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Book Reviews

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Book Reviews

PROCEEDINGS INTERNATIONAL CONGRESS ON ACCOUNTING, 1929.

An important addition to the literature on accountancy has been published by order of the executive committee of the international congress on accounting held in 1929, at New York. The volume is impressive in magnitude. Thirteen hundred and seventy-six pages are sufficient only for the reproduction of the papers presented at the congress and for a very brief summary of the principal discussions.

Many of the papers which were under discussion at the congress are of lasting importance, and it does not seem that any accounting library which lacks this volume can claim to be complete. It is, of course, impossible to attempt to summarize its contents. Suffice it to say the book is well printed and edited. The number of copies available is said to be small and there should be no difficulty whatever in disposing of the entire edition.

A. P. R.

STANDARD COSTS, by G. CHARTER HARRISON, *The Ronald Press*. 308 pages.

The author of *Standard Costs* states in his preface that it has been written to provide a manual of accepted practice in regard to standard costs, and to some extent this purpose has been fulfilled even though the book may not be regarded as scientific in its treatment of the subject. His text is not always clear nor concise and his treatment, particularly in the matter of formulae, is not sufficiently theoretical to make the book useful as a textbook for instruction in cost accounting nor for progressive study of the subject. The book on the whole is rather more an exposition of the author's methods of procedure in designing and installing standard cost systems than a manual of standard costs or a textbook of the subject.

It contains about 300 pages, including 42 "figures" most of which illustrate forms and their uses, and 50 "tables" illustrating the author's method of setting up forecasts and the results of operations as disclosed by comparisons between standard and actual costs, etc. The forms illustrated are apparently reproductions of actual forms on a reduced scale and, consequently, the use of a reading glass is frequently required, but it would be a mistake for the reader to conclude that any of these forms are an essential part of every standard cost system. Their apparent multiplicity is deceptive for there are many repetitions, as the figures are generally designed to show how the data are accumulated and utilized.

The author makes reference (page 61) to Frederick W. Taylor and his paper on *The Principles of Scientific Management*, published by Harper & Brothers, New York, in 1911. The paper referred to contains neither a form nor a table and in the first chapter thereof, Mr. Taylor says, "Several papers have been written, describing the expedients which have been adopted and the details which have been developed under scientific management, and the steps to be

taken in changing from the ordinary to the scientific type. But unfortunately most of the readers of these papers have mistaken the mechanism for the true essence." A casual reader of Mr. Harrison's book is very apt, in the opinion of this reviewer, to mistake the mechanisms illustrated in the book for the true essence of "standard costs."

The book is divided into eight chapters, the first two of which are largely introductory and historical. In these, Mr. Harrison presents the essential features of efficient management, namely, establishment of standards of efficiency and their use in prompt comparison with actual performance, to the end that a high ratio of efficiency may be established and maintained through discovery of the causes of inefficiency.

The third chapter deals with a general method of attacking any problem involving a change of system or method of directing operations and recording their results.

In the fourth chapter, the author presents a series of equations for use in allocating variations of actual cost from standard cost to their specific causes and shows the use of the equations presented. These equations are all very simple in form—too simple, in the opinion of this reviewer, to be properly styled formulæ. The notation is arbitrary and it would not take much time to memorize the meaning of A, B, C, etc., but these symbols represent complex quantities instead of elementary quantities and consequently the so-called formulæ do not directly indicate the nature of the actual or standard data which must be collected currently or set up for use.

Chapter V is headed "Installing standard costs" and contains forty-three divisions, under heavy type headings, consisting of one or more paragraphs, and covers fifty-five pages of the book. More than three-quarters of these subdivisions refer to forms illustrated and the whole chapter is rather a set of instructions for installing the author's system of standard cost accounting than a presentation of the principles which should govern the orderly procedure of designing and installing standard cost accounting.

Chapters VI and VII supplement chapter V with particular reference to "wholesaling" and "manufacturing."

Chapter VIII, the last chapter in the book, deals with the analysis of cost variations and is perhaps the best chapter in the book, if the reader has the patience to sift the essential matter from the particular methods followed by Mr. Harrison.

HAROLD B. ATKINS.

KEANE'S MANUAL OF INVESTMENT TRUSTS, 1930. *Financial Publishing Company*, Boston. 2,246 pages.

The new edition of Keane's *Manual of Investment Trusts* will astonish even those who are familiar with the enormous growth of investment trusts during the past few years. The volume of 1929 contains references to 414 trusts. The present book deals with a total of 608, an increase of over 46 per cent. But it is not only in number that this form of investment has increased. We learn that on December 31, 1928, the total financing of all investment trusts amounted to \$891,188,841 (stocks, \$695,318,316; bonds, \$195,870,525). At the end of April, 1930, the corresponding figures were, stocks, \$2,501,050,314;

Book Reviews

bonds, \$340,317,325; total, \$2,841,367,639. Estimates of the amount of cash received from the sale of fixed trusts place the figure conservatively at about \$250,000,000, making a grand total of well over \$3,000,000,000.

The second part of the book contains a list of the institutions holding investment trust securities, and a classified list of the different types of investment trusts.

When it is remembered that ten years ago the very term "investment trust" was almost unknown, the fact that nearly \$3,000,000,000 are now invested in these trusts appears almost incredible.

Keane's *Manual* is well printed in clear type and affords a reference which must be of value to all who have financial interests.

A. P. R.

ACCOUNTING THEORY AND PRACTICE. Vol. I (first year) 3rd edition revised and enlarged. By ROY B. KESTER. *The Ronald Press Co.*, New York. Cloth, 835 pages.

