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BOOK REVIEWS

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Committee on Commemoration of One Hundred Years of Modern Accounting, Japan Accounting Association, *One Hundred Years of Modern Accounting* (Tokyo: Nihon-Kaikei-Kenkyu-Yakkai, 1978, pp. 414, price not available).

Reviewed by
Kiyomitsu Arai
Waseda University

The Western bookkeeping system was introduced into Japan in 1873 when two historic books were published. One is Gin-Ko-Boki-Sei-Ho (Japanese version of *Comprehensive Bookkeeping for Banks*) by A. A. Shand (1844-1930), which was published by the Ministry of Finance of Japan for the use of the First National Bank. The other is Cho-Ai-No-Ho (*Bookkeeping*) by Yukichi Fukuzawa (1834-1901), which is a Japanese version and adaptation of *Common School Bookkeeping* by H. B. Bryant and H. D. Stratton (1871).

Time rolls on and a century has passed. In 1973, the Japan Accounting Association (JAA) celebrated the centenary of Japan's modern accounting system, and planned a commemorative publication under the cordial auspices of the business communities. In 1978, JAA carried through the plan and published this book entitled *One Hundred Years of Modern Accounting*.

This book consists of two parts. The first part includes seven articles written by leading professors, which trace the growth of Japan's accounting education and profession during 1873-1945. The second part is devoted to an extensive bibliography of bookkeeping, accounting (financial accounting), cost accounting, auditing, financial analysis, and accounting rules and regulations during the same period.

The seven articles are as follows: "One Hundred Years of Japan's Accounting System," by Professor Kiyoshi Kurosawa; "Accounting Education—Past and Present," by Professor Rintaro Aoki; "Japan's

Original Accounting System and Western Bookkeeping," by Professor Eiichiro Ogura; "Development of Japanese Legal System for Financial Reporting," by Professor Ichiro Katano; "Auditors' System—Now and Perspective," by Professor Otojiro Kubota; "Development of Corporate Accounting and Public Nuisance," by Professor Yasuichi Sakamoto; and "On the Significance of the 6th Year of Meiji (1873) on the Historical Development of Japan's Bookkeeping System," by Mr. Kojiro Nishikawa.

These articles are based on the manuscripts of their speeches given at the centennial celebrations in Tokyo and Osaka, on October 31, 1973 and November 10, 1973, respectively. They provide a bird's eye view of the historical development of Japanese accounting.

The bibliography in the second part of the book is arranged both in chronological order and by subject, and it lists no less than 4,500 books. This bibliography affords a comprehensive picture of the origins and development of modern accounting in Japan.

As a Japanese proverb, "On-ko-chi-shin" (Taking a leaf out of a wise man's book) says, history is a fertile source for future development. Many accountants, both academic and professional, will benefit greatly from this book.

F. R. M. De Paula, *Developments in Accounting* (London: Sir Isaac Pitman & Sons, Ltd., 1948. Reprint edition, New York: Arno Press, 1978, pp. xiv, 278, $22.00).

Reviewed by
John B. Sperry
Virginia Commonwealth University

This reprint of a 1948 edition is one of a series of noteworthy historical publications within the Arno Press collection relating to "The Development of Contemporary Accounting Thought." It contains a praiseworthy profile, properly deserved, of the author by Steve Zeff. As indicated by Zeff, De Paula was a man in advance of his time. He was a true pioneer, an intellectual, and a statesman. It is a book well worth reading. The book is organized into four parts: Accounting Principles, Industrial Planning & Control, Miscellaneous (education, fraud detection, trusts and government contracts), and Conclusions.

It is interesting to note that the author's testimony before a legislative committee concerning accounting principles and disclosure occurred in May 1943 and 1944. That is, the end of World War II was foreseen and the need to improve corporate reporting was recognized. Further, the reader will be impressed with the reliance De Paula placed on accounting education in the United States along with American disclosures relating to holding companies; i.e., consolidated financial statements, and U. S. publications on financial planning and control in industry. He attributes his source of new ideas to wide reading of American literature. This effort occurred during the first two decades of this century. As one follows the chronology of dates, it becomes apparent that change, particularly drastic change, occurs very slowly. As in this country, acceptability, not fiat, is the cornerstone underlying the authority of accounting principles.

