefully prepared set of practical illustrations in coördinated form. These illustrations, set forth under the name of the Mileage Tire Company, have been prepared by the scientific combination of figures taken from the actual records of three prominent concerns in the rubber industry. Were this section complete in itself, it would carry the rest of the book along with it without difficulty. It is unfortunate, however, that it is, to a certain extent, dependent upon the earlier chapters.

Throughout the whole book there is a decided tendency toward wordiness and repetition, and a failure to appreciate the fact that men of the type who might be expected to read this work would not need a detailed explanation of every minor point used in the arguments. It is extremely doubtful whether, in these days of condensed literature, the busy executive would have either the time or the inclination to wade through this mass of theory to extract the worthwhile practical points which are hidden in its midst.

To the junior student, particularly to the student of management engineering, this volume should prove of considerable interest and its value in this respect is considerably enhanced by the inclusion of an extremely complete bibliography.

HAROLD R. CAFFYN.