Book reviews [1982, Vol. 9. no. 2]

Dale A. Buckmaster

The Accounting Historians Journal
Vol. 9, No. 2
Fall 1982

BOOK REVIEWS

Dale A. Buckmaster, Editor
UNIVERSITY OF DELAWARE

Carl Thomas Devine, *Inventory Valuation and Periodic Income* (New York: The Ronald Press Company, 1942. Reprint edition, New York: Arno Press, 1980, pp. vii, 195, $19.00).

Reviewed by
Dale Buckmaster
University of Delaware

It is tempting, but unfair, to start a review by describing this book as containing more than anyone would ever want to know about inventories. Professor Devine identifies his objective in writing the book as an "investigation into the effects of various inventory valuation methods on the reported income stream." (p. iii) These "various inventory valuation methods" include Identified-Unit Cost, FIFO, Weighted Average, Moving Average, Standard Costs, Replacement Costs, Lower of Cost or Market, Normal Stock Methods (including LIFO), and Inventories at Selling Price.

Within the context of the literature of the period, Professor Devine does much more than examine the effect of these methods on income. The first chapter is an overview of accounting income theory and chapter two is a description of the nature of accounting inventory costing. In chapter three, Devine discusses balance sheet considerations of inventory valuation. Chapter four, "Costs and Their Determination," contains, as a part of the discussion of cost determination, a section on the appropriateness of capitalizing interest. I found this section to be a more objective evaluation of the controversy than is found in contemporary literature. The chapter on Replacement Costs is a summary of the various positions on replacement cost accounting current at that time. Chapter eleven, "Inventories at Selling Prices," is an interesting interpretation of revenue recognition. The highlight of chapter twelve, "Special Problems in Inventory Valuation," is a discussion of the economics of hedging and the accounting treatment of hedging contracts.

This book is not easy to read. By contemporary standards much of the analysis is trivial and one's mind tends to wander. If, however, the book is put in its proper historical perspective, then the book must be viewed differently. The book reflects the change in emphasis from the balance sheet to the income statement that had started taking place a few years earlier and was common by the date of publication. This shift in emphasis combined with income tax laws surely was the reason that accountants developed several new cost flow assumptions for inventory cost determination (primarily base stock methods). The rationales supporting these methods were still very useful tools for the accountant when attempting to explain his position. Hence, Devine provides us with very detailed arguments that we never hear or see anymore for various cost flow assumptions.

The short, two-page preface is the most interesting section of the book for me. Here Devine reveals that he is wrestling with the problem of criteria for the evaluation of accounting policy. Another transition in accounting thought is reflected here. But rather than writing during the final stage of change as he was with the change of emphasis to the income statement, he is at some intermediate stage in the shift of thought. Specifically, Devine is writing during that rather long transition period when emphasis in the literature is shifting from practitioner and management use of statements to consideration of the perceived needs of external users. He states:

> The method employed somewhat imperfectly throughout this work for testing the desirability of various proposals may be divided into three more or less independent phases. First, an attempt is made to determine the possible consequences of each course of action. This stage is given considerably more emphasis than either or both of the others. Second, an estimate of the probable reactions of those reading the accounting reports is made. These estimates admit a great deal of inexactness, because at various points the evidence is not sufficient to support clear-cut judgments. Third, the desirability of the probable reactions is tested by reference to certain broad social standards taken from the general fields of business administration, economics, sociology, and psychology. (p. iv)

I don't think anybody would be surprised that Professor Devine was not able to apply these criteria with much success. The results of his efforts are intricate verbal descriptions of how the absolute income numbers and the income time series might be affected by the selection of each of the inventory methods and an empirical examination of how the various inventory methods affect the income of certain organizations. Professor Devine's criteria are not operational and his empirical efforts are very primitive, yet this and other similar works of the next few years are the foundation upon which contemporary academic research is built.

Professor Devine's concern for the development of criteria for the evaluation of accounting choice certainly did not end with the publication of *Inventory Valuation and Periodic Income.* Some years later, he prepared the manuscript, "Research Methodology and Accounting Theory Formulation," [1960] for *The Accounting Review* dealing with the same problem.

Earlier I indicated that the book is rather hard reading because it is concerned with the type of reasoning that is rarely used (successfully) in the literature today. One may properly infer, then, that the book is of little interest outside of the context of the development of accounting thought. Even then, if one is seeking a general knowledge of accounting thought in the second quarter of the twentieth century, the book should not be near the top of the reading list. Devine relied very heavily on Paton's work and Gilman's *Accounting Concepts of Profit* [1939]. Certainly, almost anything by Paton and Gilman's work should have higher priority than *Inventory Valuation and Periodic Income.*

For certain types of work, the book is important. I would recommend it for someone concentrating on a chronological period as broad as from 1938 through 1950 or for someone working on the development of thought on any of the following: inventory accounting, early empiricism, criteria for accounting choice, or income smoothing. Devine anticipates Hepworth's suggestion for smoothing [1953] by eleven years and Gordon's formal statement of the hypothesis as a criterion [1964] by twenty-two years.

BIBLIOGRAPHY

Devine, Carl. "Research Methodology and Accounting Theory Formulation." *The Accounting Review* (July 1960), pp. 387-389.

Gilman, Stephan. *Accounting Concepts of Profit* (New York: The Ronald Press Co., 1939).

Gordon, Myron J. "Postulates, Principles and Research in Accounting." *The Accounting Review* (April 1964), pp. 251-263.

Hepworth, Samuel R. "Smoothing Periodic Income." *The Accounting Review* (January 1953), pp. 32-39.

Bruce E. Gelsinger, *Icelandic Enterprise: Commerce and Economy in the Middle Ages* (Columbia, S.C.: University of South Carolina Press, 1981, pp. xix, 299, $19.50).

Reviewed by
Roxanne Johnson
Pennsylvania State University

Bruce Gelsinger, in this ambitious work, chronicles the growth of Icelandic civilization within an economic context, by exploring commercial opportunity affecting the island during the Middle Ages. As a specialist in medieval Scandinavian history, the author has amassed an impressive bibliography including both Icelandic and non-Icelandic sources within the primary and secondary works referenced.

The book is divided into three main parts composed of seven chapters, and an Epilogue:

Part One: Icelandic Prerequisites for Foreign Trade
- Chapter One: Environment, Resources, and Material Needs for Medieval Icelanders
- Chapter Two: Icelandic Institutions and Commercial Practices
- Chapter Three: Old Norse Merchant Ships and Navigation

Part Two: Iceland's Commercial World
- Chapter Four: Icelandic Trade with Norway, Denmark and Sweden
- Chapter Five: Icelandic Trade with Other North Atlantic Settlements
- Chapter Six: Icelandic Trade with England, Ireland, and the Continent

Part Three: The Course of Icelandic Foreign Trade: A Summary
- Chapter Seven: Icelandic Foreign Trade

Epilogue: Icelandic Foreign Trade from 1264 to the End of the Middle Ages

The author indicates in the Preface that the documentation for this work was gathered from both written and archaeological sources. The archaeological evidence has been used to corroborate, or clarify where necessary, the written record.

Iceland is a land rich in history. This land of ice and fire, fraught with extensive glaciers and lava fields formed by virulent volcanoes, evokes images of challenge and unremitting hardship for the first settlers who colonized the isolated island. But the island also afforded these colonists wide grasslands and a fairly mild climate.

Driven by political disquiet at home coupled with economic travail due to scarcity of land and, consequently, opportunity, the first significant number of Scandanavian settlers arrived in approximately 870, beginning the Age of Settlement. Unfortunately, despite a brisk colonization period extending through 930, the opportunity for domestic production of certain foodstuffs was limited both because of, and despite, the climate and availability of arable land. Although mild, the climate was yet too harsh for an adequate growing season. The land was best used for grazing. With such domestic incapabilities, the development of foreign trade became an imperative.

The Commonwealth, a term applied to this initial independent age in Iceland's history extends through 1264, and, in general, includes the Age of Settlement. It is a period of commercial development throughout Europe, and the burgeoning trade routes directly impacted Iceland.

As was mentioned before, the fundamental impetus for Icelandic trade was the necessity to import certain commodities unavailable on the island. Initially, this trade was carried on by the Icelanders themselves, probably using the ships which brought them to the island. Principal among the foodstuffs required was grain. In exchange, the Icelandic populace offered various sheep products, particularly a cloth called vathmál, used during this time as both a monetary unit and a commodity, and acceptable as both in foreign trade. The author indicates the value of several goods in relation to vathmál, as well as exchange rates with the accepted base, silver, over time.