De Paula testified and wrote eloquently on the need to eliminate secret reserves. He correctly indicated, repetitively, that excess conservatism is misleading. He focused on the need for precise, uniform terminology, disclosure of fixed asset historical cost and accumulated depreciation (although he advocated separate recording of obsolescence), market value for securities held for investment, precise delineation of income tax expense (i.e., relate charge to fiscal period during which taxable income was earned), and consistency between periods.

Prior to the early 1940s, the balance sheet was regarded as the key statement. One cannot help but wonder if De Paula's stress on the income statement wasn't the stimulus for such change in Great Britain? He was eloquent and thoughtful in his essays. Some of his ideas are today's research topics pursued by the Financial Accounting Standards Board. In reading his essays, the reader gains new insight into topics with which the profession has currently devoted much time; e.g., segment disclosure, equity method and consolidated financial statements, foreign currency translations and the need for formal, enunciated principles (i.e., conceptual framework). De Paula deplored the lack of an authoritative rule-making body, and one concludes that he would be an avid supporter of the Financial Accounting Standards Board.

In addition to his invaluable contribution to concepts, technique and the educational process, his book contains gems of eloquence and interesting tidbits of accounting history. For example, Chapter X, concerns the interpretation of accounts. His opening sentence is as follows:

> It may be said that the interpretation of accounts is the art of making figures speak and figures speak to those who understand the language.

Also, Accountancy as a profession started in Scotland. The Society of Accountants in Edinburgh obtained its charter in 1854. His first several pages in Chapter XI on Accountancy in Commerce would serve as a stimulating handout to students in basic principles courses. The relevance of his ideas is impressive and would make for stimulating discussion in a graduate seminar.

This collection of De Paula's essays, testimony, letters, and articles will foster an appreciation of current accounting issues relating to principles and disclosure. The parts relating to industry and commerce will furnish a number of useful distributions to beginning students in accounting. His comments are as applicable today as they were a half-century ago. This reviewer cannot help but believe that they would favorably influence the serious student into considering accounting as a major. The book is recommended reading for all accounting educators.

J. R. Edwards, *Company Legislation and Changing Patterns of Disclosure in British Company Accounts 1900-1940* (London: The Institute of Chartered Accountants in England and Wales, 1981, pp. 77, £ 5.95p).

Reviewed by
Michael J. Mepham
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This interesting study by John Edwards, of the University of Wales, is based on an examination of the accounts of 12 quoted companies in iron and steel making during the first forty years of this century. The author acknowledges that this approach and the small sample size inhibits attempts to generalize but, within these limitations, he sets himself the task of analyzing:

"1. the disclosure practices employed by companies during the period 1900-40.
2. differences in disclosure practices both between companies and over time.
3. relationships between disclosure practices and legal requirements."

As early as 1844, a British Companies Act had required an audited "full and fair" balance sheet to be presented at each ordinary meeting of shareholders but this requirement was jettisoned 12 years later and it was not until 1900 that there began a gradual return towards this sort of regulation. In the period under review, three major revisions of company law had accounting implications. First, the Companies Act 1900 made an audit obligatory and (by implication) required a company to issue a balance sheet to shareholders present at the annual general meeting. Second, the Companies Act 1907 required each public company to file, with the Registrar of Companies, a balance sheet giving "a summary of its capital, its liabilities, and its assets, giving such details as will disclose the general nature of such liabilities and assets and how the values of the fixed assets have been arrived at. . . ." (S.21). Third, the 1928 Companies Act provided that a profit and loss account be prepared for shareholders and extended the balance sheet reporting requirements considerably by setting down minimal disclosure rules.