It would be superfluous to compare in detail this third edition of Professor Kester's well-known and widely used *Accounting Theory and Practice* with the first, published in 1917. Suffice it to say that the author has been alert to keep up with the rapidly changing improvements of the last ten years in business accounting practice, notably in making clear the growing importance of managerial control through the accounts. It may surprise some of us oldsters that this phase is even touched upon in the first year of a college accounting course, but with the remarkable advances that have been made in high-school business courses it is a logical development. It marks the tendency of higher accounting not only to provide better methods of recording past results but also to show the way to increase profits. This is as it should be. The high schools of to-day can and do turn out competent bookkeepers, but surely much more is expected from a graduate of a university accounting course.

The most noticeable change from the earlier editions is the inclusion of chapter 28, the manufacturing corporation, and chapter 29, the voucher system. These chapters are taken from the second volume of the series, a significant indication of the rising standards for college students in the first year of the course. There is also an enlargement of the appendices containing practice problems, a growing necessity, particularly for those who propose to take the examinations for the C. P. A. certificate.

Even more significant is the attitude of the author toward his reading public. In 1917 the first edition was intended primarily for the first year student in accountancy. In the present edition Professor Kester addresses himself more to business executives—the student of accountancy takes second place. Now this is simply a recognition of the way accountancy has forged to the front in the days since the world war. Whether as a result of complicated income-tax laws, the high pressure incident to mass production, or just plain common-sense, business is demanding a guide and control that will cut down expenses and increase profits. It is finding it in higher accounting. But to be sure that he is getting the information he should expect from his trained accountants, the business executive is compelled to acquire some knowledge of the subject for himself. Gone are the days when he could waste the time to call in his

bookkeeper to explain complicated statements, "in words of one syllable" as a director once said to me! Such action on the part of an executive to-day would arouse uneasy suspicion of his ability to manage.

As a solid foundation for the remaining years of his course, the student will find this text indispensable. The business executive, *in esse* or *in posse*, will find it a safe guide by which to judge of the work of his accounting department.

W. H. LAWTON.

ROBERTS' MANUAL TO UNITED STATES BOARD OF TAX APPEALS
REPORTS. *Harper & Bros.*, New York. 4,827 pages.

An immensely valuable book of reference has just been published by Harper & Brothers. It is a two-volume manual to the reports of the United States board of tax appeals, prepared by Charles A. Roberts of the New York bar. The book covers all citations through volume 17 of the board's reports. This is one of the very few thoroughly comprehensive works of its kind, and its place should be assured in the library of every accountant or lawyer engaged in income-tax practice.

A. P. R.

OVERHEAD EXPENSE by A. HAMILTON CHURCH. *McGraw-Hill Book Co., Inc.* 418 pages.

When direct labor and material were the overwhelmingly preponderant items of manufacturing cost it was considered fairly correct accounting to lump together all indirect expenses that applied in some degree to several processes or products, call the resulting total "overhead expense" and distribute it to the several processes or products as a percentage addition to direct labor cost.

As Church properly says, the replacement of men by automatic machinery has made this rough and ready method obsolete. The cost of the so-called indirect expense items exceeds, in some cases of continuous processes grossly exceeds, the cost of direct labor; the tail wags the dog.

Church believes that the basis of distribution should be not the actual use made by each process or department of the facilities provided—steam, power, supervision, space, etc.—but the amount of use that would be made if each department operated to an extent forecast as being normal.

He would collect the indirect expense items into groups, each group corresponding to some one facility such as power, and after a survey of the normal power needs of each department and an estimate of the total annual cost of power, divide that cost over the several departments in the ratio of their standardized requirements, thus charging a department with its standardized proportion of power whether its output was up to standard, above it or below it. Then the department would charge its product at a unit rate based on standardized output, and profit-and-loss account would take up the slack.

In effect, each process or department would be required to contract on an annual basis for a certain amount of power, space, steam, etc., and pay for it irrespective of output. Church compares the charges with rent.

Book Reviews

There is much to be said for this plan; space, depreciation, rent, taxes, insurance and some other items of indirect expense go on, whether school keeps or not. That is not so true of some other expenses.

The problem has been attacked in a widely different way. In the June issue of *Chemical and Metallurgical Engineering* may be found an advertisement of a company selling flow meters. It pictures the superintendent of a section of a paper mill complaining of the excessive charge to his department for steam. The head accountant replies that steam cost is overhead and is distributed on the basis of direct labor. The superintendent replies that "That is not even a good guess," whereupon flow meters are installed to measure the steam used so that each department may pay for the amount used and no more. This has a sound of fairness, but is not, perhaps, as fair as it sounds.

At any rate, the attempt to convert indirect to directly measurable costs by metering and measuring is rapidly gaining ground. A glance at the advertisements of measuring devices for water, current, power, steam and other service is sufficient to show that.

This book shows a tendency toward stating as "cost" not actual cost but cost as it would be if all standardized levels were reached. Such costs are singularly like the old-fashioned "estimated costs" which were used by our grandfathers. The treatment of losses from machine breakdowns and from obsolescence of expensive machinery is characteristic—they are excluded from cost although they are a part of the price we must pay for using such plant. Nothing recurs more persistently than non-recurring expenses. Those who fix selling prices on costs compiled in the blessed belief that all the catastrophes have already happened are optimists.

No work by A. Hamilton Church should be omitted from the library of the cost accountant. This book is the most important and the best work on cost accounting that your reviewer knows.

FRANK W. THORNTON.