The economic interrelationships necessary for the survival of this isolated island illustrate more than just the growth of this small island's foreign trade. The author has included, as a major part of this work, an extensive analysis of trade opportunities throughout the known world available to these Scandinavian settlers during the Middle Ages. What evolves is a fascinating chronicle of a dimly perceived period of exploration, adventure, challenge and daring, all the more fascinating because it was not an unusual attitude during this time. Extensive information included in this work on commercial practices and economic opportunity throughout Europe affords us an overall impression of life during this period, and serves as a backdrop to the difficulties which resulted in the end of the Commonwealth in 1264. One of the most disastrous trends which sparked this event was the loss of Icelandic self-reliance with respect to foreign trade.

Initial success, as Icelandic products became well received abroad by the beginning of the eleventh century, prompted a reliance on Norwegian merchants willing to make the perilous voyage to Iceland, and provide the vessels required for the journey. As a result, most imports were received from, or at least through, Norwegian markets. Such reliance resulted in virtual isolation from active trade, the repercussions of which were felt when internal Norwegian demand for the grain products most needed for import by Iceland increased as supply diminished. At the same time, European demand through Norwegian markets for Icelandic products declined, and other markets were not easily identified or assured. Icelandic trade practice, coupled with a decline in the general food supply, predicated the crisis which resulted in the union with Norway and terminated the Commonwealth.

This work, although not directly related to the history of accounting, is important when considered within a broad evolutionary historical framework. As descendents of Europeans who brought with them trade practices and mores based on the commercial interaction during the Middle Ages, accounting thought and practice (as evidenced today and when considered within the historical perspective) may be derived from this commercial activity.

Edward Thomas Jones, *Jones's English System of Book-Keeping* (London: Privately Printed, 1796. Reprint edition, New York: Arno Press, 1978, irregular pagination, $15.00).

Reviewed by
Rasoul H. Tondkar
Virginia Commonwealth University

Jones's English System of Book-Keeping has probably had more influence than any other single document on the development of double-entry accounting into an integrated system. Rather than making a direct contribution, it has led many critics of this treatise to look at the logic of double-entry accounting and articulate various accounts into a coherent system. (p. 13)

Originally published in 1796 in Bristol, England, it was reprinted in 1978 in New York by Arno Press from the 1796 edition. The current edition begins with an introduction by Professor Basil S. Yamey. In this section, the sequence of events leading to publication in England is discussed. Apparently, its initial publication aroused criticism in England and in other European countries. The introduction provides the reader with an excellent background and facilitates a better understanding of the book.

Following Professor Yamey's comments is Jones' address "the commercial and trading world." In this section, Jones looks at the business environment and accounting systems of his time. He explains how a successful business enterprise can be transformed into a bankrupt one by a deficient accounting system. Furthermore, he examines some of the bankruptcies of that time and places blame on the single and double-entry systems being used. Finally, he claims that his system of bookkeeping will eliminate the potential of related frauds and business failures.

In the second section of his book, Jones compares the old system to his new one. According to Jones, single entry accounting is simple and easily understood. Further, he views double-entry accounting as complex and obscure and as placing a great reliance on the trial balance to detect any error or fraud. He then argues that if the original entries are not properly recorded and posted, the trial balance becomes meaningless. He rejects existing systems on the grounds that they are susceptible to numerous errors and frauds, a deficiency which is eliminated by his system. He also suggests that his system can be adapted to the double-entry accounting system. Through this adaptation, one can maintain separate accounts for each item and still get the benefit of the accuracy that his system offers. This compromise suggests that Jones has forgotten that he has violently attacked double-entry accounting earlier.

Jones details the mechanics of his system in the third section. The transactions are first entered in one column of the journal in a manner much like that of single entry bookkeeping. The entries from this column are later extended to two additional columns in the same journal; one is a debit column to the left of the original column and the other is a credit column to the right of the original column. The totals of the original middle column must equal the totals of the debit and credit columns. Jones places much emphasis on this procedure to detect error and fraud. These entries are then posted in alphabetically arranged ledger accounts.

Jones suggests that it is useful to periodically reconcile the totals of debits and credits in the ledger against the totals of debits and credits in the journal; these totals must agree at all times. This type of reconciliation was later developed by the double-entry accounting system. He goes on to suggest that statements can be prepared directly from the journal. Some critics believe that the above suggestions constitute Jones's indirect contribution to the development of double-entry accounting. Finally, Jones proposes a plan by which his system can be taught and he provides an illustration of his system.

A valuable source to those interested in accounting history and in the development of double-entry accounting into a coherent system, this book is also appropriate for use as assigned reading in any undergraduate course where an exposure to the development of double-entry accounting is desired.

Thomas J. Hailstones, *A Guide to Supply-Side Economics* (Richmond: Robert F. Dame, Inc., 1982, pp. 175, $5.95).

Reviewed by
Barry L. Anderson
University of Delaware

In the preface to *A Guide to Supply-Side Economics,* Hailstones reveals that he has tried to write a short book for any layman seeking instruction in:

> . . . the classical roots of supply-side economics, the reason for the Keynesian Revolution, the modern setting for supply-side economics, its propositions, its differences and similarities vis-a-vis Keynesian or demand-side management, some models for supply-side economics, its current status and its probable policy applications in the 1980s. (p. v)

The order in which topics are presented is approximately that in the quotation above. Hailstones begins by defining supply-side economics as the general belief that a nation can best promote non-inflationary economic growth by stimulating the supply of goods and services rather than the demand for them. (p. 3) Supply-side policies include most prominently lowering marginal tax rates, but can extend to almost any measure that strengthens private incentives to work, save, and invest. If the right micro incentives are in place, the theory goes, the macro economy will be self-sustaining. Thus broadly conceived, supply-side economic theory is as old as the economics profession itself. Hailstones underscores this point by tracing the roots of supply-side thinking to the classical economists of the late 18th and early 19th centuries. The contributions of Smith, Ricardo, and Mill are all discussed together with those of Jean Baptise Say, the patron saint of the supply-side. Appropriately, much of the discussion centers on Say's Law of Markets which, in paraphrase, states that production generates income which in turn generates demand for the goods produced. If this is true, successful efforts to stimulate supply will not require additional efforts to stimulate demand. As supply expands demand will grow of its own accord preventing inventory accumulation and the threat of unemployment that accompanies it.[1] I say, "If this is true," because Say's Law has provoked a great debate in economics about the conditions necessary for it to hold. Keynes and the demand-siders who march under his banner have pointed to circumstances under which increased supply will not automatically lead to increased sales. These include the existence of "price rigidities" in either the capital or labor market and/or the existence of a liquidity trap in the money market.[2] Hailstones mentions these criticisms in Chapter 3 and then devotes Chapters 4 and 5 to demand-side theory and the history of its adoption in the U.S. The income-expenditure model, on which demand-side economics rests, is developed in much the same manner that it would be in a standard introductory text. The notion that aggregate demand depends upon expenditure decisions of consumers, investors, and the government and that it can be deficient unless somehow "managed" is accurately presented as the keystone of the demand-side point of view.

While the demand-side story is in jarring conflict with the classical arguments previously presented, Hailstones makes no effort to reconcile the two or to choose between them; nor does he indicate the basis on which a reconciliation or choice might be made. This omission is by design and is made to avoid appearing either strongly supportive or strongly critical of supply-side propositions. The result is that the reader is confronted with two opposing but equally plausible sets of arguments. Although scholars will no doubt applaud this objectivity, the layman may wish that his guide provided a bit more guidance. Some data and perhaps a little statistical analysis would have fit the bill nicely here, had it been included. Regrettably, it was not.

The final third of the book develops supply-side economics in its most recent incarnation. Since this is the most timely part of the book, it is fortunate that it is also its strongest portion. In the concluding chapters, Hailstones introduces virtually all of the currently prominent supply-siders, from politicians like Roth and Kemp to academic scribblers like Mundell, Feldstein and Laffer. While the contributions of these and many other individuals are only briefly described, this section is extensively footnoted and followed by an excellent bibliography. The bibliography alone is worth the price of the book, but the last chapters contain much more. Chapter 9, for instance, covers the Laffer curve and the capital and labor wedge models. One simply cannot understand modern supply-side thinking without an adequate understanding of each of these. Also included is a discussion of the Capital Cost Recovery Act or 10-5-3 plan for accelerated depreciation. Hailstones correctly points out that such a measure is necessary to prevent the underdepreciation of assets that occurs when historical cost accounting methods are applied during inflation. This inflation induced distortion is one of the major problems to face the accounting profession in recent times and it is comforting to see legislators and popular authors finally cognizant of its dangers. The book concludes with a discussion of the current policy status of supply-side ideas and several appendices showing how they have been incorporated in the Reagan Administration's economic program. The appendices are quite thorough and cover everything from specific tax and expenditure cuts to reform of the E.P.A.