Each of the above had an effect on the preparation and content of company accounts and there were also several important contemporary legal cases (including the Royal Mail Steam Packet case) that had accounting repercussions. During the period the accountancy profession itself had not commenced work on the development of accounting standards but had restricted its activities to obtaining legal opinion on the interpretation of the legal requirements and making representations to various official company law reform committees. The English Institute's series of "Recommendations on Accounting Principles" did not commence until 1942 and the Stock Exchange only began its attempt to improve disclosure practices in 1939.

Edwards' study emphasises the changing legal framework. He shows that all twelve companies met their legal obligations and, in fact, that they were often in advance of the law by, for example, circulating audited accounts and a directors' report to all members before the law made this compulsory. In some cases they did, however, make use of loopholes; for example, one company filed the same balance sheet for more than 10 consecutive years because the 1907 Act did not stipulate that an up to date statement was required.

The author recognises that other factors, besides company law, affect reporting practices. An investigation of the influence of auditors, shareholders, and internal management would require a study of the correspondence files and this is not attempted. More surprisingly there is no analysis of the relevant provisions of the companies' Articles of Association. Edwards discounts their importance by saying "they do not specify which figures should appear in the accounts and how these figures should be calculated." It would, however, have been useful to have some detail of the articles and to have known, in particular, the extent to which Table A was adopted.

The study is well organised under four headings: the range of reports, presentation methods, valuation bases and disclosure and many interesting facts emerge. There is, for example, a useful discussion of secret reserves with a quotation from the correspondence of one director admitting that "We have used our subsidiaries to hide profits but the public think otherwise hence our shares are much lower than they ought to be." Only two companies produced any consolidated statements during the period.

The discussion of depreciation is particularly enlightening. Edwards maintains that, in his sample, the regular inclusion of a systematically calculated depreciation charge is a post-1940 phenomenon. There is also a discussion of the development of the British distinction between Reserves (which are appropriations of profit) and Provisions (charges against profit).

The forty-year period covered by this study was one in which many changes took place and in which the legislature adopted the approach of specifying minimum standards of disclosure. This minimum disclosure philosophy continued and developed in the following forty years but the 1981 UK Companies Act has produced a major change by moving to an EEC system based on standardised accounting reports. With such changes occurring this monograph deserves to receive particular attention.

Estabon Hernandez Esteve, Enrique Fernandez Pena, Jose Miguel Prado Caballero, and Francisco Esteo Sanchez, *Issues in Accountability #7: Spanish Accounting—Past and Present* (Glasgow: Strathclyde Convergencies, 1981, pp. 42, £ 3).

Reviewed by
Gary John Previts
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For those who can overlook poor typeface, inconsistent style and proof-editing—that is for those of us who put substance over form—this monograph represents a treasure. In three compact sections, the authors provide a description of the evolution of Spanish accounting and record keeping practice, with illustrative appendices and citations. This is not an analytical work—rather it is a complete and well documented "map" of Spanish accounting—the artifacts, artisans, and influences.

The initial brief section provides a perspective on the roots of Spanish accountability. The appendices of the Datini Accounts of 1399 (Barcelona) suggest the importance which accounting historians, such as deRoover, have accorded to Spanish accounting history.

Part II of the monograph by Dr. Hernandez Esteve is an important compilation of the stages of Spanish accounting history from as early as the 1304-1322 period. The author cites archival sources and establishes a chronological array of books of account. He reviews the legal background of accounting developments and traces the origin of early texts. The influence of the royal house in advancing the use of account records is described throughout this section. A useful bibliography completes Part II—including a citation of the important work of Karl P. Kheil (1898) in the early study of Spanish accounting.

Part III is most useful as a contemporary guide to accounting in Spain. This section includes a review of current education in accounting and an outline of the role of Censors (Auditors), as analogous to the French Experts-Comptables.

The origin and role of the Spanish Association of Accountancy and Administration in Business (A.E.C.A.) formed in 1979 and the influence of the Institute of Accounting Planning are considered as background for the description of the General Accounting Plan—and its ten classes of accounts, (Numbers 1 through 9, with Class "O" being reserved for contingencies).