In summary, Hailstones has attempted to cover the entire waterfront of supply-side economics for those with an interest but little background. Explaining so much to the uninitiated is a formidable task even when length is not a consideration. If one limits oneself to 175 pages of large print, as Hailstones has, the task is more difficult still. The problem is that 175 pages does not provide enough room to include very much detail. Hailstones realizes as much and obviously cuts everywhere he feels that he safely can. Statistical data, for instance, is generally omitted as is the kind of rigorous critical analysis generaly found in the professional literature. Instead of analysis or detailed exposition, the reader receives the gist of the supply-side story in a readable almost outline format. In short, if one is seeking an introductory or conversational knowledge of supply-side economics, this book provides it. If one is seeking a deeper understanding, further reading is necessary but the book provides a good start.

FOOTNOTES

[1]Keynes, pp. 78-79.
[2]Say, p. 172.

BIBLIOGRAPHY

Keynes, John M. *The General Theory of Employment, Interest and Money.* New York: Harcourt, Brace and Co., 1935.

Say, Jean Baptise. *A Treatise on Political Economy.* Philadelphia: John Griggs, 4th ed., 1830.

Saul Levy, *Accountants' Legal Responsibility*, (New York: American Institute of Accountants, 1954. Reprint edition, New York: Arno Press, 1980, pp. vi, 288, $25.00).

Reviewed by
H. F. Stabler
Georgia State University

This classic volume was written to provide the practicing accountant with a reference to certain judicial opinions and, accordingly, enable him to research the subject without the need to avail himself of a law library. It was the author's belief that familiarity with the facts and law cited in this work would provide the accountant with a better understanding of professional liability. He believed, also, that knowledge of the past would better enable the accountant to avoid liability in the future. The author indicates that he was prompted to write this volume as a result of interest generated by Chapter 6 of the *CPA Handbook,* the full text of which is reprinted in slightly rearranged form in the volume under review.

The book is divided into two parts. The first, entitled "An Analytical Survey" contains seven chapters. The second part consists of cases and articles, and is divided into six sections. The judicial opinions in a number of landmark cases are reprinted, many in their entirety. Two articles contained in this section were authored by Levy, and a third by John L. Carey.

The seven chapters in the first part address the traditional topics in the area of professional responsibility: fundamental considerations, liability to clients, liability to third parties at common law, liability to third parties by statute, disciplinary proceedings, working papers and privileged communications. Much of the information contained in these chapters is still relevant. However, some of it is out of date, particularly that found in Chapter Four, "Liability to Third Parties By Statute." Liability under the Securities Act of 1933 and the Securities Exchange Act of 1934 constitute the core of this chapter. Section 11(a) and Section 13 of the 1933 Act are discussed, as is Section 18 of the 1934 Act. The author points out that no court cases against accountants had been reported, as of his writing, under the 1933 Act based upon alleged falsity or misleading information as of financial statement dates. The current (1982) reader of this chapter should bear in mind that, due to the almost thirty years elapsing since it was written, the information contained therein is dated. The profession has seen a number of cases during the litigious period since the mid-nineteen sixties. Some of the more recent ones have been brought under Section 10(b) of the 1934 Act. This section is not even discussed in Chapter Four.

Part Two of the book consists primarily of reprints of judicial decisions, presented in the same topic order as are the chapters in Part One. The three articles in this section are commended to the reader.

This outstanding work is a classic in the area of accountants' professional liability. It is the intuitive belief of this reviewer that it ranked along with Cooley's *Torts* as an authoritative pronouncement. It probably served its intended purpose well for many years but, due to the lapse of time since its publication, the accounting practitioner should today consider it more from the point of view of background material rather than current legal authority. The accountant with a legal problem today is well served to seek counsel immediately. This work should be of considerable interest to historians, both accountants and attorneys. It is a classic.

Graham Mee, *Aristocratic Enterprise* (Glasgow and London: Blackie, 1975, pp. xvii, 222, £5.95).

Reviewed by
Christopher Noke
London School of Economics and Political Science

During the period, 1795-1857, the 4th and 5th Earls Fitzwilliam were owners of Wentworth Woodhouse, "a palatial setting for the grand occasion and for the annual gathering of the aristocracy for the Doncaster races." Not content with adopting the role of racing rentiers, the Fitzwilliams singlemindedly exploited the resources of the estate; they expanded the coal mining operations, established (but soon afterwards closed down) a coal tar works and, albeit reluctantly, took over the working of the Ilescar Ironwarks when the lessee went bankrupt in 1827. Dr. Mee's book is a case study of the estate during the period. He tries to ascertain why the Fitzwilliams became entrepreneurs, examines the problems posed by adoption of the entrepreneurial role during the middle years of the Industrial Revolution, and analyses the responses of the Fitzwilliams and their managers to the technical, marketing, financial and social challenges presented by estate management.

Although it is a business history, much light is cast on matters of social interest. The assumption that life in the pits was necessarily one of unrelieved gloom and hardship is given the lie by Mee's analysis of working conditions and welfare provisions at Wentworth. Not only was the moral philosophy of the Fitzwilliams conducive to the provision of many "comforts and advantages" for the workers, but they were fortunate too in the choice of Benjamin Biram as Superintendent. Biram's contribution to a safe and healthy workplace is well documented by Mee, who writes as clearly about technical aspects of centrifugal fans, rotating vane anemometers, the Biram safety lamp and Fourdrinier's apparatus as about the more mundane, but equally vital, provisions made for widows' pensions, schools and medical care.

The account of the 5th Earl's reaction to trade unionism following the founding of the Miners Association at Wakefield in 1842 is of topical as well as historical interest. There had been unrest before, but faced with growing union membership and collective action, the Earl closed the collieries, only reopening them when all his miners had resigned from the union "obedient to the command of their master." Mee persuasively sides with J. S. Mill, arguing that such a response was perfectly compatible with—indeed, a part of—the paternalism exhibited elsewhere.

Such paternalism is, however, unlikely to explain the 5th Earl's insistence on drawing up his own balance sheet and the reluctance to delegate below senior managers "particularly in what was regarded as the primary management function of accounting." Many managers had great difficulty in submitting regular accounts and extravagance and confused accounts appear to have been a perennial problem. The auditor—a barrister—frequently expressed concern over waste and extravagance and saw it as part of his job, on one occasion, to exhort the Earl to order heads of department to reduce expenditure by 10 or 12 percent, and to appoint a "properly qualified" person to exercise financial management. Much use is made throughout the book of quotations from correspondence, diaries and the like, but the most memorable must be the auditor's reproach, "Economical reform, really so necessary, should be mainly applied to Mr. Biram's book. It is quite true that I have no knowledge of the Details of which this is composed and therefore cannot speak with the slightest authority."

Although Mee refers frequently to the problems with the accounts the accounting historian is likely to be disappointed with the analysis given. At one point Mee writes, "The collieries, ironworks and tarworks all inherited the master and steward system of accounting which was traditionally used by agents on landed estates. The accounts were therefore based on double entry bookkeeping and had a debit or charge side and a credit or discharge side." This apparent confusion between the traditional Charge and Discharge and double entry is never fully resolved. There are some interesting illustrations of the practice of charging interest on "capital expended" and of opportunity costing, and an attempt is made to strike a net surplus cash flow for the period, but there is little to tell us why accounting seems to have caused such problems or, for example, for what "sinister practices" the ironworks' bookkeeper was dismissed. Several managers were rewarded by commission based on profits (giving rise to complaints about transfer prices and the charging of "extraordinary" items), but it does not clearly emerge how annual profits were determined. It is suggested that losses at the ironworks were "almost certainly" the difference between total receipts and payments, but as a general principle this would have been unsophisticated even by the standards of some thirteenth century estates. And a footnote dismissing Spring's observation (that the collieries were profitable for only four years between 1830 and 1850) as being "only tenable if one accepts a highly questionable definition of profit used on the Wentworth estate" teases more than it informs.

To be fair, the book is not directed towards accounting historians but rather towards students of management and industrial history and as such should prove a useful study of the paternalistic approach. It is not to denigrate the book to say that its approach is scarcely that of the scholarly treatise; rather, its unassuming style, often in the form of telling a story, is one of its principal qualities.

Michael T. O'Neill, Editor, *A. P. Richardson: The Ethics of a Humanist* (New York: Arno Press, 1980, irregular pagination, $25.00).

Reviewed by
Leo Herbert
Virginia Polytechnic Institute and State University

It has seemed to me that reviewing a book is often looked upon as a distasteful chore; one, however, that is necessary to a profession. For, in this way many professional readers could learn from one reviewer what new material that reviewer considers worth reading. But, the material in this book is not new; and reviewing the book was not a chore—fact of the matter, it was a delightful assignment.

Divided into two major sections, the book deals with two distinct subjects: better writing, called "This Blessed Language," and understanding ethics, titled "The Ethics of a Profession."

"This Blessed Language," a group of 50 essays on writing good English, was originally printed in the *Journal of Accountancy* from April 1939 to January 1943, on a monthly basis, and off and on from then until March 1944. "The Ethics of a Profession," printed in 1931 by the American Institute of Accountants, brought together for the first time in the profession's history, a learned discussion of why the professional needed ethical standards.

Concerning "This Blessed Language," the editor of the book says: "Richardson is aware of the stilted, formulaic style often found in business correspondence and urges instead sentences that are 'brief, clear and euphonious.'" The principles for good writing, copiously illustrated, are just as applicable today as they were when he wrote the essays. Every now and then, while reading the essays, you will say to yourself: "Why haven't I thought of this before?" I believe that if one reads and rereads the essays, many of the stated principles will help to improve one's writing ability.

But, probably more important than only helping a teacher, the book can also be a help to his students. Almost every one of us has heard from practitioners that one of the greatest faults of our educational process is the inability of students to write proper English. Since the essays are so delightful to read, I can see these essays being used as a valuable resource for students who may have some difficulty in writing. For, as I have said before, the basic principles apply today just as much as they did forty years ago.

The section, "The Ethics of a Profession," however, probably can be used better in a classroom than the section, "This Blessed Language." Richardson discusses, in a fascinating manner, just why ethical standards should be applied in the profession of accounting. Through the use of a young accountant as his hero, he explains why this young accountant should follow ethical standards. This section could be valuable reading material for graduate students in an auditing theory class or as a part of an undergraduate course dealing with ethics in auditing. The editor, Michael T. O'Neill, says: "Of the twelve ethical rules cited by Richardson in his 1931 *Ethics of a Profession,* the AICPA standards today still embody seven of them almost in the same language as the 1931 version." Maybe Richardson did understand ethical standards after all.

By the way, do not forget to read the editor's introduction to the man, Alphyon Perry Richardson, and his works. This introduction will help you understand why this man's work was chosen as a classic to be reproduced for later generations.

R. H. Parker, Editor, *Bibliographies for Accounting Historians* (New York: Arno Press, 1980, irregular pagination, $30.00).

Reviewed by
R. Eugene Bryson, Jr.
University of Alabama in Huntsville

This book is a recent addition to the Arno Press collection entitled *Dimensions of Accounting Theory and Practice.* The purpose of this volume is to provide accounting historians with an essential research tool: the bibliography. Reproduced here are eight bibliographies which have long been out of print or otherwise difficult to obtain. In addition, a previously unpublished bibliography by the editor is included.

Due to the language problem, three of the bibliographies in this volume will be of limited value to many researchers. J. Hagers' *Bouwstoffen Voor de Geschiedenis van het boekhouden in de Nederland* (Materials for the History of Bookkeeping in the Netherlands) is a bibliography of pre-20th century materials in Dutch. A more recent bibliography, *Zur Geschichte der Rechnungslegung im engeren deutschsprachigen Raum* (on the History of Accounting in German-speaking countries), is basically a catalogue of bookkeeping texts and accounting records. Gonzalez Fernando's *Bibliographia* covers mainly pre-20th century accounting history and includes items in Italian, English, Spanish, French, Polish, Portuguese, German, Dutch, Czech, and Latin.

Two bibliographies by H. W. Thompson (a former Librarian of the Institute of Chartered Accountants in England and Wales) list books on accounting in English, published between 1543 and 1800, as well as books in other languages covering the period 1494-1750. The coverage of this pair of compilations is remarkably extensive, including, for example, all of the known works of Luca Pacioli.

The remainder of Parker's book consists of four bibliographies printed entirely in English. The annotated bibliography by Marc J. and Joanne B. Epstein is unique in that it is specialized, listing only works dealing with the relationship between scientific management and standard costing prior to 1920. The other three selections represent an attempt by the editor to provide an updated bibliography on all aspects of accounting history. The last item in the book takes the bibliography to 1979.

This book will be beneficial to students of all aspects of accounting history and should be a "must" for any university library. The recognition of the need for more specialized bibliographies is particularly welcome.

William Andrew Paton and Russell Alger Stevenson, *Principles of Accounting* (New York: The Macmillan Company, 1918, Reprint ed. New York: Arno Press, 1978, pp. xviii, 685, $49.00).

Reviewed by
Dale Buckmaster
University of Delaware

This book represents an ambitious effort by two assistant professors, one at the University of Michigan (Paton) and one at the University of Iowa (Stevenson). I trust that the book made a significant contribution towards their promotion. Paton and Stevenson were writing a textbook, and they make it clear that they feel their objective was to provide the student with the opportunity to understand accounting rather than to demonstrate existing methodologies for the treatment of specialized problems. Illustrative journal entries are sparse, but adequate, and ideas are plentiful. Contemporary textbook writers would do well to emulate their style. The book being reviewed represents the third version of *Principles of Accounting*. Zeff [1979] has described the development of the three versions with the following evaluative comment:

> The 1917 and 1918 versions are not designated as second and third editions, although the titles are identical. Of the three versions, the one published in 1918 is by far the best known—indeed, few citations to its predecessors may be found in the literature. The successive versions grew steadily from 222 pages to 373 and finally 685 pages, reflecting, among other things, the authors' expansiveness and increasing conviction of the rightness of their controversial conclusions. (p. 93).

This edition of *Principles of Accounting* represents an attempt to provide a rather comprehensive coverage of accounting problems of the first quarter of the twentieth century. Paton and Stevenson have divided it into an Introduction and six parts. The Introduction contains a definition of accounting, a description of the economic environment creating the need for accounting, and the function of accounting within that environment. Part One, Elements of Accounting, is a development of the basic ideas of accounting and the data accumulation methods that are equivalent to the material that now normally constitutes the content of a first college course in accounting. However, the great detail that we normally find now is missing. Emphasis is on ideas.

Part Two, The Equity Accounts, consists of a description of equity accounting for proprietorships, partnerships, and corporations plus a chapter on liabilities. We find the equivalent of Part Three, The Interest Problem, in contemporary Intermediate Accounting. There is a discussion of interest and types of debt, an extensive treatment of present value and annuities, and descriptions of accounting for interest on debt and from investments.

Many will find Part Four, The Valuation of Assets, most interesting. For example, Chapter XX, The Basis for Revaluation, contains the following subheadings:

The General Significance of Value Changes
Valuation and Management
The Measurement of Investment or Sacrifice
Special Objections to the Recognition of Appreciation

The title of Part Five, The Construction and Analysis of Financial Statements, is descriptive of this four-chapter section.

The last part of the text of the book is Part Six, Special Fields of Accounting. Each of the four chapters is an overview of a topic not covered in earlier chapters. The topics are Cost Accounting, Municipal Accounting, Railroad Accounting, and Auditing.

I am incapable of determining the role of this book in the development of accounting thought. If one is to do this, it is crucial that a judgment be made of the degree to which the book is representative of accounting thought of the time and the degree to which unorthodox ideas are advanced. I cannot make this judgment because I lack the requisite breadth of knowledge of early twentieth century accounting thought. Zeff [1979] indicates, however, that:

> It is no surprise that in the first significant period of his writings, 1917-1918, Paton emerged as an idealist. Accounting writers are inclined to cite his 1918 textbook, *Principles of Accounting,* which he wrote with Russell A. Stevenson, as his most uncompromising challenge to accounting orthodoxy. And it was. (pp. 91-92).

BIBLIOGRAPHY

Zeff, Stephen A., "Paton on the Effects of Changing Prices on Accounting, 1916-55," in Stephen A. Zeff, Joel Demski, and Nicholas Dopuch, eds. *Essays in Honor of William A. Paton: Pioneer Accounting Theorist* (Ann Arbor, Mich.: Graduate School of Business Administration, The University of Michigan, 1979), pp. 91-138.

Glenn Porter, *The Rise of Big Business, 1860-1910* (Arlington Heights, Ill.: AHM Publishing Corporation, 1973, pp. xi, 119, $4.95).

Reviewed by
Tom McInish
University of Texas at Arlington

What is "big business"? The author of this short but informative book spends 27 pages explaining why big business is not simply a large version of small business. Not only does big business have more capital than small business; but there are many other more fundamental differences: higher fixed costs, greater separation of ownership and control, and more diverse economic functions. The importance of each of these is explained in detail in this first chapter, devoted to the meaning of the phrase "big business." Another difference is the way the control of distant operations is handled. Small firms such as merchant bankers had traditionally solved the problem of insuring accountability and honesty by staffing distant branches with relatives, but large firms must rely on organizational controls. The most important consequence of the unique characteristics of big business for accountants is that they give rise to the need for complex managerial structures. This complexity leads directly to an increased reliance on the accounting profession.

Altogether very enjoyable reading, the book is enhanced by its numerous references to other works and to specific industries and companies. There is also an excellent annotated bibliography. The book would be useful to accounting students in that it clearly explains the origins of the increased role and status of the accounting profession in modern society. The first chapter on the meaning of "big business" is followed by one which describes the rise and spread of big business. The third and last chapter explores the impact of big business on society.

C. Joseph Pusateri, Editor, *Big Business in America: Attack and Defense* (Itasca, Illinois: F. E. Peacock Publishers, Inc., 1975, pp. 192, $3.95).