The Commercial Code, including the 1973 revisions, is set forth as it influences record keeping and accounting. The legal section also summarizes company law and concentrated or consolidated firms. The section concludes by describing the community cooperatives as an important factor in the economic activity of Spain. The role which accounting plays in the operation of the cooperative is alluded to briefly in this section.

As an historian, Sections I and II are helpful additions to the slight taxonomy of Spanish accounting history. Section III is not historical material—albeit useful to anyone who is interested in the European scene.

This work will be of value to all historians because it represents a compendium that is convenient and authoritative. It is unfortunate that the many typing errors, the irregular spacing, inconsistent typeface, and confusing system of page numbering (pages are numbered by section, not in one entire sequence) detract from the substance.

I judge the book by its contents—not its cover—but the advocates of accounting history will not be well served if good materials are afforded second tier style and format. The authors who contributed to this monograph have made important contributions. Hopefully their efforts will not be too badly injured by the irregular quality of the publication format.

Hugh P. Hughes, *Goodwill in Accounting: A History of the Issues and Problems* (Atlanta: Georgia State University, 1982, pp. viii, 223, $20.00).

Reviewed by
Gyan Chandra
Miami University, Ohio

Accounting for goodwill has been one of the most intriguing problems faced by accountants. A number of accounting theoreticians have tried to define and value it over the last one hundred years or so and yet the subject has remained elusive. The controversy surrounding its treatment has a tendency of fading and flaring up every now and then. Originally submitted as a Ph.D. dissertation, Hughes's monograph (after suitable revisions in the dissertation) on *Goodwill in Accounting* offers a rich and extensive review of the literature on the subject.

The author's principal objective of the study is "to develop a cohesive and comprehensive history of the issues and problems related to accounting concept and treatment of goodwill" (p. 2). He chose the period beginning with the 1880s for his study and has divided the study into nine chapters. After introducing the subject and providing a brief background in the first two chapters, he reviewed the history of the developments in the next five chapters. The last two chapters are devoted to the inquiry into the nature of goodwill in the present day context and to the conclusions of the study. This reviewer considers the middle five chapters on the historical developments as the crux of the monograph. The historical review has been divided into five segments: 1884-1909; 1910-1929;

1930-1944; 1945-1957; and 1958-1980. A chapter is devoted to each of these segments and the author has organized the review by issues concerning the business environment, the accounting environment, initial valuation of goodwill, its subsequent treatment, its financial presentation and disclosure, its auditing considerations, and its tax considerations.

Hughes starts the study with a working definition of goodwill (i.e., it represents an above-average ability to make a profit, has no physical substance and is a product of its environment) and traces its developments all the way from manorial times until its first legal definition given in an English court in 1810. The first accounting article on goodwill seems to have been published in 1884 and the first book on the subject was published in 1897. American authors started writing about it at the turn of the 20th century. By the 1930s, goodwill had become a full-fledged controversial subject attracting much attention of professional accountants and academe. The accountants openly debated the question of its initial valuation and subsequent treatment. Finally, in 1944, the AICPA's Committee on Accounting Procedure issued *Accounting Research Bulletin No. 24* requiring cost to be the basis for all intangibles. However, the controversy continued on the question of its subsequent treatment. *ARB No. 24* presented a compromise, "Amortization, though permitted, was neither encouraged nor discouraged and was given about equal stature with permanent retention" (p. 115). The author gives a rich account of the controversy surrounding pooling of interests vs. purchase of business accounting and its implications on goodwill. He has extensively traced the developments leading to the issuance of Accounting Principles Board *Opinions No. 16* and *17*. *Opinion No. 17* requires amortization of goodwill over a maximum period of 40 years which seems to have settled the issue of its subsequent treatment.