Reviewed by
Martha K. Farmer
Augusta College

Big Business in America was written as a part of a series called "Primary Sources in American History" which, according to the series editor, Grady McWhiney, "provides the documents necessary to explore the past through the eyes of those who lived it." A wide range of topics is covered by the series. The expected use of *Big Business in America* was the college classroom, and as such presents the chronological development of big business,.

This book is divided into three sections, each of which presents a major stage in the development of huge business organizations. In the introduction, Pusateri presents what he calls "the dilemma of abundance." This dilemma is not resolved and the reader is left to ponder the compatibility of "classic American values" with "big business." The author does not take a position, but clearly presents the historical developments surrounding various attempts to provide solutions. The author's desire to provide students with an "appreciation of the complexity of the challenge of modern large-scale business enterprise coexisting with the time-honored values and ideals born of an earlier, less troublesome America" is definitely achieved. His method of presentation provides history without bias.

Part I, "The Emergence of a Dilemma" consists of a case study of Standard Oil. The reader is exposed to the details of operations, court challenges, and investigations. It is obvious that a dilemma does exist when these situations are considered.

In Part II, the Dilemma is presented as a political issue. The Sherman Antitrust Act is the foundation for a political policy. The entire act is quoted along with reports of subsequent investigative agencies. By reading the complete document, one develops an appreciation for the complexity of the problems embodied in the Dilemma and the tentativeness of apparent solutions. The enforcement policies of Theodore Roosevelt, Woodrow Wilson, Herbert Hoover, Calvin Coolidge, William Harding, and Franklin Roosevelt are presented. The essence of all enforcement philosophy is embodied in Franklin Roosevelt's actions. In the early years of his administration, the emphasis was on national planning with little hindrance to cooperation between firms. In 1930, Roosevelt appointed Thurman Arnold to head the Antitrust Division of the Justice Department. Arnold doubled the size of that Division within a year. In 1942, big business won again as Roosevelt agreed to permit the postponement of antitrust prosecutions, at the discretion of the Secretary of War.

The final section of this book presents the historical development of "The Military-Industrial Complex," "The Social Responsibility of Business," and "Multinationalism." Throughout the book, case studies of large corporations provide interesting insight into the problems of big business. Just as important are the hearings and committee reports which present the evils of bigness. Pusateri has done an excellent job of maintaining a balance of information so that this book is neither for nor against big business. It is what it is intended to be: a history book which traces the development of big business and presents this development through the eyes of those who lived it.

Wiley Daniel Rich, *Legal Responsibilities and Rights of Public Accountants* (New York: American Institute Publishing Co., Inc., 1935, Reprint ed. New York: Arno Press, 1980, pp. xii, 236, $22.00).

Reviewed by
Charles L. Holley
Virginia Commonwealth University

This book is a comprehensive treatment of case and statutory law applicable primarily to public accountants. The first chapter describes the public accountant's liability for negligence, libel and fraud. The three remaining chapters involve the law relative to the public accountant's certificate, the accountant as an expert witness and certain special rights of public accountants. Copyrighted in 1935 and reprinted in 1980, this reference contains 222 pages of narrative, an Appendix (AICPA Rules of Professional Conduct in 1935), a table of legal cases cited (5 pages), and a bibliography.

Chapter I (Liability of the Public Accountant for Negligence, Fraud and Libel) describes the development of laws relative to public accountancy according to the following main divisions:

I. Interest in the public accountant's liability for negligence and fraud.
II. Nature of negligence.
III. Liability of the public accountant to his client for negligence.
IV. Liability of the public accountant to his client for libel.
V. Liability of the public accountant to third parties for negligence and fraud.
VI. Extension of the ambit of negligence rather than that of fraud to cover the public accountant's liability to third parties for innocent but negligent misrepresentation.
VII. Criminal liability of the public accountant for fraud.

There are extensive quotations from court cases to emphasize the most important issues. Chapter I alone contains 97 footnotes for legal sources, explanatory material, and supporting periodical articles. There are two hundred eighty-four footnotes throughout the book.

Chapter II (Law and the Certified Public Accountant's Certificate) describes legal issues pertaining to the certification process. The background of many state certification requirements is presented with the legal implications of issues such as reciprocal certificates, memberships in professional accounting organizations, cancellation and reissuance of certificates. Court cases are also cited extensively throughout this chapter. The author's interpretations and predictive views make this an interesting chapter. For example, Rich writes "In view of the present political, social and economic conditions demanding greater control of private business, it is probable that the United States supreme court would uphold a statute restricting the practice of public accounting to those certified." (p. 141).

Chapter III (The Admissibility of the Public Accountant's Expert Testimony in Court) is an excellent presentation of background material on expert testimony in general and the admissibility of accountant's and auditor's expert testimony in court. English and American law is cited throughout the chapter. Chapter subdivisions also include custody of records, authenticity of records, confidential communications, and primary versus secondary evidence.

Chapter IV (Some Special Rights of Public Accountants) is the shortest (30 pages) chapter and includes the following topics: champerty, ownership of working papers, liens upon employer's books, rights under bankruptcy law, recoverability of auditor's expenses, and the rights of practitioners of public accountancy to incorporate. The section on ownership of working papers is especially informative and currently very relevant.

This book was originally presented as the author's thesis at Columbia University. It is well written, covers diverse technical topics, and cites many court cases. However, it requires careful attention by the reader. This book would be appropriate as one reference in graduate courses such as auditing, the environment of accounting, and history of accounting. It belongs in every university library.

William G. Shenkir, Editor, *Carman G. Blough: His Professional Career and Accounting Thought* (New York: Arno Press, 1978, irregular pagination, $31.00).

Reviewed by
Clifford D. Brown
Northern Arizona University

It is a great honor for me to review the selected writings of a man who has an unparalleled influence on the development of accounting principles and auditing procedures in the United States. Dr. Blough's eminence is evidenced at the beginning of the volume by three short testimonials which serve as an introduction to the man, his credentials, and his honors and accomplishments. The remainder of the volume contains twenty-eight of Carman Blough's addresses and articles, arranged in chronological order, starting in 1937 when he served as the first Chief Accountant of the Securities and Exchange Commission.

The first item ought to be viewed as a classic and required reading for accounting history students (and faculty). It was a 1937 address before a large group of CPAs in New York City. In that address, Blough outlined the vast variety of inconsistent accounting practices found in SEC filings that were considered "GAAP" by the registrants. In addition to citing numerous examples of inconsistent practices, he also placed the accounting profession on notice with regard to the need for its members to improve the current state of accounting and reporting practices. If the profession did not respond and initiate steps to promote improvement, then the Commission had the authority to "undertake the prescription of principles." I believe this speech to be classic, not only because it serves as a bench mark to assess the progress that has occurred in financial reporting over the last forty-five years, but also because it prompted the American Institute (AICPA) to establish the Committee on Accounting Procedure. We have never been so close to having the standard-setting process transferred to the public sector. Without that speech and subsequent actions it evoked, financial accounting and the profession might be significantly different.

Other articles in this collection focused on a wide variety of subjects. Each article, however, reflects Carman Blough's unending crusade for improvement in accounting and auditing practices. For example, there are selections reflecting his concern as to the meaning of financial statements and the responsibilities of both the auditor and management. In reading these selections, correspondence to today's concerns is apparent. For example, in one 1938 article appearing in *The Controller,* Blough expressed a concern that some of the "comprehensive footnotes" accompanying financial statements in recent years "may be made to confuse rather than to assist the investor." In another 1939 address at the Central States Accounting Convention he stated that "A corporation has a definite responsibility for the statements it presents and has no right, . . . to publish them unless it presents them as its own." This statement is directly applicable to the current requirement that management must state its responsibility for the integrity of the financial data in the annual report.

Many of the other articles and addresses in this volume highlight Blough's efforts as a member of the Committee on Accounting Procedure, as Director of Research of the AICPA for sixteen years, and as a member of the Accounting Principles Board. In fact, nineteen of the articles are selections from those sixteen years when he was Director of Research. The subject matter of these nineteen selections not only related to specific technical accounting and auditing matters that were being considered by the AICPA's official committees at the time, but also reflected Blough's views toward the role of research in the standard-setting process and his concern that standards promulgated be based on sound theoretical underpinnings. Many of those selections would also be suitable as required reading in many financial accounting and auditing courses at both the undergraduate and graduate levels. For example, the article "Auditing Standards and Procedures" is an excellent introduction to the distinction between auditing standards and auditing procedures, and would enrich any auditing course. Two other selections entitled "Responsibility to Third Parties" and "Current Developments in Accounting and Auditing" would also be appropriate for auditing courses. Other articles such as, "Can Conventional Accounting Cope With Inflation," "Depreciation—To Measure Income or to Provide Funds For Replacement?," and "Accounting Research for Better Financial Reporting" all would enhance financial accounting courses by adding the much needed historical perspective. In addition, "Nine Ways to Render an Annual Report More Useful to Stockholders" and "The Meaning of Generally Accepted Accounting Principles" are two examples that would be very appropriate for even elementary courses.