The author has used the inductive approach in reviewing the historical developments and the deductive approach in developing a basic framework for analyzing the nature of goodwill. He uses Veblen's institutional theory and Galbraith's contemporary interpretation of business to analyze the concept of goodwill. He summarizes his analysis in the following definition of goodwill: "a differential advantage accruing to a corporation in terms of its dominant goals—the ability to generate superior profits by whatever means to finance the technostructure's growth, usually by selling goods through purposeful manipulation of the consumer's customs and habits" (p. 194).

The monograph is a well written treatise and offers a rich commentary on the contemporary business environment. The review of the literature from 1958-1980 throws light not only on the technical developments but also on the profession and personalities. The author claims to have reviewed approximately 1,000 books and articles and the extensive bibliography provided could be very helpful in future research in accounting theory. Publications of the American Accounting Association, AICPA, Briloff, Canning, Catlett and Olson, Dicksee, Galbraith, Gilman, Hatfield, Leake, May, Montgomery, Moonitz, Paton, Spacek, Veblen, Yang, and many others have been extensively reviewed and quoted. The monograph is not limited to goodwill alone. It should be considered more on goodwill in accounting theory through the ages and as such it is a part of the broad subject of accounting theory. It is concise and interesting. This reviewer was impressed by the extensive review of the literature on the subject and will recommend it to serious students of accounting theory. The reviewer wishes the author had also added a chapter on the normative approach to goodwill in accounting. But, as the author says, the last chapter has not been written on the subject. "The jury is still out" and hopefully the monograph will encourage others to work in the area.

Harold Q. Langenderfer, *The Federal Income Tax: 1861 to 1872,* 2 vols. (New York: Arno Press, 1980, pp. 835, $70.00).

Reviewed by
Janice Reeder
University of Delaware

Langenderfer, in this publication of his 1954 doctoral dissertation, presents a detailed discussion of a federal individual income tax which predated the Sixteenth Amendment to the Constitution. As the title indicates, this two-volume treatise examines the income tax levied on the American people during the Civil War and the reconstruction period which followed. Generally, the first section of this work reviews the historical events, political attitudes and fiscal policies which preceded enactment of the Civil War tax (Chapters 1-4). The second section describes the revenue acts passed between 1861 and 1870 including extensive coverage of the related Congressional debates and subsequent administrative problems (Chapters 5-9). The final section gives a critique and summary of this short-lived, but important revenue generating device (Chapters 10 and 11).

The United States had existed as a nation approximately seventy years when the trauma of the Southern Secession arose. The nation's fiscal policies until that time reflected the influence of the mother country, Great Britain, and an overt distrust—if not dislike—of anything British. The author chose to begin his study by outlining the events which helped shape these political and fiscal attitudes. He recounts the British fiscal experiences, especially with income taxation, and focuses on the American reaction, antagonistic and yet imitative, to Great Britain's tax system. The several individual state income taxes which had existed at various times before 1860 are discussed along with a detailed review of the revenue measures employed by the U. S. during the period since becoming a nation. As the author completes the background material for the Civil War tax, one is struck by how unsuspecting the country's leaders were of the monumental taxing policy upon which they were about to embark.

The initial revenue measure creating the Civil War income tax was passed in 1861. A major segment of the author's work consists of presenting an exacting, chronological outline of the Congressional debates preceding this revenue act and those which were to follow. Extensive excerpts from the legislative oratory are included. For the various prominent speakers highlighted in the coverage, brief biographical sketches are footnoted. The author also interjects timely military and political updates. These historical interludes enable the reader to gain a clearer understanding of the influences forming a particular speaker's stand. (Under consideration were such important philosophical issues as direct versus indirect taxation and an operational definition of income.)

The Civil War income tax was as susceptible to revision as ours is today. During the period 1861 to 1870, eight revenue acts were enacted. For each of these, the author reviews the Congressional debate, outlines the statutory requirements, and analyzes the new bill in regards to (1) Concepts of Income, (2) Deductions, (3) Exemptions, (4) Rates, (5) Capital Gains, (6) Administration, (7) Special Corporations, and (8) Miscellaneous Provisions. This presentation, although at times tedious, does allow the tax scholar to quickly determine the specific contents of a given revenue measure.