A common denominator in all his addresses and writings in this volume is his unwearied and unyielding efforts to improve (and to see improved) the current state of financial reporting. Those who today question "improvement" or "lack of improvement" in financial reporting need only read the last article in this collection entitled "The Past is Prologue" to gain an appreciation for current financial reporting. Blough refers to a 1921 effort to secure rudimentary sales, cost, and non-operating income data from thirty companies. He stated this effort "brought very little information, . . . forty percent did not answer at all . . . and about another forty percent replied that the information was confidential and could not be disclosed." To see and to be a cogent force in a transformation from that situation to the current state of financial reporting must be very gratifying.

In addition to specific selections referred to above, the entire collection could be used to introduce students to what milestones in a full career really mean, and to serve as a reminder to contemporary accountants of one man's immeasurable influence and service to the accounting profession. One of the saddening events of 1981 was the death on March 9 of Carman Blough.

T[homas] B[ond] Sprague, *A Treatis on Life Insurance Accounts,* and *A Treatise on Insurance Companies' Accounts* [Revised by A. E. Sprague], (London: Charles & Edwin Layton, 1874/1911, 1874 ed. pp. 158, xxiii, 1911 ed. pp. 100, vi; Reprint ed., two vols. in one. New York: Arno Press, 1980, $24.00).

Reviewed by
Robert B. Yahr
Marquette University

This book is a reprint of two earlier books describing the impact of two United Kingdom legislative acts—the 1870 Life Assurance Companies Act and the 1909 Assurance Companies' Act—on life insurance company financial reporting. The first book was authored by T. B. Sprague, a president of the Institute of Actuaries; the second book, a revision of the first, was prepared by his son, A. E. Sprague. The primary purpose of each edition was to explain the function of the several financial statements required by each act and to describe the principles of accounting underlying those required statements.

Although British accounting in 1870 was more advanced than it was in the United States, financial reporting in general was in its infancy at that time, with financial reports usually limited to summaries of cash transactions. The 1870 Act was designed to establish a set of uniform statements which would more accurately reflect the financial position of life insurance companies. The 1909 Act revised some of these statements by clarifying parts of the earlier act and by expanding the amount of information required.

In recognition of the intentions of these acts, the authors begin each edition by explaining the differences between a cash account (a statement summarizing cash transactions) and the required "revenue account" (a statement similar to the modern income statement). They also illustrate the effects of using a cash account on the analysis of financial relationships. After differences between cash and revenue accounts are explained, the remainder of each edition is devoted to explanations of the required financial statements and each item which should appear thereon.

The authors' discussions in both editions continually emphasize the need for uniform financial reporting. One extension of this emphasis on uniformity forms in this reviewer's mind the most interesting aspect of the first edition. As an outgrowth of analyzing each company's 1871 annual report, T. B. Sprague intersperses citations of actual deficiencies in the various companies' reports within his analysis of the Act's requirements. For example, in his discussion of "Mortgages on Property within the United Kingdom" (pp. 66-74), he describes the items the 1870 Act requires under this heading and then indicates 103 instances where companies have failed to classify properly some of their holdings. This meticulous analysis typifies the care that he took in writing the entire first edition.

The first edition very accurately portrays the status of financial reporting immediately after passage of the 1870 Act. It also serves to provide a reader familiar with the history of life insurance reporting in the United States with a greater understanding of the background behind the adoption of certain accounting principles for American companies. The second edition, while not containing all the detail of the first, adequately explains the revisions to financial reporting mandated by the 1909 Act.

Both the first and second editions contained in this reprint book are recommended for individuals having an interest in either financial reporting for life insurance companies or the development of accounting in the United Kingdom.

Howard F. Stettler, Editor, *Auditing Symposium III — Proceedings of the 1976 Touche Ross/University of Kansas Symposium on Auditing Problems* (Lawrence, Kansas: University of Kansas Printing Service, 1976, pp. 135, $5.00).

Reviewed by
James D. Blum
American Institute of Certified Public Accountants

Auditing Symposium III includes eight invited papers and seven discussants' responses presented at the Touche Ross/University of Kansas third biennial auditing symposia for practitioners and educators. The objective of the symposium is to bring practitioners and educators together to discuss contemporary auditing issues. The papers are not rigorous research reports, but rather descriptive reports of the state of the art as practiced or presented in the literature, and/or opinions of the practitioners as to what constitutes the state of the art. Thus, the proceedings via the papers and discussants' responses probably assisted both academicians and practitioners in gaining insight into the literature and practice relating to contemporary auditing issues.

As in past symposia, the first paper, "An Auditing Perspective of the Historical Development of Internal Control," is a part of Professor Stettler's attempt to assemble a series of papers that might eventually provide a comprehensive dissertation on the development and heritage of auditing. In this first paper, Willie Hackett and Sybil C. Mobley review the findings of accounting historians that have studied the historical development of internal control. They start with the Mesopotamian civilization, revealing how separation of duties existed, and how tiny tick marks, etc. at the side of figures indicated that checking of transactions had been performed. Hackett and Mobley rapidly summarize the historical development of internal control and then focus on the conceptual development of internal control by tracing terminology and descriptions of internal control and auditing in the various editions (first through the ninth) of *Montgomery's Auditing*. As the discussant, Rodney J. Anderson, correctly concludes:

> In summary, I thought the paper gave an interesting overview of the historical development. As in all overviews, it is something that could also be expanded—and indeed, might be of considerable interest in a more expanded form. (page 15)

In "Management Behavior—An Auditing Horizon," W. Donald Georgen provides an excellent insight into the auditor's problems and the audit approach of his firm, Touche Ross & Co., in coping with the detection of management fraud.

The next two papers presented at the proceedings involve the auditor's report. Lee J. Seidler's paper, "Symbolism and Communication in the Auditor's Report," discusses the auditor's report as a symbol; how symbols are used in communication; and some of the communication problems with the auditor's report as a symbol carrying a complex message to the user. D. R. Carmichael's paper questions the need for, and usefulness of, the "subject to" qualification in the auditor's report.

In "Status Report on Auditing in the European Economic Community," Richard L. Kramer gives a comparison of accounting and auditing practices in the European Economic Community and in the U.S. Boyd Randall and Paul Frishkoff in "An Examination of the Status of Probability Sampling in the Courts" examined past court decisions in which probability sampling was used in order to gain insight into whether the use of statistical sampling in auditing would be a better defense in the courts than judgment sampling.

"Use of Decision Theory in Auditing—A Practitioner's View," by James K. Loebbecke, probably best brings the practicing auditor's world and the academic world together by discussing and attempting to demonstrate how decision theory might be used by auditors in controlling audit risk.

Finally, "Capital Investment and U.S. Accounting and Tax Policies," the evening address by Richard D. Fitzgerald warns of the future undercapitalization of American businesses. Fitzgerald points out some of the U.S. income tax policies that hinder capital formation and how the burden of additional disclosure requirements sometimes can dampen capital formation.

Symposium III should be of interest to auditors interested in contemporary auditing problems. Auditing historians will probably find the historical development of internal control paper a quick overview and, if coupled with the other Symposia historical development papers, an interesting and quick review of the literature.

Howard F. Stettler, Editor, *Contemporary Auditing Problems: Proceedings of the 1974 Arthur Andersen/University of Kansas Symposium on Auditing Problems* (Lawrence, Kansas: School of Business, University of Kansas, 1974, pp. 121, paper, $5.00).

Reviewed by
William Yellin
St. Francis College

This book contains fifteen papers covering the concerns and often differing viewpoints of the Symposium participants regarding the following topics: Auditor Independence: Its Historical Development and Some Proposals for Research; The New AICPA Audit Commission—Will the Real Questions Please Stand UP?; Controlling Audit Quality: A Responsibility of the Profession?; Relationship of Auditing Standards to Detection of Fraud; A Decision Theory View of Auditing; Setting Standards for Statistical Sampling in Auditing; The Sample of One: Indispensable or Indefensible?; The Case for Continuation of Mandatory Independent Audits for Publicly Held Companies. The participants represented a cross section of the profession, namely academia, public accounting, and governmental agencies. Each topic was covered by two papers of differing viewpoints except for the last topic listed above which was covered by one individual. First, a brief topical history mixed with the personal viewpoints of the writer was presented. Then the second discussion paper was presented addressing itself to the personal viewpoints of the author of the preceding paper.

In many cases, the viewpoints reflected the occupational backgrounds of the writers. For instance, the initial paper on independence was presented by an academic who suggested at one point that a strengthening of auditor independence might be furthered by paying the auditor from public funds. The second paper, presented in direct response to this paper, opposed this view as an impractical solution because of the wide disparity of the accounting and auditing services being rendered. This response was written by a member of the public accounting profession that one might expect to espouse this premise.

The symposium was organized by having all papers distributed in advance to all participants so that preparers only made brief comments on their paper. Time was then allotted to the writer of the discussion to reply, followed by an open discussion by all the remaining participants. The papers were all thoroughly prepared and citations to previous applicable literature were made for historical background. However, I think that accounting personnel representing the private companies which are the subject firms of an audit should have been represented, in order to supplement the academic, public accounting, and governmental viewpoints.

I believe that readers of this publication would have also been interested in reading some of the points made by the participants when the topics were opened to general discussion. I suggest inclusion of selected general discussions in future publications of this symposium.

The presentations contemporary to 1974 are still contemporary today. There were suggestions for quality control programs within the public accounting profession as well as continuing education programs. These are still current topics and the profession has moved forward with peer review programs within the American Institute of CPAs and mandatory continuing education programs in various states. The public accounting profession itself is continually answering many of the questions raised in this 1974 symposium. This publication will provide researchers and members of the profession an excellent source document summarizing the questions facing auditors today.

Arthur L. Stinchcombe, *Theoretical Methods in Social History,* (New York: Academic Press, 1978, pp. X, 130, $10.00).

Reviewed by
Linda B. Ferreri
Case Western Reserve University

Arthur Stinchcombe's expressed purpose for writing this book was to demonstrate that "one uses history to develop theory" and to outline a general methodology to be used in achieving this. He casts doubts on the logical positivist ideas of research and uses the works of Trotsky and deTocqueville to show that the difference between them "makes hardly any difference to any important question of sociological theory."

The methodology he suggests is in the nature of a logical analogy. To simplify tremendously, analogies of historical instances are selected. Then a three step process is used to reduce the analogy "to its scientifically relevant predicates" in order to develop "causually interesting sentences." The three comparisons are an ideal sequence comparison, a comparative history of roles and a comparison of functional equivalents. Stinchcombe uses these steps to analyze Neil Smelser's *Social Change in the Industrial Revolution* and Reinhard Bendix's *Work and Authority in Industry*.

There appear to be several problems with the methodology and the perspective advanced by Stinchcombe. One such problem is apparent in his analysis of the works of Trotsky and deTocqueville. He finds a number of important parallels between the analyses of the two men. Trotsky, in describing the Russian Revolution, and deTocqueville, in describing the French Revolution, each cites such factors as ineffective authority, increasing injustices, dual powers, and the use of symbols as factors that were present prior to the revolution. Stinchcombe sees these as analogies that can be used to infer "the nature of the causal process." His methodology, however, has no means of weighting the importance of these factors. No two historical incidents can be found to have exactly the same preconditions in exactly the same strength. Similarly, conditions that may have little or no importance in one situation may be of overriding importance in another. For example, religious differences played an essential role in the Irish Rebellion but almost no part in the American Revolution. The use of this system of parallels would apparently accord no importance to religious conflicts since they are not present in both situations.

Another problem with this methodology is that Stinchcombe's analysis is limited to disruptive periods. His discussion of Smelser's arguments about social change among workers in the Industrial Revolution is extremely compelling and interesting. His comparison of the roles of male workers before and after industrialization, for instance, is enlightening although he places more emphasis on social factors than may be justified. However, it appears doubtful that such a comparative process would be equally profitable in periods in which more subtle changes were taking place.

This book has some interesting points to make about theoretical methods in social history and is very thought-provoking. It might best be read by those who are familiar with the four works specifically analyzed by the author although he does quote them frequently enough to invoke the flavor of their arguments.

The methodology may have shortcomings and it certainly does not appear to be as generalizable as Stinchcombe implies but it is a fresh possible approach within its limitations.

Norman E. Webster, Compiler, *The American Association of Public Accountants: Its First Twenty Years, 1886-1906.* (New York: American Institute of Certified Public Accountants, 1954. Reprint edition: New York: Arno Press, 1978, pp. xi, 402, $31.00).

Reviewed by
Paul Frishkoff
University of Oregon

Modesty is a characteristic which is perhaps no longer much valued in our society. This may be because some modest people have, as Mr. Churchill said of Mr. Attlee, "ample reason for so being." Such is *not* the case with Webster, who is self-effacingly listed as "compiler" of this book—a history of an AICPA predecessor—though he appears to have been researcher (in the best sense of the word) and author.

The unexpected dearth of existing records of this association was no deterrent to the author, then chairman of the AICPA Committee on History (and a right venerable age himself, according to the Library of Congress cataloging information on the inside cover page.) He painstakingly reconstructed events, memberships, philosophies, out of the paucity of records but primarily from a most thorough reading of numerous business and professional journals and periodicals of the era. Many doctoral dissertations involve less work than this.

What emerges is a picture of the formation, contributions, and eventual merger of this rather Victorian society of gentlemen. (Indeed, as Webster briefly points out as an afterthought, women were denied admission, although a few very eligible female accountants were in practice during this period. He fails to point out as directly that the membership was almost entirely Anglo-Saxon in makeup, about half the members having been born in Britain or its Commonwealth; whether membership was denied to more ethnic types, or if any applied, Webster doesn't really say.) Biographies of each member, even those who resigned after a short while, are reconstructed by the author. The impression that one gets is that surely this was the "creme de la creme" of New York accountants.

The orotund tones and circumspect language which characterized some of the speeches and correspondence of members of the society and of Society as well, are echoed in the author's writing. For instance, though he documents at length the denial of admission to various individuals for unethical conduct, he substitutes blanks for the actual names, leaving future researchers just a bit more (unnecessary) digging to do. The ethical breaches, we might vote, involved not only fraud but *false* advertising, since advertising itself was very much accepted by the profession at the time, as it is once again slowly becoming today.

Another point, which one can cull from the biographies, is the relative lack of a college education by the members. This is a point which is, of course, familiar to those who have read Edwards' or Previts and Merino's books, among others. Yet in no sense were these people unlettered; judging from the portions of speeches and letters which Webster reproduces, their command of the language dwarfed that of most contemporary students (and of many contemporary academics).Their sophistication in *accounting* appears less impressive, since bookkeeping and rather mundane auditing seem to have occupied the bulk of their practices. (This was, we should recall, the fabled era prior to the Federal Income Tax.)

The contributions of the Association to the first CPA licensing law, and the ramifications thereof, including the attempt to "grandfather" practicing public accountants out of the examination requirements, make worthwhile reading.

To those with a keen interest in the history of American accounting, public and private, this book may be a worthwhile acquisition. It certainly belongs in better university library collections. Of course, it is not flawless. The book lacks a bibliography and footnotes, although the source of almost all of Webster's assertions is documented in a scholarly manner. Although it appears tightly organized, there are many extremely short chapters, which is mildly disconcerting. And Webster's style assumes that any reader has digested the whole book word-for-word, so that skimming is extremely difficult and none too fruitful. Perhaps most annoying, the book lacks an index, a flaw which could be remedied by a zealous professor or student with time on his or her hands.

M. C. Wells, Editor, *American Engineers' Contributions to Cost Accounting* (New York: Arno Press, 1978, irregular pagination, $31.00).

Reviewed by
Robert R. Locke
University of Hawaii at Manoa

In this collection of pre-1914 articles, nineteen reprints taken primarily from the *Engineering Magazine* and the *Transactions of the ASME,* the editor, M. C. Wells, seeks to show how American electrical and mechanical engineers "gave the development of costing methods and cost accounting the impetus which has brought it to its present position of prominence." (p. 4) Accordingly, the articles are grouped to reveal the interest that engineers had (1) in the financial aspect of efficiency (articles by F. P. Goddard, H. R. Towne, R. H. Thurston, C. E. Emery and E. R. Spedden), (2) in the problem of pricing (articles by G. F. Fowler, H. M. Lane, A. W. Farnsworth and R. S. Hale), (3) in the development of cost records for internal shop management purposes, as opposed to more formal cost accounting procedures per se (articles by H. Metcalfe, H. M. Morris and H. Roland), and (4) in the elaboration of costing principles (articles by H. Roland, J. G. Newton, P. Longmuir, P. J. Darlington, A. H. Church and H. R. Towne).

Although the contribution of the engineers to cost accounting is undeniable (and hence the publication of these reprints most welcome), significantly some of the articles reproduced are not by engineers. That by Dr. E. R. Spedden, "Is the Study of Economics Useful for Engineers," is a case in point, for, if its publication in an engineering periodical indicates a growing awareness of economic science in engineering circles, its contents and authorship show how deficient the engineers were in this respect. Indeed, this collection of essays demonstrates the extent to which engineers remained ignorant of economic principles (opportunity costs, marginal analysis, etc.) that would have helped them solve many costing problems.

It is easy, of course, to make this criticism from our perspective. But contemporaries were aware of the engineers' failure to incorporate economic principles into their work on cost accounting. The great German business economist, Eugen Schmalenbach, repeatedly pointed this out in his reviews of books by engineers on cost accounting. He stressed, for example, the importance of marginal analysis in pricing, something, which these essays prove, American engineers did not take into consideration in their cost accounting.