The end to this emergency taxing experiment was dictated by a sunset provision inserted in the Revenue Act of 1867. The descendant of the initial 1861 tax was phased out in 1873. Even the exit of this controversial measure triggered disagreements. Congressmen from agricultural regions lauded the income tax as more desirable than any of the alternatives suggested to replace it, while those delegates from industrial areas demanded the tax's demise. The author details the removal arguments in the same manner as he recorded the discussion surrounding the tax's stormy existence.

Langenderfer completes his treatise with a critique of this early U. S. income tax. In a broader sense, however, the book itself is a critique of the tax. It furnishes an exhaustive scrutiny of the Civil War tax and thus allows the reader to make an individual critical evaluation. As a thought provoker for an individual income tax or tax policy course the book supplies an excellent background source. Many of the hotly debated issues of the 1982 Tax Act, such as withholding at the source on interest and dividends, were common features of the Civil War tax. Perhaps this work's real value, then, is its ability to stimulate thought and to remind the reader that viewing the past often helps put current developments in proper perspective.

The Federal Income Tax: 1861 to 1872 gives a detailed presentation of a technical, legal area. The book is sometimes overly detailed and repetitious. The detail can be traced quite properly to the subject matter; the repetition reflects its dissertation origins. These flaws, however, in no way impair the value of this treatise as a useful and more-than-adequate reference text.

Howard F. Stettler, Editor, *Auditing Symposium IV: Proceedings of the 1978 Touche Ross/University of Kansas Symposium on Auditing Problems* (Lawrence, Kansas: School of Business, University of Kansas, 1979, pp. 133, $6.00).

Reviewed by
Joyce C. Lambert
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This volume contains the papers for the 1978 auditing symposium at the University of Kansas. Eight papers were presented along with responses from six discussants.

The first paper was "Internal Auditing—A Historical Perspective and Future Directions" by Victor Z. Brink. Accounting historians will find this first paper interesting. Brink discusses the historical development of modern internal auditing. He starts in 1941 with the founding of the Institute of Internal Auditors (of which Brink was actively involved) and with the publication of his *Internal Auditing, Principles and Practices*.

He traced the development of internal auditing from its emphasis on compliance with lower-level accounting, operational procedures, protection of assets and detection of fraud through its operational auditing emphasis to the contemporary scene. He sees internal audit departments having primary responsibility to management and secondary responsibility to the Board of Directors—via the audit committee, with the internal auditor reporting to the chief executive officer or the senior vice president and working closely with the external auditor.

The discussant's response was by Lawrence B. Sawyer. Sawyer's response was interesting as he takes Brink's historical development of internal auditing back in antiquity to the Mesopotamian civilization about 3000 B.C. where scribes summarized lists of transactions. He discusses the Greeks' preference for slaves as auditors because they considered a tortured slave's testimony more trustworthy than a free man's oath.

Sawyer discusses the dual responsibilities of the internal auditor to management and to the board. He concludes by recommending a degree in internal auditing or an MBA with a major in management-oriented auditing along with a worldwide certification program and continuing education requirements.

The second paper is "Analytical Auditing: A Status Report" by Rodney J. Anderson. Anderson is a pioneer in analytical auditing. He discusses the historical development of analytical auditing in the early 1960s. Analytical auditing takes a systems-oriented approach using flow charting, limited tests of transactions, internal control evaluation, and appropriate compliance and substantive verification procedures. Later, EDP applications were incorporated in the process.

"Sampling Risk vs. Nonsampling Risk in the Auditor's Logic Process," by William L. Felix, Jr., is presented next. Felix contends that the risk of nonsampling errors in statistical sampling applications is of equal or greater significance in evaluating the results of the auditing procedures. The discussant of Felix's paper was Robert K. Elliot. His discussion emphasized that the concepts of sampling and nonsampling error apply equally to statistical and nonstatistical sampling. Elliot explained a statistical sampling pilot test conducted by PM&M in 1968-1969. The results led to procedures for eliminating nonsampling errors through the use of computers, the use of hypothesis testing, and a quality control program using statistical audit specialists trained to monitor each statistical application.