Wells' assessment of the American engineers' contribution to cost accounting would have been improved, had the editor, in his introduction, examined their work more critically within the context of contemporary comment.

M. C. Wells, Editor, *Controversies on the Theory of the Firm, Overhead Allocation, and Transfer Pricing* (New York: Arno Press, 1980, irregular pagination, $20.00).

Reviewed by
Eric Brucker
University of Delaware

This collection of eighteen articles, including ten written by Wells, addresses three controversies in managerial accounting: the allocation of overhead costs, the establishment of internal transfer prices, and the amortization of deferred charges. Wells analyzes the various viewpoints within the context of a profit maximizing theory of the firm and the associated marginal conditions. Overall the author clearly succeeds in meeting his self-imposed goal of stimulating the reader to "think a little more about what accounting is, and what it could or should be."

The stage is set by reviewing the competing theories of the firm. Machlup's 1967 classic, "Theories of the Firm: Marginalist, Behavioral, Managerial," provides an excellent overview. Machlup primarily defends marginalism on grounds of its superior predictive power rather than on the realism of the profit maximizing assumption. However, in two empirical articles examining managers' motivations, Wells suggests that the assumption may be realistic. While Wells presents interesting data, Machlup's justification remains the more convincing.

With the case for marginalism stated, Wells presents well reasoned arguments against the allocation of overhead costs of products or operating divisions within an organization. Similarly, the practice of establishing transfer prices is convincingly questioned. In his view, attempts to alter divisional managerial behavior by distributing cost and impacting divisional profits will succeed in changing behavior. However, the change will almost certainly cause the firm to move away from a profit maximizing allocation. Overhead allocation formulas and arbitrary transfer prices based upon historical accounting data rather than current market prices do not motivate managers to behave in accordance with marginal principles. "The evaluation of the performance of managers should be based on those matters over which they have control."

If the existing methods of cost allocation are not consistent with the marginalist view of the firm, what does Wells propose? An activity accounting model is set forth based upon Chambers' system of Continuously Contemporary Accounting. The use of activity, rather than product costing, makes the accounting data more suitable for managerial evaluation against a given and agreed upon budget. By using current cash equivalent for all assets Wells claims that the information provided by the system is "unaffected by overhead allocations, fictitious revenues and transfer prices, depreciation provisions, and other fabricated figures." His suggested system is thought-provoking but, in the opinion of the reviewer, creates new needs to fabricate new kinds of data. For example, it is especially difficult to envision a system which could accurately capture the current market value of assets without incurring exceptionally high costs or adopting rules of thumb.

Overall this collection of articles is well worth reading. It gives an overview of how the underlying theory of the firm clearly relates to the appropriateness of certain conventional accounting practices. This volume forces the reader who does not agree with Wells' condemnation of traditional internal costing models to consider whether the disagreement reflects a fundamentally different underlying theory of the firm or whether, and where, errors in his analysis have been made.

John R. Wildman and Weldon Powell, *Capital Stock Without Par Value* (Chicago: A. W. Shaw Company, 1928. Reprint edition, New York: Arno Press, 1980, pp. ix, 553, $48.00).

Reviewed by
John A. Yeakel
University of New Mexico

Readers of this important book will quickly discover that the authors were writing from a much broader perspective than is implied by the title. There are extended discussions of the nature and meaning of profit and its relation to surplus. Issues that are not vital to the discussion of no-par stock are included; the chapters on voting and non-voting shares and on treasury stock are cases in point. The work is, in large measure, a treatise on accounting theory for enterprise capital. "To whom does the surplus belong?" is a recurring theme of the authors. The book is also a strong statement for full disclosure on corporate balance sheets.

The text consists of twenty-two chapters of discussion and analysis that comprise the first 288 pages, plus another 243 pages of verbatim excerpts from the statutes of the forty states which, by 1927, permitted no-par stock. The discussion and analysis is exhaustive. It includes such topics as no-par preferred, cash and stock dividends in relation to no-par shares, reorganization, mergers, consolidations, and taxation questions, with repeated emphasis upon the advantages of shares without par value over both par and stated value shares. Although attention is given to potential problems, the authors seem to have viewed no-par shares as a virtual panacea for a wide variety of corporate ailments. The advantages and disadvantages of shares without par value are clearly and concisely listed on pages 43 and 44.

The book is replete with examples—in many cases corporations are named—so that there is no misunderstanding about the concepts being discussed. Legal statutes and cases are used frequently to illustrate the analyses. The writing is very clear and understandable. But, because of the authors' stated desire to make the discussion in each chapter complete in itself, there is a considerable amount of repetition throughout the book. Perhaps, readers will not enjoy reading the entire book at one sitting.

Accounting historians will particularly appreciate the chapter on the historical developments leading to the use of no-par shares in the United States. I have long held that accounting students deserve better explanations of the meaning of, and the reasons for, par and no-par stock than are commonly found in, for example, intermediate textbooks. Textbook authors could significantly improve their chapters on stockholders' equity if they took the time and trouble to study the first three chapters (45 pages) of *Capital Stock Without Par Value.*

Stephen A. Zeff, Joel Demski, and Nicholas Dopuch, Editors, *Essays in Honor of William A. Paton: Pioneer Accounting Theorist* (Ann Arbor, Michigan: Division of Research, Graduate School of Business Administration, University of Michigan, 1979, pp. xiii, 217, $12.50).

Reviewed by
Janet Kimbrell
Oklahoma State University

For the individual prepared to read a collection of essays concerned with Paton's viewpoint of accounting theory, this book may be a disappointment. The exception to this is Stephen Zeff's historical account of Paton's writings from 1916 to 1955 on the effects of changing prices. The reader interested in following the evolution of Paton's thoughts on accounting for changing prices will find this article to be worthwhile reading.

Another worthwhile contribution of the book is the extensive bibliography of Paton's works. The comprehensive listing contains most books, articles, and book reviews written by Paton. It also includes submissions to the federal government.

The remainder of the book is an eclectic assortment of essays on accounting topics. The purpose of Carl T. Devine's essay on "Observations on Internal Control" is to suggest that investigations of internal control fail to consider the deterrent effect of the arrangements made to prevent violations, particularly collusion. Without the knowledge of this deterrent effect, it is difficult to make assessments of internal control.

David Solomons discusses the dangers of the politicization of accounting, in that it is not the function of the Financial Accounting Standards Board to influence preselected economic behavior to achieve national goals, or promote some mode of behavior. His view is that the function of accounting is purely for measurement purposes and that neutrality should be a major goal in setting accounting rules.

Harold Bierman argues the feasibility and desirability of setting standards. A general set of operating guidelines should be defined before the accounting profession attempts to define specific problems. This general framework can be used to analyze those specific problems. In addition, Bierman contends that difficulty encountered in the measurement of accounting values should not stop the profession from attempting to make that measurement.

In "Accounting for Investments in Debt Securities," Maurice Moonitz first compares debt and equity securities and then analyzes the behavior of an investment in debt as the market rate of interest changes. The major argument presented in this essay is that realized profits should not be combined with unrealized profits in the calculation of net income, as this practice may lead to misuse and confusion.

R. J. Chambers defines "The Hard Core of Accounting" as money and money's worth (money equivalent of assets). It is Chambers' contention that a balance sheet representing assets and equities in terms of their money equivalents will best answer the accountant's asset measurement problem. This is yet another argument for CoCoA (continuously contemporary accounting) and adds little to a previous paper on the topic written by Chambers.

In "Relationships Among Income Measurements," Norton Bedford examines five income measurement models: historical cost, pricelevel adjusted historical cost, current exit value, current replacement cost, and present value of expected cash flows. Using the concepts of psychic, real and money income as a framework, Bedford attempts to analyze the relations among the five income measurements.

Gordon Shillinglaw develops a conceptual framework to be applied in the field of product costing. His suggestion for a framework includes basic concepts of costing, constraints of the system, criteria for system choices, and measurement principles. The discussion includes the problems encountered in applying these principles, as well as a rationale for including them as principles. This particular essay would be a useful guide to the beginning cost accounting student in that it discusses these problems and, in addition, some basic relationships in cost accounting.

The last essay in the book is "Social Performance Accounting" by R. Lee Brummet. After giving credit to a limited number of accountants who have been concerned with the social responsibilities of the accounting profession, he then charges that the profession, in general, has been reluctant to assume its role in the measurement of social performance. It is his belief that accountants have a responsibility not only to report upon the financial measurement of an organization, but also to report upon the measurement of social welfare efforts and impacts.

For the accounting historian, this book probably contains only one item of interest—Stephen Zeff's essay on Paton and the effects of price changes. The other eight essays, while interesting, add little to the history of accounting thought. However, this does not imply that these would not be of value to a reader interested in accounting theory.