The fourth paper is "Third Party Confirmation Requests: A Third New Approach Utilizing An Expanded Field" by Horton L. Sorkin.

Sorkin discusses the use of an expanded field accounts receivable confirmation technique which listed three different figures for the current balance. The respondent would be forced to select one balance as the correct balance. This method was designed to reduce the Type II errors associated with traditional confirmations.

The fifth paper is "Has the Accounting Profession Lost Control of Its Destiny?" by D. R. Carmichael. Carmichael discusses the accounting profession in the age of consumerism and notes the effect of consumerism on the courts.

"The Role of Auditing Theory in Education and Practice" by Robert E. Hamilton presented auditing theory from a very different viewpoint. He parallels auditing theorists with theorists in finance and concludes that a theory of auditing would seek to explain how solutions to problems faced in allocating resources through time are facilitated by the existence of auditors, audit firms, and auditing institutions.

Fortunately, R. K. Mautz is the discussant on Hamilton's paper. Mautz discusses the different approaches to auditing theory by Hamilton and himself. Mautz stated that his micro approach to auditing theory offers immediate possibilities for improvement in auditing education and practice. Mautz also expressed concern over the widening gap between academics and practitioners.

Richard H. Murray presented "Resolving the Auditor Liability Problem—An Appraisal of Some Alternatives." He questions whether the risk of liability has improved auditing performance and whether the risks are more detrimental to the public than the benefits. He states that insurance does not provide adequate protection to the profession and suggests several alternatives to insurance.

"Observation on the State of Shareholder Participation in Corporate Governance" by Barbara Leventhal concluded the symposium. Leventhal cites calls for reform in corporate governance due to a decline in public confidence and a rise to Congressional concern.

Accounting historians will find the first two papers of particular interest. The other papers are still of interest even though they were written in 1978.

Zeff, Stephen A., Editor, *Selected Dickinson Lectures in Accounting: 1936-1952* (New York: Arno Press, 1978, irregular pagination, $31.00).

Reviewed by
Diana T. Flamholtz
Loyola Marymount University

In *Selected Dickinson Lectures in Accounting 1936-1952* Arno Press has reprinted six of the Dickinson lectures given at the Graduate School of Business Administration of Harvard University. The lectures present the views of well-known leaders of the accounting profession at some critical periods of accounting history. In the first lecture, for example, presented during 1936-1937, George O. May spoke on "Improvement in Financial Accounts" and emphasized the need for both accountants and others to understand the nature of accounting information. He argues that all accounts

> are necessarily tentative and approximate; in many cases alternative methods of accounting which will produce materially different results may be equally permissible; and therefore the weight to be attached to any accounts can only be determined upon consideration of the bases on which they have been prepared (which may legitimately vary according to the purpose for which they are intended) and of the competence and integrity of those by whom they have been prepared.

For May this understanding is essential in order to deal with the question of improvements in financial reporting. He provides his own history of corporations and corporate reporting and discusses important accounting issues of the day, such as the use of historical cost for fixed assets and depreciation, cost or market for inventories, and corrections relating to prior periods. In dealing with these areas May argues against absolute uniformity in accounting procedure because accounting deals with a business world full of uncertainty and change; although accounting sometimes has been compared to engineering, the engineer deals with the physical world "while in financial accounts the accountant is dealing with things metaphysical."

In 1939-1940 William A. Paton spoke on "Recent and Prospective Developments in Accounting Theory" and emphasized questions of income measurement. He recognized the significance of the change which came about in the 1930s shifting the focus of accounting away from the balance sheet and commercial creditors to the income statement and investors. In dealing with questions of performance measurement Paton presents his arguments on a variety of issues ranging from the treatment of purchase discounts and use of differential costs to his desire to eliminate the ranking of costs, such as gross profit, seen as "a relic of the early history of accounting for mercantile concerns." Paton also warns against too frequent reporting of income information because of its tentative nature and the effects such information can have on stock prices. After presenting a skillful discussion of the nature of costs and value, Paton regretfully argues against the use of replacement cost accounting, not on theoretical bases, but because of the legal framework within which accounting must operate.

In 1940-1941 Walter A. Staub spoke on "Auditing Developments During the Present Century." Staub was well qualified to present his views for he had spent forty years in public accounting, thirty of them as a partner in the New York office of Lybrand, Ross Bros. & Montgomery and, at the time of his talk, was a member of the Committee on Accounting Procedure of the American Institute of Accountants. Staub describes from first-hand experience auditing procedure in the early days of the century as basically an examination of cash records, and goes on to show the changes brought about by a variety of forces ranging from income taxes to the New York Stock Exchange and the Interstate Commerce Commission.

Staub also provides an interesting perspective on the auditing practices of the 1930s, discussing the nature of accounting evidence and what had been learned over the years to bring about change. His views on internal control, internal auditing, and the role of the controller reflect the concerns of the late 1930s growing out of the McKesson & Robbins case. Staub's discussion of the auditor's report also is of interest to accounting historians, for he shows the evolution of the language of the report, the impact of McKesson & Robbins, and the need for the public to understand the limitations of the audit.

Henry Rand Hatfield presented a different point of view when he spoke on "Surplus and Dividends" in 1940-1941. From a more academic perspective he dealt with the basic nature of capital and surplus, raising questions in areas that still needed to be settled, such as whether a premium on capital stock represented capital or surplus, and what items should be charged to surplus rather than to the current income account. Hatfield's discussion of dividends leads him into a witty and acerbic presentation of arguments on the appreciation of assets. He provides a wide variety of views ranging from various court cases to the early views of Paton, Dickinson, McKinsey, and Wildman. Hatfield finally concludes that the strongest argument against showing appreciation rests on its lack of conservatism. For Hatfield, however, conservatism is not a strong enough argument; he notes that in accounting it is a "weasel word" meaning whatever the user wanted it to mean. He concludes that "appreciation may be recognized, with the obvious understanding that the appreciation must be genuine, objectively verified, and not arbitrarily done in order to make a 'pretty balance sheet.' "

In 1947-1948 George D. Bailey, one of the founders of the firm of Touche, Niven, Bailey, & Smart, presented lectures on "Problems in Reporting Corporation Income," and "Concepts of Income." For Bailey the crucial issue is the need for "the sharpest possible determination of the earnings of the corporation for each year's operation, prepared on the basis of certain generally accepted standards for all business so that progress of each corporation will be measured by the same measuring stick." In order to further this aim he discusses a variety of reporting issues, ranging from the classification of expenses to the names that should be used for various accounts. Bailey was chairman of the Institute's Committee on Accounting Procedure from 1944-1947 and he views the Accounting Research Bulletins as a means to reach the goal of income measurement, reduce the variety of practices, and increase comparability. Also of interest is Bailey's discussion of the all-inclusive income statement relative to the events of the 1920s, 1930s, and 1940s, and his ideas of how accounting could cope with the effects of rising prices on earnings.

Howard Clark Greer, a financial executive, spoke on "Cost Factors in Price-Making" in 1951-1952 in the last lecture included in this compilation. Greer was concerned with the interrelationships among price, cost, and volume, and argues against the simple assumption that price is a function solely of costs plus a profit margin. Greer discusses the variety of factors involved and the differences among various industries. He demonstrates a sharp understanding of the variety of market forces brought to bear on pricing questions.

This selection of Dickinson lectures provides a valuable source for accounting historians, particularly for the period of the late 1930s and early 1940s. An introduction by Stephen A. Zeff adds background on the individuals and the lectures. The book provides interesting insights not only for the specific issues raised but for the manner in which questions are posed and the variety of perspectives presented.